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: Lower Mary WSS and Distribution System

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Regulatory Framework

- Concerns about costs which have not been addressed by the QCA. Irrigators were worried about gold-plating of costs related to legal compliance such as metering policy, dam safety, health and safety.

Pricing Framework

Exit fees

- No one has left the scheme in 10 years, so why is the QCA recommending a higher exit fee?

- Prices should be set based on the sensitivity of demand, so that exit fees are not required.

- Concerns that SunWater will simply pass the portion of fixed costs which are not recovered from the exiting party onto remaining distribution customers.

- An irrigator with 30ML of WAE stated her difficulty in selling/exiting the system.

Owanyilla channel

- SunWater has claimed that the transfer of 27% of costs is based on the measurement of flows but irrigators say that the flow is not measured. SunWater can't measure the amount being transferred from the Mary River to Teddington weir. There is no meter on the Owanyilla pump station.

- This considered to be an important issue for the upcoming transfer of operation of Teddington Weir from SunWater to Wide Bay Water on 1 July, as Wide Bay Water is likely to use these figures to charge irrigators going forward. Irrigators questioned how the cost of the Wide Bay Water-owned weir is incorporated into the QCA's Draft report.

Distribution losses

- QCA's recommendation of a DERM review of distribution losses is unsatisfactory. Why would Government want to review distribution loss WAE if irrigators are paying for excess distribution losses?

- SunWater don't know how much they pump, so how do they know how much they lose in the channel? Metering is a big issue.

- Distribution users should receive the benefit of any change to distribution losses, because it is effectively their asset.

- Irrigators questioned how can the cost of distribution losses per ML equal $3.40 if the total cost-reflective bulk cost is $4.60/ML?

Renewals

Past Renewals Expenditure and ARR Balances

- There should be some implications of overspending renewals so dramatically. Opening balance is largely negative, which adds a lot to renewals annuity.

- Irrigators stated that the amount of user involvement in SunWater's renewals annuity has drastically reduced. Previously, where annuity plans changed substantially, SunWater had to go back to the irrigators.

- Irrigators cannot afford the price impact of the negative $1.3 million ARR opening balance for Lower Mary Distribution System.

Renewals Cost Savings

- Irrigators suggested that the average saving of the sampled renewals items in the scheme should be applied to the remaining unsampled items, rather than the state-wide 10% saving. There is nothing average about this scheme. QCA recommended a 60% saving in distribution system sampled items, but only a 10% saving applied to non-sampled items.

- Irrigators stated that the renewals annuity in the distribution system is very high, at approximately $40/ML.

- Irrigators do not have a lot of trust that the scheme is being managed to the best interest of the scheme. Irrigators that attended a field trip with QCA's consultant found that SunWater staff admitted that many items on the renewals program were not required.

SKM

- Concerns that SKM are conflicted because they do a large amount of work for SunWater.

<u>Specific Renewals Items</u>

Marker buoys

- Hard to believe that marker buoys should be costing $17,000.

Valve

- Installing a PN16 valve that can handle 160 meters of head in a pump that only has 2 metres of head, and that is a $10,000 valve when only a $2,000 valve is required. This is indicative of over-engineering throughout the system.

Channel costs

- Irrigators stated that SunWater is not doing any maintenance on the channel. It is a good system, but can't understand how the costs can be so high.

Copenhagen Bend

- Big ticket items in the renewals program, that irrigators are not sure are required. Use a common sense decision when implementing, for example, irrigators may be willing to go on a roster system if a pump failure occurs (rather than have such expensive or two pumps).

- Copenhagen Bend, for example, is attracting a lot of expenditure for a relatively small customer base / asset.

Seepage renewals items

- SunWater will get as a saleable asset the water allocation (WAE) arising from any repairing of leaks in channels, as part of renewals expenditure, so why should irrigators pay for the cost of this expenditure if only SunWater profits from the sale of formerly distribution loss WAE?

SunWater consultation

- SunWater has not consulted with irrigators, despite irrigator attempts to engage SunWater.

- 10 years ago there was consultation with the irrigation committees 3 or 4 times a year, but that has now all stopped. Back then irrigators could tell SunWater that over-engineering is not required, because irrigators have the local information.

- SunWater is getting bigger, but this scheme is not. How do we bring SunWater to the consultation table?

- Irrigators suggested that QCA's response to their concerns has been a tick-box exercise, and that they have not been sincerely addressed (for example, passing decisions to Government or referring issues to DERM).

Opex

Labour costs

- Query regarding whether QCA's consultants saw all the work orders etc that build up the opex budget.

- Seem to be too high for the size of the scheme. Indirect labour is such a big cost across many schemes, and Lower Mary irrigators are worried that their share is too large. Labour costs have doubled.

Weed costs

- Concerns about large weed costs in a year that the bulk system flooded and the weeds would have been washed down the system.

Centralisation of SunWater to Brisbane – non-direct costs /cost savings

- Where are the cost savings from centralisation? Non-direct costs are a significant percentage of charges, and have gone up. This was included in their submission in April but was not responded to by the QCA. Labour costs have doubled in this scheme.

- There are the same amount of SunWater staff, a lower level of service, yet overhead costs have gone up dramatically. Lower Mary has the highest non-direct costs in the State.

- Irrigators highlighted a number of non-direct costs –public education, dam safety etc. Health and safety and strategy costs. Asset management and corporate counsel are all large labour costs that have been allocated to this scheme. All these costs that aren't part of this scheme and irrigators do not want to pay for them.

- Irrigators were concerned that indirect costs were 49% of total irrigation costs, but only 24% of non-irrigation costs. That is not understandable. Non-irrigation activities would require more overhead costs than irrigation activities.

Opex versus Capex Cost Trade-offs

- There has been no operating cost saving from the high level of renewals investment.

- Opex has gone from $543k to $1.2m. Preventative maintenance has doubled (labour costs have increased 100%) but why?

Working Capital

- The need for a working capital allowance was questioned. SunWater are paid in advance for Part A, so why do they need a working capital allowance? $24m is paid to SunWater in advance for this scheme. Irrigators don't get paid for cane in advance.

Previous submission

- Concers raised in previous submissions that were not adequately addressed by the Authority in its Draft Report. Particularly in relation to the increase in costs such as preventative maintenance, labour and non-directs.

Prices

Distribution system below cost recovery

- Irrigators stated that prices will keep increasing at $2/ML each year at best, at worst government policy will change and price rises will be larger.

- In the past this scheme did not need a CSO to cover the difference between costs and prices, so irrigators questioned why they are now so far below cost recovery?

- Cost recovery was not ever part of the scheme design.

Minimum charge

- Is the QCA investigating the minimum charge? If there are multiple low users of water, costs to serve will go up. Small users will be subsidised by other users. Minimum charge on river is half the minimum charge on a channel, this does not seem appropriate because the cost to read river meters is higher than channel meters.

- Minimum charges should be addressed as a revenue offset. Minimum charges are getting to be more significant in each passing review.

Impact of Recommended Prices

- If these price increases come through, then usage will fall because people cannot afford the water.

- People can't afford the water, so the scheme will become unviable.

- Irrigators' capacity to pay is stretched already, a lot of investment in infrastructure which is now threatened by price increases. Water in the river has no pressure, so it costs more to pump and requires a greater level of user-owned infrastructure.

Low Water Use Customers

- Irrigators stated that there are some WAE holders who do not use their water.

- Unused water reduces local economic activity and has impacts on the local community. Irrigators questioned whether the QCA took them into account?

Other

Data adequacy

- Questions were raised about data sufficiency from SunWater.

- Irrigators considered that they have to pay charges based on SunWater's lack of information.