BURDEKIN RIVER IRRIGATION AREA COMMITTEE

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Burdekin-Haughton Water supply Scheme Submission Sunwater irrigation price review 2012-2017

Volumes 1&2.

Thank you for the opportunity in allowing the BRIA irrigators committee to Submit on behalf of the irrigators within the Burdekin-Haughton irrigation scheme. We strongly endorse the submissions put forward by QFF (Queensland Farmers Federation) and Cane Growers and will continue to work with both organisations and QCA (Queensland Competition Authority) throughout this process. We would also like to reserve the opportunity to submit at a later date if required and to make ourselves available to QCA if further information is required on issues put forward in this submission.

Consultation and Transparency

This pricing process has been slowed and hindered by the flow of information from SunWater, this is apparent by the comments in the consultants reports regarding the lack of, access to, breakup, and timeliness of supply, of the data required for the consultants to do their jobs. The consultants have also been hindered by the scope and time lines given to them by QCA which was caused by the inadequate flow of data from SunWater. This has resulted in a draft report with recommended prices that are based on far too may estimations, and with a very large step increase in SunWater costs, without any supporting data. Why is this the case? QCA and irrigators are now reliant on the outcomes of reports from consultants in setting prices for the next 5 years without any certainty of the data they were produced from.

Consultation between SunWater and customers has failed to exist during the current price path and has left irrigators bewildered at the cost blow outs above the budgeted costs agreed to by SunWater at the end of the last pricing process. This has led to a 33.5% increase across the state in costs above budget in 2011. This is with the exclusion of renewals and the intersafe program.

RECOMMENDATIONS:

1. **With the lack of confidence in data from SunWater and no reasons given for the large cost blow outs we recommend that QCA adopt the prices set in the last pricing review and carry them forward for the next 5 years.**
2. **Any cost item that exceeds the budgeted cost for the price path should go through a consultation process with customers before it can be costed to the scheme. This will achieve two things;**
    a. **One being a constant approach from one pricing process to next for the allocation of costs and;**
    b. **No price shocks at the start of the next price path.**

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Fixed and Variable costs

- QCA is recommending that water use in this scheme be at 76% Bulk and 76% distribution for setting the variable charge. The water use numbers are well below those quoted in the NSP. (In the irrigation sector, water use has averaged 87% of irrigation WAE over the same 8 year period.)
- The water use data for distribution has included distribution losses allocation distorting the water use data for this scheme. The losses allocation has already been costed at 100% usage, even though less than 57% has been used over the last 8 years.
- Should we be using a pricing approach that penalises those who use the service more, and keeping the costs down for those who use the service less?
- In this scheme SunWater is a service provider where only 75% of the service is utilised. Should QCA be recommending a pricing process which allows SunWater to continue to recoup costs from the remaining users without promoting the availability of service or restructuring the current service to reflect use and reduce costs?
- Need to have a pricing approach that penalises Sunwater for non delivery of water. If the system is run down, choked with weeds, etc, and cannot deliver to full potential at critical demand times.
- Electricity costs were over forecasted well in excess of the drop in water use in the last price path, leaving irrigators questioning any data produced by SunWater on electricity costs.
- Distribution fixed and variable costs for 2012/13 at 75% and 87% usage:
  - 60% fixed $6 337 503/WAE (280 801MP + 10 000HP) 290 801ML = $21.80 not $31.94 cost reflective in report.
  - 40% variable $5 758 000/water use (75%x 290801ML) 218101ML =$26.40 not $25.57 cost reflective in report.
  - 40% variable $5 758 000/water use (87%x 290801ML) 252997ML =$22.76
- Bulk fixed and variable costs for 2012/13:
  - 93% fixed $3 501 000 – $490 000 for HP= $3 011 000/WAE (1 079 592ML – 99 998ML HP -185 000ML Free water) 794 594ML= $3.79 ML not $3.75 cost reflective in report
  - 7% Variable $264 000/water use (794594MLx 75%) 595945ML = $0.45 not $0.47 cost reflective in the report
  - 7% Variable $264 000/water use (794594MLx 87%) 691 297ML = $0.38

It is impossible to get any of the numbers in the report to total to the cost reflective prices. A detail model review is required to gain some confidence in the data being presented. There is a discrepancy in the Burdekin High Priority allocation numbers. The ROP has it listed as being around 10,000ML, but the Sunwater data has it at 99,998ML. When was this conversion done? And why has the Sunwater medium priority allocation not reduced to account for the conversion factors?

