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**Sent:** Thursday, 10 March 2011 9:39 AM

You have asked whether SunWater has cost information that is disaggregated to the level of the tariffs nominated in NSPs.

As set out in our submission on tariffs and pricing principles, the tariff groups nominated in the NSPs were simply a continuation of the tariff groups that have existed since 2000, and in some cases, well before this time.

SunWater acknowledges that a 'first principles' review of tariff groupings would, in all likelihood, lead to different tariff groupings being developed. Indeed there is a case to reform tariff groupings generally given they have been in place for many years (and in some instances decades) without formal review. Nonetheless, SunWater has chosen to nominate the pre-existing tariff groups for the forthcoming price review rather than (unilaterally) mandate a different suite of tariff groups absent customer consultation or more detailed consideration and analysis.

This should not preclude the QCA from examining whether price differentials should remain between the nominated tariff groupings within an individual water supply scheme or distribution system. Indeed, SunWater has not nominated these tariffs on the basis that price differentials should necessarily continue. In some cases SunWater cannot identify any material differences in cost between tariff groups, and in other cases different tariff groups in fact have the same price.

We have set out below information about the basis for these different tariff groupings in a single scheme or system, and the cost information that would support tariff calculation. In many cases tariff groups were set some years, or in fact decades, ago and were maintained in the initial pricing reforms in 2000. The case for continued price differentials arising from these legacy tariff groups will no doubt form part of the QCA's considerations in recommending prices to Government. To the extent that differentials are to be maintained, SunWater would expect that revenues from all tariff groups would recover lower bound costs in accordance with the requirements under the Direction Notice.

SunWater has also nominated drainage tariffs in four distribution systems. This information has been provided separately, and SunWater has previously made submissions about how drainage tariffs should be dealt with.

Please find below two tables setting out the tariff groupings for bulk water supply schemes and distribution systems where multiple tariffs have been nominated (apart from drainage), an explanation of the historical basis for each group and, where relevant, commentary or actual data on cost differences.

**Table 1 Bulk water schemes with multiple tariffs nominated**

<b>Water Supply Scheme</b>	<b>Tariffs groups nominated</b>	<b>Historic basis</b>	<b>Cost or other data available</b>
Barker Barambah	River	Base tariff	-
	River – Redgate Relift*	Recognition of the additional costs incurred in supplying the Redgate system	<p>SunWater has not forecast the fixed costs of the relift system separately, on the basis that it is a bulk water scheme asset. SunWater has provided information about the variable cost of supply, being \$12.66/ML for pumping water to the relift section.</p> <p>Accordingly, SunWater proposes this tariff group comprise the base tariff, plus a consumption charge set to reflect the variable cost of pumping..</p>
Callide Valley	Benefited Groundwater Area*	Currently prices are identical in both tariff groups.	Costs have not been forecast separately for each tariff group. There has been no need as the prices have been set the same and there is effectively a single tariff group in practice.
	Surface Water*		
Dawson Valley	River	Base tariff	-
	River – at Glebe Weir	Legacy arrangement where customers upstream of Glebe Weir pay slightly lower charges on the basis that water is often not available at their foot valves after being released downstream.	<p>There is no cost differential in supplying water to customers at Glebe Weir as opposed to customers downstream who pay the base tariff.</p> <p>Accordingly SunWater has not forecast costs separately for this tariff group.</p>
Mary River – Lower	River – Mary Barrage	Base tariff	
	River – Tinana Barrage and Teddington Weir	<p>These customers contribute towards the cost of Tinana Barrage plus the cost of pumping from the Mary River via Owanyilla Pump station and main channel.</p> <p>Note that SunWater does not own Teddington Weir and no weir costs are included in the NSP.</p>	<p>Costs have not been forecast separately for the Tinana Barrage on the basis that all storage assets together make up the bulk water supply scheme. The water sharing rules aggregate the bulk water storage for making announced allocations.</p> <p>SunWater has presented separate cost data to allow for the cost of moving water from the Mary River to Tinana Creek. Refer to Cost transfer information in Lower Mary NSPs</p>
Pioneer River	River	Base tariff	NSP references two tariffs groups in error, as only one group currently exists. SunWater therefore only nominates a single tariff group, namely the Pioneer
	Pioneer Valley Water Board		

