



QCA Pricing Practices Recommendations  
April 2014 Update on  
SunWater Implementation Plan

April 2014

SunWater has continued implementing the QCA's Pricing Practices Recommendations according to the Implementation Plan. This update covers the work completed between January and March 2014 (note: the numbering in this update references SunWater's Implementation Plan).

## **Review Renewals Planning Process (1.2)**

### **Update Renewals Planning Documentation (1.2.6)**

The major change to SunWater's planning processes that has arisen from the renewals review (and the QCA's recommendations) is the requirement to perform options analyses for all material projects. SunWater's processes have been adjusted accordingly.

Most of the remaining actions from the renewals review involve better execution of existing processes, e.g. the development of additional decay curves. This type of action item has not necessitated changes to process documentation.

### **Submit Final Renewals Review to the Government and the QCA (1.2.7)**

SunWater has finalised the Renewals Planning Review, incorporating suggestions from the QCA. A copy of the final Renewals Planning Review has been provided to the QCA and the Government, as per the implementation plan (due date was 30 June 2014).

There was one suggestion from SKM regarding non-invasive, arc resistance testing that was not included in the Review because it was deemed off-topic. SunWater is implementing this legislative requirement, which specifies equipment labelling requirements, but this subject area is irrelevant to the development of renewals plans.

### **Disseminate New Agreed Renewals Planning Process (1.2.8)**

SunWater's annual renewals planning process ramps up in December of the prior financial year, culminating in the delivery of the annual plan by 14<sup>th</sup> February. Any training requirements arising from the improved renewals planning process are best delivered as close as possible to the development of the plans, so the delivery date for item 1.2.8 has been amended accordingly.

### **Conclusion for Renewals Planning items 1.2.6-1.2.8**

SunWater has:

- Updated the relevant renewals planning documentation to reflect agreed improvements,
- Provided a copy of the final Renewals Planning Review to the QCA and the Government, and
- Amended the implementation plan so that item 1.2.8 now better aligns with the annual planning process.

No.	Action	Original Date	New date
1.2.8	Disseminate new agreed renewals planning process, including any required training.	30 Sept 2014	31 Dec 2014

## **Review Operating Costs Planning (1.3)**

### **Update Operating Planning Documentation (1.3.5)**

The significant change to SunWater's operating processes that has arisen from the review and the QCA's recommendations is the requirement to produce Annual NSPs and Performance Reports. SunWater's operating planning process documentation has been updated accordingly.

Other actions from the operating review involve better execution of existing processes; this includes better adherence to the cost allocation methodology and improved tracking of labour costs. These actions have not necessitated changes to process documentation.

The remaining action items from the operating review involve improvements to the forecasting approach for the next price review, with no implications for existing planning documentation.

SunWater has finalised the Operating Planning Review, incorporating suggestions from the QCA and provided a copy of the final Operating Planning Review to the QCA.

### **Disseminate New Agreed Operating Planning Process (1.3.6)**

SunWater's annual operating planning process ramps up in December of the year prior. Any training requirements arising from the improved operating planning process are best delivered as close as possible to the development of the plans, so the delivery date for item 1.3.6 has been amended accordingly.

### **Conclusion for Operating Planning items 1.3.5 and 1.3.6**

SunWater has:

- Updated the relevant operating planning documentation to reflect agreed improvements,
- Provided a copy of the final Operating Planning Review to the QCA, and
- Amended the implementation plan so that item 1.3.6 now better aligns with the annual planning process.

No.	Action	Original Date	New date
1.3.6	Disseminate new agreed operating planning process, including any required training.	30 Sept 2014	31 Dec 2014

## **Inclusion of Renewals Options Analysis in Annual NSPs (2.1)**

### **Options Analysis –Material Project Identification (2.1.1)**

SunWater’s experience with implementing the QCA’s options analysis recommendation has provided some insights into the identification of material projects requiring options analysis that may not have been contemplated when the QCA framed their recommendations.

The principal concern surrounds the timing issues associated with defining a definitive list of material projects out to 2041 when the estimated program of works is continually evolving in response to condition updates, budgetary constraints, customer and stakeholder consultation, etc. As would be expected, the certainty that a project will proceed according to plan drops away dramatically the further into the future the project is.

