

23 DEC 2011

DATE RECEIVED

Eton Irrigators Advisory Committee
PO Box 117
Mackay
QLD 4740
21 December 2011

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Sirs

RE: Submission to the QCA on the Draft Report For SunWater Irrigation Price Review: 2012-17 Eton Water Supply Scheme November 2011(Bulk and Distribution)

Please find attached a document from the Eton Irrigators Advisory Committee which outlines the issues which the Committee deems to require further investigation.

Acceptance of irrigation prices can only be agreed to once all of these issues have been addressed to our satisfaction. We have attempted to cover as many of the issues as possible however there needs to be further consultation and possibly some more modelling that may be required.

We hope that you look upon our submission favourably and await your response.

Yours sincerely



David Ellwood
Chairman EIAC

**Submission to the QCA on the Draft Report For SunWater Irrigation Price Review:2012-17 Eton
Water Supply Scheme November 2011(Bulk and Distribution)**

While there are issues which have arisen out of the scope of the QCA process they should be reiterated as part of this submission in response to the draft price path proposal for 2011-2017 because efficient and prudent cost of water to be passed onto irrigators require all aspects of water resource management to be considered.

Namely:

- There are insufficient water allocations to maximise production or increase water use efficiencies
- SunWater cannot always meet full WAE at the beginning of the season when water is critically required
- Operators and customers are not encouraged to take a strategic view of increasing water usage or supply, nor the implementation of water use efficiency measures, thereby improving the viability of growers, millers and scheme operators (that is, SunWater).
- Very high renewal deficits are a consequence of legislative changes which benefit the whole of community as well as recreational users, but irrigators bear the brunt of these costs eg dam safety, metering, WH&S. Furthermore legislative changes are presented during (mid) price path which impacts on future budgets and then blows out costings in the next price path.
- There is no collaboration with irrigators to optimise water resource supplies, usage, costs, renewals and maintenance.
- Existing tariff structures do not optimise water resources.

In response to Round 1 consultation comments, the Authority notes that under current legislative and contractual arrangements (and the Ministerial Direction), customers must bear all the costs of water supply incurred by SunWater, irrespective of whether it is made available or not (provided the costs of supply are efficient and prudent).

EIAC is of the opinion that these costs are neither efficient nor prudent for the following reasons:

ARR costs-

There have been large over budget spends on renewals without adequate consultation with customers. QCA has undertaken a limited analysis of sampled projects and recommended removal or reduction of costs on some of these items because of SunWater's failure to adequately assess prudence and efficiency or provide enough information for QCA to assess the prudence and efficiency. For all non-sampled items QCA has applied a 10% saving. With no or little consultancy irrigators cannot be asked to bear the brunt of negative renewals balances, as this is indicative of poor risk management.

Distribution Losses

Sunwater it appears expects growers to pay for channel distribution losses irrespective of the amount of usage (is this fair). Irrigators are also expected to pay for bulk losses (transmission losses) even though they do not incur any costs. On the other side of the equation revenue offsets are not

properly accounted for ie: minimum charges, natural inflows, use of prepaid revenues etc. have no interest offset nor are they increased by CPI.

Revenue Offsets

As examples above have indicated it appears that there has not been full recovery of revenue above budget forecasts for current price paths against over budgeted expenditure during the price path.

Non direct costs and direct costs-

Example 2007/8 spike blamed on dam safety upgrade yet all costs increased incrementally even electricity costs in the lowest water use year in a decade and included higher than average rainfall years hence increased natural inflows. **While the linkage between directs and indirects are accepted on the basis of DLC's actual direct operational costs also increased which indicates "desktop" cost allocations.** Arup advised that since the information provided by SunWater did not afford the ability to "drill down" into costs to adequately review prudence and efficiency, their assessment of direct operating expenditure was limited to a general review of SunWater's processes, procedures and trend.

Arup noted that total operating expenditure for the Eton WSS is forecast to increase annually at about 1.47% in real terms when using an average of the 2006-11 costs (Figure 5.4). This average is questionable due to the spike in 2007/8 and using the argument above, operating expenditure is already inflated and hence forecasts are inflated.

Recreational Costs.

It is assumed that recreational costs are a direct cost. In light of the fact that Sunwater operates as a centralised organisation and indirects and overheads are stated as making up 50% of total operating expenditure costs then recreational users are actually costing in the region of \$340,000/annum. This is an enormous impost on irrigators. This equates to 17.4% of total costs.

Preventative and corrective maintenance

PM is forecast to increase from \$270,000/annum in the last price path (would be only \$227,000 without a spike in 2011?) to about ± \$464,000/annum

