QCA SUBMISSION _ ETON IRRIGATION CO-OPERATIVE LIMITED

Eton Irrigation Background

The Eton system was built in the 1980s as a Queensland State Government system to distribute water from Kinchant Dam, 40 km west of Mackay.

Kinchant Dam, built across Sandy Creek in 1977, gets most of its stored water from the Pioneer River with only a small percentage coming from natural inflows.

Water from the river is pumped from Mirani Weir into an 8 km diversion channel that discharges into the dam, where it is then distributed to the Eton system.

The Eton system delivers up to 51,900ML of irrigation water to 315 customers covering approximately 15,000 hectares of irrigated land using 35km of open channel, 130km of pipeline and 6 pump stations.

A move toward local management of the Irrigation Scheme had been discussed and considered by customers of the Irrigation Scheme and the Queensland Government for over 20 years. Work commenced in 2012 when Government began detailed investigations into the feasibility of Local Management for Sunwater's irrigation schemes.

In late 2016, the Queensland Government set up Eton Irrigation and appointed the Board to negotiate and investigate the local management proposal with the Queensland Government and ultimately, if accepted by the Board and the Customers, to become the owner and operator of the Irrigation Scheme.

In 2019 a proposal put to the members was accepted by over 85% of the Water Allocation holders by volume.

In March 2020, Eton Irrigation Pty Ltd came into being and took over ownership and operation of the system. Note that Kinchant Dam remains owned and operated by Sunwater.

In December 2020, the company converted to a co-operative. It currently has 5 Directors on the Board (3 members and 2 independents) and 9 employees.

We constantly strive to improve the operational efficiency of the scheme to provide the customers with their desired level of service at the lowest possible cost. To that end, EICL makes this submission to the QCA on the Pricing Proposal put forward by SunWater.

Lee Blackburn
EICL Chair

1. Issue – SunWater 'Support Costs'

SunWater Propsal

SunWater (SW) support costs are allocated via a multiplier applied to 'direct labour' hours or costs spent within each scheme. The SW submission (Table 34) indicates that the multiplier for the Eton Supply Scheme to recover support costs in 2017-18 was 2.26 and this has increased to 2.37 in 2022-23.

Discussion

- The 'Support Costs' for the Eton SS is the largest 'Cost Category' as outlined in Table 3 of the Eton Scheme Summary of the SW pricing proposal.
- **The multipliers presented within the SW proposal (Table 34) are not consistent with the information presented in the latest Service and Performance Report 2023 for the scheme.**
- The actual and forecast costs for 'direct labour' and associated 'Support Costs' within Appendix 2 of 'Final Service and Performance Plan – 2022/23 | Eton Bulk Water Service Contract - 28 July 2022' results in the multipliers as outlined within the table below:

Year	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**	**2025-26**	**2026-27**
	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
Multiplier	1.33	1.50	1.60	1.60	1.60	1.60	1.60	1.60

- Unfortunately there is not enough information presented within SW's Eton SS proposed pricing (ie: 'direct labour' is not presented) to determine the multiplier proposed for the recovery of the 'Support Cost'. On aggregate, the Support Costs multiplier across all schemes equates to 2.24 times the 'direct labour' costs. This is significantly higher than published in the Scheme Service and Performance Plan.

EICL Statement

EICL request that the multiplier to determine the Support Costs for the Eton Supply Scheme be limited to a maximum of 1.6 times the proposed direct labour costs as forecast by SW during the proposed price path.

2. Issue – Electricity Cost Pass Through

SunWater Proposal

SW is proposing to introduce an Electricity Cost Pass-Through (ECPT) mechanism to recover actual electricity costs and additional administrative costs within schemes which agree to participate. It is proposed to recover these costs via two additional tariffs.

Tariff E applied to the fixed component of electricity costs to be applied to Water Entitlements and Tariff F applied to the variable components of the electricity cost and applied to a customer's quarterly use and billed at the end of the quarter.

