

Pioneer Valley Water Co-operative Limited.

A co-operative formed under the *Cooperatives Act 1997*.
ABN 55 322 373 770.

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Reference: C10/019/14

19th December 2011

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Sirs

**RE: QCA Draft Report – SunWater Irrigation Price Review : 2012-2017
Pioneer River Water Supply Scheme**

This submission provides PVWater's comments on the draft report in regard to the Pioneer River Water Supply Scheme. The first part of the submission raises some points for clarification from the report and we look forward to an early response on these. The second section of this submission provides detailed comment on specific sections of the draft report.

Section 1 - Points for clarification

- Table 3.1 would benefit by further explanation to clarify that it refers only to permanent trade separate from land and, given that this is an *irrigation* pricing review, that the water trading covers all sectors.
- In Section 3.2 the statement “High A and High B priority irrigation water cannot be separately identified, as holders of High A priority WAE also hold High B Priority WAE which passes through the same meter” is irrelevant, as there are no customers who hold High A Priority irrigation WAE in the Pioneer WSS. The only High A Priority WAE associated with irrigation is that held by PVWater as Distribution Loss.
- Figure 3.1 should indicate that it covers use from all sectors
- In Section 3.4 confirmation is sought that the PVWater charge to its Mirani Diversion Channel customers is the only charge that should apply.
- Section 4.3, page 23 states that “the modified GE Energy valve failed after the defects liability period has expired (in late 2004)”. Point (c) on page 21 indicates that the GE Energy valve was found to be faulty five weeks after being reinstalled in September 2003.

- Section 4.7 states that a WPCF of 1.5:1 was adopted for the 2006-11 price path for the Pioneer. It is our understanding that High B WAE was assigned 54.5% of lower bound costs for the 2006-11 price path and this equates to a WPCF of 1.3:1.
- Section 4.7 – In view of our previous comments on HUF determination we would request access to the Gilbert & Sutherland independent review to reconcile the matter of not being able to replicate the SunWater calculations.
- Table 4.17 appears to show apportionment of renewals annuity between High B and High A incorrectly (High A 56%, High B 44%)
- Figure 5.3 appears to show forecast and actual expenditure around the wrong way

Section 2 - Specific comments

Tariff Structure

While supporting the recommendations that the tariff structure should align with fixed and variable costs it is important to recognise that in schemes such as Pioneer, aspiring to trade water to the highest and best use through arrangements such as tariff structure could almost encroach on bureaucratic overkill.

The Pioneer scheme supplies only supplementary irrigation supply and also principally supplies an agricultural mono culture area. The highest and best use for water in the Pioneer is obviously urban and industrial but with SunWater holding substantial reserves of High A allocation in the scheme this trading option does not apply for the foreseeable future. Further, trade of allocation away from irrigation would increase pressure on sugar cane production in Mackay which has seen substantial reduction in recent years.

In the Pioneer, the overwhelming majority of temporary trading occurs in dry periods when less than full announced allocation is available. This is clearly demonstrated in Table 3.1 where temporary trading (which was available before water reforms were introduced) during the period 2003-04 to 2006-07 was at a time of low allocation. In 2005-06 and 2006-07 almost all temporary trading was from the SunWater reserve High A allocation to irrigators and without access to the reserve allocation trading would have been virtually non-existent.

In regard to permanent trading in the Pioneer, Table 3.1 show that it represents less than 1% of total allocation in the scheme. This could not be seen as a significant outcome from water reform.

A perverse outcome of irrigation pricing regardless of tariff structure is that high price will stifle both water use and water trading. In the Pioneer the SunWater charge forms part of the total cost where PVWater distributes allocation and sets additional charges. With present charges including the capital cost for the scheme, there is evidence that water pricing plays a major input into decisions into whether to irrigate. Over the last two years with full allocation and relatively high sugar prices irrigation water use during dry periods has been much less than expected. Feedback to PVWater on this has reinforced that water pricing is playing a significant role in irrigation water use.

