Cedar Pocket Water Supply Scheme

Scheme submission to QCA

2020-21 to 2023-24

Submitted: 30 November 2018

SOURCE STORE SUPPLY

Contents

1. Introduction

1.1 Review context

The Queensland Competition Authority (QCA) has been directed by the Queensland Government to recommend irrigation prices for the Cedar Pocket Water Supply Scheme (the Scheme) for the four-year regulatory period 1 July 2020 to 30 June 2024. Prices are to recover the efficient operating, maintenance and administration costs, and an annuity to recover renewals expenditure.

2. Scheme Details

2.1 Scheme background and context

The Cedar Pocket Water Supply Scheme was established following the construction, in 1985, of the Cedar Pocket Dam to provide irrigation water for the local dairy industry.

The Scheme is regulated under the Mary Basin Resource Operations Plan (ROP) issued in September 2011. The Scheme consists of bulk water supply assets only. The Scheme has no distribution systems, with all irrigators taking their water supply directly from the natural water courses. Releases from the Dam are made manually.

The water year runs from 1 July to 30 June.

The Scheme consists of one tariff group, “Cedar Pocket Dam”.

2.2 Infrastructure details

The table below sets out the bulk water assets, owned and operated by Seqwater, that comprise the scheme.

Table 1: Bulk water assets

Dams	Weirs	Off-stream storages	Other bulk water assets
Cedar Pocket Dam	Nil	Nil	Downstream measuring flume, customer water meters

Source: Seqwater (2018)

2.3 Customer service standards

Service standards for the Cedar Pocket Water Supply Scheme are attached in Appendix 1.

Seqwater publishes a performance report each year on the Cedar Pocket WSS page on Seqwater’s website.

2.4 Customers and water entitlements serviced

The following table sets out the ownership of water allocations by class of owner.

Table 2: Ownership of water allocations

Customer type	Number of customers	Medium priority volume (ML)
Irrigation	11	495
Totals	**11**	**495**

Source: Seqwater (2018)

2.5 Water availability and use

2.5.1 Water availability

The announced allocation determines the percentage of nominal water allocation volume that is available in each water year. However, it should be noted that, under the ROP, in a water year in which Cedar Pocket Dam overflows, customers may take up to 200% of their nominal allocations.

The following table sets out the announced allocations for the current year plus the historical position for the twelve years starting 2007-08.

Table 3: Announced allocations history

Year	MP %	Year	MP %
2007-08	38-100	2013-14	100
2008-09	100	2014-15	99-100
2009-10	100	2015-16	100
2010-11	100	2016-17	100
2011-12	100	2017-18	96
2012-13	100	2018-19	100

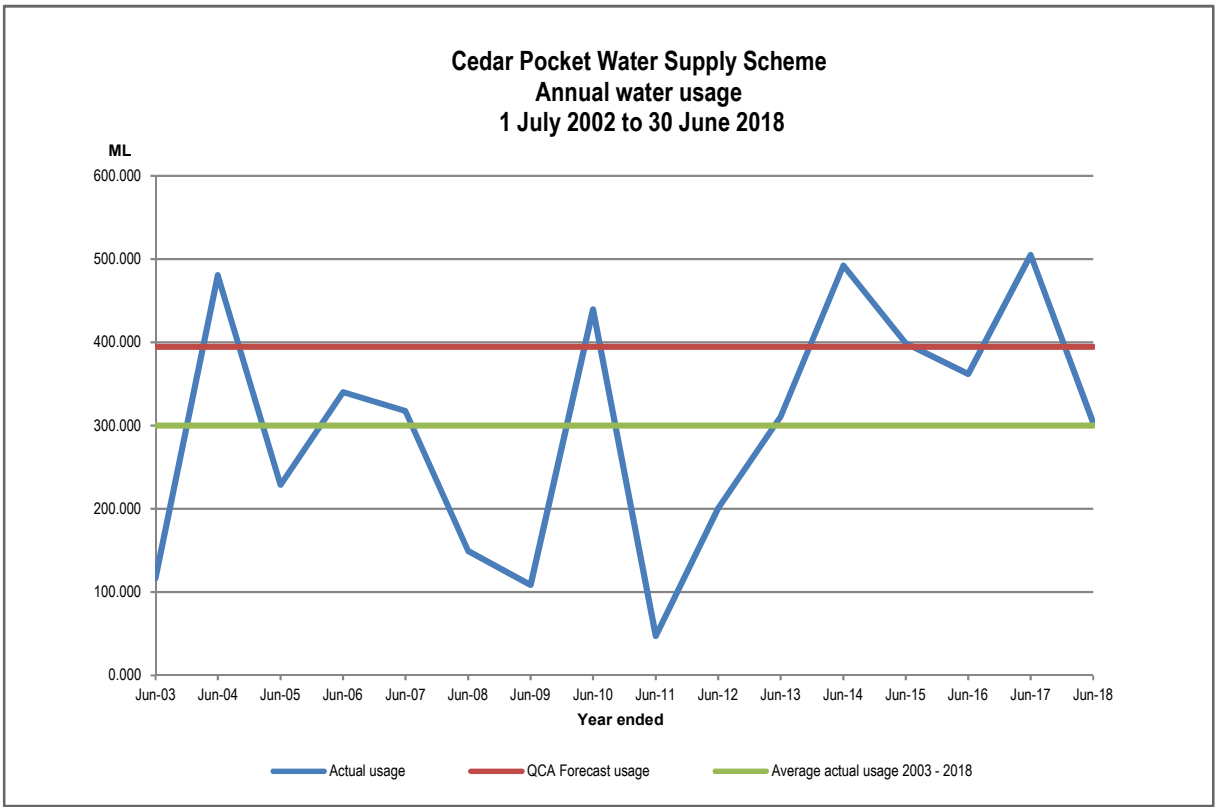
Source: Seqwater (2018)

