ETON IRRIGATOR ADVISORY COMMITTEE

11th March 2011

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Sirs

RE: SunWater Network Service Plans – Eton Bulk Water Supply Scheme and Eton Distribution Scheme

The enclosed submission addresses the Network Service Plans prepared by SunWater for the Eton Bulk Water Supply Scheme and Eton Distribution Scheme as part of the review by Queensland Competition Authority of irrigation water pricing for SunWater Schemes.

Please consider this as our initial submission to the Network Service Plans. We will provide further submissions as required as additional information becomes available.

Yours sincerely

David Ellwood
Chairman

SunWater Network Service Plans

Eton Bulk Water Supply Scheme and Eton Distribution System

Introduction

This submission has been prepared by the Eton Irrigator Advisory Committee and covers both the Eton Bulk Water Supply Scheme and the Eton Distribution System Network Service Plans (NSP). The submission provides some general comments that apply to both NSPs and then provides detailed comments and questions on the separate NSPs.

General Comments

2006-2011 Price Path

The NSPs provide only SunWater's proposed operating costs for the schemes which have little meaning to irrigators whose specific interest is the impact of the proposed costs on annual water charges. The conversion of the proposed annual costs to per megalitre water charges should be included in the NSP by SunWater.

The table below attempts to compare the proposed costs with the present price path costs (2006-2011). The 2006-2011 price path costs have been determined by applying inflation to the forecast figures for the end of the present path (2010/2011).

	Bulk NSP	**Distribution NSP**	**Total NSP**	**2006-2011 price path**
Operating cost	94% of $1.462m **$1,374,280**	**$1,995,000**	**$3,369,280**	**$2,776,000**
Renewals annuity	80% of $589,900 **$471,840**	**$606,600**	**$1,078,440**	**$500,000**
Total	**$1,846,120**	**$2,601,600**	**$4,447,720**	**$3,276,000**

This table presents an increase in operating costs of 21% and in renewals requirement of 115%. This proposed major increase in renewals funding for the combined schemes requires very detailed explanation.

NSP Proposed Water Charges

The SunWater proposed costs have been converted to annual unit charges for comparison with the water charges set for the present price path. The proposed NSP water use forecast of 50% has been adopted and the same 80/20 tariff split as for the present path has been used for the Distribution NSP costs. Total allocation for irrigation of 52,675 megalitres has been used. As discussed above these charges have been presented as indicative only and to provide irrigators with an answer to their prime question.

	Bulk NSP	**Distribution NSP**	**Total NSP**	**2010/11**
Part A	$35.00/ML	$39.50/ML	$74.50/ML	$48.44/ML
Part B	N/A	$19.80/ML	$19.80/ML	$18.64/ML
Total			**$94.30/ML**	**$67.08/ML**

This represents an increase in total water charge of some 40% for the first year of the new price path.

Cost details
Both the Bulk NSP and the Distribution NSP do not provide sufficient detail of proposed SunWater costs by either activity or type to allow an informed opinion to be drawn on their efficiency. SunWater state that a bottom up approach has been adopted in developing their costs and details of this need to be provided to allow full assessment of the proposed costs.

Water Access Entitlement/Water Delivery Entitlement
Through the NSPs and background papers SunWater have introduced new terminology of Water Access Entitlement (WAE) and Water Delivery Entitlement (WDE). These new terms are particularly confusing for irrigators as they have been through an extensive water planning process to be granted a Water Allocation separate from their land holding. The Water Act 2000 under which water planning operates does not recognise the term WAE and consequently SunWater must include clarification of the term WAE in the NSP. A better alternative is to use the Water Act 2000 terminology of Water Allocation only.

In regard to WDE, this new term appears to be an attempt to establish some form of trading arrangement in network delivery capacity as has been established in Murray Darling Basin Schemes. At this time in Queensland there is no identified instrument that sets out an individual entitlement to part of network capacity. SunWater have introduced an inappropriate level of complexity in the NSP with the introduction of these terms. It would be expected that a level of consultation with industry would occur prior to the introduction of this type of new concept.

It is considered that a Water Allocation (WAE) and a WDE are in fact the same thing and it is not understood, under current arrangements, how an irrigator could hold a WDE but not necessarily a Water Allocation (WAE) as appears to be the position presented by SunWater in the discussion on unbundling distribution tariffs in their background papers. Further the Distribution NSP states that WDE is associated with peak flow entitlement. Peak flow entitlement is linked to land holding through the metered offtake and has no association with water allocations which are now separate from land.

