



QUEENSLAND FARMERS' FEDERATION

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Submission

8 March 2019

Mr Charles Millsted
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Submitted online: www.qca.org.au/submissions/water

Dear Mr Millsted

Re: QCA Consultation Paper - Apportionment of Dam Safety Upgrade Costs

The Queensland Farmers' Federation (QFF) is the united voice of intensive, semi-intensive and irrigated agriculture in Queensland. It is a federation that represents the interests of peak state and national agriculture industry organisations, which in turn collectively represent more than 13,000 farmers across the state. QFF engages in a broad range of economic, social, environmental and regional issues of strategic importance to the productivity, sustainability and growth of the agricultural sector. QFF's mission is to secure a strong and sustainable future for Queensland farmers by representing the common interests of our member organisations:

- CANEGROWERS
- Cotton Australia
- Growcom
- Nursery & Garden Industry Queensland (NGIQ)
- Queensland Chicken Growers Association (QCGA)
- Queensland Dairyfarmers' Organisation (QDO)
- Australian Cane Farmers Association (ACFA)
- Flower Association
- Pork Queensland Inc.
- Queensland United Egg Producers (QUEP)
- Bundaberg Regional Irrigators Group (BRIG)
- Burdekin River Irrigation Area Irrigators Ltd (BRIA)
- Central Downs Irrigators Ltd (CDIL)
- Pioneer Valley Water Cooperative Ltd (PV Water)
- Queensland Chicken Meat Council (QCMC)
- Theodore Water Pty Ltd.

QFF welcomes the opportunity to provide comment on the Consultation Paper Rural irrigation price review: apportionment of dam safety upgrade costs. We provide this submission without prejudice to any additional submission from our members or individual farmers.

The united voice of intensive agriculture



The Queensland Government has directed QCA to review water charges for irrigation customers in those schemes where it has been determined that dam safety work must be undertaken for the 2020-24 price path period. QCA is to investigate the proportion of prudent and efficient capital expenditure for dam safety upgrades that should be recovered in charges from irrigators because as customers of the irrigation schemes they may ‘contribute to the need for or may derive benefits from dam safety upgrades.’ This direction will involve the assessment of the costs of proposed major investment projects, such as upgrading of spillways and spillway gates and modifications of dam embankments. There are also other smaller investment projects across several schemes that will be required.

QFF submits that these costs are a community wide responsibility and the investigations proposed by the QCA to examine cost recovery are not adequate and therefore cannot be supported.

Dam safety programs and forecast costs

The following dams have been identified to be upgraded as part of the SunWater planned safety program over the price path period:

- Bjelke-Peterson Dam (Barker Barambah WSS)
- Fred Haigh Dam (Bundaberg WSS)
- Burdekin Falls Dam (Burdekin-Haughton WSS)
- Coolmunda Dam (Macintyre Brook WSS)
- Fairbairn Dam (Nogoa Mackenzie WSS)
- Teemburra Dam (Pioneer River WSS)
- Wuruma Dam (Upper Burnett WSS)
- Leslie Dam (Upper Condamine WSS).

Forecast expenditures are identified in the SunWater Network Service Plans (NSPs) under the title ‘Dam Improvement Program’ (DIP). These expenditures and the impact on total bulk water scheme costs are significant on many of the affected schemes as shown in Table 1 below. The DIP contribution is based on an ‘as incurred’ approach for transparency of cost impacts on customers to 2023-24. Data from SunWater NSPs for each scheme impacted by the DIP.

