

**Review of Network Service  
Plan 2012-2017**

**Coleambally Irrigation Co-  
operative Limited**

**Report to the ACCC and Coleambally  
Irrigation Co-operative Limited under  
Part 5 of the Water Charge  
(Infrastructure) Rules 2010**

**FINAL report  
28 September 2012**



**Deloitte.**

**aurecon**

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Mr Darren Kearney  
Director Water  
Australian Competition and Consumer Commission  
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28 September 2012

Dear Darren

**Re: Final report – Review of Network Service Plan for Coleambally Irrigation Co-operative Limited**

We are pleased to provide the final report of our independent assessment of the prudence and efficiency of the Network Service Plan (NSP) developed by the Coleambally Irrigation Co-operative Limited (CICL). This report provides the findings of our review and recommendations regarding how CICL could address matters of concern.

As requested we have assessed the adequacy and clarity of information found in the NSP, customer service standards, the demand for services, operating and capital expenditure items, approach to financing and setting tariffs. Our approach incorporated a desktop review, a field visit of CICL operations, and analysis of key cost items and drivers of costs.

We would like to thank CICL staff, particularly John Culleton, Anne Rzeszkowski and Austin Evans for their assistance in relation to this report.

Please do not hesitate to contact us if you have any questions with this report.

Yours sincerely



**Paul Liggins**  
Partner  
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# Contents

1	Introduction	1
	1.1 Background	1
	1.2 Scope of an NSP review under the WCIR	1
	1.3 Overview of CICL and CIMCL	2
	1.4 Structure of this report	3
2	Overview of methodology	4
	2.1 Review of prudence and efficiency	4
	2.2 Process for review	5
3	Adequacy of information and communication	7
	3.1 Summary of information provided in NSP	7
4	Service standards and obligations	10
	4.1 Description of customer service obligations	10
	4.2 Discussion	11
	4.3 Conclusion	13
5	Demand	14
	5.1 Forecasts	14
	5.2 Discussion	16
	5.3 Conclusion	16
6	Operating expenditure	17
	6.1 Overview of historical operating expenditure	17
	6.2 Overview of forecast operating expenditure	21
	6.3 Operating expenditure items	23
7	Capital expenditure	34
	7.1 Overview of historical capital expenditure	34
	7.2 Overview of forecast capital expenditure	34
	7.3 Capital escalation	35
	7.4 Asset management and strategic planning activities	35
	7.5 Largest capital projects	37
	7.6 Assumptions for economic life of assets	37
	7.7 Conclusion on prudence and efficiency of NSP	38
8	Financing and tariffs	41
	8.1 Overall financial position	41

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8.2 Revenue sources	41
8.3 Fixed and variable tariffs	42
8.4 Approach to financing	45
9 Limitation of our work	47
Appendix A	48

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# Executive Summary

Coleambally Irrigation Co-operative Limited (CICL) has prepared a Network Service Plan (NSP) which provides details of its plans for water service infrastructure over the forthcoming five year period (2012-13 to 2016-17). The NSP includes details of customer service levels, operating and capital expenditure and how CICL intends to recover its costs through prices and finance future capital expenditure.

We have undertaken an independent review into the prudence and efficiency of CICL's NSP as per the requirement in the Water Charge (Infrastructure) Rules 2010 (WCIR). This report provides the findings of our review and recommendations.

## Overview of the NSP

Key features of CICL's NSP include:

- Operating costs are expected to increase in real terms, however a proportion of these costs will be capitalised and recovered under the Private Irrigation Infrastructure Operators Program (PIIOP) program.
- Forecast capital expenditure reflects PIIOP Round 1 and Round 2 projects. Round 1 projects include; clay relining at the main canal; and installation of Total Channel Control (TCC) infrastructure on the West Coleambally Canal. Round 2 projects include; the replacement of 100 non flume gate meters with flume gates; and construction of a balancing storage. PIIOP Round 2 was still under negotiation when the NSP was finalised however this has now been approved.
- CICL identified that its water access charges in recent years have been either at, or below, the cost of providing its services. This has been the result of conscious decisions taken by CICL's Board having regard to its customers' ability to pay during and immediately post the drought. However, CICL has also identified that this is unsustainable and, as a result, CICL proposes to increase its tariffs (with the exception of Coleambally Irrigation Mutual Co-operative Limited (CIMCL) levy) by 1.5% in real terms per annum for the NSP period.
- CICL has committed to establish and maintain a 'service delivery efficiency' database and 'emergency response' database and to report this information in future annual reports.

## Statement of prudence and efficiency

We consider that CICL's capital and operating expenditure is generally prudent and efficient based on our review of information provided by CICL. However (in addition to some minor matters) we consider the NSP document lacks detail and is unclear on a number of matters including:

- The assumptions that underpin forecast costs and the reasons for fluctuations in costs in any particular year. We suggest that CICL provide clearer information to its customers in its NSP for the key factors that are influencing its cost base
- CICL's historical operating costs, presented in the NSP, are heavily influenced by the current PIIOP program because a proportion of costs for each cost category (e.g. labour, vehicles and administration) has been capitalised and therefore 'recovered' under PIIOP. CICL, however, has not set out in its NSP what proportion of its operating costs will be capitalised under PIIOP for the forecast period. We suggest that CICL provide a forecast for capitalised costs under PIIOP in its NSP (CICL has provided this information to Deloitte as part of this review).

## Adequacy and clarity of information in the NSP

Firstly, we were asked to assess whether the NSP provides sufficient details and is communicated in a way that would be clear to a customer audience. We consider that customers would benefit, and the requirements of the WCIR would be better met, if additional information was included on matters including the following:

- Details of customers affected and financial schedules supporting maintenance and PIIOP programs and further detail supporting the reasons for undertaking modernisation works

CICL advised that it had consulted with its customers prior to entering into its PIIOP agreements with the Commonwealth and provided them with the opportunity to vote on the merits of each of the seven modernisation sub-projects. However for the purposes of completeness of the NSP it is suggested that further detail of the rationale for projects be placed on CICL's website and be referenced in the NSP.

- Details of the renewals annuity including (but not limited to) annuity term and expected annuity and interest payments

We note that, as CIMCL and CICL are two distinctly separate legal entities, CICL provided limited detail on the renewals annuity due to uncertainty around scope of the NSP. CICL advised that customers have access to CIMCL's method for calculating annuity payments and expenditure in its Annual Report. We suggest, therefore, that CICL provide this information, or at a minimum references to where the information can be found, in the NSP.

- Details of how operating and administration costs are capitalised and recovered under PIIOP.
- A breakdown of revenue by tariff category, as well as commentary or forecasts on Government charges.

## Customer service standards

We note that CICL has not reported historical customer service levels for metrics other than delivery efficiency and water losses. It is therefore difficult to assess whether service standards have improved or declined over time and how this has impacted on the business and its customers.

We support CICL's commitment to establish and maintain a 'service delivery efficiency' database and an 'emergency response' database and report a historical time series of these data in future annual reports. We also suggest these performance metrics are published regularly (i.e. monthly or quarterly depending on frequency of data collection) on CICL's website or in regular customer publications.

## Demand for services

CICL has not provided a forecast of likely water sales over the NSP period as revenue is not based on sales. Nor has it estimated the level of delivery entitlements (which is declining) as the annual loss of revenue from reducing delivery entitlements is offset by the payment of termination fees.

While we note that water sales are unrelated to revenue, we consider that having a broad view on potential sales is likely to:

- Allow CICL to form a view on whether capacity issues or delivery constraints are likely to exist (we note that a key justification for the balancing storage is to better enable CICL to meet spikes in demand) and to form plans to address them.
- Assist with the planning of maintenance requirements.
- Forecast expenditure required to cover bulk costs associated with conveyance losses.

We agree with CICL that there will come a time when the termination of delivery entitlements will have a bearing on charges, and that delivery system rationalisation or price increases will occur as a result. Therefore we also suggest that it would be prudent for CICL to forecast the level of delivery entitlements in order to provide a view of the time at which this will occur.

## Operating costs

The table below shows CICL's forecast expenditure by major cost item over the course of the NSP.

**Table E1 CICL forecast operating expenditure, 2010-11 to 2016-17 (\$'000s, nominal dollars)**

Operating expenditure item	Actual	Actual	Network Service Plan forecast				
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Operations	2381	2755	3098	2668	2915	3002	3092
Salary and wages	2676	2464	2595	3057	3443	3547	3653
Plant and vehicle	185	79	233	255	288	297	306
Administration	317	338	349	353	372	384	395
Depreciation	1636	1607	1739	2010	2173	2144	2155
Other expenses	86	92	100	92	95	98	101
Sale conveyance water*		1608					
<b>Total operating expenditure</b>	<b>7281</b>	<b>8942</b>	<b>8114</b>	<b>8432</b>	<b>9286</b>	<b>9471</b>	<b>9701</b>

Source: CICL NSP 2012 and financial model

\*This cost item represents a write down of inventory as a result of sale of conveyance water to the Government and is based on market value. This value was not included in the NSP.

We reviewed each item of operating expenditure through analysis of historical costs, benchmarking (industry escalation rates, other regulatory decisions, and other rural water providers) and our experience in other similar reviews.

We note there is a relatively large increase in total operating expenditure over the life of the NSP. This is mainly attributable to the inconsistent accounting of the PIIOP program between historical and forecast costs. For instance, a proportion of operating costs (from 2007-08 to 2012-13) has been dedicated to delivering the PIIOP program. Therefore these costs have been 'capitalised' and removed from operating costs. However, when it comes to forecast costs (2013-14 to 2016-17) there has been no estimate made for the proportion of operating costs that would be dedicated to delivering the PIIOP program. Therefore historical costs cannot be compared with forecasts. The major cost items affected by this issue include 'salary and wages', 'plant and vehicle' and 'administration' expenses. CICL advised that they have not forecast the proportion of 'capitalised' operating costs due to uncertainty around what the proportion might be.

We suggest that CICL estimate the amount of capitalisation from PIIOP in the forecast costs and present these costs separately. This will improve transparency for customers and enable a like for like comparison between historical and forecast costs. We consider the current presentation of operating costs has the potential to be misinterpreted.

A summary of our view on forecast changes in key expenditure items is as follows:

### **Operations, maintenance and administration costs**

With regard to assumptions around OMA forecast costs, CICL advised that it applied a 3% inflation assumption to its OMA costs for the years of the NSP.

We note, however, that CICL has not factored in any productivity gains for any of its cost categories. We consider it would not be unreasonable to expect that ongoing real reductions in costs the order of 0.5% to 1% per annum are achievable across total operations, maintenance and administration costs.

### **Salary and wage costs**

The assumptions underpinning salary and wage costs with regard to inflation appear reasonable. While CICL has forecast no productivity savings, it has also forecast low wages growth. In combination, the outcome of these two assumptions appears reasonable.

### **Plant and vehicle costs**

CICL plant and vehicle cost forecasts appear reasonable, if the average of historical PIIOP recoveries are excluded from the forecasts.

### **Depreciation**

While it is forecast for depreciation expenditure to increase, the majority of this increase is from PIIOP-funded assets which are not recovered through regulated charges. The non-infrastructure depreciation component appears to be reasonable.

### **Other expenses**

While the forecast for general insurance does not appear overly high, we suggest that CICL include the forecasting assumptions. CICL advised that its general insurance costs are expected to increase, however the figures currently show insurance expenditure decreasing or remaining static in real terms.

## **Capital costs**

### **Prudency**

Although not specifically detailed in the NSP, there is adequate evidence in supporting documentation and Annual Reports that historical and forecast capital expenditure is supported by a strategic planning focus that integrates asset management planning, incorporates risk mitigation measures and is consistent with CICL's key drivers. In addition, CICL has demonstrated that this planning framework has been appropriately applied in relation to PIIOP funded capital projects.

The fact that CICL's PIIOP funding applications have been successful effectively reflects the Commonwealth Government's conclusions that the proposed works were in alignment with the strategic objectives of both the Government and the applicant, and the risks associated with construction and operation were understood and clearly articulated.

On the basis of the information provided, we consider that CICL has acted prudently in respect of its historical capital expenditure and also planned expenditure utilising approved PIIOP funds.

### **Efficiency**

Capital projects which were the subject of PIIOP funding applications had to undergo rigorous assessment before funding was granted. Technical feasibility and a sound project management capability, including a realistic budget and implementation program were key components of the assessment process. This was necessary to ensure that service enhancement options selected for future implementation had been subjected to rigorous technical and financial assessment and that water savings could be transferred to the Commonwealth without risking the viability of the company.

On the basis of the information provided in the NSP and supporting documents, we consider that forecast capital expenditure shown in the NSP is efficient.

## **Tariffs**

As a result of the drought, CICL advised that it has deliberately under recovered its costs in recognition of customer's financial hardship. CICL is proposing to increase tariffs by 1.5% in real terms over the course of the NSP. This increase appears reasonable.

We suggest that CICL, as part of its upcoming business review, examine its cost base to confirm whether its cost base is effectively 100% fixed. If it is, then we consider that CICL's current pricing structure (of only fixed charges) is appropriate. However if there is a component of costs that varies with water delivered then CICL should investigate the option of introducing a usage based charge.



## **Financing**

CIMCL's levy of \$1.3m, and the decision to hold it constant, appears reasonable in light of the Mercer report and the absence of a need to spend funds during the NSP period.

# 1 Introduction

This section provides the background, scope and process of this prudency and efficiency review, as well as a brief overview of Coleambally Irrigation Co-operative Limited (CICL).

## 1.1 Background

This prudency and efficiency review of CICL's Network Service Plan (NSP) is a requirement of the Water Charge (Infrastructure) Rules 2010 (WCIR). The overarching legislation for the WCIR is the *Water Act 2007* (Cth) (the Water Act) which, among other things, provides the Minister for Sustainability, Environment, Water, Population and Communities (the Minister) with the role of making water charge rules.

The Water Act builds on earlier reform initiatives including the National Water Initiative (NWI) and creates new institutional and governance arrangements to address the sustainability and management of water resources in the Murray–Darling Basin (MDB). The purpose of the WCIR is to address the various issues that arise from operators having market power as natural monopoly service providers, through improving the transparency of charges and introducing a more consistent approach to pricing (across Basin jurisdictions) which promotes efficient use and investment in water infrastructure and efficiency of water markets.

The WCIR provides for the regulation of water infrastructure fees and charges levied by bulk water and irrigation infrastructure operators. The WCIR outlines a three-tiered regulatory structure for infrastructure providers, from tier 1 (light handed approach) to tier 2 (oversight of procedures for determining charges) and tier 3 (direct regulatory oversight of charges) rules. The level of regulatory oversight for each operator corresponds to their ownership and size (i.e. non-member owned and/or large service providers are subject to more direct regulation and vice versa). CICL falls in tier 2 as it is a large member owned infrastructure operator.

Under the tier 2 requirements (which are found in Part 5 of the WCIR) CICL is required to prepare a Network Service Plan (NSP) at least once every five years which provides details of its plans for water service infrastructure over the forthcoming five year period. The NSP is to include information on intended service levels, plans for major works, estimates of capital and operating expenditure, how expenditure will be financed, details of grants and subsidies, and estimates of the regulated charges that will apply. Tier 2 rules also require that CICL's customers are consulted on the NSP through the issuance of a Network Consultation Plan (NCP) and that information statements are provided to customers.

The WCIR tier 2 rules also stipulate that the NSP is to be independently reviewed, with the reviewer to comment and provide advice regarding the prudency and efficiency of the NSP (this report).

## 1.2 Scope of an NSP review under the WCIR

We have been asked to provide advice on the prudency and efficiency of CICL's NSP. In particular the ACCC's '*Guide to the water charge (infrastructure) rules: tier 2 requirements*' (*the Guide*) requires that we consider whether the NSP represents a plan that would be expected of a commercially successful water infrastructure provider in the same position, and whether the operator is able to cost-effectively deliver these services. Therefore, key matters that we have considered as part of this review include:

- The reasons and evidence supporting the commencement of major projects proposed in the period of the NSP, including whether the projects listed are consistent with efficient long term expenditure on infrastructure services.

- The reasons and evidence supporting the major projects proposed in the NSP compared to other alternative projects
- The suitability of the engineering design of the projects proposed
- The robustness of the risk mitigation measures in the NSP
- Whether the time proposed to undertake the projects in the NSP is reasonable, having regard to the operator's previous ability to deliver projects on time
- The accuracy of cost forecasts used in estimating the cost of projects in the NSP
- Whether the operating expenditure forecasts in the NSP are reasonable, having regard to:
  - Historical expenditure on operating expenditure
  - A reasonable expectation of productivity improvements over the period of the NSP
  - Available and relevant industry benchmarks of expenditure on infrastructure services.
- Whether the NSP provides sufficient details and is communicated in a way that would be clear to a customer audience.

