

## Information Request 2PD - Forecast Capex.

*Please Accept The Following As Commercial In Confidence Due To:*

- *Ongoing Negotiations With Regulators;*
- *Commercial in-confidence Board/committee papers; and*
- *Work in progress documents*

### Total capex proposed

In State Water's email of 29 April 2014, it was stated that "State Water requests that the ACCC reinstate the OPEX and CAPEX revenue cuts made in its Draft Decision". State Water also proposed an additional \$0.75 million for "Namoi Valley: Gunidgera Creek Capacity Project Re-regulating structures – Investigations".

On this basis the AER understands that State Water proposes the capex allowance as set out in table 1 below.

**Table 1 – State Water gross capex allowance.**

	2014-15	2015-16	2016-17	Total
State Water proposed capex	121,996	56,978	25,897	204,870
ACCC draft decision	75,191	53,065	23,541	151,798
Difference	46,805	3,912	2,356	53,073

Source: ACCC analysis

State Water's submission of 17 April only appears to address the ACCC's draft decision in regards to the labour and overheads adjustment to capex. No additional information appears to have been provided on any other aspects of the ACCC's draft decision regarding capex.

**Question 1:** Will State Water be providing any additional information in regards to any aspects of the ACCC's draft decision on capex?

### State Water response

State Water has provided detailed information on its Capex proposed program in its original submission. Furthermore, additional information was provided in response to series of questions during this period of determination process. With the exception of the information below, State Water does not have any additional information to what has already been provided in regards to the aspects of the draft decision on Capex.

### 2014-15 Budget

State Water's initial proposal and position following the ACCC's draft decision is that it requires a capex allowance of \$122 million in 2014-15. However, the additional information provided by State Water on 10 and 11 April 2014 (DOC14/12358) indicates that State Water's revised capital budget is \$44.2 million in 2014-15.<sup>1</sup>

<sup>1</sup> 14-15 submission data.xls

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**Question 2:** Given that State Water's budget provides for capex of \$44.2 million in 2014-15, on what basis does State Water consider the ACCC should approve a higher capital allowance in 2014-15?

Large portions of this reduction appears to have been driven by changes to the programs by State Water's project control board.

## **State Water response**

Firstly, the data provided on 11 April referred to our discussions during the teleconference on the 10<sup>th</sup> April. As clearly marked in the notes sent, this was a partial set of the 2014/15 budget and comprised only of projects that were included in original submission. As such, it did not reflect the total Capex program for 14/15.

As previously highlighted, the pricing submission was based on best available information as at November 2012. The table in Attachment A, shows the full 2014/15 Budget vs Determination by activity, indicating a reduction of \$51M mainly attributed to various changes during the period since submission and outlined below.

State Water received direction from NSW Treasury to match the 2014/15 budget using the draft determination as a guide, to reflect the findings of OPEX/CAPEX auditors. This ensured the 14/15 budget had to be modified to include primarily those projects that were approved for funding in the draft determination. Furthermore, some changes to program scheduling were also endorsed by the State Water Project Control Board (PCB).

Key Changes in 2014/15 as noted above include:

### Dam Safety Compliance (\$26.4M decrease compared to submission)

- Burrendong Dam (submission \$12M vs \$1.3M in revised budget) due to a reduced and hence cheaper scope negotiated with DSC.
- Keepit Upgrade Phase 1 (submission \$23.5M vs \$5.1M in budget) re-phasing of the program and delaying expenditure to later years (for example 2017/18 now has projected expenditure of \$20.5M vs the \$0M included in submission).
- Wyangala Dam Phase 0 (submission include \$0M vs \$7.1M in budget) due to revised program in current determination period and expectation of carry over.
- Removal of contingency for program (reduction of \$4.9M).

It should be noted that the Dams Safety Upgrade program listed above is funded by the NSW Government and has 0% user share. It is therefore of little significance to customer pricing. As previously advised, State Water's approach towards dams safety expenditure has been one of prudence and regular program review to get value for money.

### Environmental Planning and Protection (\$29.4M reduction vs submission)

Based on feedback from customers and the rising cost of projects in this fishway program, the Minister for Primary Industries intervened and initiated dialogue between DPI Fisheries and State Water. This intervention occurred simultaneously while the ACCC pricing determination was underway. The lengthy discussion with DPI has resulted in a slow-down in the implementation of projects under this program (and hence delaying expenditure to later in the determination period). State Water is continuing to negotiate with DPI (Fisheries) to minimise expenditure requirements of the program even further.

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At the time of writing this response, we have reached in principle agreement with the DPI to defer the proposed Fish way program for Year 1 & 2, with works only commencing in the last year of the determination. However, we are yet to receive a written direction to that effect and therefore the legal obligation to undertake these works remains.

Whilst the timing of this discussion may be troublesome for the ACCC in finalising a proposed Capex program for the next determination, it is however a major breakthrough in developing a program that addresses irrigator concerns around costs. Due to the dynamic nature of this dialogue with our regulator, it is hard for us to predict the final outcome, however our best case scenario will be that year 1 (\$42.78m) and year 2 (\$14.7m) expenditure of proposed fishway program as included in our submission will be deferred to the future determination period. State Water would only spend year 3 of the proposed program in the final year of this determination, following extensive work with our regulator on design modifications and scope definition.

### Renewals and Replacement (\$3.5M reduction vs submission)

State Water has reviewed its procurement methodology for this program. It now proposes to re-phase the program across the full determination to allow increase planning in first six months, and engagement of a managing contractor to deliver the program across the remainder of the three years. This will see a decrease against submission figure in the first year, but an increase in later years of the determination (see below).

