



QCA Pricing Practices Recommendations
Update on SunWater Implementation Plan

July 2013

Options Analysis for Material Renewals Expenditure (1.1)

Production of Options Analysis Templates (1.1.3)

SunWater developed options analysis templates and has provided these to the QCA for comment. The QCA's feedback has been incorporated into these templates, which are now in use in SunWater.

Rollout Options Analysis Across all Relevant Projects (1.1.4)

SunWater has rolled out the options analysis templates and incorporated options analysis for material projects into the renewals planning process.

As the QCA-recommended approach to options analysis is a recent process change for SunWater, some projects at the beginning of this current price path have not had options analyses completed prior to project initiation. Now that the options analysis approach has been agreed with the QCA, SunWater has scheduled options analyses for material projects for the balance of the 2013/14 year and for many projects in the years beyond. The options analysis process has therefore been rolled out and the targeted projects will be progressively analysed.

Conclusion for Options Analysis items 1.1.3 and 1.1.4

SunWater has:

- provided the QCA with high-level and detailed options analysis templates,
- incorporated the QCA's feedback into these templates and the options analysis process, and
- rolled out of the options analysis process within SunWater.

Review Renewals Planning Process (1.2)

Document Options Analysis Process (1.2.1)

Each year SunWater plans the renewals and enhancement (R&E) program with particular focus on those projects to be implemented in the next financial year. This process currently occurs between January and March of each year, but will need to be brought forward to the end of each calendar year in order to fit in with the revised NSP publication date (discussed under the next report item). SunWater has documented the options analysis procedures so that the options analysis process is now a seamless inclusion in the renewals planning process.

Conclusion for Options Analysis item 1.2.1

SunWater has:

- Documented the options analysis process.

Review Operating Costs Planning (1.3)

Document Outcomes from Prototype NSP Process Relevant to Operating Planning, including any Customer Feedback (1.3.1)

The feedback from customers and the QCA on the prototype NSPs falls into the following categories:

Timing

Annual NSP production coincides with the annual planning process, which occurs between January and April of each year. The timing of the NSPs is necessarily a compromise between:

- reporting on the prior year performance as close as possible to year-end, and
- providing an opportunity for customer input into operating and R&E plans for the following year.

The prototype NSPs were published in April 2013. Based on the feedback received, SunWater is aiming to bring forward the annual NSPs to earlier in the calendar year. By bringing the NSP production date forward in the planning calendar, SunWater is aiming to increase the time for customer consultation and reduce the delay on year-end performance reporting. However, actual performance still won't be reported on until, at best, six months after financial year-end. Consequently, SunWater is investigating the feasibility of separating performance reporting from NSP publication. A decision on this point will be subject to resourcing and budget constraints.

Consultation

There needs to be better consultation with customers on the NSPs. SunWater relied heavily on customers being made aware of the NSP publication through the Irrigator Advisory Groups (IAGs). However, feedback received is that some customers were unaware that the prototype NSPs had been published for 2013/14. In future, SunWater will more widely communicate to both irrigation and non-irrigation service contract customers that NSPs are available for comment. The non-irrigation customers contribute significantly to a service contract's costs via the HUF methodology and were overlooked in the prototype NSP consultation process.

Improved consultation allows SunWater to effectively engage with our customers by seeking and recording their views on our planned expenditures. This feedback will influence SunWater's plans for the following year and ultimately underpin the prudence of our spending.

Real vs Nominal

Confusion remains with the customers as to the difference between real and nominal costs. The QCA irrigation pricing report presented most financial figures in real \$2011 terms; questions received by SunWater indicate that customers often incorrectly read these figures as nominal dollars. To avoid this confusion, SunWater converts the QCA targets from the real dollar basis to nominal dollars in the annual NSPs. This follows general business conventions and allows direct comparisons to be made between target and actual performance. The downside to this approach is that customers need to convert the QCA targets in the annual NSPs between nominal and real dollars if they want to match back to the QCA's final report. SunWater will endeavour to explain this topic more clearly in the next round of NSPs to help customers understand the difference between real and nominal dollars.

Commentary

The prototype NSPs had some instances where there was insufficient explanation of planned variances against target. SunWater needs to provide better commentary around both planned and actual variances when the next round of NSPs is produced. The review of renewals planning currently underway (item 1.2 of the implementation plan) is likely to identify further improvements that can be made around the commentary included in the NSPs.

