

# Grid Service Charges 2012-2013

PHASE 1 – 2011/12 FIXED AND VARIABLE  
OPERATING EXPENDITURE BENCHMARK  
REVIEW ADDENDUM

- Rev 2
- 27 June 2012



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## Document history and status

Revision	Date issued	Reviewed by	Approved by	Date approved	Revision type
1	20/06/12	SH	TS	20/06/12	Draft for client review
2	27/06/12	LC	TS		Final Issue

## Distribution of copies

Revision	Copy no	Quantity	Issued to
1	1	1	Client (Electronic) for comment
2	1	1	Client (Electronic) Final Issue

<b>Printed:</b>	27 June 2012
<b>Last saved:</b>	27 June 2012 09:50 AM
<b>File name:</b>	I:\QENV2\Projects\QE06556\Deliverables\Reports\Phase 1\Phase 1 Addendum\Reports\QE06556 QCA GSPs Phase 1 Addendum Report_Final V1.docx
<b>Author:</b>	Michelle Strathdee
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<b>Name of organisation:</b>	Queensland Competition Authority(QCA)
<b>Name of project:</b>	Grid Service Charges 2012-2013
<b>Name of document:</b>	Phase 1 – 2011/12 Fixed and Variable Operating Expenditure Benchmark Review Addendum
<b>Document version:</b>	Rev 1
<b>Project number:</b>	QE06556

# 1. Executive summary

The Queensland Competition Authority (the Authority) commissioned Sinclair Knight Merz Pty Ltd (SKM) to identify potential duplications of effort relating to fixed operating costs between GSPs, their contractors and the SEQ Water Grid Manager (WGM) and to identify any potential efficiency improvements and areas for potential operating cost savings as a result of the Seqwater-WaterSecure merger on 1 July 2011.

This report builds on earlier work in which areas of potential savings were identified to quantify those savings. To accomplish this assignment within the given timeframe, a series of workshops with various senior managers of the WGM, Seqwater and LinkWater were arranged. The output of these workshops, in which potential cost savings were quantified is captured in this report.

The quantified additional savings that have been identified from increased efficiency gains post merger of Seqwater and WaterSecure are summarised in **Table 1**.

■ **Table 1 Quantified additional Seqwater and WaterSecure merger efficiency gains**

Efficiency gain area	Maximum Estimated Efficiency Gain \$('000)
Board and employee reductions	1,500 p.a.
Office space lease costs	180 p.a.
Insurance premiums	1,000 p.a.
Chemical costs	75 p.a.

The investigation of the potential areas of duplication of effort between Seqwater and Veolia Water has concluded that minimal duplication exists under the current contractual arrangements. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]



Category	Activity	LinkWater	Trility	Potential Cost Saving - Duplication(\$)	Potential Cost Saving – Internalising O&M(\$M)
Corporate Overhead	Corporate Support	T	T	0	1.25 + 2.5
	Finance	T	T	0	
	Human Resource Management	T	T	0	
	Administration	T	T	0	
	Risk Management	T	T	0	
	Work Place Health and Safety	T	T	0	
Operations and Maintenance	NA	NA	NA	NA	NA



## 2. Introduction

The Queensland Competition Authority (the Authority) commissioned Sinclair Knight Merz Pty Ltd (SKM) to identify potential duplications of effort relating to fixed operating costs between GSPs, their contractors and the SEQ Water Grid Manager (WGM) and to identify any potential efficiency improvements and areas for potential operating cost savings as a result of the Seqwater-WaterSecure merger on 1 July 2011. Reports that included the identification of duplication of effort between Seqwater and their contractors, LinkWater and their contractors, Seqwater and the WGM, LinkWater and the WGM were provided to the Authority. Also included in those reports were SKM's views on where potential savings may be achieved with the merger of Seqwater and WaterSecure.

Subsequently, the Authority requested SKM to expand on this earlier work and has requested SKM to quantify potential savings if the duplication were removed and/or where further merger savings could be achieved. The tasks were as follows:

- Quantify the cost savings that could be achieved further following the merger of Seqwater and WaterSecure
- Estimate the cost savings that may be achieved by removing the duplication of effort between Seqwater and its Contractors
- Estimate the cost savings that may be achieved by removing the duplication of effort between LinkWater and its Contractors

To meet the Authority's timeframe, SKM was required to conduct its investigations within a three week period. To accomplish this assignment within the given timeframe, a series of workshops with various senior managers of the WGM, Seqwater and LinkWater were arranged. Discussions during these workshops and information supplied by the entities formed the basis for our analysis and views. These are detailed in the chapters that follow.

### 3. Seqwater-WaterSecure merger – estimate of merger cost savings

The merger of Seqwater and WaterSecure was viewed as a horizontal merger and therefore has limited scope for efficiencies to be realised in the short term. Most of the potential efficiencies to be gained were considered to be of a medium to long term nature.

The areas identified in the previous work done by SKM as having potential efficiency gains and associated cost savings are summarised in **Table 4** below. The legend to the cost savings potential column is: \$ - minimal cost savings potential, \$\$ - some cost savings potential and \$\$\$ - major cost savings potential.

■ **Table 4 Summary of potential efficiency gains, realisation periods and cost savings potential**

Activity	Realisation Period	Cost Savings Potential
Systems and infrastructure	2 to 10 years	\$\$\$
Premises	2 to 5 years	\$\$
Insurances	1 to 2 years	\$\$
Fleet	2 to 5 years	\$
Electricity	2 to 5 years	\$\$
Chemical costs	2 to 5 years	\$\$
Sludge and waste disposal	2 to 5 years	\$

The sections below attempt to quantify these potential savings.

#### 3.1. Staff numbers - FTEs

The separate bulk water supply entities of WaterSecure and Seqwater were merged on 1 July 2011. The merger did not require substantial changes to the organisational structure of the pre-merger Seqwater. All of WaterSecure’s staff was incorporated within equivalent work groups within Seqwater. An additional group was created (Technical Warranty and Development group) within Seqwater incorporating the equivalent team from WaterSecure and included the Seqwater research resources.

As part of the merger, certain cost savings from reduced staff numbers were realised in the short term subject to the requirement that:

- Employees transferred from WaterSecure to Seqwater were to receive the same terms and conditions of employment as they previously had when employed by WaterSecure
- There were to be no forced redundancies for transferred staff under the terms of their enterprise bargaining agreements (EBA) for the period to the EBA as stipulated by the EBA
- Seqwater employees are also protected from forced redundancy under the terms of their EBA

Under these terms the amount of short term (one to two years) efficiency gains in relation to fixed staff will be limited. However, staff on contracts were not afforded similar protection and were required to apply for their positions where two or more personnel existed for a single position.

### 3.1.1. Board

While there may be other savings, rationalisation of staff numbers is likely to be the major efficiency gain from the merger. The merger led to a direct reduction in the number of Board members and executive managers. The number of Board members pre-merger was five members for Seqwater and five members for WaterSecure. The number of Board members post merger was reduced to seven, a total reduction of three members. The five Board members of the pre-merger Seqwater have remained and the two additional Board members were part of WaterSecure's board. The resulting annual savings is estimated at about \$200,000. This estimate is based on Seqwater's 2010/11 annual report which indicates that the Chairman of the Board is paid \$100,000 while Board members are paid \$45,000 plus superannuation plus additional fees for membership of various committees.

### 3.1.2. Management and Employees

The number of FTEs within the executive management pre-merger was 15.3 for Seqwater and 11 for WaterSecure. The total number of FTEs post merger for the executive management is 15.5 a net reduction of 10.8 FTEs.

The cost savings attributed to the above reduction in Board members and executive staff was *"factored into the WaterSecure proposed operating cost for the 2011-12 GSCs, where some \$2M was removed"*. The cost saving resulting from reduction in Board members and executive staff has therefore already been realised in that it was incorporated within WaterSecure's fixed operating budget and also into the merged budget. SKM considers the reduction in executive management to be within expectations. As the reduction in Board positions is estimated to have led to a \$200,000 savings, the estimated reduction in executive staff is estimated to be about \$1.8 million per year. No further future savings in executive management is expected to be readily achievable in the current structure.

