

COTTON AUSTRALIA/QFF

A follow up report to the NSP submission dated February 2011 written by
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*Response to
Network Service
Plans and
Consultant's
Reports*

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This submission gives detailed comments on the Network Service Plans and the Halcrow and Deloitte consultant's reports. The comments have been compiled with consultation with industry and irrigation users within the Nogoia Mackenzie and Dawson Valley schemes. The numbered indices used in this report relate directly to those used in SunWater's Network Service Plan.

Emerald Distribution System NSP

4. Distribution Service Costs

4.1.3 Compliance

Most of the compliance costs of distribution are covered in the bulk charges and we need to be certain we are not paying twice for compliance. **This is still to be addressed.**

Rates and land tax

More detail of the rates and land taxes that are incurred by this scheme at present would assist in the understanding of this cost. We have had no evidence of these costs occurring in the past other than as a cost component of our water charges. **Some detail has come out of the consultant report in regards to costs but no detail on how these costs are spread across user types.**

System Leakage and Management Plan (SLMP)

System leakage is a very large problem in our area which costs irrigators millions of dollars every year in crop damage, soil damage and the cost of supplying unproductive water, being distribution losses allocation, yet this is the first time we have heard of SLMPs. The data and resources are already in place to determine losses and have been used in the past to do just that. To comment that losses can only be quantified by new metering is a very poor argument for new metering or an attempt to ignore the responsibility for the leaking infrastructure. **This issue comes up in the renewals annuity as a cost item in lining channels but no comments on how the income from the sale of the losses allocation comes back into the scheme as income.**

4.1.4 Insurance

Insurance is now a big dollar cost item without any detail to support the cost or the risk position it covers, \$92 000. **What is insured is not dealt with.**

4.2 Operating costs

4.2.1 General

The first paragraph states "The operating expenditure forecasts in this NSP have been developed using a bottom up approach by assessing the tasks required and the most efficient method of doing the work". This NSP doesn't provide any evidence of this occurring.

The statement "The unit cost of materials and contractors has been based on current unit costs, with adjustments where those costs are expected to change in real terms", indicates that if you were to apply indexation on top you would be double dipping. **The consultant has picked up on this and has made recommendations.**

4.2.2 Operations

All the dot points shown as operations with the exception of the cleaning of trash screens are operations for bulk as well. Are distribution customers paying for operations twice? **Once again this question has not been addressed and it would be very hard to do this with the information currently available.**

4.2.3 Electricity

The price displayed in the NSP for a ML of water for electricity is for water use on the Selma channel only at \$2.91. Electricity costs will be spread across both channels at 80% usage and will be \$1.38 per ML. The risk of forecasting electricity cost in this scheme is very small compared to the total costs and CPI will be sufficient. **The consultant report deals with electricity costs very well and may even be too hard on SunWater.**

4.2.4 Distribution Losses

SunWater stated in their SLMP that distribution losses can only be quantified by putting in new meters and in this section they are quoting volumes for distribution losses that will attract bulk water charges and pasted on to distribution customers as a cost. This cost will be around \$400 000 or 30% of the total operating cost. These losses are then resold to users as drainage diversion charges. How many times is it proposed to charge for same ML of water. **Distribution losses seem to be outside of the scope of this report.**

4.2.5 Preventive Maintenance and 4.2.6 Corrective Maintenance

The cost items are displayed as one cost with no detail.

The operating costs don't give enough detail to establish the below.