Irrigators in the Pioneer have little if any trading opportunity for their water and with sharply rising input costs, particularly electricity, agricultural revenue is diminishing. They have no way to divest themselves of their allocation and, regardless of tariff structure and lower bound costs, must draw on reserves or overdrafts to continue. This inevitably leads to foreclosures, reduced water use and reduced agricultural production.

Mirani Diversion Channel

PVWater welcomes the outcomes of the review of arrangements for its customers on the Mirani Diversion Channel particularly for a separate tariff group to be established and for DERM to resolve the matter of distribution loss allocation for this section.

We look forward to the positive recommendation on the Mirani Diversion Channel in the final report.

Mirani Weir – Cost Allocation

Section 3.5 clearly shows that Mirani Weir is a shared asset between the Pioneer and Eton Schemes. We understand that there has been no dissection of costs between headworks assets in the Pioneer and look forward to a recommendation in the final report for this to be put in place for 2011-17 for Mirani Weir.

With no cost dissection available we propose that the following be adopted for the period 2011-17 while actual costs are determined.

Mirani Weir Renewals Component

Based on QCA Appendix A: Future Renewals List, the following shows the forecast renewals expenditure for the major asset components for the period 2011-12 to 2016-17. We appreciate that these are only for items above \$10,000 in value and may not be an accurate representation. However we do not have access to all renewals data to determine the impact of items less than \$10,000.

Headworks Asset	Forecast renewals 2011-17	% of Total
Dumbleton Weir	\$149,000	14
Marian Weir	\$90,000	8
Mirani Weir	\$129,000	12
Palm Tree Pipeline	\$75,000	6
Teemurra Dam	\$656,000	60
	\$1,099,000	100

On this basis we propose that 12% of the asset renewal annuity for the Pioneer be apportioned to Mirani Weir for the period 2012-17.

Eton Pioneer Sharing of Renewals Annuity

With no actual cost apportionment data available we propose that the following methodology be adopted as an interim measure for 2012-17. This methodology is based on the operational arrangements for diversion from Mirani Weir to the Eton Scheme as a set down in the ROP.

Diversion to the Eton Scheme can only occur when inflow to Mirani Weir exceeds 250 ML/day and the water level in the weir is at or above fixed crest. The storage volume held by the Mirani Weir fabridam is of significant benefit to diversions to Eton. We propose that the ratio of 50% of the volume stored by the fabridam over total storage volume be the basis for sharing of renewals cost.

On this basis, the renewals sharing would be 80% Pioneer and 20% Eton as follows.

Full supply volume – 4660 ML
Fixed crest volume - 2730 ML
Fabridam volume – 1930 ML – 50% = 965 ML

Eton WSS share – $965/4660 = 20\%$

The average annuity for the Pioneer for 2012-13 to 2016-17 is \$144,400 and under the above would see an amount of \$3,456 average per annum apportioned to Eton.

Without any data on operational cost for individual major assets within the Pioneer it is again not possible to determine actual cost sharing. We propose that total asset value be adopted to set the Mirani Weir component of operational cost for the Pioneer. Asset values are shown as Optimised Replacement Cost (ORC) in Appendix A.2 of the SunWater NSP for the Pioneer as below.

Headworks Asset	ORC	% of Total
Dumbleton Weir	\$24.74m	11
Marian Weir	\$10.07m	4
Mirani Weir	\$54.01m	23
Teemburra Dam	\$142.12m	62
	\$230.94m	100

On this basis we propose that 23% of operational costs for the Pioneer be assigned to Mirani Weir. We also propose that similar sharing as for renewals be adopted which would see Eton apportioned 5% of the total Pioneer operational costs for its share of Mirani Weir.

The average operating cost for the Pioneer for 2012-13 to 2016-17 is \$888,400 and under the above would see an amount of \$40,866 average per annum apportioned to Eton.

