

Proposed Prices for Discussion with ILMC
Pioneer Irrigation Project
2001/02 to 2006/07 (Real \$'s) (smoothed)

		<i>Existing</i>	<i>Proposed</i>				
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
River:							
Price (\$):							
	per ML of granted nominal allocation	2.00	3.92	4.36	4.48	4.88	5.93
	per ML up to announced allocation	6.80	3.40	3.80	3.88	4.20	5.04
	Total	8.80	7.32	8.16	8.36	9.08	10.97
Quantity (ML):							
	Nominal Allocation	46,448	46,448	46,448	46,448	46,448	46,448
	Use	22,295	22,295	22,759	22,759	23,224	23,224
Revenue (\$):							
		244,502	257,879	288,997	296,392	324,123	392,486
Cost Recovery (%):							
	% of cost recovery	57%	63%	70%	72%	80%	100%
Govt. subsidy (\$):							
	Revenue less Efficient costs	-183,875	-154,650	-122,159	-112,594	-78,874	153
	Direct financial assistance (CSO)	-183,875	-154,650	-122,159	-112,594	-78,874	-
	Funding of efficiency gains	-	-20,201	-14,285	-13,806	-	-
	Capital	-3,200,691	-3,200,691	-3,200,691	-3,200,691	-3,200,691	-3,200,691

Note: *Govt subsidy (\$): Capital* represents a forgone rate of return on scheme assets which is not being recouped in lower bound pricing.

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2001/02 to 2006/07 (Real \$'s)

		Existing	Proposed				
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
River:							
Price (\$):							
	per ML of granted nominal allocation	2.00	3.87	4.37	4.46	4.88	5.91
	per ML up to announced allocation	6.80	3.45	3.82	3.90	4.18	5.07
	Total	8.80	7.32	8.19	8.36	9.06	10.98
Quantity (ML):							
	Nominal Allocation	46,448	46,448	46,448	46,448	46,448	46,448
	Use	22,295	22,295	22,759	22,759	23,224	23,224
Revenue (\$):							
		244,502	256,500	289,733	295,814	323,689	392,332
Cost Recovery (%):							
	% of cost recovery	57%	62%	70%	72%	80%	100%
Govt. subsidy (\$):							
	Direct financial assistance	-183,875	-156,028	-121,423	-113,172	-79,308	-
	Funding of efficiency gains	-	-20,201	-14,285	-13,806	-	-
	Capital	-3,200,691	-3,200,691	-3,200,691	-3,200,691	-3,200,691	-3,200,691

Note: Govt subsidy (\$): Capital represents a forgone rate of return on scheme assets which is not being recouped in lower bound pricing.

Proposed Prices for Discussion with ILMC
Pioneer Irrigation Project
1999-00 to 2004-05 (Nominal \$'s)

		<i>Existing</i>	<i>Proposed</i>				
		2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
River:							
Price (\$):							
	per ML of granted nominal allocation	2.00	3.96	4.59	4.80	5.38	6.69
	per ML up to announced allocation	6.80	3.54	4.01	4.20	4.62	5.73
	Total	8.80	7.50	8.60	9.00	10.00	12.42
Quantity (ML):							
	Nominal Allocation	46,448	46,448	46,448	46,448	46,448	46,448
	Use	22,295	22,295	22,759	22,759	23,224	23,224
Revenue (\$):		244,502	262,913	304,401	318,559	357,292	443,888
Cost Recovery (%):							
	% of cost recovery	57%	62%	70%	72%	80%	100%
Govt. subsidy (\$):							
	Direct financial assistance	-183,875	-159,929	-127,571	-121,874	-87,541	-
	Funding of efficiency gains	-	-20,707	-15,008	-14,868	-	-
	Capital	-3,200,691	-3,280,708	-3,362,725	-3,446,794	-3,532,963	-3,621,288

DATA INPUT SHEET

(Real dollars)

DATA PROVIDED BY

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2001 2002 2003 2004 2005 2006
\$ \$ \$ \$ \$ \$

(blue shaded cells require inputs)

CORE REVENUE

Water sale - Irrigators - channel	0	0	0	0	0	0
Water sale - irrigators - river	195,343	313,792	376,760	439,728	502,696	835,581
Water sale - urban township						
Water sale - Sub-urban						
Water sale - Industrial						
Water sale - water harvesting						
Water sale - Iron stores						
Water sale - groundwater						
Water sale - Rural residential						
Sugar mill Leases (for historical actuals only)						
Drainage Leases	0	0	0	0	0	0
Other core revenue						
Total	195,343	313,792	376,760	439,728	502,696	835,581

COSTS

SCHEME DIRECT COSTS

Operations and Maintenance

Labour	42,547	42,547	42,547	42,547	42,547	42,547
Material	2,707	2,707	2,707	2,707	2,707	2,707
Electricity	0	0	0	0	0	0
Contractors	15,664	15,664	15,664	15,664	15,664	15,664
Plant Hire/Expenses	3,007	3,007	3,007	3,007	3,007	3,007
Vehicle Hire/Expenses	0	0	0	0	0	0
Local Overhead (O&M)	60,898	60,898	60,898	60,898	60,898	60,898
Other	4,948	4,948	4,948	4,948	4,948	4,948
Operation management cost	0	0	0	0	0	0
(Labour+Material+Contractors+LO+Other)	126,765	126,765	126,765	126,765	126,765	126,765
Sub-Total - Direct O&M Costs	129,772	129,772	129,772	129,772	129,772	129,772

