



Capital Projects Audit Queensland

December 2009



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1. EXECUTIVE SUMMARY

Introduction

This report provides an indication of the level of compliance with the requirements of the National Gas Rules in relation to new capital expenditure for Envestra's Queensland gas network, in the current Access Arrangement period.

Methodology

The Consultant nominated a number of projects in each project category, covering a range of project values and completion dates. A total of 19 projects were audited in detail, with project values ranging from \$5,494 to \$4.12m (details of the projects audited are contained in Appendix A).

The project categories were:

- New Mains – Estate;
- New Mains – Existing Domestic;
- Industrial & Commercial;
- Multi User Service; and
- Mains Renewal.

Taking into account the number of projects audited, the range of project values and the range of project types as selected by the Consultant, the Consultant is satisfied that the projects audited form a representative sample of new capital expenditure projects and that meaningful conclusions can therefore be drawn from the audit.

Conclusions

- Overall, the Consultant considers that the current capital project process has a reasonable level of rigour.
- There are some minor gaps in project documentation but there is evidence that these do not represent a lack of the necessary activities being carried out.
- Overall, the Consultant considers that the current capital project process has a reasonable level of rigour, supporting the conclusion that past capital expenditure has been prudent and efficient and conforms to National Gas Rules rule 79.

2. INTRODUCTION

The National Gas Rules, in rule 79, set out the criteria for conforming new capital expenditure. The relevant portion of rule 79 is as follows:

- (1) *Conforming capital expenditure is capital expenditure that conforms with the following criteria:*
 - (a) *the capital expenditure must be such as would be incurred by a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of providing services;*
 - (b) *the capital expenditure must be justifiable on a ground stated in subrule (2).*
- (2) *Capital expenditure is justifiable if:*
 - (a) *the overall economic value of the expenditure is positive; or*
 - (b) *the present value of the expected incremental revenue to be generated as a result of the expenditure exceeds the present value of the capital expenditure; or*
 - (c) *the capital expenditure is necessary:*
 - (i) *to maintain and improve the safety of services; or*
 - (ii) *to maintain the integrity of services; or*
 - (iii) *to comply with a regulatory obligation or requirement; or*
 - (iv) *to maintain the service provider's capacity to meet levels of demand for services existing at the time the capital expenditure is incurred (as distinct from projected demand that is dependent on an expansion of pipeline capacity); or*
 - (d) *the capital expenditure is an aggregate amount divisible into 2 parts, one referable to incremental services and the other referable to a purpose referred to in paragraph (c), and the former is justifiable under paragraph (b) and the latter under paragraph (c).*

This report provides an indication of the level of compliance with the requirements of the National Gas Rules in relation to new capital expenditure for Envestra's Queensland gas network, in the current Access Arrangement period.

3. SCOPE & METHODOLOGY

Scope

Marksman Consulting Services Pty Ltd (the Consultant) was engaged by Envestra Limited (Envestra) to audit a representative sample of new capital projects to ascertain the level of compliance with the National Gas Rules, rule 79 (new capital expenditure criteria).

Methodology

A list of projects completed in the current AA period was provided by APA Group, Envestra's contractors. The Consultant nominated a number of projects in each project category, covering a range of project values and completion dates. A total of 19 projects were audited in detail, with project values ranging from \$5,494 to \$4.12m (details of the projects audited are contained in Appendix A).

The project categories were:

- New Mains – Estate;
- New Mains – Existing Domestic;
- Industrial & Commercial;
- Multi User Service; and
- Mains Renewal.

A pro-forma was utilized to ensure consistency in the assessment approach and in the recording of information. A copy of the pro-forma is contained in Appendix B.

In assessing the prudence (did the money need to be spent) and efficiency (was the money spent wisely), the Consultant has assessed a range of factors concerned with the effectiveness of the project governance processes. These factors included the following:

- Appropriate project authorisation within approved delegation levels and budget provisions;
- Project change management;
- Costing basis;
- Project planning;
- Current and projected network capacity and asset utilization;
- Asset condition and renewal requirements;
- Alternatives considered;
- Economic evaluation;
- Design considerations;
- Risk assessment; and
- Post implementation review.

Taking into account the number of projects audited, the range of project values and the range of project types as selected by the Consultant, the Consultant is satisfied that the projects audited form a representative sample of new capital expenditure projects and that meaningful conclusions can therefore be drawn from the audit.

