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Sent: Monday, 28 February 2011 1:03 PM
To: Angus MacDonald
Cc: Les Godfrey
Subject: RE: Drainage Charges

Angus

Please find below the information requested in terms of drainage, namely:

- What are the drainage costs per scheme?
- How is the size of irrigable land determined?
- Do all landholders pay drainage charges, or just those adjacent to drainage lands?

I have also presented additional information which may be of use.

SunWater's position

In our submission on tariffs and pricing principles, we acknowledged there was a case to review drainage tariffs but also highlighted the practical difficulties in doing so. We proposed a pragmatic approach for the forthcoming regulatory period.

A case exists to abolish drainage charges in favour of a single fixed charge for the distribution system (as applies in Mareeba-Dimbulah). Such a regime reflects the interrelationship between the drainage and water supply network infrastructure to provide a combined service to irrigation farms. At the same time, there is an argument that tariffs should be set to send appropriate price signals to users, and that the drainage service should be priced separately. However changing the current tariff arrangements would require significant time and effort and identifying and managing unforeseen customer impacts or anomalous situations that might arise.

As an interim measure for the upcoming regulatory period, it is proposed that drainage and water supply costs in the distribution system be considered in aggregate and recovered through both drainage levies and water supply charges. It is not proposed to change the drainage levy but rather apply the associated revenues towards the recovery of the total distribution system costs.

You might also want to be mindful that historic costs were gathered for drainage on the basis that the costs were recovered jointly with channel charges. Accordingly, the recording of costs as between drainage and channel systems was not heavily scrutinised, and certainly not to the extent that has occurred between bulk water and distribution. Hence the costs for drainage may over or understate the actual costs where costs were incorrectly assigned between the two. However in aggregate, the sum of drainage and channel costs will be accurate.

Secondly, if the QCA is considering levying a separate drainage levy to recover drainage costs, renewals annuity balances will need to be unbundled further in these schemes into three opening balances (bulk water, distribution, drainage). As you are aware, this unbundling process is imprecise given a lack of historic data (as noted at the 2006 price path review). New assumptions would also be required, such as the proportion of revenues assigned to the renewals balance..

What are the drainage costs per scheme

Please find attached a spreadsheet setting out the financial and other data requested. This data shows (subject to the caveats above) that historically:

- Drainage operating costs are a reasonable proportion of total opex in Emerald (15% FY2011) and St George (13%, FY2011). However in both these schemes drainage charge revenues have recovered operating costs, and made some contribution to renewals (we have not attempted to calculate a separate renewals annuity);
- In the Burdekin, drainage revenues have recovered around 77% of operating costs, although drainage opex accounts for a small portion of total opex (7.4% in 2011);
- In Mareeba there are of course no drainage revenues. Drainage operating costs are very small, representing only 1.8% of total operating costs (FY2011);

- In Theodore, drainage revenues recover only a small portion of total distribution network operating costs (26%), and drainage costs comprise around 15% of the total operating costs (FY2011).

How is the size of irrigable land determined?

The size of irrigable land was determined as part of the development of the distribution network. As you might recall, in our paper explaining the basis for Water Distribution Entitlements we set out the design basis for the distribution systems and allocating water to farms. This was predominantly based on an assessment of the area to be irrigated. Similarly, the design of the drainage network would have been based on areas irrigated that needed to be drained, and this area formed the basis of the rateable area for the drainage levy.

These arrangements were made decades ago, and we do not have the historical documentation that confirms this. However, we don't believe that these areas are controversial as the areas used to levy drainage rates has been a long-standing practice.

The table below sets out the rateable areas:

Sum of Total Rateable Area (ha)	
Scheme	Total
Burdekin Haughton	28,083
Dawson Valley	1,948
Nogoa Mackenzie	17,573
St George	8,916
Grand Total	56,519

Do all landholders pay drainage charges, or just those adjacent to drainage lands

There are very few (four, according to our records – one in the Burdekin-Haughton and three in Nogoa Mackenzie) customers who only pay drainage charges. SunWater has not conducted any recent audits of the area serviced to confirm whether landholders exist within the rateable area who do not pay drainage charges. Hence we cannot confirm this, although we do not expect this to be the case (at least not materially).

In Mareeba, no landholders pay drainage rates as no rates apply.

Regards

Peter