



## **Response to Pioneer Valley Water Board Submission on the Pioneer River Water Supply Scheme – Network Services Plan**

The Pioneer Valley Water Board (PVWB) presented a submission to the Queensland Competition Authority (QCA) dated 15<sup>th</sup> February, 2011, raising a number of issues in relation to:

- the data presented in the Pioneer River Water Supply Scheme Network Service Plan (the NSP), including the absence of proposed prices;
- the allocation (or non-allocation) of costs for Mirani Weir to the Eton Distribution system;
- accounting for losses in supplying customers holding water access entitlements (WAE) on the Mirani Diversion Channel;
- the allocation of centralised costs, and in particular the allocation of costs specifically to PVWB; and
- renewals expenditure, including customer consultation.

This submission related to the Pioneer River Water Supply Scheme (PRWSS). PVWB's customers hold a substantial proportion of entitlements from the PRWSS.

This is SunWater's response to the PVWB submission. SunWater has not responded to each and every issue raised in the PVWB's submission, and some matters are subject to ongoing dialogue between the two parties on service or operational issues. Instead, this response focuses on those matters particularly relevant to the QCA's review.

### **NSP content and data provision**

The NSP data was deliberately presented at a high level to communicate the nature of the costs and the changes to the cost base across 22 bulk water schemes and eight distribution systems.

SunWater also notes that other information at a more detailed level, including centralised costs, has been provided in background papers published on the QCA's website. SunWater has also provided more detailed disaggregated data to the consultants appointed by the QCA to review its costs.

SunWater chose to not proposed prices given the range of issues surrounding price and tariff setting, including the requirements of the Direction Notice in relation to existing prices and price paths for price increases. This was clearly stated in each NSP. SunWater has also made submissions in relation to tariff structures and these submissions will be considered by the QCA in recommending water charges.

In any case, the purpose of the NSP was to present SunWater’s expenditure proposals, and historic cost data, as the first step in the price setting process. SunWater expects that the PVWB will be able to make further submissions to the QCA on proposed prices once it publishes a draft report.

Finally, Table 1 in the PVWB submission demonstrates why the conversion of the operating costs into water prices could be taken out of context. The submission’s Table 1 compares the average operating costs for the Scheme for 2011-16 expressed in 2011 dollars of \$912k and multiplies it by 61% or the percentage of unconverted allocations held by irrigation users. This is then compared to the average efficient irrigation sector operating costs for the scheme expressed in 2005/06 dollars (Table 5.23 – Tier 1 Report previous price path).

Unfortunately the Tier 1 proposed productivity savings have all been attributed to the operating costs and not distributed in proportion to the total costs of operating and the asset refurbishment annuity.

An analysis conducted on a like for like basis where all costs are converted to 2011 dollars and the same assumptions used regarding the cost distribution between High A and High B allocations would indicate that the operating costs in 2011 dollars have reduced from \$545k to \$496k ( 54.4% of \$912k).

The table below however reflects the comparisons used by PVWB in comparing the costs that will be borne by the irrigation customers if SunWater’s proposed distribution is used.

**TABLE 1.**

	<b>NSP Costs – using SW proposed cost distribution.</b>	<b>2006-11 Price Path Efficient Costs – (in 2011 dollars) Tier 1 Report</b>
<b>Operating Costs</b>	<b>\$556k</b> or 61% of \$912k.	<b>\$545k</b> (\$470k including proportional efficiency savings and escalated to 2011 dollars).
<b>Annuity</b>	<b>\$359k</b> or 44% of \$817k.	<b>\$210k</b> (\$192k minus productivity savings and escalated to 2011 dollars)
<b>Total</b>	<b>\$915k</b>	<b>\$755k</b>

*Note:*

1. 54.4% is the percentage of operating costs attributed to the irrigation users in the Tier 1 report table 5.23.
2. \$470k represents the total of operating costs and electricity in 2005/06 dollars minus 73% of the productivity adjustment.

While this comparison shows a 21% increase in the total costs, all of this costs increase is in the proposed renewals annuity.

## **Allocation of Mirani Weir costs to Eton Distribution Network**

PVWB have suggested that the Mirani Weir was essentially built as a pumping pool for the Eton Water Supply Scheme (EWSS) with a secondary benefit being the distribution of allocations to irrigation and urban users within the PRWSS.

