

**CHRONOLOGY OF CORRESPONDENCE RELATING TO SUNWATER IRRIGATION  
WATER PRICE REVIEW FROM APRIL 2006 TO ~~PRESENT~~ August 2007**

**20 April 2006**

- Hon H Palaszczuk, Minister for Natural Resources Qld to Mr A Heidke (for Bundaberg Canegrowers)
  - Acknowledged representation by Bundaberg Irrigators regarding serious concern for SunWater's water pricing regime
  - Copy of submission forwarded to SunWater (Mr P Noonan)
  - Confirmation that points would be considered

**16 May 2006**

- Ms J Mattila (for BRIG) to Hon H Palaszczuk, Minister for Natural Resources Qld
  - Raised serious concern with SunWater irrigation water pricing review
  - Inconsistencies with COAG, NWI and concerns regarding policy compliance
  - Cross subsidisation of \$1m in the Bundaberg SunWater scheme
  - Raised issue of independent pricing regulator and role of QCA

**24 May 2006**

- Mr A Heidke (for Bundaberg Canegrowers) to Hon H Palaszczuk, Minister for Natural Resources Qld
  - Advised (regrettably) that SunWater not responsive to points raised
  - Remain seriously concerned and will refer the matter to Bundaberg Regional Irrigators Group (BRIG) and their legal adviser Ms J Mattila

**28 June 2006**

- Mr M Tandy (for Hon H Palaszczuk) to Ms J Mattila (for BRIG)
  - Claimed no breach of NWI commitments
  - Believed the pricing review process to be ok
  - Advised no reason to suggest QCA to review process

**10 August 2006**

- Ms J Mattila (for BRIG) to Hon P Beattie, Premier and Minister for Water
  - Raised same serious concerns as 16 May advice to Mr Palaszczuk
  - Cross subsidisation of \$1m in Bundaberg SunWater scheme
  - Disagree with comments in response from Mr M Tandy
  - Require independent pricing regulator review

**10 August 2006**

- Ms J Mattila (for BRIG) to Hon M Turnbull, Minister for Environment and Water Resources
  - Raised serious concerns with SunWater irrigation water pricing review and dismissal of this concern by Qld Government
  - Contradictions with COAG and NWI commitments

**28 August 2006**

- Mr M Smith (for Bundaberg Sugar) to Hon P Beattie, Premier and Minister for Water
- Referred to letter of 28 June (Tandy to Mattila).
- Contradicted content of 28 June letter
- Raised serious concerns about Tier 2 process



### **1 September 2006**

- Mr A Hedke (for Bundaberg Canegrowers) to Hon H Palaszczuk, Minister for Natural Resources Qld
  - Raised serious concerns with SunWater irrigation water pricing review
  - Strongly disagree with response of 28 June
  - Noted this response avoided the main issues and noted these as having been ignored

### **16 October 2006**

- Mr M Smith (for Bundaberg Sugar) to Hon K Shine, Minister for Natural Resources Qld
  - Advised no reply to 28 August letter
  - Serious concerns with SunWater and water pricing review
  - Tier 1 and Tier 2 process not representative of Bundaberg Sugar or irrigators
  - Member of BRIG seeking for SunWater to remove cross subsidy in Bundaberg
  - Queensland policy on water pricing conflicting with COAG and NWI principles
  - Cannot accept outcomes of flawed process

### **23 October 2006**

- Mr S Spencer (for Department Natural Resources) to Mr D Hollis (for BRIG)
  - Contradicted content of BRIG media release and supported the SunWater price review process
  - Claimed use of "postage stamp" pricing in Bundaberg does not represent cross subsidy
  - Indicated no QCA independent review available

### **27 October 2006**

- Mr P Beattie, Qld Premier to Mr M Smith (for Bundaberg Sugar)
  - Response to letter of 28 August raised as a member of BRIG
  - Referred to Hon K Shine, Minister for Natural Resources

### **27 October 2006**

- Hon P Beattie, Qld Premier to Ms J Mattila (for BRIG)
  - Response to letter of 10 August
  - Referred to letter from Hon H Palaszczuk, Minister Natural Resources Qld
  - Advised to take issue forward to next pricing review

### **30 October 2006**

- Mr D Hollis (for BRIG) to Chief Executive QCA
  - Raised serious concerns with flawed SunWater water pricing review process
  - Cross subsidy in SunWater Bundaberg scheme of \$1m
  - Inconsistencies with COAG/NCP/NWI framework
  - Seeking advice of QCA on process of rectifying outcome

### **30 October 2006**

- Mr D Hollis (for BRIG) to Mr K Matthews, Chairman National Water Commission
  - Advising serious concern with SunWater irrigation water pricing review
  - History of correspondence to Qld Government (Department for Natural Resources)
  - Seeking comment on claims of compliance with COAG/NCP/NWI framework





**16 November 2006**

- Mr E Hall (for Qld Competition Authority) to Mr D Holliss (for BRIG)
  - Confirmed QCA overview of SunWater as government monopoly business
  - Advised that QCA only able to review if directed to do so by Qld Premier or Treasurer

**31 January 2007**

- Mr M Tandy (for Minister Natural Resources) to Mr M Smith (for Bundaberg Sugar)
  - Response to letter of 16 October
  - Supported the SunWater price review process
  - Confirmed QCA independent appeal is not available
  - Referred to local determination of tariffs within schemes

**5 February 2007**

- Mr D Holliss (for BRIG) to Hon M Turnbull, Minister for Environment and Water Resources
  - Forwarded copy of BRIG letter to QCA and the QCA response
  - Indicated continuing frustration with outcomes and lack of action in response to ongoing concerns raised by BRIG

**7 February 2007**

- Mr M Smith (for Bundaberg Sugar) to Mr M Tandy (for Qld Minister for Natural Resources)
  - Response to letter of 31 October 2006
  - Refuted claim that price review process was representative of irrigators
  - Noted that river irrigators paying 32% margin above SunWater actual costs
  - Required advice on river tariffs in relation to upper bound costs

**27 March 2007**

- Mr M Tandy (for Minister for Natural Resources) to Mr M Smith (for Bundaberg Sugar)
  - Responded to letter of 7 February 2007
  - Referred concerns to next (2011) price review
  - Denied cross subsidy and that river irrigators were subsidising other irrigators
  - Supported role of NWC
  - Decisions on upper bonus pricing for SunWater schemes "deferred"

**27 March 2007**

- Mr M Smith (for Bundaberg Sugar) to Mr M Tandy (for Minister Natural Resources Qld)
  - Responding to letter of 27 March 2007
  - Seeking further clarification on rates of return
  - Reference to Qld Treasurer comments on 4% rate of return for water projects
  - Comparison with 32% paid to SunWater by Bundaberg river irrigators
  - Indicated priority attention required

**2 April 2007**

- Mr M Smith (for Bundaberg Sugar) to Mr M Bradbury (for Department Natural Resources Qld)



- Referred to response of 27 March
- Noted specific reference to river water charges
- Sought information on contribution to, and reinvestment of SunWater profits

**13 April 2007**

- Mr P Byrne (for Bundaberg City Council) copy of letter to Hon C Wallace, Minister for Natural Resources
  - Raised concern about SunWater price review process and outcomes
  - Noted serious disadvantage to Bundaberg irrigators
  - Requested reconsideration by SunWater
  - Noted that Council supports differential pricing for the SunWater Bundaberg scheme

**5 June 2007**

- Mr M Tandy (for Minister for Natural Resources Water) to Mr M Smith (for Bundaberg Sugar)
  - Referred to letter of 27 March 2007
  - Government policy of "no price decreases"
  - No determination on rates of return for rural water schemes as part of national policy
  - Reference by Mr M Smith to article on SEQ Urban Water Infrastructure considered to be "unique" and not to be used as indicative reference

**3 July 2007**

- Mr M Smith (for Bundaberg Sugar) to Hon M Turnbull, Minister for Environment and Water Resources
  - Updated on correspondence with Qld Government and statements on rates of return
  - Provided information relative to costs for river irrigators in Bundaberg

