

SEQWATER'S 22 OCTOBER SUBMISSION / RESPONSE TO QCA REQUEST OF 12 OCTOBER

12 October 2012

I hereby provide Seqwater with a further information request. Seqwater's detailed responses to each item would be appreciated by COB 19 October 2012, please.

Happy to discuss at any time noting the proposed **due date of COB 19 October 2012**

From: Colin Nicolson [<mailto:cnicolson@seqwater.com.au>]

Sent: Friday, 19 October 2012 1:10 PM

To: Angus MacDonald

Cc: George Passmore; Damian Scholz

Subject: FW: Information Request 12 October 2012

Hello Angus

Here are our responses to the above information request.

QCA Question 1 - Cedar Pocket

Stakeholders (Issues Arising (IA) Cedar Pocket 2012) submitted that more details were required regarding Seqwater's proposed renewals expenditure [outlined in the NSP] on "electricity supply assets" in 2025-26 at \$30,000.

Please provide more details regarding this proposed expenditure.

Seqwater Response to Item 1

The Assets in question are a property pole, meter box (excluding the meters), cabling and a distribution board. The renewal is scheduled based on the Seqwater "standard asset life" of 20 years for this type of equipment. It was installed in 2005 and will be 20 years old when the work is scheduled. The cost estimate is drawn from the estimated replacement costs as set out in Section 5.2.2 and Section 9 of the Irrigation Infrastructure Renewal Projections - 2013/14 to 2046/47 Report on Methodology. The renewal timing, will be reviewed on an ongoing basis so that it is only delivered when condition warrants. The scope and cost estimate will be reviewed prior to commencement of work to ensure the delivery is efficient.

QCA Question 2 - Warrill Valley

Stakeholders (IA Warrill Valley 2012) submitted that the underground pipeline in the Warrill Valley diversion channel has collapsed and, as it needs to be repaired, appropriate expenditure needs to be added to the forecast renewals.

Seqwater's NSP outlines a series of renewals expenditure for the Warrill Valley WSS, none-of-which appear to refer to the underground pipeline in the Warrill Valley diversion channel. Please confirm whether this pipeline has collapsed (or other damage incurred) and, if so, what remedy Seqwater proposes.

Seqwater Response to Item 2

Seqwater is aware of an issue that has developed in the last 8 – 10 months on the Warroolaba Diversion pipeline. Some repairs have been undertaken and they appear to have been effective. Ongoing monitoring of the asset will continue and if further work is required it will be delivered accordingly. If further work is required it is proposed that the cost be addressed by the ex-post review at the next price path determination.

Seqwater is also aware of flood damage at the west bank diversion weir which has affected some pipework. Seqwater expects to recover costs of these repairs through its insurance policy.

QCA Question 3 - Warrill Valley

Stakeholders (IA Warrill Valley 2012) questioned why Warrill Valley WSS was being used as the pilot program to implement the national metering policy.

Please confirm whether Warrill Valley WSS is being used as the pilot program and, if so, why?

Seqwater Response to Item 3

The Warrill Valley WSS is not being used as the pilot program for the implementation of the national metering policy. The program of works for meters includes addressing safety issues and ensuring meters are installed in accordance with manufacturers' specifications for maximum accuracy. This work has been driven by the business reasons outlined and not by the national metering initiative.

QCA Question 4 - Central Brisbane River

Given this WSS does not feature in Seqwater's metering business case, what are Seqwater's intentions regarding the roll-out of meters in the Central Brisbane River WSS and how are they to feature in prices for this WSS?

Seqwater Response to Item 4

Seqwater is developing its position in regards to Central Brisbane metering. Options include allowing customer installation as provided in clause 13.1(b) of the deemed contract. Seqwater is attempting in ascertain whether subsidies are available from the State government.

QCA Question 5 - Central Brisbane River

The data the Authority has at hand, suggests that Seqwater propose to establish meters in the Central Brisbane River WSS at no cost to irrigators over the nine year period 2013-14 to 2021-22. Please confirm and provide the policy that underpins this decision.

Seqwater Response to Item 5

Seqwater has no firm proposal in regard to the funding arrangements for the installation of meters. As stated above, Seqwater is seeking in ascertain whether subsidies are available from the State government. Alternatively, meter installations will be funded in accordance with clause 13.1(a) of the deemed contract.

QCA Question 6 - Central Brisbane River

We also note that Seqwater will then commence replacing these meters from 2022-23. The ten year period being consistent with Seqwater's estimate of the useful life of a meter. Are there two observations correct? If not, please outline the situation better.

Seqwater Response to Item 6

The assumption underpinning the replacement of meters is that meters will be installed once the government's funding position is clarified. That being the case, replacement of the meters would be expected to commence after 10 years.

