SEQWATER'S 23 AUGUST SUBMISSION / RESPONSE TO QCA REQUEST OF 14 AUGUST

14 August 2012

The Authority provides, herewith, another formal (consolidated) information request to Seqwater. [Questions outlined below prior to Seqwater responses.]

A response would be appreciated by Thursday 23 August 2012.

From: Colin Nicolson [redacted]
Sent: Thursday, 23 August 2012 9:02 AM
To: Angus MacDonald
Cc: Damian Scholz; Adam Kay-Spratley
Subject: FW: RE: (NEXT) QCA DATA REQUEST 14 AUGUST 2012

Angus

Our answers are under each question below.

QCA Question 1

Background

Seqwater has submitted that non-irrigation renewals items excluded from forecast renewals costs include:

- Water supply and wastewater treatment plants servicing nearby communities and recreational areas; and

- Infrastructure the sole purpose of which is to mitigate the impact of droughts or to supply non-irrigation water.

I note, however, that we have also been provided opening irrigation ARR balances using <u>all sectors renewals costs</u> for the period 2000-13.

Similarly, we understood that your forecast renewals costs are all sectors costs, which we then HUF in bulk schemes (with respect to fixed costs) for the purpose of allocating a pertinent share to irrigators.

<u>Non-Irrigation and Shared Costs (exclusions and inclusions in forecast renewals costs)</u>

Can you explain and confirm a complete list of non-irrigation costs that were excluded from all sectors forecast renewals and on what basis these costs were excluded.

Can you also explain and confirm which forecast renewals costs shared by non-irrigation and irrigation customers were included and on what basis these costs were included.

Seqwater Response to Item 1

Excluded assets and associated costs are:

- All Rec facilities as per para 2.1 of the Renewals Projections Methodology report which states, Although irrigation customers are required to contribute towards the renewal of recreation assets associated with the irrigation schemes, such assets have been excluded from these projections as the associated renewal costs are relatively small and more difficult to reliably forecast.

- Borumba Dam WTP, Atkinson Dam WTP, Moogerah Dam Water Treatment Plant, Maroon Dam WTP and Maroon Dam STP.

- Bromelton Off Stream Storage, Bromelton Pump Station, South Maclean Weir, Cedar Grove Weir. Mt Crosby Weir. – These are non Irrigation or Drought Assets.

Shared renewals costs relate to:

- Somerset Dam and Wivenhoe Dam. (Excluding the recreation areas and Water Treatment Plants and Sewage Treatment Plants that service these recreation areas.)

- Other Dams that have a HUF applied.

QCA Question 2

Seqwater's Proposed Methodology for the Allocation of Metering Costs

Regarding your recent submission on replacement metering costs, please detail Seqwater's proposed cost allocation method for the apportionment of these replacement metering costs to irrigation customers.

In responding please also include the cost allocation options considered and reasons why some were dismissed and the final recommended option (including its benefits and limitations from a cost allocation perspective).

Seqwater Response to Item 2

Seqwater has not sought to differentiate the treatment of renewals costs relating to meters from other scheme assets in either distribution systems or bulk water schemes. That is, renewals costs (including meter replacements) are allocated between priority types (medium and high priority) using the HUF. Seqwater accepts that the HUF measures the share of storage capacity relating to priority type, and that meter renewals costs do not relate to storage. Indeed, meter renewals costs will more relate to the number of meters in a scheme, and (all other things being equal) a customer with many meters will impose greater meter-related costs on that scheme than a customer with a single meter (regardless of the amount or type of WAE held). Hence Seqwater accepts that using WAE (either nominal WAE or HUF or a combination) is an imprecise approach for assigning the costs of meters between users.

For SunWater, the QCA allocated maintenance costs using the HUF. This means that maintenance costs relating to meters in SunWater schemes are allocated using the HUF. The above shortcomings for allocating meter renewals costs also apply when allocating meter maintenance costs according to the HUF. That is, meter maintenance and renewals are similar, if not the same, in terms of their characteristics when considering cost allocation. Accordingly, allocating meter renewals costs using

the HUF is consistent with the QCA's approach adopted for meter maintenance costs for SunWater. i.e. HUF. Seqwater also accepts that allocating meter maintenance (and renewals) costs using the HUF is a reasonable and practical approach, and alternatives (refer below) are overly complex and administratively burdensome.

Secondly, the QCA's established SunWater prices by priority group, not by type of user. Similarly, the QCA did not allocate costs based on user type. Hence metering costs shouldn't be considered in terms of 'irrigation' and "non-irrigation" users as suggested above. There is nothing specific about 'irrigation' that drives the cost of metering or the timing or cost of meter renewals over time. A meter is a meter regardless, and irrigation and non-irrigations users are just as likely to have one or multiple meters, or large or small installations. Moreover, if 'irrigation" meters are to be isolated for renewals, then meter maintenance costs should also be isolated for cost allocation purposes. However, to do so would be inconsistent with the SunWater precedent above and Seqwater does not support such an approach.