**3 July 2007**

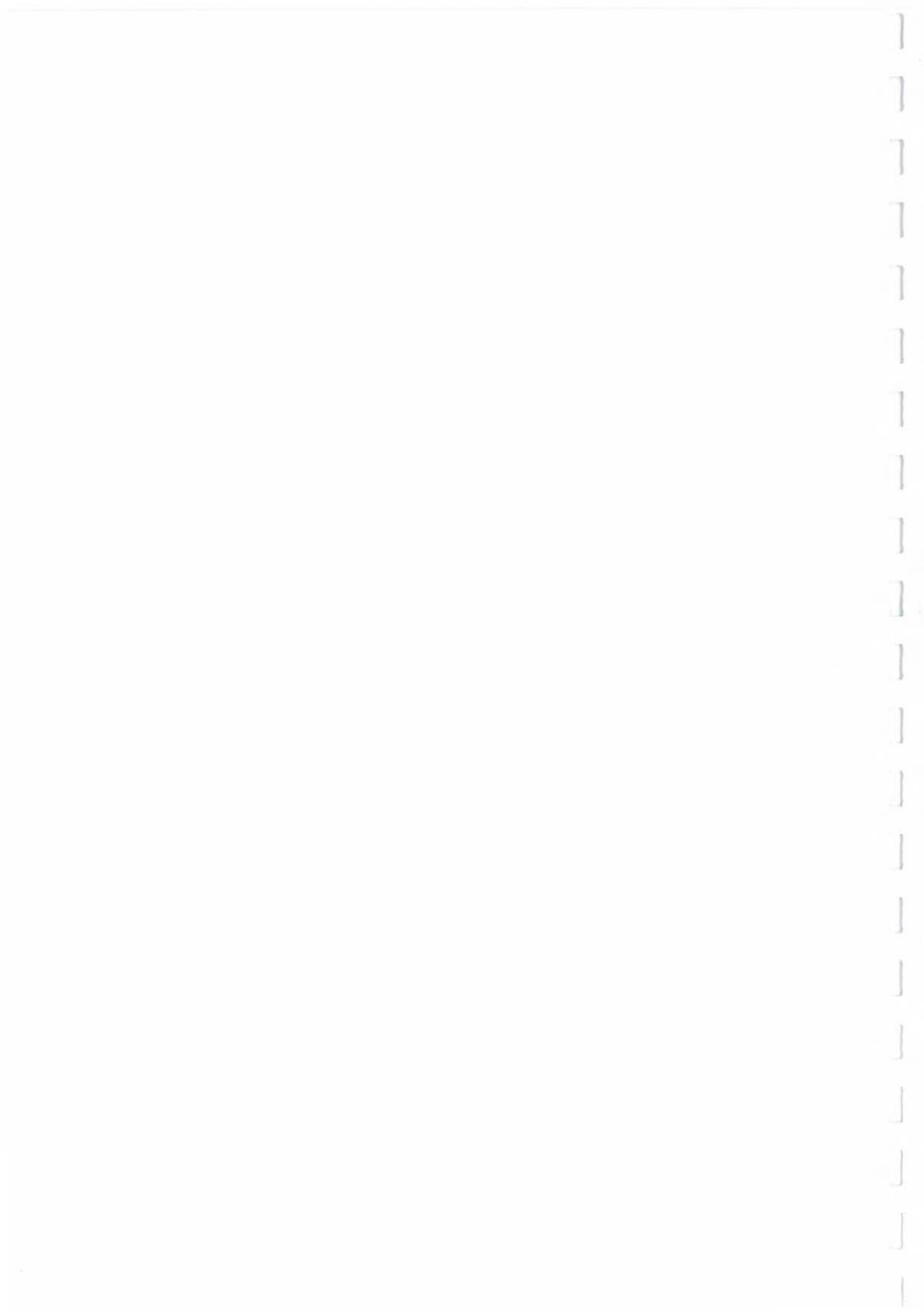
- Mr M Smith (for Bundaberg Sugar) to Hon C Wallace, Minister for Natural Resources and Water
  - Summary of Qld Government position from correspondence
  - River irrigators paying over 30% profit margin to SunWater
  - Reinforced obvious cross subsidy for Bundaberg scheme
  - Inequity of the subsidy is increasing

**6 July 2007**

- S Johns (for Minister for Natural Resources and Water) to Mr M Smith (for Bundaberg Sugar)
  - Referred to letter of 3 July
  - Confirmed this receiving attention

**17 August 2007**

- L Grey (for Minister for the Environment and Water Resources) to D Holliss (for BRIG)
  - Referenced letter of 5 February
  - Suggested contact to Premier P Beattie as for QCA advice
  - Advised Qld Implementation Plan under the NWI accredited by NWC
  - Indicated Queensland progress assessed late 2007 by NWC







Hon Henry Palaszczuk MP  
Member for Inala



COPY FOR YOUR  
INFORMATION  
**Queensland  
Government**

15

Minister for Natural Resources,  
Mines and Water

Ref CTS 02187/06

20 APR 2006

Mr Alwyn Heidke  
Chair  
Bundaberg Canegrowers  
PO Box 953  
Bundergerg Qld 4670



Dear Mr Heidke

PECD: 24 APR 2006		
	INIT	COPY
Members		
Manager	✓	✓
Manager Fin. & A	✓	
Membership Services EC		
All Staff		
Other		
CIRCULATE TO		
ACTION		
FILE		

Thank you for your representation at the Bundaberg Community Cabinet regarding SunWater's water pricing regime for the Bundaberg Water Supply Scheme.

As the determination of water prices for particular State owned irrigation schemes is a SunWater responsibility, a copy of your submission has been forwarded to Mr Peter Noonan, Chief Executive Officer, SunWater for his consideration in future negotiations on water pricing for the Bundaberg Scheme.

I am confident that the points you have made in your submission will be considered in further deliberations of SunWater's pricing regime for the Scheme.

Yours sincerely



Henry Palaszczuk MP  
Minister for Natural Resources,  
Mines and Water

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16 MAY 2006

## Jenni Mattila & Co

Lawyers

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Hon Henry Palaszczuk MP  
Minister for Natural Resources,  
Mines and Water  
Parliament House  
BRISBANE. QLD. 4000

Dear Minister,

### **Bundaberg Regional Irrigators Group**

We act for Bundaberg Regional Irrigators Group in relation to the Tier 2 pricing review. We are aware of your earlier letter to the Group referring the matter to SunWater and we are concerned that this is contrary to your earlier commitment under the National Water Initiative to have an Independent Pricing Regulator.

The Bundaberg Regional Irrigators Group is concerned that the Tier 1 Report breaches long standing State and Commonwealth policy principles on water pricing. Including:

- 1994-2000 CoAG Rural Water Policy
- 2004 National Water Initiative (NWI)
- 2005 Information provided to the National Water Commission on Queensland's Compliance with NWI
- Queensland Water Plan 2005-2010

The failure to allow for oversight by the Independent Pricing Regulator may, we believe result in these issues not being appropriately addressed at a State level.

The equal division of non-scheme related electricity costs has resulted in severe internal pricing anomalies Bundaberg's case. The equal division of electricity

costs amongst all irrigators breaches all four key pricing principles. A review of the pricing policies of other Queensland schemes has shown that where there are significant variations in costs including electricity, non SunWater Schemes differentially price to meet the CoAG principles. There is therefore no physical reason preventing compliance with transparent nodal pricing. The Bundaberg Regional Irrigators' Group have reviewed the infrastructure of the Bundaberg system and confirmed that it would easily support transparent, nodal pricing.

The 1994 COAG Water Resource Policy provided in relation to water pricing:

- In general to adopt the policy of consumption based pricing, full cost recovery and the removal of cross-subsidies which are not consistent with efficient and effective service, use and provision. Where cross subsidies continue to exist they be made transparent.
- That where service providers are required to provide water services to customers at less than full cost, the cost of this be fully disclosed and ideally be paid to the service provider as a community service obligation.

These pricing policies were carried forward in the National Water Initiative (NWI) signed by the majority of States (including Queensland) and the Commonwealth in June 2004 and subsequently re-affirmed by Queensland.

The most significant additional obligation under the NWI was the requirement for an Independent Pricing Regulator. We note that Queensland informed the Commonwealth that the Queensland Competition Authority would fulfill this role.

The Water Plan 2005-2010 was published in August 2005. The Water Plan reiterated the Queensland Government's intention to comply with CoAG water policy and the NWI. It was on this basis that Queensland is to competition policy payments from the Commonwealth.

We note in particular the National Water Commission's (NWC) assumptions in the *2005 National Competition Policy Assessment of Water Reform Progress Chapter 4 Queensland* were based on the representations made by the Queensland Government.

The *State Wide Irrigation Pricing Report Tier 1 Report* dated April 2006 was released after the NWC assessment. The impact in Bundaberg's case was a marked a departure from the CoAG and NWI principles as well as the policy set down in the Queensland Government's Water Plan 2005-2010.



There are as we stated above four basic policy principles established in the CoAg agreement and confirmed in the NWI. The requirements to comply with these principles were to be protected by a right of review by an Independent Pricing Regulator.

