Responses to Feedback from 2018 NSP Consultation

Draft Network Service Plans (NSPs) were published to SunWater's website in April 2017 for the 2017/18 year. The following responses are to feedback and questions raised during NSP consultation meetings held over April, May and June 2017, or to questions raised with SunWater via email or post.

No	Service Contract	Question/Comment	Response
	General Feedback across many Service Contracts	Many irrigators sought explanations around why the value of revenue transfers and CSOs had increased significantly in the 2018 budget data as presented in the NSPs.	**CSO and Revenue Transfer Assumptions** The current QCA price path expires 30 June 2017. While the price path has been extended for two years, new cost targets for SunWater have not been formally set. SunWater irrigation water prices from 2020 will be subject to a future pricing review before being set by Government. SunWater has changed two key assumptions in presenting the 2018 Draft NSPs. These changed assumptions are discussed below. The changed assumptions will not affect the prices paid by irrigators in 2018 or 2019, which are subject to a pricing direction provided by Government. The pricing direction requires SunWater to increase most tariffs by CPI only, with CPI assumed to be 2.5%. The exception being those tariff groups that are continuing to transition towards cost recovery based on the QCA 2012 review. For these tariffs any increase is limited to the CPI increase plus $2 per ML in real terms. Full details of prices applicable in each scheme for 2018 are available on SunWater's web site. **Revenue Transfer Assumptions** A "Revenue Transfer" is the accounting methodology SunWater uses to account for the costs associated with the bulk water supplied to channel and pipeline service contracts.

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			Prior to the 2018 draft NSP the revenue transfer for channel systems was assumed to be fixed and based on the Cost Reflect Bulk water prices as calculated by the QCA in 2012. This methodology aligns with the QCA's methodology for setting channel prices where channel tariffs are calculated taking into account the cost reflective bulk water tariff. As the charge is fixed, and based on 2011 data, it does not reflect or respond to the cost pressures SunWater has experienced since the QCA set prices in 2012. These cost pressures include rises in electricity prices and insurance premiums, flood damage repairs and costs associated with implementing the recommendations of the Inspector General of Emergency Management's (IGEM) reviews conducted after the Callide floods. Coinciding with the end of the QCA price path and in order to be fully transparent SunWater has elected to recalculate a cost reflective tariff based on the 2018 budget and use this tariff to determine the revenue transfer, which reflects that the CSO is significantly understated. On this basis we have elected to use SunWater's current data, noting that this is for information only and will not impact any prices paid by irrigators in 2018 or 2019 Some customers have noticed that in some schemes, such as Burdekin and Nogoa Mackenzie, the revenue transfer out of the channel system is smaller than the transfer into the bulk water service contract. This occurs where a bulk water service contract supplies pipelines as well as a channel distribution system. **The CSO Assumptions** At the time of preparing the 2018 Draft NSP SunWater had not been advised by the Department of Energy and Water Supply (DEWS) what the CSO payment for 2018 and 2019 would be. Without the actual CSO information SunWater decided to allow its financial model to calculate the CSO required to recover SunWater's projected spend. This information could be used to inform DEWS of the extent of the CSO required.

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			SunWater has now been advised by DEWS how the CSO will be calculated and has been supplied the actual scheme by scheme CSO amounts for 2018 and 2019. The CSO will only be paid in schemes where a CSO was required beyond 2017 based on the QCA date from 2012. The CSO will continue to reduce in response to any tariff increases that are higher than CPI (assumed to be 2.5%). Sunwater will absorb the shortfall which results from cost increases over the time since the QCA set prices which results in SunWater incurring losses across its irrigation business of approximately $8 million in 2018 FY. In the final 2018 NSPs published in July SunWater has restate the CSO based on the CSO number provide by DEWS. **Conclusion** As stated in the opening, the above assumptions will not affect prices to be paid by irrigation customers in 2018 or 2019. Whilst the financial information presented in the draft and final 2018 NSPs indicates an increase in SunWater's costs, new prices have not been calculated and will be subject to the Government pricing direction. The next pricing review will be completed in time to set prices for 2020. In the meantime SunWater will be looking at all options to reduce costs before bringing forward scheme cost data for discussion and review. SunWater looks forward to working with customers over the course of the next pricing review with both customers and SunWater sharing the common goal of establishing sustainable pricing arrangements so that SunWater's services can continue to add value to irrigation enterprises.

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	General Feedback across many Service Contracts	Many irrigators are concerned about the state of annuity balances which are, in many service contracts, significantly lower than the QCA projected when setting prices back in 2012. Many customers are concerned about the impact of interest calculations on annuity balances and what impact the current balances may have on future prices.	In line with the QCA's methodology SunWater applies interest on the annuity balance. Whether the balance is positive or negative, interests accrues at the interest rate adopted by the QCA in 2012 (refer to the QCA Final Report Volume 1 p 104 for a detailed explanation). The QCA determined that the rate applied in calculating the renewals annuity should reflect SunWater's opportunity cost of funds and recommended a post-tax nominal interest rate of 7.49% per annum be applied across the price path. It is important to note also that adjustments to past spend, interest applied and/or annuity balances can only be considered within the next pricing review. Annuity balances, either positive or negative, are taken into account at the next price reset after the QCA has reviewed the expenditure. If an actual balance is more negative than the QCA's forecast at the time of the next price review, then this will apply upward pressure on water charges going forward.