CANEGROWERS

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SunWater Network Service Plan Submission

Below is our Submission on the MDIA Network Service Plans. Given the short timeframe from the NSP consultation session to the submission closing date we request the ability to send in further information as we have time to fully assess the NSP impacts on the MDIA.

Form of Regulation

Recommendations:

1. The continuation of the current Price Cap System for the MDWSS which provides stable tariffs allowing irrigators to plan their crop rotations and forecast their irrigation costs with some degree of certainty.
2. Water demand forecasting based on last 5 years of actual water usage data. Any usage above the forecast which creates a financial gain for SunWater will be credited to irrigators against the next price path. This removes the risk from SunWater caused by inaccurate forecasting.

Tariffs

Tariff Grouping

Recommendations:

1. We support the current SunWater tariff structures for our scheme being TFD / Barron River, Supplemented Streams & Walsh River, Relift, Outside relift up to 100ML, outside relift 100 – 500 ML and outside relift over 500ML
2. The existing Declining Block Tariff Structure System for the MDWSS ensures the long term viability & the capacity to pay of the larger irrigators who hold the majority of the water allocation which in turn ensures the long term viability of the scheme. QCA should request the data from SunWater which supported the introduction of this system some 20 years ago.
3. The declining block tariff should apply to the total water allocation held by an irrigator in the channel system irrespective of the geographical location of the properties on which water is being used.
4. The Supplemented Streams have been included as part of the Channel System in the SunWater NSP's for the MDWSS. Currently they are separate and their costs are based on releases by SunWater v's natural flows into the streams.
   - Tier 1 Paper 21* highlighted a range of issues that need to be considered when allocating different direct and indirect costs amongst and within SunWater's water supply schemes.
   - Tier 1 Paper 21* was prepared to provide further information in regard to the methodology adopted for inter-segment cost allocation. In response to a query raised during the QCA meeting in Mareeba on 6th April, the paper also indicates how this methodology can be modified to address cost allocation issues arising in relation to segments with supplemented streams where water entitlements are met by a combination of releases through SunWater channels and natural stream flows.
   - Tier 2 Paper for MDIA 21/04/2006* stated that supplemented stream costs were 40% of channel costs and the water allocation used was 18,700ML.

   * Both of the above papers should be made available by SunWater for QCA to review

Tariff Structures
Recommendations:

1. We support a Part A fixed tariff to a maximum level of 70%
2. There is no incentive for SunWater to provide an acceptable level of service if the fixed charge is higher than 70%
3. QCA needs to fully investigate the variable costs for the scheme to ensure that ALL variable costs are included
4. True fixed costs will never be ascertained due to the tight timeframes imposed by Government for this process and the lack of information that has been forthcoming to the consultants from SunWater. Therefore it would be unconscionable to charge irrigators 100% fixed costs on Part A when the true fixed costs are not known.
5. TFD / Barron River fixed costs are considerably lower than the current charges and as such Part A should only reflect the real fixed cost even if a means a price decrease.
6. We support the current SunWater Access Charge as long as it is included as a Part A fixed cost
7. We do not support QCA's thinking towards the proposed breakdown of the distribution system tariffs into Part A, Part B, Part C and Part D. The addition of Part C and Part D unnecessarily complicates the current water bills and will increase SunWater's administration costs.
8. Part A charges should be paid in arrears

Storage Rental Fee

Recommendation:

1. We do not support a storage rental fee for carry over as irrigators already pay a Part A charge on their total water allocation.

Distribution Losses

Recommendation:

1. Given the unpredictable weather patterns currently being experienced it is critical that we minimise all distribution losses for both the environment and the irrigators. The status quo has historically shown SunWater's inability to reduce distribution losses given the millions of dollars spent on maintenance of the scheme over the last 10 - 20 years. SunWater currently manages their environmental flows under the ROP by offsetting the distribution losses against the environmental flow targets. This has a twofold impact of putting cost onto irrigators for environmental flows and SunWater has no incentive to reduce distribution losses. Therefore it is imperative that an incentive is introduced for SunWater to reduce distribution losses in the form a 50/50 SunWater / Irrigator charge based on actual distribution losses for the scheme.

Distribution System

Recommendation:

1. We note that in the MDWSS NSP's weirs are considered part of the distribution system. Weirs have never been part of the distribution system before so we request SunWater to justify why they have made this change. The inclusion of weirs in the distribution system will increase costs to the Channel which is unacceptable.

Renewals Annuity

Recommendations:

1. We are not convinced that some of the large future renewals expenditures will occur. For example SunWater has historically patched up concrete channels and it is unlikely that in the renewal forecast period these channels will be entirely replaced with new concrete.
2. The Annuity forecast period should be twenty (20) years, as forecasting costs any further out than this will result in implausible costings.
3. While we accept the current ARR Balance for the scheme our positive balance should be credited to and offset against the next five (5) years of the annuity program.
4. While we are in the fortunate position of starting the new price path with a positive renewals balance we view this in two (2) ways – either SunWater's forecasting was inaccurate or they have not spent money on renewing assets which they should have.
5. The Service Level Agreement between SunWater and irrigators needs to have a clause added which obliges SunWater to carry out an annual consultation & approval's process of the Renewals program with irrigators on both the actuals spent in the last 12 months and the forecast program for the next 12 months. The consultation process should include benchmarking against 'best practice' to ensure efficient investment of the renewals reserve.
6. The NSP's need to have a comparison of costs against the efficient costs that were determined by Indec in 2005/06

HUF's

Recommendations:

1. We support SunWater's proposed HUF for Capital Cost Allocation of 46% to MP and the remainder to HP & Hydro
2. We would like to see the Operating Costs allocated on a HP 3 : 1 MP ratio
3. Due to the tight timeframes thrust upon them, the consultants have not been able to fully explore the true operating costs for the MDIA. They have also not been able to adequately assess whether SunWater has correctly apportioned costs to HP v's MP.
4. QCA needs to fully investigate the variable costs for the scheme to ensure that ALL variable costs are included as this will impact on cost allocation.

WACC

Recommendations:

1. We support the adoption of a single WACC to calculate renewals annuity and prices
2. We support the use of the consultants low end recommended WACC (8.2% - pre-tax real)

Category 3 Schemes

Recommendations:

1. We support the Channel relift, Mareeba-Dimbulah WSS being a category 3 scheme
2. The Retention of the current Community Service Obligation for the relift is critical for the financial viability of irrigators in this tariff.

Deloitte Report on Administration Costs

Recommendations:

1. The Deloittes administration costs benchmarking is accurate in reflecting the areas where SunWater can cut costs and the areas where staff cuts has resulted in a lack of customer service and increased customer dissatisfaction. It also shows that centralisation of regional administration has not achieved the desired administration efficiencies.
2. We are concerned that there may be cross subsidisation of costs between the administration of the water supply scheme and of SunWater's commercial consultancy projects which now make up the major portion of SunWater's income.
3. The level of overheads and indirect's for the scheme are the largest single cost and no analysis has been done to determine whether SunWater's figures reflect the true efficient costs for the MDIA.
4. Given that Deloittes was only able to assess a portion of SunWater's administration costs gives way to the doubtfulness of the information supplied and if SunWater is truly running an efficient administration system.

Conclusion:

SunWater has not supplied sufficient information to justify a $2/ML increase over 5 years. Given the current economic downturn in agriculture in the MDIA the capacity to pay for the industry is no more than CPI.