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# QCA Pricing Practices Recommendations Update on SunWater Implementation Plan

High-Level Options Analysis,  
Annual NSPs and  
Drainage Cost Allocation

March 2013

## **Introduction**

SunWater has progressed the implementation plan since the December submission to the QCA.

Most of the effort has gone into producing annual NSPs for the 30 irrigation service contracts which detail SunWater's budgets for 2014, including the plans for Renewals spending. These NSPs will be loaded onto SunWater's website in late March/early April 2013.

SunWater has also produced the first high-level options analysis, using a project from this year's planning process as an example. This analysis has incorporated the QCA's feedback based on the detailed options analysis example provided for Moolabah Weir in December 2012.

In addition, SunWater has made some progress on the allocation of drainage charges and has included a point referring to the QCA's recommendations in the draft Statement of Corporate Intent.

## **Options Analysis (item 1.1)**

### **High-Level Options Analysis Example (1.1.2)**

SunWater provided an example of detailed options analysis to the QCA in December 2012. Given annual renewals planning occurs in Jan/Feb of each year, it became clear that SunWater would not be producing a high-level options analysis until March 2013. An example high-level options analysis has now been produced from this year's renewals planning process and is provided along with this submission. It is for the replacement of winches at Beardmore Dam, estimated to cost \$8m in 2027.

### **Production of Options Analysis Templates (1.1.3)**

As suggested by the QCA, SunWater will provide options analysis templates to the QCA for their feedback. SunWater is producing templates for both high-level and detailed options analyses and will aim to provide copies of these to the QCA during April 2013. These templates will incorporate the suggestions provided by the QCA following their review of the Moolabah Weir options analysis.

## **Options Analysis in Annual NSPs (item 2.1)**

### **Identification of Options Analysis Projects (2.2.1)**

With the completion of the first annual renewals planning process since the QCA's final report, SunWater was able to produce a list of projects that meet the QCA's >10% present value criterion for options analysis. There were 131 projects identified across the 30 irrigation service contracts; 106 for detailed options analysis, considering a 9-year window to 2022, and 25 for high-level options analysis beyond this. This closely equates with SunWater's original estimate of 12 detailed and 2 high-level options analyses per year, working through the list one year at a time.

SunWater has assumed that detailed options analysis will only be completed for the next planning year and for selected large projects beyond the one-year horizon. This is consistent with standard engineering planning practice where options analysis would typically only be performed for 2-3 years out for larger projects.

At this stage, SunWater has listed all the projects identified for options analysis in the first production of annual NSPs, including a brief description of each project and discussion of possible options, where relevant.

## **Customer Consultation on the Annual NSPs (item 2.4)**

While it was originally anticipated that annual NSPs would be produced in October of each year, it became clear that the planning focus of these documents made March/April a more sensible production date, rather than in October of each year, when the actual results for the prior year are first known. March/April timing allows irrigators to have input into SunWater's plans for the following year before the budget is finalised.

Consequently, SunWater has produced a set of 30 NSPs with operating expenditure and renewals budgets for 2014 and will upload these onto the SunWater website in late March/early April 2013. This means that SunWater is implementing the annual production of NSPs seven months ahead of the original planned implementation.

## **Variance Reporting for Renewals and Operating Costs (2.3 and 2.4)**

The March/April timing for NSPs means that the first full year of completed actuals will not be available until next year's planning process (i.e. the 2013 year will be completed when annual NSPs are produced in March 2014 for the 2015 year). Consequently, this first production of annual NSPs does not include any variance analysis.

## **Include NSP Consultation Recommendation in Statement of Corporate Intent (2.4.1)**

SunWater has included the following in the draft version of the SCI to be considered for approval by SunWater's Shareholding Ministers: "Undertake stakeholder engagement initiatives recommended by the Queensland Competition Authority's review of irrigation water pricing."

## **Include Planning Output in NSP (2.4.2)**

The output from the annual planning process is included in the annual NSPs. These include the draft budget for operating expenditure and renewals. As discussed earlier, the first year of variance analysis will not be included in annual NSPs until next year.

## **Publish NSPs on SunWater's Website and Notify Customers (2.4.3 and 2.4.4)**

SunWater plans to publish the NSPs to the website in late March/early April 2013.

For this first year of consultation, SunWater will consult with customers via Irrigation Advisory Committees and through feedback received via SunWater's website. In subsequent years, customers will also be notified via email and/or customer newsletters.

## **Separate Identification of Drainage Costs (item 3.3)**

### **Identification of Process and System Changes (3.3.1)**

To satisfy the objective of separating out drainage costs from other distribution costs, SunWater aims to accurately allocate costs within the SAP system wherever practicable and to use standard allocators outside of SAP for the remaining costs. The standard allocation process will not form part of the general ledger accounts but will be maintained off-line in a spreadsheet tool designed for the purpose.

SunWater has confirmed that asset driven drainage costs appear to be accurately allocated within SAP. The assets are assigned to the correct profit centres and any work done against the drainage assets is put against an order attached to the relevant drainage profit centres.

SunWater has reviewed the allocation of operating costs and can confirm the following:

Electricity – the electricity costs are allocated against the correct profit centres for drainage. These costs are minimal in any case.

Insurance – insurance has been set up so that the insurance costs are allocated to drainage profit centres based on the assets values in drainage. SunWater believes this is an appropriate approach to allocation of these costs.

Weed Control – this is a significant cost in drainage and may require a standard allocator. A suitable allocator is being developed in consultation with the drainage asset manager and is likely to rely on the km of drains versus km of channels, or some variation on this allocator.

Rates and Taxes – these costs do not appear to be allocated to low enough levels to satisfy the requirement for accurate drainage costs. A suitable allocator is being developed in consultation with the drainage asset manager and is likely to rely on the land area of drains versus land area of channels.

Other Costs – still to be investigated.

SunWater will continue to investigate the current allocation of drainage costs and to this end is currently reviewing drainage costs in Emerald Drainage, which is one of the more complicated systems.

### **Consultation with the QCA on Proposed Changes (3.3.2)**

Before committing any costs beyond the investigation phase, SunWater will liaise with Government and the QCA to ensure the extra costs are prudent and efficient given the relative costs and revenue associated with the drainage systems. Also, the final implementation of system and process changes for drainage cost identification will not occur until a decision on the progression of Local User Management of the channel systems has been made.

To date, SunWater has met briefly with the QCA to discuss our approach to the identification of drainage charges. The QCA seems to agree that SunWater is taking a sensible approach to this subject but this needs to be formally confirmed with further consultation over the next couple of months.

The proposed approach to separately identify drainage costs will allow SunWater to provide these costs to the QCA prior to the next pricing review so that the QCA can determine cost-reflective drainage prices. The revenue from drainage services will continue to be applied in SAP as a revenue offset against the relevant channel service contract.

## Conclusion

SunWater has made progress against the implementation plan:

- The first annual NSPs have been produced seven months ahead of the original schedule.
- A high-level options analysis example has been produced.
- Separate identification of drainage charges has progressed.

Next steps:

- Provide options analysis templates to the QCA.
- Agree approach to drainage charge allocation with the QCA.
- Continue to implement remaining items in the implementation plan.