2.5.2 Water use

Figure 1 below shows the actual water usage per year from 2002-03.

Also shown is the usage assumption adopted by the Queensland Competition Authority (QCA) for the 2013-17 price path (extended to 2019) which is 395 ML or 80% of nominal water allocations. The QCA's usage assumption has been extrapolated to prior years for comparison purposes only. Average water usage over the period has also been included for comparison purposes.

Figure 1: Annual Scheme water usage



Source: Seqwater (2018)

3. Irrigation Customer Consultation

Seqwater is committed to customer engagement as required under its Statement of Obligations. Annual Customer engagement includes customer forums and web-based information. Attendance at forums is open to all irrigation customers of the Scheme and other stakeholders. All customer or stakeholder submissions in relation to the annual NSPs will be published on Seqwater's website along with Seqwater's responses and decisions.

In preparation for this price review, Seqwater undertook additional customer engagement to gain feedback for its submission to QCA. This included establishing customer reference groups and expanding the content for the annual forum.

A customer reference group was established for Cedar Pocket which included five members. This group was not formally elected by customers and was not a decision-making group. Rather the members provided a small reference group with whom we could share matters of detail and seek feedback for how to most appropriately share information with the wider scheme at the forums.

The annual forum was held this year in September 2018. All customers were invited to attend and 3 customers attended.

Customers were also invited to complete a survey to provide feedback to Seqwater either online or at the forums.

3.1 Reference group feedback

The Cedar Pocket reference group met on two occasions (28 May 2018 and 17 August 2018).

The key feedback provided by the reference group included:

- Sought for Seqwater to provide more information regarding maintenance activities – this was followed up at forum
- Customers have challenged the rates costs.

3.2 Customer forum feedback

Seqwater presented to the Cedar Pocket irrigators at the forum including an annual update on operations and renewals activities, then provided more detail regarding the cost position and pricing proposals for the upcoming price review. These messages were consistently provided to each scheme in the same format.

Cedar Pocket customers provided strong support of Seqwater's proposal, particularly regarding the proposed 95:5 split of fixed to variable costs.

3.3 Survey results

Three questions were asked in the survey:

1. Do you support Seqwater's proposal for your scheme? Yes, No or Unsure
2. How satisfied are you with the services Seqwater provides to you? Rate from 1 to 7 where 1 = Entirely unsatisfied and 7 = Entirely satisfied.
3. Would you like more government investigation for this price review? Please note that additional investigation by the QCA will incur a cost for irrigation customers. Yes, No, or Unsure.

Four responses were received at the forum. This data is provided below.

Table 4: Survey response data from forums

		Question 1 – Seqwater's proposal		Question 2 – Our Service		Question 3 – more investigation?	
	Number of respondents	Positive responses (Yes)	Negative or neutral responses (No or Unsure)	Positive responses (6 or above)	Negative or neutral responses (5 or below)	Positive responses (No)	Negative or neutral responses (Yes or Unsure)
Cedar Pocket	3	100%		100%		100%	

These results indicate strong customer support for Seqwater's proposal and indicate limited interest in further investigation.