We have not been asked to review or comment specifically on the suitability of the cost allocation method to customers or tariff design however an understanding of these matters is necessary to undertake our review. Therefore we have included brief comments on these matters.

## 1.3 Overview of CICL and CIMCL

### CICL

CICL is a private co-operative that manages supply and drainage services for 492 farms owned by 354 landholders across 456,821 hectares, of which 79,000 are irrigated. CICL's area of operation is south of Griffith between Darlington Point and Jerilderie, with water sourced from the Murrumbidgee River. Approximately 90% of CICL's customers have access to a surface drainage infrastructure network.

CICL's irrigation supply system uses solar powered, gravity-fed technology in its open channel system. This permits automated water ordering and delivery without the delays and water pressure inconsistencies that can characterise traditional supply networks.

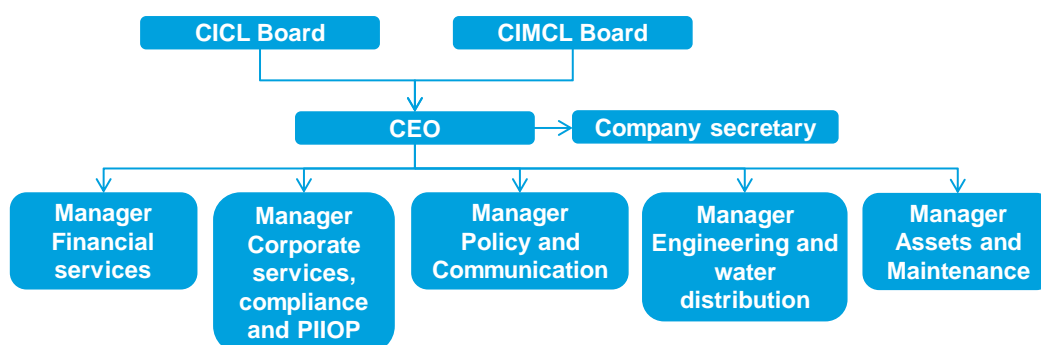
CICL's key objectives are system efficiency and timeliness of water deliveries. CICL has an entirely fixed tariff schedule which reflects its mainly fixed water costs. CICL is about to enter into significant capital works programs over the next five years, with the vast majority of expenditure to be funded under the NSW Private Irrigation Infrastructure Operators Program (PIIOP) by the Commonwealth Government.

### CIMCL

The non-trading Coleambally Irrigation Mutual Co-operative Limited (CIMCL) is also customer-member owned, and raises funds for future replacement of infrastructure. CIMCL has responsibility for the future replacement of the major assets within the supply and drainage systems. CICL's charges to members exclude consideration of the cost of major asset replacement, whereas CIMCL's charges are specifically focused on providing for that asset replacement.

Both cooperatives (CICL and CIMCL) have their own rules, their own boards and maintain separate financial accounts.

Figure 1-1 Organisational structure of CICL and CIMCL



## 1.4 Structure of this report

This report describes our approach and sets out our findings from the review of CICL's NSP. It is structured as follows:

- Chapter 2 provides an overview of our methodology for conducting the review including our interpretation on prudence and efficiency, the process followed and key timelines
- Chapter 3 provides our assessment on whether CICL's NSP has adequate information and has been communicated clearly to its customers according to *the Guide* (with a detailed assessment provided in Appendix A)
- Chapter 4 briefly summarises CICL's service obligations and customer service standards
- Chapter 5 is a review of CICL's assumptions regarding water demand forecasts
- Chapter 6 outlines our review of historical and forecast operating expenditure. We assess whether the escalation factors applied and productivity gains outlined in the NSP are reasonable, and provide a conclusion on whether operating expenditure is prudent and efficient
- Chapter 7 outlines our review of historical and forecast capital expenditure. Our review includes an assessment of the largest capital projects planned and also investigates capital escalation factors, strategic asset planning, and assumptions on the economic life of assets. We provide a conclusion on whether capital expenditure is prudent and efficient
- Chapter 8 reviews CICL's approach to financing capital projects and other expenses.

# 2 Overview of methodology

This chapter provides an overview of our methodology for conducting the review of CICL's NSP including our interpretation and approach to assessing prudence and efficiency, and the key processes and timelines for the review.

## 2.1 Review of prudence and efficiency

### 2.1.1 Our interpretation of prudence and efficiency

Under the WCIR an engineer is required to provide advice on the prudence and efficiency of the NSP. The review process has been developed to meet this requirement. *The Guide* states that:

*In general, in advising on the prudence and efficiency of the NSP, the reviewer will be asked to consider whether the NSP represents a plan that would be expected of a commercially successful water infrastructure service provider in the same position, and whether the operator is able to cost-effectively deliver these services.*

There is no further guidance provided in the WCIR or supporting documents about the definition of efficiency and prudence. We have therefore set out below some of the key matters that we have considered when assessing prudence and efficiency, having regard to our previous experience in conducting expenditure reviews as well as the approaches adopted previously by regulators conducting similar reviews.

In terms of the veracity of forecasts, we have applied principles developed by the Essential Services Commission that suggest any forecasts should:

- Be applied in an unbiased manner (that is due weight must be given to all the relevant factors)
- Be appropriate to the situation and the nature of the market for services
- Recognise and reflect key drivers of costs
- Be based on reasonable assumptions using the best available information
- Use the most recent information available, as well as historic data that can identify trends in costs
- Take account of current and projected economic conditions.

### 2.1.2 Our assessment of efficiency

In our review of efficiency we have had regard to the following matters:

- Do any material changes reflect additional obligations that are imposed by state or federal governments, other regulators, or improvements sought by customers?
- Do the trends in forecast expenditure differ from trends in historical expenditure and can these differences be explained?
- Are increases or decreases in operating expenditure forecasts consistent with the timing of major capital projects?
- Has the operator reflected a reasonable estimate of expected productivity improvements in their forecasts?
- Can the proposed changes in operating and capital expenditure be substantiated by supporting information?
- Is the assumed cost of inputs (e.g. energy, materials, labour) consistent with other independent forecasts
- Is the mix of internal versus contracted resources appropriate?

- Are activities being carried out consistent with achieving the lowest sustainable cost or providing services over the long term?
- How do costs compare with those of similar organisations?

Our specific approach to assessing these matters has been to apply techniques such as benchmarking of costs and using historical costs as a point of reference. We have also had regard to recent regulatory decisions in the rural water sector.

#### **A note on benchmarking**

We note there are limitations of benchmarking in that it can be difficult to arrive at like with like comparisons due to differences in operating environments, services provided and definitions within the source data. Benchmarking, however, does provide a high level indication on whether a business is an outlier in comparison to other providers and therefore can highlight where there may be inefficiencies.

Our approach to benchmarking has been to use publicly available data on other rural service providers in the southern Murray Darling Basin from sources such as the latest *National Performance Report (NPR) rural water service providers* (National Water Commission, 2011), and annual reports. It should be noted that the NPR data is currently not audited and the application of definitions may vary between rural providers.

We benchmarked total operating costs and administration costs and normalised these according to different denominators being number of customers, number of customer connection points (i.e. customers can have several irrigation meters and drainage outlets), length of channels, and \$ of revenue.

By using a variety of normalisers (mentioned above) we can minimise some of the limitations of benchmarking, in that it provides a more balanced picture of business expenditure items. For example, if a particular business' expenditure item is consistently higher (or lower) than other providers for all four normalisers, it is likely that this business expenditure item is inefficient. On the other hand, a high result for one normaliser and not for others may highlight the effect of a unique operating environment rather than inefficiency. Therefore it is important to view the results holistically for each expenditure item, and to recognise the effect that differing operational environments will have on performance.

### **2.1.3 Our assessment of prudence**

For prudence we have had regard to the following matters:

- Do proposed service standards reflect customer requirements and willingness/ability to pay?
- Is there evidence of a well-developed planning framework and processes that demonstrate forecasts have been determined over a planning horizon that extends beyond the forecast period? This includes planning and strategies around both capital works and asset management
- Can the operator demonstrate that the planning framework and processes have been applied with rigour throughout the organisation?
- Is the business being managed and operated in accordance with accepted good industry practice?
- Are the activities undertaken to manage risks appropriate?
- Is the engineering design for major projects suitable?
- Is the proposed program of expenditure deliverable over the forecast period?
- At a high level, does the demand for services appear reasonable?
- At a high level, does the approach to financing activities appear reasonable?

## **2.2 Process for review**

The process for undertaking this review is drawn from section 4.2 of *the Guide*.

Our process for conducting the review to date has involved the following key stages:

- A desktop review of the draft NSP and provision of an additional information request to CICL
- A field visit to CICL in July 2012 to further our understanding of CICL's operating environment and key infrastructure and make further enquiries into details of the NSP
- Detailed analysis and preparation of a report, including seeking additional information from CICL
- A draft report provided to the ACCC and CICL for comment (this report).

The process from this point onwards will be:

- After considering comments from both the ACCC and CICL, we will provide a final report to the ACCC
- The ACCC must give CICL a copy of any comment or advice received (i.e. the final report), which must subsequently be provided by CICL to its customers.

As specified in *the Guide*, consistent with the form in which the NSP is to be provided to customers, CICL may provide the report directly to customers via mail, email, fax or post it on its website and notify each customer personally via mail or email. In doing so, CICL may outline any response to the report, or outline areas that it is giving further consideration to.

More generally, CICL may amend its NSP based on comments in the report at its own discretion, which may include re-consultation with relevant customers.

# 3 Adequacy of information and communication

## 3.1 Summary of information provided in NSP

This chapter provides our assessment on whether CICL's NSP includes adequate information and has been communicated clearly to its customers according to requirements outlined on page 21 and Appendix B of *the Guide* and based on our own assessment of what information would benefit customers.

Table 3-1 shows which of *the Guide's* Appendix B requirements requires further information and what other information we consider to be beneficial to customers. A full assessment of the NSP information against *the Guide's* requirements is provided in Appendix A of this report.

- Details of customers affected and financial schedules supporting maintenance and PIIOP programs and further detail supporting the reasons for undertaking modernisation works

CICL advised that it had consulted with its customers prior to entering into its PIIOP agreements with the Commonwealth and provided them with the opportunity to vote on the merits of each of the seven modernisation sub-projects. However for the purposes of completeness of the NSP it is suggested that further detail of the rationale for projects be placed on CIGL's website and be referenced in the NSP.

- Details of the renewals annuity including (but not limited to) annuity term and expected annuity and interest payments

We note that, as CIMCL and CIGL are two distinctly separate legal entities, CIGL provided limited detail on the renewals annuity due to uncertainty around scope of the NSP. CIGL advised that customers have access to CIMCL's method for calculating annuity payments and expenditure in its Annual Report. We suggest, therefore, that CIGL provide this information, or at a minimum references to where the information can be found, in the NSP.

- Details of how operating and administration costs are capitalised and recovered under PIIOP.
- A breakdown of revenue by tariff category, as well as commentary or forecasts on Government charges.

**Table 3-1 High-level assessment of NSP information**

Item	Detail recommended by ACCC, as per Appendix B of <i>the Guide</i>	Deloitte/Aurecon comments
<b>5</b>	<b>Maintenance, improvement, enhancement and/or expansion plans</b>	
5.1	Provide details so customers can understand the plans in question. This includes: <ul style="list-style-type: none"> <li>• a description of the works (include diagrams where appropriate)</li> <li>• the location of the works (include maps where appropriate)</li> <li>• the infrastructure services affected by the works</li> <li>• the type of customers affected</li> <li>• the expected commencement and completion dates of the plans.</li> </ul>	It is suggested that the NSP include further detail on the types of customers that will benefit or be affected by infrastructure programs
5.4	Provide details of evidence that will help support:	Further detail on reasons for undertaking the works should be included in the NSP



Item	Detail recommended by ACCC, as per Appendix B of the Guide	Deloitte/Aurecon comments
	<ul style="list-style-type: none"> <li>• the stated reasons for undertaking the works</li> <li>• the estimated expenditure on the works</li> <li>• the prudence and efficiency of the estimated expenditure</li> <li>• the timing for the works.</li> </ul> <p>Evidence for undertaking the works may include feedback gathered in consultation on the NCP.</p> <p>Where the evidence refers to advice gathered from consultants provide details about how customers can access the advice.</p>	or reference to relevant documents should be provided.
<b>6 Expenditure on infrastructure services</b>		
6.4	<p>Cost estimates should also be supported with an explanation of the basis for allocating costs between different infrastructure services. This should include a statement on the following data:</p> <ul style="list-style-type: none"> <li>• how costs are allocated as capital expenditure and allocated as operating expenditure</li> <li>• how costs are allocated between operation, maintenance and administration expenditure</li> <li>• how administration costs are allocated across different infrastructure services</li> <li>• how costs are allocated between expenditure that is included in the NSP and expenditure that is not included in the NSP.</li> </ul>	Details of how operating and administration costs are capitalised and recovered under PIOP should be provided in the NSP.
<b>8 Financing (Renewals annuity)</b>		
8.2	The asset life assumptions for assets funded through the annuity	The NSP notes that assets and their estimated lives are 'reviewed by an external and independent expert party every five years', although no indication is given to what those asset lives are
8.3	The term of the annuity	CICL advised that it had consulted with its customers prior to entering into its PIOP agreements with the Commonwealth and provided them with the opportunity to vote on the merits of each of the seven modernisation sub-projects. However for the purposes of completeness of the NSP it is suggested that further detail of the rationale for projects be placed on CICL's website and be referenced in the NSP.
8.4	The profile of the expected payments into the annuity and expenditure from the annuity over its term	
8.5	The estimated opening and closing balance of the annuity in each year of the NSP	
8.6	Estimated payments on infrastructure out of the annuity in each year of the NSP	
8.7	The purpose of the payments out of the annuity in each year of the NSP	
8.8	Expected annual interest payments into the annuity	
8.9	Other annual transactions from the annuity over the period of the NSP.	
8.10	The formula used by the operator to calculate the annuity payments	
8.11	When the operator expects to use existing cash reserves to reduce the revenue collected from regulated charges, or regulated charges are increased to make up for past funding deficits, the operator should clearly explain why this is expected to be the case and how required revenue is expected to be affected.	

Item	Detail recommended by ACCC, as per Appendix B of <i>the Guide</i>	Deloitte/Aurecon comments
<b>9</b>	<b>Regulated charges</b>	
9.1	The estimated regulated charges over the five year period of the NSP	Included, although information on 'Government Charges' is not included
9.2	The total estimated revenue from each regulated charge over the five-year period	Not included for each charge

# 4 Service standards and obligations

This section briefly summarises CICL's service obligations and customer service standards. Customer service obligations and standards can be a key driver of costs.

## 4.1 Description of customer service obligations

CICL manages supply and drainage services for 492 farms owned by 354 landholders across 456,821 hectares. Customers receive automated water ordering services as well as real-time billing and 2-hour water delivery time. Customer access to water delivery varies based on:

- The amount of Delivery Entitlement (DE) they hold
- The type of DE they hold
- The peak flow rate they have nominated

CICL's customer base is categorised by DE type. Holders of High Security (HS) DEs in CICL's delivery zone may access water throughout the year, whereas General Security (GS) holders may access it only during the designated irrigation season. Class G customers (stock and tank fill) are delivered water twice per year.

Class G customers are the highest water allocation priority, followed by HS customers and then GS customers. This means that in periods of low water availability, Class G customers will be supplied first, followed by HS with the remainder delivered to GS.

Peak flow is the maximum flow rate at which a member is able to order its water. Customers can request certain peak flow rates, to which an annual fixed fee is applied. Customers can request a change in peak flow which will trigger a change in the fixed fee (any reductions however will trigger termination fees). CICL is considering investigating the need for an increase in the minimum flow rate.

CICL has identified water delivery efficiency and delivery time as its two major customer service objectives. In particular, CICL targets a delivery time of approximately two hours per water delivery and an annual conveyance loss of less than 40,000 ML. CICL publishes these figures in its annual report and reports delivery efficiency in the rural National Performance Report (NPR).

