

## CANEGROWERS submission re QCA water price review March 2011

The comments below relate to meetings held with growers and consultants undertaking the operational and capital expenditure reviews of Sunwater held in March 2011.

### **Bundaberg**

1. The impact of WACC on modernisation of schemes is a significant issue. That is a higher WACC as a discount rate will discount any future cash flow savings associated with investing in capital upgrades to modernise schemes and reduce their costs. This needs to be carefully considered and would suggest a lower WACC would lead to greater modernisation of schemes.
2. The cost savings associated with modernisation in renewals expenditure, especially for items beyond year 5, need to be considered. For example a renewals expenditure in year 6 of \$5m will have a very significant effect on renewals annuity. However any cost savings that may occur from this item would not be picked up in the 5 year operational expenditure forecasts. If in NPV terms half the \$5m in renewals expenditure is covered by cost saving (eg in electricity) should \$5m or \$2.5m be used as renewals expenditure in year 6?
3. The definition of fixed costs needs to be explored. Variable costs are not only costs that are variable directly in line with water use. They are also costs that vary in bands with water use. For example, a certain renewals corrective and preventative maintenance program may be necessary for usage above 60% but a reduced expenditure between 30 and 60% and different again below 30%.

Also costs are variable if they fluctuate year to year but fluctuations are not related to water use. For example direct labour costs vary significantly year to year in the Bundaberg bulk NSP which suggests that these costs are not fixed for this NSP. Given the breakup of scheme costs for 30 NSP's, the issue is not whether Sunwater's costs are fixed overall but whether they are fixed for individual NSP's.

Also, how can corrective maintenance be a fixed cost? It is a cost item that relates to unforeseen breakdowns and could vary significantly year to year. Contractors costs are surely not a fixed cost?

True fixed costs for Sunwater could be determined by seeing what costs would occur after several years of 0 water use with an expectation of 0 water use in the next few years as well.

4. The conversion factor and HUF for this scheme were questioned. If 90% of allocations are medium priority why is converted nominal allocations 84% for medium priority? This indicates a conversion factor around 1.7 which would be very low for this scheme. This is

especially the case since the current ROP rules give extremely high reliability for HP especially as you progress towards the end of a water year.

Also the HUF is 82% which would indicate that the driest 15 years for Bundaberg are very close to the average which does not match the very dry conditions experienced in the past few decades.

5. Insurance is a concern and it was raised why schemes pay a proportion of professional indemnity insurance which directly relates to Sunwaters external developments. This is not required for running irrigation schemes. Also, has a review of past insurance spending and claims been undertaken to ensure that Sunwater is not over insuring itself?

Also I would expect Sunwater to be much more risk averse with industrial and urban infrastructure. Its customers would be much more demanding of replacing infrastructure that is damaged immediately in a similar manner to its original state since the costs of downtime are much higher than for irrigators. Consequently industrial customers would be prepared to pay for insurance costs to ensure this occurs.

Irrigators would not demand such rapid rectification and probably could not justify very risk averse insurance costs. They would also be more likely to reconfigure many assets so full insurance would be less appropriate. Consequently spreading insurance costs by value and type of asset needs to be reviewed. And does this cost allocation method really reflect how Sunwater insures now?

6. The impact of Burnett water is only briefly mentioned in the 2 NSP's with regard to electricity costs. It appears that except for electricity costs the new water out of Paradise dam does not contribute a cent to the costs of running the bulk or distribution assets. This is despite the fact that the charges for Burnett water reflect similar water charges to the old water plus a rate of return plus a capital charge when purchasing the water.

The new water has access to channels in peak times for some water and off peak for significant volumes and it uses all of the bulk assets. It is only fair that the new water pays for its share of channels and bulk water or it should not be permitted to use these assets. The new water was not designed to increase reliability of the old water and it has not. In fact the old water is probably worse off with the loss of credit water. But it has shared its assets with the new water with no contribution to costs which is not appropriate.

7. Bucca weir costs are in the distribution NSP which is not appropriate since it is a bulk asset.
8. Bingera channel lining of almost \$5m is mentioned in the distribution NSP. This is a concrete channel and it is unclear why this would be replaced over 2 years? More likely leaky sections would be replaced in small amounts or cracks would be fixed as they appear at low cost.
9. The shutters at Ben Anderson are refurbished 10 at a time and there are 110 in total. Is there a more efficient means of undertaking this refurbishment to lower the cost?