Discussion

- The Eton WSS is as a supplementary irrigation scheme; ie: irrigation to supplement rainfall. The system is essentially a water-harvesting scheme with water pumped from the Pioneer River during wet periods when river flows are above a predetermined level.
- During wet periods when most of the pumping into Kinchant Dam occurs; irrigation is generally low and not evenly distributed across the scheme. Water is then stored in Kinchant Dam until needed at a later time. The vast majority of the electricity costs for Eton Supply occur during these wet periods.
- A simplified analysis was conducted using the change in storage of Kinchant Dam as an indication of the volumes pumped through Mirani pump station; the average cost of pumping of $15/ML ('Final Service and Performance Plan – 2022/23 | Eton Bulk Water Service Contract | 28 July 2022') and the total water usage per quarter (including loss allocations). This could result in costs per ML used per quarter of between $1/ML and $70/ML that would be recovered from individual customers through Tariff F.
- The adoption of the ECPT proposal as define within the SW submission could skew costs to individual customers within the Eton Scheme and may result in irrigators holding off on irrigating past the end of the quarter to minimise their costs and thus further skewing charges.

EICL Statement

EICL will continue to work with SW and Eton customers to develop an efficient and equitable ECPT mechanism to minimise the risks to all parties of under or over recovery of electricity costs for the scheme.

3. Issue - Insurance

SunWater Proposal

SW states 'we are confident that we are managing insurance costs as effectively as possible for customers in the current environment.' In spite of this, SW have set the insurance premiums at the start of the price path at $12.29m with a step change of over 25% from the $9.8m forecast cost in 2024-25 for regulated schemes as outlined in Table 15 of their Submission.

Discussion

- While SW **total insurance** costs have increased or are proposed to increase by 35.6% over the current price path; the insurance costs for **regulated service contracts** have or are proposed to increase by only 6.5% over the same period (Table 15).

- The step change in insurance costs from a forecast $9.8m in 2024-25 (Table 15 – SW Submission) to $12.29m in 2025-26 (Table 2 – SW Submission) is not consistent with the quoted escalation of insurance costs of 2.98% between 2024-5 and 2025-26 as shown in Table 12 (SW - Submission). **This results in a $2.2m unjustified recovery of insurance premiums in 2025-26 alone or greater than $8.8m over the price path.**

- EICL have actively managed it's insurance costs which were taken over from SW at the time of transfer of the distribution scheme**. EICL have been able to reduce our premiums by 66.7% since taking over the distribution scheme.** The reduction in EICL's insurances have been achieved through similar activities to those undertaken by SW plus a rigorous testing of the insurance market to achieve these results. Other LMA have been able to achieve similar or greater savings on their insurance costs. While it is recognised that EICL or other LMAs do not have any referable dams within their asset portfolio, SW should be reducing their insurance costs in line with other management organisations.

- A review of each of the scheme summaries attached to SW's submission shows that **no insurance claims** have been made for damages despite SW spending $3.7m on flood repairs over the current price path and quoting numerous natural disasters to justify increases in insurance costs.

- Approximately $920k was spent within the Lower Mary Scheme to replace the submarine section of the C1 pipeline that was damaged during the 2021-22 floods ($831k). Flood repairs were also needed at Walker point pump station ($42k). While this amount may fall under SWs insurance deductable, customers are however required to pay for insurance and repairs through the renewals annuity. It could be questioned as to why these customers are paying insurance on some of the scheme assets.

EICL Statement

QCA should adjust the proposed insurance premiums proposed to remove the $2.2m in unjustified costs from the first year of the price path and subsequent years.

SW should discuss with scheme customers the details of their insurance policy as it relates to each of the schemes and how they are going to control these costs in future.

4. Issue - QCA Costs Distribution

SunWater Proposal

SW propose to distribute the QCA costs of $3.35m over the next price path. SW have proposed distribution to scheme level via the total irrigation allocations within the scheme compared to total irrigation allocations. (Table 48 SW Submission)

Discussion

- This distribution of the QCA costs takes no account of the tariffs that they are required to set within each scheme.
- EICL and other local management authorities set the tariffs for their distribution schemes.
- Specific Tariffs are only applicable to some schemes:
    - Termination Fees – not applicable to Eton Supply as no allocations can be transferred out of the scheme.
    - Drainage prices – no drainage of farms in Eton Scheme
    - Drainage Diversion prices – no formal drainage within the Eton Scheme
    - Water Harvesting prices – no water harvesting within Eton Scheme.
- SW's distribution methodology takes none of these issues into account.

EICL Statement

Distribution of QCA's costs should factor in the number of tariffs to be set within each scheme ie: Supply Scheme allocations by 2 and Distribution Scheme allocations, operated by SW, by 4 or more to cover termination, drainage, drainage diversion and water-harvesting pricing where applicable.

This methodology should result in Eton's contribution reducing to 2% from the 3.7% stated in Table 48 of SW's submission.