4. Financial Performance

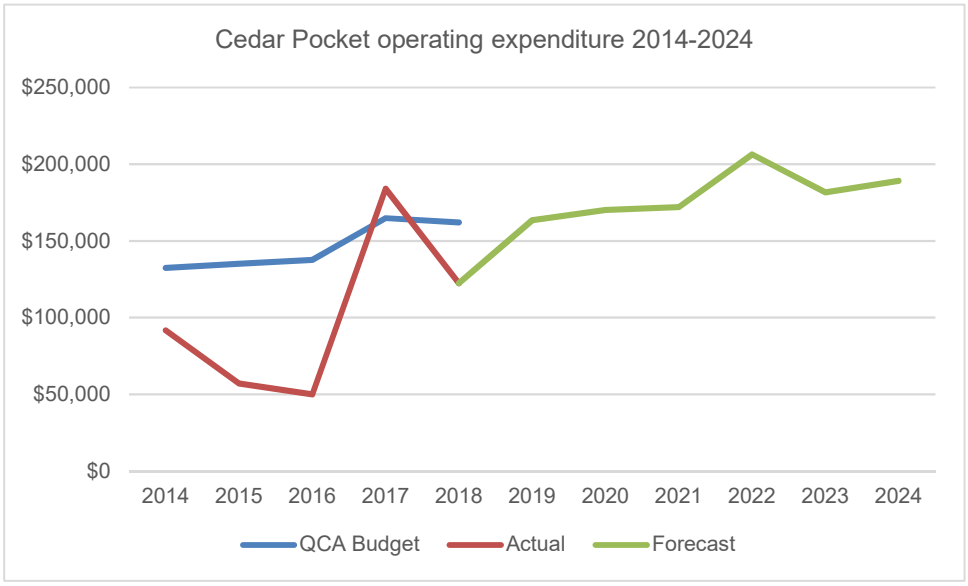
4.1 Operating expenditure

4.1.1 Overview

Over the past five years, Seqwater has spent 31% less than the QCA operating expenditure allowance. This significant cost reduction was due to lower labour and dam safety costs than the QCA allowed. However, there was some operating expenditure that was not submitted to the QCA's previous review. This was discovered during the price path and has been included from 2016-17 actual operating expenditure and forms the basis for the forecast operating expenditure.

For the next price path, Seqwater expects that the actual costs over the past two years will be maintained.

Figure 2: Operating expenditure



Source: Seqwater (2018)

4.1.2 2013-18 extended price path cost/budget comparison

The forecast operating costs set as a budget target by the QCA for the 2013-17 regulatory period extended to 2017-18 and the corresponding actual costs and actual revenues are set out in the table below. The 2017-18 forecast costs were calculated by applying the QCA's cost escalation rates to the 2016-17 forecast operating costs. The 2017-18 budget was then amended to include additional rates and internal vehicle hire costs incurred by the scheme but not included in the cost submission for the previous price review.

Table 5: 2013-17 price path budget and actual costs extended to 2017-18 ($Nominal)

Operating cost category	2013-14		2014-15		2015-16		2016-17		2017-18	
	Budget $	Actual $	Budget $	Actual $	Budget $	Actual $	Budget $	Actual $	Budget $	Actual $
Direct										
Labour	54,863	25,761	55,973	19,632	57,091	16,849	58,217	58,665	60,313	60,811
Electricity	115	-	118	-	121	512	124	365	371	214
Other	4,838	8,349	4,926	1,571	5,016	1,818	5,105	15,002	15,492	14,614
R&M	13,625	16,449	13,954	11,900	14,287	6,660	14,626	14,754	15,211	2,096
Rates	-	-	-	-	-	-	-	14,318	6,660	6,563
Dam safety	-	-	-	-	-	-	24,643	-	-	-
Consultation	7,175	-	7,354	-	7,538	-	7,727	-	7,920	-
Total direct	**80,615**	**50,559**	**82,325**	**33,103**	**84,053**	**25,839**	**110,442**	**103,104**	**105,967**	**84,298**
Indirect										
Operations	38,759	27,888	39,333	15,596	39,906	17,137	40,477	70,518	41,711	34,522
Non-infrastructure	3,948	2,491	3,985	1,364	4,022	1,722	4,057	6,204	4,159	1,291
Insurance	9,158	10,742	9,387	7,140	9,622	5,288	9,862	4,228	10,109	2,284
Total indirect	**51,865**	**41,121**	**52,705**	**24,100**	**53,549**	**24,147**	**54,396**	**80,950**	**55,979**	**38,097**
Total operating	**132,480**	**91,680**	**135,029**	**57,203**	**137,602**	**49,986**	**164,838**	**184,054**	**161,944**	**122,395**
Revenue										
Irrigators		23,089		19,832		16,143		27,473		23,229
CSO		83,978		132,695		134,972		137,280		139,615
Total revenue		**107,067**		**152,527**		**151,115**		**164,753**		**162,844**