Prior to the merger, Seqwater employed about 466 FTEs and WaterSecure had about 61 FTEs. These numbers include senior executive staff (but exclude Board members). Hence there was a total of about 527 FTEs between the two organisations. Post-merger, the new Seqwater had a total of approximately 521 FTEs, a net decrease of 6.5 FTEs (a decrease of approximately 11% of WaterSecure's FTEs pre-merger). Approximately 17 FTE positions in WaterSecure were not transferred to the post-merger Seqwater (excluding Board members), offset by approximately 10 FTEs in new positions in the post-merger Seqwater. Many of these positions were filled by former WaterSecure staff, transferred to alternative positions in the merged organisation. In addition, it is estimated that 6.4 new FTE positions were created in the new Technical Warranty & Development Group in post-merger Seqwater which was formed to continue to manage the handover, completion and ongoing operations of the Western Corridor Recycled Water Scheme (WCRWS) and the Gold Coast Desalination Plant (GCDP). The new FTE positions created in this group was due to an assessed need to acquire the necessary technical skills of consultants previously employed by WaterSecure (and thus not counted as an FTE in WaterSecure's books). Thus if these additional FTEs were discounted (given that they were previously employed by WaterSecure but as contractors and hence not counted within the FTE numbers), a net reduction of 13 FTEs is estimated to have resulted from the merger. This amounts to approximately 21% of WaterSecure's work force.

These changes to the number of FTEs have been estimated to have resulted solely from the merger and do not include changes in the business-as-usual operations of Seqwater caused by assessed need for increased capacities in various parts of the Seqwater organisation. It thus does not include additional resources acquired due to the handing over of various assets including the transfer of Wyaralong Dam and the Hinze Dam Upgrade to Seqwater.

Also the areas where efficiencies have been realised and are likely to be further achieved have come from parts of the organisations where duplication of functions existed prior to the merger. These are in the areas of corporate support services like Organisational Development and Business Services. In the more technical and operational areas like Water Delivery, Asset Delivery and Technical Warranty and Development, few duplication of functions existed (except in the area of Water Quality where both Seqwater and WaterSecure had capabilities).

### **3.1.3. Potential Future Board and Staff Efficiencies from Merger**

Seqwater has advised that the reduction in Board members is not one for Seqwater to consider but rather to be considered by Seqwater's shareholders (the Queensland Government). Nevertheless, SKM considers that a further reduction of two Board members may be realised as the Board member appointment period is limited to three years and no new Board positions were required to be created as a result of the merger. This would take the number of Board members down to five, the original number employed by Seqwater pre-merger. This is estimated to result in a further \$100,000 in annual savings. As a result, total potential savings from the merger of the two entities Boards may be in the order of about \$300,000 per annum, \$200,000 of which has already been realised.

Assuming that both Seqwater and WaterSecure were both operating efficiently pre-merger and that post merger efficiencies can lead to a reduction of 50% of staff from the smaller organisation in areas where functional duplications occur, we estimate that a further 17 FTE may be reduced from the merged Seqwater. This estimate excludes any change in staff numbers in the new Technical Warranty & Development Group which is a developing responsibility for Seqwater given the increasing responsibilities related to the WCRWS and GCDP. The estimated reduction amounts to approximately 3% of the merged entity's staffing level which SKM believes is achievable over the next three years through natural attrition. Most organisations experience a staff turn-over of between 5% and 10% per year. SKM considers that some areas within Seqwater the workload hasn't decreased and therefore any staff that leave will need to be replaced with suitable candidates. SKM therefore considers that an average attrition of 3% across the business in a 3 year period to be achievable. Thus while the restrictions of the EBA on forced redundancies may delay the realisation of efficiency gains from the merger, we are of the opinion that over the next three years, the natural attrition will nonetheless result in its achievement eventually. Assuming that such staff cost about \$90,000 per annum<sup>1</sup>, total additional efficiency gains from reduced staff numbers are in the order of \$1.5 million per annum. If the EBA was not in place then these efficiency savings could be realised over a shorter time frame (estimated at six months maximum).

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<sup>1</sup> In other parts of SKM's work in this project, we have assumed an FTE cost of \$110,000. We have in this case assumed a lower value as we are of the opinion that the excess staff are generally in areas where salaries are lower than those salaries in the more professional staff dominated parts of the organisation.

### 3.2. Systems and Infrastructure

The two entities, WaterSecure and Seqwater, operated by making use of different business models and maintained different types of assets. In maintaining different types of assets, different business processes and systems were used to support these assets. Only the finance system (including the asset management system) and telephony system was integrated at the time of the merger.

The merged entity currently operates a number of duplicate business support systems. The reason for the duplication is twofold: to preserve the historic information and to continue to support the business operations. It is expected that the support systems will be rationalised over time and this is expected to realise a cost saving due to only having a single business support system. However ongoing licensing fees and maintenance cost to preserve the historic data will be incurred unless this historic data can be transferred onto a common platform. There is therefore be merit in Seqwater evaluating whether this could be achieved, thereby allowing it to abandon its legacy systems and hence avoid paying licence and maintenance fees for such.

Seqwater has indicated that by consolidating the networks at locations close to the pre merger WaterSecure site a cost saving could be expected. Savings could occur where single, larger capacity network infrastructure could be utilised, instead of the existing smaller, parallel infrastructure for example creating regional hub and spokes.

At present the post merger Seqwater has two data centres. The data centre that was used by WaterSecure was outsourced and has a remaining three years until contract determination (we understand there is no 'break clause' in the existing contract). This data centre does not have the capacity to service the post merger Seqwater. The post merger Seqwater has established a data centre that has the capacity to service the merged structure. The legacy WaterSecure data centre is maintained at present and used as a test environment. Seqwater indicated that the cost of maintaining the legacy WaterSecure data centre is offset from the cost of establishing a separate test environment. SKM considers this approach to be efficient until such time as the contract expires. SKM is of the opinion that additional efficiencies arising from closure of the WaterSecure data centre could be realised in the medium (two to five years) to long term (five to ten years).

Some savings have been identified in Information and Communications Technology (ICT) as a result of the merger. These have been incorporated into the 2012/13 budget and amounted to approximately \$14,000 per month (approximately \$170,000 per year). This resulted from the rationalisation and incorporation of Seqwater's data processing expenditure into the former WaterSecure's data centres.

Another cost saving has been in reduced software license fees paid as duplicated systems are decommissioned eg GIS and Microsoft licenses. This is estimated to amount to about \$200,000 over three years (approximately \$65,000 per year). The limited savings from this area is due to the fact that both Seqwater and WaterSecure were able to obtain the benefits of the Queensland State Government's bulk purchase arrangement for software licenses. The merger thus did not impact on the per unit rate of Seqwater software licences. Total annual savings from the ICT area as a result of the merger thus amounted to about \$235,000 per year. These savings have been realised and no

additional savings are envisaged over the next three years as a result of the merger as software licensing and support contracts have been struck for a three year period.

While \$140,000 was also saved annually by making changes to mobile data plans however, these savings were negated when it was found that increased connectivity was required in the regional centres to accommodate the increased workforce and to improved data transfer speeds. As a result, while there were no financial savings in this area, communication efficiency improved resulting in improved work flow and processes.

### 3.3. Property Leases

The office space that pre-merger Seqwater occupied was:

- 240 Margaret St - This building is owned by Seqwater. Two areas of the floor space is leased to separate tenants
- 340 Adelaide St - This building was leased by Seqwater following the January 2011 floods to house the flood operations centre to ensure it would not be impacted by major floods as was the case with 240 Margaret St
- Mineral House - This building houses the flood operations centre

The office space that was occupied by WaterSecure was:

- 95 North Quay

Since the merger took effect the accommodation arrangements were re-organised. This re-organisation included moving all the pre-merger WaterSecure personnel to the 240 Margaret St premise. This required the Asset Delivery group be moved to the 95 North Quay premise due to limited space at 240 Margaret St.

The lease of 95 North Quay expires in August 2014 while that for 340 Adelaide St expires in May 2016. Terminating the lease early will involve considerable costs. When the lease ends however, it is possible for some rationalisation to occur. As the premises at 340 Adelaide St were acquired to house the flood operations centre, the lease is expected to continue even with the merger. The lease at 95 North Quay however may be terminated in 2014. In the meanwhile, opportunities to sub-let this space should be explored. While Seqwater has advised that the lease agreements do allow for sub-letting Seqwater has further provided the following reasons for not sub-letting:

- There is limited space available. There are an additional 6 spaces available.
- Due to the limited time left on the rental agreement the space is less attractive
- There will be cost involved in partitioning and this will need to be recovered

SKM agrees that the three points as listed above to be valid and therefore consider that the option of sub-letting not to be efficient.