- The ring-fencing of costs for the channel automation trial. **The report shows that this has not happened as promised with all expenses being attributed to this scheme for the trial.**
- Clarification that labour costs for SunWater services groups are not being charged out at full contract rates including profit margins. **Still unsure on this after going through the report due to the lack of data. If it is the case indirect and overheads should be going down not up as they should be part of the contract cost not on top of it.**
- The maintenance programs are not overlapping with the renewals. **The report has shown that there is overlaps but has only dealt with the costs not the impacts of overlaps.**
- Is there an overlap of costs being charged out to distribution and bulk? **The report doesn't deal with this.**
- Has distribution been separated from other costs of services SunWater provide? **Still not dealt with.**

4.2.7 Operating costs by type

Indirect and overheads show up as being over 50% of the total operating costs. For such a large economical section of a scheme this number seems very high. Indirect and overheads are a large part of the bulk costs that distribution customers also have to pay. The question has to be asked about the apportioning of indirect and overhead costs. **The report goes some way to evaluating indirect and overheads but with the lack of data I fail to see how they could make any comment on the issue. Something else to consider is that the renewals annuity also has a large component of indirect and overheads costed into it, this explained in the report.**

4.2.8 Revenue offsets

- Transfer adjustment fees are not recorded as part of the revenue offsets.
- Do adding Drainage levies as revenue offsets mean they are not a part of this pricing discussion? In the last 15 years irrigators have spent a lot of money and time on farm

any of farm impacts on the drainage system. Cropping types and methods have also played a large part in reducing the cost required to maintain these

structures. At no point in the last 15 years have we seen any review of the costs associated with drainage. **Not dealt with at all.**

- The Drainage diversion charge is for distribution losses water being recaptured by irrigators, if they are already paying for this water as a bulk component of their WDE, they are being asked to pay for the same water twice. **Not dealt with at all.**

4.2.9 Allocating operating costs

SunWater is pushing for the cost to be allocated on water allocations rather than historical use data. There is no doubt that in some schemes water users that use all their available water allocation all of the time are subsidising those that don't. In this scheme water can be carried over if not used making it available in the following water year with a storage rental charge being applied. If you were to remove the storage rental fee and bill in arrears not in advance, costs allocated on a per ML basis not usage may work. **Not part of the consultants review.**

4.2.10 Projected water use

The projected water use data is only being used to establish a bulk water cost for distribution losses and highlights the fact that this cost is nothing more than a stab in the dark. **Not part of the consultants review.**

4.3 Renewals

The methodology used to split the renewals annuity between bulk and distribution puts all the renewals up for question. The split should have been a simple accounting exercise on what was spent and what was due to be spent. To suggest that there wasn't enough detail to do that puts a large question over all renewals and their accountability. Transparency of renewals annuity funds is now very important. **The separation of renewals annuity could not be addressed because of the lack of data.**

4.3.3 Cost estimation

- Selma drainage network: De-silting to mitigate flood impacts for Emerald needs to be reviewed to establish who is responsible for this cost; not clear how de-silting becomes a renewals cost. **Some of the comments in the report show the lack of data provided and little understanding of scheme by the consultant.**
- Selma pump station: \$736 000 as planned renewals as repairs on pumps that are over 30 years old and will be still over 30 years old after the repairs are completed. **No data.**
- All the major planned projects are for Selma channel, with over 95% of the total renewals spend. **Outside of the scope of the review.**
- Refurbish channels in Selma to the value of \$4 785 000 needs to be clarified. We also need to be assured it has not been incurred by the channel automation trial. **Replacing concrete lining will never happen again on black soil, but this still is a major part of the \$4 785 000 spend on renewals. The automation trial is included as a large part of our renewals.**
- Replacement of HDPE liner in Selma channel of \$1 659 000 as part of the renewals will bring about some issues. Can SunWater make system improvements as cost effectively as possible, sell of the water saved and then expect water users to maintain the improvements.

- Changes to infrastructure which enables allocation to be sold should see any funds over and above the cost of the project going back into the scheme ensuring existing water users don't carry the ongoing cost of maintaining it. **This a new issue not covered in this report.**
- Was the first channel lining project funded by the scheme, if so were the funds gained by the sale of the water returned to the scheme? **The report identifies that the renewals was used to line channels but doesn't give any information on funds gained from the sale of the allocation gained by the lining. This should be a revenue offset.**