Conclusion for Operating Costs Planning item 1.3.1

SunWater has reviewed the feedback on the prototype NSPs and will:

- aim to bring forward the production date for annual NSPs to earlier in the calendar year to both increase the time for customer consultation and reduce the delay on year-end performance reporting,
- more widely advertise the publication of annual NSPs by notifying irrigator and non-irrigator service contract customers,
- continue to plan and report in nominal dollars and will provide a clearer explanation of the difference between nominal and real dollars in the NSPs, and
- provide better explanations for all instances of both planned and actual variances in the NSPs.

Annual Production of NSPs (item 2)

SunWater's Implementation Plan for QCA's recommendations originally planned for the first annual NSPs to be produced by 30 September 2013. As SunWater began implementation it became clear that the NSPs were best produced during the planning period between January and April in order to give customers the opportunity for timely input into the year ahead. Consequently, SunWater chose to produce the prototype NSPs in April 2013, six months ahead of the original plan; these NSPs were published on the SunWater website.

A consequence of the earlier production of annual NSPs is that some items in SunWater's implementation plan were only partially completed (options analysis) or were not available for inclusion in the prototype NSPs (variance analysis). These items have been re-scheduled as part of the next round of NSP production for 2014/15 and are discussed under sections 2.1 and 2.4 below with their new delivery dates.

As mentioned earlier, the annual NSPs perform two functions:

- they report on the prior year performance against operating and R&E plans, and
- they provide operating and R&E plans for the next year.

As the 2012/13 year had not been completed at the time of prototype NSP publication, a complete year of audited results was not available to report on. Consequently, the first full year of actual results for the current price path will appear in the annual NSPs produced for 2014/15. As discussed under item 1.3, SunWater will aim to bring forward the production date for annual NSPs to earlier in the calendar year in response to customer feedback. SunWater is also investigating the feasibility of separating performance reporting from NSP publication so that the customers can have access to SunWater's prior year performance a few months after the end of each financial year.

Inclusion of Renewals Options Analysis in Annual NSPs (2.1)

Organise Options Analysis to be Completed for Qualifying Projects (2.1.2)

Options analyses are an important component of the annual NSPs. Now that the options analysis approach has been agreed with the QCA, SunWater has scheduled options analyses for material projects identified for the 2013/14 year and also for many projects in 2014/15 and beyond. While SunWater is aiming to complete all options analysis for 2014/15 by 31 December 2013, in time for the next round of NSPs, there may still be some projects yet to have their options analysis completed by this date due to resource and timing constraints. Also, further projects requiring options analysis may be added to the list over time due to project amalgamation and/or scope and cost changes.

Conclusion for Renewals Options Analysis item 2.1.2

SunWater has:

- scheduled options analyses for material projects identified for the 2013/14 year.

Collate Options Analyses Completed for Qualifying Projects (2.1.3)

The original delivery date for this item was 31 August 2013 and it was an input into the first annual NSPs. However, at the time of prototype NSP production, the options analysis templates were still being agreed with the QCA and the new process had yet to be implemented. Consequently, there weren't many qualifying projects for 2013/14 where options analyses had been completed.

Now that the options analysis approach has been agreed with the QCA and the process has been rolled out, SunWater plans to complete options analyses for all material projects for the 2014/15 year in time for the next round of NSP production. So collation of the options analysis now has a scheduled date of 31 December 2013. As noted earlier, this date represents a stretch target and there may be some projects still awaiting options analysis at this point in time.

Conclusion for Renewals Options Analysis item 2.1.3

SunWater has:

- amended the implementation plan so that the collation of options analyses for all material projects identified for the 2014/15 year will now occur by 31 December 2013 as an input into the next round of annual NSPs.

No.	Action	Original Date	New date
2.1.3	Collate all options analyses performed on qualifying projects.	31 Aug 2013	31 Dec 2013

Customer Consultation on Annual NSPs (2.4)

SunWater to Liaise with Shareholding Ministers on Inclusion of Requirement to Consult with Customers and to Produce Annual NSPs in the SCI for 2013/14 (2.4.1)

SunWater has included the following point in the Statement of Corporate Intent (SCI) for 2013/14:

“Undertake stakeholder engagement initiatives recommended by the Queensland Competition Authority’s review of irrigation water pricing”.

This undertaking was broadened to encompass all QCA consultation recommendations rather than limiting the scope to the annual NSPs. The 2013/14 SCI has subsequently been submitted to Shareholding Ministers for review and awaits approval and sign off.

The QCA recommendation also referred to “relevant legislation”. Further investigation has confirmed that it is unnecessary to amend related legislation in order for SunWater or the Shareholding Ministers to include this change in the SCI.