Table 1. Dam Improvement Program (DIP) costs and impact on total bulk water scheme costs

Nogoa	2019/20 Forecast \$'000	2020/21 Forecast \$'000	2021/22 Forecast \$'000	2022/23 Forecast \$'000	2023/24 Forecast \$'000
DIP Expenditure	61,350	9,600			
DIP contribution		194.3	393.4	403.3	413.4
DIP - % of total Bulk costs	0.0%	5.4%	10.3%	10.2%	10.2%
Burdekin					
DIP Expenditure	8691.3	31,641.7	143,423.2	155,216.4	14,027.8
DIP contribution		640.4	4199.5	10,348.7	14,032.7
DIP - % of total Bulk costs	0.0%	14.0%	55.5%	81.7%	88.7%
Bundaberg					
DIP Expenditure	127.8	786.0	1396.5	27.5	
DIP contribution		15.9	60.5	90.8	93.6
DIP - % of total Bulk costs	0.0%	0.4%	1.3%	1.9%	2.0%
Barker Barambah					
DIP Expenditure		104.8	402.8	1101.1	3385.9
DIP contribution		2.1	12.4	43.2	135.1
DIP - % of total Bulk costs	0.0%	0.1%	0.4%	1.4%	4.3%
Bowen Broken					
DIP Expenditure			107.4	275.3	677.2

DIP contribution			2.2	10	29.5
DIP - % of total Bulk costs	0.0%	0.0%	0.1%	0.4%	1.2%
Macintyre Brook					
DIP Expenditure	240.3	733.6	1708.1	412.9	
DIP contribution		14.8	64.6	109.2	120.3
DIP - % of total Bulk costs	0.0%	0.8%	3.3%	5.3%	5.6%
Pioneer					
DIP Expenditure	766.9	3862.1	402.8		
DIP contribution		78.2	166.4	178.8	183.2
DIP - % of total costs	0.0%	3.2%	6.4%	6.6%	6.6%
Upper Burnett					
DIP Expenditure		104.8	402.8	1101.1	2821.6
DIP contribution		2.1	12.4	43.2	123.7
DIP - % of total costs	0.0%	0.1%	0.6%	2.0%	5.4%
Upper Condamine					
DIP Expenditure	2045	11,203.3	805.7		
DIP contribution		226.7	475.5	503.7	516.2
DIP - % of total costs	0.0%	8.7%	16.4%	16.8%	16.7%

The table highlights the cost impact each year on bulk water schemes ranges from 1.2% for the Bowen broken to 88.7% for the Burdekin. Estimates prepared by Jacobs for the Burdekin River Irrigation Area indicate that the inclusion of dam safety costs would increase recoverable costs to be paid by river and distribution customers by 200 to 300% from approximately \$5 million per annum to almost \$20 million per annum.

The other major concern is the projects that have started are already 65% over budget. Any blowout in costs will be passed through to water users, if not in this price path, in subsequent periods. While transitional fixed charges will ease the impact of price increases, these arrangements will impact on annual real price increases into the future in the schemes affected. Customers in some of these schemes also will have to cope with significant increases in variable charges.

Several smaller projects have also been identified for beyond 2024 and this price path. They are:

- Callide Dam (Callide Valley WSS)
- Moura Off-Stream storage (Dawson valley WSS)
- Isis and Woongarra Balancing storages (Bundaberg distribution system)
- Kinchant Dam (Eton WSS)
- Peter Faust Dam (Proserpine River WSS)
- Cania Dam (Three Moon Creek WSS).

Seqwater has no planned dam safety upgrades up to 2024 but has indicated that upgrades would be required on Atkinson Dam after 2024.

SunWater is also proposing a weighted average cost of capital (WACC) apply on DIP expenditures. This proposal is rejected as it will add significantly to the annual total costs for schemes which will raise questions about scheme viability. It will leave these schemes facing longer term transitional prices which would be expected to be in excess of 8% per annum for this price period to meet SunWater's forecast revenue requirements from all bulk schemes across the state.

QCA consultation paper

QCA provides an overview of dam safety requirements as defined in the *Queensland Water Supply (Safety and Reliability) Act 2008* and the dam safety programs and associated investigations and reporting that SunWater and Seqwater must implement to comply with the legislation. QCA is to undertake its review of dam safety costs in accordance with the terms of the State Government's Referral and Direction Notice for the Rural Irrigation Price Review 2020-24 which requires QCA to recommend:

- 'two sets of appropriate prices in relation to prudent and efficient capital expenditure associated with dam safety upgrades, one set where all dam safety upgrade capital expenditure is excluded and one set where an appropriate allowance for capital expenditure forecast to be incurred from 1 July 2020 onwards is included. The recommendations made by the Authority are not required to specify which set of prices are to apply.'
- 'the Authority is to develop and apply an appropriate approach for apportioning dam safety upgrade capital expenditure and explain this approach and its application as part of its recommendations.'

