

INDEPENDENT COMMISSION AGAINST CORRUPTION

STATEMENT IN THE MATTER OF: Operation Jarah

PLACE: Level 7, 255 Elizabeth Street SYDNEY

NAME: Owen Giltinan

ADDRESS: Known to the ICAC

OCCUPATION: Network Operations - Distribution Manager, Ausgrid

TELEPHONE NO: Known to the ICAC

DATE: 19 December 2014

States: -

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1. This statement made by me accurately sets out the evidence which I would be prepared, if necessary, to give in Court as a witness. The statement is true to the best of my knowledge and belief, and I make it knowing that, if it is tendered in evidence, I shall be liable to prosecution if I have wilfully stated in it anything which I know to be false or do not believe to be true.
 2. My name is Owen Barry Giltinan and I am 43 years of age.
 3. I possess an Advanced Diploma in Electrical Engineering and Business Management. Both were achieved through Technical and Further Education (TAFE).

Employment background

4. I have been employed at Ausgrid since 1988.

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5. Ausgrid is presently comprised of the following divisions:
- (a) Network Operations.
 - (b) Network Development.
 - (c) Engineering.
 - (d) Information Communication and Technology.
 - (e) People and Services.
 - (f) Finance and Compliance.
 - (g) Health, Safety and Environment.
6. Network Operations is responsible for maintaining a safe, reliable, sustainable electricity network for Ausgrid by implementing project works and managing upgrades to the Ausgrid managed infrastructure. Works relate to connections, overhead and underground infrastructure, the installation of substations for additional load and reliability while additionally completing maintenance programs.
7. I am the Distribution Manager within Network Operations.
8. I have held this position since 31 March 2014.


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9. As the Distribution Manager, I have two Field Managers and three Portfolio Managers titled Works Management, Maintenance and Breakdown and Construction and Estimating who directly report to me.
10. Prior to holding the position of Distribution Manager I held the following positions:
- (a) from July 2013 until March 2014, Interim Area Manager within the section which was then known as Project Management.
 - (b) From September 2009 until July 2013, Portfolio Manager Construction within the section known as Field Services.
11. Prior to 2009 I held a number of roles in Ausgrid (or its former entities) since 1988.
12. The evidence I provide below primarily relates to my knowledge of Ausgrid processes and procedures in the period from September 2009 until July 2013 when I was Portfolio Manager Construction within the branch of Operations North in the section known as Field Services. In particular, I discuss the involvement of Operations North.
13. During 2009 to 2013, Ausgrid maintained a different internal structure that it holds at the time of this statement.
14. In the period 2009 to 2013, Ausgrid had a region based structure.

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15. Field Services was then a section of what was known as Operations North within the division of Distribution, Operation & Reliability (**DOR**). Today Field Services sits within the Network Operations Division and is known as Region Operations - Central. Also within what was formerly known as Operations North (now known simply as Network Operations) was Customer Operations. Contract Cable Laying was a different branch within DOR.

Infrastructure Upgrades

16. There are a number of roles involved in delivering infrastructure upgrades but in very general terms:
- (a) The Field Services section of Operations North was responsible for the implementation of a number infrastructure upgrades in the region covered by Operations North.
 - (b) The Customer Operations section of Operations North planned, recommended and costed designs for the upgrades.
 - (c) Contract Cable Laying was responsible for engaging third parties to undertake the excavation of the route and the laying of cable.
 - (d) A Portfolio Manager Construction (which was my role in 2009 to 2013) would oversee the project management of a number of distribution infrastructure rebuilds (and to a lesser degree some maintenance related work).

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(e) Project Officers, as part of developing a schedule of works, identified the different field groups needed to go out and undertake the construction activities.

17. I discuss some of these roles in more detail below before explaining the process of designing projects which involved Contract Cable Laying.

Portfolio Manager Construction - Field Services.

18. As Portfolio Manager Construction I was responsible for overseeing the project management of a number of distribution infrastructure rebuilds (and to a lesser degree some maintenance related work).

19. I was responsible for managing the team delivering projects. I had a combined team of 12 engineers and engineering officers who would manage projects on my behalf and under my direction.

20. The geographic area I was responsible for was known as Sydney North and covered Ausgrid's franchise area from Sydney Harbour to Hawkesbury River and as far east and west as our supply network franchise boundaries. It is approximately 1250 km².

21. My time as a Portfolio Manager Construction in Field Services covered a five year regulatory period (2009 to 2013) during which Ausgrid was involved in a lot of distribution network infrastructure rebuilds and the implementation of a large program of capital works.

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22. These rebuilds were to deal with a number of issues surrounding overloaded parts of the network and the replacement of aged assets due to reliability or safety related issues on the Ausgrid network.
23. Part of these programs included cable replacements ranging from 11,000V down to 415V.
24. In my view the need for these rebuilds was the result of historic underinvestment in the Ausgrid distribution network across NSW resulting in aged infrastructure.

Project Officers

25. Within Field Services there are individuals known as Project Officers who have the responsibility for the delivery of project works. This responsibility involves developing a schedule of works and managing a budget to deliver the project.
26. Field Services Project Officers, as part of developing a schedule of works, identify the different field groups needed to go out and undertake the construction activities. They also manage the coordination of those field groups via an appropriate supervisory team for the project delivery. An internal field group is a crew who will go out to do repairs (mainly related to cable failures) or some small jobs that are to be managed locally by the Field Services group.

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27. My team and I had performance targets to meet. The performance targets involved completing our identified projects to replace assets to ensure that they met network standard (as most did not).
28. These replacements were either predetermined by our Maintenance & Replacement Planning section or were reported via field groups. The team was provided a schedule that prioritised certain assets for replacement and the number each year that we had to replace. The agreed planned maintenance schedules incorporated performance targets. These performance targets included meeting key safety indicators, not exceeding our budget constraints, and dealing with faults and outages on the network within set response times identified by Ausgrid. The targets did not directly relate to work managed and performed by Contract Cable Laying.

Contract Cable Laying Section

29. Within what was formerly known as DOR was a section referred to as Contract Cable Laying. This section was responsible for managing contractors that undertook works mainly relating to the laying of cables and the accompanying preparatory excavation works. These contractors were engaged as and when needed and the Contract Cable Laying section was responsible for administering the contracts under which these contractors were engaged.
30. As discussed in more detail below, Contract Cable Laying may become involved in undertaking route assessment at the design stage of an

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infrastructure upgrade or may become involved at the time of actual cable laying.

31. I note that Evan Partridge was a Portfolio Manager in the Contract Cable Laying section responsible for the Central Coast Area and Sydney North area.

Designing projects using the Contract Cable Laying Section

32. As discussed above, 2009-2013 was a period of substantial infrastructure investment at Ausgrid.
33. The process at Ausgrid for the design and implementation of projects works is set out below. The process described below is as was applicable in 2009 to 2013.
34. In broad terms the process involves:
- (a) Capital expenditure approval;
 - (b) Determination of priorities;
 - (c) Delivery of project brief;
 - (d) Design;
 - (e) Approval; and
 - (f) Project ready, planning and implementation.

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35. I discuss these below before describing in more detail the management of projects where Contract Cable Laying is involved.

Capital Expenditure Approval

36. The Australian Energy Regulator approves total capital expenditure allowance for a particular period for Ausgrid and other distributors. I recall that in 2009 the capital expenditure approved for 2009 - 2014 was around 8 billion dollars.

Determination of Priorities

37. The Maintenance and Planning team determine what parts of the network require upgrading and/or replacement. This step determines priorities and an order for replacement is issued and a project brief is prepared. A project brief can be prepared by another group (depending on the reason for the required works).

Delivery of project brief

38. When a project brief is provided by various groups to Operations North including a design brief on the requirements. The design brief provides a justification for why the project is needed, for example whether there is an overload resulting from network loadings or some other reliability issue or an aged asset replacement. At the time I was Portfolio Manager Construction, the design brief was given to Ausgrid's Customer Operations – Planning section, which was a section of Operations North.

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Design

39. A designer within Customer Operations – Planning would:
- (a) Plan and design a project;
 - (b) Identify options for replacement;
 - (c) Identify the likely route for any cables. This usually required the designer going out to the site and walking the route of the design; and
 - (d) Estimate the cost of replacement.
40. In relation to route assessment, on occasion prior to commencing the substantial work, a Customer Operations Planning Officer would decide that the use of day hire crews or, possibly, Contract Cable Laying contractor was needed to assist in determining the feasibility of the location of particular project.
41. For example, if there was particular concern as to the nature of the ground in which cables were to be laid a contractor could be engaged to undertake independent slit trenching at regular intervals. This involves digging small "trial holes" at regular intervals along the proposed route of a cable to determine the condition of the ground and to ensure that the proposed route is feasible and that once the route is determined that final changes will not be necessary.

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42. For example, if the job is 200 metres, then a trial hole or slit trench of 3m x 30cm might be excavated every 10 to 20 metres, depending on the terrain or other utilities in the proposed area.
43. This process helps to determine the suitability of the site and/or route for the cables by identifying the condition of the ground (for example the presence of hard rock). Early identification helps to ensure an accurate budget is prepared and avoids variations in cost due to later changes to the project.
44. By ensuring that there are no unforeseen problems at the site through this preliminary work costs are effectively reduced. For example, once a site is selected for a new substation, approximately 40 days notice must be provided to the community. If no preliminary work was planned, and then once the project was commenced it was discovered that the location was inappropriate because of unforeseen problems at the site, the location would have to be changed and a further 40 days notice would have to be provided to the community as to the new location. The costs associated with undertaking preliminary works are much less to Ausgrid than having to relocate a potential project to another site once works have commenced.
45. Although Contract Cable Laying may be used by Customer Operations - Planning at the preliminary stage described above, the second way the Contract Cable Laying section may be used is where a Field Services Project

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Officer chooses to engage a contractor to perform excavation works associated with the project.

46. The decision about the use of Contract Cable Laying for the main works is also made at an early stage of the construction phase of the project. However, as the Portfolio Manager, I had to oversee my team's work on these projects and assist them to deal with any problems they may have encountered. Officers in the Customer Operations - Planning division would at times liaise with their colleagues in the Contract Cable Laying section about the project and the design.
47. In relation to estimating, if the Contract Cable Laying section is to be engaged, when requested would provide the Customer Operations – Planning group with a general estimate of the cost to deliver the project.
48. This estimate is often only sent to Customer Operations Planning after it has set a budget for the project. To my knowledge no comparison between the Customer Operations Planning group estimate and the Contract Cable Laying group estimates were completed. The budget would be set in advance of Contract Cable Laying providing their estimate.
49. The budget for the project design also includes a contingency to deal with unforeseen events. The contingency for each project varies depending on information gathered during the design phase.

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50. The Customer Operations – Planning group also independently estimates the cost of the project.
51. It is my observation that, when you compare the costs calculated by Customer Operations – Planning to do the work and those provided by the Contract Cable Laying section, the Contract Cable Laying section costs tend to be higher.
52. I think this is because they factor in their local knowledge about the number of associated trial holes and the costs for reinstatement works, traffic management, and variations.
53. Their level of expertise means they can predict cost issues that Customer Operations could not.

Approval

54. The final stage in the project design is for it to be forwarded to the manager within Operations North for approval (depending on the financial value of the project).
55. If the project design is very costly (that is, more than \$1 million) then it could be sent to the Ausgrid board for approval.

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56. My limit of approval as Portfolio Manager was \$150,000. This was quite low, so decisions on my projects were invariably made by more senior Ausgrid managers.

Project ready, planning and implementation

57. After the project is given approval to proceed, it would go to the relevant work group in Field Services to be registered as ready for construction and assigned to a Project Officer. The Field Services Project Officer has an ongoing project management role and monitors the overall project budget. The Project Officer is involved in ensuring that all the necessary work in the detailed schedule is completed by the internal Ausgrid resources.

Management of project works

58. Contract Cable Laying consists of Ausgrid employees who manage external contractors.
59. When Contract Cable Laying is engaged on a project, the Field Services Project Officer leaves the management of completing the works to the dedicated person in the Contract Cable Laying group.
60. Field Services are not involved in the allocation or managing the cost of engaging a contractor.