In addition to the SCI undertaking, the Minister for Energy and Water Supply has requested SunWater to report on progress against the Implementation Plan in SunWater’s Annual Reports. The first report on this matter will be included in SunWater’s annual report for 12/13, due to be published in September 2013.

Importantly, the aim of this recommendation has been realised, with SunWater producing the first annual NSPs in April 2013, six months ahead of the Implementation Plan date.

Conclusion for SCI item 2.4.1

SunWater has:

- included the requirement for customer consultation in the SCI for 2013/14,
- been directed by the Minister for Energy and Water Supply to report on progress against the Implementation Plan in SunWater’s Annual Reports, and
- produced the first round of annual NSPs and published these on SunWater’s website.

Produce and Publish Annual NSPs (2.4.2-2.4.6)

As discussed earlier in this report, at the time of the prototype NSP production some items were only partially completed (options analysis) or were not available (variance analysis). Consequently, it makes sense to consider that the implementation plan items 2.4.2-2.4.6 should now apply to the next round of NSP production. These items therefore need to be re-scheduled in SunWater's implementation plan.

Based on the NSP feedback received, SunWater is aiming to bring forward the annual NSPs to earlier in the calendar year. As this is a significant change to SunWater's planning and budgeting process it will require internal planning and consultation to arrive at a new date for NSP publication. The aim will be to bring the NSP date forward to as close to the end of January as possible. The follow-on items concerning customer feedback have now been scheduled for April 2014, but can be brought forward once the NSP publication date is known.

Conclusion for Annual NSP items 2.4.2-2.4.6

SunWater has:

- amended the implementation plan so that items 2.4.2 to 2.4.6 now reflect the dates for the next round of annual NSP production.

No.	Action	Original Date	New date
2.4.2	The output from recommendations 2.1 to 2.3 to be collated by service contract for inclusion in the annual NSPs along with additional NSP data and text. NSPs to incorporate lessons from prototype NSP production in 2012/13.	30 Sept 2013	31 Dec 2013
2.4.3	Publish annual NSPs on SunWater's website.	31 Oct 2013	Jan-Mar 2014
2.4.4	Notify all registered customers that the NSPs have been published and seek feedback from the customers.	31 Dec 2013	Jan-Mar 2014
2.4.5	Analyse customer feedback and make any necessary adjustments to the NSPs.	31 March 2014	30 April 2014
2.4.6	Respond to customer feedback on the website.	30 April 2014	unchanged

Improved Information Systems for Operating Costs (3.1)

Review Lessons from Prototype NSP Production (3.1.1)

The feedback discussed earlier in this report concerning the prototype annual NSPs (item 1.3.1) can be accommodated using SunWater's current information systems. SunWater utilises the SAP enterprise accounting system which allows a high level of disaggregation of costs by both activity and expense type. Likewise, the QCA's final irrigation report detailed operating costs by activity (operating, preventive, corrective, electricity and non-direct) and by expenditure type (labour, electricity, contractors, materials, other and non-direct). So it has been confirmed that SunWater's information systems are able to provide actual cost data to allow SunWater to report directly against the QCA targets from the irrigation pricing review.

The cost targets set by the QCA are documented in the QCA's final reports and these will be reported against by SunWater in the annual NSPs. SunWater has built a NSP Reporting Tool in Excel to improve its reporting of operating costs. The reports generated will help SunWater management attain the operating efficiencies required to meet the QCA targets and allow SunWater to report against this performance. By reporting actual performance in annual NSPs throughout the current pricing period, SunWater will achieve greater transparency which will also facilitate future price reviews – both of which were objectives of this recommendation from the QCA.

One of the criticisms from the QCA's consultants during the irrigation pricing review was that detailed cost information could not be supplied in a timely manner. The tool described above will enable more timely responses to information requests and SunWater will continue to improve this tool throughout the current price path based on experience and customer feedback.

A further criticism from the price review regarding access to operating cost data was that the implementation of SunWater's Business Operating Model (BOM) in 2008 had caused discontinuities in the data. BOM implementation is many years in the past now, however, LMA and the Commission of Audit recommendations are likely to cause restructures and other separation issues if implemented. Changes such as these are a normal part of operating a business.

Conclusion for Lessons from Prototype NSP Production item 3.1.1

SunWater has:

- developed a NSP reporting tool to support annual NSP production that aggregates the detailed SAP cost information into reports that are directly comparable with the QCA efficiency targets.