We believe that the impact of the *State Wide Irrigation Pricing Report Tier 1 Report* on Bundaberg breaches all of four key pricing principles:

- Full cost recovery
- Transparent pricing
- The removal of cross subsidies
- Community service obligation payment where full cost recovery cannot be reached (CSO)

### **The Bundaberg Issue**

The impact of the Tier 1 Report in the Bundaberg Scheme is that “equitable pricing” hides a significant internal cross subsidy within the scheme in relation to electricity costs. The reluctance of SunWater to provide sufficiently detailed electricity costs further confirms the problem of lack of transparent pricing. Parts of the Bundaberg scheme incur high electricity costs due to pumping whilst other areas of the scheme incur little or significantly lower electricity costs. The most extreme and obvious case in Bundaberg is the situation of the river irrigators. River irrigators are paying \$4.85 above transparent lower bound nodal costs and do not incur any electricity costs by SunWater. Bundaberg Regional Irrigators Group has used historic data to assess the financial impact of variable electricity costs.

### **Transparent Pricing**

The equal split of electricity costs results in a pricing structure that is not transparent. The high use of electricity in some areas is masked by the equal split of costs. These costs are ascertainable both historically and at present as the electricity is metered on a pump by pump basis. These costs are not however transparently priced or notified to the irrigator. SunWater has expressed considerable reluctance to provide these internal costs resulting in a failure to provide a transparent pricing system.

### **Full Cost Recovery and Lower Bound Pricing**

The impact of this failure to transparently price the true cost of delivery is that some irrigators are paying significantly less than lower bound costs due to



subsidized electricity costs whilst other irrigators within the scheme are paying significantly more than lower bound costs.

Full cost recovery is meant to apply at both a scheme and irrigator level.

### **The Creation of the Internal Cross Subsidy**

The impact of some irrigators paying less than full cost recovery whilst other irrigators are paying more than full cost recovery (based on the internal costs of electricity) is the creation of a significant internal cross subsidy. Both internal and external cross subsidies are meant to be fully transparent, the impact of the Tier 1 Policy is to hide the cross subsidy in the Bundaberg scheme.

This internal cross subsidy is not transparent and hides the internal failure of some irrigators to meet full cost recovery due to the Tier 1 policy of equally dividing costs.

***The estimated cost of the internal cross subsidy to low cost irrigators is \$690,000 to \$1,000,000 per annum.***

This does not include any existing CSO payment.

SunWater's refusal to provide details of internal electricity costs on a nodal basis and their response that the costs are commercial in confidence appears to indicate that SunWater is aware of the extent of the internal cross subsidy.

### **The Impact of the Price Cap**

The problem is compounded by a maximum price increase per megalitre per annum of \$10 over 5 years and a prohibition on price reductions per megalitre over 5 years.

The estimated additional cost per megalitre to bring high cost irrigators to full cost recovery for their electricity costs is an additional \$14 and \$16 per megalitre. Even if this price increase were achieved for high cost irrigators, the low cost irrigators would still be paying, as a group, \$690,000 to \$1,000,000 per annum more than transparent lower bound costs.

## **OPTIONS**

### **Preferred Option transparent pricing +additional CSO+full cost recovery over time**

The Bundaberg Regional Irrigators Group supports the view that pricing in Bundaberg should be reviewed to comply with transparent pricing principles. The internal cross subsidy paid by low cost irrigators should be removed and replaced with a CSO or the subsidy paid by SunWater (as SunWater was aware that the Tier 1 Group was not provided with proper information to make an informed decision), with high cost irrigators having a price path moving to the maximum price increase over the 5 year period.



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24 May 2006

Hon Henry Palaszczuk  
Minister for Natural Resources,  
Mines and Water  
Parliament House  
Brisbane Qld 4000

Dear Minister,

**Re : SunWater's Pricing Regime.**

I refer to your letter dated 20 April 2006 REF CTS 02187/06.

In this letter you advised that the submission as well as the points that my delegation and I had raised with you had been forwarded to Mr Peter Noonan CEO SunWater for his consideration.

You also advised that you were confident that the points we made would be considered further.

Regrettably Minister we believe that our points are not being considered at all and we are losing confidence in the whole process.

Bundaberg CANEGROWERS is a member of the Bundaberg Regional Irrigators Group (BRIG). BRIG appointed Ms Jenni Mattila to provide advice on water pricing. Ms Mattila has advised that the Tier 1 Report breaches long standing State and Commonwealth policy principles on water pricing. She further advises that the Independent Pricing Regulator cannot appropriately address our issues.

I have attached a copy of recent correspondence to SunWater which clearly reveals the lack of good faith demonstrated by SunWater and the reluctance to provide information.

Minister, this issue is of critical importance to our irrigators and we request that pricing in Bundaberg be reviewed to comply with transparent pricing principles, the internal cross subsidy paid by low cost irrigators removed and replaced with a CSO or met by SunWater, with high cost irrigators having a price path moving to the maximum price increase over the five year period.

Yours Sincerely

AC Heidke  
Chairman

Cc Deputy Premier, Treasurer and Minister for State Development, Trade and Innovation  
Director General Natural Resources, Mines and Water  
Director General State Development, Trade and Innovation  
Director General Treasury Department  
Bundaberg Regional Irrigators Group



Queensland  
Government

Ref CTS 03690/06

Office of the  
Minister for Natural Resources,  
Mines and Water

28 JUN 2006

Ms Jenni Mattila  
Jenni Mattila and Co  
Lawyers  
PO Box 1685  
Double Bay NSW 1360

Dear Ms Mattila

The Honourable Henry Palaszczuk MP, Minister for Natural Resources, Mines and Water has asked me to reply to your letter of 16 May 2006 concerning the Tier 1 Pricing Report. I understand you have sent a similar letter to the Director-General of the Department of Natural Resources, Mines and Water. This response is a joint reply on behalf of both the Minister and the Director-General.

In establishing its policy positions on water pricing targets and processes, the Government has been very conscious of its obligations under the National Water Initiative (NWI). However, the commitment with respect to the use of independent regulators under that initiative is not exactly as you have expressed it. The Queensland Government believes it is consistent with Clause 77 of the NWI which states:

*Independent pricing regulator*

"The Parties agree to use independent bodies to:

- i) set or review prices, or price setting processes, for water storage and delivery by government water service providers, on a case-by-case basis, consistent with the principles in paragraphs 65 to 68 above;
- ii) publicly review and report on pricing in government and private water service providers to ensure that the principles in paragraphs 65 to 68 above are met."

The Government decision on the process for setting prices for SunWater's irrigation customers was that SunWater should seek to do so in accordance with the Government policy '*Rural irrigation water prices for SunWater schemes*'. This policy is generally consistent with the original joint Queensland Farmers Federation/SunWater price setting proposal. As part of the price setting process, if SunWater and customers cannot settle prices within the required timeframe, the Government will determine the prices to be charged, which could involve the Government asking the Queensland Competition Authority (QCA) to carry out a prices oversight role if required. To date there has been no reason to ask the QCA to review any particular issues with the price setting process and the Tier 1 process has been a very comprehensive process which achieved consensus.

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The primary issue you raise is the level of postage stamp pricing versus a more detailed level of price segmentation. The Government is of the view that the use of postage stamp pricing within a scheme is not cross-subsidy as discussed in the Council of Australian Governments commitments. The main issue of cross-subsidy is between sectors where irrigators, urban users and industrial water users should each face their respective cost burdens within a scheme. I believe that this element has been dealt with adequately by the Tier 1 review. Below that it is a question of practicalities and negotiation as to the level of price disaggregation. Clearly it is not practical to have a separate tariff for each customer, but it may be reasonable to have a separate tariff for major scheme segments. However, that is considered a matter for local negotiation, taking into account desirable long-term pricing signals and historical commitments.

In making this decision, there are other factors which also need to be taken into account. The Government has decided that prices paid by irrigators cannot be reduced in the five year period of the new price paths. This refers to the total tariff price paid by customers, by adding the Part A and Part B tariffs in a scheme. That is, while there may be a change in the relative size of the tariff elements, the total price cannot reduce. I understand that this may be seen as an impediment to restructuring of tariffs, but there are broader reasons why the Government has made this decision.

