THIRD 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: Bundaberg WSS and Distribution System

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Pricing Framework

Tariff Structures

- The recommended high Part A charge in the river means that SunWater recovers most of its revenue regardless of water use.

- Irrigators in the past have wanted a high volumetric charge as water availability was low. As water availability is likely to be higher in the future, a high volumetric charge is no longer wanted.

- The high volumetric charge that means that irrigators will not be able to irrigate?

- If irrigators in the channel use a high % of their water then they will face a much higher water bill than in the past.

- Customers who do not use their allocations should pay for the cost of their supply.

Paradise Dam

- Some portion of unsold Paradise Dam water should be allocated some distribution system cost. It may be the case that this water is used in the distribution system in the future.

- Channel users have lost 15% of their peak capacity to Burnett Water and should be allocated 15% of the distribution system fixed costs.

Termination fees

- Irrigators support the proposed termination fee approach as it protects remaining customers.

- SunWater is likely to attract new distribution system customers as there is a significant amount of unsold Burnett Water WAE.

Distribution losses

- Bundaberg uses 22% of its distribution losses and should only pay for this amount.

Renewals Expenditure

- Bulk customers have been paying above lower bound but there is a negative renewals balance –how a scheme paying above lower bound can have a negative renewals balance ?

- A reduction in the bulk renewal annuity will not impact on bulk recommended prices (due to Government policy). However, a reduction in the cost reflective bulk charge will impact on the [bundled] cost-reflective distribution charge which will impact actual prices.

Renewals Cost Savings

1. *Beattie Pump Station Channel Item*

- The location of this pump station was questioned – particularly, clarification was required as to whether it was in this scheme.

2. *Bingera Channel Lining*

- Query as to whether this item was reviewed and how it was treated. The costs for the lining needs to assume a plastic, not concrete lining.

SunWater Consultation

- SunWater's information system should be set up to allow for information to be assessed and reviewed in the future.

- Standards of service needed to be reviewed.

Operating Expenditure

- QCA should ensure that no Paradise Dam costs have been included.

- There are some ROP compliance costs. These costs relate to Paradise Dam and should be allocated to 'new' water only.

Gin Gin Bulk Costs

- Irrigators want to view the IQQM model that determines the costs allocation between distribution and bulk. The model assumes that 100% of water is used, which is unlikely to occur. Questions were raised about: how the $61,000 was calculated; which electricity price is used; whether the average or the Gin Gin specific pumping costs are adopted.

Non-direct costs

- Irrigators noted that Deloitte's recommendation was based on the whole of SunWater having 34% centralised costs but irrigators generally pay 40-60% of costs. This means something is wrong – irrigators pay too much of the overhead and indirect costs because 50% is excessive.

- SunWater central costs are now more than 40% higher than was agreed in 2005-06, which is too high. Cutting 2.7-8.9% only off these costs is considered inadequate.

- Irrigators asserted that Pioneer Valley Water Board (not a SunWater business) is far more efficient than SunWater channel service contracts despite what Deloitte says in its report.

- Deloitte's figures are considered wrong and at odds with the QCA's report. When placed into the Deloitte study – most SunWater channels come out with 50% overhead costs compared to 38% of overheads in Pioneer Valley Water Board.

- Irrigation service contracts are allocated a larger portion of non-direct costs than non-irrigation service contracts. The analysis by Deloitte is on SunWater as–a-whole rather than just irrigation service contacts where non-direct costs are much higher. SunWater's irrigation non-direct costs should be compared against Deloitte's sample – rather than SunWater as a whole.

- Irrigators' suggested that SunWater wins contracts all over Australia with very high overhead costs because SunWater put less overheads into non-irrigation contracts to make them competitive and allocates more costs to irrigation service contracts. Irrigators are considered to be paying the overheads for commercial projects.

- There has been a very large increase in non-direct costs in the past 5 years.

- Irrigation customers cannot leave, so SunWater spends more time/effort in seeking new commercial business. Therefore, more non-direct costs should be allocated to the commercial service contracts.

- SunWater is in a very favourable environment, due to the supply contracts. Therefore, it is not surprising that SunWater is operating in the best 25% [according to Deloitte's analysis]

- SunWater is reducing direct labour and replacing it with central office staff. This does not provide a good service.

- The QCA should reduce non-direct costs to 34% in Bundaberg, which is the whole SunWater average.

Working Capital

- Bundaberg has a high variable cost so should have a reduced need for working capital.

Electricity Costs

- Questions were raised as to how the QCA can be certain that the electricity escalation forecasts are correct.

- QCA needs to verify the starting balance of electricity costs.

Prices

- Questions raised as to:
  - what rate the Part B been escalated;
  - how the increase of $2/ML was determined;
  - whether irrigators are paying for environmental flows;
  - why is the cost reflective revenue greater than efficient cost;
  - how can irrigators have confidence that the figures submitted by SunWater are accurate.

- During the 2005 price negotiations, it was expected that lower bound would be reached in 2010-11. The basis for the current increase in lower bound costs over the past 5 years needs to be provided.

Bulk Scheme

- While HUF apportions more costs to HP, it was considered that this is not necessarily appropriate because the high priority distribution loss WAE is paid for by irrigators.

Distribution System

- High priority distribution loss WAE is paid for by medium priority channel irrigators – and this is a significant cost item in this scheme. On this basis, the benefits of the HUF are somewhat offset.

Revenue Offsets

- Past revenue should be offset where above forecast.

- Minimum charges should be a revenue offset.

Insurance

- SunWater seem to have taken out too much insurance. SunWater is a big company and should be able to carry some risk.

- Questions were raised as to whether SunWater needs professional indemnity insurance. Other insurances are typically competitively sourced but professional indemnity insurance is expensive and unnecessary. This insurance would be most needed for the consulting contracts and non irrigation service contracts. QCA should remove the cost of professional indemnity insurance.

Water Use

- A higher water use forecast be used as water use is expected to be higher in the next 5 years.

- Question raised as to whether the QCA model addressed how the change in price will impact on water use.

- The dam is full and is likely to provide an above average water use for the regulatory period. Irrigators suggested it may be 55%.

- The Fred Haigh Dam was last full in 1992.

Other

- Irrigators requested that the slides be placed on the website.

- Question raised as to whether it would assist the process if QCA was allowed an extra 12 months to get more accurate information from SunWater.

- The impact of the new WRP on prices should be considered.