4.3.4 Renewals annuity

- Opening annuity balance is \$466 000 **Very little data to support this.**
- Average renewals forecast for the next 5 years is \$500 000 per year. **As above.**
- The separation of the renewals annuity between bulk and distribution needs to be reviewed. **Still to be achieved not covered in report.**
- There is a need to carryover our revenue offsets income not accounted for in this price path to reduce our renewals annuity cost. **The report has identified a 400% over the budget spend for the last price path period. A review of the budgeted verses actual expenditure for the renewals projects undertaken indicates that a number of projects were not included within the original board budget. Also, a number of projects exceeded the original budget. The question is what has the board done, or going to do to address the issue. The revenue offsets not accounted for in the price path that have been identified so far are.**
 - **Over charging of high priority on the channel.**
 - **Transfer adjustment fees.**
 - **Income from services provided from the water treatment plant.**

5 Risks to the plan and possible price reset triggers

1. Electricity price increases: electricity costs only make up 5% of total costs.
2. A Government resource management charge to losses allocation: SunWater is only exposed to 10% of the risk that irrigators are.
3. Damage to SunWater assets: if SunWater is incapable in managing risks to assets, then this needs to be identified. How large is the risk in dollar terms and how big is the risk is in probability terms?
4. Levies and charges made in relation to the regulation of irrigation prices by the QCA: If there is to be a charge or levee then it needs to be declared now not during the price path.
5. Metering costs related to changes in regulation standards: Irrigators are exposed to the most risk here, as this cost will make its way to them not SunWater. SunWater will use its renewals annuity to fund this and pass the cost on during the following price path.
6. Chemical to control weeds and algae in channels: weeds and algae in channels impact on irrigators first in the drop off in peak flow requirements, SunWater doesn't guaranty peak flow to irrigators, so not sure what the risk to SunWater is here.

Nogoa Mackenzie Water Supply Scheme

Bulk Network Services Plan

4. Bulk water Service Costs

4.1.3 Compliance

Dam safety: Dam safety is a major cost to this scheme which will grow because of the risk to life and property immediately downstream. The growth in population and infrastructure has been brought about by the flood mitigation ability of the dam yet we cannot apportion any cost to it. This will reach a point where irrigators can no longer afford the water, who will then pay for the upkeep of the dam to ensure the population downstream is protected? **This is outside of the scope of the report.**

Land management

Rates and land tax: We still have no record of these being paid by SunWater. **The report has identified the cost of Rates and land taxes at \$20 589.**

4.1.4 Insurance

A review of the cost of insurance and the way it is allocated across schemes and sections of schemes is required. What is covered and not covered is also important so that irrigators can better understand the risks they are exposed to in regards to further costs. **There is still no data to show this.**

4.1.5 Recreation activities

\$493 000 for 2012 – Are irrigators paying for water and sewage to be supplied to householders, caravan park owners, clubs and Government training facilities as well as the recreation facility?

Recreation facility costs are now a major cost component on irrigation pricing. To accept it as a cost of operating the storage is the easy option and the option SunWater prefers to take. Use patterns could be established to apportion costs by industry types. If 90% of the users of the facility are urban and industrial water users then they pay for 90% of the costs with the remaining costs paid by irrigators. If recreational facilities are to be classed as part of the cost in building modern day storages, then the HUF would be most suited to apportion the cost and would be more reflective of the usage of the facility. **The report notes that the caravan park and the private land owners that use the water treatment plant and the waste water treatment plant services pay a fee. We have not seen any evidence of this fee being used to offset any costs. The report also notes that a better cost allocation method that reflects use for recreation facilities is required.**

4.1.6 Other supporting activities

All the activities listed could be sourced outside of SunWater at very competitive rates. A more detailed breakup of the costs of these services would assist in determining if this is a cost effective approach. **The report gave very little detail on the supporting activities provided by SunWater. What the report did show is any projects that required these services were the ones that the consultant determined as above efficient cost. The projects that were repair and replace were all quite efficient in costs and the projects that required detailed design or engineering were the ones that were determined as inefficient, or above normal costs.**

