



SDP Capital Works Procedure



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Authorisation

	Title	Name	Date
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Purpose

The purpose of the Sydney Desalination Plant Pty Limited (SDP) Capital Works Procedure is to outline the actions and responsibilities for carrying out works intended on being capitalised through the IPART administered regulatory framework.

The objectives of the capital works program and this procedure are to:

- Maintain the quality and performance of the assets at their optimum level, in accordance with best industry practice, so as to remain at all times fit for purpose and capable of continuous and reliable operation.
- Improve asset infrastructure, through effective asset management and sound capital investment, planning and project execution in line with the level of risk appetite acceptable to SDP shareholders.
- Make informed decisions on all assets in relation to preventative maintenance and capital replacement that are recorded and can be justified.
- Ensure decisions on asset maintenance and replacement of assets are demonstrable, prudent and efficient investments in the long-term interest of customers.
- Ensure maintenance work can be scheduled, capital cost and depreciation recorded, life-cycle analysis undertaken and/or revised, and appropriate treatment justified.

This document should be read in conjunction with the SDP Procurement Policy, SDP Delegation of Authority Policy, SDP Risk Management Policy, SDP Asset Management Policy and SDP Code of Conduct.

Scope

This procedure applies to the procurement and delivery of capital works to increase and/ or maintain the serviceability, performance, reliability and overall asset life of SDP's assets.

Procurement of Capital Works is carried out through two pathways;

- Works procured and delivered directly by SDP, typically through engaged external contractors.
- Works procured and delivered by the Operator at the direction of SDP.

SDP operates on a predominantly outsourced basis, with the majority of SDP's capital works delivery undertaken by the Operator. Under the O&M Contract, there are three key mechanisms for the initiation, delivery and closure of capital works, including;

- Capital Works / Asset Renewal Plans submitted by the Operator annually.
- Operator's Proposal / Business Cases submitted by the Operator (either detailing works already submitted in the Asset Renewal Plan, or proposing new works based on an emerging need).
- Change Pricing Requests issued by the Company, Operator's Proposals submitted by the Operator and/or Change Orders (variations to services) issued by the Company as the contractual mechanism for approval and agreement of projects initiated by either the Operator or the Company



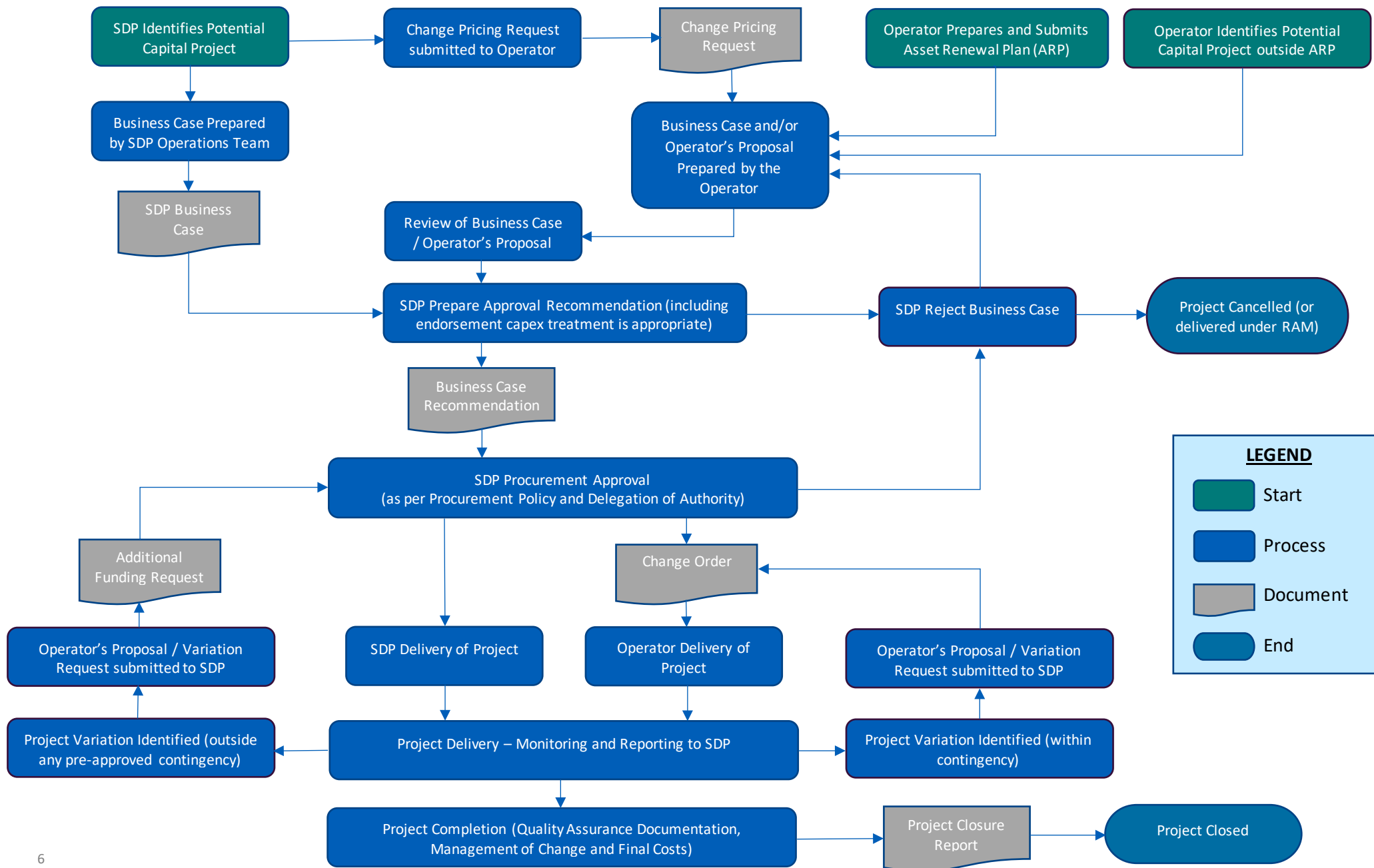
Depending on complexity and forward planning considerations, a discrete piece of work may utilise one or all of the above mechanisms through the project life-cycle.

