

Jemena Gas Networks (NSW) Ltd – Initial response to the draft decision

Appendix 3b.8

Motor Vehicle Replacement Capex

19 March 2010

Public version



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1 Motor vehicle replacement capital expenditure

In the August submission, JGN forecasted expenditure of \$21.1m for the forecast access arrangement period. JGN's motor vehicle replacement capex meets the requirements of National Gas Rule 79(2)(c)

In the draft decision, the AER considered that for motor vehicles the level of capital expenditure (capex) in the present period should be maintained. The AER calculated a forecast of \$10M consistent with its approach of using the historic average of expenditure as a forecast for the proposed access arrangement period.

JGN is now proposing a capital expenditure of \$16.7M, the reduction as a result of more detailed cost estimate.

1.1 JGN's vehicle fleet

JGN's vehicle fleet consists of Heavy Commercial Vehicles (HCV), Light Commercial Vehicles (LCV), Passenger Vehicles (PV) and plant.

1.1.1 Heavy commercial vehicles

The vehicles outlined within this category range from the 4,495 kg Gross Vehicle Mass (GVM) through to the 22,500 kg GVM. The majority of the heavy commercial vehicles reside at the depots and are returned each day. These vehicles travel approximately 100,000 to 200,000 kilometres within a ten-year period.


These vehicles are:

- Large Task Trucks – (22.5 tonne GVM truck fitted out with a front mounted crane and heavy duty tray)
- Gas Emergency Response – Crane Trucks
- General Tray Trucks
- Crane Borers – (22.5 tonne GVM truck fitted out with a Proline crane borer).

1.1.2 Light commercial vehicles

The Light Commercial Vehicle specifications range from the off the shelf utility/van to a specific fit-for-purpose fit out.

The vans are generally assigned to the field operational crews (field workers). These vehicles return back to the operator's home each evening and can form part



of a rotational system that is in place to cover the various shifts. These vehicles are expected to travel approximately 30,000 kilometres per year.

The utilities are assigned to operational crews and management (Crew Supervisors and Team Leaders) that provide support to the field resources. These vehicles return back to the operator's home each evening as the operators are required to be on call. These vehicles are expected to travel approximately 30,000 kilometres per year.

1.1.3 Passenger vehicles

These vehicles consist of small to medium sedans and large wagons. The passenger vehicles are assigned to various roles that range from site based pool vehicles to vehicles for operational managers that provide support to the field resources.

The vehicles assigned to operational managers return back to the operator's home each evening as the operators are required to be on call. The vehicles assigned to site based pools reside at the respective depots and are returned each day. The vehicles are expected to travel approximately 30,000 kilometres per annum.

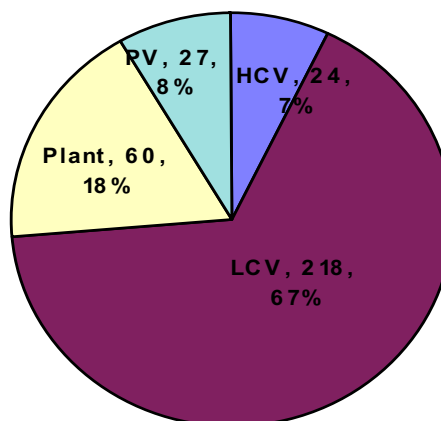
1.1.4 Plant

Plant refers to forklifts and trailers. The trailers consist of general 7x5 box trailers through to heavy duty pole trailers that are coupled behind the crane borers. Historically, trailers have a life of 10-15 years.

Generally the life of a forklift that is utilised in a high traffic environment is approximately five years or 4,000 hours.

Figure 1-1 shows the proportion of the different classes of vehicle that make up JGN's vehicle fleet

Figure 1-1: JGN vehicle assets



1.2 Fleet management strategy

JGN's motor vehicle replacement program is based on the JGN fleet management strategy.

The key principles for the fleet management strategy is that the vehicles be “fit for purpose” for the task at hand, have least cent per km (based on operation costs, age & km travelled) and include up-to-date safety features.

The reasons for this strategy is that it mitigates age related failures and potential consequences of personnel injury, decreases response times and reduces operational costs.

JGN has adopted the recommended asset replacement terms outlined in Table 1-1 as consistent with its fleet management strategy.