QCA examines a number of precedents in Queensland for recovery of dam safety or similar safety costs from impactors and beneficiaries of infrastructure services. The approaches adopted in other states are also reviewed such as the decisions of the Independent Pricing and Regulatory Tribunal (IPART) in NSW.

QCA notes that in its review of Seqwater bulk prices for non-irrigation customers for 2018-21 that as 'the primary driver for the dam safety upgrades were legislative and regulatory compliance obligations' these costs were a 'normal cost of operation in supplying water to customers' and therefore the prudent and efficient costs should be recovered from non-irrigation customers and eventually irrigation customers.

QFF questions this conclusion because current SunWater bulk service contracts for irrigation customers provide only for the release water to meet customers expected demands and customers bearing the risk of damage to their works such as pumps as a result of water releases. SunWater's charges under these standard contracts are to only cover the costs of these services. There is no reference to charges for dam safety or any flood mitigation measures.

QFF understands that the consultations conducted by SunWater in regard to dam safety measures made no reference to recovery of these costs as part of the 'normal cost of operation in supplying water to customers'. Irrigation customers accepted that that dam safety flood protection measures introduced in recent years are needed to protect the current community. The issue of responsibility for the costs of these measures has not been raised formally or consulted widely by the State Government. It is not acceptable at this stage for QCA to investigate a cost allocation brief without a full and extensive investigation of dam safety regulation in terms of the benefits and costs which takes into account all aspects of flood in this state.

As outlined in our submission to QCA in December 2018 (<https://www.qff.org.au/wp-content/uploads/2017/04/20181203-QFF-submission-to-QCA-re-Rural-irrigation-pricing-review-2020-24-Issues-WEB.pdf>), QFF does not consider it appropriate for QCA to respond to this brief unless it can engage all parties likely to be affected including irrigation customers, local government customers and the stakeholders in the wider community in a process which provides comprehensive information about the dam safety requirements and the individual scheme projects and costs. This stand-alone investigation on apportioning the costs of dam safety for only the irrigation customers of the schemes affected for the purposes of these pricing investigations is not acceptable. Referencing case specific investigations undertaken by QCA such as the SEQ Urban water pricing investigations and rail level crossings upgrades is also not acceptable.

Response to questions raised by QCA

QCA requests comment on a number of key principles that it intends to address for the purpose of investigating and allocating dam safety costs. These issues include impactor and beneficiary pays, economic efficiency, revenue sufficiency, public interest (fairness and equity) and transparency, simplicity and cost effectiveness of the cost allocation methodology. QFF submits the following comments on the questions listed in the QCA consultation paper:

1. *Do you agree that under the impactor pays principle, the impactors are the users of the services provided by the dams being upgraded (i.e. water storage and supply, and other services provided, such as flood mitigation and recreation)? If not, what do you consider is an appropriate approach to applying the impactor pays principle?*
2. *Which one of the impactor pays or beneficiary pays principles do you consider should be used as the basis for allocating dam safety upgrade capital expenditure, and why?*

QFF comment:

QFF submits that dam safety measures are required to protect communities. If the Queensland Government wishes to recover these major costs from irrigation scheme customers and other bulk water customers, QCA needs to fully investigate how the ANCOLD guidelines which use Population at Risk (PaR) have been applied in each specific dam investigation. Irrigation customers have been told that defined works are required because downstream population is at risk from major climate events. If they are required to pay for these works, the following issues need to be addressed to get a better understanding of dam failure risk and impacts:

