EICL submission on QCA Draft

Introduction

This is the EICL response to the QCA draft on Irrigation Water Pricing – specifically SunWater for our scheme. This response gives a mark for each item that EICL raised in our original submission:

- ✓ means that EICL is happy with the response from QCA because it aligns with the requests we raised in our submission.
- ? means that EICL is unsure with the response from QCA. EICL is unhappy with the response but recognises that we may not get any better response in the timeframe of this process.
- ✗ means that EICL is unhappy with the response from QCA because it misses the point that we raised, rejects our request or wasn't addressed to our satisfaction.

The item numbers in this submission match the numbers in our original submission. We have additionally responded on the RAB vs Annuity question which was not mentioned in our original submission.

Executive Summary

1. SunWater 'Support Costs' ✗
    - This issue was only addressed very lightly by QCA as part of the broader staff costs. EICL thinks that QCA needs to do better on this issue.
2. Electricity Cost Pass Through ✓
    - From the QCA meetings, it seems like that the ECPT does not seem like it is going to go ahead.
    - SunWater has spoken to EICL about the Electricity Cost Pass Through mechanism – it is not going ahead.
3. Insurance ✗
    - The QCA's assessment is that the process that SunWater followed to obtain insurance is a reasonably thorough process. EICL's issue is with the steep increase rather than the process.
4. QCA Costs Distribution ✗
    - QCA acknowledged our submission around the distribution of costs. No clear answer has been given by either QCA or SunWater about alternative ways to do it.
5. New Billing System CASPr ✓
    - QCA reduced the reasonable build cost to be accepted for this from $40M+ to $18M. QCA also included the existing systems past costs and write-offs resulting in the allowance being $0.1M per year rather than the $1.7M per year that SunWater requested.
6. Review Event (Insurance) ✗
    - EICL recommended that the insurance review event be rejected to encourage SunWater to work harder at driving down their insurance costs. QCA rejected EICL's request as part of their insurance review (Issue 3 above).
7. Mirani Diversion Risk Allocations and Revenue Offsets ✓
    - QCA have recommended a Volume, $/ML and revenue offsets for this.
8. Renewals (Opex & Capex) ?
    - EICL's specific questions around the double work on some assets were not addressed. However, there was substantial work looking at the renewals processes and costings (largely by AtkinsRéalis).
9. Efficient Costs ?
    - EICL's specific request to set step increases below CPI was not adopted by QCA. This whole area of efficient costs did receive a lot of attention from QCA. Not yet sure that the QCA recommendations will be effective.

10. Review Event – Electricity Eton ✓
    - QCA has agreed that there needs to be electricity review events, which is what EICL was asking for.
11. SunWater "No Profit from Irrigation" Philosophy ✗
    - The QCA recommended a WACC of 6.53%. To use only the actual cost of borrowing from the Queensland Treasury Corporation as EICL suggested, QCA would need to be given different instructions from Government. That is, we need to talk to the Treasurer to get this changed.

RAB vs Annuity ✓

QCA was not convinced that SunWater had given enough detail and completed enough consultation to transition from an annuity to a RAB. EICL agrees and recommends that the introduction of an RAB be deferred for this price path period and that SunWater use that time to keep working on it with their customers and put it forward for the next price path review in 5 years' time.

Other comments:

- Items 3, 5, 6 & 9 – A mechanism is needed to provide an incentive for SunWater to keep those costs down.
- Items 4 (1, 5, 9) – LMAs and irrigators more generally should not be wearing the extra cost due to complexity of CASPr, support cost and overheads. Those costs should be proportional to the amount of effort those entities need.