You claim that the Tier 1 report on Bundaberg breaches four key pricing principles. I cannot see any evidence for this claim. The Tier 1 report has:

- Dealt with the issues of full cost recovery within the policy bounds set by the Government and has proposed a pricing regime which will achieve lower bound cost recovery for the scheme by year 5.
- Reflected that the process has been of a high standard, and the level of transparency within that process has been extremely high.
- Removed any sectoral cross-subsidies. Within the irrigation sector, clearly, it is cheaper to supply the farm closest to the source rather than the next one along, and so forth. The question is what level of disaggregation is acceptable in determining tariff structures. There is no breach of NWI commitments to maintain the Bundaberg scheme as a full postage stamp pricing arrangement – the question is really one of acceptability to the local community. If the community can agree on an arrangement, then that can be progressed. If, however, there is division of views, then there needs to be a determination of whether to leave the arrangements essentially as they are or whether transition arrangements are able to be put in place to commence some rate of change. The Tier 2 group should seek to settle what point of balance they see as reasonable.
- Set out publicly the Community Service Obligations (CSOs) offered by Government. Where the Government does not require immediate achievement of lower bound cost recovery, the CSOs have been identified on a transparent basis as required by the NWI.

I understand that the Bundaberg Water Supply Scheme has agreed with SunWater on prices for the next five year price path. The Minister commends both irrigators and SunWater for seeking and achieving consensus on this issue, and finalising negotiations within the required timeframe.



The Minister thanks you for bringing this matter to his attention. If you require any further information regarding this matter, please do not hesitate to contact Ms Mary Chapman, Principal Project Officer, Water Reform of the Department on telephone 3227 6692.

Yours sincerely



Michael Tandy  
**Senior Policy Advisor**

# Jenni Mattila & Co

Lawyers

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## FAX

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To:	<b>The Hon. Malclom Turnbull MP</b>	From:	<b>Jenni Mattila</b>
Fax:	<b>9369 5225</b>	Pages:	<b>(including cover)</b>
Phone:	<b>9369 5221</b>	Date:	<b>August 10, 2006</b>
Re:	<b>Bundaberg Pricing Policy</b>		

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Any costs you may incur will be reimbursed.

Dear Mr Turnbull,

### **Bundaberg Pricing Policy**

Please find attached the response from the Queensland Minister for Natural Resources, Mines and Water in relation to the letter sent to him on behalf of our clients the Bundaberg Regional Irrigators Group. We have replied to the Minister and we are about to send a response on behalf of our client to the Queensland Premier and Minister for Water. We have attached our original letter, and the former Ministers response for your information.

We raised a number of very serious issues with the Minister in relation to problems with pricing in Bundaberg. You will note his refusal to refer the matter to the QCA on page 1 – it is difficult to see how the Queensland Government policy of prohibiting complies with the requirement for an Independent Pricing Regulator when the Government controls who can and who cannot appeal against the process.

In paragraph 1 page 2 there is clearly a misunderstanding as to the meaning of internal cross subsidies and the impact of postage stamp pricing. As previously stated the Queensland Government varies its policy on postage stamp pricing from region to region in this case the cost to disadvantaged irrigators is approximately \$1,000,000. It is our understanding that these internal cross subsidies were precisely what were intended in the 1994 CoAG Agreement. It is also disingenuous to suggest that the price would vary from irrigator to irrigator.

In paragraph 2 page 2 it is further suggested that no change can be made because of the Government policy of not reducing tariffs. As the former Minister was aware my clients were willing to agree to the tariff for the affected irrigators not being reduced on the basis that it would not be inconsistent with Government policy that it not be increased. This obvious response has been ignored.

In paragraph 3 page 2 the comments are make no attempt to address the real issues – the issues themselves have not been addressed in any meaningful manner – they have simply been ignored.

Paragraph 4 page 2 merely begs the question as to who “agreed” the outcome was settled on time as there was no meaningful debate permitted as the outcome was pre-determined.

Our clients would deeply appreciate it if you would take a personal interest in this matter. Sadly the response from the former Minister indicated that the current Queensland Government is unwilling to negotiate in any meaningful way with irrigators on the issue of pricing. The Government’s refusal to allow the pricing decisions to be reviewed by an Independent Pricing Regulator merely compounds irrigators concerns about the lack of integrity of the process and the lack of compliance with long standing CoAG policy.

Our clients are extremely concerned that there was purportedly an agreement as to pricing and that there will be no opportunity to have the matter reviewed for 5 years during which time the problem will continue to escalate.

Our clients believe that it is possible to resolve this matter within the broad parameters of Queensland Government policy but only if there is genuine negotiation and dispute resolution.

It would be appreciated if you would personally review this matter in the light of the Queensland Government’s longstanding CoAg and NWI commitments.

Yours faithfully,

**Jenni Mattila**

# Jenni Mattila & Co

Lawyers

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**FAX**

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To: **Hon. Peter Beattie, Premier  
and Minister for Water**

From: **Jenni Mattila**

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Fax: (07) 3221 3631

Pages: **10 (including cover)**

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Phone: (07) 3224 4500

Date: **August 10, 2006**

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Re: **Bundaberg Pricing Policy**

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Dear Premier,

## **Bundaberg Pricing Policy**

We refer to our letter of 16 May 2006 to the former Minister for Water and the reply from the then Minister's staff of 28 June (both letters attached) in relation to the concerns of our clients the Bundaberg Regional Irrigators Group.

We raised a number of very serious issues with the former Minister in relation to problems with pricing in Bundaberg and our clients are disappointed with the response from his staff. We believe his refusal to refer the matter to the QCA on page 1 is a denial of the basic principle of transparency and accountability. It is difficult to see how the Queensland Government policy of prohibiting independent review complies with the NWI requirement for an Independent Pricing Regulator when the Government controls who can and who cannot appeal against the process.

In paragraph 1 page 2 of the letter from his staff there is clearly a misunderstanding as to the meaning of internal cross subsidies and the impact of postage stamp pricing. As previously stated the Queensland Government varies its policy on postage stamp pricing from region to region in this case the cost to disadvantaged irrigators is approximately \$1,000,000. It is our understanding that these internal cross subsidies were precisely what were intended in the 1994 CoAG Agreement. It is also disingenuous to suggest that the price would vary from irrigator to irrigator.



In paragraph 2 page 2 it is further suggested that no change can be made because of the Government policy of not reducing tariffs. As you are aware my clients were willing to agree to the tariff for the affected irrigators not being reduced on the basis that it would not be inconsistent with Government policy that it not be increased. This obvious response has been ignored.

In paragraph 3 page 2 the comments are again merely self serving without any attempt to address the real issues – the issues themselves have not been addressed in any meaningful manner – they have simply been ignored.

Paragraph 4 page 2 merely begs the question as to who “agreed” the outcome was settled on time as there was no meaningful debate permitted as the outcome was pre-determined.

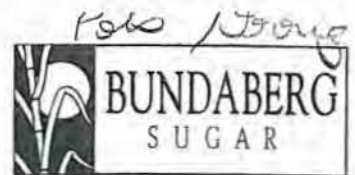
We note the Prime Minister’s concerns about the pricing policies of State owned water authorities. Our clients would deeply appreciate it if you continued to take an interest in this matter. Sadly the response from the then Minister reflects the current Queensland Government’s unwillingness to negotiate in any meaningful way with irrigators on the issue of pricing. The Government’s refusal to allow the pricing decisions to be reviewed by an Independent Pricing Regulator merely compounds irrigators concerns about the lack of integrity of the process and the lack of compliance with long standing CoAG policy.

Yours faithfully,

**Jenni Mattila**

**Att. Ltr from Queensland Minister for Natural Resources Mines and Water**

MAS:SM



28 August 2006

Bundaberg Sugar Ltd  
ABN 24 077 102 526  
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Bundaberg Qld 4670  
PO Box 500  
Bundaberg Qld 4670  
Tel: +61 (0)7 4150 8500  
Fax: +61 (0)7 4150 8522  
www.bundysugar.com.au

Hon Peter Beattie MP  
Premier and Minister for Water  
PO Box 15185  
CITY EAST QLD 4002

**Fax: (07) 3221 3631**

Dear Minister

**Re: Bundaberg Regional Irrigators Group**

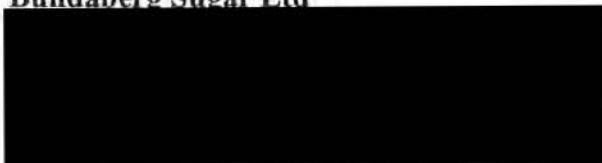
Please refer to a letter dated 28 June addressed to Ms Jenni Mattila from your Senior Policy Adviser, Michael Tandy (Your Ref. CTS 03690/06). This letter referred to a number of SunWater irrigation water pricing matters that had been raised on behalf of the Bundaberg Regional Irrigators Group.

Whilst the company could take issue with many of the points raised in Mr Tandy's reply, at this point Bundaberg Sugar Ltd, as a member of the Sunwater Customer Council and the local Tier 2, wishes to contest the assertion made at the bottom of page 2 in this letter. Whilst transition prices may have been published by SunWater for the next five year price path, these were not agreed and the status quo option was imposed by default. At no time was consensus reached in this process on the important matter of internal scheme cross-subsidies and irregularities with COAG and NWI principles.