- How are basin wide impacts of events investigated compared with the specific dam catchments?
 - How are the implications of significant land features within catchments and basins assessed such as flood plains and river valley forms that would restrict flood flows?
 - Will significant infrastructure assets such as road and rail infrastructure impact on major flood flows?
 - How is dam failure differentiated from flooding due to the significance of the flow event?
 - How are flood mitigation benefits of dams considered particularly in cases where the dam was not built to provide a defined flood benefit?
 - Will continued community development below existing dams effect the application of PaR and the need for further dam safety measures into the future?
 - How are the different regulatory compliance issues around the triggers for Dam safety upgrades going to be addressed e.g. flood risk assessment, dam safety 0.01 to 0.001% AEP, housing/population areas 1% AEP and government roads and bridges 2% AEP?
3. *With reference to planned dam safety upgrades:*
 - a. *In addition to bulk water supply services, are there other services that the dams being upgraded provide?*
 - b. *Who are the parties or individuals that should be allocated dam safety upgrade costs for each of the services provided?*
 - c. *On what basis should they be allocated costs? For example, how do their activities generate a need for, or benefit from, the costs?*
 - d. *Of the parties and individuals that you identified, would you consider them to be an impactor or a beneficiary, as described in this paper?*
 - e. *Based on the parties or individuals you have identified, on what basis should costs be allocated, and why?*
 - i. *Amongst direct users?*
 - ii. *Between direct and indirect users?*

QFF comment:

Flood mitigation benefits to downstream communities are not recognised for many dams. But most dams provide no flood protection downstream. The very nature of a dam as a large water storage as well as the spillways design, limits the discharge of water downstream during flood events. The level of benefit varies from scheme to scheme.

The dam safety upgrade requirements are driven by the risks to populated areas that were not developed when so many of these dams were built and invested in by land and allocation purchases by irrigators. This growth and development of the at risk populated areas was allowed and will continue to be allowed because of the flood mitigation benefits of dams and the economic development and employment opportunities flowing from urban and other development. Local, state and federal governments were and continue to be the beneficiaries of this development, not the water users.

Dams continue to provide significant recreation services and associated amenities which benefit local and wider regional communities. The State Government's decision to recover the benefit of these costs from the community based upon benefit is welcomed.

Dam safety issues are driven by the risks to existing and future communities and the costs should accordingly be recovered from the community.

4. *What are the expected impacts on the interests of irrigator customers of forward looking prices that include dam safety upgrade costs? If there are significant impacts, please be specific and provide details on how these may arise.*

QFF comment:

We reiterate previous comments. Table 1 highlights the cost impact **each year** on bulk water schemes ranging from 88.7% to 1.2%. Jacobs' estimate for the Burdekin River Irrigation Area the inclusion of dam safety costs would increase recoverable costs to be paid by river and distribution customers by 200 to 300% from approximately \$5 million per annum to almost \$20 million per annum. The other real concern is the projects that have been started are already 65% over budget. Any blowout in costs will be passed through to water users if not in this price path in subsequent periods. Customers in these schemes are unlikely to be able to afford this burden particularly coming on top of other major increases in bulk non-routine costs.

The impacts of forward looking prices will vary from scheme to scheme and customer to customer. QFF has concerns about the impact that the addition of these costs will have to total price increases in each scheme. This impact will be multiplied due to the cost increases in energy and associated demands for investment in efficiency measures to try to drive down costs into the future.

The impacts will be significant in schemes where cumulative costs pressures are driving down demand for irrigation water. Revised water demand projections to implement prices for this pricing round is significant in driving prices up in many schemes.

Increasing prices to recover dam safety will have implications for the implementation of future needed reform measures within schemes. It is recognised that over the term of the new price path there will be increased costs for water metering and electricity metering. These costs are expected to be significant. In addition, individual schemes will have to face other issues such as progressing local management investigations and groundwater management issues.

5. *To what extent have irrigation customers in schemes with planned dam safety upgrades made investments on the basis that dam safety upgrade costs would not generally be recovered in irrigation prices? Please provide detailed arguments and evidence to support your view.*

QFF comment:

As commented above, governments have a duty to adequately inform communities about policy reform. In this case, consultation has been about the need for dam safety measures to protect communities from the impacts of dam failure in the case of unprecedented climatic events. Dam safety has not been included as part of pricing investigations to date. The Queensland Government has made no attempt to consult on this policy change or direct the water authorities to consult on the matter. In the absence of formal direction, irrigation farmers have assumed that these costs would be a community responsibility and made their investment decisions based upon current policy settings and commercial demands.

