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JG.IH

11 January 2012

Mr EJ Hall (John)
Chief Executive
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

RE: QCA Draft Report Sunwater Price Review:
2012-17 Bundaberg Distribution System

Dear Mr Hall,

Isis Central Sugar Mill Company Limited (ICSM) is a 116 year old sugar milling business that directly employs more than 200 employees in its operations. The mill also operates a large sugarcane farming operation on over 3,000 hectares that will produce in excess of 160,000 tonnes this year and that utilises a combined water allocation of 4811 Ml.

ICSM believe the QCA's proposed draft recommended irrigation prices for the Bundaberg Distribution System require further review based upon the issues identified below.

This submission has been necessitated as the proposed draft recommended irrigation prices for the Bundaberg Distribution System are excessive and represent a significant threat to the viability of the sugar industry that relies on this water infrastructure. Given the expectation that the current price path (2006-2011) would see Bundaberg Distribution System irrigators paying very near 'lower bound costs' the assumptions utilised in the analysis that result in the current prices being approx 30% below 'cost reflective' for 2012/13 are questionable. This is further emphasised by the forecast 2012/13 revenue of $10.3m from cost reflective tariffs (table 6.5 QCA draft report Volume 2 Bundaberg Distribution system) being well above the actual costs incurred by Sunwater over the last 5 years with the highest actual costs of $8.9m (table 6.1 QCA draft report Volume 2 Bundaberg Distribution system).

Specifically, ICSM requests the QCA review:

- Allocation of non direct costs

  The simple allocation of non direct costs based upon direct labour disadvantages extensive distribution systems that have higher direct labour than other schemes. Whilst it is acknowledged Deloitte identified some alternatives cost allocation bases, ICSM request that the QCA identify a more accurate and therefore more equitable basis for allocation which does not disadvantage the Bundaberg Distribution System.

- Water usage assumptions

  The QCA has considered past water use in calculating cost reflective volumetric charges that recover variable costs and ICSM assert that the 46.7% of WAE for bulk supply and 43.1% of WAE for the distribution system utilised by the QCA is too low and that water use for the next five years is likely to be greater. This is primarily due to the current situation with the storages full, the increase in sugar prices providing incentive to fully utilise irrigation water and the ability for growers to secure a significant percentage of their crop at profitable levels for each of the next three seasons. ICSM note that 60% was utilised in the last pricing review and recommend that this figure be utilised as a more accurate estimation of future water usage over the 2012-2017 price path.

- Distribution System costs for ‘Unsold’ water from Paradise Dam

  ICSM understand that 15% of peak capacity of the channel has been allocated to Burnett Water for the ‘unsold water’ and ICSM asserts that 15% of relevant costs should be allocated to Burnett Water and this should include all distribution system costs apart from electricity.

- Smoothing of future costs

  From the third round consultation meeting conducted by the QCA on 9/12/11, ICSM understand that the financial model developed by QCA forecasts some costs over a greater period than the 5 year price path and that ‘smoothing’ of the forecast costs over the greater period (20 years) is undertaken in the model which has the affect of inflating the costs within the 2012-2017 period to be greater than forecast for this period than would be the case without the smoothing. ICSM therefore requests that this impact be removed from the 2012-2017 period.

- Distribution losses

  There are significant differences between the actual losses and the nominal loss WAE and ICSM believe this is artificially inflating costs. ICSM notes that the QCA have recommended a review by DERM and support this recommendation.

- Negative Renewals Balance

  ICSM request that the QCA review the opening renewals account balance that is suggested at -$1.5m even though bulk water customers have being paying above lower bound prices.

ICSM appreciates the consultation that has been undertaken by the QCA and looks forward to the issues raised being reviewed by the QCA and resulting in revised assumptions that lead to a more accurate and realistic price path.

Yours Sincerely

[redacted]

John Gorringe
GENERAL MANAGER