RECOMMENDATIONS:

1. **A review of the water use data for both Bulk and Distribution.**
2. **A detail review of the model used to establish prices.**
3. **There are large differences in water use data for distribution which requires clarity from SunWater and QCA. The water use model should not include losses allocation as this is already costed at 100% usage as bulk.**
4. **Electricity costs must be based on actual costs paid in arrears not forecasts.**

   (Prices impact per ML/year)

   Modelled cost reflective price compared to calculated = - $11.75

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Termination Fees

- The fall out of the comments above is the termination fees. The recommended fees are up to $450.00 for every ML shifted back to the river. This will ensure that even if a SunWater customer wishes to stop receiving a service they will have to pay a cost that is over 100% of the current value of the WAE.
- This means if all distribution customers were to exit the total termination fees would exceed $222 000 000 and at 6% interest SunWater would recover more than the yearly total cost without providing any service. With those numbers there is no incentive for SunWater to look after the customers it services.
- The recommendation from QCA is allowing SunWater to impose a charge per ML to shift water from the channel which is only at cost recovery, to the river which is above cost by $6.17/ML/year. All termination fees should be reduced by $6.17 x 20 years= $123.00
- Should losses WAE be Distribution WAE?, presently distribution customers are paying the cost of having this WAE delivered through the channel as total cost of distribution..Its use is clearly determined for distribution and yet it is classed as a bulk WAE. If this WAE is removed from the channel there is more channel capacity available with a smaller spread of the costs. If it was determined as a distribution WAE an exit fee would have to be paid to ensure no impact on other users.

RECOMMENDATIONS:

1. **There should be a greatly reduced termination fee ensuring SunWater reduces cost in line with demand, maintains its systems so that they can deliver a high standard of service to customers, and promotes its schemes to build demand and stop any risk of profiting by water being transferred to the river.**
2. **All losses WAE to be treated as distribution WAE with a spread of distribution costs across the total of distribution allocation including losses allocation.**

(Prices impact per ML/year) 45% of distribution losses sold with exit fees applied = - $10.00

Revenue Offsets.

- To ensure all revenue offsets are being increased with CPI.
- A more detailed review of the pricing model is required to establish whether all revenue offsets have flowed through to recommended prices.
- Minimum charges need to be included as revenue offsets.
- The revenue from the seasonal trading of WAE brought about by channel lining must be recorded as revenue offset.
- The sale value of WAE sold from channel lining paid for by the scheme must be declared a revenue offset.
- The revenue gained from the selling water seasonally out of the channel and river to spot purchasers including irrigators, Main Roads and Land Developers must be offset against costs.
- Revenue from drainage charges needs to be offset against drainage costs.
- Flood harvesting charges need to be declared a revenue offset.
- Any revenue from leasing land for grazing or other purposes must be declared as a revenue offset. Leasing income from buildings needs to be a revenue offset (Giddy Road offices)

RECOMMENDATIONS:

1. **All revenues need to be allocated correctly and be increased by CPI each year.**
2. **Detailed reviews of the model to ensure all revenues are offset against costs.**
3. **All revenue offsets recovered above budget during the current price path must be offset against over budgeted costs that are carried forward into the next.**
   (Prices impact per ML per year) All revenue offsets gained above budget during this price path offset against the next ($3,000,000) = $2.10

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Distribution Losses

- The current distribution losses allocations are MP 190 477ML HP 16 260ML. This represents over 71% of the WAE on the channel. QCA is recommending that prices reflect the cost of 100% of the losses allocation when less than 55% of them are being used.
- The allocation of losses WAE bulk costs to distribution has added to the fixed costs for losses above actual use by $347 420 per year or $1.20/ML/year.
- This is in direct contrast to Losses in the river/bulk system which is called TOL (transmission and operating losses) not incurring any bulk costs.
- If distribution WAE holders are going to be charged for the total of the losses WAE then they demand the right to use the total losses WAE.
- The use of HP losses to fill channels has to be questioned. The channels will only be filled with MP WAE to supply MP WAE. The only time the channels would be filled with HP losses WAE is if the announced allocation for MP WAE was 0. That being the case all HP losses WAE should only be paid by HP WAE holders for the sections of channels that are supplied with HP allocation.
- It may have been the regulator that allocated losses allocations but it was SunWater that summited the amounts required and it is SunWater who is trying to impose a charge on the submitted volume not the used volume. Is this the intent of the regulator?

