SEQWATER'S 11 MARCH 2013 SUBMISSION / RESPONSE TO QCA REQUEST

11 March 2013

From: Colin Nicolson
Sent: Monday, 11 March 2013 9:52 AM
To: Angus MacDonald
Cc: Damian Scholz
Subject: FW: Treatment of Options Analysis Costs - Submission

Dear Angus

Following our earlier discussions, this email is a submission setting out Seqwater's proposal for the allocation of the costs of preparing the options analyses and, as an alternative, a more cost efficient approach to consulting with customers on renewals forecasts.

Seqwater's reasoning for treating the costs of the options analysis as irrigation only costs are as follows:

1. The driver of these costs is the recommendation in the draft report "that, in forecasting renewals expenditure, Seqwater undertake" high level and detailed options analyses under the conditions outlined.

2. Seqwater undertakes long-term renewals forecasting solely for the purpose of calculating the renewals annuity. The renewals planning for the remainder of Seqwater includes a large portfolio of assets to which the recommendation does not apply and the renewals planning is not undertaken in that fashion. Seqwater uses a renewals allowance for ongoing renewals planning for which projects are prioritized to fit and it treats major renewals as one-off items of capital expenditure as they arise.

3. Neither Seqwater's non- irrigation customers nor DEWS or any other stakeholder have requested the options analyses be undertaken or published and therefore should not be invoiced for the costs.

4. Seqwater will be on a fixed price path for its bulk water supply. Management's focus will be on driving costs down to fit within the price path. Any share of the options analysis costs will be seen as superfluous costs which management will seek to avoid.

5. Whilst it is recognised that the renewals are forecast on an all-sectors basis, the beneficiaries are clearly irrigators.

Consequently, for the reasons outlined above, Seqwater believes that the options analyses costs relate only to irrigation and should be fully included in the irrigation cost pool.

Seqwater again points out that savings equal to the cost of undertaking the options analysis compared to Seqwater's current approach of assuming a like-for-like replacement must be produced before customers benefit from incurring these additional costs. No substantiation has been provided to prove that such savings are to be found. In the absence of substantiated savings, Seqwater is concerned that the options analysis approach will merely produce costly information.

It should be noted that when the recommended materiality threshold of “10% or more in present value terms of total forecast renewals expenditure” was applied, Morton Vale Pipeline had the highest number of projects identified but each project was forecast to cost less than $20,000. However, the cost of performing the options analysis allocated to Morton Vale Pipeline amounts to $16,729 per year. This is not a sustainable position.

Seqwater submits that a far more cost efficient approach would be to establish scheme advisory committees as recommended by the QCA and for Seqwater to present its renewals estimates to the scheme advisory committees for information and discussion with appropriate Seqwater staff. Seqwater would also publish its renewals estimates in its NSPs. Under this approach, by comparison, Morton Vale customers share the combined cost of $6,999 (scheme advisory costs of $3,571 plus enhanced NSP reporting costs of $3,428) with the whole Central Lockyer Valley WSS. Seqwater believes this to be a more pragmatic approach and seems to be the lowest cost option for consultation.

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