Source: Seqwater (2018)

Variances between budget and actual expenditure have been explained to customers and are contained in the annual network service plan for each year. The network service plans are published on Seqwater's website. A summary of the variances is as follows:

- Labour costs were 37% lower than forecast. This has resulted from the ability to remotely monitor water flows at the measuring flume.
- Consultation costs were 100% less than forecast. Consultation costs are included in non-direct operations and were not accounted for separately.
- Insurance costs were 38% less than forecast. This has resulted from Seqwater's negotiation of lower insurance premiums.

However, during the price path, Seqwater identified additional costs that were not previously costed to the scheme and consequently, were not included in the cost base submitted to the QCA in the previous price review. In these cases, Seqwater has amended the 2016-17 forecast base costs before applying the QCA's escalation rates through to 2018-19. Costs that were not previously included are:

- vehicles and mobile plant used in the management of the scheme (included in 'Other') has been increased by $10,212
- local authority rates were increased by $6,563

4.1.3 2019-20 extended price path budget

The following table sets out the extended budgets for 2018-19 and 2019-20. The 2018-19 and 2019-20 budgets were calculated by applying the QCA's escalation rates to the 2017-18 extended budget amended to include additional costs as explained in section 4.1.1 above.

Table 6: QCA allowed operating costs 2018-19 and 2019-20 ($Nominal)

Operating cost category	2018-19 Budget $	2019-20 Budget $
Direct		
Labour	62,484	64,734
Electricity	380	389
Other	15,928	16,377
R&M	15,819	16,452
Rates	6,826	6,997
Dam safety	-	-
Consultation	8,118	8,321
Total direct	**109,555**	**113,269**
Indirect		
Operations	42,983	44,294
Non-infrastructure	4,263	4,369
Insurance	10,361	10,620
Total indirect	**57,608**	**59,284**
Total operating	**167,163**	**172,554**

Source: Seqwater (2018)

4.1.4 2018-19 base year

Seqwater has used 2018-19 as the base year to forecast operating expenditure. This is consistent with the QCA's approved SEQ urban bulk water price review for 2018-21. Consistent with the referral notice, costs associated with the management of recreation activities have been removed.

Table 7: 2018-19 QCA extended budget to base year comparison ($Nominal)

Cost category	QCA extended budget $	Seqwater Base year $	Rationale for Base year forecast
Direct			
Labour	62,484	60,811	Same as 2017-18 actuals without escalation.
Electricity	380	383	2017-18 Seqwater budget plus 2.5%
Other	15,928	25,622	$9,519 for water quality testing that was previously (incorrectly) allocated to Borumba dam. $9,963 for an allocation of plant and fleet costs shared between Mary Valley, Pie Creek and

			Cedar Pocket Dam. There are three utes and three trailers used to service the area. $4,071 for materials and consumables $2,069 for contractors based on the average of the previous two years.
R&M	15,819	14,484	$8,151 for planned maintenance plus a 30% allowance for reactive maintenance based on historical costs Includes $3,888 for mowing based on 18 mows at $216 per mow. Quote received in June 2018.
Rates	6,826	6,727	Based on 2017-18 actual plus 2.5%
Dam safety	–	–	None scheduled in this year
Consultation	8,118		Seqwater includes consultation costs as an overhead
Total direct	**109,555**	**108,028**	
Indirect			
Operations	42,983	50,191	Indirect costs based on the indirect allocators.
Non-infrastructure	4,263	2,002	
Insurance	10,361	3,217	Insurance costs are lower as Seqwater negotiated a reduction in the premiums.
Total indirect	**57,608**	**55,411**	
Total operating	**167,163**	**163,439**	

Source: Seqwater (2018)

4.1.5 2021-24 price path budget forecast

The price path commences on 1 July 2020. We have escalated the 2018-19 base year costs based on the escalation factors that the QCA approved for the bulk water review. The following one-off costs were made:

- A major dam safety inspection is forecast for 2021-22 at a cost of $26,853.
- A two-yearly dam deformation survey is forecast for 2021-22 at a cost of $2,689.
- A two-yearly dam deformation survey is forecast for 2023-24 at a cost of $2,822.