RECOMMENDATIONS:

1. **The original intent of the losses WAE to be upheld. The intent being they are treated the same as the TOL for the river. If this is not to be upheld then the person paying the cost must be the only beneficiary. The unused proportion of the losses WAE must be made available for usage to those who have paid the cost.**
2. **The average losses WAE used over the last 8 years has been only 107 743 ML. SunWater should only be allowed to charge the bulk cost of losses WAE for the average yearly recorded amount of the WAE used in the past 8 years. This would be an interim measure until accurate bulk metering is carried out. If carryover of allocation is allowed within the scheme, carryover of losses WAE should also be allowed, limited by the total amount required within one water year, that being the largest recorded amount over the last 8 years or limited by the scheme rules for carryover.**
3. **SunWater must demonstrate the requirement for HP and MP losses WAE before any cost can be allocated. This should be done through historical use data.**
4. **The bulk cost of HP losses WAE must only be passed onto HP customers at a modelled requirement.**
5. **All losses WAE to be treated as distribution WAE with a spread of distribution costs across the total of distribution allocation including losses allocation.**

(Prices impact per ML/ year) Used distribution losses only - $1.20

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Return on Working Capital

- The requirement for working capital has been added into the costs for this scheme with no mention of all fixed costs being charged out 3 months in advance.

RECOMMENDATION: There is no need for a return on working capital charge as there is over $10,000,000 paid to SunWater in fixed costs in advance, per quarter.
(Prices impact per ML per year) $0.01 recommended now, many dollars in the future.

Indirect and overheads

- There are large differences in the indirect and overhead data presented in the documents used in developing the draft prices.
- The Burdekin-Haughton bulk has an indirect and overhead cost of over 54%. This is well above any of the data presented in the Deloitte report.
- By using all the data from the Deloitte and QCA reports you are able to establish;
  - SunWaters total indirect and overheads percentage of total costs is 34%.
  - Irrigation service contracts indirect and overheads percentage of total costs are 49%.
  - Other service contracts excluding irrigation service contracts indirect and overheads percentage of total costs are 24%.
- The data presented in the Deloitte's benchmarking of administration costs to compare SunWaters costs with PV water is vastly different to the data in QCA volume 1 draft prices table 7.3.

RECOMMENDATION: Accept Deloitte report and comment when benchmarking SunWater as a whole for indirect and overheads of 34% (SunWater generally benchmarks well against a peer of global utilities.) The cost of indirect and overheads to all service contracts to be set at 34% of total costs.
(Prices impact per ML/year) 34% indirect and overheads compared to 54% = - $1.00

Market Risks Costs and Renewals Annuity Costs

- Both these costs items pose a large risk of costs blow outs to this scheme if left without a strong consultation process in place with customers who have to pay the cost.

RECOMMENDATION: QCA to recommend that any new cost item that has not been identified and costed as part of this review will require consultation and agreement with customers before the item is costed against the scheme.
(Prices impact per ML/year) $2 483 000 negative balance = $1.50

Forecast Costs

SunWater's forecast total costs are well above the target costs set for the current price path. The QCA draft report identifies the following significant differences between forecast and actual costs for all bulk and distribution schemes from 2007 to 2011 in 2010/11 dollars:

- Operations $11.4 million or 16% less than forecast.
- Electricity $15 million or 36.7% less than forecast.
- Preventive/Corrective Maintenance $8.8 million or 17% over spend.
- Revenue offsets $10.5 million or 250% over recovery.
- Indirect and overheads $17 million or 19% over spend.
- Renewals annuity $30.9 million or 80% over spend.

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Forecast Costs (Cont)

The end result sees the total of operations, preventive maintenance, corrective maintenance, indirect and overheads costs for 2011 (the last year) being $12 million or 33.5% above the budget forecast agreed to by SunWater. QCA proposes that SunWater should improve its information systems but unless detailed reasons can be provided for these significant variations it is hard to have any confidence in moving forward into another price path relying on information provided by SunWater.

Burdekin-Haughton has forecast expenditure for the next 5 years 15.5% above the efficient costs set and agreed to by SunWater in 2005/6.