Based on information provided by Seqwater, the current minimum area required by Seqwater per FTE desk is 11m<sup>2</sup>. The current rental figure (rounded down to the nearest dollar) per square meter is \$546, therefore each desk costs \$6,006 per annum. While it has not been realised, the potential savings from reduced floor area arising from the reduction in FTEs (13 – see **Section 3.1.2**) would amount to some



\$78,000 per annum. Should additional reductions in the workforce be achieved as postulated in **Section 3.1.3**, and an additional 17 FTEs were removed over the next three years as a result of the merger, a further saving of \$102,000 may be achieved in the cost of premises. This results in a potential savings of some \$180,000 per annum in property lease costs.

### **3.4. Insurances**

With the merger, Seqwater has consolidated its insurance premium for public liability insurance. The cost of this insurance is already incorporated into the 2012/13 budget. Seqwater has estimated that combining WaterSecure and Seqwater insurances for public liability has resulted in a saving of around 14% of the annual public liability insurance premium.

Joint insurances for property are due for renewal in September 2012. Total insurance cost is forecast to increase by \$1.5 million. The forecast takes account of a range of factors, including savings from combining insurance premiums as well as changes in market conditions, impacts from recent claims and an expansion to the asset portfolio (eg Wyaralong & Hinze dams).

The total insurance premium forecast for 2012/13 is \$6.9 million, and consequently the savings by combining premiums could be up to \$0.9 million. There is significant uncertainty about the cost of insurances after renewal, and there is considerable risk that premium costs will be higher than forecast. At this stage we have assumed that the ongoing savings from insurance premiums as a result of the merger is likely to be about \$1 million per annum.

### **3.5. Electricity Cost**

Electricity is currently procured through a number of different arrangements. For the Seqwater Water Treatment Plants (WTP), electricity is procured under a competitive contract which lasts until December 2013. Currently the GCDP's electricity is procured under Notified Tariffs (Tariff 43). This arrangement will no longer be available after 1 July 2012 and Seqwater has started the process to secure electricity from the contestable market for the GCDP. For the WCRWS, Veolia is the contracting party with Seqwater consenting to the energy purchasing arrangements. As with the GCDP, the electricity procurement for the WCRWS is currently based on Tariff 43 which will no longer be available from 1 July 2012.

Saving opportunities may exist via a joint energy procurement arrangement for the WCRWS and the GCDP. Given the operational status of these plants (hot standby, mothballed, reduced capacity) and hence the un-predictability of the demand contract, there may be some savings that can be achieved through pooling these contracts in the competitive energy market, flattening the load profile through making use of the diversity of the different loads. This will only be capable of being realised post December 2013 and will require the contract to be put in place by one party (either Veolia or Seqwater) and hence requiring a change in the terms of the Alliance Contract with Veolia. By increasing the size of the portfolio, the overall demand profile may become more predictable (as the un-predictable load profile of the GCDP and WRCWS will be offset to some extent by the more predictable nature of Seqwater's other, controllable loads). Generally in the competitive energy market, the more predictable the load profile the better the unit rate that can be achieved for the energy component of the electricity supply contract.

Seqwater has provided to SKM an opinion from ROAM Consulting that suggest that, in ROAM Consulting's view, little cost savings could be achieved through amalgamating electricity contracts. ROAM Consulting indicated that the energy required by both Seqwater and Veolia of 80 GWh/yr and 40 -50 GWh/year respectively are already relatively large loads and individually should be able to command competitive prices. It appears doubtful to ROAM Consulting that there would be measurable additional improvement in economy of scale by further aggregating these loads and that there may even be some justification for keeping the two loads separate to enable retailers to bid for each parcel separately, and thus increase competitive tension. ROAM Consulting however acknowledges that there may be benefits to a retailer, in terms of prestige, in picking up a larger premium load, such as the 120-130 GWh/yr load, compared with the smaller loads. However, as there are many loads in this range the benefits of having a 120-130GWh/yr load to a retailer may be small.

SKM does not have sufficient information to validate the view proffered by ROAM Consulting but is of the opinion that it is reasonable. Hence there is likely to be no further economies from the electricity contracts that may be extracted by Seqwater.

### **3.6. Chemical Cost**

Seqwater currently uses a total of about 50 different chemicals. In their pre-merger state, Seqwater would be using 35 chemicals costing about \$14 million while, WaterSecure would use 19 chemicals costing about \$3 million. Some 8 chemicals are common. These common chemicals cost Seqwater about \$6.7 million in total of which about \$6 million are used in the pre-merger Seqwater plants while only about \$750,000 are used in the previous WaterSecure plants.

There is thus very little overlap between major chemical items. Only one chemical of any significance, lime, falls due for re-procurement in 2012-13. Veolia's component of the total lime purchase is only 12% of the total cost. Seqwater has advised that assuming a 10% cost saving could be made this would result in a \$20,000 short term cost saving. Other chemical procurement contracts are not due for renewal until 2015. Some are subject to a two year period (end December 2012) with the option of three times one year extensions. Seqwater has made an assessment of these contracts and concluded it is best to continue with at least the first of these annual extensions. Given that existing contracts since the merger continue to be in force, no savings have been achieved. In the longer term, given the limited overlap in chemical usage and where there is overlap, the Veolia plants usage is small compared to that used by Seqwater as a whole, there is little likelihood that significant savings can be achieved in this area. It is possible that when recontracting occurs the common chemicals consumed by Veolia's plants could enjoy a 10% improvement in prices relative to that which could be achieved otherwise. This may then result in a saving of approximately \$75,000 based on the cost of the current contracts and consumption rates. We however note that this potential saving is highly uncertain.



## 4. Duplication of Effort between Seqwater and Veolia Water

### 4.1. Contract Background

Seqwater has inherited two contracts, with Veolia Water Australia, from WaterSecure. The two inherited contracts have different terms in that the contractual agreement for the Gold Coast Desalination Plant is one of an alliance arrangement where as the contractual terms for the Western Corridors Recycle Water Supply Scheme is one of an operate and transfer arrangement. The contracts with Veolia Water are long term contracts and expire as follows:

- Gold Coast Desalination Plant - 2020
- Western Corridors Recycle Water Scheme - 2028

Seqwater has a team of 10.5 FTEs that are actively managing the two contracts. The main role of the team within Seqwater is to review capital project proposals submitted by Veolia Water under the contract, managing the contract performance, review of operations and maintenance budgets and claims and review of expenditure and delivery on approved projects. Seqwater has demonstrated the need for this group to limit any potential scope creep by Veolia Water and indicated that it reflects good governance practices. [REDACTED]

### 4.2. Areas of Potential Duplication of Effort

Within Phase 1 of the project SKM conducted a desk top study to identify potential areas of duplication between Seqwater and Veolia Water based on activities. The areas of duplication, activity based, identified within Phase 1 are outlined below in **Table 5**.

- **Table 5 Areas of Potential Duplication of Effort Between Seqwater and Veolia Water**

Activity	Seqwater	Veolia Water	Cost Saving Potential
Administration	T	T	M
Asset Engineering	T	T	M
Asset Maintenance EMC	T	T	L
Asset Maintenance I&C	T	T	L
Asset Planning Capital	T	T	H
Environment and Sustainability	T	T	L
Finance	T	T	M
Human Resource Management	T	T	L
Information and Communication Technology	T	T	M
Operations WTP	T	T	L
Procurement	T	T	L
Project Delivery	T	T	M
Research	T	T	L
Water Quality Management	T	T	M

Subsequent to the completion of the Phase 1 report the activities were divided into three categories:

- Capital
- Corporate overhead
- Operations and maintenance

These categories were applied to the activities identified and re-prioritised, as per **Table 10** below.

