CONFIDENTIAL

## Proposed Prices for Discussion with ILMC Pioneer Irrigation Project

2001/02 to 2006/07 (Real \$'s) (smoothed)

		Existing	Proposed				
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
River:							
Price (\$):							
	per ML of granted nominal allocation	2.00	3.92	4.36	4.48	4.88	5.93
	per ML up to announced allocation	6.80	3.40	3.80	3.88	4.20	5.04
	Total	8.80	7.32	8.16	8.36	9.08	10.97
Quantity (ML):							
	Nominal Allocation	46,448	46,448	46,448	46,448	46,448	46,448
	Use	22,295	22,295	22,759	22,759	23,224	23,224
Revenue (\$):	i						
110101120 (4)1		244,502	257,879	288,997	296,392	324,123	392,486
Cost Recovery (%):							
	% of cost recovery	57%	63%	70%	72%	80%	100%
Govt. subsidy (\$):							
(4)	Revenue less Efficient costs	-183,875	-154,650	-122,159	-112,594	-78,874	153
	Direct financial assistance (CSO)	Non-estimate de la company de	-154,650	-122,159	-112,594	-78,874	-
	Funding of efficiency gains		-20,201	-14,285	-13,806		-
	Capital	THE STATE OF THE PARTY OF THE P	-3,200,691	-3,200,691	-3,200,691	-3,200,691	-3,200,69
				ah la sat balas			

Note: Govt subsidy (\$): Capital represents a forgone rate of return on scheme assets which is not being recouped in lower bound pricing.

WATER REFORM UNIT

# Proposed Prices for Discussion with ILMC Pioneer Irrigation Project 2001/02 to 2006/07 (Real \$'s)

		Existing					
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
River:							
Price (\$):				12			
	per ML of granted nominal allocation	2,00	3.87	4.37	4.46	4.88	5.91
	per ML up to announced allocation	6.80	3.45	3.82	3.90	4.18	5.07
	Total	8.80	7.32	8.19	8.36	9.06	10.98
Quantity (ML):	1	1				: (S	
	Nominal Allocation	46,448	46,448	46,448	46,448	46,448	46,448
	Use	22,295	22,295	22,759	22,759	23,224	23,224
Revenue (\$):							
Destructive termination of the state of the	1	244,502	256,500	289,733	295,814	323,689	392,332
Cost Recovery (%):	1						
	% of cost recovery	57%	62%	70%	72%	80%	1009
Govt. subsidy (\$):	į						
	Direct financial assistance	-183,875	-156,028	-121,423	-113,172	-79,308	-
	Funding of efficiency gains	50-500 ASA 500	-20,201	-14,285	-13,806	-	(m)
	Capital	-3,200,691	-3,200,691	-3,200,691	-3,200,691	-3,200,691	-3,200,69

Note: Govt subsidy (\$): Capital represents a forgone rate of return on scheme assets which is not being recouped in lower bound pricing.

WATER REFORM UNIT

## Proposed Prices for Discussion with ILMC

### Pioneer Irrigation Project 1999-00 to 2004-05 (Nominal \$'s)

		Existing	Proposed				
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
River:							
Price (\$):							
	per ML of granted nominal allocation	2.00	3.96	4.59	4.80	5.38	6.69
	per ML up to announced allocation	6.80	3.54	4.01	4.20	4.62	5.73
	Total	8.80	7.50	8.60	9.00	10.00	12.42
Quantity (ML):				-			
Quartity (ML).	Nominal Allocation	46,448	46,448	46,448	46,448	46,448	46,448
	Use	22,295	22,295	22,759	22,759	23,224	23,224
				,	,		
Revenue (\$):		244,502	262,913	304,401	318,559	357,292	443,888
Coat Books (9/)		1		1			
Cost Recovery (%):	% of cost recovery	57%	62%	70%	72%	80%	100%
	76 of 0031 1030 tally	0.70	0270	, 0,0	72.0	00%	1007
Govt. subsidy (\$):							
(4).	Direct financial assistance	-183,875	-159,929	-127,571	-121,874	-87,541	-
	Funding of efficiency gains	-	-20,707	-15,008	-14,868	-	-
	Capital	-3,200,691	-3,280,708	-3,362,725	-3,446,794	-3,532,963	-3,621,288

