Multinet Gas Internal Staff Benchmarking

Final Report

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# Executive Summary

## Context

Multinet Gas (“MG”) is restructuring its business model in pursuit of industry leading standards for efficiency and cost effectiveness. The new business model should improve performance, as well as facilitate flexible service delivery, innovative asset management solutions and high-performance customer service. The new business model is based on changing the scope of insourced versus outsourced activities and implementing new contracting arrangements that will into effect from 1 July 2013 (“7/13 business model”).

The 7/13 business model has been designed to optimise the mix between in-house and outsourced services, to deliver a sustainable, least cost operating model delivering benefits to MG’s customers, the regulator and MG’s shareholders. The multi-contractor operating model draws on six core service providers: two Network Services providers (northern and southern region), Customer and Market Services, Meter Management, IT Infrastructure services and IT application services. The in-house activities are focused on strategy and contractor management in each of the key functional areas, in particular Asset management, Customer and Market management, IT and Corporate Services.

The new business model should improve the financial and operational performance of the business

* by providing MG with strengthened and increased internal management resources and so providing MG with greater strategic management capability
* by internalising the asset management and IT strategy functions, thereby further strengthening the company’s capabilities in these critical area of the core business
* by reducing MG’s reliance on any one contractor
* by moving towards a ‘best of breed’ outsourcing model that potentially includes multiple contracts and multiple service providers
* by providing MG with access to new outsourcing arrangements to improve collaboration with suppliers while maintaining continuous competitive pressures on contractors through the contract period
* by ensuring high levels of transparency and robust governance arrangements in all contracts entered into by MG for the procurement of business inputs.

MG has conducted extensive analysis to design of the transformation program, determine the structure of its internal organisation for the 7/13 Business Model and conduct a tender process to appoint market competitive service providers. This work was used to determine the required staff numbers for services to be provided ‘in-house’, as well as the scope of services to be outsourced. As part of the GAAR submission 2013, Multinet is to submit operating cost forecasts in accordance with the National Gas Rules, in particular, Rule 91 (criteria governing operating expenditure) which states that “(1) Operating 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 delivering pipeline services”[[1]](#footnote-1). The outsourced services are market tested. The proposed resourcing level for the internal functions are benchmarked against a range of Australian and international gas distributors which this paper addresses.

## Findings

Our analysis has confirmed that the proposed staffing level for the MG internal functions, compare favourably to other Gas distributors and are consistent with prudent, efficient, sustainable operating practices. Synergies and operating efficiencies of the current arrangement, involving a ‘whole of business’ outsource to Jemena are maintained in the new business model.

In the new business model MGH will have 92 internal full time equivalent staff (FTE) across the different functional areas. We benchmarked internal staffing level of MGH against APA Allgas, Jemena JGN, SP Ausnet in Australia. We also compared MGH against a range of European gas distribution utilities and for corporate and support functions included a range of non-utilities companies. After adjusting for differences in outsourcing level, network size (km of pipes), asset value (RAB) and customer numbers, the FTE levels for the insourced functions compare favourably to other Australian and European gas distributors, as outlined in the table below.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | **MG (2013)** | **Jemena MGH** | **Jemena JGN** | **SP Ausnet** | **APA Allgas** | **European benchmark (sample average)** | **European benchmark (best practice)** |
| FTE/100km | 0.96 | 0.97 | 0.78 | 0.93 | 3.3 | 1.0 | 0.75 |
| FTE/100,000 customers | 14 | 14 | 19 | 16 | 114 | 15 | 11 |
| FTE/ $ bn RAB | 95.9 | 96.9 | 84.1 | 93.5 | 192.4 | n/a | n/a |

The more direct comparison of the new business model with Jemena MGH and MG’s historical FTE levels from 1998 and 1999 show a reduction in FTE staffing levels.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **MG (2013)** | **Multinet/ Ikon 1998** | **UED 1999** | **Jemena MGH** |
| Asset management (including HSEQ, technical compliance) | 20 | 92[[2]](#footnote-2) | 25 | 25 |
| Service Delivery Contract Management | 15 | Included in asset management | 12 | 10[[3]](#footnote-3) |
| NCC | 17 | Included in asset management | Not directly stated, assumed 17 | 19 |
| CMS | 13.5 | Included in asset management | 22 | 14 |
| IT strategy and management | 5 | 8 | 6 | 5 |
| Finance | 8 | 26[[4]](#footnote-4) | 12 | 7 |
| Other corporate | 13.5 | 11[[5]](#footnote-5) | 11 | 13 |
| Total | 92 | 137 | 105 | 93 |

Our analysis has confirmed that the proposed staffing levels for each of the function areas are appropriate and that the synergies and operating efficiencies of the current arrangement are either maintained, or in some functional areas exceeded.

Overall, across all internal functions the proposed structure represents a slight efficiency improvement over the current operating arrangements. The proposed staffing levels demonstrate above average efficiency when compared to benchmarks from other Australian and European Gas, after adjusting for differences in scale and outsourcing level.

Similarly for each of the functional areas:

* The **Network Management function** shows a 4% efficiency gain over the current Jemena MGH structure. Compared to the other Australian gas distributors (APA Allgas, SPAusnet, Jemena JGN) and the European gas distribution benchmark, MG’s FTE level is within 10% of the best practice benchmark.
* The **IT Strategy and Management function** shows roughly similar efficiencies like the current Jemena MGH structure. Compared to the other Australian gas distributors (APA Allgas, SPAusnet, Jemena JGN), MG has similar staffing levels like its peers.
* The **Customer and Market Services function** shows roughly similar efficiencies like the current Jemena MGH structure. Compared to the other Australian gas distributors (APA Allgas, SPAusnet, Jemena JGN), MG has similar staffing levels like its peers. Compared to the European benchmark, MG’s FTEs are within 3% of the sample average of the European benchmark.
* The **Finance function** shows a slight increase (1FTE) over the current Jemena MGH structure. Compared to SP Ausnet and Jemena JGN, MG is however up to 20% more efficient than its Australian peers.
* The **other corporate services** show a a similar level of efficiency to the current Jemena MGH structure. Compared to SP Ausnet and Jemena JGN, MG is up to 3% more efficient than its Australian peers. Compared to the European benchmark, MG’s FTEs are within 10% of the sample average of the European benchmark.

# Background

## Current situation of Multinet’s OSA with Jemena

Multinet Gas’ (“MG”) current operating structure is dependent upon a single holistic outsourced contract (“OSA”) with Jemena Asset Management (“Jemena”) for all of the direct business operations and until recently, most corporate and back office functions. The OSA expires on 30 June 2013. The expiry of the existing contract gives MG an opportunity to review its business model and structure to develop a more flexible, cost-effective operating environment. A large number of the corporate and back office functions have already been brought back in house as part of the UE 7‑11 transition. This includes the finance, revenue and debtor management, and stakeholder management functions. These functions were carved out of the existing OSA between MG and Jemena.

## Preparation of submission for the new GAAR period 2013-2017

The current regulatory period expires in 2013 and MG is in the process of developing its GAAR regulatory submissions for the 2013-18 period. This necessitates a full review of existing operating arrangements, including labour OPEX and FTE levels. The GAAR submission will need to demonstrate that the preferred operating structure has been designed with respect to good commercial prudence and the regulatory criteria governing capital and operating expenditure.

Consideration has already been given to the overarching business model, with the Board examining the issue in June 2011. At the time, the Board considered and agreed to a new business model, which brings a large component of the Network-, Customer & Market- and IT- management functions back in house. Operational services would then be contracted out to a range of parties.

## Development of a new business model

MG has assessed the options for its business operations beyond the current contracted period, and has developed a new business model that is aimed at:

* Ensuring performance at industry leading levels through efficient and flexible service delivery and innovative asset management solutions;
* Providing high-performance customer service; and
* Ensuring that the business’s cost structure and sourcing arrangements are efficient.

MG is planning a business transformation program to deliver the new business model, which will take effect within the new GAAR period from July 2013 and will:

* provide MG with strengthened and increased internal management resources;
* internalise the asset management, customer and market services, IT strategy and corporate functions, thereby further strengthening the company’s capabilities in these critical areas of the core business;
* reduce MG’s reliance on any one contractor, by moving towards a ‘best of breed’ outsourcing model that includes multiple contracts and multiple service providers;
* provide MG with access to new outsourcing arrangements to improve collaboration with suppliers while maintaining continuous competitive pressures on contractors through the contract period; and
* ensure high levels of transparency and robust governance arrangements in all contracts entered into by MG for the procurement of business inputs.
* Capture synergies available from an integrated management of UED and MG assets

Outsourcing continues to develop as a standard operating practice in gas distribution, as in many other industries. The supply markets are developing and the trend to business process outsourcing and the provision of more complex services remains strong. The benefits of outsourcing are well established and typically cover:

* Access to scale benefits, by purchasing services from suppliers who perform similar functions for multiple parties;
* Improved capabilities and capacity for innovation, as suppliers invests in achieving functional excellence and pool knowledge and expertise across multiple parties;
* Access to lower labour and facilities costs;
* Working capital improvement; and
* Greater flexibility to respond to business fluctuations.