CICL also aims to meet certain service standards with respect to the following:

- Drainage efficiency
- Emergency response
- Reporting of technical/non-urgent problems

Table 4-1 below provides a summary of performance standards for CICL as outlined in the NSP. Apart from delivery efficiency, we note that CICL does not have historical information regarding these service standards. We note, however, CICL's commitment to establishing and maintaining a 'service delivery efficiency' database and an 'emergency response' database. We also note the commitment to report a historical time series of data in future annual reports.

**Table 4-1 CICL Service delivery performance standards**

Service Standard	Description	Target	Reporting
<b>Flow rates</b>			
Minimum flow rate	ML/day/customer	10	None
Peak flow rate (Large FlumeGate)	Range ML/day	12-30	None
Peak flow rate (MACE, Magflo, Propeller)	Range ML/day	6-30	None
Peak flow rates (small FlumeGate)	Range ML/day	12-15	None
<b>Delivery</b>			
Time	Delivered within approximately 2 hours	100%	None
Efficiency	Maximum conveyance losses p.a.	40,000 ML	NWC, ACCC, CICL annual report
<b>Emergency response</b>			
Drainage efficiency	Emergency response to drainage issues	Not defined	None
Indication to customers of action required	Time taken to advise customers of immediate actions and related actions taken by TCC	Within 10 minutes of call (immediate actions) and 15 minutes of call (related actions)	CICL Annual Report
Advice to customer of investigatory activity required	Nature and timing of activity communicated to customer	Within 90 minutes of call	CICL Annual Report
Subsequent updates to customer	Each period until issue resolved	24 hours	CICL Annual Report
<b>Technical/non-urgent issue response</b>			
Initial indication	How and when a response can be expected	Upon first call	CICL Annual Report
Action plan to investigate/rectify problem	Max. number of days following report	2	CICL Annual Report
Progress reports	Interval until resolution	Weekly	CICL Annual Report

Source: CICL NSP 2012

## 4.2 Discussion

CICL advised that there are various government operational obligations that indirectly affect CICL's service levels however there are no specific government obligations regulating customer service levels. For example, there are operational obligations imposed from State Water, NSW Office of Water Statement of Approval requirements and the Environmental Protection Licence with the NSW EPA.

### Improved service levels from system maintenance and improvement plans

CICL's proposed maintenance and infrastructure program (including the PIIOP) is designed to improve customer service levels in a number of ways:

- Reduced water losses due to seepage as a result of a reparation of clay canal linings

- Greater flow consistency and improved monitoring of flow rate as a result of Total Channel Control (TCC) installation
- Improved flow rate as a result of an accelerated transition to Flume Gate metering (e.g. 100% of CICL’s meters are to be FlumeGate rather than other alternatives such as Mace, propeller or Dethridge wheels)
- Through construction of a Balancing Storage system, be better prepared to take advantage of supplementary water events and have greater capacity to meet unexpected spikes in customer demand

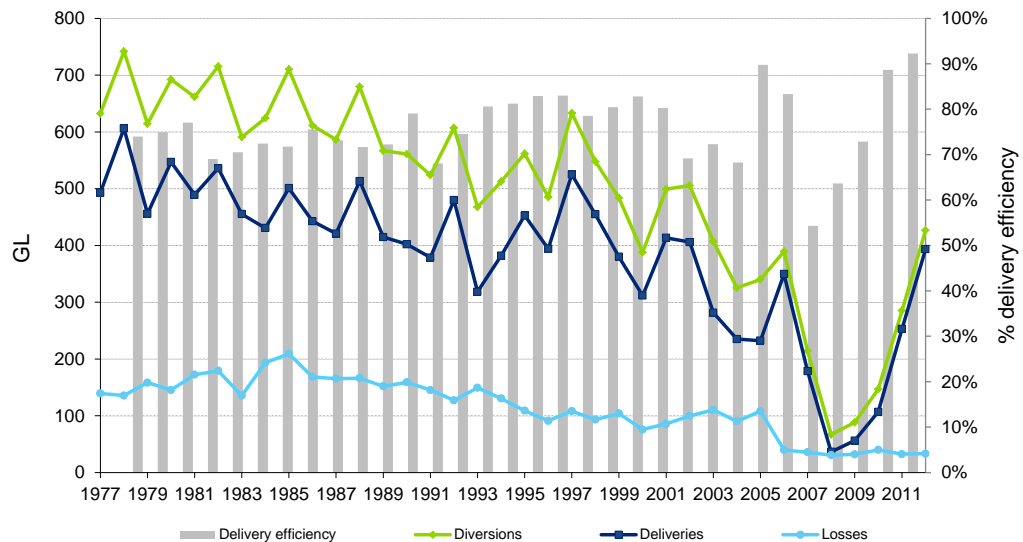
**Historical service delivery standards**

While there is no public information on historical performance for the particular service standards that are outlined in the NSP or annual reports, CICL has provided us with historical information that has been collected internally.

Figure 4-1 shows a time series of CICL’s diversions, deliveries, losses and delivery efficiency from 1977 to 2012. The chart shows:

- Losses (the difference between diversions and deliveries) show a steadily declining trend from 1985 (209 GL) to 1996 (91 GL) which is in line with declining diversions and deliveries over this time. Losses are then steady from 1997 to 2005.
- In 2005, there is a step change reduction in losses which coincides with the implementation of TCC at this time. Losses have remained low since 2005 despite high variability in deliveries.
- Delivery efficiency (deliveries as a % of diversions) is heavily affected by the level of allocations, being low in low allocation years and higher in high allocation years. Nevertheless, since the implementation of TCC in 2005, CICL have recorded four years where efficiency was 83% or above. For the years prior to this, 83% efficiency was achieved in only three of the 28 years.

**Figure 4-1 CICL diversions, deliveries, losses and delivery efficiency 1977 to 2012**



Source: CICL

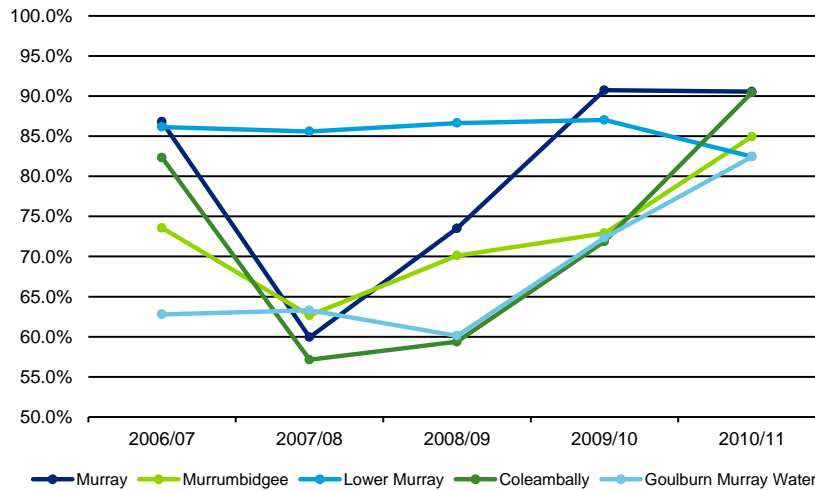
Figure 4-2 benchmarks this delivery efficiency with other rural water providers with data sourced from the rural NPR 2010-11. This chart shows that:

- The majority of providers improved delivery efficiency since 2007-08 due to recovery from low allocation years.<sup>1</sup>

<sup>1</sup> Planned deliveries represents planned deliveries as a percentage of supply network intake volume

- CICL delivery efficiency is currently at around 90% (2010-11) which is the equal highest of the utilities presented

**Figure 4-2 Supply network delivery efficiency (%)**



Source: NWC (2012), *National Performance Report for rural water providers*

## 4.3 Conclusion

We note that CICL has not reported historical customer service levels for metrics other than delivery efficiency and water losses. It is therefore difficult to assess whether service standards have improved or declined over time and how this has impacted on the business and its customers. However we have not come across any evidence to suggest that customers are dissatisfied with customer service levels.

We support CICL's commitment to establish and maintain a service delivery efficiency database and an emergency response database and the subsequent reporting of historical time series of data in future annual reports. We note that, as part of its business review, CICL may also identify further customer service metrics that should be reported.

We suggest performance metrics be published regularly (i.e. monthly or quarterly depending on frequency of data collection) on CICL's website or in regular customer publications.

# 5 Demand

In this chapter we review CICL's assumptions regarding water use forecasts and the level of delivery and water entitlements.

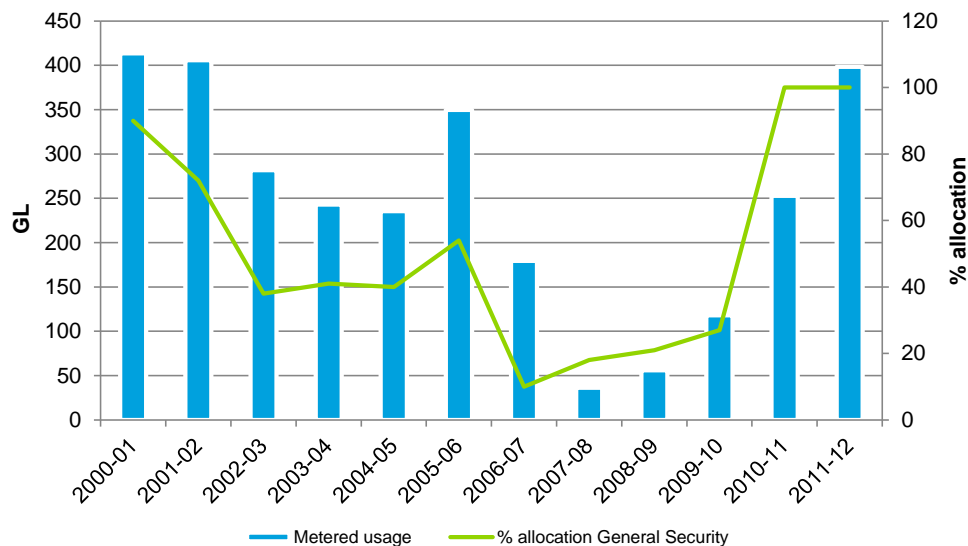
Many external factors affect these parameters including rainfall, water allocations, conditions in commodity markets and customers exiting and entering the industry.

## 5.1 Forecasts

CICL has not provided forecast of water usage in its NSP. CICL advised that this is because water sales do not affect revenues due to costs and tariffs being fixed.

In terms of historical demand, CICL has recorded high variability in the last ten years (see Figure 5-1) which trends generally in line with GS allocations. CICL recorded water sales of almost 400 GL in 2011-12 when allocations were 100%.

**Figure 5-1 CICL historical water usage and % allocation from 2000-01 to 2011-12**



Source: CICL internal data

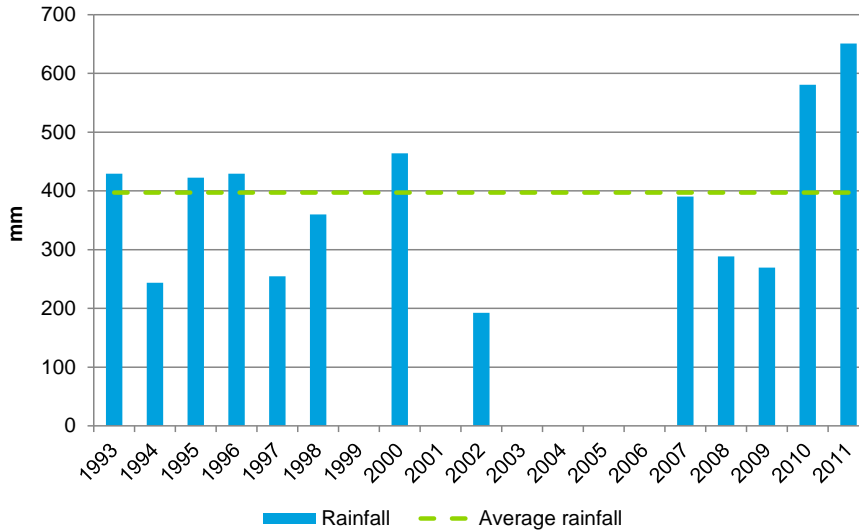
### Factors affecting historical demand

Some of the key factors influencing historical CICL water usage include:

- 96% of CICL customers hold GS water entitlements which are allocated after local water utility, major water utility, stock and domestic and major water and HS entitlements when water is scarce.
- Rainfall over the past ten years has varied significantly in CICL's area of operations, resulting in years of drought and flood events. 2008-09 was particularly dry while 2010-11 was particularly wet (see Figure 5-2). The higher than average rainfall in these years has had a moderating effect on the speed of demand bounce back for irrigation water post the drought. For example, despite 100% allocations, water sales in 2010-11 were just over 250 GL.
- Average or below average rainfall in the region for the years 2002 to 2009 meant that the major Murrumbidgee River storages (Burrinjuck and Blowering Dams) have gradually declined on average over this time (see Figure 5-3). In 2010 and 2011, above average rainfall replenished storages.

- Figure 5-4 shows the relationship between water entitlements and delivery entitlements. In dry periods, such as 2006 to 2009, GS water entitlements and delivery entitlements declined. Various programs to purchase water for the environment have resulted in a 79 GL reduction in GS water entitlements from 1999-00 to 2010-11. All things being equal, this translates into less water sales.

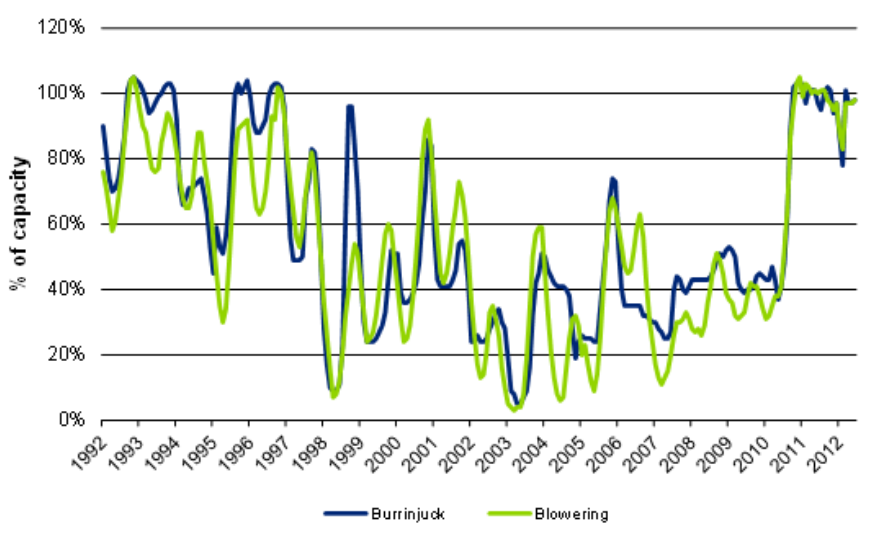
**Figure 5-2 Historical rainfall in the Coleambally region 1993-2011**



Source: Bureau of Meteorology, *Coleambally weather station*, 2012

Note: Data for 1999, 2001 and 2003 to 2006 was unavailable

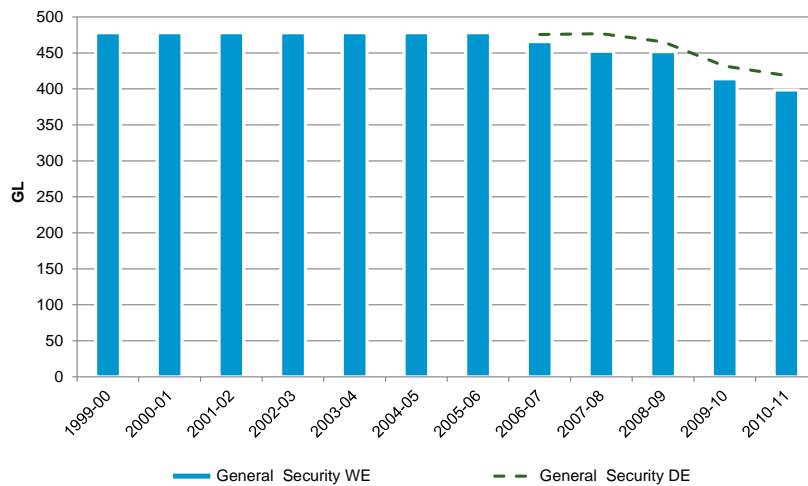
**Figure 5-3 Key Murrumbidgee storages: Burrinjuck and Blowering historical % dam levels**



Source: NSW Department of Primary Industries *Real-time data*, 2012



**Figure 5-4 CICL Water Entitlements and Delivery Entitlements from 1999-2000 to 2010-11**



Source: CICL internal data

As with water sales, CICL does not forecast the level of water entitlements and delivery entitlements held by its customers. Although delivery entitlements are an important determinant of annual revenue (and hence prices) CICL notes that in the event that if delivery entitlements are surrendered during the NSP period the loss of annual tariff revenue will be more than compensated for by the payment of termination fees. However, in the longer term there will be implications for prices as termination fee revenue falls below the level of lost annual revenue.

