



Hon Stephen Robertson MP
Member for Stretton

16 FEB 2012

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Queensland
Government

**Minister for Energy and
Water Utilities**

Ref CTS 02080/12

13 FEB 2012

Mr Brian Parmenter
Chairperson
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Parmenter

I refer to the Authority's Draft Report on the SunWater Irrigation Price Review: 2012-17 released in November 2011.

The Government welcomes the opportunity to comment on the Draft Report, and in particular is submitting comments on four issues: (1) distribution losses; (2) termination fees; (3) improving SunWater's customer consultation processes; and (4) improving SunWater's ability to meet the information requirements of a regulatory process.

Firstly, in regard to distribution losses, I note the Authority has recommended that the Department of Environment and Resource Management (DERM) immediately review distribution loss water access entitlements (WAEs). I understand that the intent of such a review is to ensure that distribution customers do not pay for costs associated with distribution loss WAEs held by SunWater in excess of requirements.

The mechanism to undertake such a review is not within the scope of the application of the water planning process as proposed by the Authority. The application of the water planning process underpinning the specification of loss WAEs is about the 'guarantee of supply' to support the security of entitlement.

Distribution loss WAEs, like all WAEs, are granted in perpetuity. The loss WAEs granted to SunWater factors in the full utilisation of all WAEs held by its distribution customers and SunWater's ongoing ability to supply water for these WAEs, including those that currently use less water than their entitlement allows.

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SunWater, as the owner of the distribution loss WAEs, is responsible for the management of the distribution loss WAE within its distribution networks. There is no provision within the planning framework that provides for Government to instruct holders of entitlements on how to manage their entitlement. However, the water planning framework does provide a mechanism where SunWater can apply to change the purpose of part of their distribution loss WAE. Therefore, any change to the distribution loss WAE would be instigated by SunWater. DERM's role would be to assess the 'application to change' the distribution loss WAE.

DERM also confirms the Authority's understanding that Resource Operations Plans (ROPs) do not strictly require distribution loss WAE holders to demonstrate investment in efficiency measures in their application to change the distribution loss WAE. The distribution loss WAE holder can apply for a reduction of the distribution loss WAE by providing sufficient information to enable the chief executive to decide the application (section 129A or 130 of the *Water Act 2000*). This may be demonstrated through operational changes, or through evidence that the reduced distribution loss WAE can still ensure the security of the WAE held by distribution customers.

Secondly, Government notes that the Authority's recommended termination fees imply a different approach to that which previously applied and one which results in termination fees which are significantly higher in many cases. Furthermore, I note that the Authority's proposed approach differs to that applicable in the Murray-Darling Basin, as developed under the Water Charges (Termination Fees) Rules by the Australian Competition and Consumer Commission (ACCC), and in comparison results in higher fees in many tariff groups.

I acknowledge that the Authority has documented in its Draft Report the broader implications of its recommended termination fees methodology and points out that, within the policy parameters of this current review, it is not possible to fully assess the impact of its recommendations. I note that the Authority indicated that it welcomes submissions on the broader impacts of termination fees and that you intend to address this further prior to the Final Report. As this is an issue of concern that has been raised by peak stakeholders, I support the Authority's approach on this matter in reaching its final recommendations.

Thirdly, the Government acknowledges that both the Authority and irrigators have identified the need for SunWater to improve its customer consultation well before the commencement of work on the next price path. The Government also notes that SunWater in its recent submission has indicated willingness to improve the scope of its information on capital costs and to make this information publicly available on an annual basis during the price path period.

However, the Government has also recognised concerns raised by both irrigators and SunWater around whether the increased costs would outweigh the benefits of the Authority's proposed consultation process. The Government therefore encourages the Authority to continue to work with both SunWater and irrigation stakeholders such that its final recommendations to improve SunWater's customer consultation represent a cost effective process to achieve the desired consultation outcomes.

The Government further considers that existing legislation and processes could provide sufficient mechanisms to achieve the desired consultation outcomes. If it accepts the QCA's recommendations, the Government has scope to implement them, as the Draft Report identified, for example, through SunWater's Statement of Corporate Intent process or using existing legislation such as via a direction to SunWater under section 999 of the Water Act.

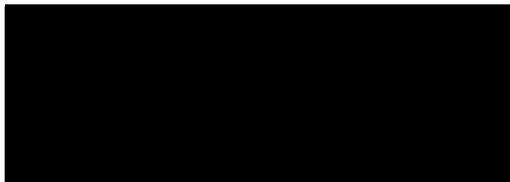
Fourthly, in regard to improving SunWater's ability to meet the information requirements of a regulatory process, the Government acknowledges that both the Authority and irrigators have identified the need for SunWater to improve its ability to satisfy the information requirements of a regulatory process well before the commencement of work on the next price path.

However, in order for the Government to give due consideration to the approach recommended by the Authority, it would need to better understand the nature and scope of what the Authority is recommending, particularly the cost implications for SunWater. The Government is concerned that any recommended approach relating to improved information would be cost effective and would minimise adverse cost implications for SunWater and future irrigation prices.

I look forward to you addressing the Government's comments in your Final Report.

Should you have any further enquiries, please do not hesitate to contact Ms Judith Jensen, General Manager Water Supply Policy and Management of the department on telephone 3330 6108.

Yours sincerely

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STEPHEN ROBERTSON MP