You can rest assured that Bundaberg Sugar as SunWater's largest customer will, as a member of the Bundaberg Regional Irrigators Group, continue to campaign strongly for a fairer system of water pricing than that imposed by the government without meaningful consultation and negotiation. The company also wishes to make you aware that no industry body adequately represents the Bundaberg irrigators as this scheme is very different to any other in the state.

Yours faithfully

**Bundaberg Sugar Ltd**



**M A Smith**  
Agricultural Manager



01 September 2006

Hon Henry Palaszczuk  
Minister for Natural Resources,  
Mines and Water  
Parliament House  
Brisbane Qld 4000

Dear Minister,

**Re : Your Reference CTS04333/06**

I refer to your letter dated 28 June 2006 with respect to the price setting process for the Bundaberg Water Supply Scheme.

I am aware that you are retiring from public life, however I must set the record straight with respect to your statement that "...I understand that agreement has been reached with SunWater on prices" as it is simply not true.

In addition there was no meaningful debate permitted as the outcome was pre-determined.

Through various communications with you from Bundaberg CANEGROWERS and the Bundaberg Regional Irrigators Group (BRIG) a number of very serious issues were raised with you in relation to problems with pricing in Bundaberg and we are disappointed with the response.

Your refusal to refer the matter to the QCA is a denial of the basic principle of transparency and accountability. It is difficult to see how the Queensland Government policy of prohibiting independent review complies with the NWI requirement for an Independent Pricing Regulator when the Government controls who can and who cannot appeal against the process.

There is clearly a misunderstanding as to the meaning of internal cross subsidies and the impact of postage stamp pricing. In our case the cost to disadvantaged irrigators is approximately \$1,000,000.

It is our understanding that these internal cross subsidies were precisely what were intended in the 1994 CoAG Agreement. It is also disingenuous to suggest that the price would vary from irrigator to irrigator.

In short your reply made no attempt to address the real issues – the issues themselves have not been addressed in any meaningful manner – they have simply been ignored.

I wish you all the best for the future and trust that your endeavours are rewarding.

Yours Sincerely

A solid black rectangular box used to redact the signature of AC Heidke.

AC Heidke  
Chairman





MAS:AD

16 October 2006

Hon Kerry Shine MP  
Minister for Natural Resources and Water  
Level 13  
Mineral House  
41 George Street  
BRISBANE 4000

RECEIVED		
20 OCT 2006		
ACTION:		
GDM	GFL	<input checked="" type="checkbox"/>
CAS	DBP	
RCY	BAJ	
RJH	COB	
WFP	MAS	
RGP	ESG	
PAW	QWN	
OSP	OSP	

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Dear Minister,

**Re: Sunwater Irrigation Water Pricing – Bundaberg Scheme**

I wish to bring to your attention our letter of 28<sup>th</sup> August forwarded to the (then) Minister for Water and Premier which is as yet unanswered, and a number of other matters in relation to the recently concluded Sunwater irrigation water price negotiations for the Bundaberg Scheme.

By way of introduction, I wish to provide some background to the current situation:

- Bundaberg Sugar Ltd (BBS) is Sunwater's largest customer holding some 30,000 Ml of allocation in the Bundaberg Scheme and additional water in the Mareeba Dimbulah scheme.
- BBS has become increasingly frustrated with the attitude taken by Sunwater and its predecessors over many years in relation to water pricing within the Bundaberg Scheme. This has impacted not only on the company's own farming operations but those of its valued cane suppliers, and is despite a long standing participation in irrigation and water supply issues in the area including representation on SunWater's Customer Council for the Bundaberg Scheme.
- In particular, the current Customer Council has become irrelevant with regard to irrigation issues as it is not representative of Sunwater's irrigation customers. Bundaberg Sugar will be reviewing the value of its participation in this process.
- The Bundaberg Scheme Customer Council was formed from an earlier consultative group which represented a number of organizations whose members had an interest in scheme operations. At that time the scheme comprised both groundwater and surface supplies as components of an overall water supply scheme for the Bundaberg region for all uses and all categories of supply. The current council has two members (from a total of 12) who represent the four council areas where the scheme supplies water. The councils hold no medium security irrigation water allocation and have no interest in matters relating to irrigation supply or pricing. However they have been included in the recent irrigation pricing review and participated in issues requiring determination by voting as part of the SunWater review process. The structure and representation of Customer Council can not identify a democratic proportionate customer representation as may be reasonably required in matters which impact so significantly on the customers who pay SunWater accounts.
- As a consequence of these continuing anomalies and continuing avoidance by SunWater, BBS has become a strong supporter of the Bundaberg Regional Irrigators Group (BRIG) which has been established to represent the interests of irrigator customers within the Bundaberg SunWater Scheme.

- BBS wishes to clearly advise State agricultural organizations such as Queensland Cane Growers Organisation and the Queensland Farmers Federation (QFF) in no way represent the view of BBS or most of its cane suppliers in matters relating to irrigation water pricing.
- The Tier 1 Group selected by Sunwater for consultation on water pricing matters was asked to identify a **uniform** system of pricing for all schemes. The company believes that this was a flawed process as it failed to consider the diversity within Sunwater's schemes or the state's commitments under the COAG / NCP/ NWI framework. As a result, this process ensured that no changes were able to be implemented.
- The Tier 2 (local price negotiations) was a rushed process with a non-representative SunWater Customer Council given the role of Tier 2 and subsequent determinations to be made by the Tier 2 review (see above). The "no change" default position imposed by Sunwater through Tier 1 made it almost impossible to remedy long standing anomalies which were well known to SunWater, and had been the subject of deputations to Mr Henry Paluszczuk as Minister for Natural Resources, Mines and Water and others.
- BRIG has had discussions with the Commonwealth Government's Parliamentary Secretary for water, Mr Malcolm Turnbull, and the National Water Commission (NWC) on these matters seeking confirmation on direction, policy and obligations under the COAG / NCP/ NWI framework. BRIG took encouragement from the Secretary's recent address to the Rural Press Club in Brisbane on these matters.

BBS, in conjunction with other local irrigators and grower organizations (now members of BRIG), has made many submissions and representations on these matters to previous ministers, directly to SunWater, and within water policy and pricing reviews by DNRM&W. These relate particularly to the matter of transparency and cross subsidization as it exists in the Bundaberg scheme. The scale of the continuing pricing anomaly is beyond what may be considered reasonable cost sharing and is more correctly a substantial cross subsidy amounting up to \$1M per year paid by Bundaberg irrigators. This situation is now well understood, is confirmed within material supplied by SunWater, and irrigators have not found it acceptable that this be continued given this most recent opportunity to remedy this situation.

To demonstrate the level of support amongst irrigation water users, BRIG is completing a survey of irrigators in the Bundaberg Scheme and already has signatures from in excess of 50% of the Bundaberg Scheme's total irrigation water allocation supporting a change away from postage stamp pricing to nodal point pricing. When this is completed, I would expect further representations will be made to you on this matter.

In particular, I wish to bring to your attention the situation in relation to the Bundaberg Scheme's river irrigators, of which Bundaberg Sugar is one:

- During the Tier 2 process the Customer Council was made aware that Sunwater's costs for supplying river water under current cost allocations were a Part A of \$6.16 per MI of nominal allocation and a Part B of \$4.40 per MI of actual metered use. This was based on use of 60% of the nominal allocation and a 70:30 split between Part A and Part B revenue in the charging structure.
- The reference tariffs agreed to by Tier 1 in response to the "no price can go down" Government policy were a Part A of \$6.01 and a Part B of \$9.39. These charges were also to incur CPI increases each year.
- This means that River irrigators will pay a Part A of \$6.20 per MI of allocation and a Part B of \$9.66 per MI of use in the 2006/7 water year.
- It is not surprising that the Sunwater CEO, Peter Noonan, in a letter to the Bundaberg News-Mail editor continued to defend claims that there were no cross subsidies between river and channel water prices



within the Bundaberg scheme. The implication then must be that this provides a 32% clear profit margin to SunWater.

- If this is the case, the Bundaberg river irrigators have yet to be informed whether Sunwater and the shareholding ministers believe that a 32% margin for this water supply is an acceptable level of profit for SunWater. It should be noted that river irrigators then have to meet their own equipment and power and fuel costs to lift this water to their crops. This means that many river irrigators incur water delivery costs much higher than those on channel deliveries where in some cases water charges are actually well below SunWater's true costs of delivery. Similar anomalies exist for irrigators on the lower cost channel segments.