### Water Delivery

Reduction in 2014/15 represents

- the removal of CARMS program from customer funded program as recommended in draft determination (\$3.9M reduction).
- the removal of Water Efficiency program at Crooked Creek, as identified during Deloitte review (\$3.5M reduction)
- inclusion of Yanco Creek Water for Rivers funded investigation project (\$3.3M increase)
- expected carryover of \$1.1M of Water for Rivers Funding for completion of existing Murrumbidgee Computer Operated River project, which does not form part of the RAB.

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**Question 3:** Please provide details of the decisions made by the project control board in relation to the following projects, including any relevant documentation supporting its decisions.

**Table 2 – Projects altered by the project control board**

Project	Initial 2014-15 budget	Revised 2014-15 Budget	Difference
BNDG Upgrade Phase 1	12,000	1,300	-10,700
KEPT Upgrade Phase 1	23,500	5,084	-18,416
RYDA Dam Safety Upgrade	410	238	-172
WYGL Upgrade Phase0	0	7,091	7,091
WYGL Dam Safety Upgrade Stage 2	87	153	65
CPTN Fish Passage Offsets	12,890	2,923	-9,967
WYGL Fish Passage Offset	10,500	492	-10,008
Lake Brewster - Urgent components	3,000	2,543	-457
BNDG Fish Passage Offsets	7,324	3,955	-3,369
WAKO Wr Fishway ( Reg option study)	1,500	198	-1,302
KEEP Fish Passage Offsets	4,000	3,196	-804

## State Water response

*Documentation is provided in confidence.*

The following documents are provided as evidence:

Burrendong Board Paper – Sept 2013

Keepit & Copeton PSC Meeting #2 23-9-13 - Final Minutes

**Question 4:** Please provide forecasts for capital expenditure in all three years of the 2014-17 regulatory period, updated in line with the revised 2014-15 capital budget.

Please include:

- a) Any revisions to the scheduling of capex projects in future years, showing
  - i) whether the change in forecast spending in 2014-15 results in a revised forecast in future years,
  - ii) whether the total budget for particular projects has been revised.
- b) Reasons for changes, at a project level– this should include projects listed in Table 3 below, which have revised budgets for 2014-15 based on the information State Water provided on 10 and 11 April 2014.  
(Changes in line with ACCC draft decision are greyed out below).

## State Water response

As discussed at Question 2, the forward program is affected for the reasons presented.

The following table in Attachment A shows the program summary for the three years of the determination.

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## Attachment A

	Sum of Submission 14/15 ('000)	Sum of 14/15BUD ('000)	Sum of Var 14-15 Submission to BUD ('000)
Asset Management Planning	\$0.00	\$45.06	-\$45.06
Dam Safety Compliance	\$52,022.86	\$25,626.53	\$26,396.33
Environmental Planning & Protection	\$42,784.00	\$13,397.07	\$29,386.93
External	\$8,237.00	\$19,216.86	-\$10,979.86
Flood Operations	\$0.00	\$56.85	-\$56.85
Internal	\$3,513.74	\$3,768.41	-\$254.67
Not Applicable	\$133.00	\$0.00	\$133.00
Renewal & Replacement	\$6,714.07	\$3,237.21	\$3,476.85
Water Delivery & Other Operations	\$8,339.89	\$5,406.20	\$2,933.68
<b>Total</b>	<b>\$121,744.55</b>	<b>\$70,754.20</b>	<b>\$50,990.35</b>
	Sum of Submission 15/16 ('000)	Sum of 15/16BUD ('000)	Sum of Var 15-16 Submission to BUD ('000)
Asset Management Planning	\$0.00	\$0.00	\$0.00
Dam Safety Compliance	\$27,715.70	\$26,082.18	\$1,633.52
Environmental Planning & Protection	\$14,470.00	\$19,116.25	-\$4,646.25
External	\$0.00	\$5,945.00	-\$5,945.00
Flood Operations	\$0.00	\$0.00	\$0.00
Internal	\$3,109.82	\$3,145.74	-\$35.92
Not Applicable	\$581.00	\$0.00	\$581.00
Renewal & Replacement	\$6,154.73	\$9,765.62	-\$3,610.89
Water Delivery & Other Operations	\$4,695.31	\$566.89	\$4,128.42
<b>Total</b>	<b>\$56,726.56</b>	<b>\$64,621.68</b>	<b>-\$7,895.12</b>
	Sum of Submission 16/17 ('000)	Sum of 16/17BUD ('000)	Sum of Var 16-17 Submission to BUD ('000)
Asset Management Planning	\$0.00	\$0.00	\$0.00
Dam Safety Compliance	\$12,091.54	\$28,056.63	-\$15,965.08
Environmental Planning & Protection	\$0.00	\$15,682.50	-\$15,682.50
External	\$0.00	\$0.00	\$0.00
Flood Operations	\$0.00	\$0.00	\$0.00
Internal	\$2,531.90	\$2,421.90	\$110.00
Not Applicable	\$605.00	\$420.25	\$184.75
Renewal & Replacement	\$5,732.82	\$6,700.91	-\$968.09
Water Delivery & Other Operations	\$4,684.99	\$490.16	\$4,194.83
<b>Total</b>	<b>\$25,646.25</b>	<b>\$53,772.35</b>	<b>-\$28,126.10</b>

#Expected revisions down, subject to finalisation with Regulator.