C&R CONSULTING
Geochemical & Hydrobiological Solutions Pty Ltd
ABN 72 077 518 784
Central Queensland

HydroGeomorphic Terrain Evaluations
Water Planning and Management
UCG and CSG Assessments
Groundwater Management
Clay/Soil/Water Reactvity
Geochemical Modelling
Water Flow Modelling
Mine Water Disposal
Petrography

PO Box 804
Emerald Qld, 4720, AUSTRALIA
Tel: +61 (0) 7 4982 3573
Mob: +61 (0) 409 724 475
info@candrconsulting.com.au
www.candrconsulting.com.au

Cotton Australia

QCA Draft Report

Dawson Valley Bulk and Distribution Scheme Submission

Thank you for the opportunity in allowing Cotton Australia to Submit on behalf of the irrigators within the Dawson Valley irrigation area. We strongly indorse the submission put forward by QFF (Queensland Farmers Federation) and will continue to work with QCA (Queensland Competition Authority) throughout this process through QFF. We would also like to reserve the opportunity to Submit at a later date if required. We will make ourselves available to QCA if further information is required on issues put forward in this Submission.

Consultation and Transparency

This pricing process has been slowed and hindered by the flow of information from SunWater, this is apparent by the comments in the consultants reports regarding the lack of, access to, breakup, and timeliness of supply of data required for the consultants to do their jobs. The consultants have also been hindered by the scope and time lines given to them by QCA which was caused by the inadequate flow of data from SunWater. This has led to a draft report with recommended prices that are based on far too may estimations with a very large step increase in SunWater costs without any supporting data why this is the case. QCA and irrigators are now reliant on the outcomes of reports from consultants in set prices for the next 5 years without any certainty of the data they were produced from.

Consultation between SunWater and customers has failed to exist during the current price path and has left irrigators bewildered at the cost blow outs above the budgeted costs agreed to by SunWater at the end of the last pricing process. This has led to a 33.5% increase across the state in costs above budget in 2011. This is with the exclusion of renewals and the intersafe program.

RECOMMENDATIONS:

1. **With the lack of confidence in data from SunWater and no reasons given for the large cost blow outs it is recommended that QCA adopt the prices set in the last pricing review and carry them forward for the next 5 years.**
2. **Any cost item that exceeds the budgeted cost for the price path should go through a consultation process with customers before it can be costed to the scheme. This will achieve two things;**
    a. **One being a constant approach from one pricing process to next for the allocation of costs and;**
    b. **No price shocks at the start of the next price path.**

Fixed and Variable costs

- QCA is recommending that water use in this scheme be at 72.2% Bulk and 75.8%distribution for setting the variable charge, this will have an impact on water users that are consuming above 72.2% or 75.8% of their WAE (Water Access Entitlement).
- Should a pricing approach be used that penalises those who use the service more, and keep the costs down for those who use the service less?
- In this scheme SunWater is a service provider where only 72.2% or 75.8% of the service is utilised. Should QCA be recommending a pricing process which allows SunWater to continue to recoup costs from the remaining users without promoting the availability of service or restructuring the current service to reflect use and reduce costs?
- The water use data for distribution has included distribution losses allocation distorting the water use data for this scheme. The losses allocation has already been costed at 100% usage.
- Electricity is a big cost component to variable costs for distribution, with QCA recommending a cost jump of 50% from the biggest use year in 2009/10 to 2012/13 and a 200% increase in 2016/17. The current model being used for forecasting electricity costs is incorrect.
- Electricity costs were over forecasted in the last price path leaving irrigators questioning any data produce by SunWater on electricity costs.

RECOMMENDATIONS:

1. **A review by QCA of water availability compared to water used, and establish what steps SunWater has taken to increase usage and reduce costs to be more reflective of the usage. It is only then that we can comment on cost reflective fixed and variable costs.**
2. **QCA to look at pricing drivers that promote usage, not penalise those who use more. Without these drivers there will be higher prices for all.**
3. **There are large differences in water use data for distribution which requires clarity from SunWater and QCA. The water use model should not include losses allocation.**
4. **Electricity costs must be based on actual costs paid in arreas not forecasts and ensuring water users under this pricing process are not paying for the cost of other service contract users.**

(Price Impact per ML per year) Step in electricity price = - $3.00

Termination Fees

- The fall out of the comments above is the termination fees. The recommended fees are up to $1080 for every ML shifted back to the river. This will ensure that even if a SunWater customer wishes to stop receiving a service they will have to pay a cost that is over the current value of the WAE.