5. Issue - New Billing System CASPr

SunWater Proposal

SW is proposing to recover the build cost of their proposed new billing system (Build cost of $40.916m in 2025/6 dollars and $1.7m per annum for "software as a service" costs) from each scheme in proportion to the number of customers compared to the total customer base (Table 38).

Discussion

- Four LMA schemes and water authorities like Pioneer Valley Water Board take water orders and read meters for their and SW's customers and pass the information in bulk to SW on a quarterly basis. They also take water orders and provide customers with information on water use etc . Each of these management authorities have their own billing and information systems which would essentially be duplicated by SW's CASPr system.
- EICL has recently called for quotes for the supply of a system for water ordering, customer management, allocation management, demand management and integrated into the billing system for the Eton Distribution Scheme. **The quoted build costs of the EICL system were less than $60k.** The system will enable:
    - A shift from the present phone based water ordering to a unified customer mobile application and web portal,
    - automation of customer water orders into the existing control/SCADA system to reduce manual input,
    - improve efficiency and accuracy of meter reading through removal of paper processes,
    - increase visibility of allocation / water account- level water usage for customers,
    - improve visibility of meter configuration and locations,
    - remove duplication of effort to record information from customers, customer accounts and meters across systems including the accounting system and
    - improve customer communications via push notification, SMS or e-mail based on customer/system zones, networks or other parameters.

  The suppliers who quoted are already servicing several of the LMAs, other irrigation water authorities and urban water authorities in Australia. **The annual cost quoted to run the service for the Eton Distribution Scheme is less than $40k.**

The table below presents the costs for each system proposed to be implemented by EICL and SW for the 302 identical customers within the Eton Scheme.

Authority	Total Build Cost	Build Cost per Customer	Total Annual Cost	Annual Cost per Customer
EICL	$60,000	$200	$40,000	$132
SunWater	$2,703,000[1]	$8,950	$112,200[2]	$371

- The systems (EICL / SW) are essentially the same for the identical Eton Customers. It is evident that the cost of the SW system is **grossly excessive** for the service proposed for Eton customers. SW do not own nor read the meters except for the few customers on the Mirani Diversion Channel. SW do not take water orders from any customers within the scheme. The metered use is passed to SunWater from EICL on a quarterly basis as a regulatory requirement.
- SW's methodology to divide the Build cost to each of the schemes (Table 38 – SW Submission) via customer numbers takes no account of the complexity of billing different classes of customer. This methodology assumes that a 'stock and domestic' user with an allocation of 2ML, who does not order water, in a regulated scheme with a standard contract is identical to an industrial, mining or urban water supply customer with a 'legacy' contract with 'pass-through' pricing or a mining customer with one meter receiving water from numerous schemes through numerous pipelines each with a different pricing. There is a vast difference in effort to manage the water accounting and billing of SW's industrial, mining and urban customers when compared to a standard irrigation customer.
- The distribution methodology proposed by SW also does not take into account the non-regulated nature of industrial and urban customers. **SW's proposed distribution methodology represents a cross subsidisation of industrial and urban customers by irrigation customers.**
- The following table presents the revenue split between SW's Industrial, Urban and Irrigation customers (P58 SunWater Annual Report 2022-23).

Revenue – 2022-23 (*$1000)

Industrial water distribution service.	$222,355	71.7%
Urban water distribution service (including CSO)	$21,878	7.1%
Irrigation water distribution (Including CSO)	$66,024	21.2%
TOTAL	**$310,257**	**100%**

[1] Table 38 – SW Submission.

[2] Annual cost attributed to the scheme taken in the same proportion as the Built cost 6.6%. (Table 38)

EICL Statement

The total cost of the billing system and the annual fee for service should be split between each of the three customer classes (Industrial/Urban/Irrigation) based upon the proportion of revenue received; the irrigation component be distributed across customers on the number of irrigation customers in each scheme.

The Eton Supply scheme then should have their contributions halved to account for work that EICL undertake to provide water ordering, meter reading and account management for EICL/SW customers. Other LMAs and authorities such as Pioneer Valley Water Board should also be given consideration in this regard. This would however still result in a built cost to Eton customers for the CASPr system that would be approximately 4.5 the cost of the system quoted to EICL but would result in a smaller annual "software as a service' cost.

6. Issue - Review Event (Insurance)

SunWater Proposal

SW have requested a review event of current price path insurance costs. SW have requested to be able to recover costs in excess of the QCA allowance for insurance costs.