4.2 Operating costs

4.2.1 General

The first paragraph states “The operating expenditure forecasts in this NSP have been developed using a bottom up approach by assessing the tasks required and the most efficient method of doing the work”. This NSP doesn’t provide any evidence of this occurring. **The report could not supply the data to support this as a bottom up approach. The lack of data would indicate the ability to be called a bottom up approach, as claimed by SunWater, is impossible.**

The statement “The unit cost of materials and contractors has been based on current unit costs, with adjustments where those costs are expected to change in real terms”, indicates that if you were to apply indexation on top you would be double dipping. **The report has picked up on this and has made recommendations of only CPI.**

4.2.2 Operations **A large overlap of costs between Bulk and Distribution**

The description for operations talks about releases for the river and weirs downstream but with no reference of releases for the channel/distribution section. This is described in detail as part of the operation cost in the NSP for distribution. This would indicate that distribution customers are paying for operations twice also paying for bulk cost like operating weirs that has nothing to do with them. The costs of operations are over 50% of the total expenditure of this NSP. There is a major floor in the split of operation costs from bulk to distribution. **The report doesn’t deal with this at all.**

4.2.3 Electricity

Electricity for bulk makes for only 0.5% of the total expenditure. **The report finds no issues with the power costs. The biggest issue still to be address is the allocation of these costs as most are incurred in water treatment. Another allocation of costs issue.**

4.2.4 Preventive Maintenance/4.2.5 Corrective maintenance

The cost items are displayed as one cost with no detail.

The operating costs don’t give enough detail to establish the below.

- The ring-fencing of costs for the irrigation. **There is still no data in this report that puts any confidence in the ring fencing of costs and income. The report details one pipe line but fails to detail the others adding to the concerns not removing them.**
- Clarification that labour costs for SunWater service groups are not being charged out at full contract rates including profit margins. **The concern here is the overhead and indirect costs, if the labour costs are at contract rates then the indirect and overhead cost should be imbedded in the cost not added to it as is the case in the report.**
- The maintenance programs are not over lapping with the renewals. **The report didn’t make it any clearer on what is determined a renewals cost. This is still a big issue, without a clear determination the renewals annuity can be used for anything. Insuring it’s continuation as a very large petty cash fund that can be replenished every 5 years.**
- Is there an overlap of costs being charged out to distribution and bulk? **The separation/overlap issue is not addressed in this report.**

4.2.6 Operating costs by type

Indirect and overhead costs are over 55% of the total operating costs. This is a very large efficient, effective irrigation scheme with very high water use per customer, but it is still attracting a very high percentage of indirect and overhead costs. The methodology for apportioning these costs needs to be looked at closely to ensure this scheme is not subsidising other schemes that lack the size and efficiencies. **The report makes very little comment on the indirect and overhead costs. The lack of data has not helped in determining the efficiencies of costs.**

4.2.7 Revenue offset

- Transfer adjustment fees are not recorded as part of the revenue offsets.
- The revenue offsets forecast seems to have accepted that we are going to push ahead with water charges with full cost recovery regardless of use. If the pricing process doesn't reflect this then the storage rental charges must be included back in as a revenue offset.

Revenue offsets is outside of the scope of this report, but the report did identify more revenue offsets than we had knowledge of. Income from water treatment was one identified.

4.2.8 Allocating operating costs

By introducing operating costs on a per ML basis regardless of the water priority, will put medium priority water users/irrigators at risk off large increases in water prices into the future. This would be brought about by medium priority being converted to high priority at 3:1 dropping the revenue base of the scheme and leaving irrigators to pick up the short fall. On a 1:1 basis for operating costs are we saying that a customer with higher level of access to service will pay the same price as one with a lesser access? Operating costs could be allocated based on reliability of the service availability being the difference between high and medium priority; 100% high – 80% medium. **Allocation of costs was not death within the report.**

4.2.9 Projected water use

The projected water use table becomes irrelevant if we move to pricing based on allocations not use. The question is how efficient and customer focused does a service provider become if their income is not determined by the service they provide and is fixed regardless. This approach has worked with other service providers, but only with close interaction with the customers, something SunWater doesn't have. **Projected water use was not mentioned in the report. Variable and fixed cost allocation is also left out.**

4.3 Renewals

4.3.1 General

The methodology used to split the renewals annuity between bulk and distribution puts all the renewals up for question. The split should have been a simple accounting exercise on what was spent and what was due to be. To suggest that there wasn't enough detail to do that puts a large

question over all renewals and there accountability. Transparency of renewals annuity funds is now very important. Lack of data is again tabled as the biggest issue in the delivery of transparency. The actual renewals expenditure compared to budget for the current price path is 275% greater.