For the Eton systems the question must be raised as to the benefit to any stakeholder of the proposed unbundling of Water Allocations and Water Delivery Entitlements particularly for irrigators. It results in the creation of a three part tariff for irrigators who are the only customers of both schemes. A further detraction is that electricity as a variable cost in all schemes would necessitate a two part tariff for Eton Bulk. Electricity costs for pumping into Kinchant Dam are some 20% of operating costs and cannot be considered as a variable cost in all schemes except Eton Bulk as is proposed by SunWater.

Customer Service Standards
Both the Bulk NSP and Distribution NSP include sections on Customer Service Standards which detail the services provided. There is substantial duplication in the two NSPs in areas such as water delivery, meter reading, billing frequencies, trading information provision etc. Duplication also appears in the sections of the NSPs dealing with Service Costs. As an irrigator is a single customer of both schemes and places only one water order, gets one account etc it is not clear from the NSPs that there is not double counting of costs associated with service to this single customer.

Eton WSS Supply Reliability
Irrigators in the Eton Scheme are concerned as to the impact on their reliability of supply as a result of infrastructure associated issues. Foundation issues at Kinchant Dam have necessitated operating the dam at a lower than normal full supply level resulting in more frequent flood releases and operational difficulties with water harvesting from the Pioneer River. It is also of concern that the deflated fabridam on Mirani Weir significantly impacts on pumping opportunity from the Pioneer River particularly during low flow periods when the fabridam would normally be inflated.

Another matter is the non operation of Mirani Pump Station 2. This pump has been out of service for a number of years and, although only of small capacity, reduces the available pumping capacity at times when river flows dictate pumping at full design capacity for the system. SunWater should not include this in the NSP as a possible price reset trigger. This pump station is integral to achievement of designed scheme performance and should be addressed immediately.

Eton irrigators seek quantification of the impact of these issues on their Water Allocation Security Objectives for their Water Allocations.

Water use forecasting/Demand risk
Eton Irrigators Committee was a contributor to the initial submission to QCA from Mackay Irrigation Stakeholders. Section 4 of this submission of 29th November 2010 provides detailed explanation of the sugar cane growing and associated irrigation in the Mackay area.

In addition to that submission the following specific comments are relevant to the Eton Scheme. Kinchant Dam supplying Eton is an annual storage and requires refilling during the water year to provide irrigators with their full allocation. Irrigation water allocations for Eton are supplementary only in that they provide the deficit between average crop water demand and average effective rainfall. With less than full allocation available at the start of the year and uncertainty as to coming wet season rainfall, Eton irrigators reserve part of their available supply during the first half of the year in case of wet season failure. This practice, although understandable impacts severely on total water use in the scheme and also overall production.

It is purported by bureaucracy that this type of issue can be addressed through water trading. That may be the situation in large systems with multiple crop types but not so in a monoculture area such as Eton. In fact the reverse appears to be happening where the tradable water market in Eton has in fact decreased the value of water with temporary trades only occurring during very dry periods and very little permanent trade separate from land trades.

In these circumstances it would be expected that a water service provider would actively work with irrigators to develop products and services to address the downturn in water use and improve the bottom line for all stakeholders in the scheme. SunWater has adopted a "head in the sand" approach to simply state that all risk for supply and demand sits with the irrigator.

In regard to tariff structures, SunWater's position that the only variable costs in systems are pumping costs is not supported. It is contended that in years of little or no irrigation water use, infrastructure operation is substantially reduced and maintenance activity particularly

corrective maintenance is similarly reduced. This would apply for infrastructure such as pump failures, pipe breaks, weed control in channels, water meter repairs etc. Variable costs must include some component of maintenance costs.

Electricity
Information available for the present price path shows that the bundled forecast electricity cost was to be some $450,000 per annum. Forecast cost for the new path is only $402,000 ($172,000 Bulk and $230,000 Distribution). With overall increase to electricity tariffs for the present price path of around 40%, a proposed decrease is very questionable and cannot be fully explained by a reduction in forecast water use. This also raises a concern with SunWater's proposed unders and overs approach as it could be interpreted that Eton will be "under" for the full period and hence subject to a substantial catch up.

Eton Bulk Water Supply Scheme NSP

Customers and WAEs serviced
As Eton Bulk is a water harvesting scheme based on pumping from the Pioneer River Figure 2-3 should present annual volumes water harvested rather than water used by irrigators. This figure (Figure 2-3) appears in both the Bulk and Distribution NSP.

Bulk Water Service Costs
This NSP and the Eton Distribution NSP duplicate sections on compliance including water accounting and Resource Operations Planning. It must be transparent that there is no double costing for these activities.

Details need to be provided of the assets insured and the policies held for the scheme in the $113,000 annual amount allotted.

