

Memorandum



To	Michael Grimley, Manager Regulation & Governance	From	Alex Coe, Manager Operational and Contractual Performance
Date	23 December 2014		
Subject	QCA Draft Report November – Repair & Maintenance Projects		

QCA finding (report p 51-52)	<p>622222 VC R&M – Projects</p> <p>Costs related to repair and maintenance projects under the Veolia maintenance services contract were \$0.3 million in 2013-14 but forecast to increase by \$2.1 million in 2014-15. These costs were \$0.4 million in 2012-13. CH2M HILL noted that additional information has been provided by Veolia for the WCRWS (with no further information received on the GCDP) which does not support a significant increase in repair and maintenance projects. In the absence of valid substantiation of these costs, CH2M HILL recommended that the 2014-15 forecast for this cost category be adjusted to the average of 2012-13 and 2013-14 expenditures (\$0.3 million).</p> <p>The QCA accepts this recommendation.</p>
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Response

R&M Projects

R&M Projects comprise significant one-off maintenance tasks which are separable from ongoing maintenance tasks by virtue of size, complexity or risk. This includes costs for both the GCDP and WCRWS. R&M Project expenditure is supported by business cases reviewed and approved on an ongoing basis throughout the year. Timing of specific projects is based on risk and Seqwater continues to review optimisation of individual projects following budget allocation.

The majority of costs captured in this object for 2014/15 relate to shutdown works for the Western Corridor Recycled Water Scheme (WCRWS). At the time of submitting the initial regulatory proposed, the best estimate of decommissioning works was \$9.4m over the 4-year horizon period:

Scheme	FY15 (\$)	FY16 (\$)	FY17 (\$)	FY18 (\$)	FY19 (\$)	4-Yr Total (\$)
WCRWS	2.3m	2.3m	2.3m	2.3m	2.3m	9.4m

Since the initial submission this estimate has been revised and it is in the best interests of consumers the latest information is made available for pricing purposes. In November 2014 the estimate was revised to \$0.491m in FY15 and \$6.1m in the outer 4-year horizon period. To the extent that these costs are one off and non-recurring, the revised FY15 forecast of \$0.491m is therefore not an appropriate expenditure profile for the 5-year horizon period.

Scheme	FY15 (\$)	FY16 (\$)	FY17 (\$)	FY18 (\$)	FY19 (\$)	4-Yr Total (\$)
WCRWS	0.491m	1.57m	4.54m	0.0m	0.0m	6.1m

The ongoing R&M projects requirement for the WCRWS is expected to comprise only deferred shutdown works. The shutdown methodology for the Scheme recognises a number of R&M projects (total value \$6.1m in outer years) which can be deferred until specific operational conditions are reached. These conditions are anticipated to be reached within the Regulatory period. An explanation of the scope, cost and timing of deferred shutdown activities is detailed in the attached minute from the WCRWS Shutdown Project Steering Committee. Please note the attached memo excludes internal costs and Veolia margin. Total costs estimated for these works do not account for a restart scenario, where the scheme is made either partially or fully operational.