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Variations to project works

61. The Field Services role in the process of considering and approving variations to a project's cost is minimal.
62. Field Services relies on the Contract Cable Laying section, which is responsible for administering the contract, to advise it on variations.
63. Contract Cable Laying informs Field Services that there is a variation to a project, usually by having the nominated Contract Cable Laying Project Officer email the Field Services Project Officer.
64. This email will usually be in words similar to the following:
- 'variation for a 2 day extension, at \$8,000 due to finding 100% rock.'
65. The Field Services Project Officer will record the information from the notification and collate it as part of the project costs.
66. If the variation cost added to the current project cost are within the contingency for the project's budget then it will be captured by the Field Services Project Officer and used as part of the close out for the project – that is, after the work has been completed and the internal paperwork is being finalised. This is the formal documentation completed at the project completion. A project variation form is used to compile the list of associated overruns. It is then authorised and filed with the project documentation and archived.

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67. If the variation cost exceeds the project budget, then the Field Services Project Officer will need to get financial approval to increase the project budget from the manager in Ausgrid with the appropriate authority. All variations to the original estimate must be captured and documented with reasons explaining why the change is needed. This is required so on project closure the variation reasons are documented for review and available if required for auditing purposes.
68. With Field Services only being notified of a variation by Contract Cable Laying, it means in effect that variations are essentially self-approved by Contract Cable Laying.
69. Notwithstanding that, it is possible for a Field Service Project Officer to seek further information about the circumstances of the variation approval.
70. When I was managing projects myself in Field Services I would, on occasion, ask questions about the need for purported variations. I would go back to the Contract Cable Laying section and ask why there was a change requiring a variation. Sometimes I would be told it was due to a change of route. For instance, they followed the plans but only got so far into the work until they met a massive obstacle – a culvert or something like that – that did not come up on any ‘Dial Before You Dig’ plans. Other times the variation might be due to coming across hard rock. While I would sometimes ask why this was not

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discovered prior to commencement, there generally was always a reason provided by Contract Cable Laying.

71. At Field Services we were reliant on the Contract Cable Laying Project Officer to verify any variation claim. We were not in a position to challenge the basis for the variation. The only way to do that would be to have work stopped whilst we investigated, and that could potentially end up costing Ausgrid more through time penalties or because the contractor may have a further project lined up and limited time within which to finish the current job.
72. In my experience, Contract Cable Laying projects were more likely to surpass budget for the reason of variations than projects involving Ausgrid's core business of poles and wires or even substation construction. There were numerous times where the overspend on a project was due to added costs from Contract Cable Laying. Field Services did not and could not manage the Contract Cable Laying section or its costs; you were reliant on them knowing that they are the expert in their area. At the end of the day, you had to take accept their word on the variations because they are Ausgrid employees; you just hope they, like your staff, are doing the right thing.

Changes

73. Since the period 2009-2013, there have been a number of changes at Ausgrid in relation to its processes and procedures. Two core changes relating to estimating and supervision of Contract Cable Laying.

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74. In relation to estimating, in the past there was not much of an attempt to align the estimates prepared by Customer Operations and Contract Cable Laying.
75. Processes have recently changed, though. Now I have the relevant Field Services officer compare their design estimate for the work with the estimate provided by Contract Cable Laying. If there is any variation in the cost, then the project does not proceed to get authority to start until the difference between the two cost estimates is sorted out. If the differences between the estimates suggest that there will not be enough money to complete the project, then Field Services will look to getting approval to change the scope of the project and the allocated budget. This did not tend to happen in the past. Instead, the project would proceed with the initial budget identified and changes to the budget would happen part way through the project as needed. It is also only within the last three to four years that Field Services started to get an upfront agreed contract price from Contract Cable Laying section.
76. In relation to project management, in the past it was up to the individual Field Service Project Officer whether to attend the site and walk through the project with the Contract Cable Laying section and contractor. There was no mandatory requirement that Field Services staff attend the site.
77. That has changed now and it is expected that Field Services will attend the site inspection.

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78. I think this is an improvement and means Field Services takes greater responsibility for the project. It is a useful way of keeping control of the budget, design and ensuring there are minimal variations to the scope without the correct authority prior to project commencement.

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INDEPENDENT COMMISSION AGAINST CORRUPTION**STATEMENT IN THE MATTER OF: Operation Jarah****PLACE:** Level 7, 255 Elizabeth Street, SYDNEY**NAME:** Paul Hartley**ADDRESS:** Known to the ICAC**OCCUPATION:** Manager, Commercial Manager at Ausgrid**TELEPHONE NO:** Known to the ICAC**DATE:** 25-11-14**States: -**

1. This statement made by me accurately sets out the evidence which I would be prepared, if necessary, to give in Court as a witness. The statement is true to the best of my knowledge and belief, and I make it knowing that, if it is tendered in evidence, I shall be liable to prosecution if I have wilfully stated in it anything which I know to be false or do not believe to be true.
2. My name is Paul Hartley and I am 35 years of age.
3. I am the Commercial Manager at Ausgrid and I was appointed on 31 March 2014. I was previously the Manager Contract Development (formally known as Manager Contract Services and held that position for about 6 years). I manage a team of 5 people and I currently report to Peter Eedy. He is the Manager of the Portfolio Management Office in Network Development at Ausgrid.

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4. I have a Masters of Business Administration and an Advanced Diploma in Electrical Engineering. I started with Ausgrid in June 2002 as a Substation Technician and, through a number of promotions I rose to my current position. Before joining Ausgrid, I was an electrical contractor and apprentice.

Contract development process

5. In my former position as Manager Contract Development, I was accountable to the Manager – Contract and Distribution Engineering Services which changed to Executive Manager - Distribution Contracts in a restructure (next management level up) for the success of procurement strategies for all external procurement requirements for the Branch. This included the formation of tender evaluation panels, tender packages and recommendations related to the outsourcing activity. Some of these contracts included vegetation management, pole inspection and treatment, and maintenance of street lighting. The role also required the provision of contract management and contract administration advice, support and training to the branch. The management of these service contracts, including contract cabling laying, is completed by other sections within Ausgrid.
6. Now as the Commercial Manager my role includes the high level contract administration related to contract insurance, securities, and closing out contracts. By 'closing out', this involves my team following up with the relevant contract management sections that the defect liability period was completed, with final payments issued to allow for the return of any outstanding securities.

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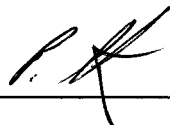
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7. In my roles as Manager Contract Development and Commercial Manager my team and I will get involved where a contract has an option to extend after the initial term and negotiate the extension together with the section managing the contract. The information related to the spend to date data, future estimated spend/quantities and contractor performance comes from the section managing the contract. Spend data may also come from SAP and or dedicated access databases used to manage contracts. The option to extend recommendation is put forward by my section after taking into account all relevant information and it being endorsed and approved in accordance with Ausgrid's procurement policy/guidelines and delegations.
8. In 2010, as Manager Contract Development my accountabilities to my direct manager for the success of procurement strategies were increased to include Contract Cable Laying. The reason I became involved with Contract Cable Laying was to standardise and provide consistency with other service contracts managed in Ausgrid's Distribution Contracts branch at the time, such as vegetation management, street lighting, and pole inspection and treatment. I had no involvement in developing or extending standing order deeds for Contract Cable Laying before 1 July 2011 for the final 2 year option to extend; Contract Cable Laying were wholly accountable for the process.

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Standing Order Deeds in Contract Cable Laying

9. The Contract Cable Laying section in Ausgrid uses a standing order deed for the provision of underground distribution cable laying and related works. A separate standing order deed is executed with a number of companies to create a panel of contractors that can be chosen to complete underground excavation and cable laying work in geographical locations. A contractor is a company that has executed a standing order deed with Ausgrid following a competitive tender process ensuring they have the capability, capacity and experience to meet Ausgrid's terms, conditions and specifications at a pre-agreed schedule of rates or better value.
10. A standing order deed is not a contract. It is a deed between Ausgrid and a contractor with the 2011 version containing three parts, Part A specification, Part B AS 2124 General Conditions of Contract as amended by Ausgrid under licence and Part C Schedule of Rates. The contractors are allocated to panels that relate to four distinct regions within Ausgrid's electrical distribution network. The standing order deed includes certain requirements that must be met and maintained including insurances, security and quality, safety and environmental management systems. The standing order deed also covers the commencement, term including options, no guarantee of work and work order or crew order processes.
11. A standing order deed is executed between Ausgrid and a company with no consideration – that is, there is no money or services exchanged to become a

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contractor. Ausgrid also does not guarantee that a contractor will receive any work. This is done because it is not known exactly what amount, size or location of work will occur whilst a standing order deed operates. This arrangement is explained during the mandatory pre tender meeting provided to all prospective tenderers and is stated in a clause of the standing order deed which forms part of the tender package provided to companies. The Procurement Plan AG.4895/12, considers the business needs, history, current situation, stakeholders, market, timing, risk assessments and taking this all into account, sets out the procurement strategy including using a standing order deed. The benefits of the standing order deed is best summed up in the section "H1 Benefits" of the most recent Recommendation To Award AG.4895/12, as follows: *"Ausgrid has achieved the benefit of awarding companies to multiple regional panels, therefore reducing Ausgrid's exposure to supply risk failure and increasing the potential to deliver works required under the standing order deed. The cable laying works order panel will allow Ausgrid to continue meeting fluctuating demand for these services with no exposure to commercial risk. The standing order deeds provide the flexibility to meet the needs of Ausgrid with an initial 2 year term with two further options of up to 2 years each with no guarantee of works. The extension of the Standing order deeds will be subject to contractor performance and the payment adjustment formula ensuring that the Schedule of Rates will be contained to real price fluctuations."*

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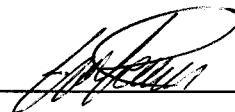
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12. The clauses within the standing order deed sets out the process for issuing work to contractor under the deed. From July 2011, the process for issuing Contract Cable Laying work to a contractor was divided into 5 stages and reflects how contracts under law are established – that is, offer, acceptance, consideration, capacity and intent. The July 2011 changes were designed to improve the existing accountability and transparency of the process by requiring forms to be submitted for each stage and adding two additional steps. I initiated these changes to the standing order deed in consultation with Contract Cable Laying as part of developing the tender package for the July 2011 version of the standing order deed.
13. Contract Cable Laying's standing order deeds EA.8120 was designed with an initial term of two years. The standing order deeds commenced mid 2007 with the first two year option to extend due July 2009. I had no involvement in developing or extending Contract Cable Laying's standing order deed EA.8120 or any other of its standing order deeds before the June 2011 extension. I do not know how they managed the initial procurement process for standing order deed EA.8120 in 2006 or the first extension. In 2010, my team commenced the process for exercising the final option under the EA.8120 standing order deeds which were due to commence on 1 July 2011. The latest versions of EA.8120 standing order deed AG.4895 work order and AG.4896 crew order followed on with 2 plus 2 plus 2 potential whole of life arrangement. The option to extend is at Ausgrid's sole discretion and based on performance, capability, and Ausgrid's current/future

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work requirements. The procurement plans AG.4895 and AG.4896 provide the strategy behind the term. The potential whole of life term of 6 years acts as a value lever for long term contracting and provides Ausgrid with a price control limiting extension term cost increases to an indices calculation as described in F3.1 price control of the procurement plan.

14. When Ausgrid accepts a contractor to carry out a work order, they are engaged as the Principal Contractor with terms consistent with Workplace and Health Safety Regulation 2011. As the Principal Contractor under workplace, health and safety requirements they are responsible for the management or control of the work site to ensure a safe workplace. The contractor, not Ausgrid, is given work site control because they have the expertise and capability to complete the work safely; they are the experts in digging trenches and maintaining safety for their work sites.
15. The 2011 standing order deed uses different terms to refer to Ausgrid staff involved in work orders. Before a work order is issued, the Standing Order Deed refers to an "Ausgrid Representative" which means by definition in the standing order deed *"an employee of Ausgrid who by delegated authority can negotiate and or enter into a contractual relationship formed in accordance with this Deed"* After a work order is issued, there are different roles described that relate to different Ausgrid staff and these conform with the definitions used in Australian Standard AS 2124 General Conditions of Contract, as amended by Ausgrid under licence. There is a Superintendent, which is my nominated role in Annexure Part

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A of Australian Standard AS 2124 General Conditions of Contract, as amended by Ausgrid; there is a Superintendent's Representative nominated "by letter" from the Superintendent including their responsibility under the contract; and there is a Contract Inspector, who is nominated in writing at the issue of a Stage 5 Work Order by Ausgrid's Representative. The Contract Inspector has daily coverage of managing the contract. The Superintendent's Representative is chosen by Ausgrid which for Contract Cable Laying has been the Manager of Contract Cable Laying.

