SECOND 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: St George Water Supply Scheme

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Process Issues

- Concern that *commercial-in-confidence* has been, and will continue to be, claimed by SunWater when approached by consultants to provide project information necessary for pricing review.

Scheme Specific Issues

- Irrigators have not been consulted regarding proposed renewals expenditure.

- Given that the management of Thuraggi watercourse is the responsibility of DERM as opposed to SunWater, the management of the entire channel system is compromised. As an example, major expenditure is currently required to address the risk that Thuraggi watercourse will be congested through weed infestation but it is outside SunWater's purview.

- Irrigators were told during previous price reviews that the program of renewals expenditures would provide a viable scheme. Now irrigators are experiencing significant negative carry-over Asset Restoration Reserve balances, suggesting that this has not been the case.

- Concern that expenditure incurred in 2007 at Beardmore Dam's Thuraggi outlet is incorporated in renewals, given that funding associated with establishing Thuraggi outlet was met through the public auction of water allocations in 1989. Documentation requested from irrigators to support this case.

- SunWater has not provided adequate information on the renewals program for the current price path. What has happened to key projects like the reinstallation of flood protection gates? There has been no consultation with the scheme advisory committee regarding the renewals program and future program plans.

- Other renewals issues:

  (a) Water auctioned in 1989 with the express purpose of refurbishing Gate 12 but the costs are now being recovered in the renewals program in 2007. The program should take into account the auctioned water;

  (b) Need for any unidentified flood costs to be covered by insurance or SunWater and not end up as additional renewals spend;

  (c) Concern at implications of increase in renewals spend for prices and for a closing negative balance; and

  (d) Who should be responsible for road crossing of channels? This should not be an irrigator cost.

- Forecasts of annuity expenditure and operating expenditure are similar to a budget and SunWater needs to operate within this budget. Clearly this has not happened.

- Irrigators have been told that the additional costs incurred in administering the capacity sharing arrangements associated with this scheme are $400,000 over the 5 year price path – such costs were not previously identified and the basis for them needs to be provided.

- Costs associated with fencing of channels are considered an excessive response to OH&S requirements – GHD advised that all costing was checked and validated. There is considerable concern over OH&S compliance costs being imposed on SunWater by Government.

- Irrigators report that although drainage charges are about $150,000 annually, less than this amount is being spent on maintaining drainage infrastructure – as a result, drains have a tendency to block. Drainage charges need to be reviewed because SunWater has collected these charges during the current price path but has not undertaken needed clearing and maintenance of drainage channels.

- NSPs for bulk and distribution schemes do not provide adequate information to allow analysis of efficiencies. GHD's preliminary draft report has provided an inadequate analysis of operating expenditure costs and recommended efficiencies.

- Overheads amounting to nearly 60% of costs are considered excessive. How are these costs justified? How will QCA adequately assess efficient overhead costs for SunWater which is a monopoly? On what basis does SunWater review staff structures in head and regional offices to assess need/performance or is staffing maintained at an assumed level and costed out each year?

- Where is the incentive for SunWater to introduce efficiencies in head and regional offices other than by increasing centralisation but declining service to deliver reductions in costs?

- There needs to be further investigation to clearly define fixed and variable costs for schemes. Why will SunWater make changes if they are guaranteed to receive most costs as fixed charges? Contrary to SunWater's position, electricity is not the only variable cost.

- The scheme has a fixed fee for water harvesting which is not justified. SunWater should not have ownership and control of water harvesting in the scheme.

- Distribution losses in the scheme reflect actual losses – there is no significant excess allocation for losses.