Renewals Annuity

Past Renewals Expenditure

Palm Tree Creek Pipeline –replacement of regulating valve

Section 4.3, pages 18 to 28 provides a comprehensive overview of the saga of the Palm Tree Creek outlet valve however we contend that both the consultants and QCA have been very generous in their assessment of SunWater’s prudence in their attempts to rectify the valve which failed in 2001 during the first period of extended releases from the newly completed Teemburra Dam

We have been provided by SunWater the peer review reports on their investigation and options analysis for the regulating valve. These reports were also provided to the QCA consultants. We note particularly the report “Palm Tree Creek Pipeline: Provision of Peer Review of the Valve and System Selection (Glen Hobbs and Associates, August 2010)”. This report in Section 7 examines the matter of jet velocity from the Glenfield Valve in the dissipater pit and raises the matter of excessive turbulence and hence vibration of the valve and pipework in the pit.

The reports states “The jet velocity at the wall (of the dissipater pit) of 20 m/sec is a very high velocity that will generate high turbulence leading to vibration”. In their conclusions the report states “The Glenfield valve in its present form is not suitable as an end of line discharge valve to meet the operational requirements of the Palm Tree Creek pipeline. SunWater took the correct action in removing the valve from the pipeline.....”

The report also indicates that the jet velocity for the pepperpot arrangement presently in place is only 5.6 m/sec which is within the range of low velocity and generates lower turbulence that will not generate vibration.

QCA consultants also reviewed this peer review report and made similar comments concerning jet velocity and turbulence. In view of the concerns raised in both the Glen Hobbs and Associates review and by the QCA Consultants over high jet velocities and subsequent turbulence and vibration it is our contention that a prudent assessment of valves to replace the failed GE Energy valve would have considered this aspect in much more detail than appears to have occurred.

We would further contend that the discussion afforded to bursting discs that were installed with the Glenfield valve also raises serious doubt as to the adequacy of the design of the valve for the Palm Tree

Creek installation. This is particularly relevant as failure of the discs occurred immediately following installation of the valve and it would be expected that the pressure surges associated with the Glenfield valve would have been thoroughly investigated as part of valve selection.

We submit that the major component of costs associated with investigation and installation of the Glenfield valve should be excluded from past renewals and not just that deemed by the QCA consultants to be due to an inadequate procurement process.

Marian Weir – enlargement of outlet works

We fully support QCA in removing all costs associated with this project from past renewals and the recommendation that SunWater enter into detailed negotiations with all stakeholders to determine the appropriate strategy for progressing the matter. As we have detailed in our previous submissions major renewals or enhancement projects such as this cannot be done behind closed doors due to the significant impact on water charges to customers.

We fully understand that major works will be required in water supply schemes from time to time and these will have impact on water pricing. However the prudent approach to such projects must surely be to involve all stakeholders, particularly customers who ultimately will pay, at the earliest stages of the project to ensure that all options are fully explored in truly open consultation.

We would be vehemently opposed to re-inclusion of any costs for the Marian Weir project in past renewals until such time as the recommended consultation with customers occurs and we have had the opportunity to fully consider all options including those no-build options raised in our previous submissions.

We also note that Table 4.10: Comparison with Pioneer River Storages shows that the current estimate for the Marian Weir Project (\$4.846m) is not much below the Cost to Replace Marian Weir of \$6.103m. Surely this should trigger some cost benefit analysis for the outlet upgrade which could well see the final cost exceeding the replacement cost for the weir itself.

Mirani Weir and Dumbleton Weir - Fabridam

We fully support QCA in excluding all costs associated with the fabridams pending the outcome of the legal investigation of the Bedford Weir incident.

As with our comments above on Marian Weir, we do not support inclusion of any costs associated with the fabridams until we have had the opportunity to participate in open consultation including full options analysis.

In regard to the Dumbleton Weir fabridam we trust that our contribution of \$2.2 Million (1997 dollars) as part of local funding for the Teemburra Dam Project is included in all future deliberations on the matter.

Forecast Renewals Expenditure

We commend QCA for excluding from renewals expenditure for 2011-12 to 2015-16 any further costs associated with rectification of the Palm Tree Creek Outlet. As stated above we contend that the entire exercise for rectification of the Palm Tree Creek outlet has been very much below prudence and that SunWater should bear the major cost for the works.