4.3.3 Cost estimation

- Bedford Weir: \$75 000 to be spent in 2012. Is this to replace the bag on the weir? All repairs to the weir which involve the historical augmentation must be covered by the profits from the sale of the allocation gained. Can SunWater make system improvements as cost effectively as possible, sell of the water saved and then expect water users to maintain the improvements. Changes to infrastructure which enables allocation to be sold should see any funds over and above the cost of the project going back into the scheme ensuring existing water users don't carry the ongoing cost of maintaining it. The report details large expenditure over the last two years for investigations regarding the Bedford Weir incident which totals \$1 350 000, SunWater's 2011 budget also includes \$1.5 million for expenditure for legal costs relating to the incident. The question is should these costs be spread across the total of SunWater schemes or at the very least schemes that have fabridams. Does SunWater's insurance cover these costs? Shouldn't the profit gained by the sale of the allocation provided by the augmentation of the fabridam be used for these costs?
- Fairbairn Dam: \$749 000 in 2012. Not sure about the requirement of the described outlet works for ROPs compliance as these works were completed sometime ago. Large expenditure has already been incurred in this price path and the budget indicated appears to be duplicating a project already completed.
- More detail is required on the costs attributed to the Fairbairn Dam over the next price path period. The report has detailed renewals spent over the current price path but seems to bring about more questions than answers.
- The upgrades to the water treatment plant also require some clarification. Are irrigators paying for water and sewage to be supplied to householders, caravan park owners, clubs and Government training facilities as well as the recreation facility? The report clarifies the dollars spent but doesn't deal with the allocation of those costs.

4.3.4 Renewals annuity

The renewals annuity will start with a negative balance of \$732 000 and have a yearly requirement of \$540 000. This scheme has been paying over and above the lower bound so why are we starting with a negative balance? A large percentage of renewals spend for the next price path is incurred by the Intersafe program. This program was recommended by the SunWater board across all SunWater schemes at a total cost of \$14.4 million. With such a major cost item, was there a peer review process on the requirement of this program, if not why not?

The separation of the renewals annuity between bulk and distribution needs to be addressed. There was not enough data provided in the report to give certainty to the separation of these balances.

Summary of the Halcrow Report

Over the last 10 years irrigators have payed millions of dollars to enable SunWater to collect and detail its income and expenditure in a format that can be reviewed and compared. It is very clear in reading this report that we are no closer to that happening then we were in 1997. The report states upfront. "The information has been insufficiently disaggregated to enable a detailed review of the cost information. This has hindered the ability of Halcrow to adequately assess the prudence and efficiency of the proposed expenditure". Through the report there is over 150 comments referring to the lack of data.

The report has managed to dig into the efficiencies of the operational expenditure and do a reasonable job on the projects it has reviewed. The ability to understand and reflect on the prudence of the expenditure was lacking throughout the report. This seems to have been impacted by the time frames in completing the report as well as the lack of data. No irrigators have been asked to assist the consultant in determining the prudence of expenditure.

Issues not Addressed in the Report

1. Lack of data and transparency.
2. Cost allocation
3. Fixed and variable costs
4. Prudence of expenditure
5. Can the price of water go down
6. New water
7. Impacts on trading
8. Distribution allocation costs

Key objectives moving forward:

1. Transparency in costs brought about by processes insuring water user interaction at scheme level. This would assist greatly in the concerns being raised in regard to the renewals annuity balances and ensuring the schemes are managed and maintained for perpetuity. Too often we only respond to scheme ownership and value without looking at the water user investments in allocations that are wholly reliant on the long term operation, maintenance and performance of these schemes.
2. Cost allocation methodologies that align with operating and trading rules. The last 3 months have highlighted the fact that you cannot look at water pricing on its own without considering the impacts on trading. We have to develop a process that better aligns the two.

