

22 March 2013

From: Van Beusichem Audrey
Sent: Friday, 22 March 2013 11:59 AM
To: Angus MacDonald
Cc: Hinrichsen Lyall; Douglas Jason; Sanders Paul
Subject: RE: Further QCA Information Request - 14 March 2013

Hi Angus

Please find attached our response to the questions you set out below. Please note that in relation to the Moreton Vale pipeline issues that further information should be sourced directly from Seqwater.

Kind Regards
Audrey

Audrey van Beusichem
Director Water Planning South
Water Policy
Department of Natural Resources and Mines
Mobile: 0422075467 **Telephone:** 32247312

From: Angus MacDonald
Sent: Thursday, 14 March 2013 2:09 PM
To: Van Beusichem Audrey; Sanders Paul
Subject: RE: Further QCA Information Request - 14 March 2013

Dear Audrey and Paul

RE: Further QCA Information Request - 14 March 2013

I write with a further two matters for your consideration and a DNRM response please. The response will be treated as a submission.

QCA Question 1

Declining Nominal Customer WAE in Morton Vale Pipeline and Past Termination Fees

Background

The Authority also notes that the Morton Vale Pipeline:

- was completed in 1997 and originally designed to provide a total nominal allocation of 5,051 ML (Seqwater 2010);

- according to the Annual Water Statistics published by DNR for 1997-98 and 1998-99, 4,377 ML of allocation is indicated (DNR 1998 and 1999);
- in establishing prices for the 2000-05 price path, nominal allocation associated with the Morton Vale Pipeline were 4,377 ML;
- in establishing prices for the 2006-11 price path, nominal allocation associated with the Morton Vale Pipeline were 3,590 ML (SunWater 2006b);
- the IROL says 3,507 ML medium priority customer WAE;
- Seqwater's April NSP says 3,507 medium priority customer WAE; and
- Seqwater's November NSP says 3,470 medium priority customer WAE.

Draft Submissions and Draft Authority Analysis

- We note QFF's view that in the Morton Vale Pipeline fixed costs should be allocated using (i.e. divided by) the original surface water nominal WAE associated with the Morton Vale Pipeline (i.e. 5,051 ML of medium priority customer WAE).
- QFF considers that the QCA's Draft Report approach, using current medium priority customer WAE of 3,470ML (Seqwater April and November NSP), is not appropriate as it does not reflect the capacity agreed by irrigators at the time contracts were signed and unfairly allocates costs to remaining customers, which should have been paid by the exiting customers (at least in part).
- QFF also advise that the exit of the implied 1,581 of medium priority customer WAE from Morton Vale should not cause remaining customers to bear the entire fixed costs of the Morton Vale Pipeline, allocated to the current significantly smaller portion ($3470/5051 = 67\%$) of customer WAE.
- We tend to agree and intend to write this up accordingly in the Final Report. However, we seek further information upon which to base our analysis.

Information Requested

Our questions, therefore, to DNRM are as follows:

QCA Question 1a

Although "designed" in 1997 to provide 5,051 ML, was Morton Vale Pipeline ever built to provide this level of capacity?

DNRM Response to Item 1.a

Records indicate a total agreed allocation of some 4997 ML in March 1997. Given that the pipeline was completed in March 1997 it would be reasonable to assume that the pipeline was built to provide some 5000 ML of capacity.

QCA Question 1.b

Alternatively, was the Morton Vale pipeline instead built to provide 4,377 ML of medium priority customer WAE (consistent with the Government's Annual Water Statistics 1997-98 and 1998-99, where 4,377 ML of WAE is published (Source: Department of Natural Resources (DNR), 1998 and 1999)?

DNRM Response to Item 1.b

See response to Item 1.a

QCA Question 1.c

In either case, please provide documentary evidence or an approved statement by DNRM confirming the ML of WAE upon which the built capacity of this tariff group was established.

DNRM Response to Item 1.c

See response to Item a.

QCA Question 1.d

Further, we note that the IROL records 3,507 ML (p.34), which contradicts Seqwater's submitted 3,470 ML. Which number is correct please?

DNRM Response to Item 1.d

The IROL figure would have been based on information available in 2000 when the IROL was first developed. There is information to indicate that in 2008 the total level of Sunwater contracts was 3590 ML. It appears that since then some further allocations, or part thereof, have been relinquished. Seqwater should be contacted to investigate this issue. Can confirm that the IROL does include 3507ML for Mortonvale Pipeline. This is all that Seqwater is authorised to deliver to these customers.

QCA Question 1.e

Moreover, please outline in dot points the key causes of the reductions in medium priority customer WAE from 5,051ML to 3,470ML over the period 1997 to 2013.

