

To	Michael Grimley, Manager Regulation & Governance	From	Alex Coe, Manager Operational and Contractual Performance
Date	7 January 2015		
Subject	QCA Draft Report November – Manufactured Water Asset Salaries & Wages		

QCA finding (report p 51-52)	<p>Costs related to salary and wage expenses under the Veolia maintenance services contract were \$8.2 million in 2013 - 14 and are forecast to decrease by \$1.0 million in 2014 - 15. These costs were \$2.3 million in 2012 - 13.</p> <p>CH2M HILL noted that Seqwater's submission references a 4% increment in Veolia labour costs as a result of an EBA roll - over, but the proposed change is more likely to be a result of changes in Veolia staff numbers. Insufficient information was provided to enable CH2M HILL to form a holistic view of Veolia staff utilisation or requirements. CH2M HILL recommended that the 2014 - 15 forecast for this cost category be accepted on the condition that justification for the costs is provided.</p> <p>The QCA expects that Veolia's maintenance costs at the WCRWS should decline substantially as it is being decommissioned. In the absence of the further justification expected by CH2M HILL, the QCA cannot consider this cost to be efficient. In the absence of justification for this increase and as Veolia's costs are expected to decline significantly, the QCA has therefore removed this cost from the 2014 - 15 forecast.</p>
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Response

Clarification of Actual Workforce Costs and Staff Numbers (FTE):

The salary costs quoted by C2HM Hill are incorrect. A full reconciliation of salary costs was provided to C2HM Hill in Seqwater's corporate response sent on 18th November 2014. The costs on a directly comparable basis are summarised below together with a detailed reconciliation of cost codes attached in Appendix 1.

FY (\$ nominal values)	Value	Change on previous year
FY13 Actual	\$ 8,907,296	NA
FY14 Actual	\$ 8,302,121	(\$605,175)
FY15 Q1 Forecast	\$ 6,981,305	(\$1,320,816)

These costs reflect operations, care and maintenance contract services with Veolia for both the Western Corridor Recycled Water Scheme (WCRWS) and the Gold Coast Desalination Plant (GCDP). The decrease from FY14 onwards reflect the change in operating mode of the WCRWS from operational to care & maintenance, during which FTE for WCRW and GCDP combined reduced from 72.7 in FY2012-13 to 66.6 FY 2014-15 a reduction of 8.4%. Further FTE reductions are planned as WCRW Scheme is shutting down.

Prudency and Efficiency

Contractual commitments

Both the GCDP and WCRWS operations and maintenance delivery arrangements with Veolia are legacy long term contractual commitments. The original operational scope under the contracts was conceived around running the plants at considerably greater capacity than actual production levels and, therefore, does not represent the current mode of operation. Seqwater has reduced, and continues to actively seek opportunities to reduce further, contractual operations and maintenance cost under the contracts.

Gold Coast Desalination Plant

The GCDP provides an important contingent supply option for the Bulk Water Supply System being operated in 'Hot Standby' mode as outlined in the current Manufactured Water Readiness Plan approved by the Minister for Energy and Water Supply in April 2014. Under 'Hot Standby' mode production is operated at a level of water production required to maintain the plant in a state of readiness that will deliver 100% capacity within 72 hours' notice. GCDP production was scaled up to sustain water supplies to the bulk system in both the 2011 and 2013 flood events. The current operating arrangement for the plant is prudent as it complies with the Minister's directive, and, accordingly, staffing at the plant is maintained at the level necessary to deliver 100% capacity within 72 hours' notice as contractually required. The plant operations have undergone continuous improvement, reducing the quantity of water produced for flushing purposes and total operating costs. The marginal increase in FTEs in FY15 reflects operational efficiency initiatives undertaken to partially insource selected preventative maintenance activities in relation to SCADA maintenance.

Table 1 – GCDP, Veolia FTEs

Period	Average FTEs	Average Annual FTEs
13FY Q1	20.9	21.1
13FY Q2	20.5	
13FY Q3	23.2	
13FY Q4	20.0	
14FY Q1	21.0	21.4
14FY Q2	20.8	
14FY Q3	21.4	
14FY Q4	22.3	
15FY Q1	22.5	22.5
15FY Q2	22.6	

The independent Jacobs report commissioned by Seqwater has concluded these staffing levels are comparable with peer Australian water utilities¹. Significant further cost reduction will be constrained to Ministerial direction surrounding the 'hot standby' requirement to reach 100% capacity within 72 hours.