Finally, the QCA recommended tariff structures that related to priority group, and recommended a two-part tariff which was based on ML of WAE held (by priority), and consumption. This suggests that all costs need to be expressed in terms of WAE, and that costs needed to be allocated between users on this basis. An alternative structure would be to establish a third tariff component set to recover the costs relating to meters only. For example, a $/meter charge to recover the renewals, maintenance and operations (eg reading costs) costs for each meter. While this might be more precise (or at least give the impression of precision), it would involve far greater complexity and administrative burden and cost. Seqwater does not support this approach as the costs and added complexity are likely to outweigh the benefits. Seqwater also notes that the QCA instead chose to allocate metering costs by water entitlements (HUF for meter maintenance and 50% HUF and 50%l WAE for meter reading costs), rather than on a per meter basis. Again, Seqwater supports the continuation of this approach.

In closing, Seqwater submits that allocating meter renewals costs using the HUF is consistent with the QCA's approach for allocating meter maintenance costs., and in principle there should be no difference in approach between the two. While other options exist, Seqwater has not sought to re-open issues such as tariff structure or cost allocation that have already been settled for SunWater. Moreover, the QCA's approach for SunWater (i.e. allocating meter maintenance costs using the HUF) is reasonable in the circumstances.

QCA Question 3

Metering Cost Details

In addition to answering the Item 2 questions (above), please specify in detail:

1. the portion and amount per tariff group of submitted metering costs that relate to irrigators;

2. the number meters (items) that relate to irrigation and non-irrigation customers;

3. the different costs of meters for different categories of customers – that is, do some customers have bigger meters, and therefore bigger costs (e.g. irrigators informed us that depending on the diameter of pipe, the unit costs of a meter and the installation costs can vary significantly depending on the corresponding size of the meter);
4. please detail the material differences between surface water and ground water meters for the purpose of cost forecasting (that is, if we sample only surface water meters in Mary Valley

WSS – and if we identify the need to apply cost savings – is there a sound basis for also applying those cost savings to:

a) all other surface water meters including on rivers and in Pie Creek and Morton Vale Pipeline (where relevant); and

b) all other ground water meters (which we note is a substantial expenditure in the Central Lockyer); and

5. For the purpose please detail the value and number of meters in the Central Lockyer WSS (by tariff group) and within the Central Lockyer tariff group, distinguish between the number of ground water and surface water meters (if any) and the forecast cost components relating to ground and surface water meters.

Seqwater Response to Item 3

1. Metering costs that relate to irrigators are included in the renewals costs as set out in the NSPs.

2. The number of meters relating to irrigation and non-irrigation customers aligns with the numbers of irrigation and non-irrigation customers set out in the NSPs.

3. Cost differences of various meter sizes are within the margin of error of the cost estimate (30%) so only one estimate on a per meter basis has been developed.

4. As stated above, one estimate on a per meter basis with a margin for error has been developed and universally applied.

5. The table below sets out the number and forecast costs for the meter replacement program. Distinguishing between ground water and surface water meters is not relevant as the standard estimate was applied universally.

Irriagtion Flowmeter Renewal Costing												
Yearly costing	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Lower Lockyer	$158,400	$158,400	$158,400	$22,400	$22,400	$22,400	$22,400	$22,400	$22,400	$22,400	$16,000	$16,000
Flowmeters Renewed	24	24	24	4	4	4	4	4	4	4	10	10
Central Lockyer	$132,000	$132,000	$132,000	$168,000	$168,000	$168,000	$168,000	$168,000	$168,000	$168,000	$35,200	$35,200
Flowmeters Renewed	20	20	20	30	30	30	30	30	30	30	22	22
Mortonvale	$0	$0	$0	$16,800	$16,800	$16,800	$16,800	$16,800	$16,800	$16,800	$3,200	$3,200
Flowmeters Renewed	0	0	0	3	3	3	3	3	3	3	2	2
Warrill Valley	$145,200	$145,200	$145,200	$78,400	$78,400	$78,400	$78,400	$78,400	$78,400	$78,400	$24,000	$24,000
Flowmeters Renewed	22	22	22	14	14	14	14	14	14	14	15	15
Logan River	$66,000	$66,000	$66,000	$33,600	$33,600	$33,600	$33,600	$33,600	$33,600	$33,600	$11,200	$11,200
Flowmeters Renewed	10	10	10	6	6	6	6	6	6	6	7	7
Upper Mary River	$99,000	$99,000	$99,000	$56,000	$56,000	$56,000	$56,000	$56,000	$56,000	$56,000	$17,600	$17,600
Flowmeters Renewed	15	15	15	10	10	10	10	10	10	10	11	11
Cedar Pocket	$6,600	$6,600	$6,600	$5,600	$5,600	$5,600	$5,600	$5,600	$5,600	$5,600	$1,600	$1,600
Flowmeters Renewed	1	1	1	1	1	1	1	1	1	1	1	1
Pie Creek	$19,800	$19,800	$19,800	$11,200	$11,200	$11,200	$11,200	$11,200	$11,200	$11,200	$3,200	$3,200
Flowmeters Renewed	3	3	3	2	2	2	2	2	2	2	2	2
Mid Brisbane River	0	0	0	0	0	0	0	0	0	0	$9,600	$9,600
Flowmeters Renewed	0	0	0	0	0	0	0	0	0	0	6	6
Yearly total	$620,400	$620,400	$620,400	$386,400	$386,400	$386,400	$386,400	$386,400	$386,400	$386,400	$120,000	$120,000