4. OBSERVATIONS

- Project checklists were consistently completed for all projects, other than Mains Renewal.
- There is evidence that economic evaluations were carried out in all cases.
- Signed copies of project authorisations are not generally included in the project files, but are held in South Australia. Local staff rely on a note from the Finance area in SA that a project number has been raised as the evidence that the project has been appropriately authorised. There is no suggestion that projects proceeded without proper authorisation, but the Consultant recommends that a copy of the formal project approval be included in the job file in line with good capital project governance.
- With the exception of the Mains Renewal projects, a Project Completion Checklist was completed and signed off by the Project Manager for all of the completed projects. The checklist contains a comparison between estimated and actual expenditure for Mains (actual expenditure for Services and Meters is not currently available from the financial reporting system).
- For the Mains Renewal projects, there was a lack of documentation in the project files of Post Implementation Reviews and formal project sign-offs.
- For projects other than Mains Renewals, there was a lack of documentation in the project files of the consideration of planning issues, although it was apparent that such issues had been considered.
- Some minor issues were identified eg. there were several examples where it was noted on the Capital Evaluation Model that default parameters had been altered but no explanation was provided.
- Estimates were based on competitive tenders (for large projects) or unit rates (updated on a regular basis based on CPI increases on tendered rates and on new tenders).
- There was clear evidence of commitment to process by the staff involved in project administration, which gives confidence of the proper application of processes established to ensure prudent spending of funds.

5. CONCLUSIONS

- Overall, the Consultant considers that the current capital project process has a reasonable level of rigour.
- There are some minor gaps in project documentation but there is evidence that these do not represent a lack of the necessary activities being carried out.
- Overall, the Consultant considers that the current capital project process has a reasonable level of rigour, supporting the conclusion that past capital expenditure has been prudent and efficient and conforms to National Gas Rules rule 79.

6. APPENDICES

APPENDIX A: PROJECTS AUDITED

PROJECT NO.	JOB TYPE	EST. COST \$	DESCRIPTION
124891	Industrial & Commercial	250,875	32 Turbot Street (31 Tank Street)
123858	Industrial & Commercial	353,700	Boral Australian Gypsum Pty Ltd
122381	Industrial & Commercial	48,132	Westfield Shopping Centre
124717	Industrial & Commercial	34,746	Carseldine Central Shopping Centre
124650	Multi User Service	131,546	44 Grange Street - RSL Care, Milford Range
123253	Multi User Service	113,458	DEB Consulting, Kallangur
122887	Multi User Service	33,246	Property Applications, 62 Groth Road, Boondal
122989	Multi User Service	26,937	Village Building Company
123724	New Main – Exist Dom	26,503	Zullo Enterprises Pty Ltd
122838	New Main – Exist Dom	12,048	Debbie De Gee, Lot 1-6 Darragh Street, Bracken
143213	New Main – Exist Dom	7,448	Steven Stricklen, 36 Dopson Street, Taringa
123092	New Main – Exist Dom	5,494	Anne-Marie Franginosa, Normanhurst Rd, Boondal
123372	New Main - Estate	729,211	Honeycombes Property Group (Augusta)
124496	New Main	407,865	Hilltop South, North Lakes Estate, The Outlook
123254	New Main	115,298	Stocklands, Bridgehaven C, Northlakes
123389	New Main	50,875	Brown Consulting (Stage 2 & 5)
	Mains Renewal	3,690,000	Mains Renewal 2006/2007
	Mains Renewal	4,120,000	Mains Renewal 2007/2008
	Mains Renewal	2,210,000	Mains Renewal 2008/2009

APPENDIX B: AUDIT PRO-FORMA

PROJECT NOPROJECT CATEGORY.....PROJECT NAME.....
PROJECT DESCRIPTION.....

ESTIMATED COST..... ACTUAL COST..... IN ANNUAL ENVESTRA BUDGET YES/NO

AUTHORISED BY..... TITLE..... DATE.....

PROJECT REVISION YES /NO REVISION DATE..... APPROVED BY..... BASIS

COMPLETION DATE..... POST IMPLEMENTATION REVIEW DATE.....

PIR COMMENTS.....

PROJECT CLOSURE DATE..... AUTHORISED BY..... TITLE.....

BASIS FOR COSTING

CRITERION	RATING	COMMENTS
Current & projected capacity/asset utilisation		
Asset condition & renewal requirements		
Appropriate planning		
Alternatives considered		
Economic evaluation		
Efficient design		
Risk analysis		

OVERALL ASSESSMENT

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