IRRIGATORS SUBMISSION

TO

SEQWATER PROPOSED PRICE REVIEW

FOR

CEDAR POCKET WATER SUPPLY SCHEME (WSS)

Introduction

This submission is on behalf of the irrigators on the Cedar Pocket WSS following a forum held by the Queensland Competition Authority (QCA) in Gympie on 20 June, 2012 at which 9 of the 11 irrigators were in attendance.

Brief Overview

The following points should be noted as being relevant and unique when considering a review of water charges for this scheme.

1. Cedar Pocket has been a dairying area for more than 100 years. The effects of amalgamation in the 1970s and deregulation in the 1990s has seen the number of dairy farms decrease from more than 30 to less than 10 today.
2. Reliability of water supply from Cedar Pocket Dam and better farming methods have increased the production of milk (and associated products) by at least 250% in the past 30 years.
3. The dairy farms in the area are efficiently operated enabling them to remain viable in an increasingly competitive market.
4. Increases in costs of production cannot be passed on; thus affecting profit margins.
5. Cedar Pocket dam is a comparatively minor storage with a total water allocation of less than 500 ML.
6. Originally, more than 95% of the water allocation was attributable to the dairy industry; the balance being for beef and small crops production.

7. Current water allocation is now less than 75% to dairying with the balance being for beef production.
8. There has been very little change in property ownership since the dam was built.

Immediate Effects of Water Price Increases

The increases in water charges under the proposed Network Service Plan (NSP) from $15.48 per ML (fixed component) and $16.59 per ML (usage component) to $271.65 (fixed component) in 2013/2014, represent increases of between 850% and 1750%, depending on usage. The possible effects could include:-

1. Real cost increases to some dairy farmers of more than $20,000 per year, regardless of usage.
2. Because costs cannot be passed on, the follow on effect could be tighter profit margins and reduced viability, and combined with other cost increases, possibly forcing farmers out of the industry.
3. Alternatively, farmers would need to cut costs in other areas which would affect suppliers, contractors and general farm labour in the area.

Possible Longer Term Effects of Water Price Increases

Should the proposed price increases drive dairy farmers out of the industry, water usage would significantly decline and allocations from the scheme would become worthless. If irrigators were to “opt out” through legal means, revenue would diminish making the scheme even less viable. There needs to be a proper balance with SEQWater charges, otherwise they could end up with an asset that has no long term benefit or value.

Higher prices also raise the question of the value of allocations as a tradeable commodity. Because they can only be traded within the scheme, and if there is no demand because of the price, the value is reduced to being worthless.

Concerns with the NSP

While the SEQWater NSP goes into lengthy explanation of the costs that affect their proposed tariff charges, there is little specific detail in how they apply and therefore must be questioned. These include:-

1. Labour for direct operations costs of $45,900. The 6 items that the report details that expenditure is driven by seem to have little relevance to Cedar Pocket WSS.
2. Similarly, the explanation for non-direct operating costs appears largely irrelevant and certainly excessive at $37,000.
3. The estimated insurance cost of $10,300 is not clearly explained and the method by which it determined does not seem to relate to specific risks and liabilities.

For each of these items, the combined costs are significant (approximately 75% of total lower bound costs) and are questionable whether SEQWater and their suppliers are providing value for money.

On page 27 of the report, SEQWater propose a single fixed tariff based on allocation and refer to it being “discussed” elsewhere but no direct reference is given. While most of the costs are fixed, some operating costs are minimal when there is little demand and usage (as in the past 18 months). Some adjustment of the current ratio is understandable.

Summary

It is recognised that Cedar Pocket WSS is minor in comparison to most others and that it cannot achieve the economies of scale that larger schemes have. However we consider that it could be more efficiently operated, thus reducing costs and the need to significantly increase tariffs.

We consider that any increase in charges above the CPI rate are not justifiable in the current economic circumstances.

Furthermore, we consider that the proposal by SEQWater for a single fixed tariff is not justifiable. At best, we consider a 60:40 (fixed to variable) ratio as being reasonable.

We therefore propose SEQWater charges of approximately $20.00 per ML (fixed/allocation) and $13.35 per ML (variable/usage) as being acceptable and that these prices be adjusted to the CPI through to 2017.