



Advisian

WorleyParsons Group



AER Pipework Projects

Independent Validation Report

31 May 2015



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WorleyParsons Group

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Executive Summary

Multinet Gas engaged Advisian to independently validate pipework replacement lengths (and costs) undertaken between 1 January 2013 and 30 April 2015.

Advisian have independently examined all information received and confirm the lengths and costs summarised in Table 1 below to be a true and accurate assessment of the works undertaken from January 2013 to 30 April 2015. Advisian also advise that based on current market knowledge, construction costs associated with these projects meet industry expectations.

Table 1: Project Costs and Replacement Lengths

Year	Construction Replacement Cost	Length of Renewal Main
Jan 1 - Dec 31 2013	\$10.400M	55.65 Km
Jan 1 - Dec 31 2014	\$22.514M	110.31 Km
Jan 1 - Apr 30 2015	\$8.755M	49.11 Km
Total	\$41.67M	215.07 Km

Construction costs are as invoiced in nominal dollars of that year.

1 Background

Multinet Gas engaged Advisian to independently assess and verify the current replacement program to 30 April 2015.

Multinet also requested Advisian provide an opinion on whether Multinet's Mains replacement expenditure for the 2013 to 2017 period conforms with Rule 79 of the National Gas Rules (NGR).

Advisian is a global advisory company that provides project and business solutions to clients who develop, operate and maintain physical assets in the infrastructure and resources sectors. Advisian services include independent assessment of capital costs by both top down and bottom up cost assessment for a variety of utility stakeholders.

Multinet Gas is operating in a regulated environment under Victorian state based regulatory arrangements, with the Australian Energy Regulator (AER) being the responsible body for the economic regulation of natural gas transmission and distribution in Victoria.

Multinet Gas is currently undertaking mains replacement works in line with its long term replacement strategy. The AER has approved 255km of main replacement for the 2013 to 2017 period. Multinet Gas has accelerated its replacement program and intends to submit to the AER a request to increase the replacement activity from 255km to 527km for the 5 year period (2013 to 2017). This report forms part of the PassThrough Submission to the AER.

Advisian has undertaken a desk top study to support the submission process. The independent verification of current replacement program to 30 April 2015 included;

- Review of each initiated project and verification/validation of completed construction length;
- Review of each initiated project and verification/validation of actual cost and overall unit rate as well as unit rates associated with 63 mm mains construction and grid mains construction;
- Review of each initiated project and verification/validation of completed Medium Pressure or Low Pressure large diameter cast iron abandonment lengths.

2 Information Received From Multinet Gas

The following information, received from Multinet Gas forms the basis of the assessment validation:

- Business Case Reports (by project)
- 2013 Actual Cost Data
- 2014 Actual Cost Data
- 2013 Monthly Reports (Basis of replacement lengths)
- 2014 Monthly Reports (Basis of replacement lengths)
- 2015 Comdain Pipeworks Program Report (Basis of replacement lengths)
- 2015 ZNX Report at end of April 2015
- 2015 Actual Cost Data to end April 2015

3 Length of Mains Replaced

The mains replacement progress is tracked by regularly recording the volume achieved and invoiced by the two Service Providers, Comdain and ZNX.

Information from monthly reports provided by the Service Providers for the 2013 to 30 April 2015 period was used to accurately track progress and determine and validate construction lengths and costs.

Table 2 below indicates lengths of mains replaced between 1st January 2013 and 30 April 2015.

Table 2: Replacement Project Lengths

PROJECTS	Pipework Replacement Lengths (m)			
	2013	2014	2015	TOTAL
MG-COM-000007 (Sandringham-Mentone)	10,629	12,382		23,011
MG-COM-000010 (Burke Rd Upgrade)	107			107
MG-COS-005032 (Bulleen Upgrade linked with MG-COM-000010)	4,618			4,618
MG-COS-002845	175			174.3
MG-COS-004978	34,215			35,704.9
MG-COS-005044 (Bentleigh East)	5,117			4,998.9
MG-COS-005099	240			254.3
MG-COM-000004 (Doncaster – Bulleen)		11,608		11,608