While SunWater has not fully investigated this claim, pricing for services from an asset should be forward looking, and not constrained by the original basis for construction of an asset. In the case of Mirani Weir, it is the fact that the storage held in Mirani Weir is incorporated into the water sharing rules for the scheme. That is, Mirani Weir is a bulk water asset, and given the passage of time (and the formalisation of the Resource Operations Plan (ROP) in particular) would remain so regardless of whether the Eton Distribution System existed, or not.

At the same time, the impoundments provided by weirs and dams can provide benefits to customers diverting water at those storages as they provide ‘pumping pools’ as suggested by PVWB. However, these benefits are incidental, and indeed those storages are not managed to provide any particular level of ‘pumping pool’ to those customers (as evidenced in the storage operation rules in each ROP).

In many schemes customers on weir ponds may gain such incidental benefits. Indeed, the PVWB has customers in the PRWSS with pumps in the weir pond and SunWater does not charge a premium for any incidental benefit derived.

Finally, SunWater notes that Minister Robertson has previously clarified the scope of assets to be considered ‘bulk water’, which includes Mirani Weir.<sup>1</sup>

## **Mirani Diversion Channel**

Six properties adjacent to the Mirani Diversion Channel hold 504 ML of ‘risk allocation’ from the EWSS. These ‘risk allocations’ can only be taken when SunWater is waterharvesting into Kinchant Dam under its operating license for the scheme.

After the construction of Teemburra Dam, each of these properties purchased water allocations from the Pioneer River Water Supply Scheme. A total of 1,002ML of PRWSS allocations are held by these properties and an additional property near the Kinchant Dam borrow pits. A delivery fee (currently \$21.90/ML) is charged by SunWater to deliver this water through the Mirani Diversion Channel.

Historically 86% of water deliveries to these properties have been their PRWSS allocations with the remaining 14% being risk allocations. The proportion varies with the climatic cycles with the PRWSS allocations being utilised during the drier periods.

These deliveries incur significant costs and delivery losses in the Mirani Diversion Channel as the channel system was never designed to deliver such small volumes on a

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<sup>1</sup> Refer to letter dated 28 September, 2010 and published on the QCA’s website.

continual basis. DERM have not provided SunWater with any loss allocation to deliver these allocations and therefore all losses will need to be borne by the users.

### **Allocation of centralised costs to the PVWB**

The PVWB is a relatively large customer, in so far as it acts on behalf of its own irrigation customers whom individually hold WAE. Accordingly, the PVWB is effectively an ‘on-supplier’ of water to its 250 customers, and the PVWB is correct to point out that SunWater manages deliveries to PVWB customer in aggregate, rather than individually.

Accordingly, the NSP states that the scheme has 7 customers – one of which is PVWB which in turn supplies approximately 250 customers. SunWater does not state in the NSP that it deals with these customers directly in terms of delivering water.

SunWater does however hold a direct contractual relationship with each individual PVWB customer, and must transact with these customers when they deal with or transfer their WAE. This process also involves interaction with the PVWB as a referral organisation to ensure that its interests are accounted for. This intermediate step is not necessary in schemes where SunWater deals directly with irrigation customers and therefore increase administrative costs in these instances.

In essence, it appears that the PVWB argues that certain costs should not be allocated to it, or less costs allocated to it, on the basis that it performs its own on-supply activities. For example, as noted by the PVWB SunWater only issues a single invoice to PVWB rather than 250 invoices to the WAE serviced by the Board. Similarly, SunWater only reads the ‘bulk’ meters of the PVWB, not individual customers.

SunWater acknowledged that some costs would be affected by customer numbers in its submissions to the QCA, for example it has noted that:

*... the cost of some centralised functions will be affected by the number of customers serviced. For example, within the Service Delivery group resourcing customer enquiries could arguably be affected by the size of the customer base. However, the relationship between customer numbers and related customer functions is not linear – the addition of one customer does not generate additional costs for the customer service function. Moreover, customer numbers only impact upon a small portion of centralised costs – for example asset management, dam safety or internal audit costs will not be sensitive to the number SunWater customers. ;<sup>2</sup>*

Indeed, for PVWB the increase in *centralised costs* as between one customer (eg PVWB) and many (eg the PVWB’s 250 customers) will be limited to the cost of producing additional invoices (stationery, postage), and the costs of handling any additional customer enquiries that would arise, although many of these enquiries will occur regardless via the PVWB. In any case, SunWater maintains some records and information relating to the PVWB’s customers who SunWater holds a contract with.

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<sup>2</sup> SunWater. Supplementary Submission – Allocation of Centralised Costs (February, 2011) p 8.