■ **Table 6 Categorised Areas of Potential Duplication of Effort Between Seqwater and Veolia Water**

Category	Activity	Seqwater	Veolia Water	Order of Priority
Capital	Asset Planning Capital	T	T	H
	Asset Engineering	T	T	M
	Project Delivery	T	T	M
Corporate Overhead	Administration	T	T	M
	Finance	T	T	M
	Environment and Sustainability	T	T	L
	Human Resource Management	T	T	L
	Procurement	T	T	L
	Research	T	T	L
Corporate Overhead/ Operations & Maintenance	Information and Communication Technology	T	T	M
Operations & Maintenance	Water Quality Management	T	T	M
	Asset Maintenance EMC	T	T	L
	Asset Maintenance I&C	T	T	L
	Operations WTP	T	T	L

A workshop was held with Seqwater on 6 June 2012 in an effort to acquire the input from Seqwater to confirm whether duplications of effort existed in the above identified areas and to quantify the potential cost savings of the removal of the duplication of effort. At the workshop it was highlighted that two distinct types of contracts have been agreed to with Veolia Water. The contractual agreement for the Gold Coast Desalination Plant is an Alliance agreement whereas the agreement for the Western Corridors Recycling Water Scheme is one of an Operate and Maintain arrangement. In each of the agreements Seqwater have contractual responsibilities and an owner's responsibilities.

The following sections discuss each of the categories and activities identified and outline the quantum of cost savings achievable for each as determined by SKM through conducting a facilitated workshop with Seqwater.

#### 4.2.1. Capital

Within the capital category the following three activities were identified as having potential duplications of effort:

- Asset Planning Capital
- Asset Engineering
- Project Delivery

The desk top study conducted by SKM during the Phase 1 period identified that a potential duplication of effort may exist within the ‘Asset Planning Capital’, ‘Asset Engineering’ and ‘Project Delivery’ activities as there is a requirement for Seqwater to review and verify the proposals for works proposed by Veolia Water. SKM’s initial assessment of potential duplication of effort is outlined below in **Table 7**.

■ **Table 7 Phase 1 - Desktop assessment of potential duplication of effort**

Activity key	Seqwater	Veolia Water	Discussion and Recommendation
Asset Planning Capital	This function is primarily assigned to the Integrated Asset Planning team and Project Delivery Team of Seqwater.	Veolia Water provides, via the operation and maintenance contract, proposal development and project management for approved projects to Seqwater through the Technical Warrantee and Development Department	This function is primarily assigned to the Integrated Asset Planning team and Project Delivery Team of Seqwater. Veolia Water provides via the operation and maintenance contract, proposal development and project management for approved projects to Seqwater through the Technical Warrantee and Development Department.  There is merit in further review of this activity for duplication of effort between Veolia and Seqwater. SKM considers that there is likely to be material duplication of effort in this activity.
Asset Engineering	Seqwater has two areas, One in the Technical Warranty and Development Department dealing with the manufactured water assets. The other in Asset Delivery – Strategic Maintenance. This team provides engineering solutions for renewals replacements and maintenance for non manufactured water assets.	Veolia Water’s Team addresses the functional requirement of the day to day operations of the manufactured water assets.	Seqwater and Veolia Water have engineering support teams. Seqwater has two areas, One in the Technical Warranty and Development Department dealing with the manufactured water assets. The other is contained within the Strategic Asset maintenance team of Asset Delivery, this group deals with the "natural water production assets"  Veolia Water’s Team addresses the functional requirement of the day to day operations of the manufactured water assets, building business cases for equipment changes to improve operation and managing the project delivery for approved projects  Seqwater contractually (contracts novated by WaterSecure in the merger) has the responsibility to provide a management mechanism by which the Veolia proposals are approved or rejected or modified to an acceptable outcome.  This activity merits further investigation, as in SKM’s view there is duplication of effort in this activity.
Project Delivery	Seqwater’s Project Delivery team has primary responsibility	For the manufactured water assets, Technical Warrantee	Due to the nature of the business process employed in the delivery of projects, it is likely that duplication of effort would occur. A detailed

Activity key	Seqwater	Veolia Water	Discussion and Recommendation
	for capital project delivery tasks	and development have responsibility for project closure. Veolia Water has opposite numbers for defects management and transition projects.	look at the business process would be needed to confirm this. SKM recommends this activity be investigated further.

Extract from *Grid Service Charges 2012-2013: Phase 1 – 2011/12 Fixed and Variable Operating Expenditure Benchmark Review* (SKM, June 2012)

From discussion with Seqwater in the workshop and additional information provided by Seqwater (extracts provided in **Table 8**) SKM has undertaken a review of duplication of effort previously identified.

■ **Table 8 Seqwater response to potential areas of duplication**

Identified area of potential duplication	Seqwater response
Asset Planning Capital	Contractually these remain separated. Requirement for Seqwater to maintain capability as smart purchaser. The O&M agreements require VWA to prepare Asset Management Plans for each facility. Seqwater provides strategic input into these plans and does not overlap with the maintenance strategies and systems put in place by VWA. At a higher level, in line with regulatory requirements, Seqwater is responsible for the development of a combined Strategic Asset Management Plan (for Catchment-based assets and Manufactured Water assets), a Water Supply Asset Plan (Catchment-based assets) and a Manufactured Water Readiness Plan (Manufactured Water assets). The amalgamation of the WaterSecure and Seqwater Strategic Asset Management Plans is underway and will be completed by December 2012. All other plans are mutually exclusive. Asset Delivery does not provide Asset Planning support to VWA and there is no redundancy.
Asset Engineering	VWA provides traditional process, environmental and operational engineering on Manufactured Water assets. Seqwater does not provide any redundant service as its engineering effort focuses on the monitoring and management of VWA. The objective is to ensure that Seqwater is a well informed customer, able to make knowledgeable decisions in relation to asset renewal, maintenance or modification. [REDACTED] [REDACTED] The quality of project delivery is also monitored by the Seqwater engineering support team to ensure VFM. Finally, Seqwater is responsible for the overarching SCADA strategy for Manufactured Water Assets and maintains a minimum set of resources in this space.
Project Delivery	Seqwater and VWA do not duplicate activities in the Project Delivery area. Asset Delivery Project Delivery team does not encompass Manufactured Water Assets. Under the O&M agreements, VWA has a first right to deliver projects on behalf of Seqwater and therefore carries some project delivery capacity. Such capacity is flexible and can be increased or reduced based on the project load. Seqwater only maintains a dedicated project review and oversight team (engineering support) to ensure Quality and Value-For-Money, particularly in terms of selecting projects that will deliver benefits to Seqwater (see above). Seqwater is also responsible for ensuring that the projects are delivered according to the relevant regulatory guidelines and standards.



*Asset Planning Capital*

At present no forward planning, asset capital, is being conducted or investigated for either the Western Corridors Recycle Water Scheme and or the Gold Coast Desalination. The reason for this is that at present the requirement for water from the two schemes is not required to meet water demand. Veolia Water has 0.9 FTE allocated as a Contract Manager for both schemes. SKM considers that this allocated resource is a reflection of the water demand. No forward capital investment planning is done by either organisations in relations to the two schemes and therefore SKM considers that no duplication of effort exists.

*Asset Engineering*

Veolia Water has three FTEs allocated to both schemes and Seqwater has five FTEs. [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] SKM therefore consider that the five FTEs employed by Seqwater demonstrate the commitment of Seqwater to run the plants efficiently and taking a proactive approach in ownership of the plants.

SKM considers that Seqwater has provided sufficient information to demonstrate the requirement for the resources for both the Veolia Water operations and Seqwater. [REDACTED]  
[REDACTED]  
[REDACTED] Based on an average of \$110,000 per annum per FTE it is calculated that a maximum potential saving of \$166,500 could be made.

*Project Delivery*

Veolia Water has 2.7 FTEs allocated to develop the scope of projects. [REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED] Based on an average of \$110,000 per annum per FTE it is calculated that a maximum potential saving of \$99,000 could be made.