16. As the nominated Superintendent, I appoint the Superintendent's Representative to exercise the functions of the Superintendent for all clauses except default or insolvency, dispute resolution and waiver of conditions. The Superintendent is defined under clause 23 Australian Standard AS 2124 General Conditions of Contract, as amended by Ausgrid. The way Ausgrid runs these contracts means the Superintendent has very little involvement in the daily running of contracts. I do not issue work orders under a standing order deed and I do not choose or influence which Contractor might get work. As the Superintendent, the majority of my functions are exercised by the Superintendent's Representative. This includes payments, extensions, and variations under the work orders. The Superintendent position only started in July 2011 after the standing order deeds introduced the AS 2124 General Conditions of Contract, as amended by Ausgrid under licence.

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17. The standing order deed five stage work order process is designed to meet the varying work order requirements across the large geographical area of Ausgrid. It brings a strict process to ensure that each proposed work order follows a structured process and that each stage is clearly defined to ensure Ausgrid's Representative has the appropriate information to approve the work order under their delegations. The standing order deed provides the platform to engage companies from the panel that have been successful through a competitive tender process and meet Ausgrid's requirements to carry out this type of work.

Restructuring of Contract Cable Laying standard order deeds

18. Since 2010, I have been accountable to my direct manager for developing procurement strategies (June 2011 extension) for the standing order deeds used by Contract Cable Laying. My first involvement with the Contract Cable Laying's deeds was the second option extension under the standing order deed EA.8120. I had no involvement in developing or extending Contract Cable Laying's standing order deed EA.8120 or any other of its standing order deeds before the June 2011 extension. I do not know how they managed the initial procurement process for standing order deed EA.8120 in 2006 or the first extension.

19. When developing the 2011 procurement strategy, the capital expenditure under Contract Cable Laying's standing order deed EA.8120 was initially forecast to be \$370m over the 6 year period of 2007 to 2013. The actual capital expenditure was much greater. The June 2011 Board paper stated the "*capital program planned for*

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the 2009 to 2014 determination period is now on average per year 200% greater the last year of the previous determination period. Therefore there was a need to go to the market to increase the number of companies on the Panels due to this significant increase in demand."

20. The procurement strategy for the second option to extend (June 2011) standing order deed EA.8120 needed to address the increased demand while not compromising performance or safety. The procurement strategy was approved via a procurement plan dated 8 July 2010 that would add up to 4 new companies to the panel of contractors and test the current incumbent panel of contractors against the competitive market to ensure value for money. The procurement plan identified the potential increase in spend from the original \$370m approved by the Board in 2007. The June 2011 Board paper also gained approval to increase the estimated whole of life spend on the new and extended standing order deeds to \$918M from \$370M.

21. The works order process in the second option (June 2011) to extend the standing order deed EA.8120 was restructured to make it more user-friendly and clarify who was responsible for specific tasks. This involved the creation of a clear delineation between the standing order deed process and both the issuing and completion of work orders; making the process more robust by aligning it with Ausgrid's delegations; making the work order comply with AS 2124 General Conditions of Contract, as amended by Ausgrid under licence; and structured the

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work order process so that each stage is clearly defined to ensure that Ausgrid's Representative has the appropriate information to approve the work order under their delegations. A Stage 2 Basis of Offer and Stage 4 Agreed Amendments were introduced into the process.

22. The process that Contract Cable Laying had in place before June 2011 under clause 3 of the standing order deed involved the following steps: (1) Ausgrid issues a proposed works order, (2) Ausgrid and the contractor attend the site for a Pre-Works Order Inspection, (3) the contractor submits their offer to Ausgrid or intention not to offer and (4) Acceptance by Ausgrid including negotiating any amendments. After June 2011, the additional Stage 2 Basis of Offer was introduced, following the site inspection, to capture measured quantities and site inspection notes. This would include things like the length and location of the cable route, the trench depths, the trench details, number of conduits and any other relevant site specific issues that needed to be included in the contractor offer. A Stage 4 Agreed Amendments was included to allow the contractor or Ausgrid to make amendments to the proposed work order if new information changed the original proposed work order. This formalised any negotiations between Ausgrid's Representative and the contractor affecting their offer and captures the final details of the work order prior to final approval from Ausgrid's Representative.

23. The changes recommended to the second two year option to extend standing order deeds EA.8120 were adopted by Ausgrid and came into force from 1 July 2011. In

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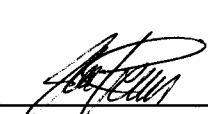
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short, it was updated to reflect current practice and to standardise within the distribution contracts branch. It also saw the removal of one of the incumbents from the panel of contractors as they were not successful when benchmarked against the external market through the tender exercise on both price and technical scores; and the introduction of 4 new companies to the panel of contractors. The effect was that all new work orders issued from 1 July 2011 were under the revised standing order deed EA.8120/10 and were not retrospective. The standing order deeds were due for completion on 30 June 2013.

24. In July 2012, due to continual change in Ausgrid and the wider Networks NSW there was some uncertainty about future work for cable laying. This included uncertainty related to the Australian Energy Regulator determination to sign off the capital expenditure. The procurement plan approval for AG.4895 and AG.4896 was only granted in late January 2013 and it was determined that there was not enough time to complete the tender process thoroughly by June 2013. So, a 4 month extension was sought under the EA.8120 standing order deed till 31 October 2013. Given that all extensions had been exhausted, the extension beyond the end date of June 2013 meant approval was required from the original approving authority and granted by Ausgrid's Board.

25. No new work orders should have been entered into with contractors under standing order deed EA.8120 after 31 October 2013; all new works after 31 October 2013 commenced under new standing order deeds AG.4895 and

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AG.4896. Despite this, I know that there are likely to be current work orders still operating under EA.8120. This is because, although the work orders were issued before 31 October 2013, the actual individual works may yet be completed.

Standing Order Deeds AG.4895 and AG.4896

26. On 29 January 2013, the CEO signed off on procurement plans to prepare and tender standing order deeds AG.4895 and AG.4896. This needed to be done before EA.8120 ended to ensure that the Contract Cable Laying section could continue its functions by issuing work and crew orders. Preparing a standing order deed takes 9 to 12 months through the procurement process. It involves the preparation of a strategic plan, estimated future work requirements, and working through Ausgrid's procurement process and systems. At the time, the estimated future work requirements of Ausgrid was not known and led to uncertainty in the procurement strategy. This delayed the entire process.

27. In consultation with others in Ausgrid and based on procurement strategy set out in the approved procurement plans, Ausgrid made the decision that Contract Cable Laying should have more than one standing order deed. One standing order deed would be for engaging contractors to complete work orders (AG.4895). Another standing order deed would involve engaging contractors to provide labour resources for work where Ausgrid was the Principal Contractor and responsible for managing crew orders (AG.4896).

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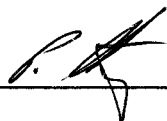
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28. The procurement strategy for standing order deeds AG.4895 and AG.4896 detailed the process of inviting about 52 companies to register their interest, to pre-qualify for a restricted tender process. These 52 companies were compiled from current incumbents; unsuccessful companies identified from the EA.8120 tendering process, additional companies known to Ausgrid who had expressed interest in cable laying; and, on advice from elsewhere in Ausgrid, the best companies that were suitably large and were Accredited Service Providers registered by the NSW Department of Trade and Investment to work in electricity distribution networks in NSW, including Ausgrid.
29. I know that some subcontractors have approached Contract Cable Laying staff about becoming a contractor on a standing order deed. In those instances, I asked Contract Cable Laying to refer these subcontractors to me and my team so we could take their details so they could be considered. Some of these companies made up the 52 companies identified.
30. The procurement strategy allowed Ausgrid to carry out a market test and provide enough information to pre-qualify for a restricted tender with suitable companies. Ausgrid was mindful that an open tender would see interest from hundreds of “man and an excavator” companies who wanted to work for a government utility. This is not feasible and would not be in the best interest of Ausgrid or the market: Ausgrid needs to know that tenderers for this type of work have the capability,

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capacity, systems and experience to work in a high risk electrical underground environment.

31. While 52 companies were invited to register their interest, 30 responded, the procurement strategy was to reduce this to a shortlist of approximately 20 who would then be invited to submit a bid in a restricted tender process. In the end, we had 21 companies because one company was border line and it was decided to invite them to tender. Ausgrid had a system for deciding how to evaluate these 30 companies. A key determinant was a company's monetary value to do cable laying – with a turnover of \$5m or more deemed appropriate. Other determinants were size of the company, its management systems, its past history working in and around utilities, along with their safety record and the size of past cable jobs the company had done.

32. The pre-qualification selection results of the 30 responses received were provided in the procurement plans AG.4895/12 and AG.4896/12. Generally companies missed out on pre-qualification due to their size, experience, annual turnover and the level of maturity of their quality, safety and environmental systems not to the required standard.

33. Before companies submitted their tenders, a mandatory pre-tender meeting with all 21 companies was conducted. This was similar to the mandatory pre-tender meeting conducted as part of the second option to extend EA.8120. At the meeting Ausgrid discussed standing order deeds – the arrangements, how they work, and

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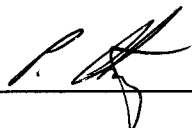
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how materials are issued – and what Ausgrid expects of the contractors. It was reiterated that there was no guarantee of work under the standing order deed. However, the point of these meetings was to also show that historical crew level (indicative of workload) and Ausgrid's future estimated expectations. This meant that there was work available over the life of the proposed standing order deed and that companies could have access to works providing they performed well.

34. A tender evaluation committee was set up to assess the bidding companies for the new standing order deeds AG.4895 and AG.4896. The committee included Ben Stadelmann from my team, and Evan Partridge, who is a portfolio manager from the Contract Cable Laying section. I was the chairperson for this committee. A probity adviser was employed from Procure Group who issued reports on each of the standing order deeds. While we used a probity advisor, I had no concerns with the probity risk associated with the tender evaluation committee and choosing the companies. This was because I had no daily interaction with the companies. Alan Malsem, who at the time was Ausgrid's Commercial Manager Finance and Business Services, reviewed the process calculations for quality assurance of the cost analysis as a third party. Leo O'Connor, a quantity surveyor from Contract Cable Laying, who is seconded to my team, completed the majority of the costs analysis under my direction.

35. The tender evaluation committee analysed these submissions on two factors. These were cost and technical (that is quality, safety and environment), which

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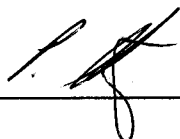
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involved checking their ability, history and effectiveness and any evidence of continual learning of their system; (that is, range, capability of resources and equipment and experience of staff) and experience of respondent in a similar work environment.

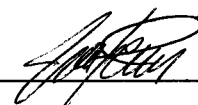
36. Cost was a difficult factor to analyse because the exact amount of future work under a standing order deed is unknown. The approach the evaluation committee took was to use historical data with *"the estimated costs were based on real quantities over a 12 month period with varying project sizes and locations."* To identify the best companies in terms of price by making a determination on the current work structure and trends in projects. This involved analysing the quantities and cost of about 443 projects from the previous year. These ranged in costs from \$4,363 to \$1,599,926. The evaluation committee looked at the projects in detail – quantity and type of work completed and geographical location – to identify a quantity per region that could be used to benchmark the schedule of rates offered by the companies tendering and score the costs set out in Recommendation to Award AG.4895.

37. The tender evaluation committee recommended 5 companies to be awarded a standing order deed AG.4895 and 3 companies for standing order deed AG.4896. A total of 6 companies were recommended to be awarded to sign one or both standing order deeds. Following the approval from the Ausgrid Board, both standing order deeds were executed with these companies to create new panels of

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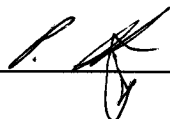
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contractors. The panel of contractors under these standing order deeds commenced operating on 1 November 2013.

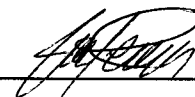
38. The changes to the procurement and staging process of standing order deeds EA.8120, AG.4895 and AG.4896 involved working with the staff and management of Contract Cable Laying. For standing order deed EA.8120 this involved mapping the process; for standing order deeds AG.4895 and AG.4896 it was more about lessons learnt and making changes to improve the process. This was undertaken in conjunction with Stephen Lunn and Evan Partridge, both of whom are Contract Cable Laying's two portfolio managers, John Mettam, the then Manager of Contract Cable Laying and Ian Whitehurst, the then divisional manager that John Mettam reported to.