RECOMMENDATION: QCA assess SunWater's total costs on the forecast costs from the last price path until SunWater presents detailed data to explain the cost variations.
(Prices impact per ML per year) 15.5% less costs excluding electricity = - $8.30

Renewals Annuity

- There has been a large over budget spend on renewals items without any consultation with customers and regard for the service requirement.
- This has led to a large increase in the yearly cost of the renewals Annuity.
- SunWaters large overspend on renewals over the last 5 years has been passed directly onto irrigators with the recommended prices, but the $15 000 000 over recovered for electricity and the above budget recovery for revenue offsets of $10 500 000 has not. QCA cannot allow cost blow outs above budget to be brought forward without allowing above budget revenue to be brought forward as well.
- It needs to be established how a pricing process can allow a scheme paying above lower bound during this price path to have a greatly reduced renewals annuity in the next. The distribution section of the scheme has a renewals account balance of negative $2 483 000 when it has paid above lower bound during this price path and the previous price path which was part of a QCA review.

RECOMMENDATIONS:

1. **Review the pricing model to ensure all efficiencies identified flow onto prices.**
2. **If QCA is going to allow over spends on cost items in the last price path to be transferred through to new price path then all revenue above budget also needs to be brought forward.**
3. **A more optimised approach to future renewals spends is required to ensure the renewal doesn't exceed the requirement and therefore exceed the customers' ability to pay for the service.**
4. **The above lower bound margin recovered during this price path must be offset against overspend in renewals.**
   (Prices impact per ML/year)
   Negative renewals balance when paying above lower bound = - $1.50

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Minimum Charges

- Minimum charges are becoming more important as schemes become affected by urban encroachment. It is important that QCA ensures the current fee covers the cost of servicing these users without passing extra costs onto other users.
- Minimum charges should be established by identifying the costs of metering, billing and customer communications.
- The cost items above should only be charged once as they are only incurred once. QCA has not delivered a process that ensures no doubling up of these costs for distribution customers.

RECOMMENDATIONS:

1. **QCA recommend that SunWater produce the data for cost of metering, billing and customer communications to establish the minimum cost of servicing a customer.**
2. **The cost of metering, billing and customer communication only to be charged once to distribution customers not twice as is the case in the current QCA recommendation with the splitting of bulk and distribution.**
3. **The minimum charge to only apply to bulk ensuring no doubling up.**
4. **Minimum charges that are greater than per ML charge need to be added as revenue offset.**
5. **The minimum cost of servicing a customer should be removed from distribution costs.** **(Prices impact per ML/ year) Minimum charges not being applied as revenue offsets as well as distribution customers paying for metering and billing twice = - $1.25**

New Water

- The QCA report states under 2.3 Service delivery Frame work. ("However existing customers do not bear the costs of increased or surplus Headworks capacity if SunWater undertakes investment to increase water storage. Rather the owner of any new WAE derived benefit from new assets.") Do issues like channel lining and the bags on the weirs fall with in this recommendation?
- The above quote from the report is in direct contrast to other sections of recommended prices allowing SunWater to charge for the costs of establishing, repairs and renewals of channel lining and Weir augmentation projects across all users when SunWater is the one who gains ownership of the WAE brought about by these projects.

RECOMMENDATIONS:

1. **Any works that are costed to the scheme that brings about new WAE must have the value of the WAE offset against the cost and can only be costed to the scheme with full consultation and agreement of customers before starting the works.**
2. **All WAE value or revenue brought about by past expenditure which has created new WAE must be returned to the scheme as revenue before any renewals costs can be attributed to these projects.**
3. **Projects like channel lining cannot be covered by renewals annuity without the value of the WAE gained being offset against the cost, repair and renewal of it.**

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Recreational Facilities

- The recreational facility charged to this scheme is far removed from the scheme (Approx 200km away, and in a different shire). The cost of maintaining these facilities is recommended to be covered by water users adding a cost of up to $400 000 per year or as much as $1.00 per ML. No accurate data has been provided on the running cost of this facility to water users. Irrigators would like a more optimised approach to the running of this facility.
- The current Government has declared that recreational facilities are to be included into the cost of having water storages. Who regulates Government intent for recreational facilities to ensure they don't that exceed the intent and become a cost burden on irrigators?