#### DATA INPUT SHEET (Real dollars) (Real dollars) ATA PROVIDED BY 2601 2002 \$ 6 DATA PROVIDED BY 2006 Return to contents page (blue shaded cells require inputs) CORE REVENUE Water sele - Intigatore - channel Weler sele - Intigatore - their Weler sele - integatore - their Weler sele - fulls urban Water sele - weler harvesting Water sele - weler harvesting Water sele - groundwater Water sele - Burgt recitiental Sugar militaries (for historical actuals only) Drinings lavies Other core revenue: Total COSTS SCHEME DIRECT COSTS Operations and Mentangenos Labour Assignat Eschichy Contractory Part New Expension Value Historical (OSM) Other Recreation inanagement cost (Labours Materials-Contractors-Lovothor) Suptroint - Direct OSM Costs Suptroint - Direct OSM Costs (blue shaded cells require inputs) n 313,792 195,343 376,760 502.696 835,581 439.728 195,343 313 792 376 760 439 728 502.696 835 581 42,547 42,547 42,547 42.547 42,547 2,707 2,707 2.70 2,707 2707 2.70 15.664 15.66 15.664 5664 3:007 3.007 3.00 3,007 3,007 3,007 60,898 60,898 60,898 60,898 60,898 50,898 (Latours-Mate)nais-Contractors-Low-Officity Sub-India - Direct ORM Costs SCHEME INDIBECT, COSTS Desidop sentices Insurent (incl. Dest Guaraniae Fae) Taxee (and anti-ctes) Water Businsh Managament (incl. regional area intiment) Central Office Costs Astal Managament 4,948 4.948 4.948 4 94 4,948 4 948 126 765 126 765 126 765 126 765 126 765 126.765 129,772 129,772 129,772 129,772 129,772 129,772 Triories (Ind. Debt Gitaranies Pae) Water Strick Anappenprit (Ind. regional area in/ment) Central Office Costs Water Ranapenper Executive minings ment Finance and Support CSA GRAN Corporate Office Costs TOTAL COSTS Absormely CAPITAL EXPENDITURE Finances Anaphy OTHER INFORMATION Resource Management Gitarge XFactor (up to 2601) 16.53 16,536 135,951 135,951 116,918 116911 13,148 14:254 14:16 2354 12:354 9,519 10,582 10.512 9.504 9,257 9.257 10:030 9.96 9:033 9,046 8,834 1,634 1.956 4 904 4275 1,959 1,690 3,983 3,957 2,721 2.72 2283 2.283 39 575 575 593 545 545 18,894 18,474 15.763 15 56 14571 14.571 205,203 204,458 182,986 182,986 344,880 344,176 334,975 334,230 312,758 312,758 0 0 0 304,385 302.016 200 581 297 172 pTheR INFORMATION Resource Management Charge X Fector (up to 1901) Growth Santon 16,885 16,885 14,052 16,885 663,076 651,440 648,287 TOTAL COSTS + RENEWALS + RESOURCE MANAGEMENT 666,151 623,532 618,450 ADD Interest expense (converted from nominal) 65 9,910 10,211 9,243 3,213 (8,291)666,216 672,987 661,651 657,530 626,745 610,159 TOTAL EFFICIENT COSTS FOR ENTIRE SCHEME Multiplied by % allocated to Irrigators 64.3% 64.3% 64.3% 64.3% 64.3% 64.3% TOTAL EFFICIENT COSTS FOR IRRIGATORS 425,442 422,792 428,377 432,730 402,997 392,332 63% 70% 72% 57% 80% 100% % COST RECOVERY