## 5.2 Discussion

While we note that water sales are unrelated to revenue, we consider that having a broad view on potential sales is likely to:

- Allow CICL to form a view on whether capacity issues or delivery constraints are likely to exist (we note that a key justification for the balancing storage is to better enable CICL to meet spikes in demand) and to form plans to address them.
- Assist with the planning of maintenance requirements.
- Forecast expenditure required to cover bulk costs associated with conveyance losses.

We agree with CICL that there will come a time when the termination of delivery entitlements will have a bearing on charges, and that delivery system rationalisation or price increases will occur as a result. Therefore we also suggest that it would be prudent for CICL to forecast the level of delivery entitlements in order to provide a view of the time at which this will occur.

## 5.3 Conclusion

For the reasons discussed above we suggest that CICL prepare high-level forecasts of usage and the level of delivery entitlements over the NSP period and include them in the NSP.

# 6 Operating expenditure

This chapter outlines our review of CICL's forecast operating expenditure. Our review uses a combination of historical operating expenditure, benchmarking and our experience in other similar reviews to inform our assessment and conclusions of forecast expenditure. We assess whether the escalation factors applied are reasonable, and provide a conclusion on whether operating expenditure is prudent and efficient.

Note that all values in this section are expressed in nominal terms (i.e. dollars of the day), rather than real terms (inflation-adjusted). Unless otherwise indicated, CICL uses a 3% annual inflation figure to scale its expenditure in line with the CPI.

## 6.1 Overview of historical operating expenditure

We have considered the key cost categories of operations costs (which include maintenance expenses), wages and on-costs, administration, motor vehicles and plant, depreciation, and other expenses.

Table 6-1 shows CICL's actual operating expenditure by these major cost categories from 2007-08 to 2010-11.

Some key observations on historical costs include:

- Total operating expenditure increased from \$6.2m in 2007-08 to \$7.3m in 2010-11 which is a nominal increase of 18% over the period.
- Salaries and wages was the largest cost item in 2010-11 with \$2.7m (37% of total operating expenditure), followed by operations (\$2.1m) which contributed 33%.
- Depreciation is the third largest cost item and contains both infrastructure and non-infrastructure items. Only non-infrastructure depreciation is reflected in charges.

**Table 6-1 CICL actual operating expenditure, 2007-08 to 2010-11 (\$'000, nominal dollars)**

Operating expenditure	2007-08	2008-09	2009-10	2010-11
Operations	2,100	2,350	2,683	2,381
Salary and wages	2,133	2,314	2,791	2,676
Plant & vehicle	187	161	165	185
Depreciation	1,476	1,569	1,808	1,636
Administration	180	404	301	317
Other expenses	86	113	94	86
<b>Operating expenditure</b>	<b>6,162</b>	<b>6,911</b>	<b>7,842</b>	<b>7,281</b>

Source: CICL financial model 2012 and CICL NSP 2012

Note: Total operating expenditure figures have been taken from the CICL internal model and represent revised figures. In particular, figures for the years 2009-10 and 2010-11 differ from those published in the NSP.

### **Benchmarking**

We conducted some high level benchmarking of operations and maintenance expenses for gravity systems against other rural water service providers in the southern Murray Darling Basin. We used information from the latest *National Performance Report rural water service providers* (the rural NPR).<sup>2</sup> We normalised operational costs against the number of customer accounts and against the length of the gravity system carrier length.

The purpose of the benchmarking exercise is to provide a high level indication of any outlying utility results and, if there are any outlying utilities, prompt further investigation as to the reasons for those results.

Furthermore, it must be noted, that the following benchmarking does not provide a definitive guide as to whether a utility is efficient or not as there are many factors affecting performance that cannot be accounted for in this exercise. Moreover, the rural NPR data is not audited and is still in the process of developing consistent definitions across all rural providers. Therefore results must be interpreted with caution.

The NWC currently defines operations expenditure as:

- Rural water service delivery including activities such as water ordering, planning delivery, meter reading, pumping costs, monitoring and operating assets
- Asset maintenance and repair
- All remaining rural water services recurrent expenditure related to rural water service provision, excluding operations and maintenance expenditure. This may include billing, customer enquiries, corporate support, board management, taxes (or payments under TER-taxation equivalent regime) and interest payments.<sup>3</sup>
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<sup>2</sup> National Water Commission, 2012 *National Performance Report rural water service providers*

<sup>3</sup> National Water Commission, 2010-11 *National Performance Framework – rural indicators and definitions handbook*, (p69)

- Figure 6-1 and

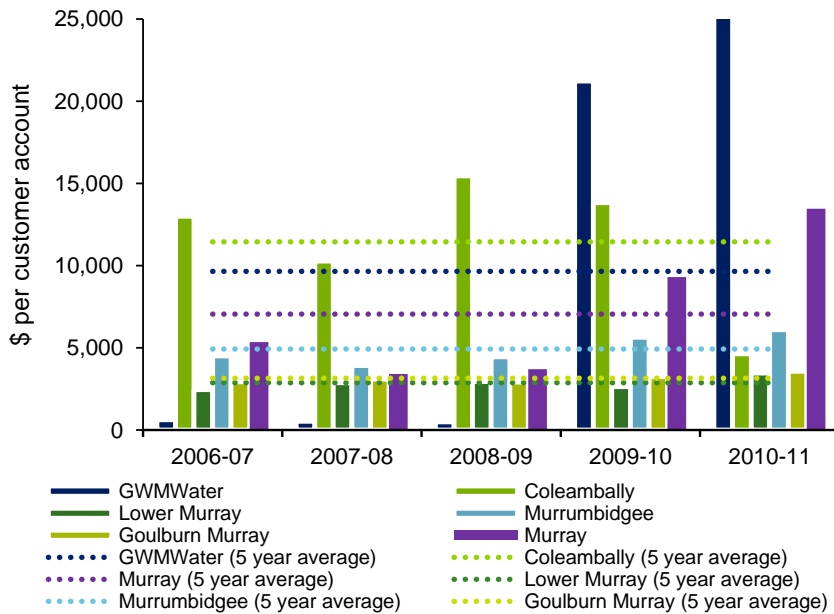
Figure 6-2 depict operating expenditure from the gravity systems of the respective providers across the period 2006-07 to 2010-11. The results below show that:

- CICL has the highest five-year average operating costs per customer account (

- Figure 6-1)
- CICL has the second highest five-year average operating costs per km of carrier length (
- Figure 6-2). Although we note that two other utilities (Murray and Goulburn Murray) recorded a similar five-year average.

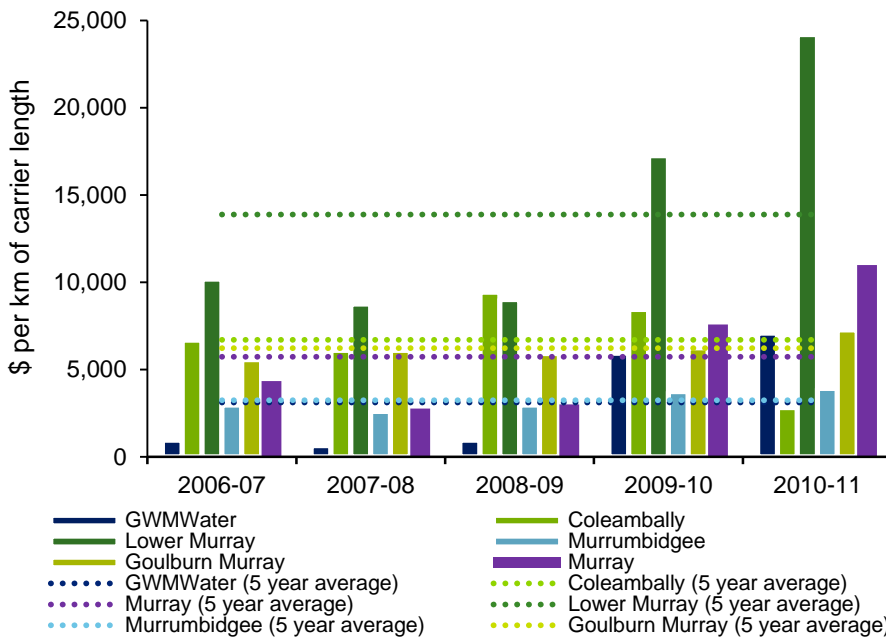
These results suggest that CICL's average operating expenditure is not an outlier with respect to its peer group.

**Figure 6-1 Gravity system operating expenditure per customer account 2006-07 to 2010-11**



Source: National Water Commission (2012) *National Performance Report rural water service providers 2010-11*

**Figure 6-2 Gravity system operating expenditure per km of carrier length 2006-07 to 2010-11**



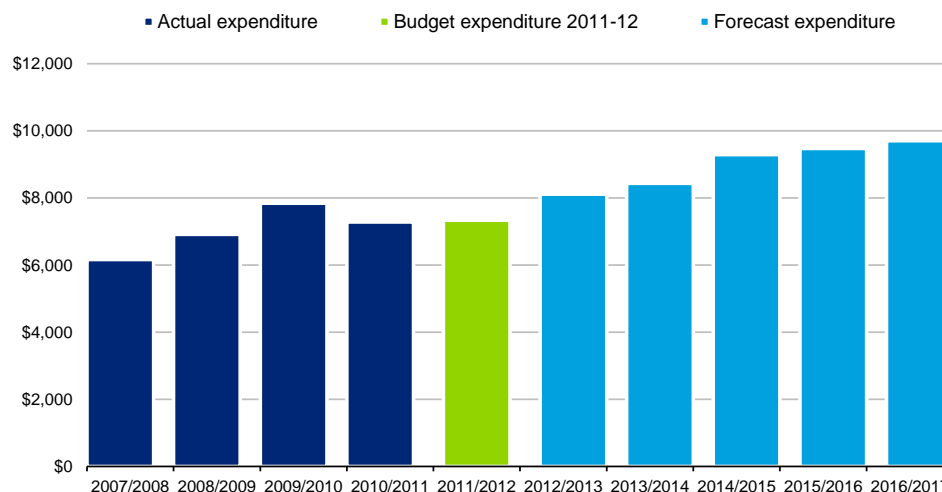
Source: National Water Commission (2012) *National Performance Report rural water service providers 2010-11*

## 6.2 Overview of forecast operating expenditure

Figure 6-3 shows historical and forecast expenditure for CICL. Table 6-2 shows a breakdown of forecast expenditure by major cost item over the course of the NSP.

CICL has forecast large increases in operating expenditure, particularly in 2013-14 (11% increase from 2012-13) and 2014-15 (10% increase from 2013-14). Salaries and wages contribute the most to this increase, increasing by 48% from 2011-12 to 2016-17.

**Figure 6-3 CICL actual and forecast operating expenditure, 2007-08 to 2016-17 (\$'000, nominal dollars)**



Source: CICL internal model

**Table 6-2 CICL forecast operating expenditure, 2010-11 to 2016-17 (\$'000s, nominal dollars)**

OPEX item	Actual	Budget	Network Service Plan forecast				
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Operations	2381	2755	3098	2668	2915	3002	3092
Salary and wages	2676	2464	2595	3057	3443	3547	3653
Plant and vehicle	185	79	233	255	288	297	306
Administration	317	338	349	353	372	384	395
Depreciation	1636	1607	1739	2010	2173	2144	2155
Other expenses	86	92	100	92	95	98	101
<b>Total operating expenditure</b>	<b>7281</b>	<b>7334</b>	<b>8114</b>	<b>8432</b>	<b>9286</b>	<b>9471</b>	<b>9701</b>

Source: CICL NSP 2012, CICL financial model 2012

Note: Figures have been taken from the CICL internal model and represent revised totals. In particular, figures for the years 2009-10 to 2012-13 differ from those published in the NSP

### Accounting issue

The increase in costs is mainly attributable to the different accounting for the PIIOP program between historical and forecast costs, meaning that the time series is not comparing like with like. CICL advised that historical (2007-08 to 2010-11) and budget expenditure for 2011-12 to 2012-13 has capitalised some costs as part of the PIIOP program, but that there is no estimate of capitalised costs for this program for the forecast years. Therefore forecasts are artificially higher than they actually will be (assuming the PIIOP program is rolled out for the NSP years). CICL advised that the reason for no estimation of capital costs was due to expenditure for PIIOP being unknown at this stage.

The major cost items affected by this issue include 'salary and wages', 'plant and vehicle' and 'administration' expenses. In the discussion of each of these items (below), we have provided an

estimate for PIIOP capitalisation. This is done using the average capitalisation over the last five years (2007-08 to 2011-12). The purpose of using the average capitalisation is to show the potential impact that capitalisation under PIIOP can have on forecast costs. Note however, we are not suggesting that average capitalisation should be applied. While we acknowledge that PIIOP round 2 funding is still under negotiation, we recommend that CICL provides an estimate of capitalisation based on what is known about the PIIOP program (even if this is shown separately or explained in the NSP). We consider the current presentation of operating costs has the potential to be misinterpreted.

## 6.3 Operating expenditure items

### 6.3.1 Operations (and maintenance) costs

Operations and maintenance (O&M) costs represent the second largest component of CICL's overall operating expenditure. Some of the major operations cost items are:

- Contractors (around 45% of total costs)
- Materials for repairs and maintenance (around 20% of total)
- Consultants (10%)
- Legal expenditure (6%)
- Electricity (5%)
- Rates (3%)

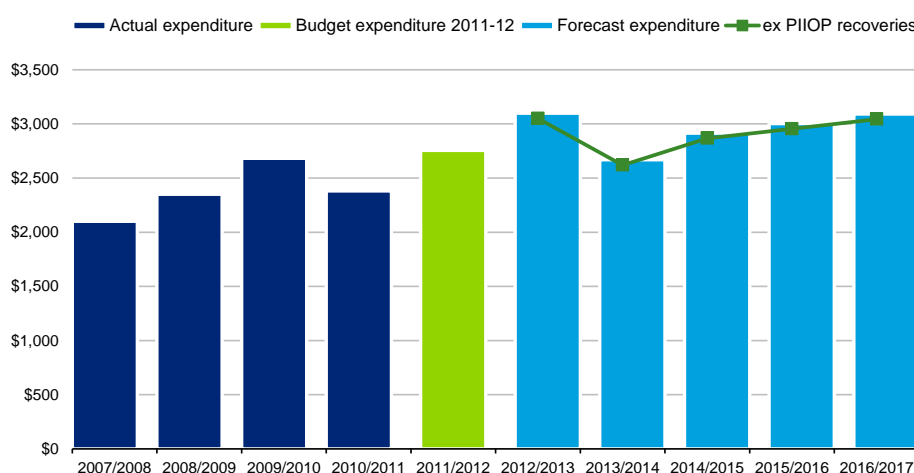
#### Cost changes

Figure 6-4 shows CICL's historical and forecast O&M costs. CICL had \$12.3m in O&M expenditure for the five years from 2007-08 to 2011-12. CICL forecasts operations costs of \$14.8m for the five years to 2016-17. In real terms (assuming 3% inflation), this represents a 14% increase.

CICL has applied a 3% inflation factor to forecast costs using 2011-12 as the base year. In real terms CICL expects costs to be static from 2012-13 to 2016-17.

As discussed, many cost items have included a recovery amount for PIIOP expenditure for historical figures but there has been no estimate made for the forecast figures (therefore forecast figures appear higher than they actually will be). For O&M costs, the effect of PIIOP recoveries on the figures is less pronounced than some of the other cost items (i.e. 2011-12 recovery was \$45,000 or 2% of O&M costs). Nevertheless, we have shown the impact that PIIOP may have on the forecast figures in Figure 6-4 by applying the average annual recovery figure for the last five years (of \$48,000) to forecasts.



**Figure 6-4 CICL actual and forecast O&M costs, 2007-08 to 2016-17 (\$'000, nominal dollars)**

Source: CICL NSP 2012, CICL internal model 2012

Note: CICL has provided Deloitte with updated figures since the NSP was published. In particular, 2009-10 to 2012-13 differ from those published in the NSP.

## Discussion

### Cost increases

CICL is forecasting a 14% total increase in O&M costs for the five years of the NSP compared to the total for five years prior to the NSP. From 2007-08 to 2011-12, there is a 7% real annual increase in operations costs.

