

SEQWATER'S 26 MARCH 2013 SUBMISSION / RESPONSE TO QCA REQUEST OF 22 MARCH 2013

26 March 2013

From: Colin Nicolson
Sent: Tuesday, 26 March 2013 12:53 PM
To: Angus MacDonald
Cc: Damian Scholz
Subject: FW: QCA Information Request 22 March 2013

Hello Angus

Please find our responses below each question



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From: Angus MacDonald
Sent: Friday, 22 March 2013 4:15 PM
To: Colin Nicolson
Cc: Matt Bradbury; George Passmore; Matthew Rintoul
Subject: QCA Information Request 22 March 2013

Dear Colin

In response to stakeholder comments can you please provide answers to the following:

QCA Question 1

Confirm that all costs (opex and capex) relating to the hydro-electricity plant at Wivenhoe Dam have been excluded from Seqwater's (November) submission costs;

Seqwater Response to Item 1

The hydro-electricity plant at Wivenhoe Dam is owned and operated by Stanwell Corporation as a BOOT arrangement. If any costs are incurred by Seqwater, such costs are incidental to the operations of the dam and would be very small. Seqwater is attempting to identify any costs of this nature.

QCA Question 2

Please specify the nature of the ‘flood mitigation’ non-direct cost (approx \$280,000). What activities does this function include and, of these, which are pertinent to irrigation benefit?

Seqwater Response:

These costs cover flood mitigation and management activities from a whole-of-dam perspective and includes studies and investigations. As set out below, Seqwater’s opinion is that flood mitigation activities are an integral part of operating the dams to safety standards and all users benefit.

QCA Question 3

Irrigators have submitted that they should not pay for costs associated with Wivenhoe Dam flood compartment (i.e. ‘air’ between the top of the dam wall and the full supply water level).

If costs relating to the flood compartment are not allocated to irrigators, then an estimate of the portion of costs relevant to the flood compartment is necessary. For this purpose, and in the absence of detailed cost data based on this distinction, we have calculated that portion of the dam’s capacity that relates to the flood compartment to be 56% based on figures from Seqwater’s website as follows:

Storage	Full Supply Level (ML)	Flood compartment (ML)	Total (ML)
Wivenhoe	1,165,000	1,450,000	2,615,000
Somerset	379,800	524,000	903,800
Total	1,544,800 (44%)	1,974,000 (56%)	3,518,800

a. Please confirm that 56% of total storage relates to the flood compartment.

If 56% of the dams’ capacity relates to the flood compartment, we are considering reducing the allocation of various costs to irrigators by 56% on the basis that the costs for these items relate (at least in part) to a significant flood compartment portion. The costs we are considering reducing by 56% include:

- Renewals;
- Insurance;
- Local government rates; and/or
- Repairs and maintenance

Seqwater Response to Item 3.a

In its Final Report for SEQ Grid Service Charges 2011-12, the QCA stated on page 24:

“With regard to the allocation of Seqwater’s dam asset values to flood mitigation, the Authority’s Statement of Regulatory Pricing Principles for the Water Sector (2000) noted that, in the absence of specific pricing arrangements relating to flood mitigation works, the Authority would include all water assets in the RAB for pricing purposes.

The Authority noted that the GSCs and the Bulk Water Prices charged by the WGM to the DRs do not currently allow for an effective differentiation between the beneficiaries of flood mitigation and water supply. As a consequence, the Authority did not allocate any portion of Seqwater’s RAB to flood mitigation.”

It is Seqwater’s view that there is no basis for specific pricing arrangements relating to flood mitigation works and consequently the split between normal operations and flood operations is not relevant. The design of Wivenhoe Dam included flood storage capacity to enable the safe operation of the dam. The safe operation of the dam is integral to benefitting from the dam and cannot be treated as a separate operation. All who benefit from the dam in its normal operations also benefit from the safe operation of the dam in times of flood. This is so despite property damage that may occur during flood operations.

b. Please present Seqwater’s views on each of these four items as to whether the costs allocated to irrigators could fairly be reduced by 56% to remove flood compartment costs. That is, comment on each of these:

- Renewals;
- Insurance;
- Local government rates; and/or
- Repairs and maintenance

Seqwater Response to Item 3.b

There is no basis for assuming that a pro-rata can apply. The benefit provided by Wivenhoe Dam is provided by the entire dam and not just the components required to store and release water under normal circumstances. As stated above, the dam was designed to safely perform during flood events. The benefit provided by the dam during normal operations depends on its ability to operate safely under flood conditions. Consequently, Seqwater argues that no component of its cost base could be fairly reduced by 56%. It should also be noted that to properly calculate the flood mitigation capacity, it would be necessary to base the calculations on a dam designed without flood mitigation capacity in that location and compare that with Wivenhoe Dam as it currently stands. It should also be noted that dam safety considerations are not the same as flood mitigation capability although such may be a by-product of dam safety design.

QCA Question 4

Please confirm the period that the new EBA and your submitted increment of about 3% covers. Is it:

- a. 1 July 2012 to 30 June 2013; or
- b. 1 July 2013 to 30 June 2014?

That is, we are not sure whether we need to escalate direct labour costs in the current base year 2012-13 by an amount so that we have a higher 2012-13 base; OR we escalate the 2012-13 base year to get a higher cost in 2013-14.

Seqwater Response to Item 4

In the response to the Draft Report, Seqwater stated on page 11:

“...the enterprise bargaining increase for 2012-13 is 2.2% and the average salary and wages increment for operations staff and the recreation maintenance staff is 2.986%. This brings the total direct labour escalation for 2012-13 to 5.186%. As the salary and wages average increment trends downward over time when staffing turnover is low and as future enterprise bargaining increases are not known, Seqwater submits that the direct labour escalation factor for the regulatory period should be 4%.”

Your responses by **2pm Tuesday 26 March** would be appreciated, as we are meeting with MBRI at 3pm on that very day.

Kind regards

Angus MacDonald

Team Leader



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