Further Details

1. SunWater 'Support Costs' ✗
    - This issue was only addressed very lightly by QCA as part of the broader staff costs. EICL thinks that QCA needs to do better on this issue. See **Costs Distribution** below.
2. Electricity Cost Pass Through ✓
    - Nothing to add – covered in the Executive Summary.
3. Insurance ✗
    - The QCA's assessment is that the process that SunWater followed to obtain insurance is a reasonably thorough process. EICL's issue is with the steep increase rather than the process. That is, the measure for success in this area is not the thoroughness of the process alone. That thorough process is only effective if it results in lower costs (or lower rises). The cost is the KPI of this item. Also see **Mechanism to keep costs down** below.
4. QCA Costs Distribution ✗
    - See **Costs Distribution** below.
5. New Billing System CASPr ✓
    - See **Mechanism to keep costs down** & **Costs Distribution** below.
6. Review Event (Insurance) ✗
    - See **Mechanism to keep costs down** below.
7. Mirani Diversion Risk Allocations and Revenue Offsets ✓
    - Nothing to add – covered in the Executive Summary.
8. Renewals (Opex & Capex) ?
    - EICL's specific questions around the double work on some assets were not addressed. This was around programming of works or feedback on the programs to ensure that work on the one asset was not done twice at different times for different reasons. That is, if an asset is being worked on, then all work scheduled in the next few years should be done at the same time to minimise total cost of that work (over multiple years). The particular example was the safety work on the Kinchant Dam switchboard followed by the replacement of it 2 years later. The replacement should be brought forward 2 years and do the safety work at the same time, or it might not need to be done at all.
9. Efficient Costs ?

- EICL's specific request to set step increases below CPI was not adopted by QCA. This whole area of efficient costs did receive a lot of attention from QCA. Not yet sure that the QCA recommendations will be effective. Also see **Mechanism to keep costs down** & **Costs Distribution** below.

10. Review Event – Electricity Eton ✓
    - Nothing to add – covered in the Executive Summary.
11. SunWater "No Profit from Irrigation" Philosophy ✗
    - Nothing to add – covered in the Executive Summary.

RAB vs Annuity ✓
Nothing to add – covered in the Executive Summary.

Items 3, 5, 6 & 9 – Mechanism to keep costs down

A mechanism is needed to provide an incentive for SunWater to keep those costs down.

The LMAs have shown that when an incentive is there it can be done. EICL observes that one major difference between EICL and SunWater is the level of risk they are willing to entertain.

The EICL Directors look at some of the very low probability risks and the cost of closing them out completely and makes a judgement call that the costs are not worth it (in part because 3 of the 5 Directors have to pay for it through their water bills).

Our observation is that the SunWater Directors want to close out all risks nearly completely no matter the cost (in part because only one of them is an irrigator that may have to pay for it through their water bills). They become very risk averse. Unfortunately, completely avoiding risks can come at a very high cost.

EICL understands the personal liability that Directors potentially face if something goes wrong. That is part of what the EICL Directors have to weigh up against the costs. However, most of the SunWater Directors are only looking at one side of that equation – the personal liability.

Some lateral thinking is required here, because what we are doing at the moment is not working at keeping prices down. Here are our brainstorms on this:

- More Irrigators/Reps on the SunWater Board,
- Government to cover some risk of the SunWater Directors so that they are not so risk averse
- Harder incentives in senior management contracts
- Harder incentives in the Director's contracts
- Harder targets from the Government – possibly based on comparisons to LMAs (ie stop comparing to other interstate government entities)

These ideas may not work, but we must have some suggestions. *It is better to have enough ideas for some of them to be wrong, than to always be right by having no ideas at all – Edward de Bono.*

Item 4 (1, 5, 9) – Costs Distribution

This is one we need to lobby QCA, SunWater and government about. LMAs and irrigators more generally should not be wearing the extra cost due to complexity of CASPr, support cost and overheads. Those costs should be proportional to the amount of effort those entities need.

Eton Irrigation as an LMA does not need the same support costs as other schemes. The amount of interaction between SunWater and EICL irrigators is very minimal as the "coal face" is managed by EICL. This is the same for CASPr – that functionality for EICL irrigators is predominantly managed by EICL. EICL supplies the usage figures for each irrigator in a spreadsheet each quarter. It should be noted that the spreadsheet is in a layout that is specified by SunWater so that it can be uploaded directly into their system. As a result, EICL thinks we should be paying a much smaller share than other entities that are the cause of the complexity.

Perhaps an analysis of the time spent servicing each scheme for support. The data collected by the ex SunWater staff that EICL inherited is quite detailed for all hours worked. Therefore, SunWater must have that similar data in their system and can easily provide that to QCA and the schemes – ie it should be transparent. Also, that is an incentive for scheme to 'use' only the support that they need.