



R E S P O N S I B L E M I N I S T E R S F O R
QUEENSLAND COMPETITION AUTHORITY

Our Reference: TRY-00899

30 JUN 2012

Professor Brian Parmenter
Chairman
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Professor Parmenter

Please find attached a copy of our decision with respect to the Queensland Competition Authority's Final Report on the Review of SunWater Irrigation Prices, 2012-2017 (the Report).

In our capacity as the responsible Ministers for the *Queensland Competition Authority Act 1997* (the Act), pursuant to section 36 of the Act, we have accepted the recommendations made in the Report.

We have accepted without qualification the specific prices, fees and charges recommended by the Authority. However, our acceptance of the recommendations related to pricing practices is qualified to the extent that these recommendations have been referred to the Honourable Mark McArdle MP, Minister for Energy and Water Supply, for his final detailed consideration regarding implementation.

We have noted that one of the recommendations made by the Authority relates to the use of price review triggers as a mechanism to manage risks due to changes in market conditions for inputs and regulatory imposts. A specific Direction, under Section 23 of the Act, is attached to enable the QCA to consider and/or undertake a within-period price review if sought by SunWater (or irrigators).

We thank you and your staff for their considerable efforts in undertaking the work to complete the review of SunWater's irrigation prices.

Should you have any further queries in relation to this matter, please contact Ms Tania Homan, Director, Economic and Structural Policy Branch, Queensland Treasury and Trade on (07) 323 51487 or tania.homan@treasury.qld.gov.au.

Yours sincerely



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Encl.

Queensland Competition Authority Act 1997
Section 36

NOTIFICATION

The Decision

As the Ministers under the *Queensland Competition Authority Act 1997*, we accept the recommendations contained in the Queensland Competition Authority's report titled *Final Report - SunWater Irrigation Price Review: 2012-17* (the Report) subject to certain qualifications as contained in this Notification.

The recommendations in the Report are accepted subject to the recommendations specified in Schedule 1 being referred to the Minister for Energy and Water Supply for further detailed consideration regarding implementation.

We consider this is necessary to allow for the appropriate scope of work, legislative and budgetary implications and implementation timelines related to each of the recommendations to be agreed between Government and relevant stakeholders.



TIM NICHOLLS
Treasurer and Minister for Trade

JARROD BLEIJIE
Attorney-General and Minister for Justice

Schedule 1 – Recommendations related to Pricing Practices

QCA Final Report V. 1 Page Ref.	Recommendation
5	The Queensland Competition Authority (Authority) recommends that, upon completion of this review, the Authority, in consultation with SunWater and representatives of key relevant industry groups prepare detailed information requirements for the next price path investigation by 30 June 2014.
41	The Authority recommends that the current approach to monitoring service standards should be reviewed by DERM, in consultation with customers, before 30 June 2014.
86	The Authority recommends that DERM immediately review the distribution loss Water Access Entitlements (WAEs) in all distribution systems to ensure that distribution system customers do not pay for distribution loss WAEs held by SunWater in excess of requirements. The review should be completed by 30 June 2014.
97	The Authority recommends that a review of drainage charges be initiated by SunWater immediately upon completion of the current price investigation. For this purpose, SunWater should identify its drainage system costs from 1 July 2012 for consideration by the Authority prior to 30 June 2014.
161	<p>The Authority recommends that, in forecasting renewals expenditure, SunWater undertake:</p> <ul style="list-style-type: none"> (a) high-level options analysis for all material renewals expenditures expected to occur over the Authority's recommended planning period, with a material renewal expenditure being defined as one which accounts for 10% or more in present value terms of total forecast renewals expenditure; (b) detailed options analysis (which also takes into account trade-offs and impacts on operational expenditures) for all material renewals expenditures expected to occur within the subsequent five-year regulatory period, with a material renewals expenditure being defined as one which accounts for 10% or more in present value terms of total forecast renewals expenditure over that period; and (c) a review of its renewals planning processes (taking into account the Authority's consultants' suggested improvements) and provide a copy of the review to Government and the Authority by 30 June 2014.
178	The Authority recommends that SunWater's Statement of Corporate Intent (and relevant legislation) be amended to require SunWater to consult with customers in relation to, and publish annually on its website, updated Network Service Plans (NSPs) commencing prior to 30 June 2014.

QCA Final Report V. 1 Page Ref.	Recommendation
	<p>The NSPs should be enhanced to present:</p> <ul style="list-style-type: none"> (a) high level options analysis for all material renewals expenditures expected to occur over the Authority's recommended planning period; (b) detailed options analysis for all material renewals expenditure expected to occur within the subsequent five year regulatory period; and (c) details of SunWater's proposed renewals expenditure items and accounting for significant variances between previously forecast and actual material renewals expenditure items. <p>Customers' submissions in response to the NSPs and annual updates should also be published on SunWater's website alongside SunWater's responses and related decisions.</p>
199	<p>The Authority recommends that, at the conclusion of this review, SunWater commence a review of a more appropriate means for allocating fixed renewals costs in distribution systems for consideration for the Authority prior to 30 June 2014.</p>
257	<p>The Authority recommends that SunWater undertake a review of its planning policies, processes and procedures to better achieve its strategic objectives. Proposed amendments should be reviewed by the Authority prior by 30 June 2014.</p>
260	<p>The Authority recommends that SunWater improve the usefulness of its information systems. In particular SunWater needs to support its NSP's with documentation and access to the relevant information necessary to:</p> <ul style="list-style-type: none"> (a) attain greater operating efficiency; (b) achieve greater transparency; and (c) facilitate future price reviews. <p>To achieve greater transparency on SunWater's improved operating efficiency the Authority recommends that SunWater's Statement of Corporate Intent (and relevant legislation) be amended to require SunWater to consult with customers in relation to forecast and actual operating expenditure. SunWater should publish on its website annually updated NSPs (containing this and renewals information) with stakeholder submissions and SunWater's responses commencing prior to 30 June 2014.</p> <p>The NSPs should also be enhanced to present details of SunWater's proposed operating expenditure for the next year and to account for significant variances between previously forecast and actual operating expenditure.</p> <p>The (above) proposed improvements to be made by SunWater (in consultation with stakeholders), to facilitate future price reviews should be approved by the Authority prior to 30 June 2014.</p>

QCA Final Report V. 1 Page Ref.	Recommendation
264	The Authority recommends that SunWater improve its management accounting for the recording, documentation and analysis of labour cost information. SunWater should submit proposals for approval by the Authority by 30 June 2014.
330	The Authority recommends that SunWater explore the feasibility of basing future (subsequent regulatory period) working capital requirements on efficient forecasts of revenue and cash flows from SunWater's irrigation schemes, rather than relying on historical, whole of business data.

* DERM refers to the department(s) formerly known as Department of Environment and Resource Management.