The proposed annual cost for recreation facilities of some $175,000 represents a cost to irrigators of $3.30/ML per annum. The Ministerial Direction is clear on the treatment of these costs for this price path but full details of the proposed cost are required to allow assessment of the proposed costs and consideration of more cost efficient maintenance options.

Eton irrigators would like to be provided with specific examples of the services provided for the Eton Bulk Scheme by the listed other supporting activities in the NSP to gain a better understanding of the impact of these on overall costs and if other arrangements for these services might be more appropriate.

The following questions are raised on Table 4-3 Expenditure by activity

- Operations expenditure in 2008 was very significantly increased. Reference to Table 4-5 shows a large increase in indirects and overheads
- Forecast operations expenditure of some $550,000 per annum requires detailed explanation as the day to day description provided do not justify that level of costs
- Electricity of 2008 is the highest for the actual period shown. Figure 2-3 shows 2008 as the lowest water use year for the same period and, as stated above, volumes pumped into Kinchant Dam need to be shown.
- The proposal for forecasting electricity is not supported. Surely the most appropriate method to determine unit cost for electricity is to take actual electricity consumption

figures from accounts and divide by actual water volumes for water meters for similar periods. This unit rate can then be applied to forecast annual volumes.
- Preventative and Corrective maintenance are forecast at some $750,000 per annum. Justification of these must be provided including examples of the corrective maintenance past experience for the scheme.
- Details of renewals spend for 2007 to 2011 ($1.8 million) should be provided particularly as it has resulted in a negative $1,282,000 balance for the next price path.

General comments for Table 4-3 apply also to Table 4-5 Expenditure by type. Further specific comments are as follows.

- Labour ($311k) and Indirects & Overheads ($751k) for 2008 stand out as significantly high and require explanation
- Indirects & Overheads account for 42% of total forecast operating costs and this level of overheads is very high
- High Priority A water allocation from the Pioneer River WSS is delivered through Eton Bulk infrastructure and it is not clear if this has been included as a revenue offset for irrigation.

It is considered that the same methodology should be adopted for allocation of operating and capital costs. This is particularly in a scheme such as Eton Bulk where SunWater are stating that all costs are fixed and as such must be asset based. The Resource Operations Plan for the Pioneer River including Eton does not provide an allocation conversion factor.

Renewals

This section of the NSP is very deficient in details of proposed renewals expenditure for both the five year price path and the extended renewals period. The following are further comments and questions.

- Mirani Pump Station 2 has been inoperable for a number of years and the pump was second hand when installed in the early 1990's. The NSP only reference to Pump Station 2 is to replace control equipment in 2018. This matter requires clarification.
- Mirani Diversion Channel is a major asset in the scheme and does have some leakage issues. The NSP only mention of this asset is replacement of the control system in 2018.
- Table 4-7 requires more explanation than the five points below it and particularly Kinchant Dam and Mirani Pump Station 3 estimates for the full period.
- Overhaul of two Mirani P/S 3 pumps (2012) costs seems excessive with actual pump overhaul thought to be only some $30,000 to $40,000 per pump.
- Replacement of starters for 5 pumps at Mirani P/S 3 (2015, 2016) at a cost of $484,000 seems excessive.
- 2018 shows a cost of $416,000 to replace control equipment at Mirani P/S 3 while it appears that the same replacement is to occur previously in 2015, 2016.
- 2018 (as mentioned previously) replacing control equipment at Mirani P/S 2 when pump not operable at present.
- 2018 cost for Kinchant Dam safety review ($243,000) requires detailed explanation particularly the dam break analysis component.

- 2018 cost for control system replacement on Mirani Diversion Channel requires clarification as the level of control is thought to be relatively minor.
- 2026 SACDA switchboard replacement at Mirani P/S for $298,000 seems excessive.
- 2036 cost to replace pump at Mirani P/S 3 at $504,000 again seems very high.
- 2036 cost to replace starters at Mirani P/S 3 is shown as $241,000. The same replacement in 2015 and 2016 is to cost $484,000.
- Figure 4-1 shows a number of years with expenditure to exceed $400,000 per annum. These require full details.
- The Headworks Utilisation Factor (HUF) methodology for allocation of costs is generally supported but further explanation of the detailed calculation is required to fully assess the proposed split for Eton Bulk.

Price Reset Triggers

The following comments are provided on SunWater's suggested cost risks.

