

Submission

Review of SEQWater Network Service Plans

SEQWater 2013-17 Irrigation Price Review

July 2012

Thank you for the opportunity to make a submission on the SEQWater Network Service Plans as part of the SEQWater 2013-17 - Irrigation Price Review. The Queensland Farmers' Federation is the peak rural body representing intensive agriculture, which contributes around half of the State's \$13 billion in agricultural product. Irrigation prices in the SEQWater schemes is a major cost item for our members particularly Growcom (Queensland Fruit & Vegetable Growers) and Qld Dairyfarmers' Organisation.

QFF provides this submission without prejudice to any additional submission provided by our members or farmer customers of each of the schemes.

In the time available, QFF has been unable to obtain comprehensive feedback on this submission from members and scheme representatives. QFF would like the opportunity to provide further comment as members or schemes raise issues with us.

1) Introduction

- a) On behalf of irrigator representatives from each of the SEQWater rural schemes, QFF wrote to the Minister for Energy and Water Supply on 25th May 2012 identifying a number of matters that warrant his consideration regarding changing the previous State Government's Referral to QCA for the prices investigation. The matters raised were as follows:
 - i) SEQWater analysis of costs in the network service plans for the Lockyer schemes and the Pie Creek & Cedar Pocket schemes in the Mary Valley question the viability of these schemes. The terms of reference provides no scope for QCA to address this question other than implementing a price path to moderate price impacts that extend over more than one price period. This is untenable when these schemes would be expected 'to cope with real price increases at a pace consistent with 2006-11 prices' over extended periods into the future.
 - ii) SEQWater has insufficient data and time managing all rural schemes for QCA to conduct adequate analysis to assess efficient operational, maintenance and administrative costs and prudent and efficient expenditure on renewing and rehabilitating existing assets.
 - iii) SEQWater has had no effective process for customer consultation regarding matters of costs and forward budgeting since they took over the schemes from SunWater. Rural customers will be starting from scratch in trying to scrutinise the SEQWater Network Service Plans.
 - iv) The requirement to renew and rehabilitate existing assets through a renewals annuity will restrict the analysis QCA can undertake in assessing the need for and efficiency of expenditure on scheme assets
 - v) There is no provision to examine the availability of water for schemes except in allocating renewals costs between urban and rural sectors. For Lockyer schemes urban use is small but water availability significantly limits the use of water in these schemes thereby driving up prices.
 - vi) There is no scope to consider significant structural issues in schemes like the Pie Creek scheme which is suffering from urban encroachment and poor level of water use.

- vii) Recreation management costs for assets in this region reflect demands of an increasingly urbanising area. QCA needs some reference to investigate this cost burden.
- viii) Scheme customers in both the Warrill & the Lockyer schemes will not be able to trade entitlements for some time yet. This means that customers will have no avenue to trade part or all of their entitlements to cope with the impacts of new prices, particularly high fixed charges.
- b) It is accepted that QCA needs to conduct investigations to assess costs for the SEQWater rural schemes. However, at this early stage of the investigations adjustments need to be made to the Referral to allow QCA time to complete an adequate analysis of all issues of significance to the future viability of these schemes.

