From: Allan, Matthew [mailto:Matthew.Allan@sunwater.com.au]
Sent: Thursday, 29 March 2012 3:22 PM
To: Angus MacDonald
Cc: Les Godfrey; Rick Stankiewicz; Matthew Bradbury; McGahan, Peter
Subject: RE: Direct Opex Info Request

Thanks Angus.

Labour increases in each of the three distribution service contracts are due to the higher forecast water availability and water deliveries being higher than the long term historic average water deliveries.

Bundaberg Distribution

- High water availability and high cane prices have led to sustained higher than expected water deliveries in Bundaberg over the forecast period. Water deliveries are forecast to be 35% above the 2007-11 average.
- All things being equal, sustained high water deliveries over the long term lead to higher operational workloads which translates to higher costs in our task-driven forecast.
- Higher water deliveries also leads to higher preventive maintenance workloads, particularly related to weed control.

Theodore Distribution

- High water availability and high cotton prices have led to sustained higher than expected water deliveries in Theodore over the forecast period. Water deliveries are forecast to be 31% above the 2007-11 average.
- All things being equal, sustained high water deliveries lead to higher operational workloads which translates to higher costs in our task-driven forecast.
- Higher water deliveries also leads to higher preventive maintenance workloads, particularly related to weed control.

Burdekin Distribution

- High water availability and high cane prices have led to sustained higher than expected water deliveries in Burdekin over the forecast period. Water deliveries are forecast to be 24% above the 2007-11 average.
- All things being equal, sustained high water deliveries over the long term lead to higher operational workloads which translates to higher costs in our task-driven forecast.
- Higher water deliveries also leads to higher preventive maintenance workloads, particularly related to weed control.

Regards
Matt

From: Angus MacDonald [mailto:angus.macdonald@qca.org.au]
Sent: Wednesday, 28 March 2012 5:33 PM
To: Allan, Matthew
Cc: Les Godfrey; Rick Stankiewicz; Matthew Bradbury
Subject: FW: Direct Opex Info Request

Matt

Thanks for your email.

I now request that SunWater explain the labour increases in Bundaberg, Burdekin and Theodore by COB this Friday, please. Or earlier if possible – as the Opex chapter in abeyance in this regard only.

The main point of our meeting and follow-up requested of SW, was concerned with why labour costs had increrased markedly in certain schemes from historical actual to forecast, particularly distribution.

Of these, Bundaberg and Burdekin (and to a lesser extent Theodore) were highlighted. Although Lower Mary and Eton had previously been raised in our information requests, and responded to by SW, charts on these, as well as on Emerald, Mareeba and St George were also included. These latter 3 may be the ones to which you are referring as showing no increase.

SW's responses (in blue), for Lower Mary and Eton are set out below:

> **<u>First Information Request</u>**
>
> Lower Mary schemes: large increases in operating costs generally, and direct labour costs and associated non-direct cost allocations in particular. For example, labour costs have increased from $78,000 in 2006-07 to $202,000 in 2011-12, a 259% increase in real terms; and
>
> Prior to 2008 the "Maryborough Scheme" consisted of the Upper and Lower sub schemes. Segments included Borumba Dam, Cedar Pocket Dam, Pie Creek distribution system, the lower Mary distribution system and Tinana and Mary Barrages. There were 4 staff in total with one supervisor located in Maryborough. In 2008 the schemes were split and SunWater retained the Lower Mary with the Mary Barrage , Tinana Barrage and the Lower Mary channel system. Staffing arrangements are now one supervisor and one operator maintainer. Efficiencies of scale were available in the past as the Supervisor supervised within the upper Mary sub scheme as well as the lower.
>
> Eton schemes: large increases in total operating costs for the distribution scheme, and maintenance costs for the bulk scheme;
>
> Eton WSS and Distribution - The increases can be attributed to a rise in the direct maintenance costs associated with the mechanical and electrical assets in the scheme and distribution system plus the associated indirect costs.
>
> Regarding operations costs, when viewed in aggregate operations cost for Eton WSS and the distribution system combined remain flat. Taking data from the Authority's Expenditure by Activity Table[1] in the draft reports for both bulk water and distribution and averaging the 5 years to 2012 results in an average operations cost of $1,235 compare the average annual forecast

[1] Refer to Table 5.2 in the Eton bulk water draft report and Table 5.1 in the Eton distribution system draft report.

operations spend of $1,239 to 2017. It is likely that inaccurate unbundling of past costs have made the historical distribution costs look artificially low, however this has been corrected in the forecast costs. When viewed as whole the operations costs remain flat.

So the increase in total operational costs can be attributed to a rise in the direct maintenance costs associated with the mechanical and electrical assets in the scheme and distribution system plus the associated indirect costs.

Second Information Request

(a) Lower Mary schemes - large increases in operating costs generally, and direct labour costs and associated non-direct cost allocations in particular. Specifically, irrigators have questioned the substantial increases in operating costs from the 2006-11 price path to the 2012-17 regulatory period. For example, for the Lower Mary Distribution System (pp.40-41):

- labour costs have increased from $78,000 in 2006-07 to $202,000 in 2011-12, a 259% increase in real terms; and

The 2007 data is not reliable at this level of disaggregation. We do not believe comparisons to this year are meaningful.

- "other" costs have increased from $12,000 in 2006-07 to $52,000 in 2011-12, a 330% increase in real terms.

Insurance costs make up the bulk of "other costs" in the distribution system at $44k in 2011-12. The past years have understated the insurance cost applied to Lower Mary Distribution as the Bulk WSS incorrectly had all of the insurance cost applied to it. This has been address in 2011 on onward and comparing "Other cost" for the combined distribution and bulk water schemes show a much more consistent number averaging $72k for the past 5 years reducing to $69k for the forecast period.

Could you please provide additional information to justify these increases. SunWater's initial response that "efficiencies of scale" are now foregone due to the reconfiguration of the scheme, does not fully explain the scale of the increases in our view.

In addition, can you provide an explanation of how the recent centralisation of customer services to Brisbane has resulted in a decrease in costs being allocated to the Lower Mary.

SunWater's assessment on the non-direct operating costs applied to the Lower Mary indicates that non-direct cost do not show a decreasing trend. The cost allocated to the Lower Mary distribution would have been higher than the current forecasts if SunWater had not taken the actions if has to reduce non-directs costs including centralising customer services. SunWater's centralised costs and SunWater's cost allocation model have been thoroughly reviewed by the Authority and largely accepted. Under the model non-direct costs are allocated based direct labour.

To summaries, I now request that SunWater explain the labour increases in Bundaberg, Burdekin and Theodore by COB this Friday, please. Or earlier if possible – as the Opex chapter in abeyance in this regard only.

Kind regards

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