Water Supply Scheme	Tariffs groups nominated	Historic basis	Cost or other data available
			Valley Water Board
Proserpine River	River	It is understood a discount was originally provided to the Board based on a view at the time that the cost of supplying the Board was less than for other customers. The current price differentials were maintained on the basis that in 2006 both prices (current at the time) already recovered lower bound costs.	-
	Kelsey Creek Water Board		There is no cost differential in supplying the board as opposed to other customers.
St George	River	Base tariff	Costs have not been maintained for each tariff group. There has been no need as the prices have been set the same.
	River – Thurraggi Water Course	Current prices are identical to the base tariff.	
Three Moon Creek	River*	The basis for the original discount for groundwater is assumed to be related to the higher cost to the irrigator to access groundwater compared to surface water. However, the lower bound costs for the 2006 tariffs were set for the scheme as a whole. That is, there was no differential in the cost recovery target. The reason the prices are different is a result of the different starting point for each tariffs, and the capped increases to tariffs reaching lower bound cost recovery.	No data required, on the basis that there is no cost differential (As recognised in the 2006 review). Rather the price differences relate to legacy arrangements and caps to the real increases in prices.
	Groundwater*		
Upper Burnett	River – Nogo/Burnett River	Base Tariff	
	River – John Goleby Weir	This was historically a separate scheme	SunWater has not forecast cost separately for any sub-schemes

Water Supply Scheme	Tariffs groups nominated	Historic basis	Cost or other data available
		that has been incorporated into the Upper Burnett Scheme, as a sub-scheme, in the ROP. It should be noted that other Upper Burnett sub-schemes eg Jones Weir and Claude Wharton Weir pay the base tariff.	as costs have been accounted for at the Upper Burnett scheme level. There may be a case to end the differential price for this particular sub-scheme.
Upper Condamine	River – Sandy Creek / Condamine River	Base tariff	-
	River – North Branch	The basis for this tariff relates to the additional cost of pumping to North Branch	SunWater has not forecast the fixed costs of the North Branch assets separately, on the basis that it is a bulk water scheme asset. SunWater has provided information about the variable cost of supply, being \$7.14/ML for pumping water to the North Branch.  Accordingly, SunWater proposes this tariff group comprise the base tariff, plus a consumption charge set to reflect the variable cost of pumping
	River – North Branch Risk A	The basis for this tariff historically related to the cost of pumping to North Branch during high flow events in the Condamine River, plus a contribution to cost of North Branch weir, pump station and pipeline, with cost associated with Leslie Dam and other weirs excluded.	SunWater has forecast costs for the Upper Condamine scheme as a whole, and has not prepared forecasts at a disaggregated level on the basis that these assets together form the bulk water scheme.  Note that no renewal cost are apportioned to this tariff group using the HUF (HUF is 0%), but Opex is apportioned via aggregate ML plus pumping costs.

\* Denotes a scheme /tariff group where prices are to increase by \$2.50/ML in real terms in accordance with 1.2 of the Direction Notice.

**Table 2 Distribution System with multiple tariffs nominated**

Distribution system	Tariffs groups nominated	Historic basis	Cost or other data available
Burdekin-Haughton	Channel	Base tariff	-
	Giru Groundwater area	History arrangement whereby Giru customers received water at 50% of the base tariff rate and this is understood to relate to the enhancement the area received from the development of the irrigation scheme	SunWater has not forecast separate costs data for Giru Groundwater area on the basis that the tariff was set as a percentage of the base tariff.
	Gladys Lagoon	Current tariffs contain an allowance for what was considered natural yield. This is a legacy arrangement.	SunWater has not forecast separate costs data for Gladys Lagoon on the basis that the base tariff applies, albeit only for a portion of their water access entitlement.
Mareeba-Dimbulah	Outside relift up to 100ML	Historic arrangement, following a tariff review in the early 1990s. There was a belief, at the time, that there were economies of scale in supplying larger customers.	SunWater does not have cost data that indicates any material differences in the cost of supply for larger or smaller customers.
	Outside relift 100ML – 500ML		
	Outside relift over 500ML		
	River supplemented streams/Walsh River	Recover the additional cost of weirs in the Walsh River/Supplemented streams system and a share of the distribution system costs that supply the Walsh River/Supplemented streams.	SunWater has not forecast cost separately as the weirs are considered part of the distribution system for costing purposes
	Re-lift*	Set to recover the additional costs of the re-lift areas.	SunWater has not forecast fixed costs for the relift areas separately to the rest of the distribution system.  Pumping costs have been provided
Emerald	Channel	Base tariff	
	Channel – High Priority	Legacy arrangement, largely related to the terms for high priority water purchased at auction in the 1990s	There is no cost difference in transporting water because of its priority. Note also SunWater’s submission on water distribution entitlements.

\* Denotes a tariff group where prices are to increase by \$2.50/ML in real terms in accordance with 1.2 of the Direction Notice.