2) SEQWater Business overview

- a) SEQWater's main business is as a Grid Service Provider under the SEQ Water Market Rules. Supply to seven water supply schemes is a very small part of SEQWater's business - 99.5% of revenue is from the urban sector with 0.5% from irrigation. Also, just over 40% of irrigation revenue is State Government subsidy. QFF is concerned that SEQWater has little incentive to achieve efficiencies and grow this very small section of its business. QCA needs to consider this dilemma.
- b) SEQWater has only had an information system operating from 2009/10 and although it has been making improvements there are still significant data limitations for the purposes of costs analysis.
 - i) What transparent information system for the rural irrigation schemes will be provided for such a small part of the business? How much will it cost?
 - ii) Can irrigation customers be assured that irrigation costs will be adequately dissected to allow customers to scrutinise annual performance? What requirements will QCA place on this outcome?
- c) SEQWater has obligations to comply with Australian Drinking Water Guidelines which includes measures to protect raw water quality.
 - i) Are the costs of meeting drinking water guidelines separated from measures for raw water quality to allow the latter only to be allocated as an irrigation cost?
 - ii) Are the costs of managing catchments in accordance with good practice specifically identified? How do these costs contribute to maintaining raw water quality?
- d) Customer contracts and standards of service
 - i) Most customer contracts are the standard contracts (identical to SunWater) which have not been negotiated with rural customers (deemed contracts). Service standards have not been reviewed by SEQWater.
 - ii) Mortonvale customers hold separate contracts ie between customers and the Primary Industries Corporation executed around 1995. Both these contracts and the Government decisions in regard to the establishment of this scheme must be reviewed to ensure issues that could affect pricing investigations are clarified. In particular, the contract covers a nominal allocation for each customer, capital charge over 30 year term, payment for the take of water from Lake Clarendon & an early termination fee. SEQWater has waived the capital charge to date but contends that it is outside the scope of the review and as such does not preclude SEQWater from enforcing existing contractual rights to levy the charge. The imposition of this charge could have an impact on the capacity customers have to pay QCA's recommended charges. QCA should have the mandate to

review the imposition of this capital charge to make a recommendation on prices. If a capital charge can still be applied an independent assessment of capacity to pay should be required before SEQWater can apply a capital charge.

- iii) Customer service standards have been established in all schemes except Central Lockyer and Central Brisbane. Customers in the Central Lockyer (with the exception of Mortonvale) do not believe they have contracts (deemed or otherwise) or defined service standards. They question how prices can be assessed without defined standards of service. Irrigation customers draw attention, particularly to the fact that there has been no release from Bill Gunn Dam in 20 weeks and yet irrigation customers are being charged for natural creek flows.
- iv) There are a range of issues irrigation customers would like to address in defining standards of service in the Central Brisbane scheme. They particularly want to clarify what services they receive from Wivenhoe and Somerset dams.
- e) Assets & Services – SEQWater makes specific reference to water treatment plants and groundwater bores to secure councils against drought. QFF seeks further clarity as to whether irrigation customers are paying for these assets.
- f) SEQWater’s organisational structure (Fig 2.2 page 25 SEQWater’s Overview Submission) does not provide specific advice on how the irrigation business is managed within SEQWater. All schemes have raised concerns about the accountability of the organisation for the management of their schemes. All schemes are seeking the reinstatement of scheme advisory committees to address this concern.

3) Regulatory framework

- a) Demand risk – SEQWater proposes that Part A tariffs must cover fixed costs and 100% of costs are fixed. Each scheme has a case for some component of variable costs as follows:
 - i) Both Morton Vale & Pie Creek schemes are distributing water supplied from bulk schemes. Both would have variable costs associated with distributing water (eg Pie Creek pumps water from the Mary river)
 - ii) For all bulk schemes at low levels of water availability from the schemes there would be some opportunities for SEQWater to adjust overall operations to reduce costs temporarily. However, it would be expected that SEQWater would not have the data available to make an assessment of this opportunity. Also it is unlikely SEQWater would give any priority to this level of micro management for irrigation schemes. If the water service provider is guaranteed to receive a high proportion of costs it is unlikely there will be any incentive to make improvements in the management of the irrigation business or the schemes.
 - iii) Central Lockyer is a special case as DNRM has yet to assess individual entitlements so there is not a sufficient basis to apply a fixed charge on customers. SEQWater proposes an interim volumetric charge (including application of a revenue cap to adjust for actual versus forecast revenues) to correct provisions under current prices where customers have not had to pay a fixed charge during the current price path because water entitlements were not finalised. The risk in this case is that water planning has not kept pace with pricing reform ie a supply risk. The Lockyer is an important agricultural region in South East Queensland and has the capacity to make a significant contribution to the achievement of the State Government’s longer term targets to boost agricultural production.

This will not be achieved if planning to implement tradable water entitlements continues to lag well behind water pricing reforms. It is proposed that fixed costs should only be passed on when tradable entitlements have been adequately assessed and implemented in the Central Lockyer. If SEQWater's proposal is to be considered for implementation, the impact of the proposed charges on customers should be fully investigated including capacity to pay.