Separate Identification of Drainage Costs (3.3)

Identification of Process and System Changes (3.3.1)

Further to the March 2013 update to the QCA, SunWater has made more progress in understanding the current state of cost allocation to drainage profit centres.

SunWater has narrowed down the causes of inaccuracy in drainage cost allocation to three areas:

- rates and land taxes, which are not currently split out to channels and drains,
- some work orders relating wholly or partially to drains are currently allocated to channels, and
- some shared costs that could be more accurately allocated between channels and drains.

Rates and land taxes are currently entirely allocated to channels rather than to individual channels and drains. There are two clear options for correcting this situation: either work with councils to ensure separate rate notices are issued for channels and drains or split invoices between channels and drains using an appropriate allocator (probably based on land area). SunWater will continue investigating this issue and will implement the most practicable solution available.

A more detailed review of the allocation of work orders has revealed that some orders currently allocated to channels relate wholly or partially to work carried out in drains. This work includes activities such as weed control and inspections for condition monitoring. This mis-allocation is a by-product of the channels and drains being historically viewed as single entities. SunWater will work to improve the cost separation between channels and drains through communication and education throughout the regions. In many cases this will simply involve staff splitting orders between profit centres within SAP rather than posting the entire amount to a single profit centre. However, it is likely that this issue will be difficult to completely resolve as SunWater still has issues on occasions with mis-allocations between the now separate bulk and channel schemes. In order to reliably separate out these costs at the granularity required such that they can be relied on by the QCA, SunWater may still have to manually re-allocate some costs when extracting costs for future price reviews. SunWater expects a steady improvement in drainage cost allocation over time and will continue to monitor this situation.

Similar to the situation with work orders, some shared costs have been allocated to the entire service contract rather than split between channels and drains. Again, SunWater expects improvement in the allocation of these costs over time through communication and education but SunWater may have to re-allocate some costs when costs are extracted for the QCA or for the Local Management Arrangements (LMA) process.

SunWater's objective is to accurately allocate costs to drainage within the SAP system wherever practicable and believes the changes discussed above should mean that the majority, if not all, of the drainage costs will be captured against drainage profit centres within SAP in the near future. If some shared costs remain SunWater will use a standard allocator outside of SAP to allocate these residual shared costs. At this stage SunWater believes an appropriate allocator would be the land area of drains versus channels; land area data is maintained in SunWater's property management database. The standard allocation process (if required) will not form part of the general ledger accounts but will be maintained off-line in a spreadsheet tool designed for the purpose.

The improvements to drainage cost allocation should be fully realised during the 2013/14 year. This means there will be some inaccuracies in the cost allocations for the 2012/13 year and for part of the 2014/15 year which will need to be taken into account at the next pricing review.

Consultation with the QCA on Proposed Changes (3.3.2)

SunWater has had some consultation with the QCA on the proposed changes and this paper represents a formal opportunity for the QCA to discuss and respond to SunWater's proposed approach to drainage cost capture.

Review Approach in Light of the LMA Review (3.3.3)

The LMA review is progressing well with the support of the Irrigators, SunWater and the Government. As the approach outlined by SunWater above is not expected to involve any large expenditures, SunWater proposes to proceed with these improvements. In the unlikely scenario that the improvements require significant, expensive changes to SunWater's systems, these changes would be considered further by both SunWater and the interim LMA entities.

Conclusion for Drainage Charges items 3.3.1, 3.3.2 and 3.3.3

SunWater has made further progress against the implementation plan for drainage cost allocation and has:

- determined issues with rates and land tax allocation, and
- identified some issues with work order cost allocation and allocation of shared costs.

Next steps:

- implement improvements in cost allocation to drainage profit centres, and
- finalise the approach to drainage charge allocation with the QCA.

More Appropriate Allocation of Fixed Costs in Distribution Systems (3.4)

Assess Relevance of this Recommendation in Light of Progress of LMA Process (3.4.1)

Given that the LMA review is progressing well, SunWater believes it is inappropriate to begin investigating alternative charging methodologies for fixed costs at this point in time. Instead, SunWater proposes that the recommended review of allocation of fixed costs (the entire item 3.4 of the Implementation Plan) be suspended until the LMA are resolved.

Conclusion for Assess Relevance of Fixed Cost Review in Light of LMA item 3.4.1

SunWater has:

- suspended implementation of review of fixed cost allocation in distribution systems until the LMA are resolved (i.e. the entire item 3.4 from the Implementation Plan is suspended).