At its discretion, SDP may also undertake capital works either delivered by SDP staff and/ or external contractors. Any works carried out in this manner will be subject to the same level of rigor and justification as those delivered under the O&M Contract with the Operator.

The SDP Capital Works Process is summarised in Figure 1.



Figure 1 – SDP Capital Works Process



LEGEND

- Start
- Process
- Document
- End



Capital Works Process

SDP defines capitalised works by three key attributes;

- The upgrade, replacement or addition of major and/ or critical spare parts or standby equipment that are expected to be utilised over more than one Regulatory Period;
- The replacement, renewal, overhaul and/ or refurbishment of specific items of plant and equipment which are proposed to take place on a cycle of multiple years; or
- Improvements to the Plant or DWPS that provide a demonstrated benefit to customers (e.g. improved efficiency, reduced cost, higher quality, improved reliability) or are demonstrated to be necessary to meet good industry standard (e.g. maintain safety standards, address step changes in industry practice/knowledge).

This definition is aligned with SDP's IPART Determination.

The ongoing management of capitalised activities, based on the annual Asset Renewal Plan submissions by the Operator, can be separated into the following stages as summarised below. Time periods shown are for each year.

Operator Submission (March)

By 31 March each year, the Operator must prepare and submit to SDP indicative short-term and long-term Asset Renewal Plans for the Plant and the Drinking Water Pump Station (DWPS).

The Asset Renewal Plans provided by the Operator will include:

- Any changes made to the plans submitted in the previous calendar year and reasons for those changes;
- Indicative short (15 month April year to June year +1), medium term (5 years) and long term (10 year) scheduled replacement, renewal or overhaul of assets in the Plant and the DWPS;
- Indicative upgrade, replacement or addition of major and/or critical spare parts or standby equipment;
- Indicative/estimated costs of any scheduled Capital Works in the Asset Renewal Plans;
- Schedule and resource plan for the short term renewal plan;
- Indicative and brief scope and justification for the scheduled Capital Works; and
- Costs to date and forecasted costs to complete for all renewals including commentary where relevant.

SDP Review (April – May)

After receipt of the annual Asset Renewal Plans SDP will undertake a review of the plans submitted by the Operator. The submitted plans will be tabled at the monthly Operational Review Group (ORG) meetings for noting. Should further discussion, development or changes to the plans be required, agreement will be made as to the appropriate forum for active tracking and communication between parties.

SDP will endeavour to respond to the Operator on each submission within 30 business days. This response will inform either the approval, rejection and/ or request for additional information.



Initially, each plan submitted to SDP will be reviewed by SDP operations staff and evaluated for justification as Capital Works. SDP will provide any comment on the renewal plan as required, and work with the Operator to finalise the plan. Once the plan is approved, the cost estimates provided will be used to develop SDP's indicative operating budgets for the next calendar year, as well as medium-term and long-term budget forecasts.