This was brought home to SunWater when planning for the 2014/15 year. SunWater prepared detailed options analyses for the six material projects identified for 2014/15 from a snapshot of the estimated program of works taken in November 2013. The November date being chosen to give the planners enough lead time to complete the options analyses before the generation of the NSPs in early March 2014. However there were significant changes to the estimated program of works during the annual renewals planning process which occurs between December and February each year. This resulted in two projects dropping off the material projects list and five new projects appearing.

Changes to the estimated program of works are inevitable. The further ahead of the expected start date of the project that options analyses are performed, the more likely that inefficiencies will result through analysis of projects that turn out to be immaterial or are otherwise removed from the plans. To reduce these inefficiencies, SunWater proposes to analyse material projects as close as practicable to the point in time that they impact the annuity balances or the annuity price calculations by adopting the following tailored approach to the different categories of projects:

1. Current price path - next financial year (currently 2015)
  - Impacts on annuity balance.
  - Detailed options analysis to be completed for discussion in that year’s NSPs.
2. Current price path – not next financial year (2016 & 2017)
  - No impact on annuity balance until implementation year.
  - Detailed options analysis to be completed when project becomes a “next-financial-year” project.
  - Project summary in NSPs.
3. Next price path (2018-22)
  - Impacts on annuity price calculations only at the time of the next review.
  - Detailed options analysis at the time of the next price review (likely to be in 2016).
  - Project summary in NSPs.
4. Balance of annuity period for next review (2022-41)
  - Impacts on annuity price calculations only at the time of the next review.
  - High-level options analysis at the time of the next price review (likely to be in 2016).
  - Project summary in NSPs.

SunWater believes this approach is not only pragmatic from a planning perspective but also fits well with customer expectations. In our experience, customers are most interested in discussing those projects planned for the following year because they are most tangible and have an immediate impact on the annuity balances (these are the Category 1 projects). Category 2 projects become Category 1 projects as their year of the price path comes around. If SunWater continues with this year-to-year approach to analysing material projects within the current price path, all material projects will have options analyses completed by the end of the price path, which was the stated intention of the QCA when putting forward the options analysis recommendation. Category 3 & 4

projects will have their options analyses completed at the time of the next price review, which is the point where they are most relevant.

SunWater has presented a summary of the findings of each options analysis within the NSPs rather than including the entire options analysis. The NSPs are a public document whereas the options analyses typically contain commercial-in-confidence material from SunWater and its suppliers which cannot be published due to commercial and/or legal reasons e.g. supplier cost quotations, repairs subject to insurance claims, repairs related to legal proceedings, etc. SunWater's approach to this issue was to take the options analyses to the consultation meetings where they have been discussed in the context of the NSP. Options analyses have also been provided to customers, where requested. This approach to communicating options analyses findings has been well received by the customers.

### **Options Analysis –Management of Short-term Timing Issues (2.1.2)**

Even when taking this “tailored” approach to material project identification, there remain some short-term timing issues. As discussed above, between November 2013 and February 2014 two projects dropped off the material projects list for 2014/15 while five new projects were added. This “diffusion” of projects between snapshots will occur for all four categories of projects identified above with the following implications:

- Some projects will have an options analysis completed when, with the benefit of hindsight, the projects end up not being material,
- Some projects for the following financial year will not have their options analysis completed in time for NSP production due to the tight timeframes between the renewals planning 14<sup>th</sup> February deadline and NSP production in early March,
- Some projects will have an options analysis that was completed before the implementation of the QCA-approved options analysis templates.

Of the five projects added to the 2014/15 list, two projects were scoped prior to 2013 and already had completed options analyses in an old template. The options analyses for the remaining three projects were not completed prior to NSP production in early March, but these will be completed prior to the commencement of the projects. An example of one of these projects is the proposal by Ergon Energy to install variable-speed drives at Tom Fenwick pump station in the Burdekin Distribution service contract.

