

Sydney Water Corporation - Expenditure Review –

Questions/Clarifications

Questions for the Tribunal:

In the December 'Sydney Water Corporation (SWC) – Expenditure Review', Atkins Cardno notes and supports *"the principle of an ERP: ... there is broad consensus in the world's leading corporations that an ERP is a vital organisational tool"*. The report goes on to link this ERP assertion with the replacement of Sydney Water's 28-yr old customer billing system (ACCESS) – the latter of which represents an indicative cost of \$160 million, roughly 50% of the total \$328 million IT budget requested. See "SWC's 2015 Summary of Issues Document – Item 11." *"As part of its capital program, Sydney Water proposed \$328 million on information technology (IT) programs over the 2016 determination period. This significant increase in IT capital expenditure includes a new customer billing system and an Enterprise Resource Planning (ERP) platform. Our consultant found this expenditure to be prudent and efficient, given Sydney Water's current customer billing system is 28 years old and broad consensus in the world's leading corporations that an ERP is a vital organisational tool."*

We would like to ask the Tribunal for clarity on the following points:

1. Can the Tribunal please provide a detailed account of the processes, checks-and-balances and due-diligence undertaken by SWC in determining the \$160 million estimate for the replacement of the billing system – *"Sydney Water proposed to invest \$328 million in IT over 2016-20. Over \$160 million is to replace a 28-year old billing system."* Understanding that Hunter Water, Yarra Valley Water, Watercare NZ, as well as many large water utilities around the globe have implemented current-state customer information systems for a fraction of this cost in the recent past, we'd like to clearly understand the detailed cost breakdowns of such a massive project and Atkins Cardno's position that the expenditure is *'prudent and efficient'*.
2. Can the Tribunal please provide a detailed account of the processes, checks-and-balances and due-diligence undertaken by SWC in selecting SAP as its IT provider for the ERP and Customer

Information System / T2020 initiative? Was there an “open tender” for this technology selection? What other options were considered and why were they discounted?

3. Understanding SWC’s existing IT system landscape (e.g., IBM/Maximo for Assets; Oracle for Financials, HR, CRM, Document Management, technology, hardware; etc.), and the associated market leading positions of these vendor/solutions in the utility marketplace, combined with SWC’s significant investments in these platforms, would the Tribunal please provide details of the Business Case supporting the replacement of all of these systems with the proposed SAP ERP, ISU and other modules? Were these or any other integrated ERP/customer billing vendor solutions considered as an alternative based upon SWC’s existing investment?
4. As the Tribunal may be aware, Hunter Water Corporation deployed an industry respected customer-centric billing system for under \$10 million in 2005 and has continued to maintain that system at a very minimal cost. The system is compliant with all NSW regulatory requirements and HWC is currently tendering for the refresh/enhancement of this platform. In a similar vein to the question above, and in light of the common and in many cases identical business functions and practices of HWC and SWC, can the Tribunal please provide a detailed assessment that would (should) have been carried out by SWC to determine the ability to leverage, at least as a strong base-line, this HWC, Government owned asset?
5. As an asset intensive, government owned water provider, consistent with all other utilities of this nature, one would have to assume that a fully vetted business case around such an ERP initiative must have a dominate focus and cost justification associated with improving the organisations ability to more effectively and efficiently manage its operational assets and field work/crews. That being the case, can the Tribunal please provide a detailed understanding and cost justification/business case around SWC’s associated replacement of its existing IBM/Maximo platform? As the Tribunal may be aware, Maximo has over many years ranked as the leading asset management system for utilities and is a well established and proven platform at many Australian utilities today. The Tribunal may also be aware that the existing and integrated Oracle applications in use at SWC (e.g., Financials, HR, CRM, etc.) are also considered to be best-in-class, receiving a significant annual ERP product development budget; as per above, where any of these considerations made and assessment carried out? Can the Tribunal share the details of such due diligence?
6. Atkins Cardno’s report found that, *“the business cases for the proposed billing system were strong and have recommended no capital expenditure adjustment”*. Can the Tribunal provide the details of these strong business cases? What is the projected ROI? What level of due diligence has been carried out to validate the achievability of these costs and benefits?
7. Understanding the continued, strong adoption of ‘cloud based solutions’ in the marketplace to support increased flexibility, reduce total cost of ownership and drive efficiencies, can the Tribunal please provide details associated with SWC’s review of such a model(s) to support the ERP/T2020 program of work?
8. Looking to the future, we are seeing the emergence of digital/smart meters entering the Australian and global water utility segment as a mechanism for reducing loss/leakage, improving quality and consistency and reducing operational costs. To that end, we would ask the Tribunal to provide confirmation of SAP’s ability to support the complexities around such extended meter

data management requirements and provide real-life references in which such a solution has been deployed today?

9. Would the Tribunal please provide a list of the Australian and Asia Pacific water utilities that have deployed an ERP and common customer billing system from a single vendor? Are there any such SAP platforms in these Australian water utilities? Can the Tribunal please provide confirmation of these organisations having achieved on-time/on-budget deployments in the cost range SWC is requesting and to what extent they achieved the goals established in their respective business cases?
10. In light of the very high-profile, costly and absolutely worthless CIBS initiative many years ago when Sydney Water sought to replace the ACCESS platform, what can the Tribunal provide by way of how this program will mitigate those same risks on this even higher cost ERP & ACCESS replacement initiative?
11. The December 'Sydney Water Corporation (SWC) – Expenditure Review' states, "*... that the proposed expenditure on the billing system was largely justified and efficient. It found that: ...there is a full and detailed audit trail dating back at least 10 years to support the replacement of the ACCESS billing system. There is no doubt about the need and overall the costs are built up in a robust way*". Can the Tribunal please provide the '*full and detailed audit trail ... supporting the replacement*? Being 28-yrs old is in and of itself neither a justification nor a sound business case for system replacement, let alone one of this magnitude in what remains a relatively static, government owned and highly regulated market segment. Can the Tribunal equally provide specific details on what it means that this massive expenditure is viewed as '*largely justified and efficient*'?
12. In general we support the principle of an ERP as stated in the Expenditure Review, however, what process and due-diligence was undertaken to select SAP versus several other leading industry options (e.g., Microsoft, Oracle, etc.)?
13. As the asset system is perhaps the most critical single system for any utility, specifically those managing large, intensive, infrastructures such as Sydney Water, surely the biggest business benefits of an ERP would be gained through the initial replacement of an organisations asset platform. However, in the T2020 plan there is no indication, nor high-level cost estimate factored in to any replacement of SWC's asset management system. The initial focus appears to be on replacing the Financials (phase-1) and the ACCESS, or perhaps both together. Can the Tribunal provide specific cost/benefit details that support the proposed phasing of this multi-year initiative?
14. It appears contradictory and somewhat disturbing that the 'Expenditure Review' finds on the one hand that, "*There is comprehensive documentation to support a business case for the replacement of the ACCESS billing system ... The need for replacement has been demonstrated and the costs are robustly developed*" but then summarizes that they, "*had some difficulty in tracking the changes in costs and supporting information from the SIR proposals to the more recent business cases and supporting information provided.*" And goes on further to state that, "*Sydney Water still needs to clearly demonstrate the scope, inter-dependency, costs, benefits and timeline for the complete ERP, T2020 and related systems package so a clear and consistent view can be taken of the prudence and efficiency of the proposals in relation to its whole*

business transformation". Can the Tribunal please provide comment and clarity on these two somewhat opposing positions? In other words, is there a clear, proven and fully vetted business case for embarking on such a massive transformation and if so what are the details?