CANEGROWERS

Mareeba Dimbulah Irrigation Area Council
PO Box 1359
Mareeba QLD 4880

Chairman: Joe Moro: 0418 966 960
Secretary: Bronwyn Dwyer: 0428 891 462

Submission on MDIA Draft Prices

Fixed and Variable costs

- The fixed and variable split for distribution is 83% fixed and 17% variable
- Higher fixed costs takes away the incentive for irrigators to use water efficiently
- Higher fixed costs takes away the incentive for SunWater to manage the scheme efficiently, to provide an acceptable level of service and to reduce losses
- Bulk fixed costs have increased five-fold even though Barron River users are already paying above lower bound.
- Relift has gone beyond the capacity to pay due to increased water prices and electricity. This price increase has the real potential to drive farmers out of business which will leave SunWater with stranded assets.

RECOMMENDATIONS:

1. We support a fixed tariff to a maximum level of 60%. Any higher there is no incentive for irrigators and SunWater to manage water use and the scheme efficiently
2. Bulk fixed cost should be phased in over the five year period rather than increasing it fivefold in one hit. e.g. Barron River users are already paying above lower bound and are now being hit with a fivefold increase in the fixed charges. Income received above cost recovery from the Barron River should be offset to reduce the costs of the scheme.
3. Relift should be capped at the current price and a community service obligation (CSO) should be met by Government for the difference between the current price and the recommended prices.

Declining Block Tariff

- The existing Declining Block Tariff Structure System for the MDIA ensures the long term viability & the capacity to pay of the larger irrigators who hold the majority of the water allocation which in turn ensures the long term viability of the scheme.
- QCA argues that they cannot find any economic benefit in retaining the declining block tariff and that it should therefore be removed. By the same token they have not proven that the declining block tariff costs any extra for SunWater to administer. Therefore, QCA has no sound economic rationale for going against the agreed position of irrigators in the scheme.
- It can be argued that large irrigators are cheaper to service as they are using higher volumes of water on a more regular basis i.e. Cheaper to deliver water to a large irrigator on a per unit basis
- If the declining block tariff is removed there is a real risk that some of the larger irrigators won't be able to afford to grow the lower value broadacre rotational crops and therefore a reduction in water usage can be expected
- Below are examples of the real cost to large allocation holders by removing the declining block tariff:

Allocation	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
6750 ML Allocation Full Usage	F: $173,192 V: $101,918 **Total: $275,110**	F: $182,777.50 V: $82,552.50 **Total: $265,330**	F: $200,450 V: $84,645 **Total: $285,095**	F: $218,607 50 V: $86,737.50 **Total: $305,345**	F: $237,530 V: $88,897.50 **Total: $326,427.50**	F: $257,275 V: $91,125 **Total: $348,400**
4185 ML Allocation 2095ML Usage	F: $108,554 V: $33,303.30 **Total: $141,857.30**	F: $115,189.80 V: $25,621.85 **Total: $140,811.60**	F: $125,911.10 V: $26,271.30 **Total: $152,182.40**	F: $136,809.70 V: $26,920.75 **Total: $163,730.40**	F: $148,165.40 V: $27,591.15 **Total: $175,756.55**	F: $160010.20 V: $28,282.50 **Total: $188,292.70**
7000 ML Allocation 4600ML Usage	F: $179,492 V: $70,227 **Total: $249,719**	F: $189,365 V: $56,258 **Total: $245,623**	F: $207,715 V: $57,684 **Total: $265,399**	F: $226,580 V: $59,110 **Total: $285,690**	F: $246,240 V: $60,582 **Total: $306,822**	F: $266,755 V: $62,100 **Total: $328,855**

RECOMMENDATIONS:

1. The Declining Block Tariff should remain for the MDIA as QCA has no sound economic rationale for removing the declining block tariff which has historically been and continues to be the agreed position of irrigators in the scheme.
2. QCA should be retaining the declining block tariff as a pricing driver that promote usage not penalise those who use more. Without these drivers there will be higher prices for all.

Termination Fees

- The recommended fees are up to $500.00 for every ML shifted back to the river. This will insure that even if a SunWater customer wishes to stop receiving a service they will have to pay a cost that is over 60% of the current value of the WAE.
- 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 $10.00/ML/year. All termination fees should be reduced by $10.00 x 20 years= $200.00
- Presently distribution customers are paying the cost of having the losses 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.
- The increase in termination fees will distort the price of purchasing water allocation

RECOMMENDATIONS:

1. We agree with the proposed termination fee for industrial users only
2. There should be greatly reduced termination fee to irrigators ensuring SunWater reduces cost in line with demand, promotes its schemes to build demand and stops any risk of profiting by water being transferred to the river.
3. All losses WAE to be treated as distribution WAE.
4. There needs to be legislation that ensures both the buyer and seller are made aware of the termination fee

Revenue Offsets

- The revenue offsets have not 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.