Bundaberg Sugar and other irrigators are unwilling to accept that this flawed process has been applied to this opportunity to rectify anomalous water charges apart from complying with State and Commonwealth requirements on these issues and that they must live with the consequences. It is also of interest that the Tier 1 participants agreed with Sunwater to deny an independent appeal process such as to the Queensland Competition Authority (QCA) against decisions determined by this process. Bundaberg Sugar would be pleased to understand how this may now be addressed to avoid ongoing efforts by Bundaberg Sugar and other disaffected irrigators in seeking to rectify this flawed outcome.

If you require further clarification on any of the matters raised in this letter please contact the undersigned on 07 41508517 or 0427 298461.

Yours faithfully

**Bundaberg Sugar Ltd**



**M A Smith**

Agriculture Manager

cc. *Mr D Holliss, Bundaberg Canegrowers*  
*Mr GF Longden*





23 OCT 2006

DEPARTMENT OF  
Natural Resources,  
Mines and Water

Please quote: CTS 09538/06  
Contact officer: Chapman Mary  
Contact telephone: 3227-6692

23 OCT 2006

D Holliss  
Secretary  
Bundaberg Regional Irrigators Group  
PO Box 953  
Bundaberg QLD 4670

Dear Mr Holliss

### **Bundaberg Regional Irrigators Group (BRIG) – Media Release**

I refer to your email of 30 August 2006 which contained BRIG's media release dated August 25<sup>th</sup> 2006 regarding rural irrigation prices in the Bundaberg Irrigation Area (BIA) Scheme.

My understanding of the situation is that during the Tier 1 price negotiation process the issue of "postage stamp pricing" in the BIA was debated at length and most irrigators at that level believed that it should continue. The policy position of Canegrowers and the Queensland Farmers' Federation (QFF) was that "postage stamp pricing" should remain unless there was local agreement to change it.

At the Tier 2 level I believe there were many debates about the issue, with the Tier 2 group meeting five times in total. A vote was taken and resulted in an equal split of views. The group resolved it could not come to agreement on a differential pricing structure for the Bundaberg channel system.

The Bundaberg representatives wrote to the Minister and asked for an extension of time and additional community service obligations (CSOs) so that they could implement segment pricing. The Minister advised the meeting through SunWater, and then in writing, that these proposals were not likely to be accepted.

The Tier 1 policy on irrigation reference tariff disputes was that if issues could not be resolved prior to 30 June 2006, the irrigation reference tariffs and tariff structures agreed by Tier 1 would apply to the scheme for the period of the next price path. Subsequently, Tier 2 approved prices.

The media release refers to there being a "cross subsidy in the BIA". There is also a statement about whether Queensland has complied with the National Water Initiative (NWI). The government's view is that the use of "postage stamp pricing" within a scheme is not a cross-subsidy and that it is consistent with NWI principles. The issue of cross-subsidy is between sectors where irrigators, urban users and industrial water users should each face their respective cost burdens within a scheme. Below that it is a question of practicalities and negotiation as to the level of price disaggregation. As mentioned above, in Bundaberg no agreement on segment pricing could be reached.

The media release states that the "Tier One group was not provided with proper information to make an informed decision, while the local Tier Two group was rushed through in two months before we had time to put up a case". It also states that SunWater "do not listen to us and treat us with indifference". The pricing process was developed in a joint submission between QFF, all customer councils and SunWater. The government endorsed the process (with a number of minor modifications) and it was implemented over a thirteen month period, with all 27 SunWater schemes signing off on 5-year price paths within the required timeframe.

Another statement made in the media release was that the government refused to "allow the pricing decision to be reviewed by an independent regulator, merely compounds irrigators' concerns about the lack of integrity of the process and the lack of compliance with long-standing CoAG policy". The dispute resolution policy was that in the event that prices could not be settled within the required timeframe by either Tier 2 or Tier 1, the government would determine the prices to be charged. This could involve government asking the Queensland Competition Authority (QCA) to carry out a prices oversight role if required. The government saw no reason to ask the QCA to review any particular issues within the price setting process.

As communicated to the Tier 2 Working Group, the issue of differential pricing in the BIA will be taken up as part of the review of rural water pricing, which will be undertaken before the next pricing regime is implemented.

If you require any further information regarding this matter, please do not hesitate to contact Ms Mary Chapman, Water Reform of the Department on telephone 3227-6692.

Yours sincerely



Scott Spencer  
Director General



**Queensland  
Government**

Premier of Queensland

For reply please quote: 116709/KM10/ERP

**27 OCT 2006**

Mr M A Smith  
Agricultural Manager  
Bundaberg Sugar Ltd  
PO Box 500  
BUNDABERG Qld 4670

RECEIVED			
- 1 NOV 2006			
ACTION:			
GDM	✓	GFL	✓
CAS		DBP	
RCY		BAJ	
RJH		CGS	
VFF		MAS	✓
EGP		BGG	
		GWN	✓
		ERP	

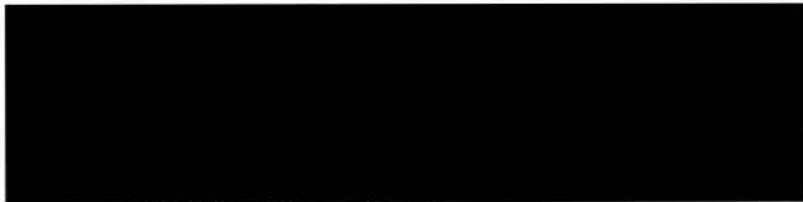
Dear Mr Smith

Thank you for your letter of 28 August 2006 concerning SunWater irrigation water pricing matters which you have raised as a member of the Bundaberg Regional Irrigators Group.

As you are aware, the SunWater price paths (2006-2011) for the Bundaberg Water Supply Scheme were recently signed off by the Scheme's Tier 2 Working Group as a local vote could not reach agreement on an alternative pricing method.

You will be aware that the Government considers the pricing system used is largely a matter for local negotiation between SunWater and the irrigators concerned. I have referred your letter to the new Minister for Natural Resources and Water, the Honourable Kerry Shine MP, requesting that he give this matter close attention.

Yours sincerely



**PETER BEATTIE MP  
PREMIER AND MINISTER FOR TRADE**

Executive Building  
100 George Street Brisbane  
PO Box 15185 City East  
Queensland 4002 Australia  
Telephone +61 7 3224 4500  
Facsimile +61 7 3221 3631  
Email [ThePremier@premiers.qld.gov.au](mailto:ThePremier@premiers.qld.gov.au)  
Website [www.thepremier.qld.gov.au](http://www.thepremier.qld.gov.au)





**Queensland  
Government**

Premier of Queensland

For reply please quote: 116709/KM/JW/ERP

**27 OCT 2006**

Ms Jenni Matilla  
Jenni Matilla & Co  
PO Box 1685  
DOUBLE BAY NSW 1360

Dear Jenni

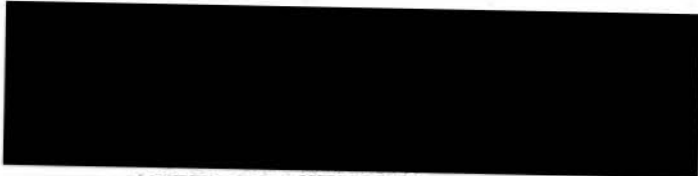
Thank you for your letter of 10 August 2006 concerning SunWater irrigation water pricing matters which you have raised on behalf of the Bundaberg Regional Irrigators Group (BRIG).

As you are aware, the SunWater price paths (2006-2011) for the Bundaberg Water Supply Scheme were recently signed off by the Scheme's Tier 2 Working Group as a local vote could not reach agreement on an alternative pricing method. I have noted BRIG's ongoing concerns about the current price path and I have also noted the alternative options that have been presented by your clients.

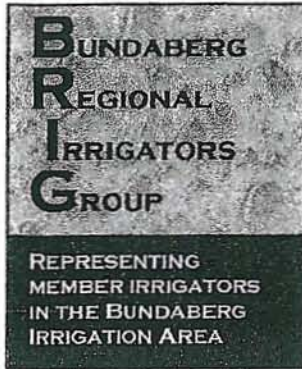
I understand that the Honourable Henry Palaszczuk, the then Minister for Natural Resources, Mines and Water, addressed to your concerns in detail in a letter dated 28 June 2006. From that letter you will be aware that the Government considers the issue of uniform versus differential pricing is largely a matter for local negotiation between SunWater and the irrigators concerned.

However, the broader issues raised by your clients and by others, including the Bundaberg Water Supply Scheme Tier 2 Working Group, are considered important and will be taken up during the review of rural water pricing which is to be undertaken before the next pricing regime is implemented.