However, a contestable supply market of more than two players is important for achieving full benefits realisation.

The recent trends to emerge in outsourcing[[6]](#footnote-6),[[7]](#footnote-7) involve new approaches to defining and packaging service scope and contract terms. Some of these trends include:

* Buyers are favouring shorter and smaller outsourcing deals to maintain flexibility and improve their bargaining power; in particular, mega-deals are being broken up into small deals across a wider portfolio of providers;
* An increase in Business Process Outsourcing, which poses greater organisational risk, highlights that outsourcing is becoming a more strategic tool for organisations, and not limited to commoditised business activities;
* Organisations are, however, re-evaluating their approach to outsourcing, as evidenced by some retrenchments from earlier rounds of outsourcing, and rather than bring all services back in-house, organisations seek to pursue a more focused approach and redeploy outsourcing on a more selective basis under new contract terms; and
* The Consortia Outsourcing Model is becoming increasingly popular as a more concentrated ‘best of breed’ approach to service delivery, particularly for large programmes that require a diverse skills set.

These practices are important for ensuring effective outsource relationships and maintaining MG’s control of the business. The internal organisation needs to be established with the resourcing levels, skill and capabilities to capture these benefits.

MG has commenced the process of re-tendering the services that it has determined will be outsourced within the preferred business model.

## Development of a resourcing model that can deliver the business benefits

Through the design of the transformation program and the tender process to appoint service providers for the new business model, MG conducted extensive analysis and utilised an array of materials to design the organisation structure for internal functions. The organisation structure for internal functions was designed to:

* optimise the in-house functions by
  + optimising the mix of in-house and outsourced services, from a perspective of cost and service level efficiency leveraging synergies between electricity and gas business units;
  + optimising the appropriate structure of its internal organisation for the 7/13 Business model and the required staff numbers for services provided ‘in-house’.
  + providing MG with strengthened and increased internal management resources, and so providing MG with greater strategic management capability;
  + internalising the asset management and IT strategy functions, thereby further strengthening the company’s capabilities in these critical area of the core business;
* optimise the outsourcing by:
  + reducing MG’s reliance on any one contractor, by moving towards a ‘best of breed’ outsourcing model that potentially includes multiple contracts and multiple service providers;
  + providing MG with access to new outsourcing arrangements to improve collaboration with suppliers while maintaining continuous competitive pressures on contractors through the contract period
  + ensuring high levels of transparency and robust governance arrangements in all contracts entered into by MG for the procurement of business inputs.

Table 1 provides an overview of the activities to be provided in-house.

Table 1: MG’s 7/13 in-house functions

| **Functional Tower** | **Functions** |
| --- | --- |
| Network management | Asset management  Service delivery contract management  Network control centre  HSEQ  Technical compliance management  Risk management |
| Customer and Market Services | Revenue management  Customer and stakeholder management  Market services |
| IT | IT Strategy and architecture management  IT Portfolio management  IT Service delivery management |
| Corporate functions | CEO office  Finance  Internal audit  Strategy and business development  HR (includes facility management)  Legal and commercial  Regulatory  Corporate affairs |

In addition to ensuring the requisite functional expertise for the internal roles in the functions, the resourcing model should also ensure the targeted business benefits can be achieved delivering improved price competition, flexibility with contractors, lower capital expenditure costs and lower operational risks and reduced future transition risks:

* Service performance improvements through improved price competition, flexibility with contractors and lower capital expenditure costs: The new business model will provide a number of opportunities to improve the service performance of the business. The drivers of these improvements are:
  + the use of performance based contracts, where overall performance is measured against a shared set of performance targets, and which will align the objectives of MG with those of its contractors;
  + the continuous competitive pressures that will exist as a result of regional network operators; and
  + the insourced management resources will result in a greater strategic and management capability.
* Risk Reduction: The operating risks are best managed and mitigated by the proposed business model for MG itself and for MG’s customers. These include:
  + decreasing financial, regulatory and service performance risks that can arise through a misalignment of objectives between asset owner and service provider by way of an alliance contract characterised by jointly agreed objectives and budgets;
  + improving the business’ ability to adapt to changes expected to impact gas distribution businesses with a business structure that has greater strategic management capability and flexibility; and
  + reducing reliance on contractors and ensuring high levels of transparency and governance in any and all contracting arrangements.
* Reporting and regulatory requirements: The new business model will provide high levels of transparency and governance in all contracting arrangements and thereby enhance MG’s ability to meet regulatory and reporting requirements. All financial transactions within the Service Provider Agreements will be on an open-book basis, subject to audit as and when required.

FTE levels and requisite expertise need to be geared towards achieving the business benefits, namely:

* manage and guide the service provider (technical management) to the network planning and development from within the asset management function;
* monitor the performance of the service provider within the service delivery function;
* operate the NCC in order to be independent from service provider operated NCCs
* develop and manage the IT strategy and solutions within the IT function;
* the staff needs to manage and guide the legal and commercial arrangements with the service provider;
* ensure that both MG and the service provider fulfil all regulatory and compliance requirements (regulatory, technical compliance, HSEQ)
* manage MG business independently from the service provider and provide strategic and operating directions for MG (finance, strategy and business development, internal audit, risk management, HR, facility management, corporate affairs)

# Purpose of this paper

The purpose of this paper is to benchmark MG’s proposed internal organisation structure and Full Time Equivalents (FTE) staffing levels to ensure they are consistent with good industry practice and represent efficient, prudent, sustainable operations.

The internal organisation structure has approximately 200 employees from United Energy and Multinet Gas performing work for the Multinet network. 30 of these employees will be dedicated 100% of the time to the Multinet network, while approximately 170 will be working across both the Multinet Gas and the United Energy networks.

The benchmarking covers the planned internal organization with the following functions:

* Asset management and contract/service delivery management
* Network control centre
* Customers, market services and revenue management (CMS)
* IT strategy, architecture and management
* Corporate services, including HR, finance, legal & commercial, internal audit, strategy & business development, corporate affairs and regulatory

The following functions are out of scope as they are outsourced to the service providers:

* Network operations & maintenance
* Capital program management & execution
* Support Activities (e.g. Engineering Support Services, Procurement and logistics execution, Supply chain management, Vehicle Fleet management, Maintain gas specific specialist equipment and materials, Dial Before You Dig)

# Benchmarking methods

## Approach

FTE benchmarks vary across businesses and exact FTE numbers and allocations depend on many factors. In order to address this we have compared MG to

* Itself at different time periods - we used Multinet/Ikon 1998 staffing levels and UED’s post-acquisition organisation structure in 1999 to compare MG’s proposed FTE levels internally. The current outsource provider, Jemena MGH, based on internally available organisation charts and Subject Matter Expert (SME) knowledge currently working on for the MG business
* Three other Australian Gas Networks – one larger, one smaller and one of a similar size (SP Ausnet, JGN, APA Allgas) - we used Jemena and EBS organisation charts, KPMG cost benchmarking report for APA Allgas, public information about SP Ausnet and GAAR submissions (AER) and Subject Matter Expert (SME) knowledge currently working on for the Jemena JGN, APA Allgas and SP Ausnet business
* A.T. Kearney benchmark data from a sample of seven European Gas Distribution businesses
* A variety of best practice benchmarks for corporate support functions (utility and non-utility companies)

## Data metrics and normalisation

For the comparisons of MG against benchmarks, the benchmark data from other networks need to be normalized. Most commonly for gas distribution benchmarks, the following metrics are used.

* network km – normalisation: appropriate for comparison of network management functions where the driver of FTE levels is the pipeline development and maintenance, e.g. asset manage
* RAB - normalisation: like the network km-normalisation, appropriate for comparison of network management functions which scale with asset value and where the driver of the FTE levels is the asset value, e.g. asset management
* customer numbers – normalisation: appropriate for comparison of customer service functions where the driver of FTE levels are customers

The benchmarked firms operate at various outsourcing levels. In order to compare total FTE level, we had to make assumptions to adjust for different levels of outsourced activities. We assumed that the company operates at the average of the benchmark sample, in order not to introduce a bias to the findings. The few areas in which there are data gaps a similar approach was taken. Appendix 3 shows the differences in outsource levels across the benchmarked players.

# Findings

## Overall FTE benchmarking

Under the new business model, Multinet insources the following functions:

* Network Management: The network management function includes asset management, service delivery contract management, HSEQ, compliance management, risk management and network control centre
* Customer and Market Services Management (CMS): The CMS functions includes market services and systems management customer relations management and revenue management
* IT Strategy and Management: The IT strategy and management function is responsible for the planning and coordination of IT projects internally and interfaces with the IT service providers
* The corporate services function includes the CEO office, finance, internal audit, facility management, strategy and business development, HR, legal and commercial, regulatory and corporate affairs

The new business model for Multinet Gas (MG) proposes 92FTEs working on the gas distribution network. 29FTEs within asset management (excluding OHS, technical compliance, risk management) and service delivery contract management are 100% allocated to the gas network, the remaining 63FTEs (Customer and Market Management, IT Strategy and Management, Corporate services) are shared across the electricity and gas business leveraging synergy effects.