## DATA CALCULATED FOR 20 YEAR PERIOD

7	7	2002	2003	2004	2005	777 1112
Return to contents page	2001 \$	2002 \$	\$ 2003		2005	2006 \$
CORE REVENUE		7/		10, 2 Fe <b>r</b> itor	an an an and	
Water sale - Inigators - channel	. 0	0	0	0	0	0
Water sale - Imgators - river	195,343	321,637	395,833	473,539	554,882	945,383
Water sele - urben township	0	0	0	0	0	0
Weter sale ∻ bulk urban	E 0	0	0	0	0	0
Water sale - industrial	. 0	0	0	0	0	0
Water sale - water harvesting	0	0	0	0	0	0
Water sale - from drains:	0	0	0	0	0	0
Water sale - groundwater	. 0	0	0	0	0	0
Watersale - Flural residential	0	0	0	0	0	0
Sugar mill: Levies (för historical actuals only.)	0	0	0	0	0	0
Drainege levies	. 0	0	0	0	0	0
Other care revenue	. 0	0	0	0	0	0
TOTAL CORE REVENUE	195,343	321,637	395,833	473,539	554,882	945,383
TOTAL REVENUE (excl. contrib. Assets)	195,343	321,637	395,833	473,539	554,882	945,383
	42,547					
COSTS	2,707					
SCHEME DIRECT COSTS	. 0					
internal Contractors	15,664					
Labour	3,007	43,611	44,701	45,819	46,964	48,139
- Melenal	2,707	2,775	2,844	2,915	2,988	3,063
Electrolty	60,898	0	0	0	0	0
Contractors	4,948	16,056	16,457	16,868	17,290	17,722
Riant hire/Exponses	3,007	3,083	3,160	3,239	3,320	3,403
Vahide Hiretexpenses	. 0	0	0	0	0	0
Local Overhead (O&M)	60,898	62,420	63,981	65,580	67,220	68,900
Other	4,948	5,072	5,199	5,329	5,462	5,598
otal Direct D&M Costs	129,772	133,016	136,342	139,750	143,244	146,825
SCHEME INDIRECT COSTS						
Asset Management	14,254	14,514	13,813	13,532	13,636	13,977
Distomer Service and Bus Dev.	10,582	10,775	9,985	10,251	10,218	10,474
Vater-Management	10,030	10,213	9,490	9,742	9,751	9,995
xeculive menegement	4,304	4,382	2,055	2,110	1,865	1,912
Inance and Support	3,983	4,056	2,859	2,935	2,520	2,583
	575	589	623	638	602	617
38M Corporate Office Costs	18,894	18,936	16,561	16,760	16,084	16,486
		10.150	10 700	0.054	0.646	/0.45A
deres expense (milides debt glieranies les)	65	10,158	10,728	9,954	3,546	(9,380)
Alperindical seets	152,486	156,298	160,206	164,211	147,307	150,990
OTAL INDIRECT COSTS	215,173	229,922	226,319	230,133	205,529	197,652
OTAL COSTS	344,945	362,938	362,661	369,883	348,773	344,477
scome Tax for Pholog Purposes	0	0	0	0	0	0
OWER BOUND TOTAL COSTS	666,216	689,811	695,147	708,088	691,809	690,339
bnormels	10,582	10,512	9,504	9,519	0	0
	10,030	9,964	9,033	9,046		1470
apital Expenditure	4,304	4,275	1,956	1,959		
enewals Annully	304,385	309,566	314,747	320,021	324,398	329,964
escurce Management Charge	16,885	17,307	17,740	18,183	18,638	15,898
		Fi <u>e</u>	<u> 2</u> 7	24	%속	* <u>22</u>
apital Repayment		0	0	0	0	0

Pioneer Irrigation Area	2001	2002	2003	2004	2005	2006
SCARM Lower-Bound Costs (for whole scheme) \$ -Efficient Cost introduced from year 2000-01 \$	666216 666216	689811 657608	695147 671806	708088 884965	691809 691809	690339 690339
Cost Allocation method between Users:						690,340.51
Proportion of total costs that are fixed Proportion of total costs that are variable						
Water Usera: Irrigators - channel Irrigators - river Groundwater Water harvesting Borewater Urban Industrial Total	projected % of cost allocation between customer classes 0.0% 84.3% 0.0% 0.0% 0.0% 33.2% 2.5% 100.0%					392,332.39
Scheme User: Irrigation - River Current Price - Fixed (\$ML) Current Price - Variable (\$ML) Current Price - Excess usage (\$ML)	2.00 6.80					
Fixed Revenue Requirement Variable Revenue Requirement Total Revenue Requirement	299,884 128,513 428,377	295,990 126,853 422,842	302,380 129,591 431,971	305,303 132,130 440,433	311,383 133,450 444,833	310,722 133,166 443,688
Water Nominal Allocation (ML) Water Usage - Forecast (ML)	46,448.D0 22,295.00	46,448.00 22,295.00	46,448.00 22,759.00	46,448.00 22,759.00	46,448.00 23,224.00	46,446.00 23,224.00
Cost reflective Fixed tariff (\$ML) Cost reflective Variable tariff (\$ML) Price Gap (current, and under proposed price path) Fixed tariff gap (\$ML) Variable tariff gap (\$ML)	6.46 5.76 current (4.46) 1.04	6.37 5.69 proposed (2.41) (2.15)	6.51 5.69 proposed (1.92) (1.68)	6.64 5.81 proposed (1.64) (1.61)	6.70 5.75 proposed (1.32) (1.13)	6.69 5.73 proposed 0.00 0.00
Price Contraints Price Increase allowed per year - fixed Price Increase allowed per year - variable Other Include CPI increases						
Price for Modelling Purposes Fixed Variable Excess Usage Fixed Revenue Variable Revenue Penalty Revenue (usage over allocation) Total Irrigation - River Revenue Revenue - Costs (CSO II -lve) CSO	Historical 2.00 6.80 0.00 92,896.00 151,606.00 244,502.00 (183,874.67) (183,874.67)	Proposed (cost reflective) 3.96 3.54 0.00 184,039.09 78,873.90 262,912.99 (159,929.17) (159,929.17)	Proposed (cost reflective) 4.59 4.01 0.00 213,080.64 81,320.27 	Proposed (cost reflective) 4.80 4.20 0.00 222,991.36 95,567.73 318,559.09 (121,873.54) (121,873.54)	Proposed (cost reflective) 5.38 4.82 0.00 250,104.62 107,187.69 - 357,292.31 (87,540.82) (87,540.82)	Proposed (cost reflective) 6.69 5.73 0.00 310,721.66 133,166.43 