Western Corridor Recycled Water Scheme

The WCRWS is a substantial contingent supply asset that has not been fully utilised since it was constructed in 2010. To date, the Scheme has been used to supply industrial users and has been maintained to protect the value of the assets. In 2013 a proposal to decommission the scheme for a 15 year period was agreed due to the availability of alternate lower cost water sources. Works were undertaken to remove assets to allow a period of minimal maintenance until the need to re-commission the scheme arises. Veolia staffing numbers at the scheme have been adjusted to reflect the decommissioning / shutdown scope of works and ongoing care and maintenance.

The derived FTEs (calculated hours for a standard FTE / total hours claimed) have reduced over time. Staff numbers are proposed to reduce further through efficiency opportunities and restructures possible under a decommissioned scheme, as demonstrated in Graph 1, Table 2 and organisation charts in Appendix 3.

A fully defined scope of works for ongoing care and maintenance of the remaining WCRWS assets is in development. Staffing numbers and associated costs have been provided by

¹ Jacobs, Independent Review of Cost Forecasts (2014) pp30-31.

Veolia based upon an initial assessment of workload and these have informed future expenditure projections.

Table 2 –WCRW and Decommissioning / Shutdown, Veolia FTEs

Period	Average FTEs	Average Annual FTEs
13FY Q1	59.0	51.6
13FY Q2	53.9	
13FY Q3	54.5	
13FY Q4	39.0	
14FY Q1	45.5	44.8
14FY Q2	43.5	
14FY Q3	47.8	
14FY Q4	42.3	
15FY Q1	45.3	44.1
15FY Q2	43.0	

Note the variability of FTE reflects the one-off nature of shutdown and decommissioning works in the WCRW Scheme.

Forward staffing levels

Staff numbers for WCRWS and GCDP based upon current operating and maintenance requirements are set out in Table 3 below:

Table 3 – Cost / FTEs

Category	FY14	FY15	FY16 and ongoing
GCDP	21.4	22.5	22.5
WCRWS	44.8	44.1	29
Total	66.2	66.6	51.5

Unit costs and rates

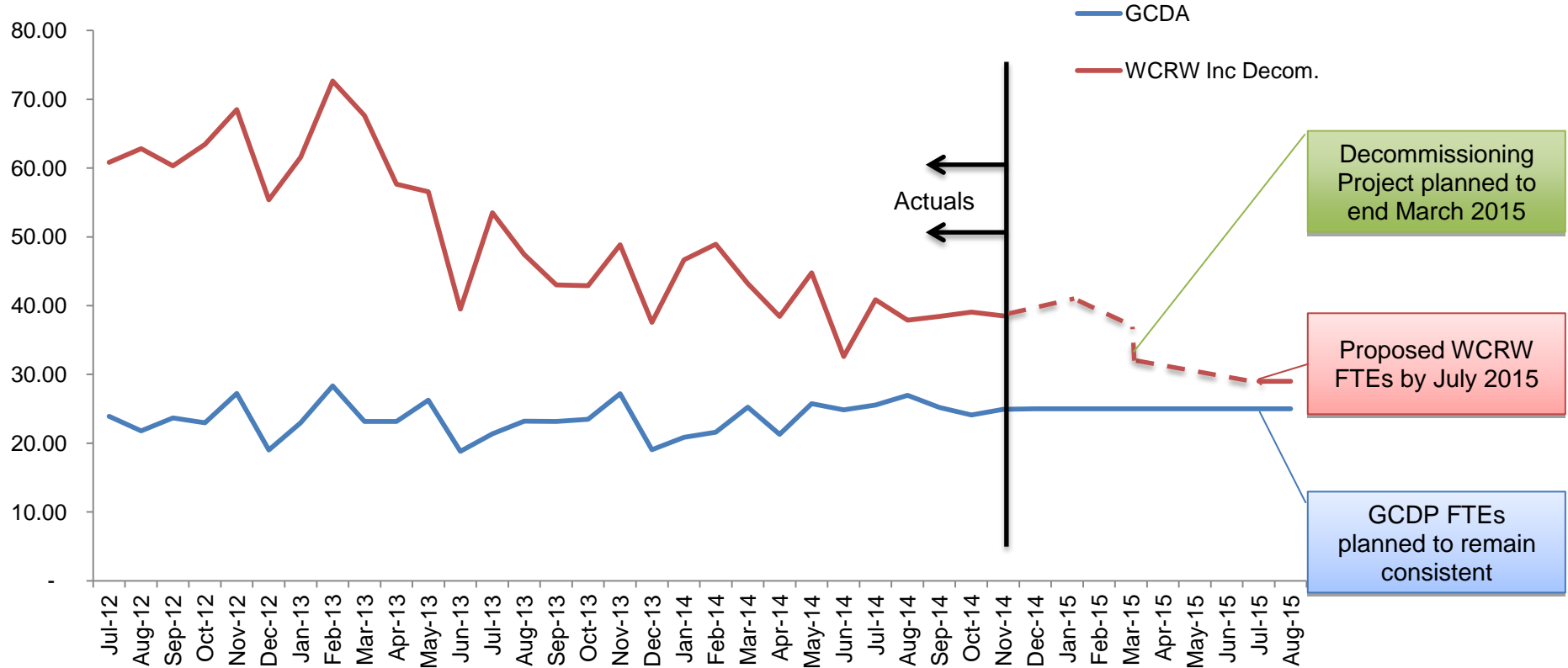
Labour costs for GCDP and WCRWS and a budget forecast comparison is below:

Table 3 – Cost / FTEs

Category	FY13	FY14	FY15 Q1 forecast
GCDP	\$ 96,994	\$ 99,776	\$ 100,370
WCRWS	\$ 103,094	\$ 103,336	\$ 105,204

Table 3 above shows a cost / FTE comparison between the WCRWS and GCDP based on average hourly rate according to monthly claims. The table shows that the average FTE salary between contracts is comparable and costs of wage inflation have been effectively managed, as highlighted by the Jacobs report. Note the marginally higher \$ / FTE for the WCRW Scheme is reflective of the one-off nature of shutdown and decommissioning works requiring a short / fixed term and specialised labour force.

Memorandum



Graph 1 – FTEs (Calculated from Claimed Hours and Forecast)

Memorandum



Appendix 1 – Cost Code Reconciliation (Actuals + Q1Forecast to CH2MHill)

Analysis Veolia Maintenance Services Salaries & Wages		2012-13		2013-14		2014-15		Comments
Tugan Desalination	Cost Type Description	Seqwater	CH2	Seqwater	CH2	Seqwater	CH2	
Bundamba AWTP	611301 - VC-Timecost Reallocations	\$2,142,567						
Gibson Island AWTP	611301 - VC-Timecost Reallocations	\$490,162						
Luggage Pt AWTP	611301 - VC-Timecost Reallocations	\$1,692,240						
Tugan Desal	611002 - VC-Salaries & Wages	\$2,258,044	\$2,258,044					
Pipeline Network Group of Assets	611301 - VC-Timecost Reallocations	\$975,493						
Administration Indirect Costs	611301 - VC-Timecost Reallocations	\$1,348,789						
Veolia Maintenance Services Salaries & Wages	Total 2012-23	\$8,907,296	\$2,258,044					
Bundamba AWTP	611002 - VC-Salaries & Wages			\$2,338,927	\$2,338,927			
Gibson Island AWTP	611002 - VC-Salaries & Wages			\$575,506	\$575,506			
Luggage Pt AWTP	611002 - VC-Salaries & Wages			\$1,609,147	\$1,609,147			
Tugan Desal	611002 - VC-Salaries & Wages			\$2,268,072	\$2,268,072			
Pipeline Network Group of Assets	611002 - VC-Salaries & Wages			\$955,925	\$955,925			
Administration Indirect Costs	611002 - VC-Salaries & Wages			\$554,544	\$554,544			
Veolia Maintenance Services Salaries & Wages	Total 2012-23			\$8,302,121	\$8,302,121			
Administration Indirect Costs	611002 - VC-Salaries & Wages					\$749,328	\$749,328	
Bundamba AWTP	611002 - VC-Salaries & Wages					\$368,658	\$368,658	
Gibson Island AWTP	611002 - VC-Salaries & Wages					\$697,028	\$697,028	
Luggage Pt AWTP	611002 - VC-Salaries & Wages					\$937,710	\$937,710	
Pipeline Network Group of Assets	611002 - VC-Salaries & Wages					\$826,506	\$826,506	
Tugan Desal	611002 - VC-Salaries & Wages					\$3,402,076	\$3,402,076	
Veolia Maintenance Services Salaries & Wages	Total 2012-23					\$6,981,305	\$6,981,305	
Veolia Maintenance Services Salaries & Wages	Total - CH2		\$2,258,044		\$8,302,121		\$6,981,305	
Correction for Data Extraction Error			\$6,649,251					
Veolia Maintenance Services Salaries & Wages	Total - Seqwater		\$8,907,296		\$8,302,121		\$6,981,305	Agreement between CH2 and Seqwater after correcting for data extraction error

Note that this information was provided to CH2MHill.