SunWater's approach is to accept that changes to the renewals program are inevitable and to work with the best available information at each key milestone in the process. The process for producing options analyses for material projects for the following planning year within the current price path (the Category 1 projects from above) is as follows:

- Take a snapshot of the program of works around November of each year in order to determine a draft list of material projects,
- Aim to develop detailed options analyses for each of the material projects prior to NSP production in early March,
- Confirm an updated list of material projects from the 14<sup>th</sup> February version of the renewals plan,
  - Collate the completed options analyses from the November draft material project list that are still on the material projects list for input into the NSP consultation,
  - Collate any previously-completed options analyses for new additions to the material project list for input into the NSP consultation; and
  - Initiate options analyses for the balance of new additions to the material projects list with a view to completing these before the start of the new financial year.

The 14<sup>th</sup> February version of the estimated program of works becomes the budget view of material projects for the following financial year. However, it is important to recognise that the forward-

looking view of material projects for each service contract is constantly changing as the estimated renewals profile is adjusted throughout the price path. It is therefore inevitable that the composite, forward-looking view of material projects developed throughout the price path will differ from any “perfect hindsight” view generated at the end of the price-path by looking back over actual spend over the five years.

The issues discussed above with respect to the Category 1 projects are also relevant to the generation of detailed and high-level options analyses to support the next price review (Categories 3 & 4). SunWater proposes to follow a similar process for these price review options analyses as described above, i.e. by taking a snapshot of the estimated program of works as close to the beginning of the price review as practicable, completing the identified options analyses and then re-confirming the material projects list with the QCA during the price review, and completing any remaining options analyses at that point in time.

### **Conclusion for 2.1.1 and 2.1.2**

- SunWater has taken a pragmatic approach to completing options analyses differentiating the requirements for the current price path and the next price review,
  - Detailed options analyses for the current price path will be completed on a year-to-year basis for the following financial year, and
  - Options analyses required for the next price review will be completed at the time of the review.

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

### **Publish Annual NSPs on SunWater’s Website (2.4.3) and Seek Customer Feedback (2.4.4)**

SunWater published draft NSPs for 2015 for each of 30 Service Contracts on, or before, 31 March 2014. They can be found at [www.sunwater.com.au/schemes/nsp/annual-nsp-and-performance-reports](http://www.sunwater.com.au/schemes/nsp/annual-nsp-and-performance-reports). They are draft NSPs which will be finalised once customer and shareholder consultation is completed and the 2015 budgets finalised. Final NSPs will be published in May/June 2014.

Customers and other stakeholders were notified of NSP publication via email and text message. All customers will also receive notification in their April bills. SunWater has been consulting on the NSPs at Irrigation Advisory Committee meetings beginning late-March; consultation will continue throughout April and possibly into early May. These discussions are generating questions and feedback from customers, and feedback is also being sought via a dedicated email post box. Responses to questions are being addressed directly at the meetings and via follow-up emails. SunWater’s responses are also being published on SunWater’s NSP web page.

### **Conclusion for Annual NSP items 2.4.3 and 2.4.4**

SunWater has:

- Published the 2015 Annual NSPs in March 2014,
- Notified all registered customers that the NSPs have been published, and
- Sought customer feedback on the NSPs and is responding to this feedback.

## **Improved Recording and Analysis of Labour Cost Information (3.2)**

### **Finalise Labour Cost Capture Improvements and Seek Approval from the QCA (3.2.4)**

SunWater incorporated the review of labour cost information capture in the draft Operating Planning Review submitted to the QCA. SunWater has identified that it already has adequate systems and processes to capture labour costs and that improvement in labour cost capture is likely to come from better use of existing systems. This will be achieved through staff training, improved reporting and internal checking. To this end, SunWater has developed a Labour Tracking Tool in Excel to support the monitoring of actual versus budgeted labour costs.

At the next price review, SunWater will base future price path labour cost forecasts on at least 5 years of historical cost data and will clearly document and justify any data cleansing actions.

SunWater has consulted with the QCA on this subject via the draft Operating Planning Review and has addressed the QCA's suggested changes to labour cost capture in the final version of the review. A copy of the final Operating Planning Review has been provided to the QCA and SunWater now seeks QCA approval of the planned improvements to the recording, documentation and analysis of labour cost information.

### **Conclusion for Labour Cost item 3.2.4**

SunWater has:

- Provided a copy of the final Operating Planning Review, incorporating improvements to labour cost information tracking to the QCA for approval.