

SEQWATER'S 10 SEPTEMBER SUBMISSION / RESPONSE TO QCA REQUEST OF 5 SEPTEMBER

5 September 2012

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

We would appreciate a response by COB Monday 10 September 2012.

From: Colin Nicolson [mailto:cnicolson@seqwater.com.au]
Sent: Monday, 10 September 2012 4:54 PM
To: Angus MacDonald
Cc: Damian Scholz
Subject: FW: Information Request re 2009 -11 renewal expenditure

Angus

Our responses are set out below.

QCA Question 1

A. I would like to confirm the process and underlying data that Seqwater has used to establish actual (past) renewals expenditure, specifically during 2008-09, 2009-10 and 2010-11.

We note your responses to SKM's RFI, dated 29 August 2012, for example:

For Mary Valley WSS

The amount of \$230,186 is the sum of \$108,848 expended in 2008-09 and \$121,338 expended in 2010-11. The costs of \$108,848 shown as "Recreation Maintenance" in 2008-09 are an estimate only. Because the costs for 2008-09 were recorded in Seqwater's previous financial system in one single order, it was assumed that, for the purposes of establishing renewals expenditure, the expenditure might be allocated to work orders based on work carried out in later years. The actual breakdown of the 2008-09 costs is not available to us. Unfortunately, reliable data on which to make a determination of efficiency is not available for 2008-09.

For Pie Creek

The amount of \$67,187 is the sum of \$31,015 expended in 2008-09 and \$36,172 expended in 2010-11. As explained above, the 2008-09 expenditure is an estimate only and should not be relied upon to assess efficiency.

In responding please answer the following:

Seqwater Response to Item 1

1. If the project level detail is unavailable, how do you know 2008-09 totals?

The 2008-09 totals are recorded in the Seqwater ledgers by irrigation scheme but were not recorded by activity. Consequently, although we know how much was expended for opex in 2008-09, we do not know the work performed. The assumption made by Indec is that the type of work (i.e. opex renewals vs non-renewal opex) would be in similar proportion to the ratio of opex renewals to non-renewal opex in subsequent years. This was the most reasonable position to take in these circumstances.

2. Is there any way to verify that these are the amounts actually spent in each of the above years?

The audited financial statements for 2008-09 include the expenditure including any capex at the total scheme level. It is the breakdown of the 2008-09 operating expenditure only that is estimated. This is because the expenditure was not recorded by work order which captures activity information. Work orders were not used in the previous accounting system which was replaced in 2009-10. 2008-09 capital expenditure was captured.

3. What method was used to establish 2009-10 renewals expenditure?

Renewals expenditure for 2009-10 and onwards was established by two approaches. Renewals capital was captured by the capital works program. Opex renewals was captured by sending opex expenditure reports to the operators and requesting them to identify those activities that satisfied the criteria for renewals.

4. Do you have project level detail for 2009-10, or is it estimated like 2008-09?

As per the response to 3 above, projects level details for 2009-10 and beyond were available on Seqwater's accounting system.

A regulator is typically unlikely to include costs that cannot be verified.

QCA Question 2

- B. Could you please advise the status of your response to Item 6 in your email dated 23 August on the relevance to irrigation of flood control centre costs in Central Brisbane WSS, as we need to finalise this matter asap.**

Seqwater Response to Item 2

After further considering this issue, it is our view that as Wivenhoe Dam was designed for flood mitigation capability, the management of that capability is a cost of owning and operating the dam regardless of the type or priority of the water supplied. As such it is appropriate that a share of these costs should be borne by irrigators as users of the dam.

QCA Question 3

- C. Could you also please advise your views of the relevance to irrigation of any costs (including legal costs) associated with the dam enquiry.**

Seqwater Response to Item 3

The cost of participation in the flood enquiry are not relevant to irrigators but future costs related to enquiry recommendations may be although no estimates have been prepared at this point. No provision for COI costs was made in the 2012-13 budget and consequently, nothing was carried forward into the 2013-14 for irrigation prices.

QCA Question 4

D. Further to the email below on baseline opex costs for all of Seqwater, please consider the following and the attached spreadsheet (draft internal QCA officer analysis) and answer the questions (also) below.

We have attached a reconciliation of the baseline numbers (already sent to Seqwater in email below) and the recent Government adjusted costs.

The Government adjustments were:

- 1) Fixed Opex (from \$232,990,919 to \$226,483,696) – reflecting exclusion of employee costs for 62.5 FTEs x \$100,000 (per FTE) + recruitment costs. This cost saving reflects Government's decision to remove 62.5 FTE vacant staff positions from Seqwater's establishment/org chart. Please confirm this is correct.
- 2) Allowable costs relating to the QWC levy (from \$10,726,962 to \$3,839,737) reflecting Government's reduction of the QWC levy payable by Seqwater.
- 3) Efficiency Target (from 2.5% to 3.0%) as the Government has increased the Authority's recommended 2.5% efficiency target by 0.5%.

In response, can Seqwater also provide information on the following:

Seqwater Response to Item 4

- 1) The extent to which the excluded employee costs (above) relate to irrigation and, to that extent, how much cost saving per each irrigation tariff group;

See response to 4 below.

- 2) Confirm that that Seqwater has excluded the QWC levy from irrigation costs;

Seqwater confirms that the QCA levy was excluded from the calculation of irrigation costs.

- 3) Confirm that it is appropriate to apply the 3% efficiency gain; and

See response to 4 below.

- 4) Finally, please confirm that the appropriate baseline number (excluding variable costs) relevant to the Seqwater Irrigation Price Review 2013-17 is now: \$219,689,185. (It is noted, for interest, that our 24 August 2012 information request cited \$237,828,554 prior to the Government savings being applied to Seqwater.

Seqwater confirms that all savings identified will be fed back through the pricing model once Seqwater completes its budget revision (Q1) for board approval. NSPs and the pricing submission will be updated at that point.

QCA Question 5

E. We note the Government extrapolated our capex findings, only accepting 72% of all 12-13 capex. Hence, consistent with the Government's adjustments to the GSCs Capital Charge, can you confirm that the cost estimate of each 2012-13 renewals item should be reduced by 28% for the purposes of determining an ARR for 1 July 2013.

Seqwater Response to Item 5

It is confirmed that the 2012-13 irrigation renewals capex projects have been reduced by 28% and this will change the 1 July 2013 ARR balances.

QCA Question 6

F. Upon return from the most recent review of Seqwater infrastructure, we noted that there are non-irrigation customers of Pie Creek and that these customers are not paying the irrigation price (your officers said an upper bound price). Accordingly, with reference to Pie Creek tariff group, can you:

Seqwater Response to Item 6

1. Detail how many of these non-irrigation customers there are (given the NSP is silent on the number of these urban customers);

There is 1 customer, Pine Valley Water Pty Ltd, which does not own any water allocation but obtains less than 1 Ml by temporary transfer from a Mary Valley customer. Seqwater charges Pine Valley for consumption at a contracted rate of \$503.76 (current price).

2. Detail how these numbers have changed over time;

This is the only arrangement of this type.

3. What price these non-irrigation customers are paying (even a generalisation or average will suffice); and

See 1 above. This is an upper bound price calculated by SunWater when the contract was put in place.

4. What institutional mechanisms are in place to allow/facilitate the trade (temporarily, through lease and permanently) of water from irrigators (paying below lower bound) to non-irrigation customers (paying, presumably, above lower bound).

As stated in 1 above, Pine Valley does not own any water allocation but acquires an allocation via a temporary trade from a river customer who is a director of the company.

Colin Nicolson

Business Analyst

Economic Regulation

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