- A large organisation such as SunWater would be expected to be able to manage risks associated with assets. This should be quantified in association with the level and type of insurance of assets held by SunWater.
- Metering costs for new metering standards are quoted at $60,000 or some 3% of forecast operating costs for the price path period – surely a minor cost that could be absorbed without a price reset mid period.
- All landowners are responsible for management of noxious weeds on their property and SunWater should be no different.
- Any levy or charge in relation to QCA regulation of prices should be presented at the start of the price path and not mid period.
- Reinstatement of Mirani Pump Station 2 should be addressed immediately and in full consultation with irrigators.

Eton Distribution System NSP

This NSP and the Eton Bulk NSP duplicate sections on compliance including water accounting and Resource Operations Planning. It must be transparent that there is no double costing for these activities.

The NSP acknowledges that losses through channels do occur in the Eton Distribution System. There are a number of leakage areas along the Oakenden Main Channel that have been there for many years. These leakage areas impact seriously on adjoining farms as well as being a cost to the scheme with additional water delivery required to cover the losses. SunWater's statement that these losses cannot be evaluated until water metering is improved is incredulous. Technology has been available for a very long time that can evaluate losses from open channels. The channel will still leak with new modern water meters. Delaying addressing channel leakage until water metering is improved is not prudent infrastructure management by a water service provider.

Details need to be provided of the assets insured and the policies held for the distribution scheme in the $119,000 annual amount allotted.

Eton irrigators would like to be provided with specific examples of the services provided for the Eton Distribution System by the listed other supporting activities in the NSP to gain a better understanding of the impact of these on overall costs and if other arrangements for these services might be more appropriate.

The following questions are raised on Table 4-1 Expenditure by activity

- Operations expenditure in 2007 was significantly increased. Reference to Table 4-3 shows a very large increase in indirects and overheads. Labour as the allocator for indirects and overheads does not show, in Table 4-3, a comparable increase for that in indirect and overheads
- Forecast operations expenditure of some $700,000 per annum requires detailed explanation as the day to day description provided does not justify that level of costs
- Electricity for 2010 ($258) is the highest for the actual period shown. Figure 2-3 shows 2010 as water use comparable to 2009 and 2007. Electricity for 2009 ($120k) and 2007 ($176) are significantly less that for 2010.
- Preventative maintenance for 2007 was high and requires explanation.
- The proposal for forecasting electricity is not supported. Surely the most appropriate method to determine unit cost for electricity is to take actual electricity consumption figures for accounts and divide by actual water volumes for water meters for similar periods. This unit rate can then be applied to forecast annual volumes.
- Preventative and Corrective maintenance are forecast at some $1,000,000 per annum. Justification of these must be provided including examples of the corrective maintenance past experience that has been used by SunWater to develop the NSP.
- Details of renewals spend for 2009 to 2011 ($1.46 million) should be provided particularly as it has resulted in a negative $404,000 balance for the next price path.

General comments for Table 4-1 apply also to Table 4-3 Expenditure by type. Further specific comments are as follows.

- Indirects & Overheads ($865k) for 2007 stands out as significantly high and requires explanation
- Indirects & Overheads account for 37% of total forecast operating costs and this level of overheads is high and on top of 42% for overheads in Eton Bulk.
- High Priority A water allocation from the Pioneer River WSS is delivered through Eton Distribution infrastructure and it is not clear if this has been included as a revenue offset for irrigation.

It is considered that the same methodology should be adopted for allocation of both operating and capital costs. The Resource Operations Plan for the Pioneer River including Eton does not provide an allocation conversion factor.

Renewals

This section of the NSP is very deficient in details of proposed renewals expenditure for both the five year price path and the extended renewals period. The following are further comments and questions.

- Most of the pump stations in Eton Distribution are over 30years old and it is trusted that all replacements of pumps, motors and associated electrics adopt modern equivalent methodology. This would ensure that the most efficient pumping infrastructure is provided.
- Table 4-5 requires much more detailed explanation of the proposed costs and not just annual totals for each section of infrastructure.
- Figure 4-1 shows many years with renewals expenditure to exceed $400,000. Explanations following Figure 4-1 are totally inadequate and full details are required.

Price Reset Triggers

The following comments are provided on SunWater's suggested cost risks.

- A large organisation such as SunWater would be expected to be able to manage risks associated with assets. This should be quantified in association with the level and type of insurance of assets held by SunWater.
- Metering costs for new metering standards will be a risk to irrigators as SunWater will pass the cost on probably through renewals with adjustment in the next path.
- Weeds and algae in channels impacts on supply to irrigators and SunWater provides no guarantee of supply and hence there is no risk to it.
- All landowners are responsible for management of noxious weeds on their property and SunWater should be no different.
- Any levy or charge in relation to QCA regulation of prices should be presented at the start of the price path and not mid period.