**Comparison to previous MG operating models:**

The planned 92 FTE represent a slight reduction to the staffing levels of the current outsource arrangement with Jemena MGH for the described functions, and represents a 12% reduction to the staffing levels MG has had in those functions in its past organisation structure with UED in 1999 and 33% lower than at Multinet /Ikon in 1998.

* **Multinet/Ikon 1998 –** At the time of the Multinet acquisition in 1998, Multinet had ~137FTEs (excluding technical services) for the management of the gas network for staff working in similar roles as proposed for MG in 2013.
* **UED’s organisational structure 1999 –** It is estimated that ~105FTEs were working as direct or shared resources on the MG network. The reduction from 137FTE to ~105FTE after the Multinet sales was driven by post-acquisition targets to reduce cost. After the Multinet acquisition, UED could leverage synergies amongst the gas, electricity and retail business units. Compared to today the service provider contract structure was less complex in 1999 with more work based on fixed unit rate payments.
* **Jemena MGH network** – It is estimated that ~93FTEs are currently working on the MGH network at Jemena in similar functions to those functions and roles that will be insourced to MG. This compares very well and favourably with the proposed ~90FTEs for MG’s new business model.

**Comparison to other Australian Gas businesses:**

The planned staffing levels of 90 FTEs appear reasonable when compared to those of other Australian Gas businesses – after adjusting for differences in scale and the scope of activities needing to be managed based on different outsourcing levels.

|  |  |  |  |
| --- | --- | --- | --- |
| **Business** | **Adjusted FTE (scaled to be comparable to MG)** | **Normalised for benchmarks** | **Comments** |
| SP Ausnet | 89 FTEs (km normalisation)  75 FTEs (RAB normalisation)  102 FTEs (customer normalisation) | 0.9 FTE/100km  78 FTE/$-bn RAB  15.6 FTE/100,000 customers | We estimate that SPAusnet has ~92FTEs in similarly insourced functions like MG. SPAusnet operates a similar size network to MG (size, number of customers and RAB). Therefore, this direct comparison gives a good indication of the appropriateness of MG FTE levels. The major difference between MG and SP Ausnet is that MG pursues to operate a more complex two-region service provider model which requires requisite expertise in the service delivery contract management function. The efficiency gain of the service delivery FTEs at SP Ausnet can quickly be offset by poor or uncompetitive Service Provider performance. |
| JGN | 73 FTEs (km normalisation)  89 FTES (RAB normalisation)  121 FTEs (customer normalisation) | 0.8 FTE/100km  82 FTE/$-bn RAB  18 FTE/100,000 customers | We estimate that JGN has ~180 FTEs allocated to work on the JGN network in NSW, either directly or as shared resources for the considered scope of functions. The JGN network is however more than twice the size of the MGH network, providing significant scale economies, particularly in specialist functions like asset management, NCC and regulatory. Furthermore, Jemena self-performs a greater proportion of field services activities which reduces the resource intensity of their service delivery management function which is limited to management of subcontractors operating on the network. |
| APA Allgas | 316 FTEs (km normalisation)  184 FTES (RAB normalisation)  756 FTEs (customer normalisation) | 3.3 FTE/100km  192 FTE/$-bn RAB  114 FTE/100,000 customers | We estimate that APA Allgas (Qld) operates with ~86FTEs in similar functions to MG. The APA Allgas’ network is however ~¼ the size of the MG network. For many functions there is a minimum size required for maintaining the right functional expertise (e.g. asset management, regulatory, OHS), which APA Allgas appears to be approaching. So, even without adjusting for the smaller network MG’s FTE level compares favourably. |

**Comparison to European Gas businesses:**

The planned staffing levels of 90 FTE appear reasonable when compared to benchmarks from European Gas businesses as well.

|  |  |  |  |
| --- | --- | --- | --- |
| **Benchmark** | **FTE estimate for MG based on benchmark** | **Benchmark normalisation metrics** | **Comments** |
| European Gas Distributors (sample average) | 102 | 1.03 FTEs/100km | MG’s proposed 92FTEs are ~10% below the FTE levels which is predicted by the sample average from the European benchmarks |
| European Gas Distributors (best practice) | 74 | 0.75 FTEs/100km | MG’s proposed 92FTEs are ~24% above the FTE levels which is predicted by the best practice scenario from the European benchmarks. While MG’s asset management and service delivery operate at best practice levels, the difference is driven by economies of scale and synergy effects that European gas distributors have for the NCC, the CMS function and corporate functions. |

## Function specific FTE benchmarking

### Network management

The Network Management functions that will be fully brought ‘in-house’ from July 2013 focus on strategic activities. These include asset management, service delivery management and technical compliance, HSEQ and risk management.

Details of the roles to be performed within Network Management and the rationale for the FTE numbers required can be found in the tables below.

#### Asset management

The asset management function covers all activities associated with planning the network and involves developing the inputs and investment plans to accommodate future demand forecasts, network asset improvements, network performance improvements, maintenance planning and environmental management. The asset management team requires specialised FTEs for the three main activities:

* The Asset Strategy and Performance Management team is responsible for developing the asset strategies and monitoring asset performance to optimise physical asset performance and asset replacement criteria and timing and deliver network asset and performance improvements.
* The Asset Data Management team is responsible for the analysis of updated network information stored in the GIS, that provides critical input to the development of Asset Plans and Strategy and Performance Management
* The Network Planning Management Team is responsible for covers all planning and evaluation required to: maintain a reliable continuous gas supply to all MG’s customers steadily improve network performance (performance capital projects) and to develop the network in accordance with customer requirements (customer initiated projects).

In addition the asset management team is supported by the HSEQ, technical compliance and risk management functions. Hence, these functions are included in the asset management count for this paper. The HSEQ, technical compliance and risk management functions are shared across UE and MG and MG/UE can leverage synergies for those functions.

These activities are covered by ~20 FTE

* ~15 dedicated resources: Administration Support, Asset Management Admin Support, Asset Manager – Gas, Asset Performance Engineer, Engineer (Graduate), Engineer Network Planning, Metering Engineer, Multinet Asset Manager, Personal Assistant, Procurement - Contract Administrator, Senior Asset Integrity & Performance Analyst, Senior Asset Performance Engineer, Senior Engineer Network Planning, Senior Metering Engineer, Technical Compliance Engineer
* ~5 FTE of shared resources for HSEQ, technical compliance and risk management

MG’s proposed asset management team of ~20 (0.2FTEs/100km) compares favourably with historical asset management FTEs for UED: 25 FTEs in 1999 (before the OSA with Jemena started), and 25 FTE in the currently outsourced Jemena MGH asset management function.

The Asset Management function is scale dependent. The proposed team compares well with similar sized networks (SP Ausnet) and European benchmarks, is more efficient than the smaller APA Allgas business, but less cost effective than the larger Jemena JGN business.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Business** | **FTEs** | **FTEs/**  **100km** | **MG comparison FTE/100km** | **Comments** |
| Jemena JGN | 41 | 0.17 | 0.20 | The asset management function FTE level is driven by the network size and by the required expertise to manage and plan the assets and the network. Since JGN has a larger network than MG, SP Ausnet and APA Allgas, the total FTEs are higher reflecting the higher workload (roles are duplicated) but on a FTE / km of pipe basis is 20% lower. |
| APA Allgas | 21 | 0.81 | 0.20 | The asset management FTEs are driven by the required in-house expertise. While network is roughly a ¼ the size of MG and SP Ausnet, APA Allgas has a similar FTE level. There seems to be a minimum level of expertise that is required to cover the various disciplines for asset management. In addition, APA Allgas also requires additional expertise to accommodate the higher work effort required due to the warmer Queensland climate. |
| SP Ausnet | 20 | 0.2 | 0.20 | Given SP Ausnet’s similar network size, RAB and customers like, SP Ausnet’s asset management function performs similar activities like MG’s proposed asset management function. Thus, MG’s asset management FTE level is similar to SP Ausnet’s FTE level and MG’s FTE level is justified against this benchmark. |

The proposed MG resourcing level compares favourably with European benchmarks, operating at above average efficiency.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FTEs estimated for MG** | **FTEs/100km**  **estimated for MG** | **MG as is comparison FTE/100km** | **Comments** |
| European benchmark | Average: 25  best practice:  18 | Average: 0.26  best practice:  0.19 | 0.20 | MG’s proposed 20FTEs for the asset management function (including HSEQ, technical compliance) are well within the range of the European benchmark close to best practice operations. MG’s FTE level is driven by in-house expertise. The roles proposed for MG represent the required expertise without role duplication. |

#### Service Delivery Contract Management

The service delivery function covers all aspects of managing the delivery of network services by service providers including monitoring operational compliance, OH&S, Public Safety and performance management. The team will relay performance feedback to the Service Provider as well as manage risks and commercial arrangements.