- This means if all distribution customers were to exit, the total termination fees would exceed $21 500 000 and at 5% interest SunWater would recover more than the yearly total cost of operating without providing any service. With those numbers there is no incentive for SunWater to look after the customers it services.

- The recommendation from QCA is allowing SunWater to impose a charge per ML to shift water from the channel which is only at cost recovery, to the river which is above cost by $4.73/ML/year. All termination fees should be reduced by $4.73 x 20 years = $94.60

- Should losses WAE be Distribution WAE? Presently distribution customers are paying the cost of having this WAE delivered through the channel as total cost of distribution, its use is clearly determined for distribution and yet it is classed as a bulk WAE. If this WAE is removed from the channel there is more channel capacity available with a smaller spread of the costs. If it was determined as a distribution WAE an exit fee would have to be paid to ensure no impact on other users.

RECOMMENDATIONS:

1. **There should be a greatly reduced termination fee ensuring SunWater reduces cost in line with demand, promotes its schemes to build demand and stop any risk of profiting by water being transferred to the river.**
2. **All losses WAE to be treated as distribution WAE with a spread of distribution costs across the total of distribution allocation including losses allocation.**

(Price Impact per ML/year) 40% of distribution losses sold with exit fees applied = - $10.00

Revenue Offsets

- To ensure all revenue offsets are been increased with CPI.
- A more detailed review of the pricing model is required to establish whether all revenue offsets have flowed through to recommended prices.
- Minimum charges need to include as revenue offsets.
- The revenue gained from the selling water seasonally out of the channel and river to spot purchasers including Main Roads and Land Developers must be offset against costs.

RECOMMENDATIONS:

1. **All revenues need to be allocated correctly and be increased by CPI each year.**
2. **Detailed reviews of the model to ensure all revenues are offset against costs.**
3. **All revenue offsets recovered above budget during the current price path must be offset against over budgeted costs that are carried forward into the next.**

(Price Impact per ML/ year) Revenue offsets carried forward as income = - $3.00

Distribution Losses

- The current distribution losses allocations are MP 3405ML HP 600ML. This represents over 25% of the WAE on the channel. QCA is recommending that prices reflect the cost of 100% of the losses allocation when less than 45% of them are being used.
- The allocation of losses WAE bulk costs to distribution has added to the fixed costs for losses above actual use by $46 000 per year or $4/ML/year for every ML used.
- This is in direct contrast to Losses in the river/bulk system which are called TOL (transmission and operating losses) not incurring any bulk costs.

- If distribution WAE holders are going to be charged for the total of the losses WAE then they demand the right to use the total losses WAE.
- The use of HP losses to fill channels has to be questioned. The channels will only get filled with MP WAE to supply MP WAE. The only time the channels would be filled with HP losses WAE is if the announced allocation for MP WAE was 0. That being the case all HP losses WAE should only be paid by HP WAE holders for the sections of channels that are supplied with HP allocation.
- It may have been the regulator that allocated losses allocations but it was SunWater that summited the amounts required and it is SunWater who is trying to impose a charge on the submitted volume not the used volume. Is this the intent of the regulator?

RECOMMENDATIONS:

1. **The original intent of the losses WAE to be upheld. The intent being they are treated the same as the TOL for the river. If this is not to be upheld then the person paying the cost must be the only beneficiary. The unused proportion of the losses WAE must be made available for usage to those who have paid the cost.**
2. **The average losses WAE used over the last 8 years has been only 1767 ML. SunWater should only be allowed to charge the bulk cost of losses WAE for the average yearly recorded amount of the WAE used in the past 8 years. This would be an interim measure until accurate bulk metering is carried out. If carryover of allocation is allowed within the scheme, carryover of losses WAE should also be allowed, limited by the total amount required within one water year, that being the largest recorded amount over the last 8 years or limited by the scheme rules for carryover.**
3. **SunWater must demonstrate the requirement for HP and MP losses WAE before any cost can be allocated. This should be done through historical use data.**
4. **The bulk cost of HP losses WAE must only be passed onto HP customers at a modelled requirement.**
5. **All losses WAE to be treated as distribution WAE with a spread of distribution costs across the total of distribution allocation including losses allocation.**

(Price Impact per ML / year) Used distribution losses only = - $2.00

Return on Working Capital

- The requirement for working capital has been added into the costs for this scheme with no mention of all fixed costs being charged out 3 months in advance.