CM 2007/11: \$218,000 2011/17: \$326,000/annum

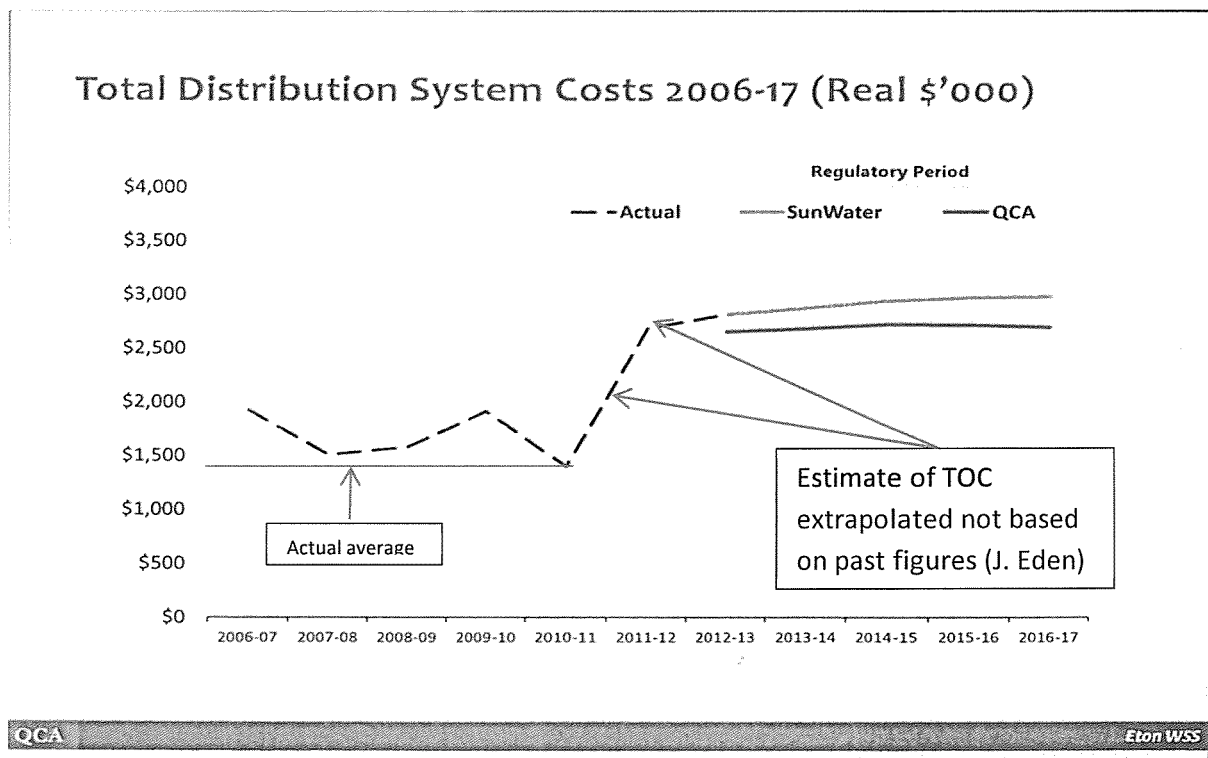
Arup requested a formal statement from SunWater as to how the outcomes of this assessment had been incorporated into preventive maintenance forecasts, including details of what initiatives had been or are scheduled to be put in place. However, on the basis of the information provided, Arup were not able to determine how PB's revised forecasts had been integrated into the NSP forecasts.

Arup noted that corrective maintenance forecasts are based on actual spends from the last four years. A 50% increase in CM and 75% increase in PM. I do not think this is indicative of actual historical spend. The issues have not been addressed. Increased Renewals Annuity (85%) in conjunction with very high increased PM and CM spends is ridiculous.

EIAC further noted that with regard to historical expenditure electricity is highest in 2007-08, yet this is the lowest water use year for the same period. Accordingly, the volumes pumped into Kinchant Dam need to be shown as it is unclear how natural flows have been considered (i.e. are all inflows assumed to be pumped from the river). EIAC submitted that they do not support SunWater's proposal for forecasting electricity and consider that surely the most appropriate method to determine the unit cost is to take actual electricity consumption figures from accounts and divide by actual water volumes from water meters for similar periods. This unit rate can then be applied to forecast annual volumes. These questions still remain valid and have not been addressed.

Total Operating Costs

Total operating costs average ± \$1,459,000 (2006/7-2010/11) Figure 5.1. The increased figure for 2011/12 is baseless and is an estimate (\$2,199,000) as at November 2011. There is no justification for this increase. Future TOC are then based on this figure and average ± \$2,458,000 for the next price path: a 69% increase??



Arup noted that total operating expenditure for the Eton Distribution System is forecast to markedly increase which, upon broader investigation, has not been offset by a similar decrease for the bulk scheme. Arup advised that, to date, SunWater has not provided further explanation regarding the basis for these increases.

Non direct costs for Sunwater all schemes reduces by \$1,585,000 in the next price path but the Eton non-direct costs increase by 46%

All of the expenditure breakdowns seem to rely on extrapolating future costs on an inflated and fictitious 2011/12 figure.

EIAC (2011a) noted that electricity for 2009-10 (\$258,000) is the highest for the period shown and Figure 2-3 [in the NSP] shows 2009-10 water use is comparable to 2008-09 and 2006-07. However, electricity for 2008-09 (\$120,000) and 2006-07 (\$176,000) are significantly less compared to 2009-10. EIAC submitted that they do not support SunWater's proposal for forecasting electricity and consider that surely the most appropriate method to determine the unit cost is to take actual electricity consumption figures from accounts and divide by actual water volumes for water meters for similar periods. This unit rate can then be applied to forecast annual volumes.

Again these issues are not addressed- of significance the electricity cost for 2011/12 jumps to \$368,000 from an average of \$152,000 for the previous 5 years. The highest amount was \$258,000 in those years.

Arup advised that since the information provided by SunWater did not afford the ability to "drill down" into costs to adequately review prudence and efficiency, their assessment of direct operating expenditure was limited to a general review of SunWater's processes, procedures and trend. This is unacceptable.

Working Capital

There is no need for a return on working capital charge when quarterly bills are paid in advance and the use of renewals annuity.

Risk Management

EIAC request SunWater to consult with irrigators to:

- optimise scheme assets and services
- identify any cost items during or after the price path that is over budget
- identify any new cost items that has not been priced as part of this review.

Tariff Structures

EIAC request that the best mix of tariff structures and percentages be employed to optimise water resources and use, before setting prices for Parts A,B,C & D

Operational Issues

Of concern to the EIAC is the issue of reliability and loss of efficiencies which may also negatively impact on electricity usage due to the loss of head from deflating the fabri-dam on Mirani Weir as well as the inoperability of pump station 2.



David Ellwood

Chairman (Eton Irrigators Advisory Committee)