39. I cannot check if the Contract Cable Laying section is following the processes established. I had no responsibility as Manager Contract Development to conduct audits of the deed process or individual work orders. This is done by others and I give Ausgrid's auditors advice on how the process should work. I do know that the process for procuring contractors on standing order deeds has been audited fully in the past on many occasions.

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INDEPENDENT COMMISSION AGAINST CORRUPTION**STATEMENT IN THE MATTER OF: Operation Jarah****PLACE:** Level 7, 255 Elizabeth Street, SYDNEY**NAME:** Evan Joel Partridge**ADDRESS:** Known to the ICAC**OCCUPATION:** Portfolio Manager, Contract Cable Laying**TELEPHONE NO:** Known to the ICAC**DATE:** 5 DECEMBER ~~2013~~ 2014**States: -**

-
1. This statement made by me accurately sets out the evidence which I would be prepared, if necessary, to give in Court as a witness. The statement is true to the best of my knowledge and belief, and I make it knowing that, if it is tendered in evidence, I shall be liable to prosecution if I have wilfully stated in it anything which I know to be false or do not believe to be true.
 2. My full name is Evan Partridge and I am 39 years of age.
 3. I currently hold the qualifications of an Electrical Trade from TAFE NSW, Advance Diploma in Electrical Engineering from TAFE NSW and a Diploma in Project Management from the University of New England.
 4. I have worked in the Contract Cable Laying section for 12 years. For the last 4 years I have been the Portfolio Manager – CCL North. As the Portfolio Manager in Ausgrid's Contract Cable Laying section, I supervise a team of 12 people.

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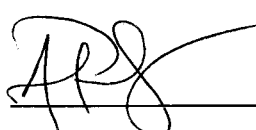
These people are located in Ausgrid's depots at Meadowbank, Dee Why and Tuggerah. As the Portfolio Manager, I supervise staff that are involved in the administration of contracts which involves engaging companies under contract to lay electrical cables for Ausgrid.

5. Ausgrid's distribution network area is divided into work regions. As Portfolio Manager, I am responsible for two work groups. One that covers Northern Sydney Region and the other that covers the Central Coast Region, Newcastle Region, and the Upper and Lower Hunter regions.
6. The staff who report to me as Portfolio Manager are Project Planners, Contract Initiators and Contract Inspectors. These are functional roles, rather than titles, with staff on some projects being a Contract Initiators and a Contract Inspector on the same or another project. However there are only two project planners, one for each of my work groups, who oversee the works program for their group and their associated work regions.

Contract Cable Laying and work projects

7. The Contract Cable Laying section manages the components of projects which require contractors to install underground cables across the Ausgrid distribution network. Typical contract cable laying works includes high voltage cable replacement; low voltage cable replacement; installing cables for a new kiosk

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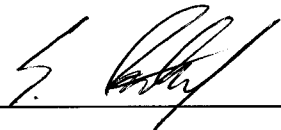
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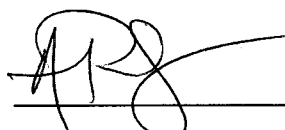
substation, which usually has a low and high voltage cable component; and duty of care on aged assets which have an underground cable installation component. The Contract Cable Laying section uses contractors to do this work, so our role is to set up the contracts, administer the contracts, inspect the contractor's sites and close out the contracts.

8. The Contract Cable Laying section primary function does not involve design for the work projects we work on. This is done by one of two project design teams within Ausgrid called Field Services and Zone Development. Zone Development is responsible for the design and project management of their projects. Field Services have separate groups responsible for design and project management. We consider all of these groups our clients. Contract Cable Laying is a contract manager and a service provider to the project management and design teams. As project managers, Field Services and Zone Development have overall control of the job. This includes setting the project budget and having responsibility for getting the cables Contract Cable Laying laid jointed or connected to the existing cables or connected to substations or both.
9. The project design teams define the scope of the project work, give it an internal project reference number, and provide information on the project to the Contract Cable Laying section. This information is forwarded to the contractors so they know what they have to do and can price the contract.

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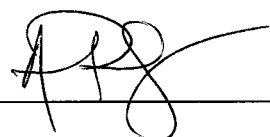
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10. The minimum information sent to the Contract Cable Laying section that the project design teams prepare and send through are: the design plans showing the route of the project; an environmental impact assessment, which identifies the local site conditions that might arise; a design safety report, which is our work health and safety requirement to ensure that contractors are aware of any hazards associated with the project design (such as asbestos or carcinogenic pest controls sprayed around cables) or the project conditions (such as digging near or on busy roadways). The environmental impact assessments rarely include a geo-technical report.
11. The finer points of the required scope are determined on site at a Pre Works Order inspection conducted by Contract Cable Laying with the contractor and the project manager. There is no point in the project design teams providing very detailed designs for a project because they are often amendments required once digging commences. The types of amendments might mean diverting the route of the cable because of the presence of other utilities infrastructure in the cable route, or other on-site circumstances, such as trees or it is not safe to excavate near certain structures.
12. Sometimes there will be special requirements for a work project. These are identified by the project design team or the Contract Cable Laying section or both. They can include: flagging whether the contractor is to reinstate a road or footpath or, depending on who owns it, the local council or Roads & Maritime Service;

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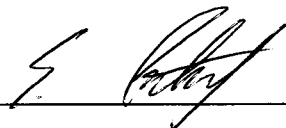
whether boring is needed instead of excavating a trench to lay conduits and cables and inserting thermal stable backfill to ensure that the current carrying capacity of the cable is not reduced.

Standing Order Deeds

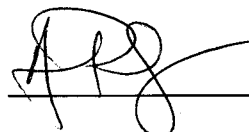
13. Contractors who work for the Contract Cable Laying section are engaged via a standing order deed. There are currently two standing order deeds, with one being a works order deed to engage contractors who are the Principal Contractor in control of the site and responsible to complete the contracted works (AG.4895/12) and the other being to a crew order deed to supply plant, materials and labour to Ausgrid for projects where Ausgrid is the Principal Contractor and Ausgrid is control of the site and responsible for completing the works (AG.4896/12). These standing order deeds started on 1 November 2013. Before these standing order deeds, there was a single standing order deed, EA.8120T/10, covering both work orders and crew orders. This standing order deed started operating approximately on 1 July 2011 and operated until 31 October 2013.

14. Each of the contractors signed via the standing order deeds are limited to the panel areas in which they successfully tendered for. There are 4 panels covering the geographic regions of Ausgrid's distribution network service provider area. These panels are the Sydney CBD and North Sydney CBD Panel; Sydney Metropolitan Panel; the Central Coast / Newcastle / Lower Hunter Panel; and the Upper Hunter Panel. The panels in my portfolio area are the North Sydney CBD ,

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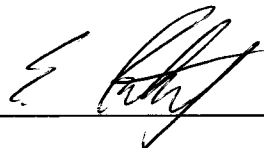
the area North of Sydney Harbour in the Sydney Metropolitan Panel, the Central Coast / Newcastle / Lower Hunter area and the Upper Hunter Panels.

15. The contractors that work in the Sydney Metropolitan North area are Diona, and Murray Civil Works. Previously Zinfra have worked in this region. In Contract Cable Laying at the moment with few jobs, we have split it up so that a contractor has a region within the panel area to work in. We decided to do this because it gets better value out of a contractor if they can do 4 or 5 work projects in a certain area, rather than having them spread out all over Sydney at once, such as at Cronulla and Palm Beach. By giving a contractor a region, you can maximise their resources. For example, if the contractor has a truck going to its different work project sites with supplies, they can do multiple drops when they are closer together.


Issuing contracts under the Standing Order Deed

16. A Project Planner operates in each region. Their role is to look after the programming of work projects within a particular region. They monitor the projects that come through from the project management teams and issue a contract to a particular contractor to complete the specific work project or delegate this process to one of the contract inspectors. Project Planners monitor each stage of the many work projects within their region: they know if work projects are being constructed, are on hold awaiting cable jointing, or are being completed. A Project Planner is also involved in confirming the contract budget with the project

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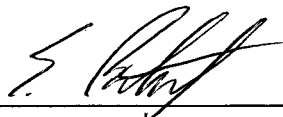


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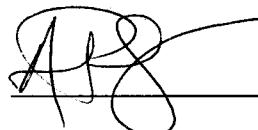
design teams and identifying the available resources to complete works. This means knowing which contractors have the capability and capacity to complete works and identifying what equipment a contractor would need. Contract inspectors are also involved in these processes depending on workloads and the location of the work.

17. A project handover for works is sent to the Project Planner via a group project handover address from the project management teams. I do not handle or see the specific design for works, but am kept informed of them by the Project Planner. The only exception to this is where I am the Contract Initiator, which is something I do from time to time. I can also view work projects by accessing the CCL North program maintained by the planner and the Contract Cable Laying section database that tracks a project from being received by the project design team through to its completion.
18. The Project Planner can choose any contractor for a proposed work project in a region from the corresponding panel and invite them to submit an offer on it. The Contract Initiator provides the contractor with plans and documentation of the work project provided by the project design team, along with a date for an inspection of the site for the work project. Under the standing order deed, this is captured on the Stage 1 Invitation for Proposed Works Order.
19. The site inspection is a critical part of the process. The contract initiator, contract inspector, project manager and the contractor will go out and inspect the proposed

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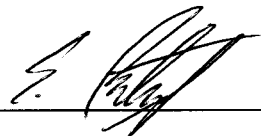
work project, with both of them taking notes of its proposed route and surrounding environment. For certain jobs above a certain amount of money there may be more than one contractor that will inspect the work project with the Project team. The site walkthrough or Pre Works Order Inspection – as it is called – is important because it gives the contractor all the information they need to submit their offer. It can also identify the need for changes to the route of the work or identify site constraints. This information, including possible route changes, is used by the invited contractors to calculate the cost to complete the work project. Since 2010, the Contract Initiator issues a form to the contractor called the Stage 2 Basis of Offer listing all this information identified during the site walkthrough that might affect the cost of the contractor to deliver the project.

20. At a later date after the site walkthrough, the contractor will submit their offer.

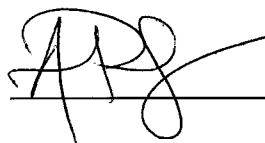
Under the standing order deed, this Offer is captured on the Stage 3A - Contractor Offer. The Contract Initiator will check their notes made during the site walkthrough and, using the contractor's schedule of rates, independently verify the contractor's offer.

21. The Contract Initiator verifies the offer by using a cost estimating programme designed for the Contract Cable Laying section. This programme has each contractor's schedule of rates in it. When a company becomes a contractor under a standing order deed, they are given a copy of the cost estimating programme. It differs from the version Contract Cable Laying section staff use in that the

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contractor's version only contains their schedule of rates. I understand that the estimating programme is used by all but one company called Zinfra. Zinfra used to be called CLM Excavations.

22. During the cost verification stage, it is usual for there to be some differences between the estimate calculated by the contractor and Contract Initiator. These differences are the subject of negotiations and clarifications between the contractor and Contract Initiator until such time there is an agreement on the price and the quantities of the rates that apply. On occasions if there is a problem and we cannot work out the differences, I tell my staff to send the contractor the quantities or estimates that they have used so that the contractor can see the price and quantities that we, as the Contract Cable Laying section, have determined. Generally, when we do this, the contractors will accept the amount that the Contract Cable Laying section has estimated. Under the standing order deed, if there are amendments they are captured on the Stage 4 Agreed Amendments form.
23. Once the contractor's offer is accepted, then the Contract Initiator will propose issuing a works order. This is captured on the Stage 5 Works Order form. As Portfolio Manager, it has been my role to review the Project Planner's Stage 5 Works Order form. The three main things I look at in the review are the Stage 5 Works Order, the Stage 3A Offer from the contractor, and a cost comparison that I get my staff to do. I have asked my staff to include both the rates and offer of the contractor and their calculation so that I can identify any differences and make

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sure that what they estimated and what the contractor is offering are the same. I find that doing this can help identify anything unusual. Depending on the size and complexity of the project, a more in depth review may be required.