DNRM Response to Item 1.e

- *The yield of Lake Clarendon was originally estimated to be 11,000 ML with a high reliability.*
- *Given the yield considered available and proposed layout of pipeline it was considered efficient for the operation of the pipeline to maximise allocations up towards a 5000 ML total allocation level.*

- *The Department and irrigators supporting the pipeline construction encouraged the take up of allocation*
- *The drought conditions suffered in 1992 -95 cast some doubt on the estimated yield of Lake Clarendon although in 1997 the department still considered an 11,000 ML yield was achievable.*
- *As the pipeline became operable and water charges were implemented, a number of landholders on the Morton Vale Pipeline came to the realisation that they could not justify the expense of the allocation (capital charges) given their potentially limited farming operations. They sought to relinquish their allocations either partially or in full. Additionally as properties were sold, some new owners were encouraged by the department to apply for smaller allocations at the point of sale, based on area of irrigable land available on their particular properties.*
- *At the same time, it became quite clear that the originally assessed yield of Lake Clarendon, based on limited hydrology, was incorrect and the reassessed figure was in the range of 7,000ML/annum with a poor reliability.*
- *Given the demand for water by groundwater users and surface water users on Lockyer Creek, it was then considered prudent to accept the relinquishment of allocations from Morton Vale irrigators. This resulted in the total allocation to Morton Vale users being reduced to some 3,500ML/annum.*

QCA Question 1.f

Please explain what happened to the reduced amounts? That is, were they transferred to Central Lockyer or removed from the scheme to be held by the DG or SunWater or Seqwater?

DNRM Response to Item 1.f

The authorised volume is the volume in the IROL which is 3507ML.

QCA Question 1.g

Please quantify the number of ML of WAE that, upon exit by irrigators, were NOT associated with paying a termination fee (exit fee) consistent with the Morton Vale Pipeline Contract?

DNRM Response to Item 1.g

A definitive response to this query cannot be supplied.

By way of background, the then department's Water Commercial group was initiated in 1996 which became State Water Projects and then Sunwater in June 2000. In the period between 1996 and 2000 details relating to water charges were dealt with by these groups/ organisations and when Sunwater separated from the department in June 2000 records of water charging issues in the Morton Vale area went with Sunwater on their filing system. It is the recollection of department officers involved in this process at this time that the initial reduction in allocations from some 5000 ML to some 3507 ML saw no requirement for termination fees and none were paid. Seqwater as water supply scheme operator and

presumably now the holder of all the older files and records (transferred from SunWater), would need to be approached.

QCA Question 1.h

Please quantify the number of ML of WAE that, upon exit by irrigators, were associated with paying a termination fee (exit fee) consistent with the Morton Vale Pipeline Contract?

DNRM Response to Item 1.h

As per response to 1.g.

QCA Question 1.i

Where a termination fee was applied, please provide the estimated revenue, who received it and how it is currently being managed / used (e.g. to offset the ongoing fixed costs associated with this scheme that should not, in our view, be paid 100% by remaining customers.

DNRM Response to Item 1.i

As per response to 1.g

QCA Question 2

Review of Distribution and Bulk Loss WAE in Seqwater WSSs by DNRM

Draft Submissions and Draft Authority Analysis

The Authority notes DNRM's submission, which does not support the QCA's Draft Report recommendation that DNRM review and determine the efficient level of bulk and distribution loss WAE in those Seqwater schemes where such WAE exist by 30 June 2015.

DNRM's submission states that because the appropriate volume of loss WAE is essentially a function of scheme operation and contractual arrangements between the WSS and customers, it is inappropriate for the resource regulator (that is, DNRM) to exercise judgement as to what is the appropriate volume of loss WAE should be.

However, the Authority's Final Report for SunWater Irrigation Prices 2012-17 recommended (p.86) that "DERM immediately review the distribution loss WAE in all distribution systems to ensure that distribution system customers do not pay for distribution loss WAE held by SunWater in excess of requirements. The review should be completed by 30 June 2014."

We note that this recommendation was approved by Government.

Information Requested

Accordingly, we ask that DNRM respond to the following questions:

QCA Question 2.a

- a) To what extent is DNRM currently progressing the Government-approved QCA recommendation regarding the review of SunWater distribution loss WAE?

QCA Question 2.b

- b) What steps have been taken to enable SunWater's inefficient loss WAE to be identified and reduced by 30 June 2014?

QCA Question 2.c

- c) If that review is being progressed by DNRM (and/or SunWater), please outline the reasons why it may also be appropriate for DNRM to review distribution and bulk loss WAE in Seqwater WSSs?

QCA Question 2.d

- d) Alternatively, please clarify why Government may have approved this for SunWater and yet, in this case, DNRM has submitted that the same recommendation / process should not apply for Seqwater Irrigation Prices 2013-17. What is the difference in circumstances leading to this position.

DNRM Response to Items 2.a, 2.b, 2.c and 2.d.

DNRM maintains the same position on the subject of Seqwater scheme distribution losses as was submitted for the SunWater irrigation prices. This position is clearly outlined in our submission.

I am happy to discuss these matters with you at any time.

DNRM's responses to the above matters would be appreciated by **COB 19 Wednesday 2013, please.**

Kind regards

Angus MacDonald

Team Leader



Ph: 07 3222 0557

Mob: 0488 444 973

Fax: 07 3222 0599