- iv) Central Brisbane is also a special case. Irrigation customers require a small quantity of water from the river in comparison to the supply for the Mt Crosby water treatment facilities. Dam operating conditions would be governed by urban requirements for high reliability supply under all annual and seasonal conditions. But it would be expected under varied annual and seasonal conditions, supply for irrigation customers would not be met 100% of the time from the dam. Irrigators highlight that before the dam was built they had good riparian supply from river and there was no charge for supply from Somerset dam. They question whether Wivenhoe dam has provided any enhanced level of service (see below). However, if it is argued that they do receive a benefit from dam releases this would only be very for limited periods. It is difficult to accept SEQwater's case for 100% fixed charges.
 - v) In the Logan scheme it is recognised that particularly during low flows periods, medium priority supply will rely on natural flows from Christmas & Running Creeks. Stored water will be required to meet high priority urban needs during these periods. The fixed variable split should reflect that SEQWater faces a varied demand risk for irrigation supply during low flow periods?
 - vi) The Warrill & Mary Valley schemes also place some reliance on tributary flows to meet medium priority supply.
- b) Cost or supply risks:
- i) If adjustments are to be made at the end of or during the price path to account for under or over recovery of costs then SEQWater must justify that the costs apply to irrigation and are efficient.
 - ii) SEQWater must also show that they have taken steps to establish arrangements that will deliver the most efficient costs.
 - iii) SEQWater raises the issue of the pumping costs for off stream storages but it is not clear for each scheme whether these costs apply.
 - iv) If the costs to meet national metering standards are to be introduced at some stage and recovered as an end of period adjustment what steps will be taken to assess the need for and the cost benefit of implementing these standards? If implementation is to proceed then efficiency investigations are required.

4) Pricing Framework

- a) Tariff structure –
 - i) It is accepted that the tariff structure should reflect the fixed and variable split. Specific cases for the assessment of fixed and variable costs for all schemes are discussed in Item 3 above.
 - ii) The shift to a high Part A tariff will mean a significant shift in charges to cover fixed costs in areas like Logan where the current split is 53:47, Warrill (61:39), Lower Lockyer and Cedar Pocket (70:30) and Mary Valley (80:20). QCA needs to consider the impacts of this shift in the different schemes and consider how price paths could be transitioned to mitigate the impacts. Logan irrigators

consider that SEQWater should be able to manage an 80:20 tariff split to help customers to manage over all seasonal conditions and cope with the transition from lower fixed charges.

- iii) If high fixed charges are applied there will be a significant impost on customers during extended periods of low supply. In particular, all schemes are very aware of the impact of fully fixed charges had they applied over the last five or ten years which have been marked by extended periods of drought followed by two years of high rainfall.
 - iv) High fixed charges will not encourage water use efficiency particularly as ROP rules provide little assistance to manage water use on farms from year to year.
 - v) A fully fixed tariff will be simpler for SEQWater to administer. What administrative costs could SEQWater save with fully fixed charges eg Why read meters on a quarterly basis?
 - vi) Currently all schemes (except Mid Brisbane) have minimum charges – SEQWater proposes to abolish minimum charges on the basis that a fixed tariff will recover these small customers share of lower bound costs. What are the costs of servicing small customers and what are the numbers of small customers in each scheme? Will excluding a minimum charge mean that larger customers bear the costs of servicing small customers? Will excluding a minimum charge promote growth in small customers and hence scheme costs? Will such a growth promote lower water usage rates leaving commercially based irrigation enterprises with increasing exposure to higher prices for higher levels of use?
 - vii) SEQWater charges application fees for certain services and transactions. Can it be verified that these charges are for 'stand-alone' services ie no double dipping?
 - viii) What are the implications of tariff structure for water trading
 - (1) Higher tariffs could prompt customers with sleeper or dozer licences in all schemes to hand in licences. Where data is available what is the position in each scheme re sleeper dozer licences (ie numbers and volume of water held by these licences)? What arrangements need to be made to handle this issue if it arises?
 - (2) The Warrill and Lockyer schemes do not yet have tradable entitlements. Irrigation customers in these schemes will be unable to trade sleeper dozer entitlements. Seasonal transfers provide customers with sleeper or dozer licences only a short term option to cope with the impact of high prices.
 - (3) Where cost reflective prices for a scheme are well above current prices, the prospects for permanent trading will be very limited. In the case of the Pie Creek scheme irrigators advise that they are unlikely to buy more entitlement with the prospects of a cost reflective price, which is over five times current prices. They will maintain their farm production from season to season if they can use temporary trades. It is expected the same will apply in the Lockyer & Cedar Pocket schemes.
 - (4) Definition of conversion rates from medium to high priority in schemes through the implementation or amendment to ROPs may prompt the sale of irrigation entitlement for urban use. Irrigation customers point out that this trade may make it difficult to trade medium priority water for irrigation.
- b) Unbundling (the separation of bulk from distribution tariffs)
 - i) Needs to be undertaken for the Central Lockyer - Morton Vale and Mary - Pie Creek
 - c) Tariff groups – no comment