24. With the cost comparison, I urge my staff to get as minimal differences as we can.

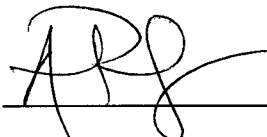
Generally, the position of the Contract Cable Laying section is that the percentage difference in cost comparisons should be low, at about 5%. Sometimes, though, the differences are more than that. There could be reasons for this high difference. One reason is that the Contract Cable Laying section's estimating programme contains bugs in it and sometimes it generates a higher percentage difference but this is rare. At other times it is because the Contract Initiator has agreed that the contractor offer a lump sum price instead of one just based on schedule of rates.

25. In theory, Contract Cable Laying's budget estimate, as well as the budget overall, should be cheaper than the overall budget estimated by the project design teams. This is because Contract Cable Laying only does part of the overall project. Also, Contract Cable Laying's budget estimate excludes some things, whereas the project design teams do not. For instance, whereas the project design teams have a budget contingency for rock, Contract Cable Laying does not. Contract Cable Laying does not include a price for rock but uses variations to price it based on the actual rock uncovered and removed as works progress. Another reason for different budget estimates too is that, historically, the project design teams and the Contract Cable Laying section are calculating the works differently. If at any point

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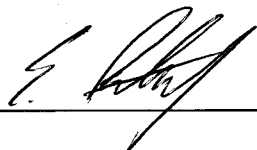
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in the awarding of work it becomes clear that the Contract Cable Laying budget will be more expensive than we initially thought, then, even though managing the budget is not the responsibility of Contract Cable Laying, our revised budget estimate will be sent to the project design team to recalculate the project. The project design teams, though, do not always send their project budgets through to Contract Cable Laying and this can make it difficult to know when a job is more expensive.

26. If everything sort of lines up pretty well, I will endorse the review and make sure the paperwork is in order before passing it on to the person in Ausgrid who has the appropriate delegation to sign it. At the moment, most of our works fall within the \$250,000 delegation of the Manager of Contract Cable Laying, which is a Level 5 manager position. This used to be John Mettam. If it is over \$250,000, then it will go to the Level 4 manager who is Walter Stefani. He has delegation for works up to \$1m. The Level 3 manager is Brett Hooper and he has delegations for works up to \$2m. All relevant line managers will review and endorse the contract documents until it reaches the manager with the necessary financial delegations.

27. The current financial delegations in Ausgrid are undergoing change. Up until 2 years ago, I had financial delegations of up to \$250,000.

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Witness _____



STATEMENT IN THE MATTER OF: Operation Jarah
NAME: Evan Partridge

Choosing a contractor

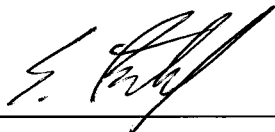
28. In the past, a Project Planner could technically choose any contractor on the panel:

there were no rules stopping them choosing one contractor over and over again. If a Project Planner did repeatedly choose one contractor, then it would show up on the program were a contractor is not to getting any work.

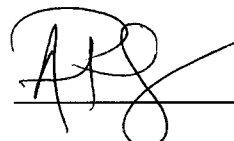
29. It is important to know that, in choosing a contractor, the focus of the Contract Cable Laying section is not how many contracts for work projects that any one contractor has. Rather, the focus is on how many crews a contractor can operate at any one time. A crew is a contractor's group of workers that it has responsibility for. It is usual for one crew to be working on several different contracts at the same time because they are at different stages of completion – such as held over, waiting for equipment to be delivered, or cables to be jointed. So, contractors move their crews and equipment around to different work projects. Each contractor has different skills in managing crews: some can manage multiple crews, while others can only cope with a few.

30. Sometimes there is a decision in the Contract Cable Laying section by my staff and me to deliberately give work projects to a particular contractor's crew. This could be for a number of reasons. For instance, we might decide based on recent performances that a particular contractor is working well in the area and has the capacity to take on more work or that we need completed to meet the project time frames. Another instance might be where we deliberately give work to a particular

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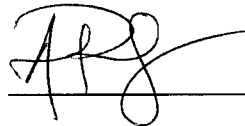
contractor if we assess via the program and our regular meetings that they do not have enough work to maintain current number of crews and that they intend to drop the numbers of crews they have available to do works. It can take a lot of time to get crews established and ready to do work quickly, so allocating work to these contractor just to keep their crew numbers up may be seen as necessary to avoid problems in the future. In contrast we cannot issue works to companies if we feel the crew or company are not performing at the required levels of safety or quality or if we simply do not have enough work to maintain the current crew levels. This is our best mechanism to control quality and performance of contracting companies.

31. There are new rules to determine which contractor is to be chosen based on the whether the value of Contract Cable Laying's estimated budget is more or less than \$200,000. This estimate is based on the design submitted by the project team before any site walkthrough and uses the estimator programme to calculate which contractor is the cheapest for the proposed work project as designed. These came into effect in the last 2 years but have not really been formalised. This change in choice of contractor commenced operating during the last year of Standing Order Deed EA.8120/10. This has been operating since the new Standing Order Deed AG.4895/12 commenced on 1 November 2013, but it was not designed into the procurement strategy for the deed or the formal deed itself. This all occurred was around the time that the financial delegations changed.

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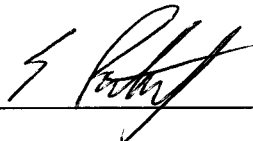


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32. In cases where the works are estimated to be less than \$200,000, the Project Planner is allowed to choose the cheapest contractor from the relevant contractors chosen to work in the panel area. It is possible for a Project Planner to choose a more expensive contractor, but this must be justified and approved by the Manager CCL. If the estimate increases above \$200,000 after the site walkthrough or because of a design change, then the practice is to continue as though the project was less than \$200,000. The estimate can increase following the site walkthrough because there is a need to alter the route or do some exploration through trial holes before commencing the work project.

33. If the project is more than \$200,000, then Contract Cable Laying staff must provide all contractors who work within the projects region, with a Stage 1 invitation for the pre works order inspection. The contractors all bid competitively against each other and offer a lump sum price stating inclusions, exclusions and details around how to deal with pricing variations. I am aware that contractors, in order to get works, are offering bids that are lower than when compared against their schedule of rates price for the same works. For contracts above \$200,000, in determining which contractor will complete the works, we will consider a range of factors, such as price, availability of suitable crews, ability to complete the work by the set deadline, past performance, and how well the contractor manages the work site and administration.

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34. I believe it is well known in the Contract Cable Laying section that the cheapest contractor on the panel and that operates in the Sydney Metropolitan North region is Murray Civil Works.

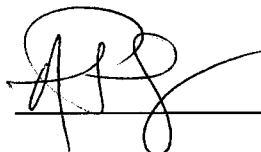
35. Choosing the cheapest contractor is good financially for Ausgrid. I think, though, there is a risk with the policy direction to choose the cheapest contractor because it effectively gives all the work to one contractor. If only one contractor is getting all of Ausgrid's Cable Laying work, then other contractors will not maintain crews and it will take longer to for that company to provide resources when we require them. However the number of companies used to provide crews is directly related to the amount of work that is available at the period of time. More work equals more companies required. Little work equals fewer companies required. Ausgrid needs to manage the number of contacting companies based on the amount of work that is required to be completed. But we also need to have more than one option for works to keep the contracting companies competitive and performing at the required level.

36. I also have an issue with the direction whereby contractors need to bid on work orders that exceed \$200,000. When a company tenders to work for Ausgrid, they have to develop and set their prices in their proposed schedule of rates that delivers them a profit for a period of up to 6 years. This means they have to factor in how work volume might change and how expensive labour and materials might be over that time. It only makes it harder for contractors with Ausgrid's decision

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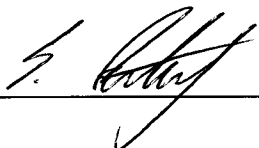
to change the pricing arrangements without consulting contractors as it did during the then existing standing order deed EA.8120T/10 and whilst procuring companies for what became standing order deed AG.4895/12.

37. In my view, competitive pricing and the most suitable contractors were identified when Ausgrid go to market and companies tender to win selection on the panel for the standing order deed. I think that this direction forcing Contract Cable Laying to always choose the cheapest contractor will have negative impacts on the contractors on the panel. The set up and running costs make smaller jobs expensive, which means contractors get little or no profit; forcing competitive bidding on larger jobs means contractors must offer discount lump sum prices. This means contractors are again getting little or no profit and could even price themselves out of a contract altogether.

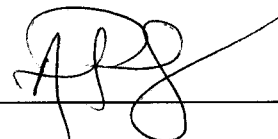
Managing works

38. A Contract Inspector has the job of managing the contract with the contractor. A Contract Inspector has particular tasks under the contract and they are out in the field a lot looking after contract cable laying works. Although I know it is not always possible, I expect the Contract Inspectors to be pretty much out every day to view works once contractors have commenced on site.
39. When the Contract Inspector is on site, they are involved in observing where the contractor is up to on completing the job and ensuring the quality of the

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construction. The Contract Inspector also examines safety and environmental issues, but they are not the subject matter experts. The Contractor Safety unit attend sites weekly to ensure they are safe. There is an Environmental Services Unit but they tend not to attend sites regularly unless there is a particular sensitive environment that work is occurring in. If there are problems with the job or its quality, then a Contract Inspector can order the contractor to fix it using powers they have under the contract and there is an option for Ausgrid to recover costs it has incurred.

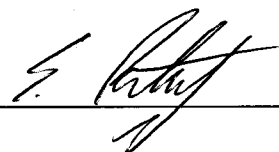
40. I do not have a role in a Contract Inspector issuing non-conformances. It is not unusual for a contractor to receive a non-conformance notice. The fact that a contractor receives a notice, in my opinion, does not really reflect on a contractor's overall performance. It only gives a general view on one aspect of a contractor's performance. It also, to my mind, only shows how strictly a Contract Inspector chooses to exercise their discretion to issue a notice.

41. It is not unknown for the Contract Inspector for works to have been the Contract Initiator who issued the works to a contractor. This tends to happen when a Project Planners has enough capacity to do this work.

Contractor performance

42. Both my staff and I regularly look at the performance of contractors. Contractor performance is a topic that we talk about when there is an internal meeting that

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only involves staff of the Contract Cable Laying section. Sometimes we end up making a decision that a contractor is not to get any new work unless they improve their performance, but this is rare.

43. Performance issues are also discussed with each contractor in our regular monthly meeting that we have with them. At these meetings we outline any concerns we have with them, along with any evidence from our inspections. The types of poor performance we might discuss are not restricted to quality, safety and environmental performance. I have raised management performance with some contractors. That is, some contractors while really good in the field, have administrative processes back at their offices that are really hard to deal with. This is not just related to negotiating proposed work projects, but involves getting the paperwork from them submitted on time or the arrangements to have defects in their work rectified.

44. Where there are performance issues, an approach I take after talking to my staff is to reduce the amount of work a contractor might be offered. For example, a decision might be made to allow the contractor to have work contracts that would allow them to field 2 or 3 crews rather than 5 or 6 crews. We can do this, of course, because the standing order deed does not guarantee a contractor any work. In the time I have worked in the Contract Cable Laying section, I cannot recall an instance where poor performance meant a contractor did not get any work at all.

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Variations and latent conditions

45. Variations to works occur all the time; they occur on most projects but not every project. There are two types of variations that can happen to contract cable laying works. The first type is a "negative" variation. This involves a reduction in the contract value due to the scope of the project being reduced for any reason. The second type is a positive variation. This involves an increase to the contract value due to the scope of the project being increased for any reason.

46. Variations can have big or small impacts on works. Variations that have the biggest budgetary impact are where there are large changes to the scope of work. For example, the proposed work project might plan to dig in the grassed area next to the footpath. On occasions it is agreed that the trench cannot be completed in the footway so the scope of the contract is varied to shift the trench into the roadway, then the cost to complete the work increases. This increase in cost is not just because the excavation becomes more difficult; it is based on additional requirements such as a deeper trench, different backfilling and temporary reinstatement requirements. The increases in costs is determined by the additional costs based on the schedule of rates due to increased quantities and the application of schedule of rates appropriate to the work completed. It also takes into account that permanently reinstating the roadway after the excavation is finished is significantly more expensive compared to simply putting turf down.