### Yearly fluctuations

There are large fluctuations in operations costs over the time series. Yearly changes of greater than 10% are common. CICL advised that this fluctuation reflects the nature of operation and maintenance schedules, where there can be large variations year on year due to the short timeframe for maintenance (i.e. for the two months when the system shuts down over winter). For example, unfavourable weather conditions or availability of contractors can push maintenance from one year to the next. Also, materials for repairs and maintenance (R&M) may be purchased in bulk in one year, yet be meeting the needs of several years of a maintenance program.

In terms of some of the larger yearly changes in operations expenditure:

- The 11% decline in 2010-11 was due to R&M Materials being unusually high in 2009-10 (\$0.95m). In 2010-11, R&M materials was \$0.3m (a decline of \$0.65m)
- The 16% increase in 2011-12 was principally due to an increase in contractor expenditure, which increased by 85% (or \$0.75m), and R&M Materials which doubled (from \$0.3m to \$0.6m)
- The 12% increase in 2012-13 was mainly due to R&M Materials increasing to \$1m (from \$0.6m) and consultant costs increasing to \$0.35m (from \$0.13m).
- The 14% decrease in 2013-14 is not immediately obvious from the data provided by CICL, although we note the relatively high R&M materials expenditure in 2012-13.

CICL advised that much of the above fluctuations is a consequence of timing with CICL's major works period being May to August i.e. spanning two accounting years.

### Productivity

CICL has not made an assumption with regard to productivity gains for salary and wages costs. Other recent regulatory decisions regarding efficiency of costs include:

- In 2010, the Independent Pricing and Regulatory Tribunal (IPART) decided that State Water Corporation should achieve efficiency gains of 0.8%, 1.2%, 1.1% and 1.3% for the four years to 2013-14. These gains were in addition to the 0.6%, 2.0%, 4.1% and 5.9% efficiency savings proposed by State Water over the same time period.<sup>4</sup>
- In 2011, the Essential Services Commission's (ESC) released a guidance paper regarding its 2013 review of the Victorian water businesses (which included the rural water suppliers). This paper outlined the ESC's requirement that all businesses achieve a minimum of 1% per annum productivity improvement on baseline operating expenditure.<sup>5</sup>

## Conclusion

In relation to all cost categories, we suggest that CICL provide more commentary in the NSP on the assumptions underpinning forecast costs and the reasons for fluctuations in costs in any particular year. This would provide clearer information for CICL's customers. In addition, we suggest that CICL present PIIOP recoveries separately (this applies to all cost categories), or estimate the amount of recoveries in the forecast costs. This will improve transparency for customers and enable a like for like comparison between historical and forecast costs.

We note, however, that CICL has not factored in any productivity gains for any of its cost categories. We consider it would not be unreasonable to expect that ongoing real reductions in costs the order of 0.5% to 1% per annum are achievable across total operations, maintenance and administration costs. The benchmark results at Section 6.1 and 6.3.4 would suggest there is room for some efficiency gains.

### 6.3.2 Salaries and wages

CICL has 27.7 FTE employees. Some major items in this category are:

- Salaries and wages
- Payroll tax
- Annual and long service leave
- Bonuses and termination payments
- Superannuation
- Contract Director Fees
- Workers compensation.

### Cost changes

CICL reported salaries and wage expenses totalling \$12.4m from 2007-08 to 2011-12 at a compound annual growth rate of approximately 4%. It forecasts salaries and wages of \$16.3m for the five years to 2016-17 (however as noted the forecasts do not account for PIIOP recoveries).

The effect of PIIOP recoveries on salaries and wages is the most pronounced of all cost categories. We have shown the impact that PIIOP may have on the forecast figures in Figure 6-5 by applying the average annual recovery figure for the last five years (of \$0.55m) to forecasts.

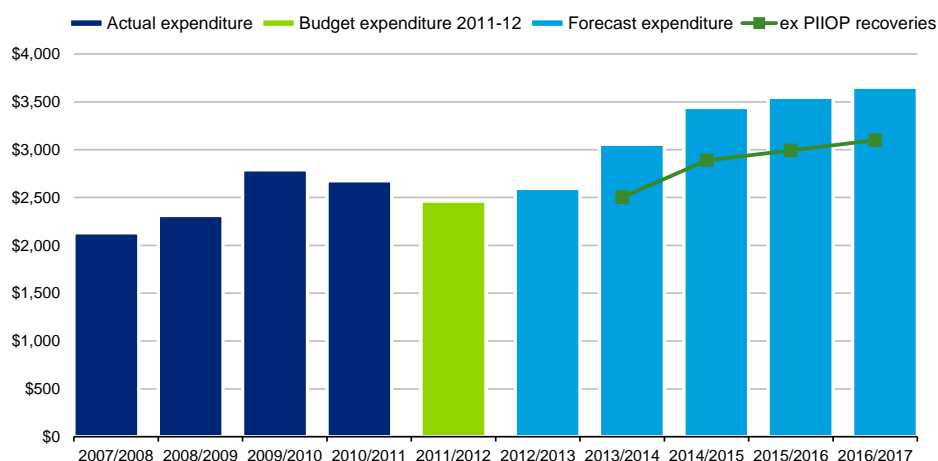
Should this PIIOP recovery assumption be correct, CICL's salary and wage costs for the NSP years will total \$14.1m, which is a real increase of 7% from the previous five years (assuming 4% nominal increase to 2013-14 and 3% thereafter).

CICL advised that it applied an increase of 4% to salary and wage costs for 2012-13 as specified in its employee contract agreement. It has then applied a 3% factor thereafter (in line with the CPI).

<sup>4</sup> IPART 2010, *Review of bulk water charges for State Water Corporation – Final Report* (June 2010) (p.73)

<sup>5</sup> ESC 2011, *2013 Water Price Review – Guidance on water plans* (October 2011)

**Figure 6-5 CICL actual and forecast wages and on-costs, 2007-08 to 2016-17 (\$'000, nominal dollars)**



Source: CICL NSP 2012, CICL internal data

Note: Figures have been taken from the CICL internal model and represent revised totals. In particular, figures for the years 2009-10 to 2012-13 differ from those published in the NSP

## Discussion

### Historical fluctuations

There are some fluctuations over historical salary and wages costs. In terms of some of the larger changes in costs:

- The increase in 2009-10 was predominantly due to an increase in staff and also bonus/termination payments.
- The decrease in 2010-11 was due to a reduction in staff and decrease in bonus/termination payments
- The decrease in 2011-12 was due to an increase in the amount of capitalised costs that were removed and allocated to PIIOP

### Workforce challenges

Salaries and wages represent the majority of CICL's historical operating expenditure. CICL has some unique issues associated with operating a high-tech delivery system in an isolated area with a small workforce. These include:

- The small local labour pool means that CICL is required to source experienced staff well beyond the local labour market
- A small workforce (27 FTE) means that there are significant challenges associated in managing the absence of a staff member

CICL advised that it places considerable importance on staff retention. For example, CICL retained a number of staff at the time that Land & Water Management Plan (LWMP) obligations were reduced. These same staff, however, were utilised in preparing for the two rounds of PIIOP funding and subsequently to manage those projects. CICL, therefore, has been able to offset a portion of its salaries and wages under contractual arrangements with Government, such as in PIIOP, or by a special purpose levy (no longer charged) under the Land & Water Management Plan (LWMP).

CICL advised that it restructured its workforce in 2009-10 and has no plans for further restructuring during the life of the NSP unless the business review identifies the need for such a change.

### Escalation factors

We have reviewed whether the above escalation factors applied to salaries and wages are reasonable, using Deloitte Access Economics' March 2012 *Business Outlook* publication. This publication contains forecasts of key economic indicators to 2015-16, including wages (as measured by the Labour Price Index) and the CPI.

The 4% factor applied to salary and wage costs for 2012-13 is consistent with the Deloitte Access Economics (DAE) Business Outlook forecast growth for 2012-13 (see Table 6-3). The 3% factor that has been applied thereafter, however, is lower than median forecasts. As shown in Table 6-3 the DAE forecasts suggests that average wage growth will be 1.2% in real terms (assuming a 2.7% average inflation factor). CICL has assumed no change to unit wage costs in real terms.

**Table 6-3 Deloitte forecast wage and CPI growth, 2012-13 to 2016-17 (annual percentage change from previous year)**

	2012-13	2013-14	2014-15	2015-16	2016-17	Average annual change
Deloitte forecast wage growth	4%	4.2%	4.3%	3.6%	3.6%	3.9%
Deloitte forecast CPI growth (Headline CPI index)	3.2%	2.8%	2.6%	2.5%	2.5%	2.7%

Note: 2016-17 values are assumed to be equal to 2015-16 value due to data unavailability.

Source: Deloitte Access Economics 2012, Business Outlook (March 2012)

### Conclusion

Comments made for O&M costs with regards to information on assumptions and forecasting PIIOP capitalised costs also apply to salary and wages costs.

The assumptions underpinning salary and wage costs with regard to inflation appear reasonable. While CICL has forecast no productivity savings, it has also forecast low wages growth. In combination, the outcome of these two assumptions appears reasonable.

### 6.3.3 Plant and Vehicle (PV)

CICL's PV expenditure consists of the following major items:

- Fuel and lubrication
- Repairs and maintenance
- Insurance
- Registration
- General plant expenses

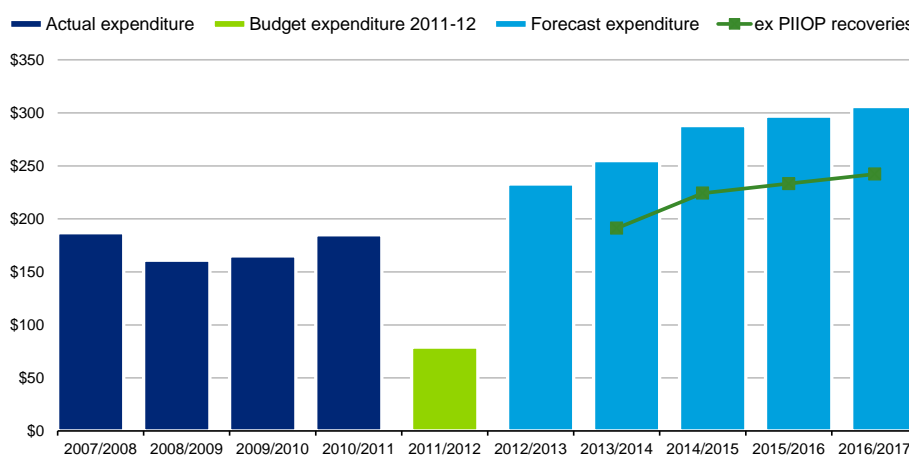
### Cost changes

Figure 6-6 shows CICL's historical and forecast PV costs.

CICL's total nominal PV costs for the five years to 2016-17 is \$1.38m which is a 78% increase from the total of the five years to 2011-12 (of \$0.78m). CICL has applied a 3% inflation factor to its forecast costs.

The effect of PIIOP recoveries on PV costs is significant. In 2011-12, \$170,000 PV costs were capitalised and allocated to PIIOP, resulting in the very low PV cost figure of \$79,000. We have also shown the impact that PIIOP may have on the forecast figures in Figure 6-5 by applying the average annual recovery figure for the last five years (of \$64,000) to forecasts.

**Figure 6-6 CICL actual and forecast plant and vehicle expenditure, 2007-08 to 2016-17 (\$000, nominal dollars)**



Source: CICL internal model

Note: Figures have been taken from the CICL internal model and represent revised totals

## Discussion

### PIIOP

CICL advised that the PIIOP has significantly added to PV historical costs. This is due to increased activity of CICL staff to manage PIIOP programs. For example, CICL regularly visits over 100 farms that were not previously visited, to conduct monitoring activities in relation to the PIIOP program. This has particularly increased fuel and vehicle maintenance costs.

Therefore, the dramatic increase in budget PV expenses in 2012-13 is attributable to the fact that CICL has not included PIIOP recoveries in that period. As mentioned, in 2011-12, \$170,000 PV costs were capitalised and allocated to PIIOP, resulting in the very low PV cost figure.

### Conclusion

CICL PV cost forecasts appear reasonable, if PIIOP related travel expenses are excluded from the forecasts.

The recommendations made for O&M costs with regards to; CICL providing more information on assumptions in the NSP, separating PIIOP expenditure, and applying a productivity factor; also apply to PV costs.

## 6.3.4 Administration

CICL's administration expenditure comprises the following key items:

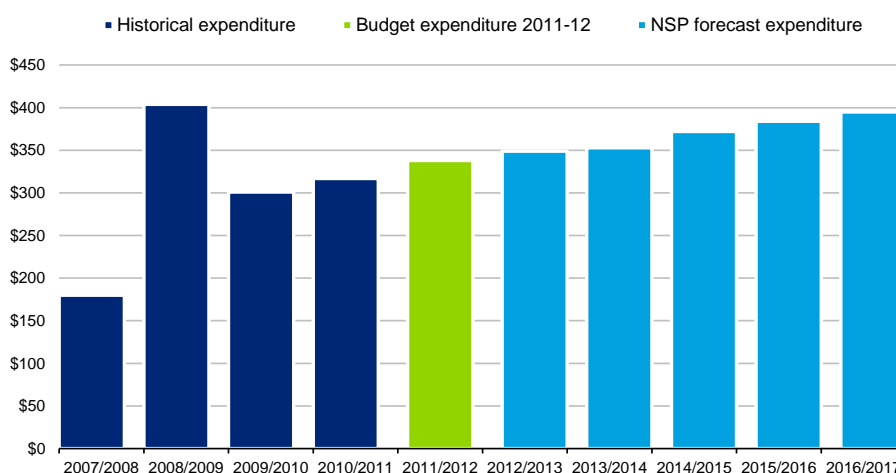
- Auditors
- Books, periodicals and printing
- Membership fees
- In-house printing
- Service agreements
- Communications
- Electricity

## Cost changes

Figure 6-7 shows CICL historical and forecast administration costs. CICL's historical administration expenses experienced large changes from 2007-08 to 2009-10 as shown in Figure 6-7. For the five years to 2011-12, CICL's administration expenses totalled \$1.5m. Administration expenses are forecast to be \$1.9m for the five years to 2016-17.

CICL has applied a 3% inflation factor to its forecast administration costs, therefore CICL are expecting administration costs to not change in real terms. We have assumed that an estimate for PIIOP recoveries are included in the forecast numbers (unlike other cost categories), but we will confirm this with CICL for the final report.

**Figure 6-7 CICL actual and forecast administration costs, 2007-08 to 2016-17 (\$'000, nominal dollars)**



Source: CICL internal model

Note: Figures have been taken from the CICL internal model and represent revised totals

## Discussion

### Large changes

The dramatic increase in administration costs in 2008-09 can be attributed mainly to a \$0.1m increase in service agreements and a \$0.1m decrease in PIIOP recoveries from 2007-08.

The decrease in 2009-10 can be attributed to an \$89,000 increase in PIIOP recoveries and \$27,000 reduction in membership fees.

### Benchmarking

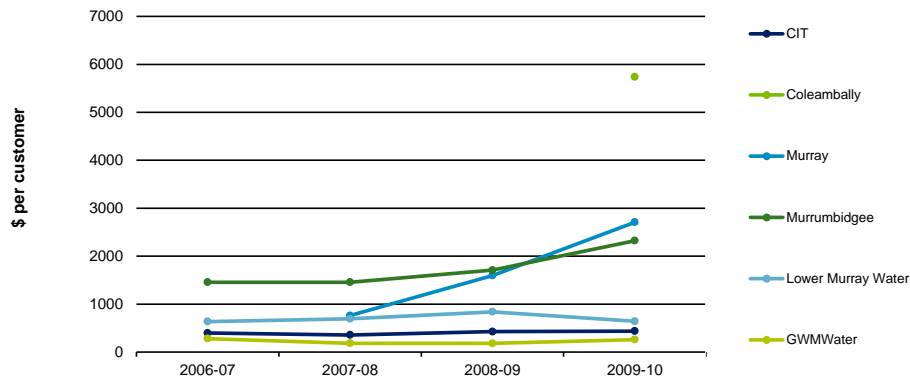
We have conducted some high level benchmarking of administration against other rural water service providers using information from the 2009-10 *National Performance Report rural water service providers* (National Water Commission, 2011). The 2009-10 report is used in this instance (instead of the latest 2010-11 report), as the 2010-11 report does not provide a separate breakdown of operations, maintenance and administration (OMA) costs, only aggregate OMA costs.