- d) Termination fees for exiting distribution schemes
 - i) Fees should be assessed for both Morton Vale and Pie Creek schemes
 - ii) It is expected that the fee for the Pie Creek scheme will be a restraint on trading out of this small scheme.
 - iii) The implications of the termination fee provision in the Morton Vale contract with the Primary Industries Corporation needs to be clarified.
- e) Distribution losses
 - i) Required and unrequired distribution losses in both the Morton Vale and Pie Creek schemes should be assessed to determine if there is a case to have unrequired distribution losses paid for by SEQWater at no cost to irrigation scheme
- f) Treatment of in-stream losses
 - i) SEQWater does not accept that in-stream transmission losses for a bulk supply scheme can be treated in the same way as distribution losses. Accordingly they argue that these losses are not included in the base WAE for calculation of prices. However, in the Lower Lockyer there are significant in stream and storage losses which help replenish the aquifer for the benefit of groundwater users but these users are not paying any charge for this benefit as there are no defined entitlements for groundwater use in the scheme. It was indicated during the last price path consultations for the Lower Lockyer that the groundwater would be regulated as part of the scheme within the five year term to 2011. This has not been achieved and indications are now that another five years or more will be required to regulate groundwater in the scheme. The ROP for surface water has also not been prepared and implemented. It needs to be clarified when planning for both surface and groundwater resources in the Lower Lockyer is likely to proceed. It would be preferable that planning for surface and groundwater proceed as a priority. However, if the priority is only for a ROP for surface entitlements, the treatment of losses that could benefit groundwater reserves needs some consideration. At the very least DNRM should provide an assessment of the benefit of losses for groundwater reserves and include this in SEQWater's loss allocation for the purposes of calculating prices until a groundwater plan amendment for the area is prepared and implemented.
- g) Free water allocations – Central Brisbane irrigators do not consider that the issue of free allocations has been adequately addressed. Issues that need to be investigated are as follows:
 - i) There have been no charges applied for the provision of water to the river irrigators.
 - ii) A deemed contract has been put in place requiring payment of charges but charges have not been applied.
 - iii) There are no standards of service even though a deemed contract has been put in place
 - iv) No meters have been installed but irrigators have agreed to maintain log books of pump use to record water take to check the implementation of restrictions during the drought period.
 - v) There is not a clear understanding of what supply benefits irrigators receive from the bulk supply system. This further complicates assessment of costs as outlined in other parts of this submission.
 - vi) Irrigators submit that their water access has always been from natural river flows. This riparian right was in place when Somerset Dam was the only supply source. Wivenhoe dam was built to enhance urban supply and provide flood protection. It is implied that irrigators receive a benefit from the bulk supply from the two dams but QFF would point out that these supplies are for expanding urban requirements.