We note in Appendix A that \$98,000 is included for replacement of rupture discs on the Palm Tree Creek Pipeline in 2017-18. It is our understanding that these discs will not be required with the proposed outlet arrangements and these costs should be removed.

SunWater's Consultation with Customers

We commend QCA on their recommendation that there be legislative requirement for SunWater to consult with its customers. It is indeed most disappointing that, despite being advised as part of the 2006-

11 price setting process that customer consultation by SunWater would improve it has not occurred. This has led now to the situation that legislation is proposed to force a monopoly supplier to the discussion table with its customers.

Operating Costs

Non Direct Costs

As detailed in our previous submissions we do not accept that around half of the operating costs for a bulk irrigation water supply scheme are indirect and overhead costs. We accept that SunWater as a GOC would incur higher than commercial overheads but not to the level proposed.

In regard to the attempted benchmarking of indirect costs for SunWater against PVWater we note QCA's comment that "there are differences between PVWater and SunWater which made the comparison unreliable". However we also note that QCA have chosen to include in Volume 1 of their draft report full details of the "unreliable comparison". As discussed with both QCA and their consultant, we find it totally absurd that the consultant chose to remove significant components of SunWater's costs from the benchmarking analysis against PVWater. This was done without our knowledge and we were not afforded the opportunity to reassess our actual costs in line with the assumptions made for SunWater. We consider that the benchmarking should be withdrawn from the report or as an absolute minimum qualified in much more detail in Volume 1.

Our previous submissions have raised our concerns that the operating costs for SunWater for the Pioneer scheme do not fully recognise the ROL/DOL relationship where PVWater undertakes most customer dealings in the scheme. SunWater's activities relate to managing headworks with customer dealings only relating to permanent transfer of water allocations. SunWater raises a fee for transacting transfers of water allocation so we cannot see how dealing with PVWater in the process increases administration costs. We trust that the income to SunWater from the transaction fees is accounted for in revenue offsets for the scheme.

The QCA consultant reviewing the SunWater NSP for the Pioneer considered that examination of the ROL/DOL relationship was not within their scope of work. We note that QCA has consequently relied heavily on SunWater's responses to our submissions in this matter. We also note Section 5.2 that states "The authority has engaged other consultants to address potential scheme specific cost savings". We trust that the Pioneer ROL/DOL relationship is included in this additional work and that we are afforded the opportunity to provide further input.

Direct Costs

Our initial concern with the QCA report is that it states in many areas that the data presented differs to that in the NSP due to a number of changes instigated by SunWater post NSP presentation. From the information available we are not able to readily quantify the extent of the changes and hence the overall impact of those changes. This must also question the validity of the consultant's review of the NSP due to the altered data, not to mention bringing into question the transparency of the price review process

We request that the amendments made to the NSP data by SunWater be provided to us in a format to allow comparison with the original NSP on which our previous submissions were based. We would then provide a further submission accordingly.

In general in relation to Direct Operating Costs we maintain our position as per previous submissions that considerably more detail needs to be made available by SunWater for us to be satisfied that their "bottom up" to setting operating costs for the Pioneer scheme is reasonable.

Cost Allocation According to WAE Priority

We have examined the proposed methodology for cost allocation in Section 5.5 and accept that it is a fair and reasonable approach for the Pioneer scheme.

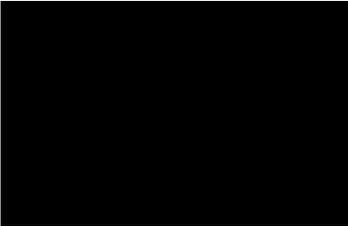
Recommended Operating Costs

We reserve our right to provide comments on the QCA recommended operating costs pending responses both to the points for clarification raised in the first section of this submission and to other matters raised in the second section particularly as follows.

- Outcomes of QCA consultant review of scheme specific cost savings of Indirect Costs
- Provision of data to allow assessment of SunWater data changes post NSP presentation

We also request that full details be provided of the nominal \$10,000 that appears as revenue offset for the scheme so that we can confirm that all relevant offsets have been included.

Yours sincerely,



J R Palmer
MANAGER