*Internalising the Operations*

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

#### 4.2.2. Corporate Overhead

Within the corporate overhead category a number of activities were identified as having potential duplications of effort:

- Administration
- Finance
- Environmental and Sustainability
- Human Resource Management
- Procurement
- Research
- Information and Communication Technology (ICT)

The desk top study conducted by SKM during the Phase 1 period identified that a potential duplication of effort may exist within the ‘Administration’, ‘Finance’, ‘Environmental and Sustainability’, ‘ Human Resource Management’, ‘Procurement’ and ‘Research’ activities as there is a requirement for Seqwater to review and verify the proposals for works proposed by Veolia Water. SKM’s initial assessment of potential duplication of effort is outlined below in **Table 4**

■ **Table 4 Desktop Study - Identification of potential duplication of effort**

<b>Activity key</b>	<b>Seqwater</b>	<b>Veolia Water</b>	<b>Discussion and Recommendation</b>
Administration	Administration functions are dispersed within the departments	Administration Purchasing and Reception	Each of the organisations has its independent administration functions focused on providing support to its organisation. There would be similar skills and function duplication but addressing the individual need for each organisation. The existence of these services in each organisation by its nature would suggest that there is some duplication of effort and cost that would not be evident if a whole of grid organisation were to provide the same service.
Finance	Business Services- Finance Transaction management – accounts payable and receivable and cash reconciliation; Financial reporting – tax, external audit, statutory accounts, policy advice, external reporting and depreciation; Payroll functions; Management accounting – budget preparation, regulatory reporting, monthly management reporting and system management.	Finance Manager –Finance Management Accounting; Project Accountant	Seqwater has a finance group that provides support for the effective operation of their organisation. Veolia Water also has a team to address this function. The existence of these services in each organisation by its nature would suggest that there is a duplication of effort and a duplication of some cost that would not be evident if a whole of grid organisation were to provide the same service.
Environmental and Sustainability	The Strategy and Sustainability team provides the sustainability focus. The environmental focus being provided by the Water Quality and Environment team	Business Systems, OH&S environment -Environmental management and reporting	The Strategy and Sustainability team for Seqwater provides the sustainability focus with the environmental focus being provided by the Water Quality and Environment team with in the Water Delivery department. Veolia Water provides the operational environmental focus for the manufactured water assets through the Environment Manager. There is duplication of skills for this activity, however Veolia is focused on the manufactured water assets and therefore effort duplication would be low.
Human Resource Management	Organisational development - people and culture Human Resources, learning and development, Hr information and metric reporting, Industrial Relations	HR and Training	Seqwater and Veolia Water have HR services to facilitate the management of their staff. The existence of these services in each organisation by its nature would suggest that there is a duplication of effort and a duplication of some cost that would not be evident if a whole of grid organisation were to provide the same service.
Procurement	Procurement functions for Seqwater are primarily delivered through the Procurement team with in the Business Services department. Major Capital Work's procurement is facilitated through the Project Delivery team in Asset Delivery.	Veolia Water also provides a procurement function for issues covered under the operations and maintenance contract for manufactured water asset	Procurement skills would be similar across the organisation, functions like contracts for energy and chemicals and other similar materials and services would be duplicated.

Activity key	Seqwater	Veolia Water	Discussion and Recommendation
Research	the Technical Warrantee and Development department host this function	Veolia Water also manages the operation of a pilot plant.	Seqwater facilitates this function via the Technical Warrantee and Development department, Veolia Water also manages the operation of a pilot plant. No duplication of effort is indicated for this activity.
Information and Communication Technology	Business Services ICT services- server and network infrastructure, network architecture	Business Systems , OH&S environment- Business Systems Management	Seqwater and Veolia Water provide ICT services to support their respective organisations. The existence of these services in each organisation by its nature would suggest that there is a duplication of effort and a duplication of some cost that would not be evident if a whole of grid organisation were to provide the same service.

Sourced from *Grid Service Charges 2012-2013: Phase 1 – 2011/12 Fixed and Variable Operating Expenditure Benchmark Review* (SKM, June 2012)



From discussion with Seqwater in the workshop and additional information provided by Seqwater (extracts provided in **Table 5**) SKM has undertaken the review of duplication of effort.

■ **Table 5 Seqwater response to potential areas of duplication**

Identified area of potential duplication	Seqwater response
Administration	VWA administration costs are linked to their operating sites and office and are therefore not redundant with any Seqwater administration costs
Finance	Both Veolia and Seqwater have to maintain independent financial management functions, none of which are redundant.
Environmental and Sustainability	On the WCRW Scheme, Veolia is the registered operator and Seqwater provides an oversight and strategic role, ensuring Veolia's systems are audited and that reporting is conducted as required. Seqwater is still obliged to ensure and demonstrate compliance with the relevant acts, development approvals and licence conditions. There is no duplication. At the GCDP, Seqwater is the registered operator and is a member of the Operating Alliance. Seqwater relies on contracted resources for sampling, testing, investigation and reporting activities but provides a direct incident management and coordination role through a full time environmental manager. There is no duplication.
Human Resource Management	Both Veolia and Seqwater have to maintain independent human resource functions as they are two distinct entities, none of which are redundant.
Procurement	VWA is obliged to maintain an independent procurement function to handle subcontractors and suppliers as defined under the O&M agreements. There is no duplication and some benefits can be achieved through VWA's purchasing power (national presence).
Research	There is no duplication as the only Veolia FTE has been reduced in the 2012/13 budget to a limited advisory role. Some costs associated with the Operation and maintenance of the pilot plant at Gibson Island are still qualified as R&D but do not overlap with any of Seqwater RST activities.
Information and Communication Technology	All VWA systems are linked to the direct operation and management of the Manufactured Water assets. Some level of redundancy is required in terms of data management and the VWA systems are independent of Seqwater systems to ensure continuous operations. Key ICT systems are integrated within VWA proprietary Integrated Business Management System which needs to remain integral as a whole. It includes Water Quality, Environment, Maintenance, Quality and Production management systems.

*Administration*

At present two FTEs per scheme has been allocate by Veolia Water. The two FTEs fulfil the role of general administration that is required at the site office and a reception function. During the workshop it was highlighted that the requirement for a person at reception has a safety function as well. SKM has been satisfied that no overlap exist within the Administration function.

*Finance*

At the workshop held with Seqwater indicated that the Finance Team of Veolia Water processes all claims and combine these into a single claim submitted to Seqwater monthly. Veolia Water has allocated 4.9 FTE to process all claims and handle the finances. Both the Seqwater and Veolia Water Finance Teams has a “manager”, SKM considers this to be a duplication of effort, however SKM attributes this to the outsourcing model implemented and therefore considers that no potential saving

could be made except in disbanding the contracts and to move all contractor functions internally within Seqwater.

[REDACTED]

[REDACTED] SKM therefore considers that based on an average of \$110,000 per annum per FTE that a maximum potential saving of \$220,000 could be made.

#### *Environmental and Sustainability*

Veolia Water has allocated 1.6 FTE to the Gold Coast Desalination Plant and three FTEs to the Western Corridor Recycle Water Scheme. The three FTEs allocated at the Western Corridor Recycle Water Scheme are an Environmental Manager, an Environmental Scientist and a Safety Manager. Seqwater has two FTEs allocated, one FTE per scheme, to undertake stakeholder engagement and environmental monitoring. SKM considers that Seqwater has provided sufficient evidence to establish that there is no duplication of effort.

#### *Human Resource Management*

Veolia Water has allocated 0.5 FTE to the Gold Coast Desalination Plant and 1.4 FTE to the Western Corridor Recycle Water Scheme. [REDACTED]

[REDACTED] SKM considers that Seqwater has provided sufficient information to establish that there is no duplication of effort.

#### *Procurement*

Veolia Water has allocated 0.3 FTE to the Gold Coast Desalination Plant and 1.2 FTE to the Western Corridor Recycle Water Scheme. SKM considers that Seqwater has provided sufficient information to establish that there is no duplication of effort.

#### *Research*

Seqwater has indicated that at present no resources are allocated to research for the Gold Coast Desalination Plant. Veolia Water has 0.7 FTE allocated for the Gibson Island Pilot Plant Study. It is expected that the study is nearing completion. SKM considers that Seqwater has provided sufficient information to establish that there is no duplication of effort.

#### *Information and Communication Technology*

Seqwater has indicated that the contracts do not have a specific item for the systems, i.e. software, which Veolia Water uses. The contracts do make provision for computer hardware. The maintenance and development of software is part of the package and therefore Veolia Water does not explicitly get paid for this component. SKM consider the value of the software that Veolia Water provides to be in

the order of \$1.0 million per year, SKM understands this amount to include for the development and maintenance of the software and systems. SKM considers that Seqwater has provided sufficient information to establish that there is no duplication of effort in this area.

