

From: McGahan, Peter [<mailto:Peter.Mcgahan@sunwater.com.au>]
Sent: Wednesday, 18 April 2012 12:13 PM
To: Angus MacDonald
Cc: Rick Stankiewicz; Les Godfrey
Subject: FW: Escalation of electricity prices

Angus,

After pre-viewing the final report we understand that the Authority's water branch is intending to apply an electricity price escalator of only 12.5% to the 2011 electricity prices, compared with the QCA's electricity branch estimate of 20%. Attached is a brief submission from SunWater outlining the issue and its implications, and we ask that the Authority reconsider this point before finalising its report.

SunWater cannot understand the decision to apply a 12.5% escalator in the face of compelling rationale to apply the 20% figure. Is it possible for you to arrange a brief 3 way meeting between yourselves, ourselves and the QCA electricity branch? Such a meeting needs to occur before you finalise the report to allow us to better understand your decision.

Regards

Peter

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Background paper
QCA review of irrigation prices

Electricity Escalator for 2012-13

April 2012

Application of QCA Efficiency Savings to Non-direct Costs

It is unclear how the QCA has settled on an electricity escalator of 12.5% for 2012-13 when the best available information from the QCA (Electricity) draft Determination for electricity prices says that:

“In comparison to the results from this complete review of tariff structures and prices, had the Authority persisted with the BRCI approach, prices for all regulated retail tariffs would have increased by more than 20% in 2012-13.”

In other words, according to the QCA themselves, the overall escalator for electricity for 2012-13 should be greater than 20%. The actual overall figure is known by the QCA but not stated in their draft Determination. This statement in the QCA’s draft Determination shows that the underlying cost of electricity for 2012-13 is expected to rise by more than 20%. However the QCA (Water) are suggesting at the same time that the underlying cost of electricity is expected to rise only 12.5%.

SunWater believes that the QCA (electricity) have the best available information on the expected increase in electricity costs and that the QCA (water) should rely on this information when escalating SunWater’s electricity costs. To use the 12.5% figure would be to contradict a report produced by the QCA only 2 weeks ago.

If the QCA applies the 12.5% escalator in 2012-13 as stated in the draft of their final report then they are knowingly understating the electricity costs for 2012-13 and therefore knowingly setting prices based on costs that are below efficient costs.