These activities are covered by 15 dedicated FTE: Service Delivery Admin Support, Service Delivery Manager – North, Service Delivery Manager – South, CAPEX Project Estimator, Contractor Performance Analyst, Contractor Performance Engineer, Contractor Performance Manager, Contractors Performance Analyst, Contractors Performance Engineer, Contractors Performance Manager, Large Capex Manager, Project Performance Engineer, Work Practices officer – Gas

MG’s proposed service delivery team of 15 (0.16FTEs/100km) is slightly larger than the 12 FTEs for UED in 1999 (before the OSA with Jemena started). The planned contracting regime from 2013 onwards is however more complex than the subcontracting arrangements in place in 1999. Jemena MGH today has ~10 contract management FTEs. These roles and responsibilities are however different when compared to MG, since the current level of outsourced field services within Jemena MGH is lower.

MG maintains is planning a higher level of outsourcing of field services compared to Jemena JGN and SP Ausnet and therefore maintains as slightly larger team to manage for that difference (+1 FTE)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FTEs** | **FTEs/**  **100km** | **MG comparison FTE/100km** | **Comments** |
| Jemena JGN | 22 | 0.10 | 0.16 | Jemena MGH has ~22 contract management FTEs, but these roles and responsibilities are somehow different when compared to MG, since Jemena self-performs a greater proportion of field services activities which reduces the resource intensity of their service delivery management function which is limited to management of subcontractors operating on the network. |
| SP Ausnet | 12 | 0.12 | 0.16 | SP Ausnet operates a similar outsourcing model like MG by outsourcing the network operations. However, SPAusnet operates a one-region model while MG targets to operate a to-region model. Unlike a one-region model, a two-region model requires separate role and task allocations for each region driving FTE numbers. It is also understood that SPAusnet’s outsourcing contracts are less complex than MG’s, so that SPAusnet’s service delivery function consist mainly of contract management engineers and that the service delivery function is also supported by the asset management function, while MG’s service delivery functions has extended responsibilities in contractor performance evaluation and CAPEX estimates. |
| APA Allgas | 11 | 0.4 | 0.16 | APA Allgas operates a similar outsourcing model like MG by outsourcing the network operations.  The service delivery FTEs are driven by the required in-house expertise to manage and monitor outsourced work of the service providers. While APA Allgas’ network is roughly a ¼ the size of MG and SP Ausnet, it is estimated that APA Allgas has a similar FTE level like MG and SP Ausnet. This indicates the critical and minimum level of expertise that is required for service delivery. |

Compared to European benchmarks, however, the Service Delivery functions appear to be very efficient.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FTEs estimated for MG** | **FTEs/100km**  **estimated for MG** | **MG as is comparison FTE/100km** | **Comments** |
| European benchmark | Average: 26  best practice:  20 | Average: 0.28  best practice:  0.21 | 0.16 | Based on the database of European gas distributors, the benchmark predicts 20-26FTEs for MG in service delivery contract management. Hence, MG is well below the European benchmark. Given the complexity of MG’s new service provider contracts, we conclude that the FTE level compares very favourably with the European benchmark. |

#### Network control centre

The Network Control Centre (NCC) manages the operation of the distribution network 24 hours a day, 7 days a week and responds to network faults and emergencies (Roles: dispatcher, controller, team leader)

MG’s proposed NCC team of 17 (0.18FTEs/100km) is slightly smaller than the 19 FTEs allocated to the NCC at Jemena MGH. The FTE levels at the NCC are driven by the expertise that is required to operate a two-shift model 24/7 and thus the NCC function have a minimum size of 17 (SME estimate to operate a 24/7 shift model with independent gas NCC staff). Larger networks can be operated with similar FTEs as smaller network.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FTEs** | **FTEs/100km** | **MG comparison FTE/100km** | **Comments** |
| Jemena JGN | 22 | 0.1 | 0.18 | While Jemena JGN network is more than 2x MG’s networks, Jemena JGN operates the NCC with approximately 22 FTEs. These 22 FTEs are sufficient to operate the shift model and staff the NCC with controllers and dispatchers. When normalising for network size, JGN compares favourably and operates at the European best practice level. |

MG compares is somewhat higher than average, compared to European best practice levels, but can be explained by scale differences.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FTEs estimated for MG** | **FTEs/100km**  **estimated for MG** | **MG as is comparison FTE/100km** | **Comments** |
| European benchmark | Average: 14  best practice:  12 | Average: 0.14  best practice:  0.12 | 0.18 | Based on the database of European gas distributors, the benchmark predicts 14-12FTEs for MG’ NCC. Hence, MG’s NCC FTE level compares less favourable. However, the benchmarks are based on larger European gas distribution networks that, like JGN, have economies of scale advantages. MG requires the minimum staff level of ~17 FTEs to operate the NCC 24/7 with gas network dispatchers and controllers. |

### IT Management

The internal IT team at MG will focus on delivering IT strategy and architecture, portfolio management, service delivery and contract management services.

With the majority of IT outsourced, it is important for MG to retain sufficient in-house expertise to ensure that IT remains aligned with the needs and priorities of the business and that outsourced partners deliver to the requirements of MG.

There are three key functions that are represented in MG’s future IT internal operating model.

* Strategy and Architecture – this function gathers business requirements to ensure that the future direction of MG’s IT environment is aligned to the businesses long term direction. Development of system architectures ensures that product decisions can be made with the right cost, risk and benefit mix.
* Portfolio Management – this function uses the IT strategy and architecture outputs to develop an annual plan for IT project delivery. As MG intends to utilise a panel of external IT Services providers to deliver the projects, this function will also ensure that the providers deliver according to budget, scope and schedule.
* Service Delivery / Contracts – this function will ensure that all existing and new IT systems are delivered by the outsourced service provider according to the agreed SLA’s and KPI’s.

The three functions have interfaces with one another, the other MG internal functions and the outsourced service providers to form a complete IT operating model and service.

5 FTE are planned, made up from an allocation of time across the 13 roles shared between the gas and electricity businesses: CIO, Personal Assistant, Manager - IT Projects and Portfolio, Manager - IT Risk and Assurance, Manager - IT Service Delivery, Manager - IT Strategy and Planning, IT Operations Analyst – Applications, IT Operations Analyst – Infrastructure, Project Business Analyst, Project Manager, Technical Architect, Business Applications Architect, Industry Expert

MG’s proposed 5 FTE in IT roles (0.05FTEs/100km). The IT portfolio team size is largely driven by the different functional disciplines for reviewing vendor performance, addressing issues the business may have with IT and resolving any performance issues. The IT service delivery team size is driven by the IT Capex program (for the 2013-2018 period of on average 6.4 projects and ~$10M per year). The team will need to cover all activities required to scope, coordinate and manage the delivery of these projects by the appointed service providers for each project.

MG’s proposed team of 5FTEs is smaller than the IT strategy and planning function in 1998/1999 (8 FTEs) at the time of the sales of Multinet Gas. Like MG’s IT department, Multinet’s 1998 IT department was a centralised support function and the departments primary role was to ensure the strategic alignment of all information and technology investments with the business objectives for Multinet in 1998. Similarly, from UED’s 1999 organisational structure, it is estimated that 6FTEs were allocated to the gas network at UED working in similar IT functions as proposed for MG in 2013. Based on the Jemena and EBS organisation structure, it is estimated that Jemena’s corporate IT staff has ~5FTEs allocated IT working MGH network performing similar IT strategy and management solutions as the proposed roles for MG.

Given the higher complexity of the IT solutions in utilities when compared to other industry sectors and the program delivery pipeline for MG and UED, we conclude that the FTE levels are justified and in alignment with the new MG business model in order to deliver the business benefits.

The proposed MG IT team compares favourably with other Australian Gas businesses.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FTEs** | **FTEs/**  **100km** | **MG comparison FTE/100km** | **Comments** |
| Jemena JGN | 18 | 0.08 | 0.05 | MG has a 35% lower FTE level after adjusting for network size (0.05 vs. 0.08). The IT FTEs are driven by the complexity of the IT solutions and by the workload that is created by the network size. However, while the European benchmarks indicate economies of scale advantages, there are is no sign of this at JGN. |
| SP Ausnet | 5 | 0.05 | 0.05 | SP Ausnet’s IT FTE level is roughly similar to the proposed MG FTE level of 0.05FTEs/100km. SP Ausnet’s IT management is driven by a similar service provider management workload and strategic planning of the IT solutions and portfolio and similar network size like MG. |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FTEs estimated for MG** | **FTEs/100km**  **estimated for MG** | **MG as is comparison FTE/100km** | **Comments** |
| European benchmark | Average: 4  best practice:  3 | Average: 0.04  best practice:  0.03 | 0.05 | Based on the database of European gas distributors, the benchmark predicts 3-4FTEs for MG’s IT team. However, the benchmarks are based on large European gas distribution networks that have some economies of scale advantages.  Based on more general IT benchmarks (Gartner report) MG’s IT FTE level is close to the best practice (2% of the total FTEs are required in IT functions for 1st quartile, 12% for 4th quartile). This remains true when considering MG’s entire network staff, including an additional 5FTEs that, on average, work at service providers and contractors on MG tasks. |

