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Macintyre Brook
Irrigators Association

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Submission on Sunwater Price Path Issues Regarding the Macintyre Brook Scheme

Macintyre Brook Irrigation Association (MBIA) represents the irrigators in the Macintyre Brook catchment. It has 32 active members covering an estimated 80% of the irrigation allocations on the Macintyre Brook system. This submission is regarding the issues arising from the price review process, which the Queensland Competition Authority(QCA) has been conducting regarding the pricing of water across all Sunwater schemes.

The MBIA has identified some issues, which require clarification having arisen as part of the review process. The association would like these concerns noted and addressed as part of the review. They have significant implications in determining the total spend on the Macintyre Brook system and thus the cost of individual allocations.

GHD Report

1. Clarify whether the forecast costs of administering the capacity sharing arrangements associated with this scheme are $250,000 over the 5 year price path. Are some of the costs of running the capacity share system in the scheme included in headoffice and regional office costs? What is the justification for including such costs given that the benefits associated with capacity sharing may have been overstated by SunWater given the DERM limitations on any cross seasonal take of water. In addition, SunWater is seeking revenue from this scheme to promote the approach to other water service providers. Should these costs of capacity share be allocated to the scheme given the project was research based with the objective of marketing it offshore and in southern states.
2. The flood mitigation benefits of this scheme have never been identified and apportioned to the broader community. Sunwater advises that there is no flood mitigation capacity in this system. This may be true when the dam is full however; just in this past twelve months, on several occasions the dam has provided significant peace of mind to downstream communities in that it has captured several events, one of which would have reached major flooding levels had it not been for the dam. True, Sunwater's ability to control or regulate these flows, once full capacity is reached is limited. But up until that point, the dam provides a significant buffer against fast moving flows of water out of the upper catchment and even once full capacity is reached the bottle neck of the gates at least allows the accurate monitoring of the situation and reduction of the storm surge. This barrier has often provided the time for people, livestock and assets to get to higher ground – even if the height of the flood is the same with or without the dam – the time delay it effects on the peak is invaluable in terms of mitigating loss.
3. Concern regarding the limited GHD analysis of both operating and capital costs. The consultant must drill further into SunWater data to provide recommendations regarding efficiency of costs.

If GHD can not, will the scheme be left with prices based on inefficient costs? In particular, it is concerning that GHD was unable to benchmark Opex with other schemes. Without some adequate analysis of base costs, irrigators will have little confidence in prices

4. Irrigators have not been consulted regarding proposed renewals expenditure. SunWater consultation with scheme advisory committee has been poor. The standard of consultation has declined significantly over the current price path. Question whether SunWater is meeting its obligations under the consultation charter. The SunWater 'culture' is not geared to irrigation schemes but to other industrial projects.
5. Renewals expenditure incurred in 2007 associated with Whetstone Weir is an example of SunWater not consulting appropriately with irrigators. Irrigators had proposed this upgrade, agreeing to it on the basis of the estimate of costs proposed by SunWater. No further consultation was held regarding costs, until the project was underway after being significantly delayed. At this stage significant cost blow outs were identified. Irrigators tried exhaustively to extract information or explanations from Sunwater regarding this enormous increase in costs. It is alarming that GHD cannot analyse the renewals program for the last 5 years - in particular the Whetstone Weir significant overspend. Weir upgrading was sought by irrigation customers to enhance water delivery downstream. Its purpose was to implement a more efficient means of water distribution utilising existing assets at what they deemed to be an appropriate level of costs per megalitre for irrigation customers. The project was proposed by irrigators and was not a refurbishment project. The Sunwater position, was to let the operation of the weir go and not maintain the structure – effectively writing it off, prior to the agreement with irrigators to repair and rebuild it – at an agreed cost. Irrigators would not have supported the project if they had been advised about that the cost could be tripled. How did these cost overruns occur? How were they justified? This weir project must be subject to detailed investigation.
6. Given that the project is now complete and the money spent for right or wrong the question now becomes, who is responsible for the cost of this project. The impact of the Whetstone Weir cost overrun has resulted in a very significant increase in the renewals negative balance and therefore on the proposed level of pricing in the upcoming price path. The cost of this project into the future far out-weighs any of the benefits of the weir upgrading. The cost per ML of the upgrading is well in excess of prices irrigators understood would result from the project. There is no doubt irrigators would not have approved a project that would have the projected level of impact on prices that the cost overrun has resulted in. In any other commercial scenario a contractor is required to meet certain minimum standards. The two major requirements are generally the timeliness of delivery and the cost – in both of these key requirements Sunwater has failed. The MBIA is aware that costs sometimes blow out – but the price was agreed and effectively irrigators had already started paying for the upgrade in the last pricepath. The change in price was not communicated prior to the commencement of the project and thus it is not the responsibility of the MBIA as the client to cover the cost of the poor management and planning exhibited by Sunwater in the delivery of this project.
7. Irrigators don't understand the need/value of proposals in the renewals program for three gauging stations and improved outlet works at Coolmunda Dam. Why are these proposals a cost to irrigators? Aren't they costs that should be met by DERM or Bureau of Meteorology?
8. Clarification is sought re the implications for future prices of the revenue cap during the current price path.
9. It is unclear what the implications capacity share has for prices within the scheme. Will prices vary across the 3 scheme segments to reflect differences in loss provision?

Deloitte Report

1. Question the need for the significant head office and regional office costs. Are these justified for this bulk scheme?

QCA presentation

1. The high fixed Part A tariff is reflective of the revenue-cap form of regulation previously applied to this scheme. Accept that high fixed costs are not an issue of concern.
2. The costs associated with the recreational facilities associated with this scheme are significant and it is unfair that irrigators have been called upon to meet these costs.

3. The pricing issues outlined provide no incentive for Sunwater to perform its services in this scheme. There is a lot of fat to be trimmed from the organisation if the right management techniques and philosophies can be employed. It is understood that for this price path there is no ability for Sunwater to run a profit which is appropriate as any such proposal would be generating a return to the government, which is also the regulator and arbitrator of what is essentially a monopoly.
   The question needs to be, how can the focus be placed on giving incentives to SunWater and its employees to perform at a level that stimulates innovation and provides satisfactory customer outcomes? This focus needs to be some form of reward to SunWater and its employees for achieving outcomes, which drive the business forward and change its culture. In the longer term there is a need for a complete rethink of the way SunWater is managed. The current process is unsustainable in the longer term if there is continued reliance on the regulator to check up on Sunwater, to see if it is acting somewhere in the realms of what would be considered commercially acceptable, in a theoretical, competitive environment which can never exist. Cost minimization is the key and rewarding those that do the job on the ground, not creating the George St, shop front mentality, that currently pervades Sunwater. Create competition from within, based on performance that drives outcomes, rather than trying to simulate competition from without that has no basis in a single service provider environment.

The MBIA submit these concerns to the QCA for their consideration and hope that they get the consideration that they deserve in resolving these serious matters.

Yours Sincerely

[redacted]

Anthony Doljanin
MBIA Executive