The following table sets out the forecast operating costs for the scheme for 2020-21 to 2023-24.

Table 8: Operating costs budget for 2020-21 to 2023-24 ($Nominal)

Operating cost category	2020-21 Budget $	2021-22 Budget $	2022-23 Budget $	2023-24 Budget $
Direct				
Labour	64,514	66,514	68,449	70,441
Electricity	348	361	393	391
Repairs & Maintenance	15,213	15,607	16,008	16,420
Other	26,879	27,562	28,260	28,975
Local government rates	7,050	7,227	7,407	7,593
Dam safety inspection	0	29,542	0	2,822
Insurance	3,372	3,456	3,543	3,631
Total direct	**117,376**	**150,269**	**124,060**	**130,272**
Indirect				
Operations	52,603	53,918	55,266	56,647
Non-infrastructure	2,099	2,151	2,205	2,260
Total indirect	**54,701**	**56,069**	**57,471**	**58,907**
Total operating	**172,078**	**206,338**	**181,531**	**189,180**

Source: Seqwater (2018)

4.2 Renewals

4.2.1 Asset Restoration Reserve

In September 2017, Seqwater engaged Indec Consulting to undertake an independent review of the Asset Restoration Reserves (ARR) for each of Seqwater's irrigation schemes. On the recommendation of the consultant, Seqwater has recast the ARR for this scheme and the updated account is presented below.

The opening balance of $15,593 is consistent with the QCA approved value.

Table 9: Cedar Pocket WSS Asset Restoration Reserve 2013-14 to 2019-20 ($Nominal)

Asset Restoration Reserve	2013-14 Actual ($)	2014-15 Actual ($)	2015-16 Actual ($)	2016-17 Actual ($)	2017-18 Actual ($)	2018-19 Estimate ($)	2019-20 Estimate ($)
Opening Balance 1 July	15,593	33,348	34,050	51,978	64,548	80,897	98,568
Interest for year	967	2,068	2,111	3,223	4,002	5,016	6,111
Revenue for year	16,788	12,311	12,178	12,046	12,347	12,655	12,972
Expenditure for year - non-metering	–	–	–	-2,310	–	–	–
Expenditure for year - metering	–	-13,676	3,639	-389	–	–	-50,000
Closing Balance 30 June	33,348	34,050	51,978	64,548	80,897	98,568	67,650

Source: Seqwater (2018)

* The interest rate is based on the QCA's recommended weighted average cost of capital (WACC) of 6.2% post-tax nominal.

4.2.2 Renewals expenditure

4.2.2.1 2014-18 renewals

The following table sets out the renewals projects that were undertaken from 2013-14 to 2017-18. Actual expenditure is shown against QCA allowed renewal expenditure[1].

Table 10: Renewals expenditure compared to budget 2013-14 to 2017-18 ($Nominal)

2013-14		2014-15		2015-16		2016-17		2017-18	
Budget $	Actual $	Budget $	Actual $	Budget $	Actual $	Budget $	Actual $	Budget $	Actual $
–	–	17,306	13,676	–	-3,639	–	2,699	–	–

Source: Seqwater (2018)

In total, Seqwater spent $12,736, comprising of:

- 2014-15, replace three customer meters
- 2015-16, replace two customer meters. Negative costs arose as a result of the reversal of costs from 2014-15
- 2016-17, electrical safety switch compliance and finalisation of water meter replacement

As Seqwater's expenditure was within the QCA allowance, we submit that no further investigation is required into past expenditure, and that the QCA should rely on its previous review and conclude that this expenditure is prudent and efficient.

4.2.2.2 2019-20 forecast renewals

Forecast renewals expenditure for 2018-19 and 2019-20 is set out in the table below. The expenditure in 2019-20 is for the replacement of 4 water meter installations.