The results below show that for administration expenditure CICL was the:

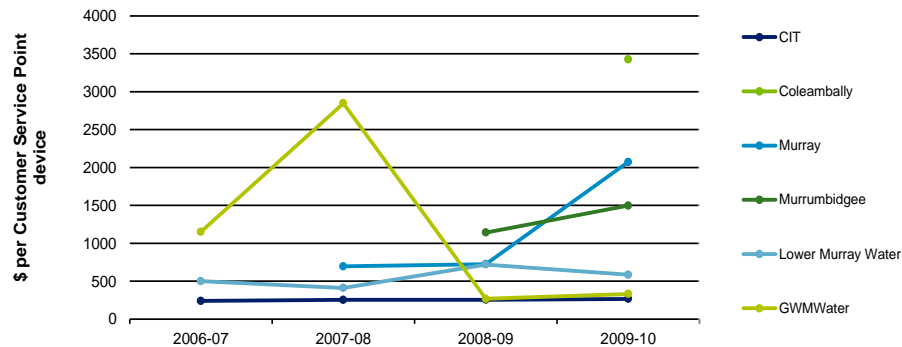
- Highest of six providers per customer for 2009-10 and around double the next highest business (Figure 6-8)
- Highest of six providers per CSP measurement device for 2009-10 (Figure 6-9)
- Third lowest of six providers per km of carrier length for 2009-10 (Figure 6-10)
- Third lowest of six providers per \$ of water service revenue for 2009-10 (Figure 6-11)

Administration costs are comparatively high for CICL per customer and CSP measurement device in 2009-10, however as CICL has only reported one year of data for administration costs, it is difficult to draw any conclusions. CICL's NSP shows that administration costs are quite 'lumpy' for 2007-08 and 2008-09, although is expected to increase more incrementally from 2009-10 onwards. However, the NSP historical figures do not include labour costs while the NPR does include them, so these figures are not directly comparable.

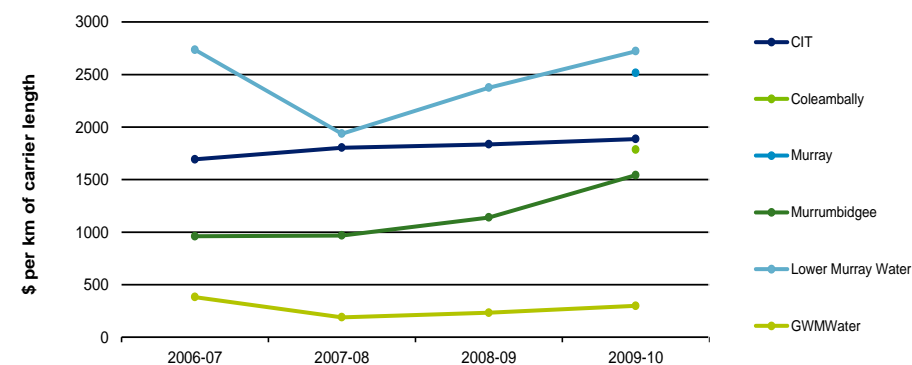
**Figure 6-8 Administration expenditure \$ per customer 2006-07 to 2009-10**

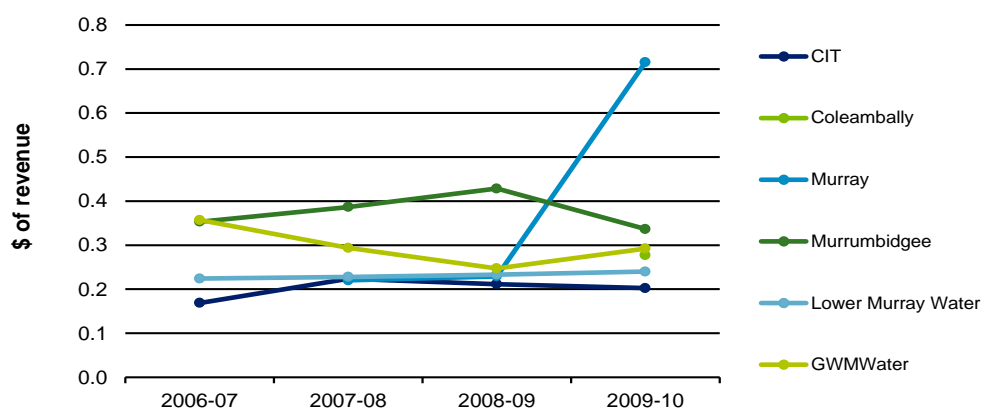


**Figure 6-9 Administration expenditure \$ per CSP measurement device 2006-07 to 2009-10**



**Figure 6-10 Administration expenditure \$ per km of carrier main 2006-07 to 2009-10**



**Figure 6-11 Administration expenditure per \$ of water service revenue 2006-07 to 2009-10**

## Conclusion

CICL's assumption of 3% applied to forecast administration costs appears reasonable.

The conclusion for O&M costs is also applicable to administration costs with regards to:

- Providing more information on assumptions in the NSP
- Forecasting PIIOP expenditure and recoveries
- Applying a productivity factor to costs

## 6.3.5 Depreciation

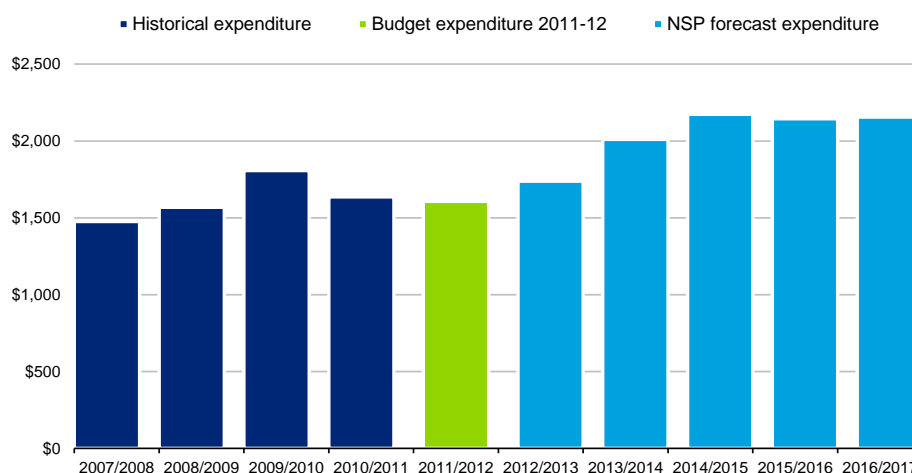
CICL's depreciation expenditure for 2011-12 is budgeted to be \$1.6m. It is based on the following items:

- Infrastructure
- Bridges
- Water Distribution assets
- Buildings
- Plant
- Motor vehicles
- Office equipment and software.

## Cost changes

Figure 6-12 shows CICL's historical and forecast depreciation costs. For the five years to 2011-12, CICL had a total of \$8.1m in depreciation expenditure. CICL forecasts depreciation expenditure of \$10.2m for the five years to 2016-17.



**Figure 6-12 CICL actual and forecast depreciation expenditure, 2007-08 to 2016-17 (\$000, nominal)**

Source: CICL NSP 2012

## Discussion

Depreciation on infrastructure is the major historical contributor to this category. Over the last five years, infrastructure depreciation consisted of an average 67% to the total depreciation expense. We understand that infrastructure depreciation is not recovered through customer charges. Future asset replacement is instead provided for through the asset replacement reserve, which is funded through customers' CIMCL annual member contribution (see Table 8-2). Therefore, this leaves around \$0.7m of non-infrastructure depreciation to be recovered through regulated water charges.

CICL advised that depreciation charges were expected to increase through PIIOP-funded assets entering CICL's balance sheet.

## Conclusion

While it is forecast for depreciation expenditure to increase, the majority of this increase is from PIIOP-funded assets which are not recovered through regulated charges. The non-infrastructure depreciation component appears to be reasonable.

### 6.3.6 Other expenses

The major historical contributor to this category is General Insurance, which contributed 96% of 'other expenses' in 2011-12. Over the forecast period, CICL advised that it is anticipating increases in general insurance as greater expenditure on infrastructure and other assets will require greater insurance coverage. However, as shown in Table 6-4, CICL has forecast an 8% reduction in 2013-14, and an increase of 3% consistent with inflation thereafter.

**Table 6-4 CICL's total operations cost projections with and without PIIOP recoveries (\$000, nominal dollars)**

	2012-13	2013-14	2014-15	2015-16	2016-17
Total 'other expenses' incl. recoveries	100	92	95	98	101
Annual growth rate	-	-8%	3%	3%	3%

Source: CICL internal model

## Conclusion

While the forecast for general insurance does not appear overly high, we suggest that CICL include the forecasting assumptions. CICL advised that its general insurance costs are expected to increase

(and we understand that at least one other rural water business experienced a significant increase in insurance costs in 2012-13) however the figures currently show insurance expenditure decreasing or remaining static in real terms.

# 7 Capital expenditure

This chapter outlines our review of historical and forecast capital expenditure. Our review uses the historical capital expenditure to inform our assessment and conclusions of forecast expenditure. Our review includes an assessment of the largest capital projects and also investigates capital escalation factors, strategic asset planning, and assumptions on the economic life of assets. We provide a conclusion on whether capital expenditure is prudent and efficient.

## 7.1 Overview of historical capital expenditure

The NSP provides information, to varying degrees, on the following:

- Forecast company-funded capital expenditure.
- Non-routine R&M partially funded by the company
- Major Private Irrigation Infrastructure Operators Program' (PIIOP) Round 1 funded R&M Upgrades.
- Planned System Upgrades funded by PIIOP Round 2.

The remainder of R&M expenditure shown in the NSP is classified as routine. Accordingly, this has not been considered in this section.

The NSP does not provide any specific information on historical company funded capital expenditure.

In relation to PIIOP funded R&M upgrades and System Upgrades, the NSP contains the original cost estimates for 2011-12 but no details of the actual spend. However, CICL has advised that PIIOP funded works are 'on time and within budget'.

## 7.2 Overview of forecast capital expenditure

Table 7-1 shows the total forecast company-funded capital expenditure for the next five years as shown in the NSP. Only the total figures were provided in the NSP. Upon request, CICL provided a breakdown of the totals.

**Table 7-1 Forecast Company Funded Capital Expenditure (\$'000 nominal)**

Capital Expenditure	2012/13	2013/14	2014/15	2015/16	2016/17
Infrastructure	1,766	2,466	1,048	1,331	1,280
Properties	55	65	85	75	75
Plant	391	346	310	455	55
Motor Vehicles	165	205	175	215	220
Office Equipment/Software	135	146	100	100	100
<b>Total</b>	<b>2,512</b>	<b>3,228</b>	<b>1,718</b>	<b>2,176</b>	<b>1,730</b>

Source: CICL internal data

The NSP also provided, under the heading 'System Maintenance and Improvement Plans,' information on planned works to be fully funded under PIIOP. However, the forecast expenditure figures shown in the NSP relate only to work that is underway and PIIOP Round 1 funding that has been agreed.

The forecast expenditure figures shown in the NSP do not include funding of planned upgrades to be funded under PIIOP Round 2 as the contract conditions for PIIOP Round 2 funded were still under negotiation when the NSP was being finalised.

However, CICL has advised that the PIOP Round 2 funding contract has now been signed and NSP amendments reflecting this will be provided with the next water charges information statement in June 2013.

Table 7-2 shows the funding sources and limitations attached to cost estimates provided for PIOP funded works in the NSP.

**Table 7-2 PIOP Funded Works**

Capital Expenditure	Description	Funding Source	Comments
Major R&M Upgrade	Clay Lining Main Canal	PIOP Round 1	Work underway. Significantly under budget.
Planned System Upgrade	TCC West Coleambally Channel	PIOP Round 1	Work underway. On budget
Planned System Upgrade	FlumeGate Outlets Balancing Storage	PIOP Round 2	No provision for funding provided in NSP
Non-Routine R&M	Kay Hull Bridge Repairs	Shared between CICL and NSW Roads and Maritime Services	No cost implications provided in NSP

Table 7-3 shows the forecast costs of R&M and System Upgrades funded by PIOP Round 1 shown in the NSP. The NSP does not provide a breakdown of these forecast costs.

**Table 7-3 Forecast Expenditure PIOP Funded Works (\$'000 nominal)**

Planned System Upgrade	2012/13	2013/14	2014/15	2015/16	2016/17
PIOP Funded Works	3,214	1,160			

## 7.3 Capital escalation

The NSP does not provide information on escalation factors used in projections of capital expenditure. However, the independent actuary (Mercer) engaged by CIMCL to assess future renewal costs constructed a simulation model that incorporates the timing of cash flow and expected future returns on invested funds. The model allowed for uncertainty in the timing of cash flows, renewal cost escalation (inflation) and investment returns (interest rates).

Rather than specify an inflation rate and an allowance for technological improvement, Mercer simply assumed a 100% asset replacement cost to calculate CIMCL's liability over a 100 year cycle. A 125% replacement cost was used for comparison purposes.

## 7.4 Asset management and strategic planning activities

As previously mentioned, CICL operates and maintains the irrigation supply and drainage system whereas CIMCL has responsibility for the future replacement of the major assets within the supply and drainage systems.

Accordingly, in relation to planning for capital expenditure, CICL's NSP places emphasis on system improvements (upgrades) rather than asset replacement.

System upgrades are undertaken by CICL for the NSP period and funded by the NSW Government under the PIOP program. Asset replacement (renewals), on the other hand, is funded by CIMCL using a renewals annuity serviced by a levy on water users.

### 7.4.1 System Upgrades

CICL system upgrades are currently funded under the PIIOP program whereby funding is provided in exchange for water entitlements resulting from water savings generated by projects that improve the efficiency and productivity of water use and management.

CICL submitted a Modernisation Plan to the Commonwealth Government in 2009. Appendix 2 of the NSP contains descriptions of planned system upgrades which we have assumed formed the basis of the Modernisation Plan.

The NSP has provided a broad outline of the steps undertaken to obtain PIIOP funding for planned system upgrades including:

- Development of a funding proposition by CICL staff.
- In-principle approval of the funding proposition by the CICL Board.
- Business case briefings to CICL members.
- Lodgement of funding submission to the Commonwealth.
- Submission of work plans and funding schedules for successful projects.
- Negotiation of funding conditions.
- Contract approval and signing.

Although not specifically stated in the NSP, applications for PIIOP funding are required to meet specific applicant and project eligibility criteria. In addition, applicants have to provide the following information for all projects proposed for full or partial funding under the initiative:

- Detailed description of the project
- Projected water savings
- Project planning details
- Stakeholder and regional support.
- Technical feasibility
- Project management, budget and implementation processes.

The NSP provides some documentation of stakeholder (member and CICL Board) support for the system upgrade program.

The NSP lists a number of caveats and risks - a range of factors over which they have no control and that may impact on their business operations and costs, and hence the NSP. Accordingly, they have stated that the financial and pricing figures contained in the NSP are best estimates and should not be considered to be absolute or guaranteed, and that the NSP should be a 'living' document and will be adjusted according to changes in CICL's business circumstances.

### 7.4.2 Asset Replacement

Replacement of water supply and drainage assets in the Coleambally Irrigation Area is funded by CIMCL.

The NSP does not provide significant details of the CIMCL asset replacement program. However, we have been able to obtain a reasonable amount of information from the 2011 CIMCL Annual Report and a report, Review of Strategic Asset Allocation and Annual Levy (Mercer 2011).

CIMCL's investment decisions need to be underpinned by a good understanding of CICL's business intentions. CIMCL is being more deliberately included in the development of CICL's business positions before they are formally adopted and has taken close interest in the 2011-12 CICL customer survey and shareholder inputs to the development of their NSP.

CIMCL's asset and replacement profiles were the subject of a five yearly Modern Engineering Equivalent Replacement Asset (MEERA) review by consulting engineers Sinclair Knight Merz (SKM) in 2011.

An actuary (Mercer) examined information from the SKM review (the assets and expected renewal dates) and CIMCL's investment portfolio to determine whether sufficient funds were likely to be available when assets were due for replacement and recommended an appropriate contribution levy.

The review also utilised a capacity model developed by CICL's Water Systems Engineer. This model indicates those parts of the system that are constrained and those that have excess capacity.

## 7.5 Largest capital projects

As previously discussed, we have considered the following projects:

- Major PIIOP Round 1 funded R&M upgrade – which includes Clay Lining of the Main Canal and the TCC at West Coleambally Channel
- Planned PIIOP funded system upgrades to be funded by PIIOP Round 2 – which includes installation of Flume Gate Outlets and construction of a Balancing Storage

### 7.5.1 Major R&M Upgrade

This project involves the repair of clay lining on a 10km section of Main Canal. Works to be carried out include draining the section, slit trenching to establish the depth of clay to be replaced, replacement and compaction of clay.