RECOMMENDATIONS:

1. **QCA to review the intent of Government policy.**
2. **The cost of recreation facility to be allocated on a more user pays approach. This could be achieved by allocating costs based on use between irrigation users and urban and industrial users.**
3. **The cost could be divided into the 3 neighbouring shires, or local govt. areas based on population. It is either visitors from these shires, or tourists that are holidaying in these shires that visit the dam. These same people are spending money in the shire that they visit, so it would be equitable that the shire contributes to the facility.**
4. **Establish a CSO from Government to cover the cost.**
5. **A detailed review of the minimum requirement of the recreation facility to establish a cost for that requirement only.**
   (Prices impact per ML/ year) All facilities revenue to be offsets against cost = - $1.00

Prices cannot come down policy

- If prices are above lower bound for this price path because of Government policy and costs have exceeded the budget, why is the over budget cost being carried forward into the next price path instead of coming off the above lower bound component of this price path.

RECOMMENDATIONS

1. **All identified above lower bound schemes in this price path are not to have a reduced renewals annuity from budgets set in 2005/6 moving into the next price path.**
   (Prices impact per ML/ year)
   The difference between cost reflective and recommended = - $6.17

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Free Water

- QCA has reviewed the 1991 agreement and the orders in Council (OIC) and ruled the OIC no longer stands but the 1991 agreements do. Therefore according to QCA the free water of 185 000 ML remains.
- BRIA is disturbed by this finding, and very disappointed after reading through another submission from "Lower Burdekin Water" where they are recommending that the "Free Water " should remain., Effectively receiving a cross subsidy from other water users.
- "Lower Burdekin Water" claim that if the free water is removed it would cost them $2.96 million. This is a gross over estimation .
- Another argument put forward is that it would impact on 650 irrigators .Do the QCA or Government believe that the current arrangement has no impact on customers in the BRIA? The actual cost per customer in the BRIA would be around two and a half times that in the Water Board area as there are only 258 customers.
- The areas of Clare, Millaroo and Dalbeg were established "Pre Dam" as soldier settler blocks, after the second World War , and in recognition of that water use history were granted an allocation from the Dam.. That meaning an allocation free of capital charge, but with the payment of annual delivery and allocation charges. BRIA believe that this arrangement is fair and reasonable, as the prudent and efficient costs need to be recovered. How is paying for another customers "Free Allocation" prudent and efficient?

  The QCA needs to thoroughly investigate the current arrangements. If it is found that the entitlement stands, then this needs to be paid for by Government.

  If the Government through the then "Water Resources Commission", intended that the "Free Water" be a cost to be absorbed by other customers, then it had a legal and moral obligation to tell the purchasers of land and water, and all other customers and water users, that there would be extra costs incurred for ever . Needless to say, this did not happen.
- BRIA would suggest that the Water Boards level of security increased with the construction of the dam. A comment that the South Burdekin Water Board made in its submission to the QCA 11th March 2002 "Assessment of pricing matters" would suggest that water security was a real issue "Pre Dam" and in fact that the steering committee that presented the successful submission to the State and Federal Governments was organised by the Water Board. (See attachment 1)
- The Water Boards should be treated in exactly the same manner as any other "Pre Dam" customer, that is an allocation should be granted free of capital charge, but the annual prudent and efficient cost of supply met by the customer.

<u>RECOMMENDATION</u>

The QCA to investigate the initial intent of the 1991 agreement,(and the treatment of other "Pre Dam"customers,) and apportion the costs to either the Government or the Water Boards

The costs involved here should only be the "Cost Reflective" prices, which in this price review would be 185,000ML @$3.07/ML

QCA to ensure that only the prudent and efficient costs of supplying a customer's allocation is apportioned to that customer.

(Prices impact per ML/ year) The impact of the Free Water on other users =$0.72 or 19% of the cost reflective bulk price.

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Largest impacts on increased costs to Irrigators

1. **Bulk costs for Losses WAE.**
2. **Incorrect water use numbers for bulk and distribution.**
3. **Model used to establish prices incorrect.**
4. **Large indirect and overhead charges of up to 54% of total costs.**
5. **Large over spends on renewals making renewals annuity costs one of the biggest cost items for this scheme.**
6. **No flow on in reduced costs from the efficiencies set at last pricing process. Total costs for irrigation service contracts are 15.5% above the efficiencies set and agreed to at the last pricing process.**
7. **Lack of transparency and consultation by SunWater throughout the current price path and pricing review process.**
8. **Government policy on the price of water cannot go down.**
9. **No offset to costs from other revenue streams.**
10. **Free water.**