### Customer & market services

The Customer and Market Management functions that will be brought ‘in-house’ from July 2013 focus on critical stakeholder and key customer relations management and market services management. These areas have been assessed as having high strategic importance for the business in that they control value driving decisions and key market-facing interfaces. The resource requirements for these functions have been grouped into three areas:

* Market Services: The Market Services & AMI Systems function is accountable for the performance of all gas metering for Multinet, all Meter Provision and Meter Data Provision obligations. The function is responsible for the meter asset strategy and performance of the back office (Roles: Audit compliance controller, Back office Manager Market Interface, Gas Metering Engineers, Meter and Field Ops Manager, Metering project Manager, Strategy and Technical Manager, Compliance Manager, Gas SME, Market Services & AMI Systems Manager)
* Customers and stakeholder management: This includes the activities required to manage key stakeholders, network accounts and customer relations (Roles: Customer & Stakeholder Relations Manager, Customer Relations Manager, Industry Development Manager, Network Account Manager, Retail Account Manager, Stakeholder & Community Relations Advisor, Customer Claims Coordinator, Customer Relations Coordinator)
* Revenue management: The Revenue Management function includes the requirement to test and manage tariff strategy and modelling, revenue management (both regulated and non-regulated), revenue protection and tariff analysis for Gas and Electricity. In addition, the function undertakes broad project management accountabilities across the wider Customer & Market Services and Network Operations businesses (as required) to contribute to the delivery of corporate objectives (Roles: Credit Controller, Credit Manager, Recoverable Works Officer, Revenue Accountant, Revenue Analyst, Revenue Manager, Revenue Support Officer)

MG’s proposed 13.5FTEs (2.0FTEs/100,000customers) currently operate in the MG business. During the UED 7/11 transition, UED/MG insourced the entire CMS function (market services, customer and stakeholder management and revenues management) from Jemena. While the meter reading on the service provider side is volume driven, on MG’s side the FTE levels for the market services activities are driven by requisite expertise and Intellectual Property management requirements in order to manage the service providers and sub-contractors. The customer and stakeholder relationship management FTEs are driven by the number of customers and stakeholders and the revenue management FTEs are driven by the customer numbers and the FTE requisite for pricing analysis.

MG staffing levels appear slightly lower than at other Australian Gas businesses.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FTEs** | **FTEs/**  **100,000 customers** | **MG comparison FTEs/**  **100,000 customers** | **Comments** |
| Jemena JGN | 23 | 2.3 | 2.0 | Jemena’s CMS structure at JGN is similar to the structure that operated at MGH. After adjusting for the network size differences the two businesses have similar efficiency levels (JGN’s 2.3FTEs/100,000 customers is roughly similar to MG’s proposed 2.2FTEs/100,000 customers). |
| SP Ausnet | 16 | 2.7 | 2.0 | SP Ausnet has 16 FTE in equivalent roles to MG’s customer and market management team. This FTE level at SP Ausnet is higher than MG’s. At SP Ausnet, the revenue management function is located in the finance team (similarly as at Jemena MGH before). |

MG’s proposed team compares to the average of European benchmarks.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FTEs estimated for MG** | **FTEs/**  **100,000 customers estimated for MG** | **MG as is comparison FTEs/**  **100,000 customers** | **Comments** |
| European benchmark (utilities) | Average: 14  best practice:  9 | Average: 2.1  best practice:  1.4 | 2.0 | Based on the A.T.Kearney database of European gas distributors, MG compares well to the average benchmark. While the function is largely driven by customer volume and requisite expertise, the European gas distributors can leverage synergies and economies of scale for larger networks, a higher automation level of customer processing and outsourcing of call centre functions. At MG, the call centre is outsourced, but like at MGH before, there is little automation. |

### Corporate Services

MGH’s proposed Corporate Services function will consist of the following first activities:

* Finance
* Other corporate support functions
  + Administration
  + Strategy and business development
  + Internal audit
  + Human resources and organisational development management
  + Legal and commercial
  + Regulatory services

#### Finance

The financial function covers the accounting and controlling functions, including tax, treasury and corporate finance.

8 FTE are planned made up from an allocation of time across 17 roles: CFO, PA to CFO, Accounts Payable Officer, Assistant Company Secretary, Financial Analyst, Financial Analyst / Modeller, Planning & Analysis Manager, Corporate Accountant, Financial Controller, Fixed Asset Accountant, Graduate Financial Accountant, Management Accountant, Management Accountant (IT focus), Management Accountant (with Treasury Experience), Project Accountant, Tax Manager, Treasury Settlements / Back Office Clerk.

MG’s proposed 8FTEs (0.08 FTEs/100km) compare favourably to the ~12FTEs that were allocated to work on the gas network at UED in 1999. At the time of the Multinet sales in 1998, 26 FTEs were allocated to the finance team. At that time other corporate support services, like audit, legal, company secretarial, admin and regulatory were included in the function. We have adjusted the finance functions and assumed that at least 5FTEs are not allocated to finance. However, MG’s FTE level still compares favourably to the finance FTE level in 1998. It is estimated that currently, 7FTEs are allocated to work on the MGH network at Jemena.

The work effort in the finance function is driven by revenue mix, number of transactions, management accounting and legal reporting requirements. The finance function at MG also interfaces with service providers for service provider payments. Resourcing is driven by the need to cover multiple the functional disciplines and by the accounting and controlling workload.

MG’s proposed staffing level is on a par with the other Australian Gas businesses.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FTEs** | **FTEs/ 100km** | **MG comparison FTE/100km** | **Comments** |
| Jemena JGN | 25 | 0.1 | 0.08 | JGN larger gas network drives the revenues for JGN which drives the workload for the finance function. When normalised, MG’s proposed FTE levels are comparable to JGN’s FTE level. Some economies of scale can be expected in Finance functions. |
| SP Ausnet | 9 | 0.09 | 0.08 | Given that SP Ausnet and MG have similar driver values for the FTE in the finance function, i.e. revenues for from the gas distribution, similar network size and RAB and similar service provider arrangements. MG’s finance team of 8FTEs compares favourably to the estimated 9FTEs that are allocated to SP Ausnet gas network. |

Compared to benchmarks from larger European Gas businesses some diseconomies of scale are evident.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FTEs estimated for MG** | **FTEs/100km**  **estimated for MG** | **MG as is comparison FTE/100km** | **Comments** |
| European benchmark | Average: 6  best practice:  4 | Average: 0.06  best practice:  0.05 | 0.08 | Based on the database of European gas distributors, the conservative benchmark predicts 6FTEs for MG. MG’s 8FTES compare slightly less favourable to the European benchmark. However, given the roles for the finance function at MG, the current proposal reflects the minimum requisite expertise and includes all accounting, controlling, treasury and corporate finance functions. Hence we conclude that without any further outsourcing of finance function, a FTE level of 8 is justified. For MG not having synergies and economies of scale like larger utilities and without further outsourcing, a further reduction of MG finance function is not realistic without reducing requisite expertise. |

#### Other corporate support functions

The non-finance corporate functions cover a range of different functional disciplines which are shared between the gas and electricity businesses:

* 1.1 FTE allocation from the internal audit and risk management function, involved in management and review of MG risks and contributing to process improvement and business excellence initiatives.
* 0.6 FTE allocation from the Strategy and Business development functions, responsible for coordinating MG’s strategic planning and developing the plans to address market opportunities, as well as reviewing opportunities identified by management, service providers or the Boards.
* 1.1 FTE allocation from HR, responsible for the HR requirements for the internal staff. The role covers organisation development, HR policy development, coordinating performance management, supporting management with HR issues, HR administration (Allocation from the combined roles of: General Manager HR, HR Advisor, Planning & Performance Manager).
* 3.5 FTE allocation from administration and business support, responsible for office management, administration and registry).
* 3.7 FTE from the legal and commercial function, responsible for all legal counsel activities, legal and contracting advice and support to the business as well as procurement (Allocations across the roles of: Commercial Admin Assistant, Commercial Manager (IT), Commercial Manager/General Counsel, Contract Manager, Key Contract Manager, Legal Advisor, Multinet Commercial/Contracts Manager, Procurement / Contracts Manager, Senior Legal Advisor).
* 2.1 FTE from the regulatory function, responsible for all activities required to manage compliance, and maintain a full set of records associated with all regulatory processes that pertain to UED/MN as well as review, manage and implement price review projects. The function also represents UED / MN in the development of State and National policy, legislation, regulation and codes/guidelines (Allocations across the roles of: Administration Support, Compliance Analyst, Manager Market Rules & Governance, Regulatory Analyst, Regulatory Services Manager). For UED, in 2008 the regulatory activities were brought back in house from Jemena. Active participation and timely responses are the key objectives in regulatory consultation. The MG regulatory staff is a shared resource leveraging synergy effects with electricity.
* 1.1 FTE from the Corporate Affairs function, responsible for all external communications and interacting with stakeholders (Allocations from the roles of: Communications & Corporate Affairs Manager, Corporate Affairs GM).
* 0.5 FTE from the CEO office. The CEO office is an existing function and is shared between UE and MG.