Irrigation schemes in Queensland compete in the market place with each other through commodity sales. Any change in policy on the pass through on DIP costs is going to be a major impediment to competitiveness of the schemes who could be asked to pay for DIP costs compared to those who have already had DIP costs funded under the current policy.

Supplemented Allocation title purchases are considered as a percentage share purchase of the infrastructure in place to capture them. When an irrigator purchases a water allocation, the purchase price/value is based on the total cost of owning the allocation which includes the fixed yearly charge. The higher the fixed yearly charge the lower the capital value of the allocation. Any change in the fixed charges due to the WACC on the DIP will drive down the capital value of the allocations and cause a major equity shift, away from the irrigation customers.

6. *Are there any other issues that are relevant in the context of the public interest (including equity and fairness) that you think the QCA should consider in developing an appropriate approach for apportioning dam safety upgrade costs?*

QFF comment:

QFF questions QCA's assertion that dam safety costs are a 'normal cost of operation in supplying water to customers' because legislative and regulatory compliance obligations are the 'the primary driver for the dam safety upgrades'. There must be some consideration of the overlap of legislation requirements between dam safety and population development approvals. The dam safety assessment and requirement is driven by the population developments. The population development requirements are accessed on a 1% Annual Exceedance Probability (AEP) and the dam safety requirement driven by the population is set at Probable Maximum Flood (PMF) or 0.01% to 0.001% AEP. QFF recommends QCA looks at overlapping compliance issues that are set at such different ends of the scale.

Current SunWater bulk service contracts for irrigation customers provide only for the release water to meet customers' expected demands and customers bearing the risk of damage to their works such as pumps as a result of water releases. SunWater's charges under these standard contracts are to only cover the costs of these services. There is no reference to charges for dam safety or any flood mitigation measures.

Irrigation customers accepted that that dam safety flood protection measures introduced in recent years are needed to protect the community. The issue of responsibility for the costs of these measures has not been raised formally and consulted widely by the State Government. It is not acceptable at this stage for QCA to investigate a cost allocation brief without an extensive investigation of dam safety regulation in terms of the benefits and costs which considers the significant differences in dealing with this matter in Queensland compared with other states.

Increased water charges to recover DIP costs will reduce the competitiveness of product from the affected irrigation areas in comparison to the schemes where it is not proposed to recover DIP investments already implemented.

QFF does not consider it appropriate for QCA to respond to this brief unless it can engage all parties likely to be affected including irrigation customers, local government customers and the stakeholders in the wider community in a process which provides comprehensive information about dam safety and the scheme projects and costs.

7. *Which cost allocation principle will provide direct and indirect users or beneficiaries with transparency, predictability and stability in terms of how prices that are inclusive of dam safety upgrade costs are derived?*

QFF comment:

QFF submits that dam safety measures are required to protect communities. Detailed investigations and consultation are required to establish the case to allocate any portion of these costs to customers of schemes.

8. *Are there any other issues that you think are relevant to how dam safety upgrade costs should be allocated amongst parties and individuals? If so, please be specific and provide supporting reasons in your response.*

QFF comment:

It is not clear how QCA will assess the prudence and efficiency of dam costs, particularly for cases where costs have only been estimated and are likely to be subject to significant variation. QCA cannot proceed with cost allocation in the absence of detailed specification of works and costs.

In summary, QFF submits that dam safety costs are a community wide responsibility and the investigations proposed by the QCA to examine cost recovery are not adequate and therefore cannot be supported.

The State Government's reference to QCA to assess prudent and efficient capital expenditure associated with dam safety upgrades and to develop and apply an approach for apportioning this capital expenditure is premature. The State Government needs to conduct consultation with customers of all schemes that may be affected by dam safety measures at any time for the purposes of assessing the requirement for, and how the costs of these programs should be recovered.

If you have any queries regarding this submission, please contact Ian Johnson at ian@qff.org.au.

Yours sincerely



Travis Tobin
Chief Executive Officer