QCA Question 7 - Direct Opex

As raised previously in our email dated 19 September 2012, we now seek to formally understand the following:

- we have looked at your direct irrigation opex sheets by tariff groups (attachment **456324**). This raises some questions about how Seqwater arrived at irrigation numbers from the total business all sectors numbers.
- To answer this we would, for example, prefer the approach of the Excel provided to us by Seqwater on how non-direct irrigation opex was derived from total business all sector non-direct cost data (attachment **448725**)
- we would like to see the equivalent Excel for all sectors / whole of business direct costs per WSS (or tariff group) – this should include the line by line column that says ‘yes’ or ‘no’ etc. to whether a direct cost is an irrigation cost.
- If possible, this would then allow us to determine the source of the irrigation only data in attachment 456324.

Seqwater Response to Item 7

The approach taken for the production of the direct opex sheets was to map from schemes to the assets associated with the schemes. These are the locations where direct opex associated with irrigation is incurred. The reports were then generated to extract data from those locations. Attached is the mapping file which is the equivalent to your file 448725.

QCA Question 8 - Electricity Forecasts

In your submission on opex forecasting under cover of your email to Angus MacDonald dated 4 September 2012, you provided a brief note on electricity cost forecasting. However, we have not been able to corroborate your statement that 2012-13 forecasts were based on 2010-11 actual costs. Could you therefore please provide further details on how your electricity cost forecasts for each scheme were obtained. Moreover, your response to our earlier data request dated 6 July 2012 foreshadowed that you would be providing more comprehensive information on electricity forecasting and in particular the basis for your assumption of an allowance of \$100,000 for the Central Lockyer scheme. Could you please provide this information as soon as possible.

Seqwater Response to Item 8

The main assumption made for the estimation of electricity costs for Central Lockyer was that Clarendon Dam would be half used and then pumped back to full supply level on average each year. Clarendon Dam was empty before the 2010 rain event. The total pumping costs for 2010-11 and 2011-12 altogether when the dam was filled were \$188,000. Allowing for electricity price increases, the estimate for 2012-13 was calculated to be \$103,000. All other electricity forecasts were based on 2010-11 actual with adjustments made for known or expected events.

QCA Question 9 - Insurance Update

In our email from George Passmore to you dated 31 August 2012, we asked whether you were yet in a position to update your insurance premium cost estimates, including any savings from the merger with WaterSecure. Your early response would be appreciated.

Seqwater Response to Item 9

Seqwater's insurance renewal has now been finalised. The new premium has increased by 1%. Some savings from the merger with WaterSecure were achieved in areas such as liability insurance. However the impact of Seqwater's flood claims has negated the savings.

QCA Question 10 - Revenue Offsets

Provide an explanation of how revenue offset forecasts are derived;

Seqwater Response to Item 10

The main components of revenue offsets are house and buildings rentals and recreation revenue. Housing and buildings rental revenue is forecast from the rental agreements. Recreation revenue is forecast on historical trends.

QCA Question 11 - Revenue Offsets

Provide a breakdown of forecast revenue offset components. Include, at least, property leases, recreation fees and the provision of town water supplies (e.g. including Pie Creek 'non-irrigation' customers);

Seqwater Response to Item 11

Revenue offset forecasts are set out in the attached file "Opex – Irrigation Updated YTD.xlsx".

QCA Question 12 - Revenue Offsets

Provide the same breakdown of revenue offsets for 2008-09 to 2011-12

Seqwater Response to Item 12

The attached file "Opex – Irrigation Updated YTD.xlsx" contains historical data to 2009-10. Breakdown of revenue for 2008-09 is not available.

QCA Question 13 - All Schemes

Stakeholders question the costs of Seqwater's compliance with State Government's Greenspace Strategy.

Please provide more details on Seqwater's role in relation to and response to this Greenspace Strategy. Information regarding costs incurred by Seqwater in this regard (e.g. if direct costs include which tariff groups this applies to). Please also outline whether Seqwater's involvement/compliance is mandatory (and therefore prudent) or could be avoided or minimised. If complying with the Greenspace Strategy is not required, please detail the grounds upon which Seqwater would consider the expenditures prudent (and efficient).

Seqwater Response to Item 13

Greenspace was a proposed initiative of the previous Government. Seqwater was consulted previously about Greenspace but has not spent any money on Greenspace initiatives. Although early versions of the maps identified leased land around the dams as green space areas, Seqwater actively worked with the previous government to refine the maps and as a consequence the identified land was removed.

QCA Question 14 - All Schemes

The SKM report makes clear that renewals items referred to as 'telemetry' and 'Gauging Stations' are the same type of renewal item. Can you please:

- a) outline why different descriptions that have been applied; and

Seqwater Response to Item 14a

Different descriptions have been applied because the asset data has been assembled from separate data sets that used different naming and asset grouping conventions. This has created inconsistency in naming conventions between assets within WSS and also between WSS. At the time of assembling the asset data for the renewal projection development no data cleansing was undertaken to resolve these issues. This will be addressed through the ongoing improvement of Seqwater's Asset Management Systems so that there is consistency and clarity in asset naming conventions. It is acknowledged that the asset descriptions are misleading and require rectification.