MG’s proposed 13.7 FTE (0.12 FTEs/100km), is similar to UED’s FTE allocation for those functions in 1999 of 11FTEs. It is estimated that Jemena MGH today has 13FTEs in corporate support functions allocated to the MGH network, so there are some efficiency gains in the new model.

When compared to the other Australian Gas businesses the proposed MG staffing levels also appear appropriate.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FTEs** | **FTEs/**  **100km** | **MG comparison FTE/100km** | **Comments** |
| Jemena JGN | 32 | 0.14 | 0.12 | MG’s proposed FTE level (normalised comparison) compares favourably against Jemena JGN. JGN does not appear to be capturing the scale benefits inherent in corporate functions. This is likely to be offset by a higher workload in HR and the lower level of outsourcing in that business. |
| SP Ausnet | 13 | 0.13 | 0.12 | MG’s proposed FTE level is equivalent to SP Ausnet, a business with a similar size network and outsourcing arrangements (see Appendix 3). |
| APA Allgas | 14 | 0.54 | 0.12 | MG’s proposed FTE level compares favourably with APA Allgas’ FTE level. There is a minimum size for these functions given the mix of expertise required which handicaps the smaller APA Allgas business. |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **FTEs estimated for MG** | **FTEs/100km**  **estimated for MG** | **MG as is comparison FTE/100km** | **Comments** |
| European benchmark | Average: 7  best practice:  3 | Average: 0.07  best practice:  0.03 | 0.12 | While the Australian normalised benchmarks a roughly similar, the European benchmark indicates a much leaner corporate support function for MG. However, such a lean FTE level can only be achieved when leveraging highly economies of scale and outsource corporate functions further. It is indicated that the European gas distributors outsource almost all the legal and commercial FTEs. For the comparison, we have adjusted MG’s FTEs for the legal and commercial outsourcing. Then, MG’s corporate support FTEs are reduced to ~8FTEs which then brings MG within 10% of the benchmark. |

# Conclusions

The proposed staffing levels for the MG internal functions – 92FTE across Asset Management, IT, Customer and Market Management and Corporate Functions – appear appropriate and consistent with staffing levels that would be incurred by “a prudent service provider acting efficiently, in accordance with accepted good industry practice, to achieve the lowest sustainable cost of delivering pipeline services”[[8]](#footnote-8).

Overall, MG’s staffing levels are comparable to SP Ausnet, a business of a similar size. Jemena JGN has the advantage of the economies of scale for the asset management, NCC and CMS function providing an efficiency advantage over MG. MG compares particularly favourably with APA Allgas, due to greater economies of scale and synergies between its gas and electricity businesses. As highlighted above, staffing levels are also well within the efficient range of benchmarked European utilities (difference between best practice and sample average).

More specifically for each of the functional areas:

* The network management roles are justified against the benchmark comparisons and by the requisite in-house expertise to deliver the business benefits of the new business model. The asset management (AM) function compares favourably against the historical UED 1999 and Multinet 1998 benchmarks, the current Jemena MGH structure, other Australian gas distributors (APA Allgas, SPAusnet, Jemena JGN) and international gas distributors (European gas distribution benchmark). MG’s FTE levels are justified by the benchmark comparison.
* The Customer and Market Management function is roughly similar in the FTE level when compared to the Jemena MGH structure and other Australian gas distributors (Jemena JGN, SPAusnet). MG’s FTE levels are justified by the benchmark comparison.
* MG’s FTE level of the IT strategy and management function compares favourably to the historical UED 1999 and Multinet 1998 benchmarks and is roughly similar to the Jemena MGH structure and other Australian gas distributors (SPAusnet, Jemena JGN). In particular, SP Ausnet has a similar FTE level as MG. Given the complexity of managing multiple IT systems, including legacy systems, and delivering IT projects, the IT team size is largely driven by the different functional disciplines that are required in-house as an enabler to deliver the business benefits. Despite this complexity, MG IT function compares well against best practice benchmarks of international utility and non-utility benchmarks. The IT FTEs and the roles are justified by the requirement of MG to manage the IT strategy and architecture, the portfolio and the service delivery and by the benchmark comparisons. MG’s FTE levels are justified by the benchmark comparison.
* The finance and other corporate support functions compare favourably against the historical UED 1999 and Multinet 1998 benchmarks and are roughly similar to the Jemena MGH structure, other Australian gas distributors (SPAusnet, Jemena JGN) and international gas distributors (European gas distribution benchmark). The corporate support functions are brought in-house in alignment with the new MG (and UE) business model and the roles are shared across UE and MG creating synergies and leading to good practice FTE levels. Most corporate functions are within the average benchmark range or below and near best practice. MG’s FTE levels are justified by the benchmark comparison.

# Data Sources and Quality Assessment

## Sources

* KPMG report “Cost benchmarking APA Allgas”, September 2010
* Jemena organisation charts 2009 and 2011
* EBS organisation charts 2009 and 2011
* UED’s organisation chart 1999
* Multinet/IKON sales Memorandum (Credit Suisse, 1998)
* SME internal
* SME external
* A.T.Kearney report “Benchmark and Best Practices”, A.T.Kearney Analysis
* A.T.Kearney benchmark data for gas distributors in Europe, A.T.Kearney Analysis
* ENA website
* FTE allocation board decision paper (personnel expenses), Multinet Gas 2011
* MG FTE allocation board decision paper (IT), Multinet Gas
* Multinet Gas Asset Management Plan (draft version Dec 2011)
* CAPS Utilities Industry benchmarking report, 2011
* IT Key Metrics Data 2008: Key Industry Measures: Current Year: Utilities Analysis, Gartner Report 2007
* Australian Energy Regulator ([www.aer.com.au](http://www.aer.com.au))
* GAAR submissions and responses (Jemena, APA Allgas, SPAusnet): ([www.aer.com.au](http://www.aer.com.au))
* Gas comparative performance reports (Multinet, SPAusnet), ESA, October 2010
* State of the Market 2009: Gas distribution (ENA)
* 2010/11 – 2014/15 Jemena Gas Networks Access Arrangement Review, Parsons Brinckerhoff Australia, 2009
* Jemena Asset Management, AMI OPEX review 2011, Deloitte
* Request for Proposal, Multinet 2011
* 2007-2009 Performance Benchmarks for Natural Gas Utilities, American Gas Association, 2010
* Jemena company profile, Jemena website 2011
* Benchmarking of Northern Gas Networks’ business support services, Office of gas and electricity markets UK, 2007
* Next Generation of Outsourcing: Trends and Challenges, Charles Hughes, A.T. Kearney, 2006
* Multi-sourcing: Managing a Portfolio of Deals, Peter Munro, A.T. Kearney, 2007

## Data quality assessment of key data sources for the benchmarking

| **Data Source** | **Confidence Level** | **Rational** | **Data usage** |
| --- | --- | --- | --- |
| Jemena organisation charts | Medium | Breakdown into functional areas and FTE allocation based on SME knowledge | FTE benchmarking of all functions |
| UED 1999 organisation charts and role allocation | Medium | Breakdown into functional areas and FTE allocation based on SME knowledge | FTE benchmarking of all functions |
| Multinet/Ikon sales memorandum | Medium | High confidence on aggregated level but no breakdown available; used SME knowledge | FTE benchmarking of some functions |
| SP Ausnet FTE data: SME, public domain data | Medium | Data provision by SME (low confidence) and public data (medium confidence) | FTE benchmarking of some functions |
| Insourced/Outsourced functions for Australian gas distributors | Medium | SME knowledge of insourced/outsourced functions | Used for determination of data comparability |
| KPMG report “cost benchmarking APA Allgas” | High | Benchmarking of support function | FTE benchmarking of support functions |
| A.T.Kearney gas distribution benchmarks | Medium | Based on 7 samples which are adjusted for network parameters to create a normalised benchmark | FTE benchmarking of some functions using normalised sample averages and best practice benchmarks |

# Appendices

## Appendix 1: Selected Benchmark data – Overview of current and historical Multinet network FTE levels

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Multinet  (2013 FTE forecast)** | **IKON 1998** | **UED 1999** | **Jemena MGH network** |
|  | **FTEs** | | | |
| **FTE total (in-house)** | **92.1** | **137** | **105** | **93** |
| **Network Management** | **51.8** | **92** | **54** | **54** |
| Asset Management | 14.6 | 92 | 21.2 | 17.6 |
| Compliance and Environmental Management | 3.1 | incl. in AM | 2.0 | 1.6 |
| HSEQ | 1.7 | incl. in AM | 1.0 | 3.0 |
| Service Delivery Management (Contract Management) | 15.3 | incl. in AM | 12.1 | 10.0 |
| NCC | 17.1 | incl. in AM | 17.0\* | 18.6 |
| **Customer & Market Management** | **13.5** | incl. in AM | **22.3** | **14.0** |
| **IT Strategy and Management** | **4.9** | **8** | **6.0** | **5.1** |
| **Corporate Services** | **21.9** | **37** | **22.7** | **19.9** |
| CEO office | 0.5 | 0.5 | 0.5 | 0.3 |
| Finance (Accounting, tax) | 8.2 | 26 | 12.0 | 7.0 |
| Administration & Business Support | 3.5 | incl. in Fin. | 1.0\* | 0.6 |
| Internal Audit & Risk | 1.1 | incl. in Fin. | 2.0 | 4.8 |
| Strategy & Business Development | 0.6 | 5.0 | 3.1 | 2.5 |
| HR & Organisational Development | 1.1 | 5.5 | 2.4 | 2.0# |
| Legal & Commercial Contract Management | 3.7 | incl. in Fin. | 0.5 | 3.2 |
| Regulatory Services | 2.1 | incl. in Fin. | 0.8 | 1.9 |
| Comms, Media & Corporate Affairs | 1.1 | incl. in Fin. | 0.7 | 0.8 |