Table 11: Forecast renewals expenditure for 2018-19 and 2019-20 ($Nominal)

2018-19 $	2019-20 $
–	50,000

Source: Seqwater (2018)

4.2.2.3 2021-24 forecast renewal expenditure

Forecast renewals expenditure for the next price path period of 2020-21 to 2023-24 is set out in the table below.

[1] Sourced from the QCA pricing model.

Table 12: Forecast renewals expenditure for 2020-21 to 2023-24 ($Nominal)

2020-21 $	2021-22 $	2022-23 $	2023-24 $
-	-	19,820	-

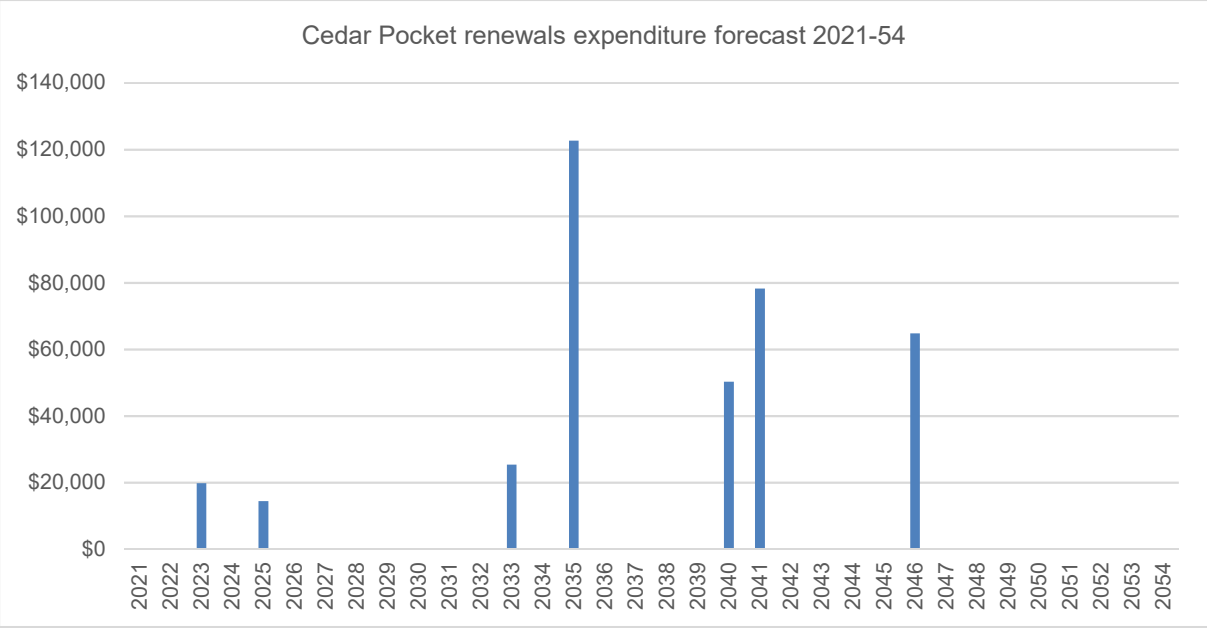
Source: Seqwater (2018)

The expenditure in 2022-23 relates to replacement of the water level recorder, rainfall recorder and the associated telemetry equipment.

Seqwater is proposing a 30-year rolling annuity. Each year, the 30 year forecast rolls forward one year so that there is constantly a 30-year forecast of costs in the annuity calculation.

Proposed expenditure over the period 2020-21 to 2053-54 is shown below. The expenditure in 2034-35 relates to replacement of the guard valve, regulating valve and actuator, refill valve and roadworks.

Figure 3: Renewals expenditure forecast 2021-54



Source: Seqwater (2018)

5. Total costs and proposed prices

The cost recovery target for irrigation prices includes the components of a lower bound cost target such as the costs of operations, administration, maintenance and renewals. Each of these components have been discussed in the sections above. Together they form the cost recovery target for irrigation prices.

The total maximum allowable revenue (MAR) is shown below. As this scheme has only irrigation customers, all these costs relate to irrigation.

Table 13: Total forecast maximum allowable revenue ($Nominal)

Cost type	2020-21 $	2021-22 $	2022-23 $	2023-24 $
Direct operating costs	117,376	150,269	124,060	130,272
Indirect operating costs	57,683	59,125	60,603	62,118
Rolling Annuity	4,084	4,106	4,128	4,150
Revenue Offset	-804	-824	-845	-866
Efficiency Target	-688	-1,060	-1,452	-1,864
Maximum allowable revenue	**177,651**	**211,616**	**186,494**	**193,811**

Source: Seqwater (2018)

Seqwater considers that most of our costs do not vary with water use. Accordingly, we consider it appropriate to recover the majority of costs through the fixed charge. We have calculated the prices needed to recover these costs over the price path period, such that they increase smoothly by 2.5% and are not impacted by one-off costs.