Yours sincerely

  
**PETER BEATTIE MP  
PREMIER AND MINISTER FOR TRADE**

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100 George Street Brisbane  
PO Box 15185 City East  
Queensland 4002 Australia  
Telephone +61 7 3224 4500  
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Website [www.thepremier.qld.gov.au](http://www.thepremier.qld.gov.au)



**BUNDABERG REGIONAL IRRIGATORS GROUP**

Postal Address: PO Box 953  
Bundaberg QLD 4670  
Phone: (07) 4151 2555  
Fax: (07) 4153 1986  
Email: BRIG@bdb.canegrowers.com.au

30 October 2006

The Chief Executive  
Queensland Competition Authority  
Level 19, 12 Creek Street  
GPO Box 2257  
BRISBANE QLD 4001

Dear Sir,

The Bundaberg Regional Irrigators Group (BRIG) represents member irrigators within the Bundaberg Irrigation Area Scheme (BIA Scheme) which is owned and operated by SunWater as the monopoly provider of water from river and channel supplies in the scheme area. BRIG members are extremely concerned with the outcomes of the recently undertaken SunWater Irrigation Price Review given the long-standing concerns, which have been established with the SunWater pricing structure for water supply in the BIA Scheme. This structure has for many years continued an inequitable and flawed postage stamp pricing principle which ignores the unique characteristics of the BIA Scheme and generates a substantial cross subsidy to the detriment of Bundaberg irrigators. This cross subsidy is not what may be considered acceptable moderation of cost sharing having a value of up to \$1M per year.

BRIG members now find that after having expectations that this most recent price review process would rectify this flawed pricing structure, the inherent inequities are proposed to remain. Such an outcome would be improper when examining the circumstances involved, and inexcusable given the submissions and representations made on the matter for many years by Bundaberg irrigators and more recently by BRIG. Some briefing material used in these representations is attached for your information. Members of BRIG wish to see this situation rectified around expectations which are consistent with joint Commonwealth and State Government commitments and obligations addressed within the COAG / NCP / NWI framework. In particular BRIG wishes to receive advice in regard to the role of the Queensland Competition Authority (QCA) in relation to requirements under the National Water Initiative to have oversight of this pricing process by an Independent Pricing Regulator rather than SunWater.



Members of BRIG wish to draw a number of matters to your attention in establishing the basis of their concerns for whether the process which has been adopted by SunWater reflects a proper application of long standing State and Commonwealth Government policy principles on water pricing. They would prefer these principles to be applied properly, rather than selectively by SunWater who continues to disregard the views of Bundaberg irrigators.

A recent letter to the Bundaberg News-Mail from Mr Peter Noonan (Chief Executive SunWater – copy attached) claims no cross subsidy in the Bundaberg scheme with the current (and proposed to continue) charging arrangements. Based on the analysis of these scheme charges and the actual cost structure of the Bundaberg scheme BRIG believes this to be indicative of the ongoing avoidance by SunWater to rectify a blatant and well understood fault which is costing SunWater customers in Bundaberg up to \$1M per year. BRIG members cannot accept this denial by SunWater as being consistent with a fair and reasonable understanding of what constitutes a cross subsidy based on the facts which are known to exist. It is our understanding that these internal cross subsidies were precisely what was intended in the 1994 CoAG Agreement.

Mr Noonan's letter also suggests that the most recent price review was properly representative of irrigators and had properly proceeded to a conclusion which did not support a segmented charging system to address the well understood flaws in the current Bundaberg system. Some clarity is required in response. The Tier1 – Tier 2 process involved agencies which are not representative of Bundaberg irrigators, being principally organisations and industry representatives with agendas and positions which in general try to accommodate a "one size fits all" approach and does not endorse the requirements of current pricing policy objectives which have been in place for some years.

At the Tier 2 level, this review process was undertaken by SunWater's Customer Council which is a group comprising community, commercial and industry interests including non-irrigators. In this SunWater process, matters requiring determination were to be "voted" by this group. In the Bundaberg case this included all Customer Council committee members – not just members who were irrigators or members who may have been seen as representatives of irrigators. BRIG believes that allowing non-irrigators or committee members having no interest in the outcome of that process to be part of this determination was improper and should not have been allowed by SunWater. The matter should have been determined by a process which was truly representative of irrigators' interests only, as the issue affected SunWater irrigation customers only. It should also be noted that these unsatisfactory processes where determinations are made by a SunWater endorsed group which is not representative of irrigators is the main reason for the formation of BRIG.

Mr Noonan's letter is quite incorrect in its suggestion that the process was a fair representation of irrigator's interests which had "decided to leave the postage stamp pricing in place for the next five years". This is quite incorrect and can be established by all who wish to review the records of this (final) Tier 2 meeting available on the SunWater website at:

[http://www.sunwater.com.au/pdf/irrigationpricing/Tier\\_2\\_Bundaberg\\_Completed\\_Scheme.pdf](http://www.sunwater.com.au/pdf/irrigationpricing/Tier_2_Bundaberg_Completed_Scheme.pdf) which confirms that while not reaching agreement on a new charging structure, Tier 2 certainly did not decide "to leave the postage stamp pricing in place" – this was the default



outcome of a flawed process as is shown in the following extract recording this section of the meeting:

*"The Bundaberg Tier 2 group discussed the merits of an average tariff versus a differential or segment tariff structure for the Bundaberg Channel system. After a motion to have the Bundaberg Tier 2 group dismiss the option of a differential/segment tariff structure for the Bundaberg Channel system was defeated, on the grounds of a tied vote, the Bundaberg Tier 2 group wrote to government seeking a greater CSO for the scheme to implement differential or segment channel tariffs and seeking an extension of time for the Bundaberg Tier 2 group to consider a restructure of the scheme and the resulting impacts on the tariff outcomes."*


It should also be noted that the Customer Council committee wished to record dissatisfaction with the process which had been adopted by SunWater. This record states:

*"The Bundaberg Tier 2 group requested that it be noted that it did not endorse the Tier 1 reference tariffs on the basis that it felt there was insufficient disclosure of the necessary detailed information and not enough time available during the Tier 2 process to allow the Bundaberg Tier 2 group to have confidence that it had adequately considered all the relevant issues. It requested that the final documentation of this price review clearly highlight the need for a greater level of local input and provide enhanced autonomy for Tier 2 groups in subsequent irrigation price reviews."*

BRIG members believe that this price outcome is as flawed as the existing charging structure and the process which was adopted by SunWater to maintain it. BRIG will continue to seek rectification of this pre-determined default position imposed by a flawed process on behalf of Bundaberg irrigators.

Members of BRIG would appreciate the opportunity to present these matters to the Authority in more detail so as to understand how this unjustifiable outcome may be rectified. We look forward to hearing from you on these matters.

Yours sincerely



Dale Holliss  
Secretary

G:\BRIG\Letters\QCA 30.10.06.doc

# Tapping into dispute

LOOK FOR YOUR  
INFORMATION

NEWSMAIL 01-09-06

I WISH to respond to a number of claims made in the article titled "Growers to turn off SunWater tap" (NM, 31/08), which may give your readers an inaccurate impression of SunWater's pricing policies.

SunWater's recent price review was designed in consultation with the Queensland Farmers' Federation and customer advisory committees from across the state, including the Bundaberg region.

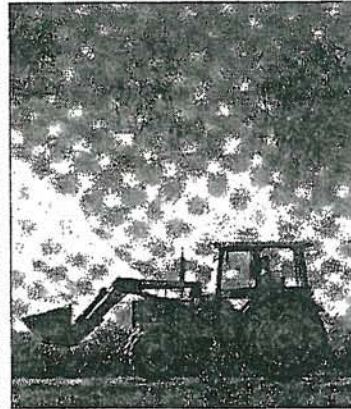
This agreed process clearly established a role for an independent regulator, however, in principle, all parties agreed they would first seek to resolve issues together.

The process used to review prices was endorsed by government and was the most extensive ever undertaken, being implemented during a period of 13 months.

The pricing process has been transparent, with customers given access to an unprecedented amount of company information.

In relation to water charges in Bundaberg, segment pricing has existed for decades, with charges for those who take from the river quite different from charges for those who take water from the channels.

There is no cross-subsidy between these two groups and those taking water from the river do not pay for electricity for pumping water in supply channels.



SunWater responds to an article in yesterday's NewsMail about water pricing policies. Photo: AAP IMAGE

Representatives of all irrigators in the scheme considered the introduction of segment pricing within the channel system in the recent pricing process.

They could not reach agreement and decided to leave the postage stamp pricing in place for the channels for the next five years.