Contact Name: Telephone:

Peter Noonan (07) 3224 7370

21 December 2001

Mr Terry Hogan
Director-General
Department of Natural Resources and Mines
Level 13 Mineral House
41 George Street
BRISBANE OLD 4001

ATTENTION: Paul Woodward

Dear Mr Hogan

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#### WATER PRICE PATH CSO'S

The CSO's currently in the budgets for the rural irrigation subsidy were originally generated by the Water Reform Unit (WRU) and subsequently modified after negotiations on errors and omissions in the WRU model, and the particular circumstances of the Bundaberg price paths.

Subsequently, SunWater developed a detailed financial model of each scheme for management purposes, including the determination of the statutory asset valuations using the discounted cash flow (DCF) methodologies.

When the DCF valuations were determined, 9 schemes indicated a negative value, i.e. the future revenue stream including CSO's would not be sufficient to cover future costs of operation, maintenance, administration and refurbishment. This was the case even though assumptions were made on reducing operational costs to WRU benchmark as quickly as possible and achievement of water sales as expected by the WRU.

In 3 schemes, the negative value was minor (less than \$150,000), for 5 more it varied from \$1.1m to \$4.3m, but for the Bundaberg scheme it was \$19.0m. Not only was this of concern to management and the Board, but Queensland Audit Office also raised substantial concerns that SunWater would need to deal positively with this issue through 2001/02 as it is impacting on the financial statements.

To gain an understanding of why these large negative values occurred, we looked, once again, into the WRU models and found several issues:

#### i) Renewals Annuity Interest

We found that the WRU formulated some calculation of the effective bank balances of renewals annuity income less spend, and then assumed that this balance would generate interest. They then took the annual interest earnings in Year 5 and built those into the price paths as annual revenue.

Not only are the actual figures incorrect, but also the notion that the "bank balance" would stay constant for the next 20 years at the "Year 5" level is unsustainable as the pattern of renewals spend demonstrates.

Attached are the interest figures used by the WRU and a detailed analysis of all CSO schemes from the new SunWater financial model. In nett terms, the difference is \$603,000/year (in 2001/02 \$'s) of additional CSO required to provide for this problem.

The attached table was developed from:

- a) the WRU model both from the total scheme and the proportion of that which relates to irrigation and thus CSO's; and
- b) an analysis of the renewals annuity and projected renewals spend for the next 20 years as predicted by SunWater's financial model, with notional interest applied and an average annual nett interest determined in NPV terms.

In specific scheme terms, the average annual interest for Bundaberg should be \$78,000 compared with \$300,000 used by the WRU. The difference of \$222,000/year equates to some \$4.0m of DCF value.

#### ii) Groundwater Management Costs

It appears that the WRU removed some \$900,000/year (in 2001/02 \$'s) from the cost base when we decided that groundwater management in the Bundaberg scheme would remain with the Department and not move to SunWater. We believe the correct figure to be \$360,000 and thus is reflected in our DCF modelling. (Note: In the negotiations on transfer of responsibilities, Departmental figures show that the cost to SWP of groundwater responsibilities in Bundaberg, Burdekin, Condamine, etc was \$486,000/year).

Thus, we seek an increased CSO on this issue of \$540,000/year (\$900,000 - \$360,000) in 2001/02 \$'s. This would improve the DCF by some \$9.1m in Bundaberg.

#### Other Issues

We note as we did in the last CSO review that the price paths and the benchmark costs were misaligned by a year therefore we have an ongoing mismatch of 2.7% between the two. This was recognised as a one-off CSO increase for 2000/01, but the ongoing escalation was not carried forward in the CSO calculation. In the case of the Bundaberg scheme, this accounts for \$1.4m of the negative DCF and will be an ongoing burden for SunWater. We seek a correction of the CSO to all schemes for this issue, which is some \$0.7m/year.

#### Summary

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In summary, we seek additional CSO per annum of \$1.87m comprising:

- \$0.63m for the interest issue;
- · \$0.54m for groundwater in Bundaberg; and
- \$0.70m for CPI adjustment.

This letter has also been forwarded to Mr Peter Dann, Executive Director, Office of Government Owned Corporations.

Yours sincerely

Peter Noonan
CHIEF EXECUTIVE