SCHEME INDIRECT COSTS

Desktop services	0	0	0	0	0	0
Insurance	16,536	16,536	16,536	16,536	16,536	16,536
Interest (incl. Debt Guarantee Fee)						
Taxes (land and rates)	0	0	0	0	0	0
Water Business Management (incl regional area mntment)	135,951	135,951	135,951	135,951	135,951	135,951
Central Office Costs	0	0	0	0	0	0
Asset Management	14,254	14,160	13,148	12,566	12,324	12,354
Customer Service and Bus. Dev.	10,582	10,512	9,504	9,519	9,257	9,257
Water Management	18,030	9,964	9,033	9,046	8,834	8,234
Executive management	4,304	4,275	3,956	3,959	3,690	3,690
Finance and Support	3,983	3,957	2,721	2,725	2,289	2,289
CSA	575	525	593	593	545	545
O&M Corporate Office Costs	18,894	18,474	15,768	15,364	14,371	14,371
Sub-Total - Indirect Costs	215,108	214,404	205,203	204,458	182,986	182,986

TOTAL COSTS

	344,880	344,176	334,975	334,230	312,758	312,758
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Abnormals

	0	0	0	0		
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CAPITAL EXPENDITURE

Formulas/Amort	304,385	302,016	299,361	297,172	293,889	291,640
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OTHER INFORMATION

Resource Management Charge X-Factor (up to 2001)	16,885	16,885	16,885	16,885	16,885	16,885
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Growth factor:

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TOTAL COSTS + RENEWALS + RESOURCE MANAGEMENT

	666,151	663,076	651,440	648,287	623,532	618,450
ADD Interest expense (converted from nominal)	65	9,910	10,211	9,243	3,213	(8,291)
TOTAL EFFICIENT COSTS FOR ENTIRE SCHEME	666,216	672,987	661,651	657,530	626,745	610,159
Multiplied by % allocated to Irrigators	64.3%	64.3%	64.3%	64.3%	64.3%	64.3%
TOTAL EFFICIENT COSTS FOR IRRIGATORS	428,377	432,730	425,442	422,792	402,997	392,332
% COST RECOVERY	57%	63%	70%	72%	80%	100%

**DATA CALCULATED
 FOR 20 YEAR PERIOD**

Pioneer Irrigation Area

its to Nominal yes false: produces outputs in real unless inputs already re

	2001	2002	2003	2004	2005	2006
	\$	\$	\$	\$	\$	\$
CORE REVENUE						
Water sale - Irrigators - channel	0	0	0	0	0	0
Water sale - Irrigators - river	195,343	321,637	395,833	473,539	554,882	945,383
Water sale - urban township	0	0	0	0	0	0
Water sale - bulk urban	0	0	0	0	0	0
Water sale - industrial	0	0	0	0	0	0
Water sale - water harvesting	0	0	0	0	0	0
Water sale - from drains	0	0	0	0	0	0
Water sale - groundwater	0	0	0	0	0	0
Water sale - Rural residential	0	0	0	0	0	0
Sugar mill Levies (for historical actuals only.)	0	0	0	0	0	0
Drainage levies	0	0	0	0	0	0
Other core revenue	0	0	0	0	0	0
TOTAL CORE REVENUE	195,343	321,637	395,833	473,539	554,882	945,383
TOTAL REVENUE (excl. contrib. Assets)	195,343	321,637	395,833	473,539	554,882	945,383
	42,547					
COSTS	2,707					
SCHEME DIRECT COSTS	0					
Internal Contractors	15,664					
Labour	3,007	43,611	44,701	45,819	46,964	48,139
Material	2,707	2,775	2,844	2,915	2,988	3,063
Electricity	60,898	0	0	0	0	0
Contractors	4,948	16,056	16,457	16,868	17,290	17,722
Rent hire/Expenses	3,007	3,083	3,160	3,239	3,320	3,403
Vehicle Hire/expenses	0	0	0	0	0	0
Local Overhead (O&M)	60,898	62,420	63,981	65,580	67,220	68,900
Other	4,948	5,072	5,199	5,329	5,462	5,598
Total Direct O&M Costs	129,772	133,016	136,342	139,750	143,244	146,825
SCHEME INDIRECT COSTS						
Asset Management	14,254	14,514	13,813	13,532	13,636	13,977
Customer Service and Bus. Dev.	10,582	10,775	9,985	10,251	10,218	10,474
Water Management	10,030	10,213	9,490	9,742	9,751	9,995
Executive management	4,304	4,382	2,055	2,110	1,865	1,912
Finance and Support	3,983	4,056	2,859	2,935	2,520	2,583
GSA	575	589	623	638	602	617
O&M Corporate Office Costs	18,894	18,936	16,561	16,760	16,084	16,486
Interest expense (includes debt guarantee fee)	65	10,158	10,728	9,954	3,546	(9,380)
Other indirect costs	152,486	156,298	160,206	164,211	147,307	150,990
TOTAL INDIRECT COSTS	215,173	229,922	226,319	230,133	205,529	197,652
TOTAL COSTS	344,945	362,938	362,661	369,883	348,773	344,477
Income Tax for Prudg Purposes	0	0	0	0	0	0
LOWER BOUND TOTAL COSTS	666,216	689,811	695,147	708,088	691,809	690,339
Abnormals	10,582	10,512	9,504	9,519	0	0
	10,030	9,964	9,033	9,046		
Capital Expenditure	4,304	4,275	1,956	1,959		
Renewals Annually	304,385	309,566	314,747	320,021	324,398	329,964
Resource Management Charge	16,885	17,307	17,740	18,183	18,638	15,898
Capital Repayment		0	0	0	0	0