QCA Question 4

Flood Costs

I understand that Seqwater submitted that flood damage costs (2010-11 floods) would not be included for cost recovery from irrigators, on the basis that (expected) flood related insurance revenues (i.e. insurance company 'pay outs') would account for (i.e pay for) these costs in full. Source: Irrigation Infrastructure Renewal Projections - 2013/14 to 2046/47. Pages 2 and 3.

Subsequently we have noted flood costs have indeed been included Seqwater's submitted (past) renewals costs for inclusion in irrigation prices for 2013-17. Source: Indec

If so, please outline the basis for this not insignificant change in approach at this relatively late hour in our review. Also, please outline in detail, by tariff group, the (now) proposed costs.

Also, please indicate the manner in which the prudence and efficiency of such costs can now be established, given that SKM's reviews are well under way.

Seqwater Response to Item 3

We are able to confirm that costs of $157,261 for "Atkinson Dam Flood Renewal" does relate to flood damage and should have been included in Seqwater's flood damages insurance claim.ccordingly, Indec have now removed it from the ARR balance as at 1 July 2013. The NSP will be updated.

QCA Question 5

Total Direct Operating Expenditures

We have found inconsistencies in the Total Direct Operating Expenditures (Direct OPEX) for Pie Creek.

In both the "Seqwater Irrigation Pricing Model *_240712*_QCA" spreadsheet (Worksheet: OPEX Cell) and the "Final Opex Data updated 19 July" spreadsheet (Worksheet: OPEX Cell J88), the Direct OPEX for Pie Creek is $109,331.

In contrast, in the "Direct cost allocation 190712" spreadsheet (Worksheet: Allocation; Cells C51 and R34), the Pie Creek Direct OPEX is $121,072.

Could you please confirm which is the correct number to use? And why this inconsistency exists?

Seqwater Response to Item 5

The Final Opex Data updated 19 July spreadsheet includes all fixed costs only, and does not include the forecast variable cost for Pie Creek – for example there are no values in the variable electricity cost line. However, the variable cost has been calculated in the pricing model - refer 'Collected Revenue Summary", cell B96, which is an estimate of the revenue from the variable charge (and the variable cost), of $12,035. This amount is the difference ($11,741 indexed to $12-13). For clarity, direct costs used for the cost allocation include variable costs (electricity etc).

QCA Question 6

Direct Labour Costs

We would need all direct labour to compare the allocations of non-direct costs using total direct costs versus direct labour costs. As we have all the irrigation only direct labour, we need only data on:

- direct labour costs identified separately within non-irrigation operating costs; and
- potentially, direct labour for renewals. But this is less likely at this stage. So do not provide this data (unless it is readily available).

Seqwater Response to Item 6

Please refer to attached spreadsheets re dot point 1. As previously indicated, Seqwater does not forecast labour as a separate cost item for future renewals.

QCA Question 7

Flood Control Centre Costs in Central Brisbane River WSS

- To the extent that Flood Control Centre costs are flood mitigation costs, are they relevant to the supply of irrigation water?
- Or should they be excluded from irrigation prices (and only applied to urban/industrial) before non-direct costs are allocated to customers?
- Please respond in detail as non-direct costs allocated to irrigators in this scheme are significantly higher (in proportion) than other schemes e.g. 48% versus 36% non-direct costs (as a portion of total irrigation OPEX in other schemes).

Seqwater Response to Item 7

To be advised

QCA Question 8

Current Other Opex Concerns

Our current other opex concerns are:

1. Please confirm that Seqwater now accept our final SunWater report approach to the allocation of insurance and working capital (if agreed to) to customers; and
2. As we are considering disallowing the working capital allowance, do you wish to provide more evidence to support Seqwater's proposal?

Seqwater Response to Item 8

While a number of valid approach exist for cost allocation, Seqwater accepts that there is not a material difference with SunWater in relation to insurance and working capital. According, Seqwater accepts there is a case to apply the same approach as per the QCA's final SunWater report.

It is not clear to us why the Authority would consider disallowing a working capital allowance for Seqwater, when it provided an allowance for SunWater's irrigation prices. The circumstances are the same. In order to respond to your question, we would like to understand the reasons why the QCA is considering disallowing the working capital allowance, given the precedent established for SunWater.

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