RECOMMENDATION: There is no need for a return on working capital charge as there is over $10 000 000 paid to SunWater in fixed costs in advance, per quarter.

(Price Impact per ML per year) Less than $0.01 now, dollars into the future.

Indirect and overheads

- There are large differences in the indirect and overhead data presented in the documents used in developing the draft prices.
- The Dawson bulk has an indirect and overhead cost of over 57% and the distribution is over 47%. Both of these are well above any of the data presented in the Deloitte report.
- By using all the data from the Deloitte and QCA reports you are able to establish;
    - SunWaters total indirect and overheads percentage of total costs is 34%.
    - Irrigation service contracts indirect and overheads percentage of total costs are 49%.
    - Other service contracts excluding irrigation service contracts indirect and overheads percentage of total costs are 24%.
- The data presented in the Deloitte's benchmarking of administration costs to compare SunWaters costs with PV water is vastly different to the data in QCA volume 1 draft prices table 7.3.

RECOMMENDATION: **Accept Deloitte report and comment when benchmarking SunWater as a whole for indirect and overheads of 34% (SunWater generally benchmarks well against a peer of global utilities.) The cost of indirect and overheads to all service contracts to be set at 34% of total costs.**

(Price Impact per ML / year) 34% indirect and overheads compared with 57% = - $12.00

Market Risks Costs and Renewals Annuity Costs

- Both these costs items pose a large risk of costs blow outs to this scheme if left without a strong consultation process in place with customers who have to pay the cost.

RECOMMENDATION: **QCA to recommend that any new cost item that has not been identified and costed as part of this review will require consultation with customers before the item is costed against the scheme.**

(Price Impact per ML per year) $970 000 overspend in renewals = - $7.00

Forecast Costs

SunWater's forecast total costs are well above the targets costs set for the current price path. The QCA draft report identifies the following significant differences between forecast and actual costs for all bulk and distribution schemes from 2007 to 2011 in 2010/11 dollars:

- Operations $11.4 million or 16% less than forecast.
- Electricity $15 million or 36.7% less than forecast.
- Preventive/Corrective Maintenance $8.8 million or 17% over spend.
- Revenue offsets $10.5 million or 250% over recovery.
- Indirect and overheads $17 million or 19% over spend.
- Renewals annuity $30.9 million or 80% over spend.

The end result sees the total of operations, preventive maintenance, corrective maintenance, indirect and overheads costs for 2011 (the last year) being $12 million or 33.5% above the budget forecast agreed to by SunWater. QCA proposes that SunWater should improve its information systems but unless detailed reasons can be provided for these significant variations it is hard to have any confidence in moving forward into another price path relying on information provided by SunWater.

Dawson has forecast expenditure for the next 5 years 17% above the efficient costs set and agreed to by SunWater in 2005/6.

RECOMMENDATION: **QCA assess SunWater's total costs on the forecast costs from the last price path until SunWater presents detailed data to explain the cost variations**.

(Price Impact per ML / year) 17% less costs - $14.50

Renewals Annuity

- There has been a large over budget spend on renewals items without any consultation with customers and regard for the service requirement.
- SunWaters large overspend on renewals over the last 5 years has been passed directly onto irrigators with the recommended prices, but the $15 000 000 over budgeted requirement for electricity and the above budget recovery for revenue offsets of $10 500 000 has not. QCA cannot allow cost blow outs above budget to be brought forward without allowing above budget revenue to be brought forward as well.
- The renewals for distribution in the recommended costs is 600% above the submitted renewals cost from SunWater with QCA saying they reduced the renewals costs submitted by SunWater by 10% across non sampled items and with large sampled items removed all together.
- SunWater has submitted to have $800 000 removed from the distribution Renewals annuity and put into the bulk. Both Index and QCA have recommended that this doesn't happen but it has still flowed through to recommended prices.