21 December 2001

Contact Name: Peter Noonan
Telephone: (07) 3224 7370

Mr Terry Hogan
Director-General
Department of Natural Resources and Mines
Level 13 Mineral House
41 George Street
BRISBANE QLD 4001

ATTENTION: Paul Woodward

Dear Mr Hogan

WATER PRICE PATH CSO'S

The CSO's currently in the budgets for the rural irrigation subsidy were originally generated by the Water Reform Unit (WRU) and subsequently modified after negotiations on errors and omissions in the WRU model, and the particular circumstances of the Bundaberg price paths.

Subsequently, SunWater developed a detailed financial model of each scheme for management purposes, including the determination of the statutory asset valuations using the discounted cash flow (DCF) methodologies.

When the DCF valuations were determined, 9 schemes indicated a negative value, i.e. the future revenue stream including CSO's would not be sufficient to cover future costs of operation, maintenance, administration and refurbishment. This was the case even though assumptions were made on reducing operational costs to WRU benchmark as quickly as possible and achievement of water sales as expected by the WRU.

In 3 schemes, the negative value was minor (less than \$150,000), for 5 more it varied from \$1.1m to \$4.3m, but for the Bundaberg scheme it was \$19.0m. Not only was this of concern to management and the Board, but Queensland Audit Office also raised substantial concerns that SunWater would need to deal positively with this issue through 2001/02 as it is impacting on the financial statements.

To gain an understanding of why these large negative values occurred, we looked, once again, into the WRU models and found several issues:

i) Renewals Annuity Interest

We found that the WRU formulated some calculation of the effective bank balances of renewals annuity income less spend, and then assumed that this balance would generate interest. They then took the annual interest earnings in Year 5 and built those into the price paths as annual revenue.

Not only are the actual figures incorrect, but also the notion that the "bank balance" would stay constant for the next 20 years at the "Year 5" level is unsustainable as the pattern of renewals spend demonstrates.

Attached are the interest figures used by the WRU and a detailed analysis of all CSO schemes from the new SunWater financial model. In nett terms, the difference is \$603,000/year (in 2001/02 \$'s) of additional CSO required to provide for this problem.

The attached table was developed from:

- a) the WRU model both from the total scheme and the proportion of that which relates to irrigation and thus CSO's; and
- b) an analysis of the renewals annuity and projected renewals spend for the next 20 years as predicted by SunWater's financial model, with notional interest applied and an average annual nett interest determined in NPV terms.

In specific scheme terms, the average annual interest for Bundaberg should be \$78,000 compared with \$300,000 used by the WRU. The difference of \$222,000/year equates to some \$4.0m of DCF value.

ii) **Groundwater Management Costs**

It appears that the WRU removed some \$900,000/year (in 2001/02 \$'s) from the cost base when we decided that groundwater management in the Bundaberg scheme would remain with the Department and not move to SunWater. We believe the correct figure to be \$360,000 and thus is reflected in our DCF modelling. (Note: In the negotiations on transfer of responsibilities, Departmental figures show that the cost to SWP of groundwater responsibilities in Bundaberg, Burdekin, Condamine, etc was \$486,000/year).

Thus, we seek an increased CSO on this issue of \$540,000/year (\$900,000 - \$360,000) in 2001/02 \$'s. This would improve the DCF by some \$9.1m in Bundaberg.

Other Issues

We note as we did in the last CSO review that the price paths and the benchmark costs were misaligned by a year therefore we have an ongoing mismatch of 2.7% between the two. This was recognised as a one-off CSO increase for 2000/01, but the ongoing escalation was not carried forward in the CSO calculation. In the case of the Bundaberg scheme, this accounts for \$1.4m of the negative DCF and will be an ongoing burden for SunWater. We seek a correction of the CSO to all schemes for this issue, which is some \$0.7m/year.

Summary

In summary, we seek additional CSO per annum of \$1.87m comprising:

- \$0.63m for the interest issue;
- \$0.54m for groundwater in Bundaberg; and
- \$0.70m for CPI adjustment.

This letter has also been forwarded to Mr Peter Dann, Executive Director, Office of Government Owned Corporations.

Yours sincerely

Peter Noonan
CHIEF EXECUTIVE

Att