Discussion

- Many of the statements made by SW during the assessment of the current price path (2018-24) are still relevant to the proposed price path for 2025-29.
- SW stated that
    - *'During the 2012/13 to 2016/17 period, SunWater experienced extensive increases to insurance premiums which were higher than what both SunWater and the QCA had forecast.'* (Page 20 – Irrigation Price Review Submission Final 6 November 2018)
    - *'SunWater goes to extensive lengths to engage with insurers and enhance their understanding of the risks involved, with a view to lowering premiums.'* (Page 21 –Irrigation Price Review Submission Final 6 November 2018)
    - *'SunWater has decided to absorb differences between actual and forecast insurance costs for the 2012/13 to 2017/18 period, rather than seek to pass on the costs to irrigation customers through a price increase in the next price path period.'* (Page 21 –Irrigation Price Review Submission Final 6 November 2018)
- The QCA insurance allowance as included in the current price path was greater than that requested by SW. (Table below) This is in spite of the statements regarding insurance premiums over the 2012-18 period above.

Insurance Allowances / Costs ($m)

Year	2020/21	2021/22	2022/23	2023/24	2024/25
As Requested by SW[3]	6.4	6.5	6.7	6.8	
As Approved By QAC[4]	7.6	7.6	7.7	7.4	7.4
SW Actual[2]	9.2	8.3	9.2	9.1	9.8

- While SW **total insurance** costs have increased or are proposed to increase by 35.6% over the current price path; the insurance costs for **regulated service** contracts have or are proposed to increase by only 6.5% over the same period (Table 15). This means that the insurance costs for non-regulated service contracts have or are proposed to more than double over the 2020-25 period. While this may be for various reasons ie: increases in asset base etc, it is evident that SW has been unable or unwilling to contain its insurance costs.

EICL Statement

QCA should consider very carefully it's decision on an insurance review event as this will act as a disincentive for SW to be more rigorous with its forecasting and efforts to contain it's insurance costs and move all of these risks to the irrigation customers.

7. Issue – Mirani Diversion Risk Allocations and Revenue Offsets

SunWater Proposal

SW is proposing an adjustment to Eton Supply Entitlements as shown in Table 16 of it's submission. This includes reducing the High B Allocations by 504ML to remove the Risk allocations and addition of 700 High A allocations to account for the delivery of Industrial water to the Ports through the Eton Supply scheme.

Discussion

- EICL is comfortable with this approach to the calculation of water pricing for the scheme. It however does have an issue with the Revenue Offset proposed (approximately $2,000 per year) to cover the cover the costs from the exclusion of the Risk Allocations. This revenue offset assumes usage of approximately 40 ML of risk each year. The revenue offset should be based upon the assumed usage over the whole scheme ie: 36% of allocation.
- Many of the customers on the Mirani diversion channel (MDC) have allocations from the Pioneer River scheme as well as their risk allocations. These Pioneer River allocations are delivered through the Mirani pump station and MDC. There

[3] Figure 3.2 SUNWATER: IRRIGATION PRICE REVIEW SUBMISSION 1 July 2020 to 30 June 2024
[4] Table 15 - Irrigation pricing proposal 1 July 2025 to 30 June 2029 (November 2023)

is no revenue offsets proposed for the delivery of this water. This is a major concern to EICL as the method of delivering these small volumes and holding them in the Mirani Diversion channel creates additional maintenance, mainly weed control and risks having the channel blocked with weeds when water harvesting into Kinchant Dam is required.

EICL Statement

The pricing of tariffs for the Eton Supply Scheme should include revenue offsets that include the average usage for the whole scheme when applied to the risk allocation holders in Mirani diversion channel. An appropriate revenue offset should be included to account for actual costs of pumping and managing the Pioneer River allocations of these customers within MDC and should also include the increased maintenance costs within the MDC.

8. Issue - Renewals (Opex & Capex)

SunWater Proposal

SW are proposing a forecast renewals expenditure as presented in Table 7 of the Eton Summary document for a total of $8.4m for the scheme over the price path. This is in addition to the largest Opex Renewal project for the billing system of $2.7m for the Eton supply scheme.