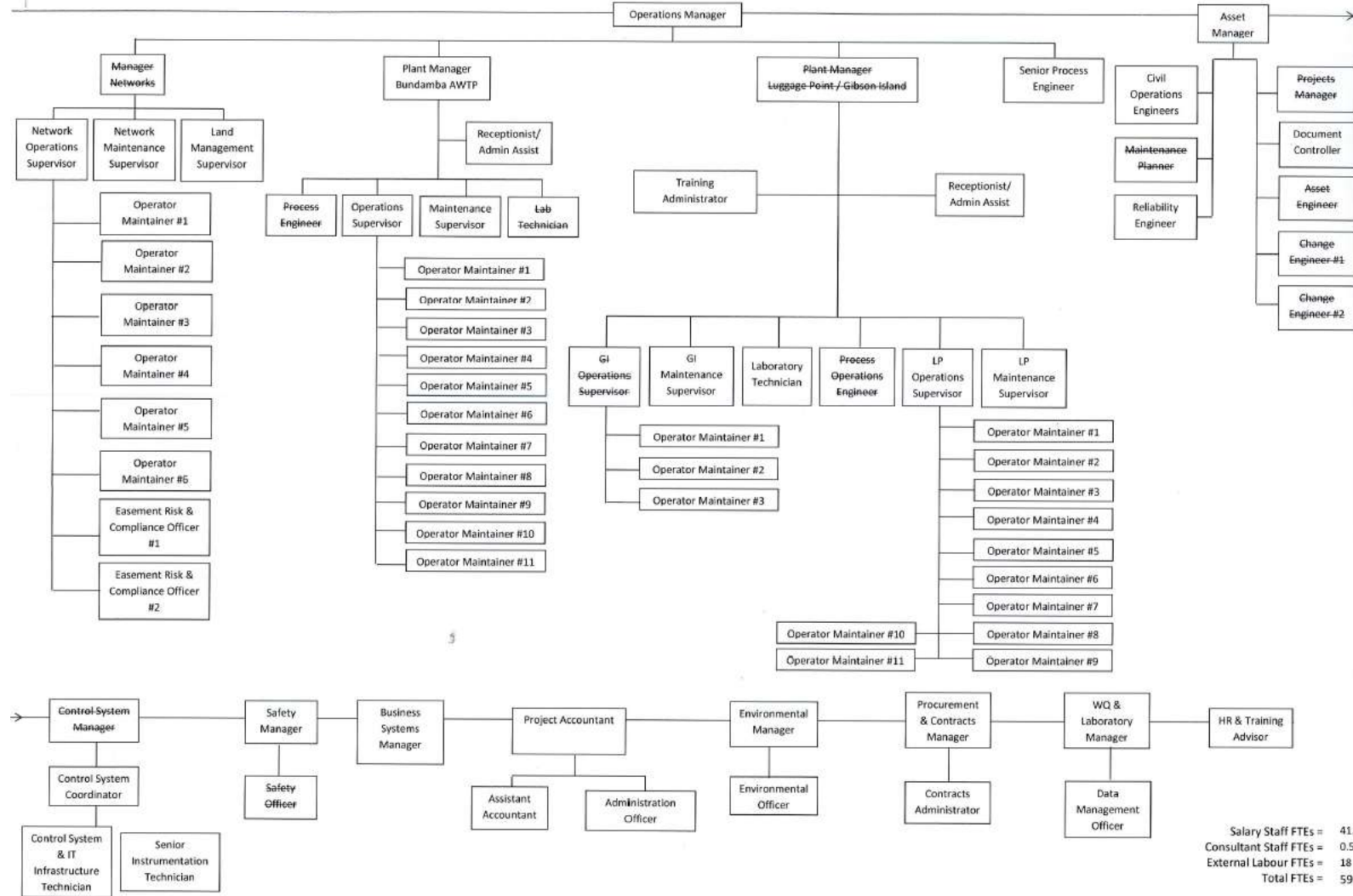
Appendix 2 – Jacobs Report (extract)

Refer pages 26-28 (Section 6.3 Efficiency assessment) of the Independent Review of Cost Forecasts - Western Corridor Recycled Water Scheme by Jacobs, 24 July 2014.

