

Memorandum



To	Trevor Rohdman, Manager, Asset Maintenance	From	Peter Noonan, Business Systems and Support
Date	23 December 2014		
Subject	QCA Draft report– Natural account 522084 - MP-Electrical Mtce Svces		

CH2MHill Comment
522084 - MP - Electrical Mtce Svces Seqwater propose an increase in costs related to maintenance of electrical equipment under the established Maintenance Panel arrangement from \$2,512,859 in FY 2013/14 to \$4,588,281 in the 2014/15 forecast year. 2012/13 actual expenditure for this cost item was \$2,689,474. No substantiation has been provided in the Seqwater submission for the significant increase in the maintenance cost forecast for this activity. In the absence of valid substantiation of these costs, CH2M HILL recommends that the 2014/15 forecast for this cost code should be adjusted to the average of 2012/13 and 2013/14 expenditures for this cost code. Request for information CH2M HILL requests further information from Seqwater to enable the substantiation of the increase in expenditure (cost component detail and rationale/method of calculating the cost increase).

QCA comments below:

Electrical maintenance services

Costs related to maintenance of electrical equipment under the maintenance panel arrangement were \$2.7 million in 2013-14 and are forecast to increase by \$2.1 million in 2014-15. These costs were \$2.7 million in 2012-13.

CH2M HILL indicated that Seqwater had not substantiated this cost increase. CH2M HILL therefore recommended that this cost category be reduced to 2013-14 levels.

The QCA accepts this recommendation.

Response

CH2M Hill's is based on an analysis of natural account codes. However in some cases, largely relating to legacy issues and pragmatism during successive mergers the budget and actual figures for individual natural account codes are not directly comparable. In the Electrical Maintenance activity the figures presented in CH2M Hill's RFI require further information to be able to be reconciled with the relevant budget figures. The following seeks to explain the electrical maintenance budget using all relevant budget data.

An approach that compares "apples with apples" shows that there has been a significant decrease (rather than increase) in forecast costs related to maintenance of electrical equipment. In order to understand the cost evolution of electrical maintenance this activity needs to be reviewed on a holistic basis, as opposed to looking into an individual natural account code.

Total electrical maintenance expenditure is budgeted for at the Activity Code level rather than the hierarchically lower Natural Account level..



In the budget, forecast natural account 522084 sits under Activity Code **A00047 - Maintenance - General** as a generalist electrical sub-categorisation under which the whole electrical maintenance budget is consolidated. No further breakdown of the budget for this activity is undertaken.

However actual expenditure is incurred under a different Activity Code **A00045 - Maintenance – Electrical** which is used to account for general electrical work. Expenditure at work order level is further split or subcategorized across numerous other natural account codes (including but not limited to 522084) for the purpose of cost tracking, analysis, planning and reporting. That is the natural accounts against which actual expenditure is received do not have a budget directly allocated.

For example, an electrical maintenance work order may be sub-categorised as “522110 - Prop - Security” (e.g. repair CCTV fault), or categorized by what type of service provider carried out the work, e.g. 522064 - Contractor - Electrical Mtce. These cost items would not have an individual budget but would be considered to be covered by Activity A00047 Natural a/c 522084. When the costs are actually incurred they are incurred under Activity A00045 a/c’s 522110 and 522064.

Electrical maintenance actual expenditure (under Activity Code A00047) for FY13 and FY14 and the FY15 Q1 budget forecast and (under Activity Code A00045) are summarised in Table 1.

Full reports of all Natural Account codes under Activity Codes A00047 and 00045 can be found in the attached Excel file: Att 1. ME - Maintenance Electrical.

\$ nominal	Actual and Forecast (A00045 Maintenance – Electrical and Various Nat Accounts.	Budget 522084 - MP-Electrical Mtce Svces (Under A00047 - Maintenance - General)
FY15 Q1	\$4,569,478 (FY15 Q1forecast)	\$4,588,281
FY14	\$5,863,469	\$5,254,254
FY13	\$5,685,016	\$5,420,129

Table1. Summary of Electrical Maintenance actuals and budget, FY13 to FY15 Q1.

As a result of a comprehensive review of the frequency of scheduled and planned maintenance activities, there has been a 22% decrease for the forecast electrical maintenance expenditure from FY15 Q1 compared to FY14 actual expenditure. The FY16 forecast for total electrical maintenance spend is expected to be the same as the FY15 Q1 forecast.

Using the correct figures, adopting an average of the of FY13 and FY14 actual expenditures for these cost codes, as recommended by CH2M Hill, would result in a \$1.2M increase to the electrical maintenance budget to \$5.77M. This is obviously not CH2M Hill’s intent.

Any further reduction in the electrical maintenance budget would severely impact Seqwater's ability to carry out essential maintenance. Seqwater recommends that the electrical maintenance budget under Natural Account 522084 be retained at Q1 2014-15 levels over the price review period.