3. Cost allocation

methodologies that better reflects the complex nature of the schemes across the state. This has become the biggest issue in the separation of bulk from distribution with infrastructure and operation cost overlaps.

4. Distribution losses accountability and transparency that reflects the intent of the water planning process. When we try and allocate costs to products of the water planning process, as with distribution losses, we have to protect and understand the intent otherwise we are turning our back on the planning process.

5. A robust accounting process that can stand the test of time and insure data can be recorded, retrieved and validated from one price path to the next. This is the third pricing review involving SunWater and it is the third time this has become the major issue in hindering the determination of prices moving forward. We have to resolve this.

6. New water. As these schemes are developed through efficiencies and infrastructure improvements new water becomes available for trading. How we address the allocation of the capital income from new water, the cost of the developments and the ongoing cost of maintenance has to be resolved. We don't want to hinder the development of infrastructure and water efficiencies through the lack of clear defined processes.

7. Charges for water going down as well as fixed and variable costs. The process so far has seen strong arguments from SunWater in regard to the risk of demand and availability, therefor use, being place on them throughout the price setting processes. Irrigators with a history of high use have also raised concerns that they are subsidising others in the scheme that have low water use. This brings about two issues, one being if the risk is placed wholly on irrigators with pricing based on allocation not use, it should be reflected in the price going down. The second issue is to understand the risk we need to have a better separation of fixed and variable costs.

WDEs and there consequences

The WDE is an approach to allocate cost to channel customers and can be compared directly to the present channel charges being used.

The main difference between the two is the allocation of bulk water charges for distribution losses to the cost bucket for channels in the WDE approach.

To get a better understanding of the consequences of this I'll compare the current Fees and Charges Schedule with the prices generated from the NSP and supporting documents for Nogo Mackenzie.

To make this work we set the variable cost for the WDE at 3% for power and 5% for other. Total 8%.

Current charges: Channel Part A \$20.24 Part B \$14.71 Total \$34.95

WDE proposed charges: Based on 80% usage to compare with above. Bulk charge \$13.22 per ML

+ Bulk charge for
distribution losses of $\$382\,451.25 / 86145\text{ML} \times 80\% = 68916\text{ML} \5.55 per ML
+ channel delivery costs of \$27.48
= Total WDE of \$46.25 an increase of 32.33% from the current charges.

By separating the cost of the bulk distribution losses from the WDE and putting them across all bulk costs would see the bulk cost increase to \$15.75 and the proposed WDE charge of \$46.25 drop to \$43.23. The water charge on the channel would increase from \$34.95 to \$43.23 or 23.7%.

If you were to put the cost of the bulk losses back into the bulk costs and spread them across all bulk costs the river charge would shift from \$13.59 to \$15.73 or an increase of 15.75% from current.

SunWaters NSP for the distribution system states the operating costs for the current price path has averaged \$1 332 000 per annum and the projected is \$1 425 000 or a 7% increase.

The question is how does a 7% increase in costs transfer into a 23.7% increase in price.

- Are the current costs quoted by SunWater a long way from the efficient cost of operating that were used to set current prices.
- Renewals annuity fund over spend, which is not the case as it has a balance of \$500 000
- Incorrect cost allocation between Bulk and Distribution. This cannot be the case as both have large increases in prices.
- Previous water use numbers were incorrect. The projected water use numbers are still at 80%
- Different cost allocation tools being used between HP and MP mainly the HUF and the one for one distribution of operations costs. Test case, current HP bulk charge is \$22.39 per ML compared to the proposed of \$21.14 per ML a drop of 5.6%. Unfortunately we cannot compare the distribution charges as the current charges were imposed incorrectly. The attached letters will best explain this.