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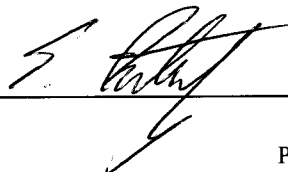


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47. Any variation requires the approval of the project management teams and the Contract Cable Laying section. The project management team approval is needed because they are the project managers for works and have the overall responsibility and control of the job and its budget; the Contract Cable Laying section's approval is needed to manage changes to the contract, including its value. The manager of the Contract Cable Laying section or the Superintendent / Superintendents Representative has the authority to vary the value of the contract. In the past, the practice was that they could do this without the approval of the project design teams. This sometimes was because the project management teams had other priorities and did not get back to Contract Cable Laying about these specific variations.

48. While all major variations to a project require the approval of the project management teams, it has sometimes been the practice of Contract Cable Laying section to give small variations proposed by the Contractor the go ahead on the spot before the project management team give their approval. This is where the cost is really low, for example, a few hundred dollars. I drum into my staff that they should notify and confirm all these small approvals with the project design team initially verbally at the time it is raised and then confirmed in writing later because lots of small expenditures can lead to significant overspends. This ensures that the project managers are aware of every variation that impacts the project budget.

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49. Notifying the project teams of variations is not always straightforward. For instance, the former Zone Development project team were not interested in staff from the Contract Cable Laying section raising small variations with them and would not approve variations for things like underground rock. They said that this was because it had already been included in the work's project budget. I told my staff to keep sending the requests to Zone Development to avoid them blaming the Contract Cable Laying section for a blow out in the work's project budget.

50. Underground rock is a common reason for why there are variations to works.

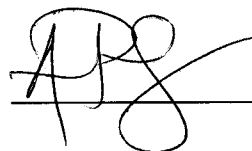
These claims for variations are not due to any fault on the part of the contractor but because of the work's site conditions. Site conditions, such as underground rock or groundwater, are called latent conditions and are things that were not known before the work started but only emerged after work starts. Geo-technical information relating to the proposed work area is not usually provided with the works documentation by the project teams. Although the presence of rock may be assumed to present on some sites, the amount of rock to be encountered cannot be determined and costed until it has been excavated.

51. The approval process for variations involving latent conditions is different to the normal variation approval process and they can make managing the contract budget difficult. Under the contract, the Contract Cable Laying section cannot reject a latent condition and we have to pay the contractor. So, the approval of the project team and the Contract Cable Laying section is a formality. There are

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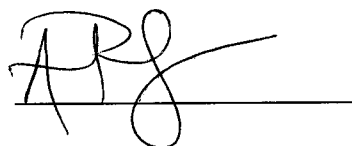
instances, though, where it is possible to argue about whether there was a latent condition. For instance, we might argue that water in a trench was not groundwater – a legitimate latent condition – because the contractor's claim occurred after heavy rainfall – which is not a legitimate claim for a latent condition. What we do to ensure legitimate latent conditions is to have the contractor notify the contract inspector at the time it is discovered and give them the opportunity to witness the claim. If this cannot occur the contractor is required to submit evidence when they quantify and cost a variation for latent conditions and have a Contract Inspector verify the evidence.

52. The Contract Cable Laying section manages and tracks the progress of contracts for each work order through a database. A new database is created for each standing order deed and each extension of a standing order deed. While the database records variations, including ones involving latent conditions, detailed information about the latent conditions uncovered during the works project is not recorded in the database in a format that could be easily and readily accessed for future reference. For example, when a latent condition variation involving rock is recorded on the database it might or might not include the proportion or depth of the rock. How this information is recorded depends on the contract inspector capturing this or any other information about the rock. Site photos are often used along recording marks of the depth on site along with contractors and or CCL contract inspectors estimate calculations are used as the evidence for the calculation of the variation costs.

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53. The Contract Cable Laying section has not really monitored the impact on the project budget or contract budget of these variations. I know that the new branch manager, Walter Stefani, wants more regular reporting on variations for the work projects that the Contract Cable Laying section manages.

54. I am not aware of any loophole where contractors can claim a variation improperly. I know in the building trade that contractors submit a cheap price and try to make a profit off variations to the contract. That, to my knowledge, is not how it works in contract cable laying. Variations are paid based on schedule of rates so they will only get paid for work they complete and they need to advise CCL that the variation is occurring and provide evidence details if the work cannot be witnessed.

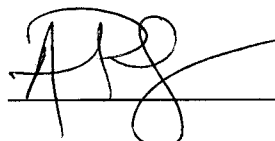
Reinstatement works

55. When the cables are laid, there is a need to permanently reinstate the road or footpath or both before the project is deemed complete. This can be costly depending on what needs to be reinstated. So, reinstating turf is less expensive than reinstating roadways. The Contract Cable Laying section is active in monitoring whether the contractor or the road authority (that is council or the Roads & Maritime Service) can deliver better savings in reinstatement works. In general, we get better value from contractors doing reinstatement works rather

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than by using local councils. Having said this, I am aware of a flow on effect, whereby the councils are actually coming back now with better pricing.

56. Terry Williams, who is the Admin Support Officer for the Contract Cable Laying section, handles the procurement of materials from the Homebush depot. Project Planners and Contract Initiators are also involved in this process by forecasting cable requirements.

Signature



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INDEPENDENT COMMISSION AGAINST CORRUPTION**STATEMENT IN THE MATTER OF: Operation Jarah**

PLACE: Level 21, 133 Castlereagh Street SYDNEY
NAME: Walter Stefani
ADDRESS: Known to the ICAC
OCCUPATION: Program Director, Capital Programs, Ausgrid
TELEPHONE NO: Known to the ICAC
DATE: 21 NOVEMBER 2014

States: -

-
1. This statement made by me accurately sets out the evidence which I would be prepared, if necessary, to give in Court as a witness. The statement is true to the best of my knowledge and belief, and I make it knowing that, if it is tendered in evidence, I shall be liable to prosecution if I have wilfully stated in it anything which I know to be false or do not believe to be true.
 2. My full name is Walter Stefani and I am 55 years of age.
 3. I am an electrical engineer and have university qualifications from the NSW Institute of Technology, now known as the University of Technology, Sydney.
 4. I am the Program Director Capital Programs in the Network Development division of Ausgrid. I have held this position since July 2013.

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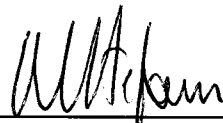
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NAME: Walter Stefani

5. I have been employed in what is now called Ausgrid since 1981. I have held a variety of senior positions in Ausgrid and its predecessors. These positions include:

- Logistics and Distribution Engineering Manager, which had responsibility for the majority of Ausgrid's procurement and logistics including processes and systems;
- Distribution Services Manager, which had 6 main responsibilities involving managing the contestability framework and dealing with Accredited Service Providers and occasionally developers; street lighting; network reliability; distribution automation and substation engineering; distribution mains (cable) engineering and pit construction crew;
- Major Projects Project Director, which managed up to \$450m worth of capital works for Ausgrid; and
- Area Manager of an Ausgrid Field Services work group.

6. For the period of 1994 to 2000, I was involved with the development and delivery of electricity infrastructure for the 2000 Sydney Olympics.

7. The organisational structure of Ausgrid is undergoing change as part of the NSW Government's Networks NSW initiative. This organisational restructure is being implemented from the top down and involves establishing a similar organisational structure at the management levels of each of the three Government owned

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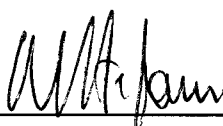
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NAME: Walter Stefani

distribution network service providers. These providers are Endeavour Energy, Essential Energy, and Ausgrid. My position as Program Director is replicated across all 3 network service providers; the management positions below mine within Capital Programs are not replicated.

8. My position as Program Director Capital Programs is within the Network Development division. This division sits between the Engineering division, which has responsibilities for setting the work programs to be done, and the Network Operations division, which does work on Ausgrid's electrical network. The people working within Network Operations are field staff, line workers, jointers, technicians, local planners, project managers and construction managers.

Attachment 1: An organisational chart of Capital Programs branch, dated 14 August 2014.

9. Capital Programs is concerned with the delivery of Ausgrid's electricity distribution network capital works. Capital works are required to augment the network, replace existing assets and work on assets that do not comply with regulations or standards. The Capital Programs branch is divided into three arms, with each arm looking after separate functions. The first arm is involved with delivering work under contract that the Network Operations division is unable or unwilling to deliver. The second arm is a program management group, who are focussed on developing, implementing and delivering work programmes. They

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make decisions about individual work programs to determine if they should, in part or as a whole, be outsourced or in-sourced; whether they are being delivered efficiently; and determining if, and to what extent, we need to be proactive in the delivery and implementation of the program. Performance and Compliance is the last arm. This section is in its formative stage with currently only 4 but planned to have 17 staff. Their focus will be on the delivery of Capital Programs systems, process, data and information. They would also have an auditing and assessment role in identifying whether capital projects are being delivered to network standards and scope, as well as ensuring the processes that should be followed are being followed. Data and information sit within Performance and Compliance. This area consists of program analysts, a scheduler and financial analysts. Their responsibilities are to allocate a budget and track milestones and forecast costs on projects and sub-programs; monitor and report on cash flows; and the value of assets under construction. They also will pursue with project and program managers actively closing projects and sub-programs financially. No further work can then be undertaken on the project or sub-program.

10. The Contract Cable Laying section is within Capital Programs branch. Contract Cable Laying is responsible for the laying of cable within streets and the public domain. Contract Cable Laying sometimes work with other sections of Ausgrid, such as the Civil Construction Group who have responsibility for conducting work within Ausgrid's zone substations. Zone substations are the large, stand alone

Signature Walter Stefani

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NAME: Walter Stefani

facilities Ausgrid owns. They are not to be confused with the green substation kiosks usually seen at the side of the road or substations contained within new buildings. The Contract Cable Laying are not normally involved in work with zone substations.

Data

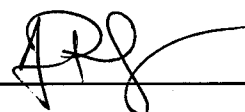
11. My experience, specifically in the past as a project director and more recently in procurement and logistics, has taught me that data quality is vital for making sound business decisions. Asking for good information means you need to have good data quality and this requires maintaining data integrity. In Capital Programs, I am currently working towards improving data quality and retention by centralising it with the business systems group as part of the branch's Performance and Compliance arm. This will mean I can have assurance that the data I get is of a particular standard and is accurate.

12. When I became Program Director, I was not aware of any specific problems with data quality and integrity. Having said this, though, it has been my experience that data quality is a problem across Ausgrid. This is because Ausgrid has historically collected data in a decentralised manner. By decentralised, I mean that individual Ausgrid officers and small groups are being asked to record bits of information. The problem with this is that everyone interprets data and then generates information differently. Centralising data and information generation mitigates

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this problem. The advantage of centralising data and information generation is that it makes someone responsible for identifying if the information is sensible and relevant; if it is logical; if it is accurate; and whether current or new methods are needed to capture all the bits of data and generate information that the unit or organisation needs in order to operate.

13. Contract Cable Laying section has their Standing Order Deeds database which collects data for each of the Works Orders that are executed. This includes, amongst other things, initial contract value, variation value, current value of contract, PC date, start date, contract initiator, Contract Inspector, Contractor and Contractor's PM. This database system is managed by our Business Systems Development Manager. This database is used by Contract Cable Laying Officers to record the appropriate data on the contract activities they undertake.

14. The restructure of Ausgrid and the establishment of the Capital Programs branch has been a focus of my time as Program Director. This means I do not know the full extent to which data collection is a problem across all or just parts of Capital Programs. Nonetheless, some things make me concerned about the quality of information going into our systems that is being recorded as data. For instance, earlier this year I asked for reports from different parts of Capital Programs to be prepared. I was surprised with the different reports I received as the information they contained did not have the quality or content I need to do my job. Another

Signature Walter Stefani

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relevant example was when I asked Contract Cable Laying to give me a monthly report for April 2014. Two weeks after asking for the report from the Manager CCL, I received an update from Contract Cable Laying Business Systems Development Manager, who told me that they could not provide a full report because, in generating it, they noticed that there were gaps in the information. I was told by Contract Cable Laying staff that these gaps resulted from them not putting data into the system.

15. I am considering further changes in the medium term to get Contract Cable Laying's database onto or linked into Ausgrid's SAP system. This will improve the visibility of information about the performance of Contract Cable Laying jobs.