SDP will advise the Operator of the approved budget.

Detailed Submissions by the Operator (June to June)

The Operator will develop detailed submissions for individual approval. The submissions may relate to the following:

- Submissions relating to Capital Works in the approved short term Asset Renewal plan
- Submissions related to Capital Works proposed to be brought forward from the long-term Asset Renewal Plan
- Submissions related to Operator proposed Capital Works that were not in the Asset Renewal Plan but that have been identified to address an emerging need
- Submissions related to Capital Works requests from SDP.

Submissions will be provided in two typical formats, each with a specific purpose:

1. Business Cases – to detail the capital works
2. Operator's Proposals / Change Orders – to summarise and formalise the contractual implications (cost, risk etc)

Business Plans/Cases

As a default, Business Cases are required for all Capital Works, but the level of detail required will be different depending on the main driver for the Capital Works, the complexity, and the value. For complex projects, it may be appropriate for the initial Business Case submission to provide a brief summary and outline the approach and request funds to be approved to develop the project in further detail.

Typical requirements of a Business Case submitted by the Operator include:

- List of assets and attributes effected by the Capital Works;
- A description of the Capital Works opportunity;
- Justification for the Business Case demonstrating that the Capital Works is prudent and efficient;
- Any alignment with indicative maintenance plans submitted prepared and submitted previously;
- Alignment with manufacturers' recommendations (e.g. O&M manuals, service guidelines and maintenance instructions);
- Historical asset maintenance and performance data for the relevant asset;
- Historical and current maintenance strategies for the relevant asset;
- Expected improvements and/or efficiencies to the performance of the Plant and/or the DWPS;
- The Operator's assessment of the capital expenditure required to implement the Business Case;



- Any expected changes that would be made to maintenance plans (including indicative maintenance plans);
- The Operator's assessment of potential risks associated with implementing the Business Case and the Operator's plans to mitigate any such risks;
- The warranties to be provided by the Operator and third-party manufacturers, suppliers or installers for the relevant Capital Works and any impacts on existing warranties;
- Any potential impacts on insurances required to be obtained and maintained under the Agreement by the Operator; and
- A proposed program for the implementation of the Capital Works with appropriate milestones to final close out;

Business Cases provided by the Operator will be reviewed by SDP as submitted, with a targeted response time of 30 business days to each submission. If Contractual mechanisms require faster response times, SDP will communicate the need for a longer response time should it be necessary, to ensure Contractual compliance. Depending on complexity, workload and internal capability, SDP may source external resources to review specific Business Cases.

During the Business Case submission phase, SDP will highlight any relevant witness and hold points on the works, to monitor the key stages of each project. These requirements will be outlined in the review of each Business Case, influenced by the complexity, cost and criticality of the works.

The Operator may approach SDP requesting pre-approval clarification prior to detailed submission of Capital Works activities. The intention of this mechanism is to provide a streamlined process for justified, periodic maintenance tasks that can be capitalised and avoid unnecessary effort for proposed works that are deemed not appropriate for capitalisation.

Operator's Proposal

The Operator's proposal is a contractual instrument to summarise the Capital Works proposed and indicate if there are any affects on other elements of the Operator's services. The Operator's proposal should address:

- Whether delivery of the Capital Works will effect any other of the Operator's obligations or services under the operating contracts;
- A summary of the scope;
- The cost and proposed delivery mechanism (cost plus, fixed price etc);
- Programme and criteria for acceptance;
- Environmental impact; and
- Any other relevant information or further information reasonably requested by SDP.

SDP Approvals

For all Business Cases / Operator's Proposals, a representative of SDP's operations team will prepare an SDP Business Case Recommendation (Appendix A) based on the information provided in the Business Case / Operator's Proposal. The SDP representative may reject any submission by the Operator, resulting in either a resubmission of the Business Case or cancellation of the project.



Once a Business Case Recommendation has been prepared by the SDP operations team, the document will be sent to the SDP Finance team to review the recommendation, endorse that the Business Case is considered Capital Works from an accounting perspective, and assign costs codes for the project.

The request will then be subject to the review and approval by the SDP Procurement Committee comprising the CEO, and/or the CFO of SDP, in line with the SDP Delegation of Authority Policy and SDP Procurement Policy.

Once satisfied, SDP will notify the Operator of the approval of the business case through a formal Change Order under the O&M Contract.

As part of the review process, a submission by either the Operator or SDP may be rejected by the SDP Procurement Committee. In the event of a rejection, the submission may be revised and resubmitted through the process outlined in Figure 1 or result in cancellation of the project.