RECOMMENDATIONS:

1. **Review the pricing model to ensure all efficiencies identified flow onto prices.**
2. **If QCA is going to allow over spends on cost items in the last price path to be transferred through to new price path then all revenue above budget also needs to be brought forward.**
3. **A more optimised approach to future renewals spends is required to ensure the renewal doesn't exceed the requirement and therefore exceed the customers' ability to pay for the service.**
4. **Ensure the renewals annuity funds are returned to their correct amounts and yearly renewals costs corrected.**

(Price Impact per ML per year) SunWater submitted Renewals cost compared to QCAs - $10.00

Minimum Charges

- Minimum charges are becoming more important as schemes become affected by urban encroachment. It is important that QCA ensures the current fee covers the cost of servicing these users without passing extra costs onto other users.
- Minimum charges should be established by identifying the costs of metering, billing and customer communications.

- The cost items above should only be charged once as they are only incurred once. QCA has not delivered a process that ensures the doubling up of these costs for distribution customers.

RECOMMENDATIONS:

1. **QCA recommend that SunWater produce the data for cost of metering, billing and customer communications to establish the minimum cost of servicing a customer.**
2. **The cost of metering, billing and customer communication only to be charged once to distribution customers not twice as is the case in the current QCA recommendation with the splitting of bulk and distribution.**
3. **The minimum charge to only be applied to bulk ensuring no doubling up.**
4. **Minimum charges that are greater than per ML charge need to be added as revenue offset.**
5. **The minimum cost of servicing a customer should be removed from distribution costs.**

(Price Impact per ML per year) Charging the minimum charge once = - $2.00

Prices cannot come down policy

- If prices are above lower bound for this price path because of Government policy and costs have exceeded the budget, why is the over budget cost being carried forward into the next price path instead of coming of the above lower bound component of this price path.
  .

RECOMMENDATION:

All identified above lower bound schemes are not to have a reduced renewals annuity from budgets set in 2005/6 moving into the next price path.

(Price Impact per ML/ year) Bulk costs compared to recommended price = - $4.73

New Water

- The QCA report states under 2.3 Survive delivery Frame work. (However existing customers do not bear the costs of increased or surplus Headworks capacity if SunWater undertakes investment to increase water storage. Rather the owner of any new WAE derived benefit from new assets.) Do issues like offstream storages fall with in this recommendation?
- The above quote from the report is in direct contrast to other sections of recommended prices allowing SunWater to charge for the costs of establishing, repairs and renewals of the offstream storage project across all users when SunWater is the one who gained ownership of the WAE brought about by the project.

RECOMMENDATIONS:

1. **Any works that is costed to the scheme that brings about new WAE must have the value of the WAE offset against the cost and can only be costed to the scheme with full consultation with customers before starting the works.**
2. **All WAE value or revenue brought about by past expenditure which has created new WAE must be returned to the scheme as revenue before any renewals costs can be attributed to these projects.**
3. **Projects like the offstream storage cannot be covered by renewals annuity without the value of the WAE gained being offset against the cost, repair and renewal of it.**

Largest impacts on increased costs to Irrigators

1. **Bulk costs for Losses WAE.**
2. **Low water use and no operational changes to reflect usage.**
3. **Incorrect water use numbers for distribution.**
4. **Large indirect and overhead charges of up to 57% of total costs.**
5. **Large over spends on renewals.**
6. **Incorrect renewals annuity balances.**
7. **Incorrect model for electricity costs.**
8. **No flow on in reduced costs from the efficiencies set at last pricing process. Total costs for irrigation service contracts are 17% above the efficiencies set and agreed to at the last pricing process.**
9. **Lack of transparency and consultation by SunWater throughout the current price path and throughout this pricing review process.**
10. **Government policy on the price of water cannot go down.**
11. **No offset to costs from other revenue streams.**

Efficiencies

Overall irrigation customers do not consider that the costs of servicing the distribution scheme have been justified by SunWater. They particularly question the abnormally high indirect/overhead costs and operating costs. Going forward they believe that efficiencies in this scheme will only be achieved through more local involvement in management.