*Internalising the Operations*

[REDACTED]

**4.2.3. Operations and Maintenance**

Within the operations and maintenance category a number of activities were identified as having potential duplications of effort:

- Water Quality Monitoring
- Asset Maintenance EMC
- Asset Maintenance I&C
- Operations WTP

The desk top study conducted by SKM during the Phase 1 period identified that a potential duplication of effort may exist within the above activities as noted below in **Table 61**.

■ **Table 6 Desktop Study – Duplication of Effort (Operations and Maintenance)**

<b>Activity key</b>	<b>Seqwater</b>	<b>Veolia Water</b>	<b>Discussion and Recommendation</b>
Water Quality Monitoring	Water Delivery- Water Quality and Environment The Water Quality team manages and implements the overarching global water quality for Seqwater, and ensures they are aligned with the expectations of key stakeholders. This team is responsible for lab services, data management, implementation of drinking water management plans and environmental compliance	Technical Process Laboratory Laboratory & Water Quality	Seqwater and Veolia Water have water quality responsibilities. Seqwater has a Water Quality and Environment team. Veolia Water looks at the manufactured water assets with the Environment Management Team along with their Technical Process laboratory. This activity would merit a further investigation to indentify the areas that would be duplicated.
Asset Maintenance EMC	Seqwater has two groups with different responsibilities in this area. The first is within the Asset	The manufactured water assets are maintained by Veolia Water under	Asset maintenance is a core function for Seqwater and resides in a number of groups with responsibility for different assets and areas, similar functions exist

Activity key	Seqwater	Veolia Water	Discussion and Recommendation
	<p>Delivery department and resides predominately within the Strategic Asset Maintenance team; they are responsible for the planning and strategy component of asset maintenance.</p> <p>The second group is within the Water delivery department. This part of the service is delivered by two teams.</p> <p>Group Support and Catchment services deliver vegetation and overall maintenance to recreation facilities.</p> <p>The infrastructure Maintenance team provides the electrical, mechanical and civil maintenance to all active assets except the manufactured water assets. This team carries out the maintenance strategy developed by the Strategic Asset Maintenance team. This service is delivered through a panel of local contractors.</p> <p>The Buildings and facilities team of Seqwater provide maintenance management for corporate office space and leased buildings.</p>	<p>an operations and maintenance contract. This contract is managed by the Technical Warrantee and development department of Seqwater.</p>	<p>in Veolia and Seqwater, and however the skill base is different dealing with different technologies and different assets.</p> <p>There is a duplicate business process used by the different organisations although on different assets, some gain may be achieved by combining this maintenance activity business process, however it is likely to be small</p> <p>As such, duplication of effort in this area would be small based on the split of assets addressed by the different groups across the organisations.</p>
Asset Maintenance I&C	<p>Business Services, ICT services-- SCADA inter-site network management and support</p> <p>Water Delivery, Infrastructure Maintenance-- SCADA Maintenance</p> <p>Asset Delivery – SCADA systems project delivery</p>	<p>Control Engineering and maintenance and Instrumentation –for manufactured water assets</p>	<p>Instrumentation and Control services are supplied in a number of different areas</p> <p>Seqwater has components in Technical Warrantee and Development, Infrastructure maintenance, Information and Communication Technology, Project Delivery and Integrated asset Planning.</p> <p>This activity area would merit further review as SKM considers that there is likely to be some duplication of effort in this activity.</p>
Operations WTP	<p>Seqwater is the sole operator of water treatment plants, this functionality is delivered by a) the Water Delivery Department via the north and south Water Treatment teams. b) Noosa water treatment plant is also under an operations and maintenance agreement with Veolia Water. This is managed by the Northern Water Treatment Team.</p>	<p>The Technical Warrantee and development department (Seqwater) manage the manufactured water assets via the operations and maintenance contract with Veolia Water who provide all operations staff</p>	<p>Similar skill sets are required by both organisations for this function. Duplication of skills is a desired outcome; however duplication of effort for this activity would be negligible because of the segregation of assets.</p>

From discussion with Seqwater in the workshop and additional information provided by Seqwater (extracts provided in **Table 7**) SKM has undertaken a review of duplication of effort previously identified.

■ **Table 7 Seqwater response to potential areas of duplication**

Identified area of potential duplication	Seqwater response
Water Quality Management	Water Quality is managed strategically by Seqwater and at the operational level by VWA. VWA is therefore responsible for sampling, laboratory analysis and reporting of data. Seqwater is responsible for regulatory reporting, risk assessment reviews and reviews of monitoring programs. There is no duplication. Most of the tests carried out on Manufactured Water require specialist analysis which is not available within Seqwater (only available at Queensland Health).
Asset Maintenance EMC	All maintenance activities on Manufactured Water assets are carried out by VWA under the O&M agreements. There is no redundancy. Seqwater makes maximum use of its internal resources when reviewing the appropriateness of Repair and Maintenance programs proposed by VWA.
Asset Maintenance I&C	All maintenance activities on Manufactured Water assets are carried out by VWA under the O&M agreements. There is no redundancy. Seqwater makes maximum use of its internal resources when reviewing the appropriateness of Repair and Maintenance programs proposed by VWA and provides strategic oversight of SCADA management and improvement.
Operations WTP	Contractually these remain separated. There is no duplication of effort as staff operating the Advanced Water Treatment Plants are specially trained and their roles could not be substituted by the existing Seqwater operator workforce.

*Water Quality Management*

Seqwater is registered as Grid Service Provider for both the Western Corridor Recycled Water Scheme and the Gold Coast Desalination Plant and therefore the onus lies on them to ensure that the water quality tests are undertaken and reported. At present Veolia Water undertakes the sampling and Seqwater undertakes the reporting and submittal of the information to the Office of the Water Supply Regulator.

Seqwater has identified a potential duplication of effort and has responded by limiting the requirement of Veolia Water to only undertake the sampling, testing and internal reporting components. Similar to the Gold Coast Desalination Plant Seqwater undertakes the external reporting and submittal to the Office of the Water Supply Regulator component.

Based on the information presented by Seqwater, SKM is satisfied that Seqwater has demonstrated that no duplication of effort exists.

*Asset Maintenance EMC*

Veolia Water has allocated one FTE to the Gold Coast Desalination Plant and 2.7 FTE (Maintenance Engineer Officer, Civil Ops Engineer and Document Controller) to the Western Corridor Recycle Water Scheme.

Based on the information presented by Seqwater, SKM is satisfied that Seqwater has demonstrated that no duplication of effort exists.



*Asset Maintenance I&C*

Veolia Water has no FTEs allocated to the Gold Coast Desalination Plant and have four FTE (Controls and Instrumentation Engineer and C&I Technicians) to the Western Corridor Recycle Water Scheme.

*Operations WTP*

Veolia Water has allocated 15.9 FTEs to the Gold Coast Desalination Plant and 41.9 FTEs to the Western Corridor Recycle Water Scheme. During the workshop Seqwater has presented SKM with a table outlining the dollar values of various chemicals for the Veolia Water Contract and the other Seqwater treatment plants. SKM considers that a maximum of \$75,000 per annum cost saving could be made by combining the chemical contracts. This value is based on a 10% cost saving of the Veolia Water's shared chemical cost.

**4.3. Summary**

The investigation of the potential areas of duplication of effort between Seqwater and Veolia Water has concluded that minimal duplication exists under the current contractual arrangements. [REDACTED]

[REDACTED]

■ **Table 8 Areas of Actual Duplication of Effort Between Seqwater and Veolia Water**

Category	Activity	Seqwater	Veolia Water	Potential Cost Saving - Duplication(\$)	Potential Cost Saving – Internalising O&M(\$)
Capital	Asset Planning Capita	T	T	0	
	Asset Engineering	T	T	166,500 <sup>1</sup>	400,000
	Project Delivery	T	T	99,000 <sup>1</sup>	
Corporate Overhead	Administration	T	T	0	
	Finance	T	T	220,000 <sup>1</sup>	
	Environment and Sustainability	T	T	0	
	Human Resource Management	T	T	0	4.3 mil
	Procurement	T	T	0	
	Research	T	T	0	
	Information and Communication Technology	T	T	0	
Operations and Maintenance	Water Quality Management	T	T	0	
	Asset Maintenance EMC	T	T	0	
	Asset Maintenance I&C	T	T		
	Operations WTP	T	T	75,000 <sup>2</sup>	

<sup>1</sup> These values are based on Seqwater and Veolia Water agreeing to more productive terms. SKM notes that these values may not be attainable as a result of failed negotiations.