- b) confirm that no double counting has taken place, specifically in the Logan WSS where both a Gauging Station and Telemetry project are scheduled for 2022-23.

Seqwater Response to Item 14b

No double counting has taken place. In the Logan River WSS the telemetry projects are specific to Bromelton Weir. Seqwater's treatment has been that the telemetry assets include the active equipment at the gauging station such as the electronic data loggers and compressor bubbler units, this is what has what has been costed in the renewals projection. The "Logan Gauging Stations" asset is broader in nature as it covers all the gauging equipment in the scheme including the housing, civil and structural components of the gauging stations. For example the Maroon Dam headwater gauge encompasses a stilling well and the Maroon Dam tail water gauge encompasses a gauging weir. The gauging station project accounts for renewal of this broader asset set. The first occurrence of this project is 10 years in the future and no detailed scoping or costing has been undertaken at this time.

QCA Question 15 - All Schemes

Seqwater propose to incur renewals costs associated with fencing. As an example, proposed expenditure associated with the item "Fencing And Gates" at Wivenhoe Dam is \$215,000 in 2035-36 and at Somerset Dam is \$384,000 in 2032-33. In accordance with the provisions of the *Dividing Fences Act 1953*, what portion of these (and fencing costs associated with other schemes) are to be met by adjacent landholders?

Seqwater Response to Item 15

*It is Seqwater's practice to seek contributions to the renewal of boundary fences from adjacent landholders in accordance with the *Dividing Fences Act*. In many circumstances Seqwater's fencing assets are not boundary fences shared with an adjoining landholder but rather are internal security and management fences and fences bounding roads and waterways. Where in the renewals projections the scheduled fence renewals deal with an identified shared boundary fence Seqwater has undertaken to budget 50% of the expected total cost. An example of this is the Lower Lockyer Brightview Channel Fencing which is scheduled for renewal in 2013-14. The fencing identified at Wivenhoe Dam is internal fencing and the fencing at Somerset Dam is believed to be predominantly internal fencing and fences bounding roads, by far the largest element deals with internal security fencing around the dam. Cost for renewal of these fences can't be shared with an adjoining landholder.*

QCA Question 16 - All Schemes

Quite a few submissions from stakeholders have been received questioning whether some proposed renewals expenditure (that appears to be flood related damage) should be covered (that is, off-set) by insurance payments. The Authority's understanding is that Seqwater has not included any flood related damage in its forecast renewals expenditure. If this understanding is correct, can Seqwater confirm this in writing?

Seqwater Response to Item 16

Seqwater expects to recover the cost of flood repairs from its insurer. The decision has been made to not include the cost of flood repairs in the renewals expenditure projections.

QCA Question 17 - All Schemes

In addition, if our understanding of how Seqwater propose to manage flood related damage is correct, can Seqwater also please respond to the following proposed renewals expenditure items? Namely:

- a) Central Lockyer – all significant renewals (except the Bill Gunn Dam-Lake Dwyer diversion pipeline);

Seqwater Response to Item 17a

None of the projects in the Central Lockyer renewals projections have been scheduled to repair flood damage.

- b) Lower Lockyer – the repair of scour bypass of Potters & Sippels weirs and replacement of fencing on Brightview Channel;

Seqwater Response to Item 17b

Potters and Sippels Weirs had minor piping issues when they were transferred to Seqwater. The root of the problem is believed to be a design and construction issue. Recent wet seasons have seen these piping issues develop further but this cannot be attributed to flood damage. Some fencing on the Brightview Channel was damaged by flood in Jan 2011. This damaged fence was repaired and costs have been claimed against Seqwater's insurance policy. Repair of flood damaged fence was not included in the renewals projections. Fencing renewals in the projections are to renew aged fences, the condition of which has deteriorated over time.

- c) Central Brisbane – renewal's projects scheduled for 2012-13 & 2013-14 for both Wivenhoe & Somerset dams;

Seqwater Response to Item 17c

Seqwater will seek to recover costs through insurance for projects in the 2012-13 programme that relate to flood damage (if there are any). None of the works in the 13-14 programme relate to flood damage.

- d) Mary Valley - costs for Borumba Dam involving sealing of concrete face joints & spillway concrete repairs;

Seqwater Response to Item 17d

This work is not related to flood Damage.

- e) Cedar Pocket - repair of drainage on right hand embankment of dam;

Seqwater Response to Item 17e

This work is to repair drainage from behind a retaining wall and is not Flood Damage.

- f) Logan - costs of refurbishing the valve on Bromelton Weir, replacement of the Piezometer Hut Maroon Dam and replacement of Gantry and Hoist and rip rap on dam embankment at Maroon Dam; and

Seqwater Response to Item 17f

The items nominated have not been damaged by floods. The work is not for the repair of flood damage.

- g) Warrill - projects scheduled for 2012-13 & 2013-14

Seqwater Response to Item 17g

Seqwater will seek to recover costs through insurance for projects in the 2012-13 programme that relate to flood damage (if there are any). None of the works in the 13-14 programme relate to flood damage.