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Andrew Strahan
Southern Water

By email: andrew.strahan@geoco.co.nz

Dear Andrew

High-level review of Morrison Low report for the 'group of 3' southern District Councils

You asked us to review updated reports prepared by Morrison Low to inform decisions by the 'group of 3' district councils for the Clutha, Gore and Central Otago after withdrawal of Waitaki District Council.

You asked us to update our comments on, but not to re-run financial projections and to provide observations based on our expert knowledge of utility asset management and regulation.

Our views are, in summary:

1. The Morrison Low analysis is thorough, and it very likely reaches the right conclusion – that amalgamation is in the short and long-term interests of group of 3 water users.
2. We consider scope for efficiency gains is reduced through the loss of scale resulting from Waitaki's withdrawal. While the loss of Waitaki reduces amalgamation benefits and economies of scale, there is potential to recover these through collaboration or partnerships. For example, to:
 - i. improve scale for support / administrative services
 - ii. improve scale to support investment in strategic and operational asset management maturity, and related fields of cost estimation, forecasting, solution development, and in procurement, work scheduling and in-field delivery.
3. The financial projections are reasonable, given inputs available at this point, but will require revision as entity composition and structure settle; and, as:
 - i. information quality improves. For example, consistent inputs, base year and forecasting practices across each network area
 - ii. *strategic and operational* asset management maturity grows, enabling optimisation of maintenance and renewal investment. Our experience is that investment in asset management maturity pays for itself very quickly and will be expected by your regulator.
4. It is important the group of 3, in addition to preparing its water services delivery plan, develops its understanding of and prepares for economic regulation by the Commerce Commission.

In our view, it remains very likely that each of the group of 3 district councils and the water users in their regions will be better off combining their resources in the proposed joint CCO than as separate CCOs or with in-house delivery models.

We note that efficiencies available from improved strategic and operational asset management are dependent on sustained investment. That investment is required to build human and organisational capabilities – business systems and processes, asset strategies, risk/criticality and other methodologies, asset data and condition information.

We are available to discuss any of the updated views above.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'JC', with a horizontal line extending to the right and a small flourish below it.

Jeremy Cain

Director, Concept Consulting Group Ltd