<sup>2</sup> Seqwater has advised that a maximum short term potential saving of \$20,000 could be achieved.

## 5. Duplication of Effort between LinkWater and Trility

### 5.1. Contract Background

Following its establishment LinkWater entered into an Alliance agreement with Transfield Services and United Utilities Australia, operating as Trility, for the provision of strategic asset and operational management. The provision of these services was obtained via a competitive tender process.

As LinkWater developed greater internal capacity, an agreement was reached with their Alliance Partners to a more straight forward specifier-provider arrangement. In March 2010, LinkWater, Transfield Services and United Utilities Australia agreed to an Operations and Maintenance Deed (the Deed) which details the provision of operational and maintenance activities. The Deed states that it will end on the 30<sup>th</sup> June 2013.

### 5.2. Areas of Potential Duplication of Effort

Within the Phase 1 report SKM identified a number of areas of potential duplication of effort between LinkWater and Trility, as outlined below in **Table 9**.

#### ■ **Table 9 Areas of Potential Duplication of Effort Between LinkWater and Trility**

Activity	LinkWater	Trility	Potential cost saving
Administration	✓	✓	L
Asset Maintenance I&C	✓		M
Asset Planning Capital	✓	✓	M
Corporate Support	✓	✓	M
Finance	✓	✓	M
Human Resource Management	✓	✓	M
Project Delivery	✓	✓	M
Risk Management	✓	✓	L
Work Place Health and Safety	✓	✓	L

Subsequent to the completion of the Phase 1 report the activities were divided into three categories:

- Capital
- Corporate overhead
- Operations and maintenance

These categories were applied to the activities identified and re-prioritised, as per **Table 10** below.



■ **Table 10 Categorised Areas of Potential Duplication of Effort Between LinkWater and Trility**

Category	Activity	LinkWater	Trility	Order of Priority
Capital	Asset Planning Capital	T	T	M
	Project Delivery	T	T	M
Corporate Overhead	Corporate Support	T	T	M
	Finance	T	T	M
	Human Resource Management	T	T	M
	Administration	T	T	L
	Risk Management	T	T	L
	Work Place Health and Safety	T	T	L

A workshop was held with LinkWater on the 5<sup>th</sup> June 2012 in an effort to determine if duplications of effort actually existed in the above identified areas and to quantify the potential cost savings that would arise from the removal of the duplication of effort.

The following sections discuss the each of the categories and activities identified and outline the quantum of cost savings achievable for each.

### 5.2.1. Capital

Within the capital category only two activities were identified as having potential duplications of effort:

- Asset Planning Capital
- Project Delivery

SKM initially identified that a potential duplication of effort may exist within the ‘Asset Planning Capital’ and ‘Project Delivery’ activities due to the Deed indicating that United Utilities is required to provide proposals, scopes and pricing for “additional works”. SKM identified that duplication of effort is likely in this area arising from the need for LinkWater to review and verify the proposals for works proposed by United Utilities. SKM’s initial assessment of potential duplication of effort is in outlined below in **Table 11**.

■ **Table 116 Initial assessment of potential duplication of effort**

Activity key	LinkWater	Trility	Discussion and Recommendation
Asset Planning Capital	General Manager Operational Services Infrastructure planning Environmental and statutory approvals infrastructure planning	United Utilities is required to provide proposals, scopes and pricing for “additional works” under the Operation and Maintenance deed.	LinkWater provides this activity through the infrastructure planning team in the Operational Services Department. United Utilities is required to provide proposals, scopes and pricing for additional works under the Operation and Maintenance deed. The business process for this function has the planning being done by LinkWater and the result of this planning (depending on value) would be provided to United Utilities to provide pricing. Duplication of effort is likely in this area arising from the need for LinkWater to review and verify the proposals for capital works proposed by United Utilities. As such this area merits further investigation.
Project Delivery	Project Services Program management Project controls Procurement Project cost control Project systems and quality Contracts	Provide Additional Services - Supply proposal, scope, time table methods and price for work on defined assets.	The Project Services Department for LinkWater provides project management, contracts management, cost control, systems and quality and procurement processes. United Utilities has within the Operations and Maintenance deed clause that require them to undertake similar project delivery activities, “Provides Additional Services”. The function of this activity indicates some overlap between LinkWater and the United Utilities contract. This is only likely to be on areas of work associated with the contract. SKM assess the effort duplication to be worthy of further investigation.

Extract from *Grid Service Charges 2012-2013: Phase 1 – 2011/12 Fixed and Variable Operating Expenditure Benchmark Review* (SKM, June 2012)

From discussion with LinkWater in the workshop it is apparent that there is a clear delineation of roles and responsibilities between LinkWater and Trility. Within the *Memorandum: Duplication of role with the Service Contractor* (LinkWater, 5 June 2012) LinkWater state:

*“Under the O&M Deed (section 9.1), the Services Contractor must maintain all of LinkWater’s assets at all relevant times fit for their intended purposes and that service failures are corrected as soon as possible.*

*For this reason, minor reactive maintenance and reactive capital works are undertaken by the Services Contractor following approval by LinkWater.*

*Under this arrangement, it is the responsibility of the Services Contractor to provide LinkWater with field asset information that may lead to the request for a reasonably detailed proposal including the scope, method and proposed price.*

*LinkWater’s Project Services on the other hand are responsible for the delivery of LinkWater annual planned capital expenditure program as detailed in Chapter 10 of LinkWater’s Regulatory Submission.*

*LinkWater acknowledges that in some instances capital works identified by the Services Contractor are more appropriately undertaken by the Services Contractor on the basis of synergies between the Services Contractors day to day activities, the nature of the work and its*

*understanding of the condition and operation of the assets where the defect has occurred. The Trunk Mains – Valve Inspection and Remediation is an example of this.*

*However, for other than reactive capital works this is the exception.*

*In terms of duplication, LinkWater’s Project Services operates predominantly on a project management contract basis. As a result, Project Services resources are closely related to the program of work. In other words, the greater the program the greater the resources employed by Project Services and vice versa.*

*As a result, while there may be instances where the Services Contractor undertakes a project that would otherwise be included in the planned capital works program managed by Project Services, this would simply mean that the contract costs consumed by Project Services would be commensurately lower.*

*For this reason, LinkWater does not consider that material duplication exists.”*

SKM is satisfied that LinkWater has ensured that duplication is minimised to be negligible.

SKM considers that no potential efficiency gains could be made by disbanding existing Operation and Maintenance Contract.

### **5.2.2. Corporate Overhead**

Within the corporate overhead category a number of activities were identified as having potential duplication of effort:

- Corporate Support
- Finance
- Human Resource Management
- Administration
- Risk Management
- Work Place Health and Safety

SKM initially identified that a potential duplication of effort may exist within the activities identified above as both have these services within their respective corporate services groups. SKM identified that the existence of these services in each organisation by its nature suggests that there is a duplication of effort. SKM’s initial assessment of potential duplication of effort is in outlined below in **Table 11**.