To examine the first two dot points is impossible as we do not have the data. The third and fourth points have been proved to not have an influence. The fifth point needs to be examined more closely.

What is the flow on effect?

The trading of water

- **Current.** It is currently possible to shift water off the channel systems permanently. The cost in doing this is 9.5 times the difference in the part A charge between river and channel. This was set to insure the cost distribution bucket stayed constant and didn't disadvantage anyone. Emerald channel permanent transfer termination fees are \$135.50/ML.

- **Proposed.** What is being proposed by SunWater is that the WDE is not to be traded and will stay fixed to those allocations that are on the channel system as of the end of this price path. The WDE approach is bringing about large escalations in water charges on channel schemes with no way of shifting that allocation without being stuck with the cost. You could sell your allocation to anyone and have no access to water and still be left paying \$33.03/ML per year from that day on. If we able to make part of the WDE charge a variable cost only brought about by delivery, it could be passed onto the new owner if they were on the channel. If the variable cost is set at 8% of \$33.03 it would still leave the stranded charge at \$30.39/ML/year. If you than try and set a permanent termination fee so that the cost can be recovered into future by multiplying \$30.39 by 9.5 the fee would be **\$288.70** compared to current of **\$135.50**. At a farm scale of 160ha on the channel with an average allocation of 1500ML this is an exit fee cost to that farm of \$433 050. Put another way it will remove 50% of the land value of the farm that has a current value of \$5500/ha if the cost is left with the land with no water. At these numbers bankers will stop water from being traded in channel schemes separate from the land to protect their mortgages. The increase in water charges will see channel farms become least variable first and it will be impossible to shift the water to a better end use. This has to bring about a correction in land and water values on channels which will flow onto equity issues for farmers. Not bad for a scheme that was until this proposal still paying a rate of return.

Outputs of the Proposed

- The possibility of 50% of all channel allocations being transferred to the river before the start of this price path.
- Unviable farms stuck with large ongoing costs.
- Stop to trading of allocations.
- Large devaluation of channel farms.

- Issues with

ACCC, NWI, NWC and the water reform processes key objective of the best use of water must be driven by trading.

HUFs and the fall out

In this scheme we have another planning process called the Central Queensland Regional water supply strategy (CQRWSS). SunWater is a member of this and plays a major role in it. This process identified the need for more HP allocation from the Nogo Mackenzie scheme and recommended changes to address this. The changes were addressed in the Resource Operation Plan (ROP) as a conversion factor from 3ML of MP to 1ML of HP. SunWater also plays a major role in the development and changes to the ROP. By using the HUF approach being put forward by SunWater we are turning our back on the two other planning processes also being supported by SunWater and leaving this scheme vulnerable to a pricing process that is not reflective of the trading process.

Summary

The WDE and the HUF are both cost allocation processes that will have large impacts in their current form. Changing cost allocation buckets without understand all the impacts is dangerous. Some of these impacts may sit outside of the pricing process and QCAs concern, but they will still have to be dealt with.

- This will happen by submissions to the Water Resource Plans (WRP) being reviewed at present to highlight the proposed use and ownership of losses allocation.
- Submissions to the ACCC on the anticompetitive nature of the trading rules or lack of.
- Submissions to the CQRWSS on the slowing up of trading and the impacts to the strategy.
- Recommendations to all channel allocation holders that they understand the proposed changes and impacts. This will bring about the biggest shift of allocation from the channel to river this state has ever seen and will have a huge impact on the WDE cost allocation bucket.

Dawson Bulk

Lack of Data: The lack of data has hindered the results of the consultant's reports and therefore the reports have added very little to the process.

Indirect and overheads: The indirect and overheads represents 57% of the total operations expenditure but was not dealt with in the Halcrow report. The Deloitte report referred to 34% of indirect and overheads in the total of SunWaters costs which is a large difference to the 57% applied to this scheme. That being the case the Deloitte report has very little

relevance to this scheme or any irrigation scheme. The very high cost of indirect and overheads cost to irrigation still has not been dealt with in this pricing review.

