

## 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:** Pioneer River WSS

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### REGULATORY FRAMEWORK

- When the total water allocation for the scheme was determined it took into account the additional storage created by the fabric dams which have since been deflated. There is now considered to be too much water allocated in the scheme for reliability to be maintained.
- If reliability in the system drops below 80%, irrigators questioned whether the Water Act would need to be changed.
- For the 2006 review, prices were set on the basis of forecast operating and renewals expenditure. These prices now form the lower limit against which the government policy of 'maintain revenue in real terms' is to be applied. If actual expenditure was significantly lower than forecast, and consequently prices were set higher than necessary, it is not fair that prices should now have to be maintained at this level.
- The QCA has recommended that a number of renewals items be excluded from SunWater's submitted costs (past and forecast). There are concerns about the impact on scheme costs, and hence the recommended prices, if these items are re-instated prior to the release of the Final Report.
- Further, if these items are re-instated during the 2012-17 price path, causing expenditure to increase above the amount used to determine prices, will these items be reviewed at the commencement of the next price path?

### PRICING FRAMEWORK

- Clarification is sought that the Part A charge essentially covered fixed costs while the Part B charge covered variable costs.

### RENEWALS

#### *Palm Tree Creek Outlet Valve*

- Have the costs for the Palm Tree Creek Outlet valve had been included ?

- SunWater clarified that the valve was initially chosen through an open competitive tendering process, with the least cost option selected. A world-wide search was conducted to source the replacement.

#### ***Marian Weir***

- The expenditure for this item has been excluded for the Draft Report but there are concerns about what would happen to prices if the item was re-instated. It was suggested that SunWater engage with customers on this issue if re-instatement is likely.
- Irrigators suggested that if this item is re-instated after the commencement of 2012-17 price path, and subsequently renewals costs exceed those forecast, the under-recovery of renewals be offset against the above lower bound revenue.
- The weir was not designed for the conditions under which is operated [under the ROP].

#### ***Fabridams***

- SunWater needs to consult with customers on how to proceed with the replacement of the fabridams, particularly in regards to whether they should be replaced, at what cost and who should pay for them.
- Queries raised about whether DERM had considered the impact on prices if these items are re-instated and whether a price-review would be triggered if it [re-instatement] occurs during the 2012-17 price path.
- If the decision is made not to replace the fabridams then the issues of over-allocated water needs to be addressed. It was considered that this water should be purchased/removed from the scheme.
- SunWater advised that they are not obliged to ensure that water reliability is maintained without the fabridams in operation.

#### ***Customer Consultation***

- In regards to renewals expenditure, SunWater should always consult with customers as to whether they [the irrigators] want the money to be spent.
- The QCA recommendations are likely to be very costly.

### **OPERATING EXPENDITURE**

#### ***Non-direct costs***

- The benchmarking information in the Draft Report doesn't match up with the data in the Deloitte report.

- Deloitte benchmarked non-direct costs for SunWater as a whole at 35% but in irrigation schemes the share of non-direct costs as proportion of total scheme costs is closer to 50%.
- SunWater's cost categories keep changing so it is very difficult to track costs over time. It would be good to have some "template" for the way in which SunWater presents how costs will be delivered so that can be tracked from one review to the next.

### ***Electricity costs***

- Irrigators noted that electricity costs are relatively small for this scheme.

### **PRICES**

- The difference between cost-reflective and recommended prices was queried. Lower cost-reflective prices were considered preferable.
- Are recommended prices in the Draft Report likely to change significantly for the Final Report and, is government likely to accept the QCA's recommendations?
- If the recommended prices are above cost-reflective prices doesn't this mean that customers will be paying a rate of return?

### **OTHER**

- If there is a substantial change in recommended prices for the Final Report, say 10%, QCA has an obligation to further consult with irrigators to discuss these changes and their implications.
- The QCA, SunWater and government should look at ways to reduce the length of the determination process next time.
- SunWater currently hold 12,000 ML. How has this been accounted for in the price determination?