5) Renewals annuity

- a) Forecast Asset Restoration Reserve (ARR) for 2012-13
 - i) SEQWater has outlined the process for initial assessments of the Asset Restoration Reserve (ARR) for all schemes including the unbundled schemes (Mortonvale & Pie Creek). Forecasts indicate negative balances in a number of the schemes with the Mary Valley having a forecast negative ARR of \$5.6M in 2012-13, Logan negative ARR of \$0.933M and Lower Lockyer and Warrill having negative ARRs around \$0.5M. The reasons for these deficit forecasts in each scheme are not explained in the NSP and this needs to be rectified.
 - ii) It is understood that QCA is undertaking an reassessment of scheme balances. How have the investigations changed forecast ARR at June 2013? Are the balances justified and assessed for efficiency particularly taking into account both SunWater and SEQWater programs?
 - iii) SEQWater also proposes to do further work on unbundling the ARR balances for Morton Vale & Pie Creek and the assessment of whole of scheme balances from first principles. What is the status of these investigations?
 - iv) SEQWater also indicates that there are further investigations into allocation of renewals expenditure to the irrigation ARR where some irrigators hold high priority WAEs and some non-irrigation customers hold medium priority WAEs. What is the status of these investigations?
 - v) What are the implications of establishing the renewals balance for irrigation within the context of interim arrangements for the QCA assessment of Water Grid Management (WGM) charges including SEQWater retaining renewals revenue collected and assigning irrigators their share of renewals expenditure? Given that the WGM investigation has used a RAB approach, QCA should seek approval to investigate this alternative approach for the purposes of this price path?
- b) Forecast renewals expenditure – QFF notes that SEQWater has evaluated potential projects against criticality & other criteria and conducted workshops with local staff & site inspections yet there has been no consultations with irrigation customers on these matters.
 - i) 20 term for the annuity is accepted.
 - ii) Is the total of smaller projects (not identified in the scheme NSPs) a significant component of renewals in some schemes?
 - iii) How have flood costs been assessed and treated? Are flood costs included in renewals? What is the insurance cover for flood costs and has this been taken into account in assessing renewals forecasts? Irrigation customers are raising questions about flood related costs for the the following:
 - (1) Central Lockyer – the timing of all significant renewals except the Bill Gunn Dam-Lake Dwyer diversion pipeline.
 - (2) Lower Lockyer – the repair of scour bypass of Potters & Sippels weirs and the replacement of fencing on Brightview channel
 - (3) Central Brisbane – projects scheduled for 2012-13 & 2013-14 for both Wivenhoe & Somerset dams
 - (4) Mary Valley - costs for Borumba Dam involving sealing of concrete face joints & spillway concrete repairs
 - (5) Cedar Pocket - repair of drainage on right hand embankment of dam

- (6) Logan - costs of refurbishing the valve on Bromelton Weir, replacement of the Piezometer Hut Maroon Dam and replacement of Gantry and Hoist and rip rap on dam embankment at Maroon dam
- (7) Warrill - projects scheduled for 2012-13 & 2013-14
- iv) QFF question whether it is appropriate to adopt the escalation rates for costs as for the QCA SunWater investigations ie 4% on direct labour, materials and contractors for 2013-14 to 2016-17 and forecast inflation thereafter?
- v) SEQWater proposes an interim Weighted Average Cost of Capital of 7.22% consistent with 2012-13 grid services costs assessment to apply to renewal balances assessments. Is this appropriate?
- vi) Allocation of renewals costs – assessment of the hydrologic utilisation factors (HUF) for storages (worst 15 years on record) are used to assess the percentage of storages dedicated to different entitlements providing a percentage split between medium and high priority. This percentage is used to allocate costs of renewals and replaces the conversion factors used in the last price review.
 - (1) Approach taken for both Central Lockyer and Central Brisbane needs further discussion with these schemes – there has been a limited opportunity to scrutinise analysis.
 - (2) The application of the HUF assessment for Central Brisbane needs urgent peer review particularly the interpretation of the application of WASOs
 - (3) SEQWater has excluded from irrigation lower bound pricing Wyaralong dam, Cedar Grove Weir and Bromelton off-stream storage and the additional WAE arising from them as they are for urban supply and don't increase irrigation nominal volumes or improve reliability of supply. It is understood therefore that this infrastructure has also been excluded from the HUF assessment.
 - (4) Other schemes subject to HUF assessment will also need time to fully review the assessment including treatment of tributary inflows downstream.

