

To Dan Spiller, GM Asset Portfolio Development & Delivery **From** Mick Drews, Principal Asset Capability

Date 05 January 2015

Subject QCA draft report response: Mt Crosby To Green Hill Pipeline- Renewals

QCA Finding	<p>CH2M HILL considered:</p> <ul style="list-style-type: none"> • sufficient evidence was provided to substantiate the scope of works for Scheme S16 (no documentation was provided in relation to the scope of works for the broader program). • it was reasonable to assume—given Seqwater has sought guidance from an industry leader on the approach to cathodic protection scheme for the pipeline- that the standard of works is appropriate and in line with good industry practice. • project costs were not substantiated. <p>In the absence of cost substantiation, CH2M HILL concluded the project not to be efficient. CH2M HILL acknowledged the cathodic protection program was initiated prior to the merger with LinkWater and was therefore developed under slightly different policy and procedures.</p> <p>Notwithstanding this, CH2M HILL observed that Queensland Government guidance on procurement had not changed substantially for a number of years and identified the following concerns:</p> <ul style="list-style-type: none"> • Scheme S16 had been sole-sourced to Thiess Services even though the quantum of work exceeded \$1 million. • LinkWater (pre-merger) seemed to have had limited control over the scope of works. • There was limited evidence of investment approval through the program life cycle. • Comments made in one of the project justification reports seemed to demonstrate a low level of concern for either scope or on-time delivery. <p>CH2M HILL also stated Seqwater should consider modifying internal documentation, or implementing new documentation, to record investment approvals and capture outputs of decision-support documentation produced by external parties not provided in Seqwater formats.</p>
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Summary

Following CH2MHill’s prudence and efficiency review of the Mt Crosby to Green Hill Pipeline Renewals Projects, the QCA adopted their recommendation to reduce proposed expenditure from \$42.95M to \$0. It did so based on the assessment that Seqwater had not yet developed a robust asset management plan for that asset.

Seqwater agrees with the prudence and efficiency findings however notes there are two relatively minor investments (total of \$1.225M) which need to be completed in the FY16-18 period (i.e. prior to the next regulatory review) and as such requests these be specifically assessed to ensure future expenditure is on approved projects.

Since the prudence and efficiency review Seqwater has formally adopted a subset of the Ex-LinkWater Programs (refer reference 1) that were previously documented through the LinkWater Project Justification Report (PJR) process, including a number of work elements on the Mt Crosby to Greenhill pipeline. This has been developed following an audit of nominated works which have not yet been executed and a review of the related supporting documentation.

Background and Context

Core documents that provide evidence of the \$1.225M which Seqwater requests be considered are:



- Reference 1 - Memorandum - Network Asset Renewals Programme Development Status (October 2014)
- Reference 2 - Barrel Union Joint Assessment (Excel file, refer sheet 'BUJ Assessments')
- Reference 3 - Business Case - PNW Various Sites – Barrel Union Joint Replacement Program 1 (December 2014)
- Reference 4 - Business Case - PNW Various Sites – Barrel Union Joint Replacement Program 3 (December 2014)
- Reference 5 - Mt Crosby to Green Hill Trunk Mains - Above Ground Pipe Condition Assessment (SAVCOR, June 2011)
- Reference 6 – Business Case - Mt Crosby to Green Hill Trunk Mains – Above Ground Pipe Recoating Program (December 2014)

Efficiency

Seqwater believes that the following identified elements of this project are sufficiently developed and should proceed prior to the next regulatory price path review. These are:

- The Barrel Union Joint Replacement (BUJ) Program incorporating the replacement of three BUJs in the Mt Crosby to Green Hill Pipeline (Valves 311 and 312 at Mt Crosby Rd, Anstead and Valve 931 Scour at Green Hill Reservoir). These valves have been identified following a systematic BUJ condition survey and have been selected on the basis that the measured pipe thickness has corroded to less than 6mm remaining wall thickness. Details of the condition survey are recorded in a spreadsheet (reference 2). Business cases (refer references 3 and 4) have been prepared for the work to replace BUJs, including these nominated valves. The value of the replacement cost for the three BUJs is \$225,000 (\$75,000 per BUJ).
- Mt Crosby to Green Hill Trunk Mains – Above Ground Pipe Recoating Program. This work has been identified following a condition assessment the details of which are recorded in reference 5. The assessment identified sections of the above ground pipeline where the protective coatings are damaged or in poor condition. These sections require repair and/or rehabilitation in order to maintain the integrity of the coating system to protect and extend the pipe service life and reduce the risk of future critical failure due to steel corrosion and degradation. A business case for the project has been prepared (refer reference 6), the value of work is \$1.0M. The budget for 2016/17 cannot be quantified due to the inherent condition of the above ground pipeline protective coatings being unknown at this time.

Recommendation

Seqwater recommends the new information be accepted as efficient and the cost estimates to replace the three BUJs (\$225,000) and pipe recoating (\$1M) be included in Seqwater's approved capital expenditure program.

 **Mick Drews**
Principal, Asset Capability

<p>Endorsed by: Peter Pennell, Manager AC&S Contact number/mobile: 0417 009 437 Date: 8 January 2015</p>	<p>Approved by: Dan Spiller, GM APDD Contact number/mobile: 0403 607 857 Date: 8 January 2015</p>
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