The work will be entirely funded under PIIOP. Accordingly, there will be no impact of charges to customers. This project has been agreed to by CICL members and is currently underway.

### 7.5.2 Planned System Upgrades

#### **Total Channel Control West Coleambally Channel**

This project involves the installation of 5 Total Channel Control (TCC) regulators and the linking of existing meters to TCC telemetry along the West Coleambally Channel. This work was agreed to by CICL members on 2 June 2010. The work will be entirely funded under PIIOP Round 1.

#### **FlumeGate Outlets**

This project involves the replacement of approximately 100 non-FlumeGate meters with FlumeGates. This work was agreed to by CICL members on 5 March 2012. The work will be fully funded under PIIOP Round 2.

#### **Balancing Storage**

This project involves the construction of a balancing storage with a capacity of approximately 2,700ML. This work was agreed to by CICL members on 5 March 2012. However, the proposed work is subject to Development Application and Environmental Protection approval processes. The work will be fully funded under PIIOP Round 2.

## 7.6 Assumptions for economic life of assets

The NSP does not detail assumptions for the economic life of assets. However, supporting information provided refers to a report by SKM detailing CIMCL's assets and the expected dates of renewals.

In its modelling to determine CIMCL's liability over a 100 year cycle, Mercer allowed for a 15% variance in the design life of infrastructure assets on a stochastic basis.

## 7.7 Conclusion on prudence and efficiency of NSP

### 7.7.1 Advice on prudence and efficiency of NSP in relation to capital expenditure

For capital expenditure to be prudent there must be a clearly identified need for the expenditure, e.g. to fulfil regulatory obligations, meet new growth, provide for the renewal or rehabilitation of existing infrastructure, or increase the reliability of water supply.

Our assessment of whether CICL's proposed capital expenditure during the forthcoming regulatory period is prudent involved two key tasks.

The first task involved a review and assessment of whether CICL have in place a well-developed planning framework including policies and procedures for the incurrence of capital expenditure that represent good industry practice. Under a well-developed planning framework, major capital expenditure should:

- Reflect strategic development plans or align with a long term business strategy or be a solution for addressing a clearly identified problem.
- Integrate asset management planning
- Incorporate robust risk mitigation measures
- Be consistent with key drivers that accurately and adequately substantiate current and future cost pressures
- Incorporate robust procurement practices.

The second task involved an assessment of whether CICL has been able to demonstrate that the planning framework has been applied with rigour throughout the organisation. This involved a high-level review of a selection of major capital projects and considered:

- The basis (driver) for the project or planned capital expenditure and its alignment with service obligations etc.
- The outputs and benefits associated with each project or expenditure program
- The suitability of planning, investment and procurement policies used to identify projects and undertake major expenditure
- The application of risk mitigation measures.
- The planning and design process used.

For capital expenditure to be efficient, it must be cost effective in its scope and standards. Our assessment of the efficiency of CICL's proposed capital expenditure sought to determine whether the costs in the NSP were reasonable and reflected those that would normally be expected to occur in a competitive environment. Key considerations were:

- Suitability of engineering design
- Whether time proposed to undertake projects is reasonable
- Likely accuracy of cost estimates
- Cost estimation methodology
- Assumptions surrounding the application of escalation factors and contingencies.

The capital investment program during the forthcoming regulatory period will be funded by a combination of company and PIIOP funding sources.

Only company expenditure is required to be recovered through regulated charges. However, we consider that it is important to ensure that capital expenditure is prudent and efficient regardless of the source of funding.

In relation to CIMCL's expenditure on asset renewals, the NSP indicates that the annuity is unlikely to be drawn down during the life of the NSP. Accordingly, our comments on renewals relate only to financing and can be found in Section 8.

### 7.7.2 Prudence

As previously stated, our assessment of the prudence of CICL's capital expenditure in the NSP was based upon whether a well-developed planning framework was in place, and whether CICL was able to demonstrate that the framework had been applied with rigour.

#### **Evidence of Planning Framework**

Although not specifically detailed in the NSP, there is adequate evidence in the supporting documents and Annual Reports that historical and forecast capital expenditure is supported by a strategic planning focus that integrates asset management planning, incorporates risk mitigation measures and is consistent with CICL's key drivers. In addition, CICL has demonstrated that this planning framework has been appropriately applied in relation to PIIOP funded capital projects.

Applications for Stage 1 and Stage 2 PIIOP funding were required to meet specific applicant and project eligibility criteria. In addition, CICL had to provide the following information for all projects proposed for full or partial funding under the initiative:

- Detailed description of the project
- Projected water savings
- Project planning details
- Stakeholder and regional support.
- Technical feasibility
- Project management, budget and implementation processes.

The fact that CICL's PIIOP funding applications have been successful effectively reflects the Commonwealth Governments conclusions that the proposed works were in alignment with the strategic objectives of both the Government and the applicant, and the risks associated with construction and operation were understood and clearly articulated.

#### **Conclusions**

On the basis of the information provided, we consider that CICL's forecast capital expenditure is prudent.

### 7.7.3 Efficiency

As previously stated, our assessment of the efficiency of CICL's capital expenditure in the NSP was based upon whether the expenditure was cost effective in its scope and standards.

Although not specifically detailed in the NSP, the supporting documentation provides a reasonable body of evidence that capital expenditure proposed during the life of the NSP is underpinned by checks and balances designed to ensure that it is cost effective.

As previously stated, capital projects which were the subject of PIIOP funding applications had to undergo rigorous assessment before funding was granted. Technical feasibility and a sound project management capability, including a realistic budget and implementation program were key components of the assessment process. This was necessary to ensure that service enhancement options selected for future implementation had been subjected to rigorous technical and financial assessment and that water savings could be transferred to the Commonwealth without risking the viability of the company.



On the basis of the information provided in the NSP and supporting documents, we consider that forecast capital expenditure shown in the NSP is efficient.

# 8 Financing and tariffs

In this chapter we review CICL's overall financial position, the sources of its revenue and proposed price changes, its fixed versus variable income (including government charges) and the CICL/CIMCL approach to management of the AMRR to finance future capital expenditure.

## 8.1 Overall financial position

CICL/CIMCL is in a sound financial position. CICL notes in its NSP that it is debt free. We note also that CICL does not appear to have any obvious cash flow issues and held reserves of \$32.5m cash and other financial reserves at 30 June 2011 (although the NSP states that only \$3.6m is uncommitted).

CIMCL manages the AMRR reserves through an annual levy on customer bills. Table 8-1 shows that cash and other reserves has been steadily increasing over the last five years. Given CICL's capital program for the NSP period is largely funded by Government (through PIOP program), it is anticipated that these reserves will continue to grow at \$1.3m each year (plus interest) for the life of the NSP.

**Table 8-1 Forecast CICL cash and reserves at end of year (\$'000 nominal)**

	2006-07	2007-08	2008-09	2009-10	2010-11
Cash reserves (CICL)	3,081	2,385	15,401	3,159	18,148
Non-current financial assets (CICL)	18,129	17,793	8,858	15,191	14,375
Cash reserves (CIMCL)	n/a	430	5,378	3,615	2,050
Non-current financial assets (CIMCL)	n/a	7,745	5,149	9,008	14,322
<b>Total</b>		<b>28,353</b>	<b>34,786</b>	<b>30,973</b>	<b>48,895</b>

Source: CICL and CIMCL Annual Reports

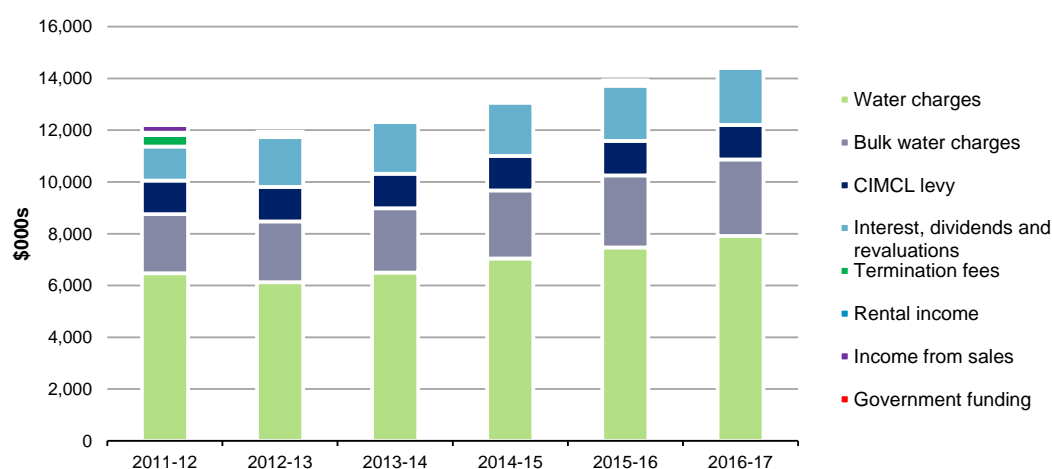
## 8.2 Revenue sources

CICL will have seven main sources of funds during the life of the NSP as follows:

1. Revenue from fixed water user charges
2. Government bulk water revenue
3. Termination fees
4. Rental income
5. Asset sales
6. Interest, dividends and revaluations
7. Government funding

In addition, CIMCL collects a levy to fund the future replacement of assets.

Figure 8-1 shows that between 50-55% of CICL/CIMCL revenue is derived from water charges to customers.

**Figure 8-1 Breakdown of revenue sources % of total revenue**


Source: CICL NSP 2012

## 8.3 Fixed and variable tariffs

### 8.3.1 Overview of tariff forecast

CICL's tariffs comprise the following:

- **Water access fee** – levied per delivery entitlement and varied by water class (general security, high security or high security stock)
- **Outlet fee** – levied per outlet according to whether the outlet is a stock and garden outlet, a 'small' horticultural outlet or a 'large' outlet
- **Compliance fee** – levied per delivery entitlement
- **CIMCL member contribution** – levied per delivery entitlement
- **Peak Flow Charge** – charge levied on the nominated peak flow per outlet. Should a customer's usage exceed their delivery entitlement holdings, they are charged a Fixed Charge Equivalent on the excess. This charge is not varied by water class
- **Government Access Fee** – levied per water entitlement
- **Government Usage Fee** – levied per ML of water used<sup>6</sup>

CICL advised that it is a 100% fixed cost business; therefore it does not have any consumption-based (or 'variable') charges. The only variable charge is the Government usage fee which is a 'pass through' charge to customers.

CICL has projected for tariffs to increase by 1.5% in real terms across all its tariffs in all years except the CIMCL levy which will remain unchanged in real terms.<sup>7</sup> Table 8-2 shows the historical and projected water charges levied by category by CICL on its customers.

**Table 8-2 CICL tariffs 2011-12 to 2016-17 (\$ real 2011-12)**

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	Average annual % change
<b>CICL Access Fee</b>							

<sup>6</sup> The NSP incorrectly states that the Government usage fee is levied per water entitlement

<sup>7</sup> The NSP incorrectly states that the CIMCL levy will increase by 1.5% per annum

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	Average annual % change
Gen Security/ML Delivery entitlement	11.01	11.18	11.34	11.51	11.69	11.86	1.5%
High Security/ML Delivery entitlement	19.02	19.31	19.59	19.89	20.19	20.49	1.5%
G Class/ML Delivery entitlement	20.02	20.32	20.63	20.93	21.25	21.57	1.5%
<b>Compliance fee (LWMP levy)</b>	0.95	0.96	0.98	0.99	1.01	1.02	1.6%
<b>CIMCL Member contribution</b>	0.00	3.35	3.35	3.35	3.35	3.35	0.0%
<b>Outlet charge</b>							
Stock & garden outlet (<70mm diameter)	206.00	209.09	212.23	215.11	218.64	221.92	1.5%
Horticultural outlet (>70mm diameter)	515.00	522.73	530.57	538.52	546.60	554.80	1.5%
Large outlet	824.00	836.36	848.91	861.64	874.56	887.68	1.5%
<b>Peak flow (ML/outlet)</b>	51.50	52.27	53.06	53.85	54.66	55.48	1.5%
<b>Fixed charge equivalent (/ML usage exceeding delivery entitlement)</b>	15.26	15.49	15.72	15.96	16.20	16.44	1.5%
<b>Termination fees</b>							
GS per delivery entitlement terminated		167.04	169.52	172.00	174.70	177.28	1.5%
HS per delivery entitlement terminated		256.47	260.27	264.18	268.20	272.21	1.5%
<b>Government charges</b>							
<b>Water access fee</b>							
HS/ML water entitlement	3.77						
GS/ML water entitlement	2.68						
<b>Usage fee per ML water use</b>	4.39						1.5%

Source: CICL NSP

Notes: A forecast for government charges was not included in the NSP, however CICL have provided data for revenue from Government charges (see Table 8-3) which is projected to increase by 1.5%

Table 8-3 shows forecast revenue for some of the key tariffs above. Water tariffs are provided in real terms in the NSP. CICL forecasts a real annual increase in revenue from charges of 1.5% which is a 4.5% nominal increase (assuming 3% annual inflation).

**Table 8-3 Estimated breakdown of forecast revenue from regulated charges, \$000s**

	2012-13	2013-14	2014-15	2015-16	2016-17	Average annual % real change
Fixed Access Charges	5,412	5,493	5,576	5,659	5,744	1.5%

	2012-13	2013-14	2014-15	2015-16	2016-17	Average annual % real change
Fixed Outlet Charges	72	73	74	75	76	1.5%
CIMCL levy	1,291	1,291	1,291	1,291	1,291	0%
Miscellaneous Charges*	959	973	988	1,003	1,018	1.5%
Government Fixed Charges	1,201	1,219	1,237	1,256	1,275	1.5%
Government Variable Charges	1,429	1,450	1,472	1,494	1,517	1.5%
Termination fees	0	0	0	0	0	0%

Source: Calculated from CICL internal data, by applying 1.5% increase on 2012-13 forecasts  
 Note: Miscellaneous charges is comprised mainly of the compliance fee

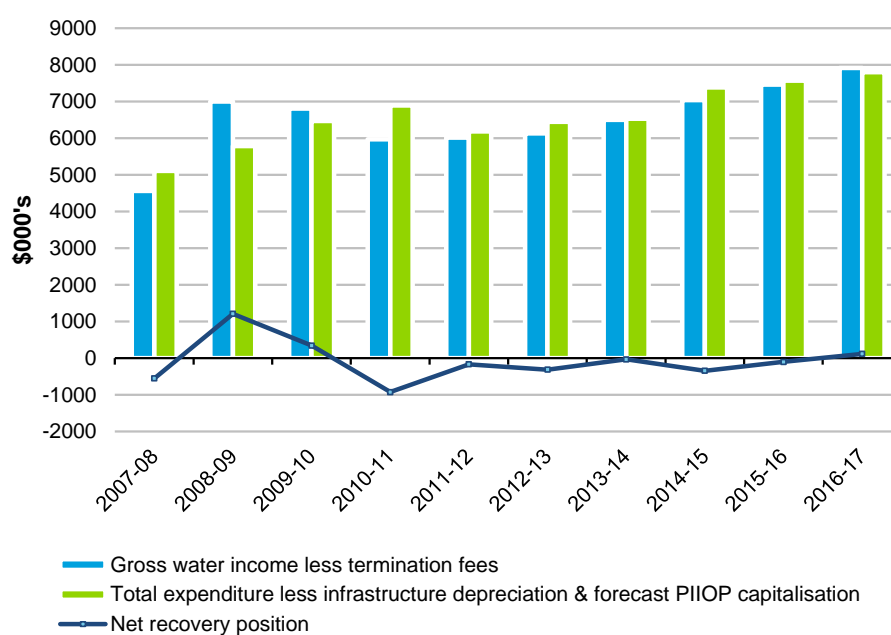
### 8.3.2 Discussion

#### Real increases in tariffs

CICL proposes to increase all its tariffs by 1.5% for the NSP period. CICL advised that these increases were necessary for the business to be sustainable. According to CICL, charges are currently set at or below cost recovery as a result of a CICL Board decision in recognition of the financial impacts of the drought and low commodity prices on customers. CICL advised that this cannot be sustained, particularly in light of CICL's declining returns on investments and water trading.