Contract Cable Laying and managing works budget

16. Contract Cable Laying engage contractors to complete work designed by other parts of Ausgrid. The fact that Contract Cable Laying does not design the work should not be taken to mean that they are not focussed on the budget. It is my observation that Contract Cable Laying's focus on the budget is through the management of contractors and ensuring they remain within the cost they provided as an estimate to do the work. If there is a variation to the work that changes the cost, then Contract Cable Laying will add or subtract this value from the cost to do the work and continue to manage contractors within this new, revised value.

Signature Walter Stefani

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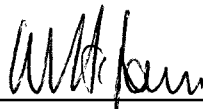
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NAME: Walter Stefani

17. In the past, Contract Cable Laying did not have a formal process around choosing which contractors would get work. I formalised this process with the assistance of the Portfolio Managers in the section and introduced specific instructions because the reasons why contractors were being chosen was not clear to others in Ausgrid. The instructions about how to choose contractors are attached to my statement.

Attachment 2: A Flowchart prepared by Ausgrid for Contract Cable Laying dated 30 April 2014 showing the Contract Procurement Process for deciding which contractor to choose for Contract Cable Laying work.

18. There are two different flows in the process for awarding a work order to a contractor depending on whether the estimated value of the work is above or below \$200,000. The threshold of \$200,000 was previously an arbitrary value that was aligned to Ausgrid's delegations for procurement, but from information provided to me was not consistently applied.

19. For work orders with an estimated value of works above \$200,000, the Contract Cable Laying officer responsible for issuing the work order – who is known by their functional role as a Project Planner – establishes a benchmark estimate by looking at the scope of works and applying the schedule of rates for the cheapest contractor working in that area. Ausgrid maintains a programme in its Standing Work Order Deed database that assists them to do this. The Project Planner puts

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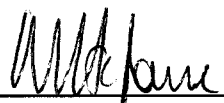
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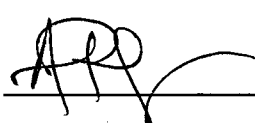
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that estimate aside and follows the procedure in the Contract Procurement Process for stages 1 through to 5, seeking prices from contractors in that area to complete the work. As the pricing from other contractors come in, the Project Planner will get an indication on whether these prices are more or less than the benchmark they estimated to determine which contractor gets the work. A Project Planner includes this information in their recommendation to whoever in Ausgrid has the delegated authority to approve the awarding of the work order to a contractor.

20. For work orders where the estimated value of works is below \$200,000, the Project Planner would scope the works and apply the schedule of rates for each contractors in that area. The Project Planner would then make an assessment on which contractor should be awarded the work order based on their cost; the availability of their crew resources; suitability of the contractor for the job; and ensuring contractors have a fair allocation of the work. The Project Planner then submits a recommendation along with their assessment to the person with the delegated authority to approve a work order below \$200,000.

21. I am aware that past processes in Ausgrid made it difficult for Contract Cable Laying to manage or focus on the budget for cable installation works. This was because Contract Cable Laying was deliberately not given the budget estimate of the project by the design teams. When, after becoming Program Director, I asked why they did not get the budget estimate, I was told that the design teams were

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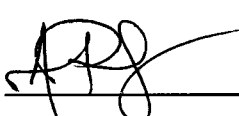
afraid Contract Cable Laying would spend up to the value they had estimated. From what I have seen, this has been a standard internal practice. It is not unique, though. I am aware of other units that now form part of Capital Programs who were occasionally restricted from knowing the project's estimated budget.

22. I think the reason for restricting knowledge of the budget is nonsense. Excluding access to this information in the past meant that Contract Cable Laying could not conduct a sanity check to know if the scope and potential variations to the project and any associated costs were reasonable or made sense.

23. When it became part of Capital Programs, I made a decision early on that Contract Cable Laying would not take on new work without the design teams first providing an estimate of the entire project. I made this decision because I often use my financial delegations for Contract Cable Laying to engage a contractor. Even though the project was not designed by my team, I still need to know when exercising my delegation how much the job is going to cost and does it make sense. I need to do this to ensure that the project scope is in line with the estimated component of the works to be contracted that was included in the project budget.

24. The financial delegations I have currently allow me to approve Contract Cable Laying works to a value of \$1 million. This delegation is in flux, though, and I am aware that it will be reduced soon to \$200,000. I understand that this is to

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align my financial delegation with those who have the same management position in the other electrical distribution network service providers.

Changes to Contract Cable Laying

25. As Program Director, I have begun to introduce changes to Contract Cable Laying and the way it does things. I have done this as part of the process of establishing the Capital Programs team and the wider Ausgrid restructure. There are five changes I have made.

26. The first change, and a major one, has been to the management of Contract Cable Laying. I have replaced the position of Contract Cable Laying Manager with a new role called Project Director, Outside Substation Chamber. I did this as part of both establishing the Capital Programs branch and the wider Ausgrid restructure. The Project Director, Outside Substation Chamber role is to be accountable for delivery of what I call linear projects – that is, projects outside substation chambers (as the title suggests), which are mainly distribution cable projects. The new role's accountability goes beyond the Contract Cable Laying Manager's current remit of underground cable delivery and includes overhead cable, poles and towers project delivery.

27. The second change is the need for staff reductions. This is ongoing. I am aware that this is creating some uncertainty amongst Contract Cable Laying and this is

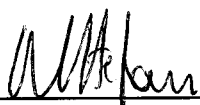
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understandable. I have told the staff in Contract Cable Laying that reductions were necessary because there were too many staff and too few jobs. Contract Cable Laying have a staff of more than 30 and this was appropriate when, in the past, they managed 80 crews. The number of crews is now much reduced – it currently fluctuates between 13 and 16– but there has been no reduction in staff within Contract Cable Laying. The fact is that there is not enough work for Contract Cable Laying, either current or forecast, that supports the current level of staff.

28. A third change is that my General Manager and I have taken steps to begin meeting with each Contract Cable Laying contractor on a regular basis. I have only commenced meeting with one contractor, Garde. What triggered this decision was that Garde had had two safety incidents and we met with them to discuss this. During that meeting they raised a number of other, non-safety related matters with me. This made me think that I should be talking to all the contractors about a range of matters. Doing this is good practice and I used to do this regularly as Ausgrid's Logistics and Distribution Engineering Manager. I recall that in that role I met our main contractors on a regular basis: I met with the top ten suppliers annually and the top three of these ten suppliers on a quarterly basis. In these meetings, I asked the contractors what their issues were; what things were happening that I should know; how did they see the business between Ausgrid and them going; and did they have any business issues. I intend to seek the same type

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of information from the Contract Cable Laying contractors when I meet with them.

29. As part of the change to have regular meeting with contractors, I have asked Contract Cable Laying to provide me with monthly reports. These monthly reports will inform me about any issues that Contract Cable Laying have with contractors and the current conditions. The specific things that I have asked these reports to address are what and how much work do contractors currently have; what is the value of the project, the work and the value of any variations they have received; and what risks have Contract Cable Laying identified with each contractor. As I mentioned, though, there are issues with the reports that Contract Cable Laying provided me in terms of missing information.

30. A fourth change has been related to the raising of purchase orders. Initially, the Contract Cable Laying did not raise a purchase order at the time a contractor was engaged for a particular project. Instead, the administration officer in Contract Cable Laying would generally wait until the contractor's requests reached up to 90% of value of the project under the contracts and a purchase order would only be raised when the claim or the sum of all claims went above 90%. This wouldn't happen with the larger projects that took some time as the contractors needed to be paid. But what would happen in these circumstances sometimes was that a separate purchase order was raised for each invoice. I was amazed when I became

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aware of this and made changes so that this did not happen anymore. It is the procurement procedure of Ausgrid – and I believe it is rudimentary – that a purchase order is immediately raised at the time when the contractor is engaged for the estimated value of the work. I made these changes so that it is clear in our procurement systems that we have a commitment with a particular contractor by giving them an official Purchase Order Number and an ensuring a payment certificate is raised on every single occasion a contractor submits a claim.

Attachment 3: A Flowchart prepared by Ausgrid for Contract Cable Laying dated May 2014 showing the Payment Claim Process.

31. It is my experience that poor practices become more visible when the process is drawn up as a flowchart. This was how I became aware of problems with the purchase order process within the section. Until you actually see the process, you do not really know what is going on. I have asked Contract Cable Laying to provide flowcharts for how they operate. I currently have four flowcharts and I am slowly going through them and the process they show, 2 of which are part of this statement. Aside from the flowchart showing the purchase order process, I think the work order and variation approval process is where most of the business risk is. It is fair to say that, so far, I have identified a few business risks and that this will be an area I intend to focus on in the near future and make changes as needed.

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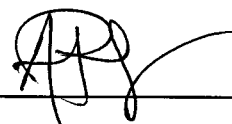
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32. A fifth change that I introduced on 7 October 2014– and which flows from my identification of business risks in work order and variation approval processes – to stop officers within Contract Cable Laying who have a functional role as a Project Planner from also being a Contract Inspector on the same work order. I have been assured with my direct follow ups that this has been implemented. The Contract Inspector is a functional role for Contract Cable Laying officers who have responsibility for the daily inspection of work sites and, amongst other things, endorsing variations. I saw it as a business risk for Ausgrid in terms of higher costs and distorted process to allow the same person who did the walk through with the contractor for scoping the work to be the same person who inspects the work and endorses any variations.

Managing scope and variations

33. Managing the scope and variations of work orders is very important and, while I have implemented some changes, I am considering further changes in the future. By way of background, the initial scope and estimate of Contract Cable Laying work orders is on the basis of “other than rock”, which presumes that, unless obvious, there are no below ground obstructions, such as services or rock. The estimated cost for a contractor to deliver a Contract Cable Laying work order is calculated on the basis of the project being “other than rock”. The majority of projects, though, invariably encounter some obstruction, be it other services and

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rock, and the quantities involved need to be assessed. Changes to the scope because of obstructions and rocks mean that there is a change to the cost for a contractor to deliver the work order. The change in cost as a result of the variation is determined from the comprehensive schedule of rates in the Standing Order Deed for each contractor on the panel.

34. One possible change I am considering concerns the site walkthrough. The site walkthrough involves Ausgrid officers walking along the route of the work order with the contractor to identify the scope. The Ausgrid officers attending the walkthrough should be Contract Cable Laying's Project Planner, the Contract Cable Laying's Contract Inspector to be assigned the management of the work order, and the project manager, from either the Field Service section or from within the Capital Programs branch, who was involved in the design and scoping of the project. In reality, though, only Contract Cable Laying officers would attend the site walkthrough with the Contractor. The issue with this is that, until recently, the contractor might only meet with a single Contract Cable Laying officer who could be the Project Planner or Contract Inspector for this work order. So, in order to better manage scope and hence the price, a change I am considering is making it mandatory that a site walkthrough can only occur where the project's project manager attends with the Project Planner and/or Contract Inspector.

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35. One change to manage scope and variations that I commenced from July 2014 is to have the Portfolio Manager provide an audit and review of an active job. This involves the Portfolio Manager attending the work site of an active job and checking any potential variations; that works are in line with the scope of works approved; and that processes are being followed. The Portfolio Manager then has responsibility to verify their observations against details retained on file. I have asked that Portfolio Managers provide a report on their audit and review of active work sites every month. I have limited the audit and review to one job per month to test whether this is appropriate. If this works well, I may consider increasing the frequency and number of reports Portfolio Managers will need to do.

36. Further opportunities for improving the management of scope and variations are also possible through the use of Ausgrid's SAP system to clarify and itemise the scope of work. This would be explored by using service entry sheets.

Benchmarking

37. It is my intention to introduce benchmarking into the Capital Programs team as it relates to Contract Cable Laying. The purpose will be to see how our Contract Cable Laying operations compare with the similar operations of the other two electrical distribution network service providers in NSW, being Endeavour Energy and Essential Energy. I am aware that each of these network service providers

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operates differently in the delivery model for cable installation and laying. I know that this will take a bit of time to do.

38. Currently within Contract Cable Laying, there is no benchmarking between the different portfolio managers or the geographic areas they manage.

39. There is also no ongoing benchmarking of contractors to see which ones perform better. However, Ausgrid does maintain unit rate measures to understand the cost of installing some item per metre on a program of work. Unit rate measures for cable installation are not in a format that Contract Cable Laying could use or assist them in their work or for benchmarking contractors. There are schedules of rates that we use to compare prospective contractors for the installation of cable and they are most typically used when selecting companies to become contractors for Contract Cable Laying. The schedule of rates is an input, but not the sole decider, in choosing which company is to be engaged as a contractor. The schedule of rates is used when analysing a company's costs with dummy projects to identify if Ausgrid would get value for money by using the contractor.

