Bundaberg Regional Irrigators Group
Representing member irrigators in the Bundaberg Irrigation Area

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Submission to QCA

SunWater Price Review – Bundaberg Scheme

Bundaberg Regional Irrigators Group Ltd (BRIG) has been established to represent irrigators in the Bundaberg district across a range of commodity groups including sugarcane, grain and horticulture. Our purpose is to ensure that a fair and reasonable system exists for the charging of, use and access to water for irrigation purposes; to support and encourage self-management of the Bundaberg Irrigation scheme/s; and to develop projects and policy to ensure the efficiency, viability and sustainability of irrigators in the Bundaberg Region.

BRIG enjoys the support of the majority of Bundaberg Scheme Irrigators, Bundaberg Sugar Ltd and the Avondale Water Board.

BRIG is deeply disappointed that SunWater has seen fit to supply information to this process in a tardy and incomplete fashion. In addition there are clearly errors in the material that should have been corrected by local SunWater staff that have more detailed knowledge of each scheme. No attempt has been made to correct these errors.

BRIG has assumed that the SunWater CEO has the permission of the SunWater board and the shareholding ministers to adopt this less than helpful approach.

It is also clear that QCA will not be able to, in the time remaining, produce a pricing recommendation based on all the facts, that is fair and equitable to all customers.

BRIG certainly believes that its role in this process has been severely curtailed by the time constraints that have been imposed on the process.

In light of the above concerns, BRIG, in this submission, will concentrate on issues that we believe will have a significant impact on the prices recommended.

BRIG reserves the right to submit further submissions as further information comes to hand.

In addition to the meeting held in Bundaberg on 15th April, BRIG believes that QCA's consultants need to pay particular attention to the following issues in their final reports:

Deloitte: SunWater Administration Cost Review

Professional Indemnity Insurance

BRIG does not believe that any of SunWater's professional indemnity insurance costs should be attributed to irrigation water users. Surely these costs relate solely to SunWater's consulting business. The report does not examine this issue.

Purchasing Costs

The report at present deals with the allocation of purchasing costs. It does not comment on whether SunWater's purchasing methods are efficient or "best practice". It also does not comment whether the purchasing efficiency issues identified at the least price path have been dealt with. Is 5% a reasonable cost for a purchasing service?

Aurecon: Review of SunWater's Network Service Plans

Labour Mix

At present this report makes no comment on whether SunWater has the right amount of labour to meet service standards. Nor does it comment on whether there is an efficient mix of own employees, overtime and contractors. In particular the issue of meter reading could be compared to other similar organizations such as Ergon.

BRIG suggests that having the Ergon contractors read the water meters, which are located adjacent to their electricity meters, would provide cost savings.

Cost of Underutilized Labour Attributed to Other Contracts

BRIG acknowledges that by its very nature the SunWater business will generate a proportion of underutilized labour – wet weather etc. BRIG seeks assurances that the cost of this is spread across all the duties on which labour is deployed. In Bundaberg the obvious non-irrigation duties are reading the meters and meter repairs for DERM on the underground scheme and any duties related to Burnett Water.

Accuracy of Time Sheeting

BRIG believes the accuracy of the time sheeting process requires examination.

Please refer to Figure 8-13 on page 107 of the draft report. The ability of SunWater to carry out preventative maintenance with only 3.1% of the total cost being attributed to materials and 1.7% to contractors is most unusual and unlikely. It is also questionable that some 61% of preventative maintenance costs are attributed to indirects and overheads. BRIG cannot comprehend how that much planning could be required.

BRIG suggests that maintenance costs in any one year are unlikely to be linked in any meaningful way to water usage. It is likely that labour is deployed on maintenance when irrigation (operations) is not taking place so there may in effect be an inverse relationship.

Longer Term Electricity Supply Contracts

BRIG believes that SunWater should examine the availability of long term electricity supply contracts so that irrigators have the option to lock in the energy component of their water price over the 5 year price path.

Division of Renewals Annuity Balance Between Bulk Water and Distribution

The large negative balance (-$1.3M) in the renewals annuity account for bulk water is a very significant concern for river irrigators. BRIG members are not aware of any large expenditure on these assets over the last 5 years. BRIG request this be examined in detail and in particular the large increase in expenditure at the end of the current price path.

This issue will be dealt with again below.

Portion of Gin Gin Channel Costs to be included in Bulk Water Costs

BRIG believes that SunWater's calculations in relation to this matter are based on the old hydrological model and the full sale of the Burnett Water allocation. As the sale of this water is unlikely to occur during the 2012 to 2016 period, this approach should be examined more closely.