Figure 8-2 charts gross water income (minus termination fees) against total CICL expenditure (minus infrastructure depreciation and a forecast for PIIOP recovery). The chart shows that with the exception of 2008-09 and 2010-11, CICL is under-recovering its costs and it expects to continue to do so until 2015-16.

**Figure 8-2 CICL's historic and projected cost recovery from 2007-08 to 2016-17**



Source: CICL NSP 2011-12

### Tariff structure

CICL advised that its entire cost base is fixed; therefore it does not have any consumption-based charges. We note that CICL is different in this respect to other irrigation businesses in the southern basin (such as Murray Irrigation, Murrumbidgee Irrigation and CIT) that all have a proportion of their costs which are variable and hence apply a consumption based charge.

We suggest that, as part of its business review, CICL should revisit its cost base to confirm whether its cost base is indeed 100% fixed. We suggest that the following key cost categories may vary with water used:

- Energy consumption
- Costs associated with water ordering

Some operational costs (travel, contractors etc.) While the variable component of the above costs may be relatively small, we suggest that customers benefit (even in a small way) from having variable charges which reflect variable costs. For example in dry years, when farmers have significantly reduced crop revenue, a 5-10% decrease in their water input costs can be significant depending on the size of the customer.

In addition, as part of its business review, we suggest that CICL review the relativities between the tariffs (i.e. the difference between G-Class and General Security and between large and small outlets) to ensure they are cost reflective.

### 8.3.3 Conclusion

As CICL's cost base is generally prudent and efficient and that CICL does not have substantial 'uncommitted' reserves, we support CICL's decision to increase tariffs by 1.5% in real terms.

In relation to CICL's tariff structure we suggest that CICL, as part of its upcoming business review:

- Examine its cost base to confirm whether its cost base is indeed 100% fixed. If there is a component of costs that varies with water delivered then CICL should investigate the option of introducing a consumption based charge.
- Review the relativities between the tariffs (i.e. the difference between G-Class and General Security and between large and small outlets) to ensure these are cost reflective.

## 8.4 Approach to financing

### 8.4.1 Renewals Annuity

CIMCL levies infrastructure users in the Coleambally Irrigation Area a charge to meet the future costs of renewal of irrigation infrastructure. As the cash flows associated with asset renewal are not uniform, the levies accumulate in the renewals annuity fund until such time as they are required to meet the renewal costs.

Member contributions are calculated on the basis of the number of Delivery Entitlements that each member has in CICL.

An independent actuary (Mercer) was engaged by CIMCL to assess the future renewal costs associated with CIMCL assets as at 30 October 2011. Using a report from an independent engineering consultant (SKM), detailing the assets and their expected dates of renewal, Mercer constructed a simulation model that incorporates the timing of cash flow and expected future returns on invested funds. The model allowed for uncertainty in the timing of cash flows, renewal cost escalation (inflation) and investment returns (interest rates).

The assessment concluded that, based on SKM's estimates of costs and renewals, a base case indexed levy of around \$0.92M to \$1.2M (expressed in 2011 dollars) was required to meet future renewals costs on average.

This levy may be 'sufficient' on average with a 55% probability that CIMCL would require a special levy before the end of the current renewal cycle (ie during the next 56 years).

However, the required levy is sensitive to the average real investment return. In addition, if SKM's renewal timing of cost estimates were to prove incorrect, the levy could change dramatically.

The Mercer report concludes that, if CIMCL were concerned about liquidity and the need to raise special levies, a higher levy rate of \$1.3M to \$1.5M may be required.

Table 8-4 and Table 8-5 shows the historical and projected CIMCL levy respectively.

**Table 8-4 Historical CIMCL Levy (\$'000 nominal)**

Item	2007/08	2008/09	2009/10	2010/11	2011/12
CIMCL Levy	1,455	1,493	1,436	1,307	1,291

**Table 8-5 Forecast CIMCL Levy (\$'000 nominal)**

Item	2012/13	2013/14	2014/15	2015/16	2016/17
CIMCL Levy	1,330	1,330	1,330	1,330	1,330

## 8.4.2 Conclusion

CIMCL's levy of \$1.3m, and the decision to hold it constant, appears reasonable in light of the Mercer report and the absence of a need to spend funds during the NSP period.

# 9 Limitation of our work

## General use restriction

This report is prepared for the ACCC for the purposes of reviewing the prudence and efficiency of Coleambally Irrigation Co-operative Limited's (CICL) NSP in accordance with the *Water Charge Infrastructure Rules 2010* and accompanying Guide. We note that this report will be made publicly available to CICL's customers in accordance with the *Water Charge Infrastructure Rules 2010*.

In preparing this report we have relied on the accuracy and completeness of the information provided to us by the ACCC, CICL and from publicly available sources. We have not audited or otherwise verified the accuracy or completeness of the information. We have not contemplated the requirements or circumstances of anyone other than the ACCC.

Our name or the report should not be used for any other purpose and we accept no duty of care to any other person or entity.

Events may have occurred since we prepared this report which may impact on it and its conclusions.



# Appendix A

Table A1 outlines the recommended structure and contents of an NSP according to *the Guide* developed by the ACCC as well as our views on where information in addition to that already provided by CICL may be beneficial to customers.

**Table A1: Suggested information in Appendix B of the Guide to Tier 2 requirements**

Item	Detail recommended by ACCC As per Appendix B of <i>the Guide</i>	Detail provided in CICL's NSP and comment
<b>1</b>	<b>Title page</b>	
1.1	<ul style="list-style-type: none"> <li>Name of the document</li> <li>Particulars of the company ( company name, address, ABN)</li> <li>The purpose of the document (i.e. to meet requirements under the Water charge (infrastructure) rules 2010).</li> <li>The start date of the NSP</li> <li>The end date of the NSP</li> </ul>	<p>Included</p> <p>Included</p> <p>Included</p> <p>Included (1 July 2012)</p> <p>Included (30 June 2017)</p>
<b>2</b>	<b>Introduction</b>	
2.1	The process for reaching a decision on the plans within the NSP	Included
2.2	Customer consultation process	Included
2.3	Advice received from independent parties in preparing the NSP	Not mentioned. NSP prepared by CICL CEO
2.4	The commencement date of the NSP and the period it is valid for	Included
2.5	How the plan will be distributed to all customers	Included
2.6	A statement to customers that plans and charges are subject to change	Included
2.7	Process for informing customers about changes to plans and charges	Included
2.8	Process for issuing an information statement	Included. Information Statement provided to customers when CICL publishes the following year's water access charges
2.9	Other methods for informing customers.	Included. Woolshed /General Meetings, written communication prior to major changes
<b>3</b>	<b>Response to Network Consultation Paper</b>	
3.1	Summarise the options presented in the network consultation paper, the formal submissions and comments received from customers in response to the options presented in the paper. Provide details about the reasons for rejecting alternative options presented in the NCP.	It is unclear what 'options' have been presented in the NCP or whether any of these options have been rejected.
3.2	Summarise all other feedback received from customers. As a general rule, the operator should respond to issues deemed to be material or where issues have been raised by several parties. There is no requirement to address every issue raised in submissions.	Included
<b>4</b>	<b>Expected service levels</b>	

Item	Detail recommended by ACCC As per Appendix B of <i>the Guide</i>	Detail provided in CICL's NSP and comment
4.1	In defining expected service levels, outline the target performance levels for service over the five year period of the NSP. Service levels may have already been defined as part of a customer charter or agreement. Alternatively, new service levels can be defined through the NSP process.	
4.2	<p>For each service level in the NSP provide the following information:</p> <ul style="list-style-type: none"> <li>• clear definition of service level</li> <li>• unit of measurement for the service level</li> <li>• how the service level is calculated</li> <li>• how performance against the service level will be measured</li> <li>• how performance against the service level will be reported to customers</li> <li>• the targeted performance level during the period of the NSP</li> <li>• historical performance against the service level (where recorded).</li> </ul>	<p>Service levels are defined for minimum flow, peak flow, delivery time, delivery efficiency, drainage efficiency and emergency response.</p> <p>No mention is made of the way in which target levels are calculated for service targets such as delivery times of approx. 2 hours and delivery efficiencies involving conveyance losses of less than 40,000 ML/pa</p>
4.3	Where a targeted performance level defined in the NSP is the same as the historical performance level defined in the National Water Commissions National Performance Report for rural service providers, the operator should ensure that the definition and unit of measurement is consistent between both reports.	No information given
4.4	<p>The rules do not require operators to define any particular service levels, but it is expected that service levels will mostly relate to expected performance of the water supply and drainage networks and expected customer service levels. For instance this may include expected service levels related to the following:</p> <ul style="list-style-type: none"> <li>• supply network delivery efficiency</li> <li>• availability of drainage networks</li> <li>• channel/pipeline bursts and leaks</li> <li>• timing of delivery in relation to timing of order placement</li> <li>• water delivery flow rates</li> <li>• delivery water quality</li> <li>• expected response times to supply interruptions</li> <li>• expected failure rates of certain elements of the network</li> <li>• customer complaints</li> <li>• response times to customer complaints.</li> </ul>	<p>No mention of water quality</p> <p>It is only mentioned that the constitution of an 'emergency' is to be determined by the Water Operations Department. Presumably, the Department has a criteria outlining what can be classified as such, although no mention is made as to whether or not this exists and if so, where it can be accessed</p>
<p><b>5 Maintenance, improvement, enhancement and/or expansion plans</b></p>		

Item	Detail recommended by ACCC As per Appendix B of <i>the Guide</i>	Detail provided in CICL's NSP and comment
5.1	<p>Provide details so customers can understand the plans in question. This includes</p> <ul style="list-style-type: none"> <li>• a description of the works (include diagrams where appropriate)</li> <li>• the location of the works (include maps where appropriate)</li> <li>• the infrastructure services affected by the works</li> <li>• the type of customers affected</li> <li>• the expected commencement and completion dates of the plans.</li> </ul>	<p>It is suggested that the NSP include further detail on the types of customers that will benefit or be affected by infrastructure programs.</p>
5.2	<p>Provide details that will help customers to understand why the expenditure is occurring. Broadly, expenditure will be expected to fall under at least one of the following categories:</p> <ul style="list-style-type: none"> <li>• works to meet increased growth in demand (either by increasing the capacity of existing assets or constructing new assets)</li> <li>• works to address declining demand (either by reconfiguring, decommissioning, or rationalising existing assets)</li> <li>• works to deliver higher levels of service for customers</li> <li>• works to meet new or changed regulatory or legislative obligations.</li> </ul> <p>Where the works are planned to address changing demand, provide details about the expected magnitude and location of change in demand.</p> <p>Where the works refer to levels of service, or regulatory or legislative obligations, provide details about the specific levels of service or obligations in question.</p>	<p>Included</p>
5.3	<p>Include details about the estimated expenditure for each works in question.</p> <p>Estimates should include:</p> <ul style="list-style-type: none"> <li>• total expected expenditure over the life of the project</li> <li>• estimated expenditure in each year of the life of the project</li> </ul>	<p>Included</p>
5.4	<p>Provide details of evidence that will help support:</p> <ul style="list-style-type: none"> <li>• the stated reasons for undertaking the works</li> <li>• the estimated expenditure on the works</li> <li>• the prudence and efficiency of the estimated expenditure</li> <li>• the timing for the works.</li> </ul> <p>Evidence for undertaking the works may include feedback gathered in consultation on the NCP.</p> <p>Where the evidence refers to advice gathered from consultants provide details about how customers can access the advice.</p>	<p>Further detail on reasons for undertaking the works should be included in the NSP or reference to relevant documents should be provided.</p>
5.5	<p>Provide details about the main risks to the plan and an assessment of the likelihood of the risks.</p> <p>Risks may affect whether the project goes ahead, the timing of the project or the costs of the project.</p>	<p>The range of potential risks are presented in the 'Revenue and Expenditure' section</p>

## 6 Expenditure on infrastructure services

Item	Detail recommended by ACCC As per Appendix B of <i>the Guide</i>	Detail provided in CICL's NSP and comment
6.1	<p>In providing estimates on expected expenditure on infrastructure services outline:</p> <ul style="list-style-type: none"> <li>• estimated total expenditure on infrastructure services in each year of the NSP</li> <li>• estimated expenditure on each infrastructure service provided by the operator in each year of the NSP</li> <li>• relevant historical data on expenditure.</li> </ul>	Included
6.2	<p>Estimates of operating expenditure should be broken down into capital expenditure and estimates of operations expenditure, maintenance expenditure and administration expenditure and provided in an appropriate format.</p>	Included
6.3	<p>At least five years of historical expenditure data should be provided. This will demonstrate to customers how expenditure is estimated to change over the period in the NSP compared to previous periods. For the year immediately prior to the start of the NSP where actual expenditure data is not yet available, provide forecast data.</p>	Included
6.4	<p>Cost estimates should also be supported with an explanation of the basis for allocating costs between different infrastructure services. This should include a statement on the following data:</p> <ul style="list-style-type: none"> <li>• how costs are allocated as capital expenditure and allocated as operating expenditure</li> <li>• how costs are allocated between operation, maintenance and administration expenditure</li> <li>• how administration costs are allocated across different infrastructure services</li> <li>• how costs are allocated between expenditure that is included in the NSP and expenditure that is not included in the NSP.</li> </ul>	Details of how operating and administration costs are capitalised and recovered under PIOP should be provided in the NSP.
6.5	<p>For each category of infrastructure services, the operator should outline the main factors influencing any trends in these categories over the life of the NSP. Broadly, trends in expenditure would be expected to be influenced by one of the following categories:</p> <ul style="list-style-type: none"> <li>• business-as-usual expenditure</li> <li>• expenditure to meet increased growth in demand (either by increasing the capacity of existing assets or constructing new assets)</li> <li>• expenditure to address declining demand (either by reconfiguring, decommissioning, or rationalising existing assets)</li> <li>• expenditure to deliver higher levels of service for customers</li> <li>• expenditure to meet new or changed regulatory or legislative obligations.</li> </ul>	Included

Item	Detail recommended by ACCC As per Appendix B of <i>the Guide</i>	Detail provided in CICL's NSP and comment	
6.6	<p>Details should also be provided about the underlying factors driving those trends.</p> <p>In some instances, expenditure will be driven by the future plans reported in the 'maintenance, improvement, enhancement and/or expansion plans' section of the NSP and changes to 'expected levels of service' in providing infrastructure services. Where so, this section should clearly cross-reference that section.</p>	Included	
<b>7</b>	<b>Required revenue for, and financing of, infrastructure services</b>		
7.1	<p>The operator should provide details about the total required revenue to fund infrastructure services across the life of the NSP, in each year of the NSP and details about revenue required from different sources. Sources of revenue may include:</p> <ul style="list-style-type: none"> <li>regulated charges</li> <li>revenue from sales of infrastructure assets</li> <li>customer contributions</li> <li>funds, grants, subsidies, other contributions from government.</li> </ul>	Included	
<b>8</b>	<b>Financing (Renewals annuity)</b>		
8.1	The infrastructure services for which the annuity is for	Included	
8.2	The asset life assumptions for assets funded through the annuity	Mentioned that assets and their estimated lives are 'reviewed by an external and independent expert party every five years', although no indication is given to what those asset lives are	
8.3	The term of the annuity	We note that, as CIMCL and CICL are two distinctly separate legal entities, CICL did not provide much detail on the renewals annuity due to uncertainty around scope of the NSP. CICL advised that customers have access to CIMCL's method for calculating annuity payments and expenditure in its Annual Report. We suggest, therefore, that CICL provide these references in the NSP to the relevant information for customers.	
8.4	The profile of the expected payments into the annuity and expenditure from the annuity over its term		
8.5	The estimated opening and closing balance of the annuity in each year of the NSP		
8.6	Estimated payments on infrastructure out of the annuity in each year of the NSP		
8.7	The purpose of the payments out of the annuity in each year of the NSP		
8.8	Expected annual interest payments into the annuity		
8.9	Other annual transactions from the annuity over the period of the NSP.		
8.10	The formula used by the operator to calculate the annuity payments		
8.11	When the operator expects to use existing cash reserves to reduce the revenue collected from regulated charges, or regulated charges are increased to make up for past funding deficits, the operator should clearly explain why this is expected to be the case and how required revenue is expected to be affected.		
<b>9</b>	<b>Regulated charges</b>		
9.1	The estimated regulated charges over the five year period of the NSP		Included, although forecast for 'Government Charges' is not included

Item	Detail recommended by ACCC As per Appendix B of <i>the Guide</i>	Detail provided in CICL's NSP and comment
9.2	The total estimated revenue from each regulated charge over the five-year period	Not included for each charge