Lower Bound Costs: At no point in the reports were we able to compare the current costs put forward by SunWater with the costs set within the current price path. This needs to be addressed so that irrigators can understand the trend of their costs moving forward.

Electricity: The costs for electricity were averaged over the last 3 years not 4 years as there wasn't any water available in the fourth year. Halcrow has recommended the fourth year be included and we agree. The report didn't get to what the electricity was used for and where the cost should be allocated. The Moura offstream storage accounts for a big proportion of the electricity cost. This storage was built for new water to be provided to customers outside of this review, leaving irrigators concerned as to why they are paying for the cost. The benefits of this storage to irrigators will have to be qualified before this cost can be pasted on.

Renewals Annuity: The renewals spend for this price path is 69% above the Lower bound cost target expenditure set. A lot more detail needs to be provided to validate the requirement and efficiency of the expenditure. The costs of the renewals moving forward will be impacted by the lower starting balance caused by the budget blow out. This needs to be rectified.

The proposed renewals expenditure includes items that will be made redundant by the SunWater proposed major developments. So we question why they are still in the renewals expenditure. The Moura offstream storage is include in proposed renewals which we also question as we feel it was built for new water being priced outside of this review. No data was provided on how the renewals annuity balances were split between bulk and distribution.

Cost allocation: The HUF and the one to one split of operating costs will see irrigators paying more of the total scheme costs than at present. Infrastructure built for new water should have cost locked with it and removed from the costs apportioned to other users.

Summary: The big issues are still.

- Indirect and overhead costs
- Cost allocation between bulk, distribution, new water, MP and HP
- Renewals with the lack of transparency, accountability, and over budget sends
- Lack of data

Theodore Distribution System

Lack of Data: The lack of data has hindered the results of the consultant's reports and therefore the reports have added very little to the process.

Operation expenditure: The operation expenditure has increased by 99% from 2007 to 2011 and the 2011 numbers are the proposed numbers moving forward. The prudence and efficiency of this expenditure has not been addressed in the reports. To make it even harder we still do not have the data to tell if the 2007 costs are above the lower bound costs identified in the last pricing process.

Indirect and overheads: The indirect and overheads represents 57% of the total operations expenditure but was not dealt with in the Halcrow report. The Deloitte report referred to 34% of indirect and overheads in the total of SunWaters costs which is a large difference to the 57% applied to this scheme. That being the case the Deloitte report has very little relevance to this scheme or any irrigation scheme. The very high cost of indirect and overheads cost to irrigation still has not been dealt with in this pricing review.

Lower Bound Costs: At no point in the reports were we able to compare the current costs put forward by SunWater with the costs set within the current price path. This needs to be addressed so that irrigators can understand the trend of their costs moving forward.

Electricity: The very high electricity costs per ML of water used highlights the need for a review into efficiency of shifting water in this scheme. The continual repair of the pumping infrastructure needs to be compared with the efficiency and cost a complete up grade. A two part tariff based on fixed and variable costs is very important to this scheme with such high variable costs. All off these points seemed to be outside of the scope of the consultant reports.

Renewals Annuity: The renewals spend for this price path is 189% above the Lower bound cost target expenditure set. The Intersafe Gated program approved by the board of SunWater after the renewals program was put in place for this price path is a major part of the budget blow out. A lot more detail needs to be provided to validate the requirement and efficiency of the expenditure. The costs of the renewals moving forward will be impacted by the lower starting balance caused by the budget blow out. This needs to be rectified.

Cost allocation: The HUF and the one to one split of operating costs will see irrigators paying more of the total scheme costs then at present. The WDE will see a lot more costs put on the channel through the added cost of bulk distribution losses. These issues are addressed in the reports.

Summary: The big issues are still.

- Indirect and overhead costs
- Cost allocation between bulk, distribution, new water, MP and HP
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- Lack of data

CLIENT: Cotton Australia
PROJECT: Summary of NSPs SunWater Pricing
DATE: 28TH January 2011