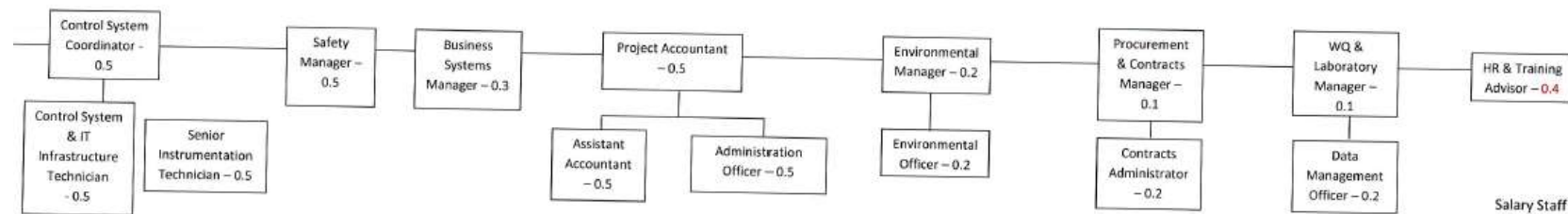
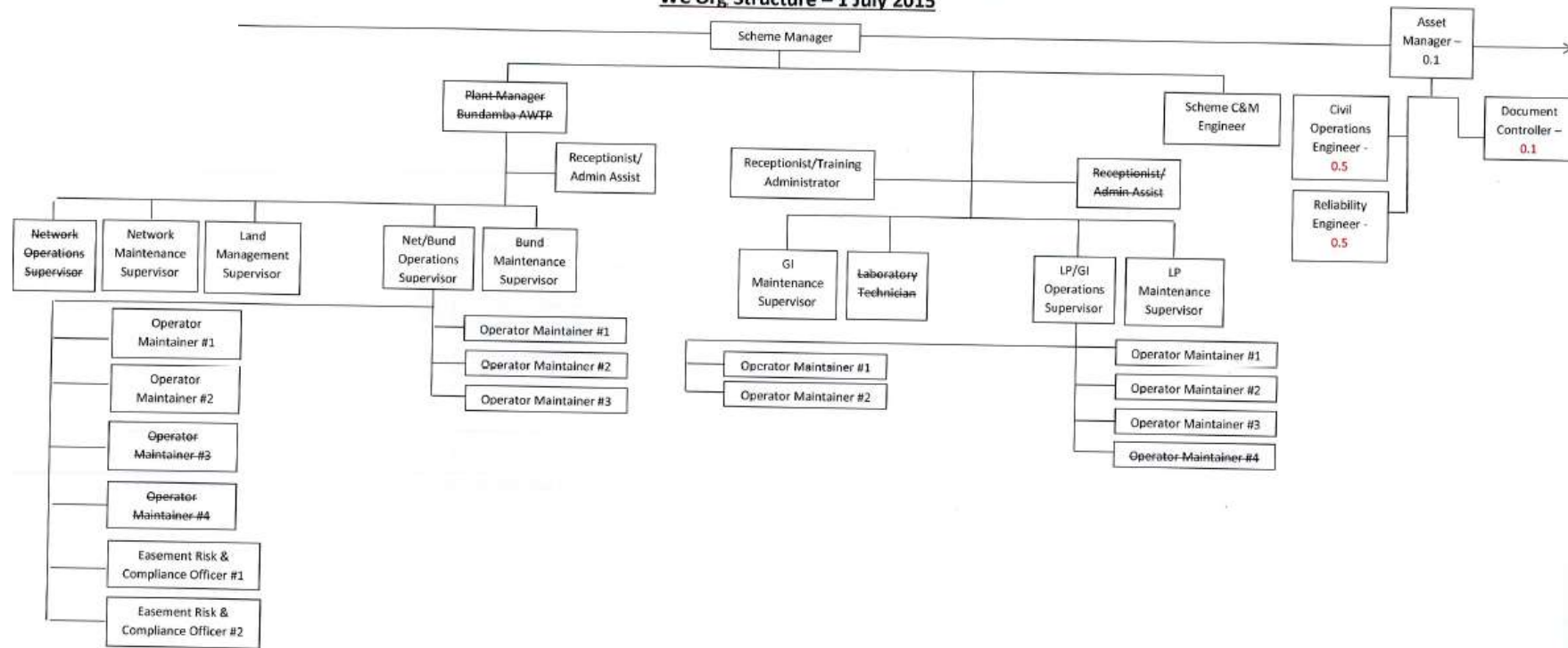
<http://www.qca.org.au/getattachment/0edb496b-e86f-422a-b0ae-96a105f56e66/Seqwater-submission-Appendix-D.aspx>

Appendix 3 – WCRW Restructure Details

WC Org Structure - 1 October 2014



WC Org Structure – 1 July 2015



Salary Staff FTEs = 29.4
 Consultant Staff FTEs = 0
 External Labour FTEs = 0
 Total FTEs = 29.4