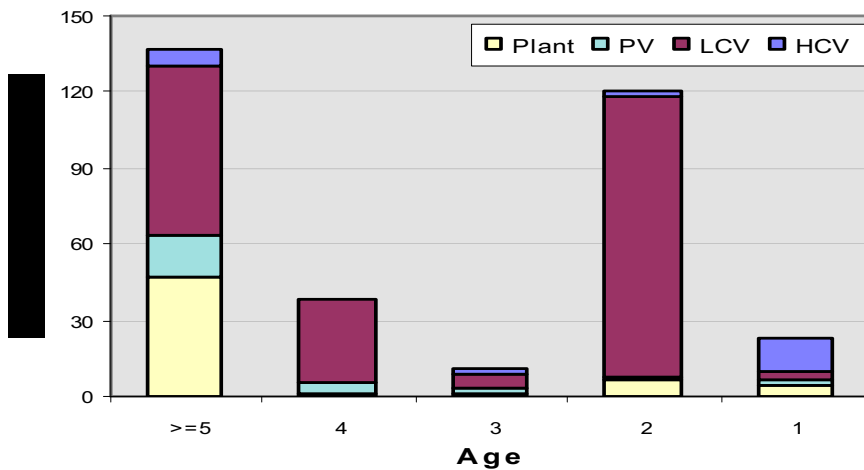
Table 1-1: Replacement details for JGN motor vehicles

Vehicles	Replacement Terms
Heavy commercial vehicles	9-10 yrs/vehicle conditions
Light commercial vehicles	5 yrs/150,000 kms
Passenger vehicles	4 yrs/120,000 kms
Trailer	10-15 yrs/conditions
Forklift	5 yrs/4,000 hrs

1.3 Replacement volumes

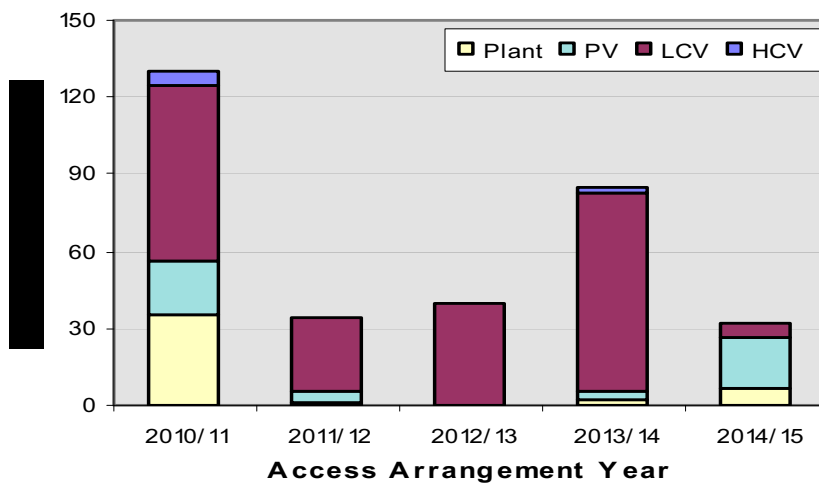
A significant proportion of the JGN vehicle fleet is older than 5 years as shown in Figure 1-2.

Figure 1-2: Vehicle age profile as at Feb 2010



JGN has derived a motor vehicle replacement program by applying its fleet management strategy to the current JGN fleet. This replacement strategy is set out in Figure 1-3.

Figure 1-3: JGN's vehicle replacement program



1.4 Cost estimate

JGN's vehicle fleet purchase is consistent with JGN's procurement and approval policy. That is, for purchases above \$10,000 and below \$250,000, three written quotes are required. The lowest price is selected. If the total purchase value is over \$250,000, then it is required to be fulfilled through a competitive tender.

For operational reasons, JGN has adopted a policy of like for like replacement with all vehicles.

For the PV and LCV vehicles, JGN follows the procurement and tendering process to go into an agreement with a selected vehicle manufacturer for a 3-year term. The selection of the winning tender is based on the criteria set out in JGN's fleet management strategy. Within that time period purchases of that make of vehicle are tendered amongst different dealers.

In forecasting the capex for the motor vehicle replacement JGN uses a recent historic vehicle price or the recent market indicative prices for HCV, LCV and plant, depending on the types of fit out.

For other vehicles, it is the unit price contained in the agreement with the selected vehicle manufacturer.

The unit prices are set out below in Table 1-2.

Table 1-2: Unit prices for vehicles

Vehicle Type	Average Price	Range of price (dependent on fit out)

The profile of replacement and the unit rates result in the capex forecast for motor vehicle replacement in Table 1-3

Table 1-3: Motor vehicles forecast capital expenditure

	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Capex	3.5	1.7	2.3	6.0	2.1	15.6