10. What are the revenue from leases and how does this compare to the legal and other overhead costs associated with this? If the revenue offset is less than the overhead cost what is the point?
11. Storage and carry over fees are not included as a revenue offset since the charge reflects the full cost. Has this claim been validated? These fees should either be proven to reflect efficient costs or should be scrapped and included in water charges?
12. The inconsistencies that could occur between the 4 op and cap x consultants was a big concern. What is being done to ensure that there is consistency and that any opportunities to increase efficiency and decrease costs identified by 1 consultant are incorporated into all NSP's? Also, who is doing a scan of all consultants findings to ensure this is done? Also, given that indirect and overhead costs are such a large cost item these should have been discussed with growers by the appropriate consultant.
13. Re renewals, there appears to be greater focus on the next 5 years compared to the latter 20 years by the consultant. All major expenditures have a similar impact on the renewals annuity especially with a low WACC and so equal focus should be placed on all high cost items across the renewals time period chosen.
14. Has the efficiency of cost items been benchmarked against cost by private companies and contractors? Economies of scale suggests costs should be lower not higher.
15. The reductions in service standards in recent years without approval of customers was a major concern. Eg 48 to 72 hours for shut downs. Also if Sunwater doesn't meet its service standards there is no action so do the service standards mean anything?

#### **Mareeba**

1. Decreasing levels of service with shutting down Mareeba office. Also has centralising function decreased costs sufficiently to compensate for loss of service? Also means that Sunwater is less responsive on operational issues. Eg channel and other operational problems are now not immediately passed onto Sunwater by customers so creates bigger problem and direct cost.
2. Currently with 70/30 tariff split small incentive for Sunwater to deliver water. With 100% part A no incentive for Sunwater to deliver water.
3. Water charges should provide an incentive for growers and Sunwater to be efficient, Sunwater to deliver water and the charge to reflect the cost. But if the charge reflects costs there is no incentive for sunwater to deliver water. They are indifferent to whether they deliver water or not so why would they. Is that the right incentive to set Sunwater?
4. Concerns re Scada. Very high capital cost, high maintenance cost, working very poorly and what should happen to it? There are significant cost in renewals including \$615,000 in 2012-

2016 to replace scada which has never worked. This cost should either not be incurred since it doesn't work or it should be fixed at Sunwaters cost.

5. Significant Sunwater and on farm grower costs have been incurred to minimise losses from channel overflows and losses by building on farm storages and taking channel overflow water. However significant losses are still occurring due to poor management. Why? Also, how has this water been accounted and paid for?
6. Fencing cost issue. High cost and ineffective since not locked off. Should have consulted with growers and implemented low cost effective solution that growers were happen with. In many cases growers would have built for nothing. Is this required legally or has Sunwater taken very risk averse approach?
7. Cost allocation for hydro and environment. Is 20% of bulk costs sufficient?
8. Tilapia fish are an issue in this scheme. They are in Barron catchment but not gulf in theory and significant direct costs are incurred in trying to keep tilapia out of the gulf. In reality fish are getting through the filter system in channels and into the gulf catchment and the failure of the filter system has caused flooding of farms. Why should growers pay for this environmental cost which is ineffective and when there are already tilapia fish in the gulf catchment?
9. Check contracting costs since many contractors are not cheapest local contractors. Also often works take a lot longer than required and shut downs are too long and often 2 shut downs which adds to costs.
10. In distribution nsp there are renewals costs for Bruce, Collins, Leafgold and Solanum weir which are part of bulk system and listed as assets in bulk NSP.
11. Need to restructure scheme to reduce scheme costs and modernise schemes. This is a big focus for locals to ensure that schemes are sustainable but is not a focus for Sunwater since their focus is on industrial development.
12. Renewals program and why have a 20 year rolling annuity if so much uncertainty re future expenditure and no detail on this expenditure has been provided. Sunwater has done considerable work determining which items need to be renewed in the next years, what is the most efficient way of renewing them and the cost. Renewals items for year 6 to 25 are just an assumed life span of asset and the cost determined by a full replacement or refurbishment cost and neither of these are realistic.
13. If we are not running assets in perpetuity why do we have a 20 year annuity. A 10 year fixed annuity reviewed every 5 years makes more sense with great detail on spending during that process given. Also, only items which are likely to occur would be approved not any items that may or may not occur or items that are unlikely to occur but you make a provision just in case.