MG-COM-000025 (Sandringham-Highett)		22,380	359	22,739
MG-COM-000034 (Kew-Balwyn)		16,272	200	16,472
MG-COM-000048 (Oakleigh-Paget St)		481		481
MG-COM-000050 (Clarendon St)		55		55
MG-COM-000068 (Carrum)		17,932	846	18,778
MG-COM-000074 (Highett –Cheltenham)		27,662	3,236	30,898
MG-COM-000092 (Canterbury-Balwyn)			25,393	25,393
MG-COM-000096 (Yarra St, South Yarra)		79		
MG-COM-000101 (Warleigh St)		1,459	114	1,573
MG-COM-000095 (Mentone – Mordialloc)			18,959	18,959
TOTAL REPLACEMENT LENGTH	55,651	110,310	49,107	215,068

4 Costs Associated with Replaced Mains

The construction costs associated with the mains replacement projects are summarised in Table 1 above.

The costs have been checked from SAP records and the Pass Through Cost Data provided by Multinet Gas. Cost information for 2013 and 2014 was taken from the SAP actual cost data used to compile the annual Regulatory Information Notice. Cost information for January – April 2015 was provided from the MG accounting data used for monthly management reporting (this has been extracted from SAP).

Advisian also received the project Business Case reports for many of the replacement main projects. These reports provided a representative range of project size and complexity and included information on pipe diameters and construction methodology, thus enabling comparisons to be developed between actual project costs and typical industry costs (benchmarked rates). The comparative costs, which exclude Multinet Gas overheads, are provided in Table 3 below.

Table 3: Actual Project Costs v Industry Benchmarked (Rates) Costs

Business Case Projects Re-viewed	Work Description	Actual Project Quantity (m)	Bench-marked Rate (\$/m)	Bench-marked Cost (\$)	Actual Cost (\$)
MG-COM-000004 (Doncaster – Bulleen)	New 63mm P8 HP main (including preliminary investigation & design work)	10,679	220	2,349,380	3,271,415
MG-COM-000004 (Doncaster – Bulleen)	180mm uprating LP to HP	929	1100	1,021,900	Included above
MG-COM-000025 (Sandringham-Highett)	63mm P8 HP main (includes preliminary investigation & design work)	22,739	220	5,002,580	5,163,911
MG-COM-000034 (Kew East-Balwyn North)	63mm P8 HP main (includes preliminary investigation & design work)	16,472	220	3,623,840	3,108,532
MG-COM-000048 (Oakleigh-Paget St)	63mm P8 insertion into existing mains, some bores & new section in nature strip	481	220	105,820	102,865
MG-COM-000074 (Highett - Cheltenham)	63mm P8 HP main (including preliminary investigation & design work)	30,280	220	6,661,600	6,173,194
MG-COM-000074 (Highett - Cheltenham)	180mm P8 HP main (including preliminary investigation & design work)	618	1100	679,800	Included above
MG-COM-000092 (Canterbury - Balwyn)	63mm P8 HP main (including preliminary investigation & design work)	25,393	220	5,586,060	2,957,138 (unfinished)

MG-COM-000095 (Mentone - Mordialloc)	Assume 63mm P8 HP (to be checked)	18,959	220	4,170,980	4,092,839
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Totalling the values from the table (above) indicates the total actual cost of the ‘finished’ projects is approx. 8% less than the costs developed using industry benchmark values. Advisian consider this indicates a high level of operator performance and a resultant value for money for customers.

5 Conclusion

Advisian have independently examined all information received and confirm the lengths and costs summarised in the Executive Summary of the report to be a true and accurate assessment of the works undertaken from 1 January 2013 to 30 April 2015. Advisian also advise that based on current market knowledge, construction costs associated with these projects are within industry expectations.

Advisian is satisfied that the Capital Expenditure for the current Regulatory period from 1 January 2013 to 31 December 2017 satisfy the new Capex criteria, set out in rule 79 of the NGR which permit expenditure to be included in the opening capital base and subsequently recovered from their customers through tariffs. The expenditure is that of a prudent operator based on performance and generally meeting Levels of Service targets.

I, John Connell from Advisian (formerly Evans & Peck) further declare that I have read the Federal Court Guidelines for Expert Witnesses and have made all reasonable enquiries I believe are appropriate. No matters of significance I regard as relevant have, to the best of my knowledge, been withheld during this validation process.