



# Pioneer Valley Water Co-operative Limited

## NEWSLETTER

Issue 8

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This Newsletter outlines the strategy that is being put in place by Pioneer Valley Water to address the important aspect of providing sufficient funds to ensure that the irrigation scheme remains viable for the very long term. This document is very important and you need to read it in full to understand the background to the water charges being set by the Board to meet these obligations.

### Asset renewal

Water legislation in Australia requires that water charges for irrigation schemes include a component to cover the replacement or refurbishment of assets as they reach the end of their useful lives. This component of water charges is referred to as an asset renewal charge.

The asset renewal charge is a small annual charge that is collected every year and invested to provide the funds required when major asset items need to be replaced. Irrigation scheme assets have generally very long life expectancies with pipeline lives up to 80 years and pumps and valves 25 to 30 years. These asset lives provide a very long lead time to build up reserve funds.

The need for long lead times for asset renewals funding is very evident when financial modelling and asset profiling are carried out for a scheme. This was carried out for our scheme last year and showed that an amount of some \$22 million will be required in 2050 to replace assets (mainly polyethylene pipelines and pumps and electric motors) that will reach the end of their estimated useful lives around then. With these cost amounts involved it is sound business practice to provide funding for the replacement throughout the full life of an asset.

Assets with much shorter lives such as water meters in the Riparian area and computers and control equipment for the water management system are also included in the asset renewal strategy. Renewal of these assets is also through the asset renewal charge.

### PVWater Strategy

Pioneer Valley Water developed an asset renewal strategy and first introduced an asset renewal component into the access (fixed) charges for the scheme in 2002/03. This was set at \$1.50/ML per annum on the total scheme water allocation. \$1.50/ML was less than the full requirement for long term asset renewal funding based on the asset valuations at that time. However the Board adopted this lesser amount in recognition that the current irrigators in the scheme are still paying the loan levy that is funding the initial establishment of the scheme. Further, the scheme is new and major funding amounts for asset replacement are not required until well into the future.

Part of the Board's asset renewal strategy is to review the strategy in the lead up to payout of the constructions loans for the scheme. At this time the original loan is scheduled for its final payment in September 2013 and the deferred loan in June 2016. The deferred loan is applicable to those members who took up the offer to defer four quarterly loan levy payments during 2000 and 2001 due to the difficult

*In this Newsletter we cover the following areas:-*

- Asset Renewal Strategy

### Contacts:

Secretary:

John Palmer  
Pioneer Valley Water  
Level 1  
Canegrowers Building  
120 Wood Street  
MACKAY QLD 4740

Phone: 4957 8481

Fax: 4957 8038

www.pvwater.com.au  
pvwater@pvwater.com.au

Correspondence to:

PO Box 275  
MACKAY QLD 4740



financial conditions at that time. The strategy also included a major revaluation of the scheme assets last year that resulted in a substantial increase in value due mainly to the sharp rises in construction costs over recent years.

The latest asset revaluation revealed that the general asset renewal levy would need to increase from \$1.50/ML to \$4.00/ML in line with the increases to asset replacement values. Pioneer Valley Water has decided to phase this increase in over the next two years as follows.

From 1<sup>st</sup> July 2010 the asset renewal levy on all water allocations will increase from \$1.50/ML to \$2.75/ML.

From 1<sup>st</sup> July 2011 the asset renewal levy on all water allocations will increase from \$2.75/ML to \$4.00/ML.

For the period following loan payout it is proposed that the general levy on total water allocation will change to a reticulation area specific asset renewal levy. This will be based on the asset renewal funds required for the Palm Tree Creek, Septimus, Silver/McGregor and Palmyra schemes and for the Riparian area. It is also proposed that a level of cross subsidisation of the asset renewal levy will apply. Each area will fund a major portion of its own renewals with the balance spread across all areas.

The following table summarises the proposed asset renewal strategy for each of the five separate areas over the next few years. Also included are the present loan levy charges which are to be replaced by the asset renewal levy following loan payouts. The asset renewal levies in the tables are indicative only and are intended to demonstrate the impact of the asset renewal strategy. Actual charges to apply from 2017 will be determined during 2016/17 and are dependent on the timing of the final loan payments and asset revaluations that are undertaken up to that time.

Reticulation Area	2011 to 2013		2014 to 2016			2017
	Deferred and Original Loans		Deferred Loan		Original Loan (pay out in 2013)	(after all loans paid out)
	Asset Re- newal Levy	Loan Levy	Asset Re- newal Levy	Loan Levy	Asset Re- newal Levy	Asset Re- newal Levy
Riparian	\$4.00/ML	\$18.60/ML	\$4.00/ML	\$18.60/ML	\$4.00/ML	\$2.71/ML
Palmyra	\$4.00/ML	\$23.00/ML	\$4.00/ML	\$23.00/ML	\$4.00/ML	\$6.62/ML
Silver/McGregor						
Pipeline	\$4.00/ML	\$27.40/ML	\$4.00/ML	\$27.40/ML	\$4.00/ML	\$5.53/ML
Creeks	\$4.00/ML	\$23.00/ML	\$4.00/ML	\$23.00/ML	\$4.00/ML	\$5.53/ML
Septimus	\$4.00/ML	\$27.40/ML	\$4.00/ML	\$27.40/ML	\$4.00/ML	\$14.86/ML
Palm Tree Ck						
Pipeline	\$4.00/ML	\$36.00/ML	\$4.00/ML	\$36.00/ML	\$4.00/ML	\$3.50/ML
Cattle Creek	\$4.00/ML	\$23.00/ML	\$4.00/ML	\$23.00/ML	\$4.00/ML	\$3.50/ML

**Notes:**

1. Full fixed operating charges and usage charges are not included
2. Loan levy does not apply to old allocation in any area

**Please phone Pioneer Valley Water if you would like to discuss any issues regarding this newsletter**