6) *Operating costs*

- a) Operating costs are a significant component of costs in all schemes. However SEQWater has highlighted significant data limitations ie. non-direct costs (eg head office costs) cannot be separately attributed to schemes and SunWater lower bound cost benchmarks for 2006 are not directly comparable with SEQWater historic costs & forecasts in some schemes.
- b) Is it adequate to base forecasts of irrigation costs on a representative base year 2012-13 (with the removal of abnormal or one-off items) and then escalate these costs forward for the four year regulatory period. Given the data limitations, this approach is unlikely to provide accurate assessment of the efficient operations of irrigation services.
- c) Is it necessary to allocate forecasts of non-direct costs to irrigation schemes on the basis of direct costs because it is the only option, given data limitations? SEQWater favours this approach because it is simpler to administer. However, what alternative approaches are available?
- d) Is it appropriate to use the same escalators of costs from 12/13 as the QCA Sunwater recommendations?
- e) Direct operation costs:

- i) Costs associated with technical warranty and development, policy and strategy costs, integrated asset planning and program management and water treatment and quality have been excluded but there is no indication what this means as a proportion of total costs.
 - ii) The inclusion/apportionment of the following direct operation cost items are questioned:
 - (1) Very high costs of dam operations allocated to Central Brisbane.
 - (2) Significant costs of regionally significant recreational facilities and services.
 - (3) Costs to SEQWater of complying with State Government's Greenspace Strategy as well as managing water quality, health and public risk.
 - (4) Rates on the land portfolio which may or may not relate to assets and services for irrigation.
 - (5) Apportionment of escalated costs of dam safety inspections for dams that pose risks to highly urbanised areas
 - (6) Apportionment of metering costs for rural and urban purposes.
 - (7) Assessment of revenue offsets such as property leases and recreation fees for application to irrigation.
 - iii) Specific cost issues raised by each scheme are as follows:
 - (1) Central Lockyer – Maintenance costs are high but operations costs seem low. A significant proportion of supply is from natural creek flows with little due to releases from storages. Morton Vale direct labour costs are high.
 - (2) Lower Lockyer – Labour costs are high as are other direct costs – these costs need to be further analysed re need & efficiency.
 - (3) Central Brisbane – Operations costs for materials and other issues are high and must be reviewed.
 - (4) Mary Valley - Labour costs are high as are other direct costs in both Mary Valley & Cedar Pocket. Planned repairs & maintenance costs are high in Pie Creek – these costs need to be further analysed re need & efficiency.
 - (5) Logan - Labour costs are high – these costs need to be further analysed re need & efficiency.
 - (6) Warrill - Operations costs for materials and other issues are high and must be reviewed.
- f) Non direct operational costs
- i) How was an assessment conducted to extract non-irrigation costs? What actual costs were excluded?
 - ii) Specific cost issues raised by each scheme are as follows:
 - (1) Central Lockyer – These costs are excessively high and exceed operations costs
 - (2) Central Brisbane – Non Direct costs higher than direct. Can this be justified?
 - (3) Mary Valley – Have the costs of Traveston Dam been quarantined from this analysis?
 - iii) Insurance pay-out for flood damage. What is covered under insurance arrangements including excess arrangements?
- g) Cost indexation
- i) Is it appropriate to adopt the same escalation for internal labour & contractors costs and materials as for the QCA SunWater investigation?
 - ii) Is it expected that QCA will include new energy costs/tariffs or adopt the approach used in the SunWater analysis?

- h) The approach of using headworks utilisation factors & nominal water allocation entitlements to allocate costs between high & medium priority should be consistent with the SunWater approach.