14. If Sunwater will not be running the channel scheme in 10 years so why are Sunwater collecting money on behalf of growers for future expenditure?
15. Given the scheme is 52 years old, how do some of the large expenditure items re renewals compared to historical upgrades? For example if an upgrade to distribution channels of \$11m is planned, how does this compare to past refurbishments and is this expenditure required? Historically small bays are relaced one by 1 when required each year at low cost and entire channel will never be fully replaced in 1 year

### **Burdekin**

1. Rec costs should reflect bare minimum of costs not decisions that Sunwater has made to be a good corporate citizen. These costs should be paid by Sunwater not by growers.
2. Cost of automated gates. Was this necessary? What cost savings have occurred from putting in new gates and replacing manual drop boards? No cost reduction in fact greater cost due to high capital cost.
3. Need incentive to reduce electricity costs for Sunwater including reducing losses, changing balancing storages, new pumps, and off peak tariffs.
4. Not sure what the big renewals spend for 2010-11 was. Gates all purchased pre June 2010 but installation this financial year.
5. Concern re cost re fences with Sunwater being risk averse. Typically costs shared 50/50 between adjoining properties so why hasn't this occurred? Also why weren't fencing requirements negotiated with growers to find cheaper solution? Would have lead to cheaper total cost and half would be met by landholders.
6. There are inconsistencies in historical annual reports of Sunwater re renewals. If you compare what was in the 2009/10 annual report v 2008/9 annual report spend for 2006/7 has increased from \$0.7-1.2m, collected for 2007/8 has decreased from \$2.3 to 1.8m and spending for 2008/9 has increased from \$1.3 to 2.8m.
7. Re renewals, big lumpy items a long way out does not match Sunwaters renewals program. For example, replacing concrete channels in one year in 20 years time does not match Sunwater's historical practice of fixing small amounts of concrete channels each year. The renewals program needs to match current best practice not theoretical asset lives which are clearly not correct.
8. Are standards Sunwater is complying with for mining jobs higher than is required for irrigation and what extra overhead and direct costs are being incurred from these? These extra costs if they exist should be attributed to non scheme customers only. Do water boards put up fences around channels and remove drop boards like Sunwater is?

9. The level of recreation costs are very high at around \$400,000 per year which seems very high given the remote facility and small recreation facilities. Are water treatment costs for Clare, Millaroo and Dalbeg costs in NSP? Also cheaper to truck clean water into dam than having water treatment plants. There is a \$824,000 cost in renewals for 2028 for replacing water supply at Burdekin Falls Dam.
10. What is happening to free, reserve and Sunwater allocations? Growers should not be paying the costs of providing this water. Also, NQ water allocation is paying river part A not channel part A like all other channel customers.
11. Cost to replace cable system at dam in 2023 and 2024 of \$5.2m is questioned. Is this required at this time and do you need to spend this much money to fix? Refurbish Clare distribution in 2033 of \$3.616 seems unrealistic for 1 year. All renewals items need a major review now rather than just leaving in and reviewing when within a 5 year time horizon as Sunwater currently does. Perhaps better off using 5 year time horizon only and assume cost beyond this time is the same per year.
12. There are drainage costs in NSP for renewals and weed control. There needs to be a thorough review of drainage costs and charges to make sure costs are efficient. Also, need to decide whether drainage charges should be abolished or not. Also re water harvesting there is no revenue offset for this so is usage against this and charges collected included in usage for scheme or collected separately?
13. What has happened to revenue from selling houses, land and depots? Should be a revenue offset for schemes or a negative renewal item since it is a capital item. Schemes have borne the costs of those in the past and should benefit from their sale.

## **Eton**

1. Prime infrastructure management has 500ML allocation in Pioneer but uses eton bulk and distribution system to deliver all its water. Does it pay it fair share of costs for all its water like all Eton water users?
2. Growers should not pay for legacy costs of poorly constructed pumps and other equipment.