Discussion

- Many of the projects are covered by Programs for which there is no detail of the works proposed ie: $2.5m for the Dam Instrumentation Program in 2026-27. SW have mentioned in several places within their submission that supporting documentation has been provided but it has not been made available on the QCA web site for assessment. **There is no transparency of the projects proposed to be undertaken.**
- There is only one significant switchboard within the Eton Supply Scheme at Mirani Pump station. Replacement of this switch board is proposed in 2027-28 at a cost of $2m. Approximately $525k is proposed to be spent in years 2025-26 and 2026-27 under the Arc Flash program. **This dollar value is identical to the cost of this program for the Pioneer River Supply scheme in the same years.** The switchboard at Kinchant Dam was replaced in recent history and should not require retrofit arc flash protection. If the Arc Flash protection is to be undertaken on the Mirani switchboard to be replaced then $525k will be wasted as a modern switchboard will have all of the protection built in.

- The switchboard works should be brought forward or additional PPE provided to reduce risk or procedures initiated so that work on the current board is only undertaken when it is de-activated. The current proposal is inefficient and will waste money.
- Several of the projects in Table 7 of the Eton Summary document are in the wrong category Opex / Capex ie: the Switchboard Replacement for $2m at Mirani Pump Station is classified as an Opex Renewal.

EICL Statement

The stated documentation for programs and justification for individual projects should be provided so that EICL and all other customers throughout the State can provide meaningful commentary on the proposed works programs. SW should them consult with customers on the program of works within their schemes before prices are finalised.

9. Issue - Efficient Costs

SunWater Proposal

SW propose the base costs for normal opex for the 2023/24 year is forecast at $1.728m; the normal operating cost for the first year of the price path 2025-26 is $2.070m. This represents a 19.8% increase in two years while current CPI is at 4.1% per annum and falling.

Discussion

- EICL have been able to reduce their total operating cost since taking over Eton Distribution Scheme. This reduction is in stark contrast to the continual increase in normal operating costs within SW Schemes. EICL have engaged local specialists for support services such as accounting, legal and Information Technology at significantly reduced cost than the support services provide by SW to their schemes. EICL have reduced staff numbers and taken a strategic and targeted approach to major cost items such as electricity, insurance and fleet.
- EICL operate within the same environment as the Eton Supply Scheme ie: labour attraction, retention and costs; we use local contractors that are available to SW for work such as slashing and periodic plant hire.
- EICL have set the Irrigation Tariffs for Eton Distribution for the 204-25 year and have been able to hold increases to 3% which is below inflation.
- SW propose an efficiency target of -0.5% of their costs. Such a savings is meaningless in light of the 19.8% to their base costs from now to start the next price path.

EICL Statement

It is unsustainable to keep increasing tariffs for SW schemes when there are local organisations which can be benchmarked to demonstrate that SW cost base is inefficient and inequitable.

QCA should set the step increase for normal Opex for SW schemes to less than CPI increases for the 2023-25 period to ensure that SW have incentive to reduce costs which they have been unable to achieve.

10. Issue – Review Event – Electricity Eton

SunWater Proposal

SW does not propose that a review event be applied to the materially lower electricity costs on the basis that it has already returned these savings to customers via the three-year electricity cost pass-through trial that commenced in 2020-21.

Discussion

- Table 14 of the SW Submission shows money being returned to customers for the three year period 2020-2023. There are two years to go in the current price path 2023-25. Based on the average to date this could result in SW receiving a win-fall of $6m. This figure does not include any returns to the Eton Supply customers.
- SW have requested a review event for their insurance costs under recoveries of $7.9m. This approach by SW appears mercenary with an endeavour to pocket any savings and hit customers for costs where they have not forecast correctly and been unable or unwilling to contain costs.

EICL Statement

QCA should invoke a review event for electricity applicable to those schemes which have infrastructure on the WoG Electricity tariffs. This review event should cover the years 2023-25 for most schemes but should include 2020-25 for the Eton Supply Scheme which did not participate in the ECPT trial for the reasons already stated above.

11.Issue – Sunwater "No Profit from Irrigation" Philosophy

SunWater Proposal

SW has repeatedly stated that they make no profit from the irrigation part of their business as a government policy.

Discussion

- Many senior staff within SunWater and the pricing proposal review staff have confirmed that the Qld Government policy is that SunWater generate no profit (with nuances) from the irrigation side of the business.
- It is difficult for operators to discern whether that philosophy has been enacted in the complicated calculations forming the price proposals, especially in areas such as the WACC.
- QCA is better situated to get the required information and check the calculations.

EICL Statement

QCA should review the calculations in the proposal to ensure that the government policy of no profit from irrigation is reflected in all the calculations eg WACC etc.

Thank you for considering our submission. If you have any further questions, please contact our General Manager, Austin Evans as per below.

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