SEQWATER’S 6 AUG SUBMISSION / RESPONSE TO QCA REQUEST OF 30 JULY

30 July 2012

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

A response would be appreciated by Monday 6 August 2012.

From: Colin Nicolson
Sent: Monday, 6 August 2012 4:35 PM
To: Angus MacDonald
Cc: Damian Scholz; Adam Kay-Spratley; Ross Muir
Subject: FW: Indec report

Angus

Here is the response you requested re: the Indec Report. Sandro has provided the answers under each heading titled “Indec Response” along with one of two supplementary papers. I will send the second paper to you as soon as I have it but it may not be until tomorrow morning.

QCA Question 1

2005/06 Revenue

We have compared numbers in the Indec report with those submitted by SunWater, for the SunWater review. Indec’s numbers align with SunWater’s for every year, except for 2005/06. In 2005/06, the renewals revenue received varies considerably between Indec and the (we believe more correct) information previously obtained by us from SunWater, late in that review.

I think that Indec may have used forecast renewals revenue data for 2005/06. However, SunWater replaced the forecast revenues with actual revenues. It is our preference to use actual revenues, rather than forecast. This was the data we adopted for price recommendations in the SunWater final report.

According to Appendix B of Indec’s report, Indec developed the revenue figures based on a spreadsheet dated 28 March 2012. For the SunWater review, the Authority received the correct spreadsheet (which replaced 2005/06 forecast with actual data) in April 2012 (that is, post dating Indec’s data – with material actual variances).

Actions

1. A spreadsheet that compares Indec and SunWater data is attached. Could you please raise this matter with Indec, and if possible have them recalculate the results on the basis of our preferred data (if they agree that it is more relevant – in that it is the actuals) and ideally, could Seqwater then resubmit to us the Revised Final Indec Report with the actual revenue numbers.

2. We will then need to discuss the implications for the NSPs and Seqwater main submission.
Seqwater (Indec) Response to Item 1

As advised in the response to the original QCA enquiry on this matter, Indec received updated revenue data from SunWater on 14th May 2012 as document in the Report in Appendix B. The updated revenue data received from SunWater for the 2005/06 year includes actual industrial and urban revenues rather than ‘assumed’ revenues for the urban and industrial customer sector in the original data file provided by SunWater. Indec is of the view that the data received from SunWater on 14th May 2012 is more relevant and appropriate to the ARR Balance calculation.

QCA Question 2

Revenue Transfer

To unbundle the ARR balances, Indec have also proposed a revenue transfer. The Indec report says:

1. For the five year period 2006-07 to 2010-11, the revenue transfer has been based on actual revenues, whereas for the period 2011-12 and 2012-13 a combination of year to date actuals (up until March 2012) and forecasts have been applied; and

2. Due to the unavailability of the required data for the 2000-01 to 2005-06 period, the revenue transfer between distribution and bulk supply has been “based on the percentage averages over the 2006-07 to 2012-13 period.”

We are unclear about what this means. In respect of the above, can you please explain in more detail how revenue transfers were calculated (including a worked example). Specifically:

1. What are ‘actual revenues’? Actual revenues are revenues as recorded in the financial accounts and audited as part of the annual accounts sign off. For the 2011-12 and 2012-13 years, the revenue figure are not final due to timing. For the 2011-12 include a combination of year to date actual July 2011 to March 2012) and estimates for April to June 2012 and forecasts for the 2012-13 year based on budget estimates.

2. Are the actual revenues for each tariff group [as opposed to total WSS] known for 2006-07 to 2010-11? Yes.

3. If so, how were they separated from total revenue? No need to separate.

4. What are the ‘percentage averages over the 2006-07 to 2012-13 period’? These are the 7 year averages over 2006 to 2013 of the annual percentage of revenue transferred from distribution to bulk for tariff unbundling purposes. This is simply the average of the annual revenue transferred over total revenue expressed as a percentage.

5. Does this percentage relate to the average percentage described in (1)? Yes, as the average percentage is derived from the calculations undertaken over the 2006-07 to 2012-13 period.

In the SunWater Review, we split 2001-02 to 2005-06 revenues based on the ratio of distribution system to bulk expenditure over the 2001-36 period [2001-11 actual and 2012-36 forecast expenditure]. We concluded that a longer period was more likely to result in a better outcome. Why was a shorter period selected by Indec for its report as submitted for and to Seqwater? Please ask Indec to provide a detailed explanation (and how it is superior to the approach adopted by the Authority as part of its SunWater Final Report).
Seqwater (Indec) Response to Item 2

See attached background paper on the methodology applied by Indec which includes a more detailed outline of the methodology, its objectives and a worked example.

QCA Question 3

2008-11 Renewals Expenditure

According to the Indec Report, Seqwater underspent on renewals compared with forecast over 1 July 2008 to 30 June 2011 (3 years). The table below shows this.

UNDERSPEND: However, in four tariff groups, actual total expenditure over this 3 year period is less than forecast (Cedar Pocket, Central Lockyer, Morton Vale Pipeline and Warrill Valley).

OVERSPEND: By contrast, in four other tariff groups the actual spend is more than forecast for this 3 year period (Logan River, Lower Lockyer, Mary Valley and Pie Creek).

Can you please in details (with supporting Excel spreadsheets if possible) – for each of the eight tariff groups – specify the renewals items that were undertaken in each of these years (or the sub-set that varied from forecast) and thus outline the basis for these variations.

<table>
<thead>
<tr>
<th>Tariff Group</th>
<th>2008-09</th>
<th>2009-10</th>
<th>2010-11</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cedar Pocket Dam</td>
<td>4,475</td>
<td>4,710</td>
<td>(60,517)</td>
<td>(51,332)</td>
</tr>
<tr>
<td>Central Lockyer Valley</td>
<td>(80,780)</td>
<td>(175,868)</td>
<td>(168,044)</td>
<td>(424,692)</td>
</tr>
<tr>
<td>Logan River</td>
<td>9,227</td>
<td>(22,189)</td>
<td>103,296</td>
<td>90,334</td>
</tr>
<tr>
<td>Lower Lockyer Valley</td>
<td>(34,495)</td>
<td>41,712</td>
<td>9,483</td>
<td>16,700</td>
</tr>
<tr>
<td>Mary Valley</td>
<td>144,289</td>
<td>(63,178)</td>
<td>188,431</td>
<td>269,542</td>
</tr>
<tr>
<td>Morton Vale Pipeline</td>
<td>(8,402)</td>
<td>(10,522)</td>
<td>(9,936)</td>
<td>(28,860)</td>
</tr>
<tr>
<td>Pie Creek</td>
<td>21,489</td>
<td>5,068</td>
<td>46,070</td>
<td>72,627</td>
</tr>
<tr>
<td>Warrill Valley</td>
<td>18,039</td>
<td>(75,726)</td>
<td>(51,473)</td>
<td>(109,160)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>73,842</td>
<td>(295,993)</td>
<td>57,310</td>
<td>(164,841)</td>
</tr>
</tbody>
</table>

Seqwater (Indec) Response to Item 3

See attached background paper for analysis of actual versus forecast renewals expenditure.