

THIRD ROUND CONSULTATION – ISSUES ARISING

[This note records issues identified, and views expressed, by stakeholders present at the meeting. The Authority is yet to form any opinion on these issues and views. As appropriate, issues will be addressed in the Authority's reports].

Scheme: Eton WSS and Distribution System

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Regulatory Framework

Risks

- Concerns expressed about having to pay for any cost pass-throughs that may arise during the price path from legislative changes.
- SunWater often exceeds its proposed budget several times over which should not be accepted practice.
- Concerns expressed about the increase in costs in the distribution system, particularly in the last two years (2010-11 and 2011-12).

Pricing Framework

- The tariff structure does not encourage people to use water as the usage charge for the scheme is too high.
- The QCA should consider reversing the fixed and variable split for the Part A/Part B charges as irrigators would prefer to pay a higher fixed charge and a lower volumetric charge.

Exit Fees

- In all other distribution systems there are mechanisms in place for water to be shifted back to the bulk system but in Eton the only way to exit the scheme is by selling water. However, it is difficult to sell or temporarily trade water in the scheme as average water usage is relatively low (only 55% on average).
- Question arises as to why irrigators could not exit the system by selling their entitlement to other sectors (e.g. industrial).
- An exit fee needs to be established to protect the scheme and avoid stranded assets. At the very least, there should be a mechanism in place for customers to be able to return their water entitlement to SunWater.

Distribution Losses

- Distribution losses should not be classified as a high priority entitlement. If there isn't enough water in the dam to supply the medium priority entitlements then high priority water should not be used to fill the channels.

Renewals Expenditure

Pump Station No 2

- If this item is not re-instated, what happens to the money recovered through renewals over the last price path?

Capital Cost Allocation

- The 7,000 ML of high priority water has not been assigned costs. There is no storage of this water, just delivery.

Operating Expenditure

- SunWater should not be allowed to pass on costs that can be attributed to operational inefficiencies to growers.

Non-direct costs

- The extent to which the QCA has investigated the efficiency of SunWater's operations and scheme management was queried.
- Not many businesses could survive on the percentage that the scheme pays in indirect and overhead costs (50%).
- How could SunWater be operating efficiently [according to Deloitte] but claim that they are not earning sufficient revenue to recovering costs.
- Since Deloitte did not separate out the irrigation service component of SunWater in their assessment, it is likely that SunWater's indirect costs for this component is disproportionately high and the recommended cost reductions should be different.

Working Capital

- Since SunWater is paid in advance through the Part A component, the need for a working capital allowance was queried.

Preventive/Corrective Maintenance

- A large amount of money is proposed to be spent on preventive maintenance in the scheme, however corrective maintenance is also increasing. Typically if money is being

spent on preventive maintenance then corrective maintenance costs should be reduced.

Electricity costs

- Concern was expressed that the QCA has underestimated the likely increase in electricity costs over the price path.

Recreation Costs

- The full cost of recreation facilities should not be borne by the irrigators.

Prices

- A \$2/ML annual increase in prices, in addition to CPI, is unacceptable.
- The recommended prices are too high to encourage those not using allocations to use or trade water. Consequently, those who do use their water are being penalised.

Impact of Recommended Prices

- The prices are a disincentive for growers to use water.
- In the last 5 years operational costs for irrigators have more than doubled and it is becoming unsustainable to continue.
- If prices continue to rise, they will escalate to the point where they are above the cost of production and growers will be looking to sell their water back to SunWater.

Revenue Offsets

- There was nothing in the report about revenue offsets for the high priority water from the Pioneer Valley WSS that is delivered through the Eton Distribution system.

Water Allocation and Use

- As Eton is a supplemented scheme where announced allocations are not fully determined at the start of the water year, irrigators make production decisions on the basis of incomplete information on water availability. Since there is no certainty of how much the final allocation will be, and when it will be available, irrigators tend to use less water to minimise their risk.
- Since it is difficult to encourage full water use in the scheme, this has implications for any water usage assumptions that the QCA uses to set prices. Furthermore, those not using their water allocation also skew the water usage figures.
- In the last price path, the prices were determined on the basis of assumptions about increased water use which have not eventuated.

- The QCA should look at what steps can be taken to make more water available to growers and increase water usage in the scheme.
- If annual water usage drops below 50% the scheme will not be able to set irrigation water prices at a level that is sufficient to recover revenue and remain viable.

Other

- It is difficult for irrigators to make detailed submissions to the QCA as they do not have access to all the information that is used to determine the prices; for example, data on SunWater's electricity's costs. Further, if the QCA has struggled to obtain adequate and detailed information from SunWater on costs then irrigator representatives are not likely to obtain it.
- Irrigators expressed disappointment that the consultants employed by the QCA have not come back to the users/irrigator committees to discuss their findings. On this basis, irrigators expressed concern as to whether the consultants really understood the issues raised or SunWater's operations?