RECOMMENDATION: All revenues need to be allocated correctly and be increased by CPI each year.

Distribution Losses

- The current distribution losses allocations are MP 37000ML HP 8000ML. This represents over 31% of the WAE on the channel. QCA is recommending that prices reflect the cost of 100% of the losses allocation when less than 70% of them are being used.
- The allocation of losses WAE bulk costs to distribution has added to the fixed costs.
- This is in direct contrast to Losses in the river/bulk system which is 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 should 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.

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 use to those who have paid the cost.

2. The average losses WAE used over the last 8 years has been only 31 225 ML. SunWater should only be allowed to charge the bulk cost of losses WAE for the largest 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. The bulk cost of HP losses WAE must only be passed onto HP customers.

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.

Indirect and Overheads

- There are large differences in the indirect and overhead data presented in the documents used in developing the draft prices.
- The Mareeba-Dimbulah bulk has an indirect and overhead cost of over 54% and the distribution is over 42%. 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.

RECOMMENDATIONS:

1. 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.
2. QCA to make sure that the cost of SunWater reading water meters for DERM is not being borne by MDIA irrigators

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

Organisational Restructure

- A target for cost reductions of $3 000 000 was set as part of the 2005/6 pricing round. By 2007/8 costs had increase by $10 000 000. Five (5) schemes were removed from SunWater to SEQ water and SunWater undertook another cost review called SLFI, at this stage being $13 000 000 over the costs set in 2005/6. SunWater has presented some very conflicting data to QCA which seems to indicate that SLFI may have reduced their costs by $9 800 000 leaving them $3 200 000 plus the costs of 5 schemes over their target set in 2005/6. If you take the total expenditure of 5 schemes transferred as an average over the last two years in SunWater it is $4 054 500, which brings it to total of $8 254 500

short of the targeted efficiencies set in the previsedpricing process. This represents over 15% of the total yearly expenditure of SunWater. These numbers get worse when you look at the total of forecast and actual expenditure. There was over $3 000 000 less spent on electricity then budgeted and $2 100 000 recovered for revenue offsets over what was budgeted. This brings the SunWater efficiency short fall to $13 354 500 or 25% of total expenditure. What is the point of pricing reviews if this is the best that can be delivered?

- Mareeba has a forecast expenditure for the next 5 years which is 211.3% for bulk and 25.1% for distribution above the efficient costs set and agreed to by SunWater in 2005/6.
- There is currently no competition and therefore no incentive for SunWater to improve efficiency.

RECOMMENDATIONS:

1. The starting point for this pricing review should be the recommendations from the last pricing review which would equate to a 25% reduction in the current total expenditure.
2. Prior to each new price path tenders should be called to manage and operate the MDIA scheme. This is the only way that SunWater will be driven to improve efficiency.

Renewals Annuity

- There has been a large over budget spend on renewals items without any consultation with customers and regard for the service requirement.
- This has led to a large increase in the yearly cost of the renewals Annuity.
- QCA recommended a 10% reduction in renewals expenditure which doesn't flow on to the recommended prices. QCA renewals future costs are larger than the ones in SunWater's NSP.
- QCA has recommended a 10% reduction in future renewals costs but the recommended costs show a 6% increase.
- 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 recovery on 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 consultants review on the replacement of the concrete lining of the channel didn't look at the prudence of the replacement when comparing it with the HDPE liner. The prudence of both products should be measured by their ability to do the job they are designed to do. e.g. stopping the channel from leaking.
- SCADA is a large renewal item which is not being utilised to its full potential in the MDIA. It has been impossible for us to access data on SCADA's utilisation for this submission.

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. QCA to investigate the utilisation of the SCADA system in the MDIA and apply a more accurate renewals cost deduction to this item.

Other Comments

1. SunWater has still not supplied sufficient information to justify a $2/ML + CPI increase over five (5) years.
2. Current prices are already over inflated and above the irrigators capacity to pay.
3. Community Benefit should be analysed and accounted for as part of this review. Agriculture, generated as a result of the MDIA scheme is the backbone of the townships within the scheme. There is a real threat that the high water prices will not only cripple irrigators but also the townships within the scheme which rely on income and employment from agriculture for survival.