Project Delivery

The Operator will implement the approved Business Cases, with regular reporting through the monthly Operations and Maintenance report as well as the monthly ORG meetings.

Witness and hold points requested by SDP during the review phase will be conducted during the delivery, to monitor project outcomes and quality of works completed.

No changes will be made to any Business Cases without prior approval by SDP. If a variation to the approved Business Case is required, the Operator will initially notify SDP through a contract notice, ideally prior to incurring any additional expenditure. If the variation is over any pre-approved project contingency, the Operator may be requested to resubmit the Business Case or submit an Operator's Proposal to justify the change. The SDP Operations team will prepare an SDP Additional Funding Request (Appendix B) for approval by the SDP Procurement Committee. Any variations within the project contingency allowance may be approved at the discretion of the SDP Operations team.

Costs to date, forecasted costs to complete and timing of deliverables for all approved Capital Works should be provided on a monthly basis by the Operator, including commentary where relevant. The SDP Operations team is responsible for collating this information and communicating with the finance team to ensure expenditure can be planned for appropriately.

Project Closeout

Once the physical outcomes of the approved Business Case have been completed, the Operator will prepare and submit a Project Closeout Pack, including:

- The Operator's assessment of the capital expenditure incurred to date versus the approved budget, including justification for any cost increases/reductions;
- Work as executed documentation (design drawings, FDS', UPG's);
- Updating of the asset management system to include any works complete;
- Training records of operations staff (if applicable);
- Inspection and testing records (ITPs, ITCs, Commissioning records); and
- Manufacturers Data Report (material information, maintenance procedures, quality control documentation).



Once satisfied the Capital Works have been completed and documentation recorded, the SDP Operations team will complete a SDP Project Closure Report (Appendix C) and issue to SDP Finance team to update the financial system and record the works as complete.

Business Cases Submitted Outside Renewal Planning

As outlined above, the Operator may also submit Business Cases outside of the long-term planning process through the Asset Renewals Plans. These Business Cases may be the result of a routine maintenance activity identifying a potential improvement and/or further maintenance activities to ensure reliability of the asset.

Any Business Cases submitted to SDP that have not previously been identified in the Asset Renewal Plans will be subject to the same review process. Further justification may be required for these works, such as inspection and testing reports from the manufacturer and/or relevant expert.

Change Orders

A Change under the O&M Contract may be initiated by either SDP (through a Change Pricing Request) or the Operator (through an Operator’s Proposal). These are reviewed on a case-by-case basis and assessment of validity as capital expenditure and relevant approvals fall within the SDP Procurement Policy guidelines.

If any Change is identified as capital expenditure, SDP will notify the Operator of the requirement to develop and submit a Business Case. This notification will be provided in the form of a Change Pricing Request contract notice as the formal response to any Operator’s Proposal.

Any Business Cases identified through the Change Order process will follow the planning, approval, delivery and closure process outlined in the “Capital Works Process” section of this procedure.

Company Delivered Works

At its discretion, SDP may undertake works directly managed by the SDP staff. These works will typically include initial investigations such as optioneering, concept designs and/or site investigation work with the intention of modelling SDP’s requirements prior to issuing a Change Order Request to the Operator under the O&M Contract. Company Delivered Works are also commonly undertaken on the Pipeline utilising contractors engaged by SDP.

Any works carried out by SDP will follow the SDP Delegation of Authority Policy and SDP Procurement Policy.

Any SDP Delivered Works intending to be capitalised will be documented, reviewed and approved using the SDP Capital Business Case Form (Appendix D)

Following completion of any SDP Delivered Works, an SDP Project Closure Report (Appendix C) will be reviewed and approved internally to officially close any project.

Reporting

Reporting on capital works projects is a critical component to any successful project, the typical reporting methods for any works can be separated into two categories;



Operator Reporting Tools

- Operations and Maintenance Monthly Report
 - Budget tracking per project and overall program/ forecast
 - Project deliverables/timeline tracking
- Monthly ORG Meetings and Minutes
 - Assigned actions as required
- Monthly Capital Works Meeting and Minutes
 - Update on project status
 - Review of project risks and opportunities
- Contract notices
 - Variations in approved Business Cases

SDP Reporting (Internal) Tools

- Monthly SDP Capital Expenditure budget tracking/ forecast
 - Monthly SDP Capital Expenditure Report
 - Monthly Operations update submission to SDP Board
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Appendix A – SDP Business Case Recommendation

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Appendix B – SDP Additional Funding Request

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Appendix C – SDP Project Closure Report

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Appendix D – SDP Capital Business Case Form

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