Seqwater's proposed cost reflective prices for Cedar Pocket are set out below. These are based on our interpretation of the referral notice.

The cost recovery target for irrigation prices includes the components of a lower bound cost target such as the costs of operations, administration, maintenance and renewals. Each of these components have been discussed in the sections above. Together they form the cost recovery target for irrigation prices.

Table 14: Cedar Pocket proposed cost reflective water prices 2021-24 (Nominal $/ML)

Tariff	2020-21 ($)/ML	2021-22 ($)/ML	2022-23 ($)/ML	2023-24 ($)/ML
Cost reflective fixed Part A	363.17	372.25	381.56	391.10
Cost reflective variable Part B	18.31	18.77	19.24	19.72

Source: Seqwater (2018)

Appendix 1: Cedar Pocket WSS service targets

These service targets were agreed at the Cedar Pocket Water Supply Scheme consultation forum held on 10 June 2014.

Planned shutdowns

Definition: A planned shutdown occurs when customers' supply is interrupted or restricted due to the performance of work by Seqwater that is planned in advance.

In managing planned shutdowns, Seqwater recognises that the following are important service issues:

- That you will be notified about a shutdown so that you can plan ahead;
- The timing of the shutdown should suit most customers;
- The duration of the shutdown should minimise the impact on customers while enabling Seqwater to perform maintenance on the Scheme.

Planned shutdowns – timing target

The timing of all planned shutdowns will be set following consultation with the Irrigation Consultation Forum (for a shutdown affecting a large part of the scheme) or customer groups or individuals (for shutdowns effecting small areas).

Planned shutdowns – duration target

Seqwater will complete all planned shutdowns within the period notified to customers unless later varied by agreement with the groups originally consulted, or unless circumstances arise that are beyond Seqwater's control, such as adverse weather conditions.

Planned shutdowns – notice target

For shutdowns planned to exceed 2 weeks, 8 weeks written notice will be provided to each customer affected by the shutdown. A reminder notice will be sent 2 weeks before the commencement of the shutdown.

For shutdowns planned to exceed 3 days but are less than 2 weeks, at least 2 weeks written notice by letter, fax, telephone, text, email or verbal advice will be provided to each customer affected by the shutdown unless the shutdown is opportunistic in which case less than 2 weeks' notice may be given.

For shutdowns planned to be less than 3 days, at least 5 days' notice will be provided at least verbally to each customer affected.

Each notice will state the start date, and anticipated shutdown duration.

Note: A courtesy reminder may be placed in the local newspaper one week before the planned shutdowns commence.

Unplanned shutdowns

Definition: An unplanned shutdown is an unforeseen or unplanned failure of Seqwater's water delivery infrastructure that stops or restricts the supply of water to a customer for more than 2 hours (including emergency repairs). It does not include events that are beyond Seqwater's control (e.g. power failure, or storm) and does not include interruptions to supply caused by errors in estimating water demand and releases, or the taking of water without authorisation.

Unplanned shutdown – duration targets

- Unplanned Shutdowns will be fixed so that at least partial supply can be resumed to those customers requiring water within 48 hours of Seqwater being notified of the event.
- Some events may interrupt supply greater than the above standard and are excluded from these targets. Seqwater will publish these events from time to time.

Unplanned shutdown – notice target

Seqwater will notify all affected customers requiring water verbally or by email, text, telephone, radio announcement or fax of the likely duration of the interruption to supply within 24 hours of learning of the event, or by the end of the first business day following the event, whichever is the earlier.

Unplanned shutdown – meter repairs target

Faults causing restrictions to supply will be repaired within one working day of Seqwater being notified.

Frequency of interruptions to supply

No customer will experience more than 6 planned or unplanned interruptions per water year (as defined above).

Complaints

Seqwater will provide an initial response to all complaints in writing, including email, or by telephone within 5 working days of receiving a complaint by the customer:

Seqwater will either resolve a customer's complaint, or provide a written response providing reasons why the complaint has not or cannot be resolved within 21 days of receiving the complaint.