

SEQWATER'S 3 SEPTEMBER SUBMISSION / RESPONSE TO QCA REQUEST OF 24 AUGUST

24 August 2012

We have some additional queries on your opex submissions and descriptions as follows:

A response would be appreciated by Monday 3 September 2012.

From: Colin Nicolson [mailto:cnicolson@seqwater.com.au]
Sent: Thursday, 23 August 2012 9:02 AM
To: Angus MacDonald
Cc: Damian Scholz; Adam Kay-Spratley
Subject: FW: RE: (NEXT) QCA DATA REQUEST 24 AUGUST 2012

Angus

Our answers are under each question below.

QCA Question 1

Your core irrigation submission (s7.2) states that the direct opex costs attributed to irrigation services as part of your 2012-13 GSC submission were adjusted for those costs more appropriately attributed to grid services. Could you please provide further information on how these adjustments were carried out (in a similar manner to what you have done for non-direct costs).

Seqwater Response to Item 1

QCA Question 2

Were the direct costs used for the allocation of non-direct costs the adjusted direct costs? For example, do they include the direct costs associated with water treatment and quality, and similar adjustments made for non-direct costs?

Seqwater Response to Item 2

QCA Question 3

In the spreadsheet 'Direct cost allocation 190712', why are the direct costs for the regulated grid different in the two top left tables.

We note that the exact difference between the direct costs for the regulated grid (cost allocation across all assets) = \$100,897,554 and direct costs for the regulated grid (cost allocation across all assets and Veolia) = \$103,738,234 is the direct opex for Noosa WTP = \$2,840,680.

We can see why direct costs for Noosa WTP should be excluded from the allocation base as they are not relevant to the irrigation allocation exercise. However, it is unclear why Noosa WTP is excluded

from the top table but not from the bottom table. If they are not relevant to the irrigation allocation exercise should they not be excluded from both? Also, are other direct costs (e.g. other direct water treatment costs) that are not relevant to the irrigation allocation exercise excluded? For consistency, it would seem that we want those direct costs that are not relevant to the irrigation allocation exercise excluded from the allocation base in a similar way to how the non-direct cost pools were adjusted.

Seqwater Response to Item 3

QCA Question 4

In relation to the spreadsheet, 'Copy of Corporate Cost data 070312(2)', could you please clarify or explain:

- (a) how non-direct and direct cost categories have been distinguished. For example, several cost items are designated as non-direct costs but are described in your submissions as direct (e.g. a number of the water delivery cost classes such as dam operations and group support). If these same cost classes are used for both direct and non-direct costs, could you please provide a break-up showing how these components contribute to total costs;
- (b) why are the water quality costs (\$385,918) included in the non-direct costs allocated to irrigators, whereas Seqwater mentioned in your submission that water treatment and quality costs have been removed as part of the adjustments?

Seqwater Response to Item 4

QCA Question 5

"Seqwater Cost Allocation - Labour": In our review of Seqwater's most recent Excel submission "Seqwater Cost Allocation - Labour" (sent to us on 22 August 2012), the direct labour costs calculated for irrigation does not include the direct labour costs for Infrastructure Maintenance. It would appear that the direct labour cost calculations were not revised after an updated worksheet "Final Opex Data updated 19 July" was submitted by Seqwater in July. Could you please confirm and amend if necessary?

Seqwater Response to Item 5

QCA Question 6

Could you please advise whether 'non-infrastructure costs' were included in the GSC data listed in the worksheet "Summary" in the file "Copy of Corporate Cost data 070312 (2)#" file? As the GSC cost data was used as the base on which irrigation adjustments were made, we are concerned that If they were included in the GSC data, it would be double-counting to add them again to the irrigation modelling as a separate item.

Seqwater Response to Item 6

Colin Nicolson

Business Analyst

Economic Regulation

Queensland Bulk Water Supply Authority *trading as Seqwater*



Ph (07) 3035 5679 | Fax (07) 3229 7926 | E cnicolson@seqwater.com.au

Level 3, 240 Margaret St, Brisbane City QLD 4000 Australia

PO Box 16146, City East QLD 4002

Website | www.seqwater.com.au

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