Notes:  
\* Assumptions best on peer data for functional FTEs when data not available for FTEs in order to compare total FTEs.  
# HR FTE for entire network of MGH and JGN (incl. field services staff)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Multinet  (2013 FTE forecast)** | **IKON 1998** | **UED 1999** | **Jemena MGH network** |
|  | **FTEs/100km** | | | |
| **FTE total (in-house)** | **0.96** | **1.54** | **1.18** | **0.97** |
| **Network Management** | **0.54** | **1.03** | **0.61** | **0.56** |
| Asset Management | 0.15 | 1.03 | 0.24 | 0.18 |
| Compliance and Environmental Management | 0.03 | incl. in AM | 0.02 | 0.02 |
| HSEQ | 0.02 | incl. in AM | 0.01 | 0.03 |
| Service Delivery Management (Contract Management) | 0.16 | incl. in AM | 0.14 | 0.10 |
| NCC | 0.18 | 0.19\* | 0.19\* | 0.19 |
| **Customer & Market Management** | **0.14** | **0.13\*** | **0.25** | **0.15** |
| **IT Strategy and Management** | **0.05** | **0.09** | **0.07** | **0.05** |
| **Corporate Services** | **0.23** | **0.41** | **0.26** | **0.21** |
| CEO office | 0.01 | 0.005 | 0.006 | 0.003 |
| Finance (Accounting, tax) | 0.09 | 0.29 | 0.13 | 0.07 |
| Administration & Business Support | 0.04 | incl. in Fin. | 0.01 | 0.01 |
| Internal Audit & Risk | 0.01 | incl. in Fin. | 0.02 | 0.05 |
| Strategy & Business Development | 0.01 | 0.06 | 0.03 | 0.03 |
| HR & Organisational Development | 0.01 | 0.06 | 0.03 | 0.02 |
| Legal & Commercial Contract Management | 0.04 | incl. in Fin. | 0.01 | 0.03 |
| Regulatory Services | 0.02 | incl. in Fin. | 0.01 | 0.02 |
| Comms, Media & Corporate Affairs | 0.01 | incl. in Fin. | 0.01 | 0.01 |

Notes:  
\* Assumptions best on peer data for functional FTEs when data not available for FTEs in order to compare total FTEs.  
# HR FTE for entire network of MGH and JGN (incl. field services staff)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Multinet  (2013 FTE forecast)** | **IKON 1998** | **UED 1999** | **Jemena MGH network** |
|  | **FTEs/$-bn RAB** | | | |
| **FTE total (in-house)** | **95.9** | **184.1** | **141.5** | **96.9** |
| **Network Management** | **54.0** | **123.8** | **72.8** | **56.4** |
| Asset Management | 15.2 | 123.8 | 28.5 | 18.3 |
| Compliance and Environmental Management | 3.2 | incl. in AM | 2.7 | 1.7 |
| HSEQ | 1.8 | incl. in AM | 1.3 | 3.1 |
| Service Delivery Management (Contract Management) | 15.9 | incl. in AM | 16.3 | 10.4 |
| NCC | 17.8 | 22.9\* | 22.9\* | 19.4 |
| **Customer & Market Management** | **14.1** | **16.2\*** | **30.0** | **14.6** |
| **IT Strategy and Management** | **5.1** | **10.8** | **8.1** | **5.3** |
| **Corporate Services** | **22.8** | **49.5** | **30.6** | **20.7** |
| CEO office | 0.5 | 0.4 | 0.6 | 0.3 |
| Finance (Accounting, tax) | 8.5 | 35.0 | 16.2 | 7.3 |
| Administration & Business Support | 1.8 | incl. in Fin. | 1.3\* | 0.6 |
| Internal Audit & Risk | 1.1 | incl. in Fin. | 2.7 | 1.6 |
| Strategy & Business Development | 0.6 | 6.7 | 4.3\* | 2.6 |
| HR & Organisational Development | 1.4 | 7.4 | 3.2 | 2.1# |
| Legal & Commercial Contract Management | 3.9 | incl. in Fin. | 0.7 | 3.4 |
| Regulatory Services | 2.2 | incl. in Fin. | 1.1 | 2.0 |
| Comms, Media & Corporate Affairs | 1.1 | incl. in Fin. | 0.9 | 0.8 |

Notes:  
\* Assumptions best on peer data for functional FTEs when data not available for FTEs in order to compare total FTEs.  
# HR FTE for entire network of MGH and JGN (incl. field services staff)

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Multinet  (2013 FTE forecast)** | **IKON 1998** | **UED 1999** | **Jemena MGH network** |
|  | **FTE/100,000 customers** | | | |
| **FTE total (in-house)** | **14.0** | **23.2** | **17.8** | **14.1** |
| **Network Management** | **7.8** | **15.6** | **9.2** | **8.2** |
| Asset Management | 2.2 | 15.6 | 3.6 | 2.7 |
| Compliance and Environmental Management | 0.4 | incl. in AM | 0.3 | 0.2 |
| HSEQ | 0.3 | incl. in AM | 0.2 | 0.5 |
| Service Delivery Management (Contract Management) | 2..3 | incl. in AM | 2.1 | 1.5 |
| NCC | 2.6 | 2.9 | 2.9 | 2.8 |
| **Customer & Market Management** | **2.0** | **2.0** | **3.8** | **2.1** |
| **IT Strategy and Management** | **0.7** | **1.4** | **1.0** | **0.8** |
| **Corporate Services** | **3.3** | **6.2** | **3.8** | **3.0** |
| CEO office | 0.1 | 0.1 | 0.1 | 0.05 |
| Finance (Accounting, tax) | 1.2 | 4.4 | 2.0 | 1.1 |
| Administration & Business Support | 0.3 | incl. in Fin. | 0.2 | 0.1 |
| Internal Audit & Risk | 0.3 | incl. in Fin. | 0.4 | 0.7 |
| Strategy & Business Development | 0.1 | 0.8 | 0.5 | 0.4 |
| HR & Organisational Development | 0.2 | 0.9 | 0.4 | 0.3 |
| Legal & Commercial Contract Management | 0.6 | incl. in Fin. | 0.1 | 0.5 |
| Regulatory Services | 0.3 | incl. in Fin. | 0.1 | 0.3 |
| Comms, Media & Corporate Affairs | 0.2 | incl. in Fin. | 0.1 | 0.1 |

Notes:  
\* Assumptions best on peer data for functional FTEs when data not available for FTEs in order to compare total FTEs.  
# HR FTE for entire network of MGH and JGN (incl. field services staff)

## Appendix 2: Selected Benchmark data – Overview of Australian gas distributor FTE levels

|  | **Jemena JGN network** | **APA Allgas** | **SP Ausnet** |
| --- | --- | --- | --- |
| Pipeline length (km) | 23,800 | 2,605 | 9,900 |
| RAB ($M-asset value) | 2,218 | 447 | 980 |
| Number of customers (#) | 995,074 | 75,000 | 589,000 |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Jemena JGN** | **APA Allgas** | **SP Ausnet** |
|  | **FTEs** | | |
| **FTE total (in-house)** | **187** | **86** | **92** |
| **Network Management** | **82.1** | **49** | **48.4** |
| Asset Management | 23.8 | 18.0 | 15.7 |
| Compliance and Environmental Management | 5.8 | 1.0\* | 1.6\* |
| HSEQ | 8.2 | 1.0\* | 1.7\* |
| Service Delivery Management (Contract Management) | 22.0 | 11.0 | 12.0 |
| NCC | 22.0 | 17.0\* | 17.0\* |
| **Customer & Market Management** | **22.6** | **12.0\*** | **15.9** |
| **IT Strategy and Management** | **18.4** | **5.0\*** | **5.0** |
| **Corporate Services** | **63.9** | **20.0** | **22.5** |
| Finance (Accounting, tax) | 24.6 | 5.0\* | 9.1\* |
| Administration & Business Support | 1.8 | 2.0 | 2.3 |
| Internal Audit & Risk | 5.9 | 2.0\* | 1.9\* |
| Strategy & Business Development | 7.5 | 1.5 | 1.9 |
| HR & Organisational Development | 6.0# | 1.0\* | 1.3\* |
| Legal & Commercial Contract Management | 12.1 | 3.5 | 2.5 |
| Regulatory Services | 2.7 | 2.0 | 1.7 |
| Comms, Media & Corporate Affairs | 2.4 | 1.0 | 1.5 |