There are of course fewer meter readers to read. Any savings (compared to having to read all PVWB customer meters) will already be reflected in the direct operational costs for the scheme.

The PVWB submission also addresses how costs should be allocated between medium and high priority WAE in the scheme. The PVWB states a preference to allocate operating costs based on the hydrologic conversion factors used for the current price paths. SunWater has previously set out the rationale for the change in approach, and notes that the PVWB has not explained why retaining the previous hydrologic conversion factors is better than SunWater's proposed approach. SunWater also notes that its proposed approach will result in a small (circa \$31,000 or 3.6%) increase in the cost allocated to medium priority WAE, compared to the old approach.

The PVWB submission goes on to state: "With hydrologic conversion factors not widely available it is contended that SunWater's Headworks Utilisation Factors (HUFs) methodology should also be adopted for allocation of operating costs."

SunWater strongly disputes that the HUF is appropriate for allocating operating costs, as the HUF is specifically aimed at determining the storage capacity dedicated to medium and high priority, and therefore used to allocate capital costs. It does not reflect any differential in operating costs as between medium and high priority WAEs. SunWater has set out this rational in various submissions to the QCA, most recently in its submission on bulk water price differentiation.<sup>3</sup>

### ***Consultation and renewals***

A member of the Board of the PVWB attends, as an observer, the Eton Irrigation Advisory Committee meetings that are generally held every 6 weeks. Issues concerning the operation of the PRWSS are raised by this Board member and addressed at these meetings. SunWater local management meet with the PVWB on issues as they arise, as is normal commercial practice.

SunWater has set out its corporate position in relation to customer involvement in the development and delivery of the renewals program in a separate, supplementary submission to the QCA.<sup>4</sup>

SunWater acknowledges the difficulties that have been experienced with the Palmtree Ck outlet since its installation and appreciates the assistance and co-operation provided by PVWB. SunWater has provided information to the QCA's consultants in relation to this project.

### **Other matters**

The PVWB also raises a number of other specific issues, which are addressed below.

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<sup>3</sup> SunWater. Supplementary Submission, Bulk Water Price Differentiation (February 2011).

<sup>4</sup> SunWater. Supplementary Background Paper: Customer Involvement in Renewals Expenditure (February 2010)

### ***Compliance – ROP Amendments and modifications.***

Under the ROP SunWater was required to develop proposed critical water supply arrangements within 12 months. Consultation was undertaken by SunWater with all customers of the scheme including PVWB.

Unfortunately PVWB represents only one section of the water users within the scheme, and SunWater is always required to balance the needs of not only irrigation customers but urban and industrial customers.

### ***Compliance – Water Accounting***

As the holder of the Resource Operations License (ROL) for the scheme SunWater is required to announce allocations and update these on a monthly basis. Also when the announced allocations for sections of the scheme are less than 100%; SunWater must announce ‘streamflow events’ which change constantly.

Whilst SunWater is not required to undertake meter reading or billing for individual customers of the PVWB, SunWater is required to account for the total water use and transfers etc for the scheme.

### ***Compliance – Water Quality***

As the ROL holder, SunWater is required to undertake water quality monitoring at specific locations within the scheme. These results are reported to DERM as the regulator on a regular basis.

### ***Compliance – Environmental Management***

SunWater as a significant landholder within the scheme is required to undertake environmental activities such as weed control, stock and pest management on those lands owned by SunWater within the scheme. SunWater also has a responsibility for inspection and investigation of any bank slips within the ponded areas of the three weirs and Teemburra Dam on an annual basis.

SunWater is required to operate and maintain the fishlock on Dumbleton Weir as part of the environmental responsibilities of the scheme. The fishlock requires considerable maintenance after each wet season including the cleaning of the chase leading to the entrance pool of the fishlock.

### ***Compliance – Land Management***

SunWater holds perpetual leases for lands that are operational in nature. Within the PRWSS this includes lands associated with Teemburra Dam and ponded area, the abutments of each of the weirs and areas of inundation outside of the watercourse and any isolated pieces of infrastructure which make up the scheme. SunWater, like all landholders, must deal with pests, subleases, encroachments, public access and safety issues, neighbours and fencing, and other utility agencies ie: Ergon, Telstra etc who wish to install services which encroach on SunWater’s landholdings.

## *Insurance*

SunWater's background paper on centralised costs provides detailed information about the nature of insurances held and the allocation of premium costs.<sup>5</sup>

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<sup>5</sup> SunWater. Supplementary Submission – Allocation of Centralised Costs (February, 2011)