■ **Table 12 Initial assessment of potential duplication of effort**

<b>Activity key</b>	<b>LinkWater</b>	<b>Trility</b>	<b>Discussion and Recommendation</b>
Corporate Support	General Manager Corporate Services	Finance and Corporate Services-- policy, document and knowledge management, human resources, workforce planning and office administration.	LinkWater service provision is under the Corporate services department. The existence of these services in each organisation by its nature would suggest that there is a duplication of effort and a duplication of some cost that would not be evident if a whole of grid organisation were to provide the same service.
Finance	General Manager Business Services financial control Group Accountant Tax Accountant	Finance and Corporate Services-- policy, document and knowledge management, human resources, workforce planning and office administration.	For LinkWater this service is within the Business Services department. The existence of these services in each organisation by its nature would suggest that there is a duplication of effort and a duplication of some cost that would not be evident if a whole of grid organisation were to provide the same service.
Human Resource Management	Corporate Services General Manager Human resource Manager	Finance and Corporate Services-- policy, document and knowledge management, human resources, workforce planning and office administration.	Both have these services within their respective corporate services groups The existence of these services in each organisation by its nature would suggest that there is a duplication of effort and a duplication of some cost that would not be evident if a whole of grid organisation were to provide the same service.
Administration	General Manager Corporate Services Administration & Reception	Diverse administration functions	All entities have an administration function dedicated to supporting their respective organisations. The existence of these services in each organisation by its nature would suggest that there is a duplication of effort and a duplication of some cost that would not be evident if a whole of grid organisation were to provide the same service.
Risk Management	General Manager Operational Services Emergency operations support	Network Operations support	The existence of these services in each organisation by its nature would suggest that there is a duplication of effort and a duplication of some cost that would not be evident if a whole of grid organisation were to provide the same service.
Work Place Health and Safety	General Manager Corporate Services QES Manager Workplace Health and Safety		LinkWater has WPH&S obligations serviced by the QES Manager. It is expected the United Utilities would perform their duties for WPH&S within their organisation, no information has been provided to identify this function, however SKM considers that because each organisation is obliged to carry out this activity it is inevitable that there will be duplication of effort in the activity.

Extract from *Grid Service Charges 2012-2013: Phase 1 – 2011/12 Fixed and Variable Operating Expenditure Benchmark Review* (SKM, June 2012)

From discussion with LinkWater in the workshop it is apparent that although there is duplication in the activities performed by LinkWater and Trility this is the nature of out-sourcing and cannot be avoided. Within the *Memorandum: Duplication of role with the Service Contractor* (LinkWater, 5 June 2012) LinkWater state:

*“The contractual arrangement between LinkWater and its Services Contractor is for the supply of maintenance services.*

*This arrangement is governed under the O&M Deed.*

*Under this arrangement, the Services Contractor recovers a contracted fee from LinkWater for the provision of maintenance services detailed in the Deed.*

*Within its fee, the Service Contractor is required to recover its overhead costs (see clause 8.1(b) being costs associated with necessary back office and corporate support activities (i.e. HR, finance, training) which are necessary to ensure that it can discharge its contractual obligations.*

*LinkWater considers that a fee structure is not unusual when procuring a standalone service from a standalone provider.*

*Under this arrangement, LinkWater does not provide corporate support services to the Services Contractor and therefore does not consider there is any duplication in corporate support activities.”*

SKM is satisfied that LinkWater has ensured that duplication is minimised under the existing contract conditions.

SKM considers that within the rate that Trility charges LinkWater there is an estimated 10% element for corporate support built in. This may be avoided by internalising the functions performed by Trility. Based on the estimated contract value of \$12.5 million this potential efficiency saving equates to approximately \$1.25 million.

SKM is of the opinion that a further saving could be made due to not incurring the profit mark-up added by Trility to the rates. SKM estimates the profit margin to be of the order of 20% of the rates charged, based on benchmarking and not on actual values. Based on the estimated contract value of \$12.5 million this may equate to approximately \$2.5 million.

### **5.2.3. Operations and Maintenance**

No potential areas of duplication of effort were identified within the Phase 1 report. Trility provide all operations and maintenance activities for LinkWater and as such no duplication of effort is apparent.

### **5.3. Summary**

The investigation of the potential areas of duplication of effort between LinkWater and Trility has concluded that minimal duplication exists. For capital category activities the duplication of effort is negligible and therefore the potential cost savings are zero. For the corporate overhead category activities there is limited scope for reduction in the duplication of effort between LinkWater and Trility under the current contract

conditions, therefore the potential cost savings from the removal of duplication of effort is zero. The potential cost saving achievable by internalising operations and maintenance equates to a total of approximately \$3.75 million. Within the operations and maintenance category activities no duplication of effort has been identified.

Overall, the investigation undertaken indicates that there is limited actual duplication of effort within the activities undertaken by LinkWater and Trility, taking into consideration the current contract O&M Deed and conditions.

■ **Table 138 Areas of Actual Duplication of Effort Between LinkWater and Trility**

Category	Activity	LinkWater	Trility	Potential Cost Saving - Duplication(\$)	Potential Cost Saving – Internalising O&M(\$M)
Capital	Asset Planning Capital	NA	NA	0	0
	Project Delivery	NA	NA	0	0
Corporate Overhead	Corporate Support	T	T	0	
	Finance	T	T	0	
	Human Resource Management	T	T	0	
	Administration	T	T	0	1.25 + 2.5
	Risk Management	T	T	0	
	Work Place Health and Safety	T	T	0	
Operations and Maintenance	NA	NA	NA	NA	NA

## 6. Summary and conclusions

The quantified additional savings that have been identified from increased efficiency gains post merger of Seqwater and WaterSecure are summarised in **Table 19**.

### ■ Table 19 Quantified additional Seqwater and WaterSecure merger efficiency gains

Efficiency gain area	Maximum Estimated Efficiency Gain \$('000)
Board and employee reductions	1,500 p.a.
Office space lease costs	180 p.a.
Insurance premiums	1,000 p.a.
Chemical costs	75 p.a.

The investigation of the potential areas of duplication of effort between Seqwater and Veolia Water has concluded that minimal duplication exists under the current contractual arrangements. SKM considers the maximum potential cost savings as summarised below in **Table 14** to pivot on current and future negotiations between Seqwater and Veolia Water in finding a more productive working method as SKM considers that the current contractual arrangement to be counterproductive. The potential savings by internalising the operation is based on Seqwater being able to gain the same efficiencies as that of Veolia Water.

### ■ Table 140 Areas of Actual Duplication of Effort Between Seqwater and Veolia Water

Category	Activity	Seqwater	Veolia Water	Potential Cost Saving - Duplication(\$)	Potential Cost Saving – Internalising O&M(\$)
Capital	Asset Planning Capita	T	T	0	
	Asset Engineering	T	T	7. 166,500 <sup>1</sup>	400,000
	Project Delivery	T	T	8. 99,000 <sup>1</sup>	
Corporate Overhead	Administration	T	T	0	
	Finance	T	T	9. 220,000 <sup>1</sup>	
	Environment and Sustainability	T	T	0	
	Human Resource Management	T	T	0	4,300,000
	Procurement	T	T	0	
	Research	T	T	0	
	Information and Communication Technology	T	T	0	
Operations and Maintenance	Water Quality Management	T	T	0	
	Asset Maintenance EMC	T	T	0	
	Asset Maintenance I&C	T	T	0	
	Operations WTP	T	T	75,000 <sup>2</sup>	

<sup>1</sup> These values are based on Seqwater and Veolia Water agreeing to more productive terms. SKM notes that these values may not be attainable as a result of failed negotiations.

<sup>2</sup> Seqwater has advised that a maximum short term potential saving of \$20,000 could be achieved.

The investigation of the potential areas of duplication of effort between LinkWater and Trility has concluded that minimal duplication exists. For capital category activities the duplication of effort is negligible and therefore the potential cost savings are zero. For the corporate overhead category activities there is limited scope for reduction in the duplication of effort between LinkWater and Trility under the current contract conditions, therefore the potential cost savings from the removal of duplication of effort is zero. The potential cost saving achievable by internalising operations and maintenance equates to a total of approximately \$3.75 million. Within the operations and maintenance category activities no duplication of effort has been identified.

Overall, the investigation undertaken indicates that there is limited actual duplication of effort within the activities undertaken by LinkWater and Trility, taking into consideration the current contract O&M Deed and conditions.

■ **Table 151 Areas of Actual Duplication of Effort Between LinkWater and Trility**

Category	Activity	LinkWater	Trility	Potential Cost Saving - Duplication(\$)	Potential Cost Saving – Internalising O&M(\$M)
Capital	Asset Planning Capital	NA	NA	0	0
	Project Delivery	NA	NA	0	0
Corporate Overhead	Corporate Support	T	T	0	
	Finance	T	T	0	
	Human Resource Management	T	T	0	
	Administration	T	T	0	1.25 + 2.5
	Risk Management	T	T	0	
	Work Place Health and Safety	T	T	0	
Operations and Maintenance	NA	NA	NA	NA	NA