SEQWATER’S 31 AUGUST SUBMISSION / RESPONSE TO QCA REQUEST OF 24 AUGUST

24 August 2012

The Authority provides, herewith, another formal (consolidated) information request to Seqwater. [Questions outlined below prior to Seqwater responses.]

Dear Colin

As discussed, we note that for the 2012-13 base line, regarding the irrigation price review, Seqwater submitted total opex (direct + non-direct) as $285,966,019 (Variable Cost: $39,344,628 and Fixed Cost and Allowable Cost: $246,621,391).

By contrast, we note that for the bulk review report we used $285,504,916 (Variable Cost: $39,344,628 and Fixed Cost: $246,160,288). The difference (-$461,103) reflected our adjustment at that time in (partial) accordance with your instructions regarding double-counting of Veolia Margin at the GCDP.

Also in contrast, we note according to your instructions to our bulk team, they should have further reduced the proposed total cost ($285,504,916) by $37,067 (relating to variable costs). This would have resulted in total proposed opex for the bulk report being $285,467,849 (Variable Cost: $39,307,561 and Fixed Cost: $246,160,288).

Please confirm.


We have been advised that the May 2012 Annual Operations Plans has been approved and adjustments were made to forecast demand, resulting in a new expected Variable Cost of $39,470,037. The total Opex is now $283,187,918 (Variable Cost $39,470,037 plus Fixed Cost: $232,990,919 plus Allowable Cost of $10,726,962).

Since the bulk report only recognises variable costs associated with water treatment which are all attributed to urban, therefore, there are actually no variable costs that could be attributed to irrigators. To avoid the complications of May AOP versions and the recommendation based on $/ML only, we believe that the focus of the Seqwater Irrigation Price Review should only be on the fixed and allowable costs (as defined in the bulk report) = $243,717,881 and should exclude the $539,470,037 of variable costs.

In addition, the extra 2.5% off Seqwater’s fixed opex ($5,889,327) recommended by the Authority will be applied.

Accordingly, please confirm that the 2012-13 base line, for the irrigation price review, should be total opex (direct + non-direct) of $237,828,554 (Fixed Cost: $232,990,919 plus Allowable Cost of $10,726,962 minus 2.5% Efficiency Target of $5,889,327) if it is to be consistent with our bulk final report.

OPTIONS

1. If so, please outline whether you will re-run your pricing model on this final report ($237,828,554) basis and accordingly update all submission (including NSPs) and resubmit too us. If so, when?

2. Or consider whether, in preparing the draft report, we should make this adjustment.
I note the difference between your submitted total opex for the irrigation review ($285,966,019 pa) and this final report figure $237,828,554 is $48,137,465 (17%)

A response would be appreciated by Friday 31 August 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 14 AUGUST 2012

Angus

Our answers are under each question below.

QCA Question 1

Seqwater Response to Item 1

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