There are a number of other issues that BRIG requests QCA to examine in detail:

1. WACC Value

BRIG understands that any argument in relation to the imposition of a WACC rate that includes a return on SunWater equity will be fruitless. However, the following is presented for consideration:

- The referral notice requires that the existing irrigation assets be valued at zero for the purpose of calculating a return on assets
- If that is the case, where does SunWater raise the equity it uses in the WACC calculation
- If there was local management of the scheme, the board would borrow from QTC to fund any asset renewals or invest any positive balances with the same body. They may add a small premium for risk but would certainly not be seeking commercial rates of return.
- Even though Bundaberg has a positive balance, BRIG believes that the WACC rate should follow closely the QTC lending rate.

2. Division of Renewals Annuity Balance Between Bulk Water and Distribution

Please refer to pages 6 to 9 of the SunWater background paper entitled "Renewals Annuity". BRIG believes that from the perspective of a river irrigator SunWater has failed their sanity check in a most alarming manner and that their proposal cannot be considered in any way to be fair. SunWater appears to be proposing that the current positive whole scheme renewals annuity balance be divided so that the bulk scheme has a negative $1.3M balance in 2012 and the distribution scheme have positive $2.291M balance.

River irrigators for many years have been paying well above lower bound prices and the Part A / Part B tariff split was amended in the previous price negotiations to partly address this issue. This cross subsidy was then deployed to reduce the channel irrigators' charges. It can be argued that SunWater's proposal perpetuates this cross subsidy for all time. BRIG believes this is most unfair and suggests that at the very worst the bulk water balance should be set at zero.

3. Tariff Structure and Risk

BRIG believes that any variance from its proposed fixed costs in Part A and variable cost in Part B approach will increase the risk associated with SunWater's income. QCA should develop a risk matrix which shows what impact this additional risk will have on the WACC and water prices.

BRIG believes that the argument about having some fixed costs in Part B will make SunWater more efficient is flawed. The retention of postage stamp pricing would make this approach totally ineffective. Postage stamp pricing provides a disincentive for SunWater to pump any additional water to higher pumping cost areas of the scheme. They lose money on every extra Ml pumped to these areas. They make large profits pumping extra water to lower cost sections.

4. Medium Priority vs. High Priority Prices

a) WRP review

Members of BRIG and SunWater are currently involved in a review of the water resource plan (WRP) that controls irrigation take for the Bundaberg Scheme. This review will be followed by a resource operations plan (ROP) review. New modeling will be available it is likely that significant changes will be made. BRIG has assumed that any pricing proposals made by SunWater are based on the existing WRP and hydrological modeling. So there is a risk that pricing will not reflect the new operating conditions and in particular the conversion factors between medium priority (MP) and high priority (HP) water.

b) Impact on Medium Priority Announced Allocations

It must also be recognized that while the conversion factor for MP to HP calculated by DERM maintains the reliability of MP water, the impact on MP users of such conversions at very low storage levels is very severe – from a small announced allocation to zero.

c) Pricing Should Not Encourage Conversion

BRIG believes that the pricing structure should not encourage the conversion of MP to HP. In other words, the cost of holding extra MP to ensure a reasonably reliable supply should be less than the cost of a lesser quantity of HP water.

d) Renewals Annuity

BRIG believes that the HUF approach proposed by SunWater for allocation of asset renewal costs to MP and HP underestimates the proportion of the asset devoted to supplying HP bulk water. BRIG also believes that the DERM modelers support this argument.

Having different conversion factors in pricing and the WRP & ROP will be very confusing and cannot be justified. Brig proposes the WRP conversion factors be used in determining water prices.

e) Operating Costs

BRIG believes that SunWater's proposal in relation to the remaining portion of Part A water charges is also unfair. They propose the charges per Ml of nominal allocation for MP and HP should be identical.

BRIG believes that the charges per Ml available for use should be identical i.e. the charge should be based on expected average announced allocation. The owner of one Ml of HP nominal allocation will use the distribution asset far more than the holder of one Ml of MP nominal allocation.

Further information or clarification can be provided on any aspect of this submission. Enquiries should be directed to Mr. Dale Holliss, Co. Secretary, Bundaberg Regional Irrigators Group Ltd on (07) 4151 2555.

Yours faithfully

[redacted]

MA Smith
Deputy Chairman