

Sinclair Knight Merz  
32 Cordelia Street  
South Brisbane QLD 4101 Australia  
PO Box 3848  
South Brisbane QLD 4101 Australia

Tel: +61 7 3026 7100  
Fax: +61 7 3026 7300  
Web: www.globalskm.com



QUEENSLAND COMPETITION AUTHORITY

- 4 MAR 2013

DATE RECEIVED

Angus Macdonald  
Queensland Competition Authority  
GPO Box 2257  
Brisbane  
QLD  
4000

28 February 2013

QE06612

Dear Angus

**Seqwater Irrigation Price Review 2013-17 - Assessment of Capital and Operating Expenditure**

I refer to our engagement with the Queensland Competition Authority ('the Authority') for the review of a sample of capital and operating expenditure of Seqwater's irrigation business dated 6 August 2012 ('our engagement').

The purpose of our engagement is to support the Authority's 2013-17 price review of Seqwater's irrigation business. Under the terms of our engagement, and as set out in our proposal dated 18 July 2012, we are required to undertake this work on the basis that there is no conflict of interest between our engagement (as set out in the terms of reference dated 18 July 2012 and our subsequent proposal dated 23 July 2012) and any other engagements being undertaken by SKM.

We have reviewed our project information with respect to services undertaken for Seqwater since June 2011. Until the conclusion of our engagement, SKM has not provided advice to Seqwater in relation to any of the capital projects or operational cost areas reviewed under our engagement with the Authority.

Accordingly, SKM was not conflicted on any of the areas assessed in respect of our engagement on behalf of the Authority.

In undertaking our reviews of prudence of expenditure of a capital project or areas of operational activity as required under our engagement we assessed the need for the expenditure to deliver a regulated service to customers in keeping with the criteria set out by the Authority in its terms of reference.



We assessed the efficiency of the capital costs for the projects identified by the Authority in the Terms of Reference through taking consideration of:

- The scope of works
- The standard of works
- The cost of the works

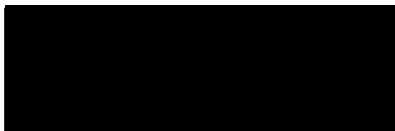
We assessed expenditure against comparison benchmark order of magnitude costs developed through drawing on SKM's experience of such projects undertaken for other comparable utilities, SKM's in-house database of capital project costs and public domain construction cost information.

Our evaluation of operational costs drew on documentation provided to SKM and on interviews held with operational staff through site visits. Our assessment of efficiency of operating costs took into account SKM's knowledge of the operating costs of comparable utilities through a combination of a bench marking exercise and through comparison with SKM's knowledge pool of operating requirements for irrigation assets.

We therefore consider that our report and its contents constitute an impartial and independent assessment of the prudence and efficiency of the capital projects and operational cost areas reviewed and is based on objective and independent information, analysis and resources.

Should you have any questions or require any further information or clarification, please do not hesitate to contact me.

Yours sincerely



**Stephen Hinchliffe**

*Manager Strategic Consulting QLD*

Phone: +61 7 3026 7428

E-mail: [shinchliffe@globalskm.com](mailto:shinchliffe@globalskm.com)