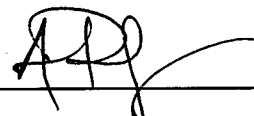
Auditing

40. As I mentioned audit and compliance is a part of Capital Programs. I am aware that staff within Capital Programs, like Contract Cable Laying, find being audited

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inconvenient. I tell my staff, though, that it is important that our auditing staff do their job because they help to improve what we do.

41. Contract Cable Laying has been and is regularly, usually annually, audited by our Internal Audit section.

42. I do sometimes undertake on site observations of works. These are called Worksite Observations within Ausgrid and are primarily safety and environmentally focused. Things that are checked include appropriate personal protective equipment is being used, site set up appropriate for the works, safety and environment hazards and risks that are apparent to name a few.

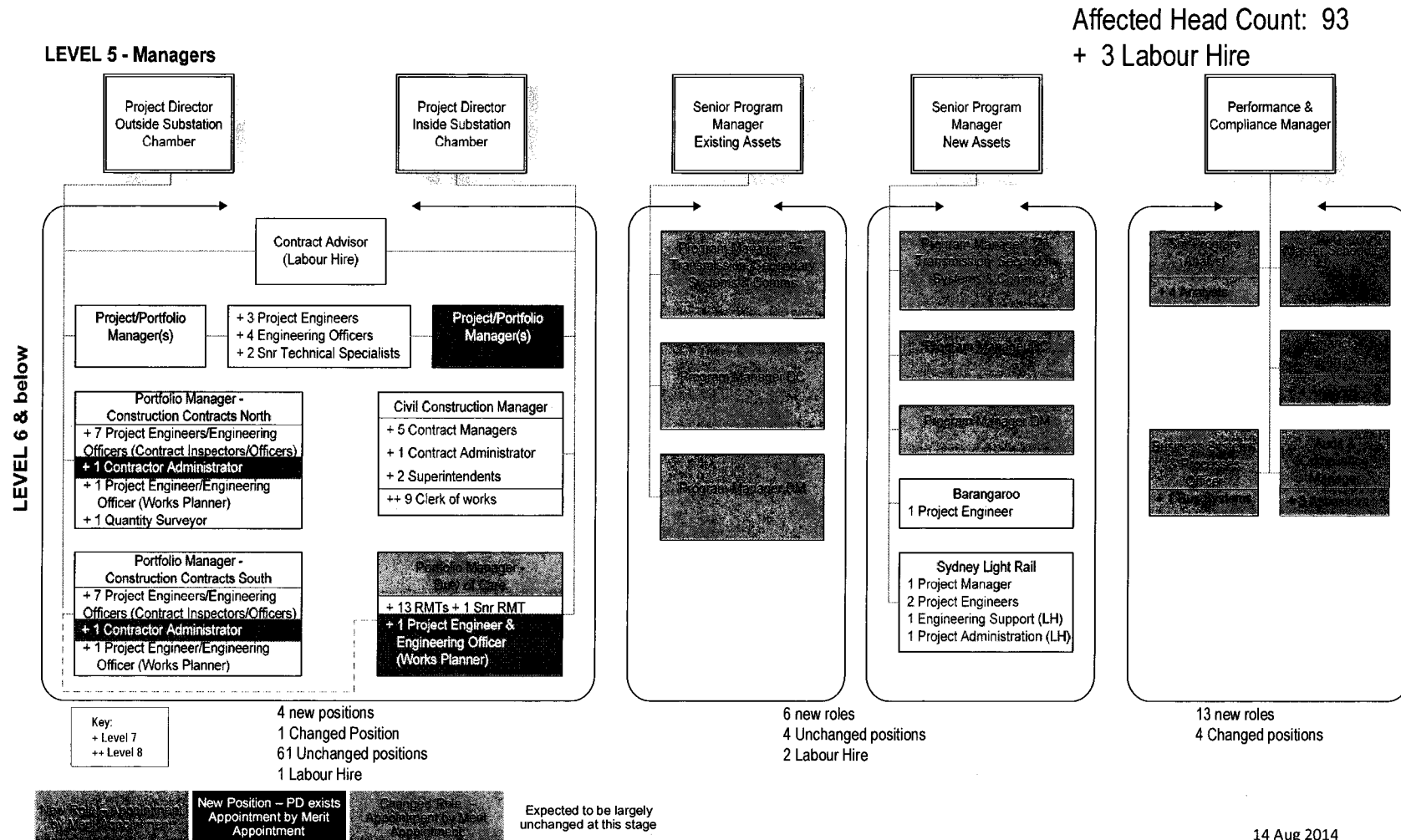
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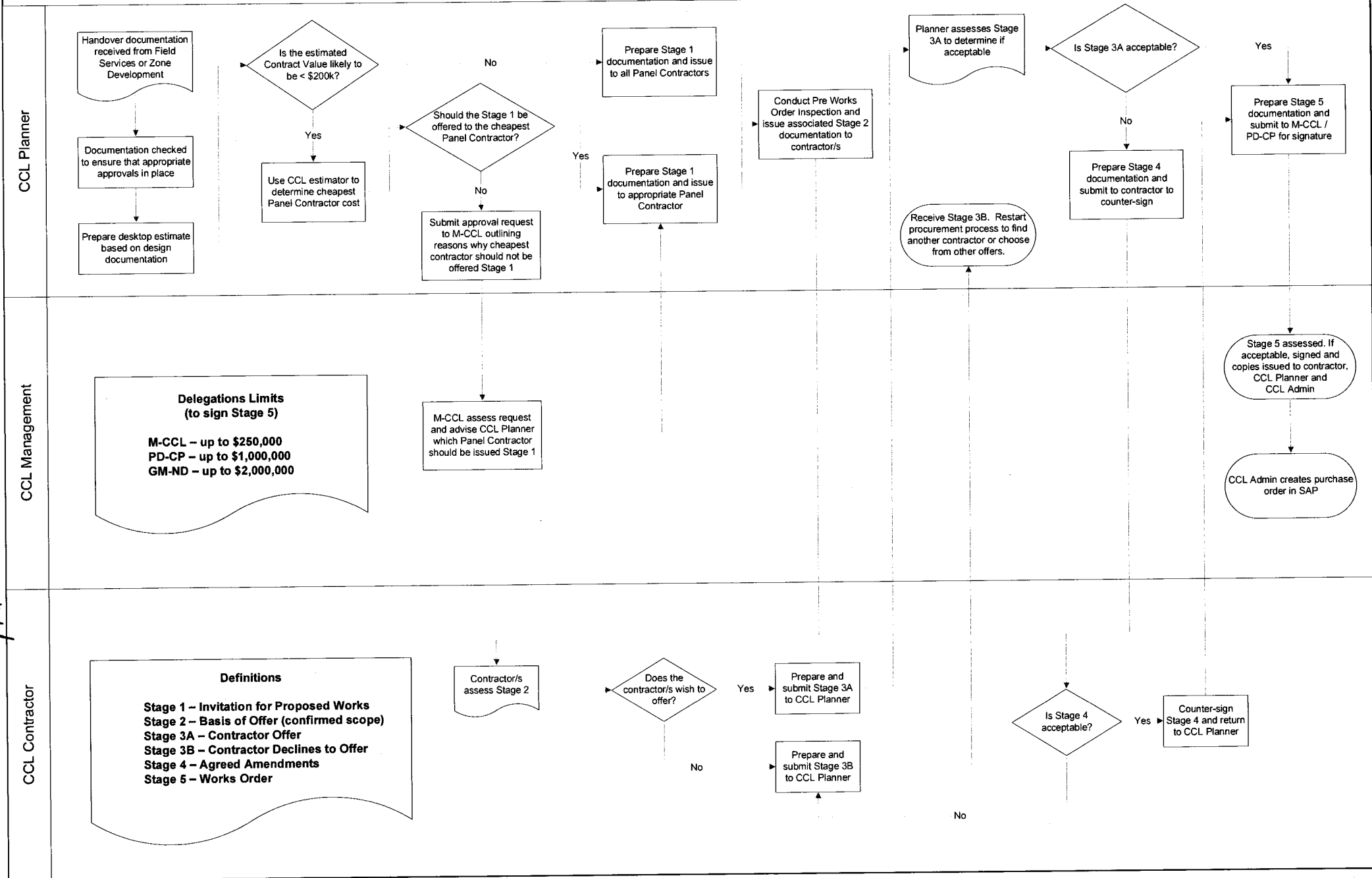


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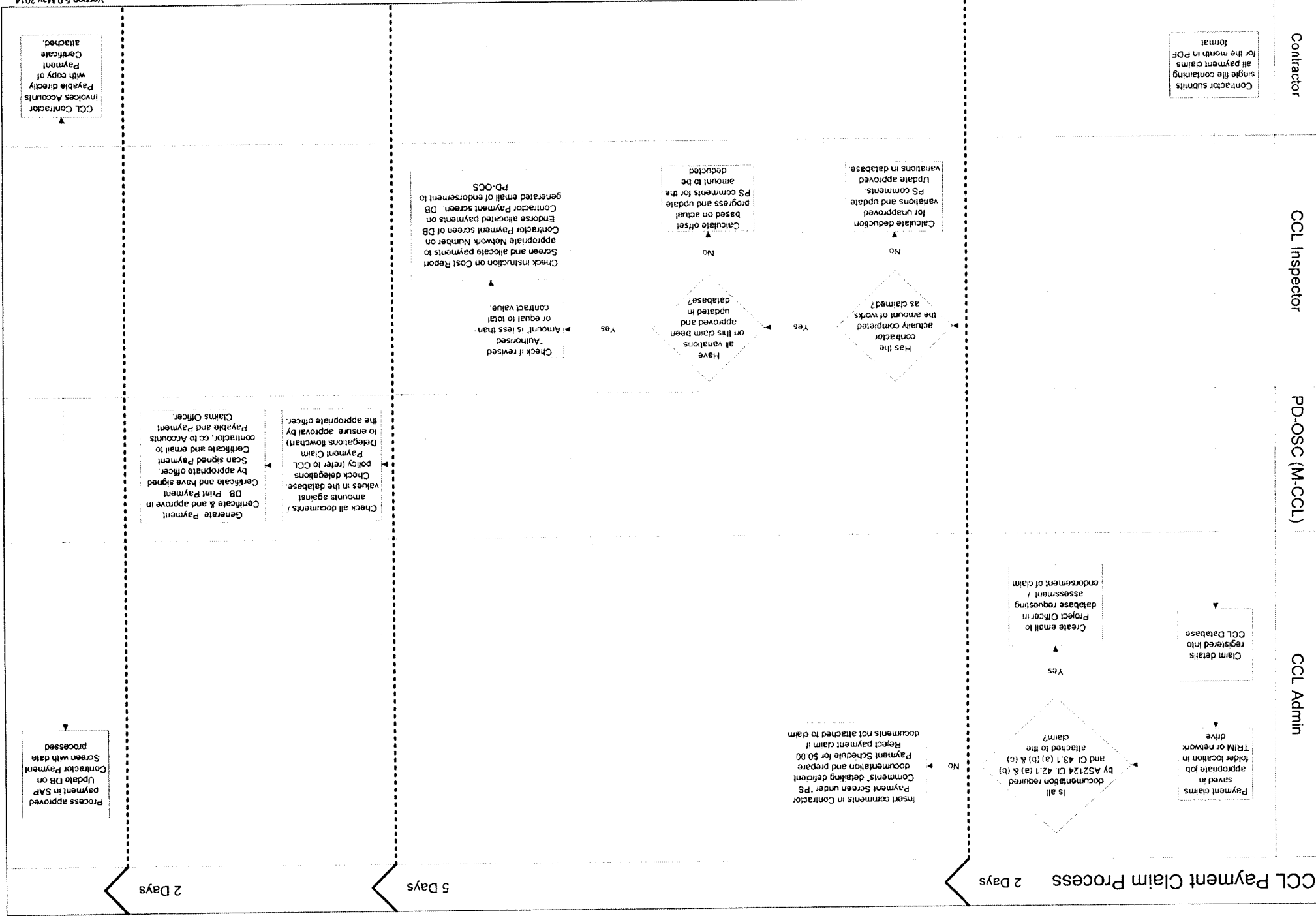
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ATTACHMENT 3