7) Lower bound costs & prices

- a) All schemes consider that SEQWater has failed to provide sufficient analysis of irrigation lower bound costs to allow QCA to conduct an adequate analysis to determine efficient costs. Schemes also doubt that SEQWater will ever be in a position to manage the irrigation schemes in a transparent and efficient way as it is expected the organisation will continue to give priority to managing an ever growing urban market.
- b) It is understood that the State Government is to review the urban water supply agencies. It is also understood that QCA is conducting these investigations based upon the current SEQWater organisation. QCA officers also made comment at the consultation sessions for all schemes that in conducting their investigations they must have regard to the fact that the irrigation schemes generate such a small portion of the revenue for SEQWater. Customers from all schemes have raised questions with QFF about the inadequacy of SEQWater operations costs data. They submit that SEQWater will be protected by demand and supply risk arrangements but customers will have to bear the risk that costs could be well in excess of efficient levels. What steps will QCA take to give customers confidence during the term of the new price path that SEQWater will produce sufficient irrigation cost data to assess efficient costs and to make any necessary adjustments to prices?
- c) Comments from each scheme on the prices proposed by SEQWater are as follows:
1. Central Lockyer - SEQWater proposes interim variable tariff starting at \$304.22 rising to \$327.62.
 - a. Central Lockyer is a special case as DNRM has yet to assess individual entitlements so there is no basis to assess a fixed charge. It is suggested that State Government cover this until at least interim allocations are in place
 - b. Prices that involve \$2/ML annual increases to achieve targets of either \$98 or \$304 would put irrigator customers out of business.
 2. Lower Lockyer - SEQWater proposes 100% fixed cost reflective tariffs starting at \$124.28/ML rising to \$133.84/ML. These prices are unacceptable. Any transition arrangement will lock the Lower Lockyer into long term real price increases over a number of successive terms. The scheme is not viable under these proposed arrangements
 3. Central Brisbane - SEQWater proposed 100% fixed cost reflective tariffs starting at \$56.52/ML rising to \$60.87/ML.
 - a. These prices are unacceptable and issues raised above in regard to the scheme need to be addressed particularly the question of free water and the very high operating costs of the scheme.
 - b. There will be a need to transition the implementation of charges for this scheme. At the very least customers should have a 5 year transition period. The need for a further transition should be assessed when QCA prepares the draft cost reflective tariffs.
 4. Lower Mary - SEQWater proposes 100% fixed cost reflective tariffs for the Mary Valley starting at \$39.76/ML & rising to \$42.82/ML. Pie Creek fixed cost reflective tariffs rise from \$311.34/ML to \$335.28/ML and Cedar Pocket fixed cost reflective prices rise from \$271.65 to \$292.54/ML.

- a. Any transition arrangement will lock the Pie Creek and Cedar Pocket schemes into long term real price increases over a number of successive terms and continuing CSOs. Customers do not consider the schemes will be viable under these arrangements.
 - b. Mary Valley is likely to require CSOs and real price increases during the term of this price path to recover costs.
5. Logan - SEQWater proposes 100% fixed cost reflective tariffs starting at \$34.54/ML and rising to \$37.19/ML. Logan customers are particularly concerned about the implications of these proposed tariffs given the low levels of water use in the past five to 10 years. They are seeking further consultation during the period leading up to the release of the draft report to gain an understanding of likely tariff options. The impact of paying a high fixed tariff during extended low supply periods is also a concern. They are seeking an analysis of options of implementing staged reductions in fixed charges during extended drought periods.
6. Warrill - SEQWater proposes 100% fixed cost reflective tariffs starting at \$30.87/ML & rising to \$33.25/ML. Warrill customers do not believe that these proposed charges are based on an adequate assessment of efficient costs. If there are no guarantees moving forward that efficient costs can be defined why not adopt a simple indexed revenue based approach to assessing prices.

8) Consultation

- a) Scheme customers are concerned about the lack of consultation since SEQWater assumed responsibility for the schemes in 2008
- b) They are seeking an analysis of the costs of the following options:
 - i) Current day to day management
 - ii) Annual reporting on costs and pricing performance with consultation only if there are significant variations in operating and renewals performance
 - iii) Formal customer advisory committees with quarterly meetings
- c) Customers question what will drive SEQWater to manage irrigation schemes efficiently if there is no requirement to consult?

E.O.D