SECOND ROUND CONSULTATION – ISSUES ARISING

[This note records issues identified, and views expressed, by stakeholders present at the meeting. The Authority is yet to form any opinion on these issues and views. As appropriate, issues will be addressed in the Authority's reports].

Scheme: Macintyre Brook Water Supply Scheme

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Technical Issues

- The high fixed Part A tariff is reflective of the revenue-cap form of regulation previously applied to this scheme. Some customers accept that high fixed costs are not an issue of concern as they have a high reliability scheme.

- The costs associated with recreational facilities in this scheme are significant and should be reviewed.

- Customers say it is unfair that irrigators have been called upon to meet recreational costs (but noted that this is the Government's policy and outside the scope of QCA review).

Scheme Specific Issues

- Irrigators have been told that the additional costs incurred in administering the capacity sharing arrangements associated with this scheme are $250,000 over the 5 year price path. No justification has been provided.

- Benefits associated with capacity sharing may have been overstated by SunWater. SunWater may be seeking revenue from this scheme to promote the approach to other water service providers. Are the costs of running the capacity share system in the scheme included in Head Office or regional office costs? Should the capacity sharing costs be allocated to the scheme given the project was research based for examination offshore and in southern states?

- The flood mitigation benefits of this scheme have never been identified and apportioned to the broader community.

- The pricing issues outlined provide no incentive for SunWater to provide services in this scheme.

- How can a 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 for achieving outcomes which drive the business forward and change its culture. In the longer-term there is a need for a complete rethink on the way SunWater is managed. This focus should be on developing a shop-front mentality of a large company in a competitive industry.

- Concern regarding GHD report – GHD must drill further into SunWater's data to provide recommendations regarding efficient operating and capital costs. Particular concern that GHD was unable to benchmark opex with other schemes.

- The current process is flawed if there is a continued reliance on the economic 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 theoretically competitive environment which can never exist.

- Irrigators have not been consulted regarding proposed renewals expenditure. SunWater consultation with scheme irrigator advisory committee has been poor with the standard of consultation declining significantly over the current price path.

- Renewals expenditure incurred in 2007 associated with Whetstone Weir is an example of SunWater not consulting appropriately with irrigators. Irrigators had agreed to this expenditure on the basis of the estimate of costs proposed by SunWater. The weir upgrade was sought by irrigation customers to enhance water delivery downstream. No further consultation was held regarding costs until recently when significant cost blow outs were identified. Project would not have been supported had irrigators been advised of the extent of the increased (proposed/revised) costs prior to them being incurred.

- Concern as to the impact of the Whetstone Weir upgrade in 2007 on renewals balances and therefore on future prices.

- Questions raised regarding how these cost over-runs occurred. This weir project must be subject to detailed investigation.

- Questions raised as to whether SunWater is meeting its obligations under the consultation charter.

- Concern that GHD cannot analyse the renewals program for the last 5 years, in particular Whetstone Weir's significant overspend.

- Renewals expenditure is proposed for three gauging stations and improved outlet works at Coolmunda Dam. Irrigators don't understand the need for, or the value of, these gauging stations or why these costs are being charged to irrigators rather than the Department of Energy and Resource Management or the Bureau of Meteorology.

- Concern regarding GHD's preliminary draft analysis – need to drill further into SunWater's data to establish whether costs are efficient. Without adequate analysis of base costs, irrigators will have little confidence in prices.

- Need for clarification regarding the implications of the revenue cap during the current price path. That is, how will adjustments be made and on what basis?

- Unclear what the implications of capacity sharing will be for prices within the scheme. Will prices vary across the three scheme segments to reflect differences in loss provision?

- The need for significant head office and regional office costs was questioned. Are these justified for this bulk scheme?