Notes:  
\* Assumptions best on peer data for functional FTEs when data not available for FTEs in order to compare total FTEs.  
# HR FTE for entire network of MGH and JGN (incl. field services staff)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Jemena JGN** | **APA Allgas** | **SP Ausnet** |
|  | **FTEs/100km** | | |
| **FTE total (in-house)** | **0.78** | **3.30** | **0.93** |
| **Network Management** | **0.36** | **1.92** | **0.49** |
| Asset Management | 0.10 | 0.69 | 0.16 |
| Compliance and Environmental Management | 0.02 | 0.04\* | 0.02 |
| HSEQ | 0.03 | 0.04\* | 0.02 |
| Service Delivery Management (Contract Management) | 0.09 | 0.42 | 0.12 |
| NCC | 0.09 | 0.65\* | 0.17\* |
| **Customer & Market Management** | **0.09** | **0.46\*** | **0.16** |
| **IT Strategy and Management** | **0.08** | **0.23\*** | **0.06** |
| **Corporate Services** | **0.27** | **0.73** | **0.22** |
| Finance (Accounting, tax) | 0.10 | 0.19\* | 0.09 |
| Administration & Business Support | 0.01 | 0.08 | 0.02 |
| Internal Audit & Risk | 0.02 | 0.08\* | 0.016 |
| Strategy & Business Development | 0.03 | 0.06 | 0.02 |
| HR & Organisational Development | 0.03# | 0.04\* | 0.01 |
| Legal & Commercial Contract Management | 0.05 | 0.13 | 0.03 |
| Regulatory Services | 0.01 | 0.08 | 0.02 |
| Comms, Media & Corporate Affairs | 0.01 | 0.04 | 0.01 |

Notes:  
\* Assumptions best on peer data for functional FTEs when data not available for FTEs in order to compare total FTEs.  
# HR FTE for entire network of MGH and JGN (incl. field services staff)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Jemena JGN** | **APA Allgas** | **SP Ausnet** |
|  | **FTEs / $-bn RAB** | | |
| **FTE total (in-house)** | **84.1** | **192.4** | **93.5** |
| **Network Management** | **38.2** | **111.9** | **49.7** |
| Asset Management | 10.7 | 40.3 | 16.1 |
| Compliance and Environmental Management | 2.6 | 2.2\* | 1.7 |
| HSEQ | 3.7 | 2.2\* | 1.7 |
| Service Delivery Management (Contract Management) | 9.9 | 24.6 | 12.2 |
| NCC | 9.9 | 38.0\* | 17.3\* |
| **Customer & Market Management** | **10.2** | **26.8\*** | **16.3** |
| **IT Strategy and Management** | **8.3** | **11.2\*** | **5.1** |
| **Corporate Services** | **27.5** | **42.5** | **22.4** |
| Finance (Accounting, tax) | 11.1 | 11.2\* | 9.2 |
| Administration & Business Support | 0.8 | 4.5 | 2.4 |
| Internal Audit & Risk | 2.6 | 4.4\* | 1.9 |
| Strategy & Business Development | 3.4 | 3.4 | 1.9 |
| HR & Organisational Development | 2.7# | 2.2\* | 1.3 |
| Legal & Commercial Contract Management | 5.4 | 7.8 | 2.6 |
| Regulatory Services | 1.2 | 4.5 | 1.7 |
| Comms, Media & Corporate Affairs | 1.1 | 2.2 | 1.5 |

Notes:  
\* Assumptions best on peer data for functional FTEs when data not available for FTEs in order to compare total FTEs.  
# HR FTE for entire network of MGH and JGN (incl. field services staff)

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Jemena JGN** | **APA Allgas** | **SP Ausnet** |
|  | **FTEs / 100,000 customers** | | |
| **FTE total (in-house)** | **18.8** | **114.7** | **15.6** |
| **Network Management** | **8.2** | **65.3** | **8.2** |
| Asset Management | 2.4 | 24.0 | 2.7 |
| Compliance and Environmental Management | 0.6 | 1.3\* | 0.3 |
| HSEQ | 0.8 | 1.3\* | 0.3 |
| Service Delivery Management (Contract Management) | 2.2 | 14.7 | 2.0 |
| NCC | 2.2 | 22.7\* | 2.9\* |
| **Customer & Market Management** | **2.3** | **16.0\*** | **2.7** |
| **IT Strategy and Management** | **1.8** | **6.7** | **0.9** |
| **Corporate Services** | **6.4** | **26.6** | **3.8** |
| Finance (Accounting, tax) | 2.5 | 6.7\* | 1.5 |
| Administration & Business Support | 0.2 | 2.7 | 0.4 |
| Internal Audit & Risk | 0.6 | 2.6\* | 0.3 |
| Strategy & Business Development | 0.8 | 2.0 | 0.3 |
| HR & Organisational Development | 0.6# | 1.3\* | 0.2 |
| Legal & Commercial Contract Management | 1.2 | 4.7 | 0.4 |
| Regulatory Services | 0.3 | 2.7 | 0.3 |
| Comms, Media & Corporate Affairs | 0.2 | 1.3 | 0.2 |

Notes:  
\* Assumptions best on peer data for functional FTEs when data not available for FTEs in order to compare total FTEs.  
# HR FTE for entire network of MGH and JGN (incl. field services staff)

## Appendix 3: Comparison of business models: in-sourced vs. out-sourced functions of Australian gas distribution companies

Source: SME

| ***Function*** | **SP Ausnet** | **APT Allgas**  **(now APA)** | **Jemena MGH** | **Jemena JGN** |
| --- | --- | --- | --- | --- |
| ***Network Management*** |  |  |  |  |
| *Asset Management* | Insourced | Insourced | Insourced | Insourced |
| *Service Delivery Management (Contract Services)* | Insourced | Insourced | Insourced | Insourced |
| *NCC (Network Control Centre)* | Outsourced | Outsourced | Insourced | Insourced |
| *Field Services Delivery* | Outsourced | Outsourced | Insourced, partially outsourced | Insourced, partially outsourced |
| ***Customer & Market Management*** | Insourced (back office functions outsourced) | Insourced (back office functions outsourced) | Previously Insourced, now outsourced to MG/UE | Insourced (back office functions outsourced) |
| ***IT Strategy & Management*** | Insourced (project delivery/user support outsourced) | Insourced (project delivery/user support outsourced) | Insourced (project delivery/user support outsourced) | Insourced (project delivery/user support outsourced) |
| ***Corporate Services*** |  |  |  |  |
| *Finance (Accounting, Controlling)* | Insourced | Insourced | Insourced | Insourced |
| *Other Corporate functions* | Insourced | Insourced | Insourced | Insourced |

## Appendix 4: European Gas Distribution Benchmarks

Source: A.T.Kearney

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Normalisation metrics** | **European benchmark (sample average)\*** | **European benchmark (best practice)\*** |
| **Network Management** |  |  |  |
| Asset Management | FTE/100km | 0.23 | 0.17 |
| Compliance and Environmental Management | FTE/100km | 0.01 | 0.01 |
| HSEQ | FTE/100km | 0.01 | 0.01 |
| Service Delivery Management (Contract Management) | FTE/100km | 0.28 | 0.21 |
| NCC | FTE/100km | 0.14 | 0.12 |
| **Customer & Market Management** | FTE/100km | 0.14 | 0.10 |
| **IT Strategy and Management** | FTE/100km | 0.04 | 0.03 |
| **Corporate Services** |  |  |  |
| Finance (Accounting, tax) | FTE/100km | 0.06 | 0.05 |
| Administration & Business Support | FTE/100km | 0.03 | 0.02 |
| Internal Audit & Risk | FTE/100km | 0.01 | 0.005 |
| Strategy & Business Development | FTE/100km | 0.01 | 0.001 |
| HR & Organisational Development | FTE/100km | 0.03 | 0.03 |
| Legal & Commercial Contract Management | FTE/100km | 0.01 | 0.004 |
| Regulatory Services | FTE/100km | 0.01 | 0.002 |
| Comms, Media & Corporate Affairs | FTE/100km | 0.01 | 0.01 |

\*Average benchmark and best practice calculations is based on 5 German and 2 Austrian mixed utilities

1. National Gas Rules, AER [↑](#footnote-ref-1)
2. includes contract management, planning and management of gas response, leakage surveillance, connections management [↑](#footnote-ref-2)
3. service delivery contract management at Jemena MGH has different scope when compared to MG2013 [↑](#footnote-ref-3)
4. includes regulatory, legal, company secretarial services and admin [↑](#footnote-ref-4)
5. includes HR and strategy and business development [↑](#footnote-ref-5)
6. Next Generation of Outsourcing: Trends and Challenges, Charles Hughes, A.T. Kearney, 2006 [↑](#footnote-ref-6)
7. Multi-sourcing: Managing a Portfolio of Deals, Peter Munro, A.T. Kearney, 2007 [↑](#footnote-ref-7)
8. National Gas Rules, AER [↑](#footnote-ref-8)