**PETER NOONAN**  
Chief executive  
SunWater



## **Queensland Government and SunWater Policies for Establishing New Water Charges Contradict NCP, COAG and NWI Requirements for Transparent Pricing and Removal of Cross Subsidies**

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### **Bundaberg Irrigation Area Scheme**

- The Bundaberg Irrigation Area (BIA) Scheme was commenced in 1970 when the Queensland Government adopted a proposal to proceed with the first component of an irrigation supply scheme for the Bundaberg area. The scheme proposed construction of major storages on both the Kolan and Burnett rivers to supply urban, industrial and irrigation demands.
- The irrigation scheme also provided for replacement of underground water with surface water to assist in managing saltwater intrusion of aquifers which at that time had been identified as of major concern to maintaining water supplies for urban and agricultural use.
- The BIA has quite different delivery costs across the scheme. River irrigators pump their water with their own infrastructure, and SunWater pumps and distributes channel water for channel supplied irrigators through pumped re-lift systems to discretely different segments of the scheme.
- Significant differences in pumping heights and subsequent electricity costs exist between BIA segments. The sequence of re-lift systems in parts extends to over 157m to deliver to some users and delivery costs are scales of magnitude higher than elsewhere in the BIA where minimal or no (river irrigators) pumping is undertaken.

### **Water Policy Impacts Post 2000**

- Circumstances have changed dramatically from when schemes such as the BIA were first developed. Government policies throughout Australia which have been initiated by National Competition Policy (NCP) requirements now have a clear intention for the cost of water services to be paid by those who actually consume these services. This principle has been the basis of new and revised pricing policies by all Governments, and commitments undertaken within the CoAG and NCP framework.
- Components of this which have direct impacts on water pricing for the current Bundaberg situation include:
  - 2004-2000 CoAG Rural Water Policy
  - 2004 National Water Initiative (NWI)
  - 2005 Information Provided to National Water Commission on Queensland's compliance with NWI
  - Queensland Water Plan 2005 - 2010

- Government initiatives such as water trading have also significantly altered previous water supply cost dynamics within schemes, and have different impacts on individual schemes depending on the characteristics of each. In total river supply or gravity schemes the combination of cost recovery policies and trading may have no relevance to pricing structures within a scheme where delivery costs are the same wherever the water is used or traded and relocated to.
- Schemes which have vastly different delivery systems and costs cannot adopt this simple postage stamp pricing approach. The result as is evident with the BIA is cross subsidisation and lack of transparency in the delivered cost of water.

### **Price Path Review & BIA Charge Structure**

- While water users and SunWater are presently involved in a price review with a price path objective of establishing water charge structures which meet lower bound costs, **there are a large number of BIA irrigators already paying substantially more than lower bound costs for their water while others do not pay lower bound.**
- SunWater is currently unable to indicate whether some irrigators are already paying in excess of upper bound (includes rate of return on capital).
- Existing SunWater charges establish a substantial cross subsidy in the BIA where low cost segments paying above lower bound are contributing towards the delivery cost of high cost segments. Current SunWater price path policies and proposed charging structures will further increase this cross subsidy at unjustifiable expense to low cost irrigators.
- **The cross subsidy from low cost segments of the BIA to high cost segments is substantial at approximately \$600,000 to \$1M per year. Current price path policies adopted by SunWater do not remove this cross subsidy and have the potential to see it further increased beyond this current value.**

### **Transparent Segment Based Pricing**

- Members of BRIG have advocated for some time for the adoption of a nodal or segment charging system to apply for each particular segment where there are identifiable differences in the direct costs of delivery for water. Examples of discrete segment charging systems include the system which is applied in the Mareeba - Dimbula Irrigation Area (MDIA) where different charges apply to those re-lift sections which incur pumping costs beyond that required for gravity distribution from channels.



- It should be noted that in the Tier 1 process of the current price review, this re-lift section of the MDIA was categorised as one of 8 additional Category 3 Tariff schemes or scheme segments recognising the cost characteristics of this re-lift which are similar to that of the Abbotsford and Isis sections of the BIA.
- SunWater has introduced a segment based pricing structure which reflects actual costs (electricity for pumping) for new water distributed from Paradise Dam.

### Delivery Costs & Charges Within the BIA

- BRIG members have persistently requested SunWater to adopt segment based water charges which reflect the true costs of delivery for the major segments of the BIA. SunWater responses have consistently disregarded these requests. In 2005, BRIG commissioned a study to examine pumping costs within the BIA and this was subsequently forwarded to SunWater and others to reinforce the awareness of delivery costs within the BIA consistent with achieving transparent pricing structures.
- After further requests from BIA customers, SunWater recently produced a notional charge structure which if applied would recover lower bound costs as required under current price path processes. These notional transparent segment based prices are shown below compared with current prices and proposed SunWater Tier1 reference prices intended for application in the event that alternatives are not established at Tier 2.

- As shown above, the cross subsidy in the BIA arises from River, Gin Gin/Bingera, Gooburrum and Woongarra irrigators paying above actual costs which are transferred to Abbotsford and Isis irrigators. This fails the equity and transparency requirements for CoAG pricing systems.
- The 1994 CoAG Water Resource Policy provided in relation to water pricing:
  - In general to adopt the policy of consumption based pricing, full cost recovery and the removal of cross-subsidies which are not consistent with efficient and effective service, use and provision. Where cross subsidies continue to exist they be made transparent.
  - Where service providers are required to provide water services to customers at less than full cost, the cost of this be fully disclosed and ideally be paid to the service provider as a community service obligation.

### 2005-06 Price Review Process

- Current Queensland Government and SunWater policy which is being applied to the price review process excludes the option of properly implementing these sound principles in the current price review. In the BIA, river irrigators for example pay substantially more than lower bound costs, with other lower cost channel segments similarly affected. Policies defined for application by both Tier 1 and Tier 2 specify that where irrigators are paying above lower bound costs, charges cannot be reduced.
- Further Queensland Government and SunWater policy setting has reinforced the existing lack of transparency for full cost recovery and continuation of the cross subsidy from low cost segments to high cost segments.
- The matter of contradiction of these policies with NCP and COAG policies, and whether customers who may be paying above upper bound costs are to suffer further from this policy is raised by BRIG.
- Recognition that equitable and transparent cost recovery principles as required under the NCP and CoAG framework must be achieved in the current price review process is urgently required. The potential to see this inequity continued within the current price review and result in further overcharging and gross cross subsidisation beyond that which is already incurred is of great concern. BRIG is also concerned as to the degree of compliance which has been disclosed within reporting of Queensland Government initiatives within the CoAG and NCP framework.

BIA Scheme Segment	Current Price (\$/ML)	Notional Transparent Lower Bound Price (\$/ML)	Tier 1 Reference Price (\$/ML)
<b>Channel Delivery</b>			
Gin Gin/Bingera	(A) \$34.40	(A) \$38.62	(A) \$36.45
	(B) \$22.67	(B)* \$16.40	(B) \$26.03
	<b>Tot. \$57.07</b>	<b>Tot. \$55.02</b>	<b>Tot. \$62.48</b>
Abbotsford	(A) \$34.40	(A) \$38.62	(A) \$36.45
	(B) \$22.67	(B)* \$37.36	(B) \$26.03
	<b>Tot. \$57.07</b>	<b>Tot. \$75.98</b>	<b>Tot. \$62.48</b>
Gooburrum	(A) \$34.40	(A) \$38.62	(A) \$36.45
	(B) \$22.67	(B)* \$8.48	(B) \$26.03
	<b>Tot. \$57.07</b>	<b>Tot. \$47.10</b>	<b>Tot. \$62.48</b>
Woongarra	(A) \$34.40	(A) \$38.62	(A) \$36.45
	(B) \$22.67	(B)* \$13.35	(B) \$26.03
	<b>Tot. \$57.07</b>	<b>Tot. \$51.97</b>	<b>Tot. \$62.48</b>
Isis	(A) \$34.40	(A) \$38.62	(A) \$36.45
	(B) \$22.67	(B)* \$39.88	(B) \$26.03
	<b>Tot. \$57.07</b>	<b>Tot. \$78.50</b>	<b>Tot. \$62.48</b>
<b>River Systems</b>			
Kolan R. & Burnett R.	(A) \$9.76	(A) \$6.16	(A) \$6.01
	(B) \$5.64	(B) \$4.39	(B) \$9.39
	<b>Tot. \$15.40</b>	<b>Tot. \$10.55</b>	<b>Tot. \$15.40</b>

**Segment based charges applying actual delivery costs for water are the only means to equitably accommodate the characteristics of the different delivery arrangements within the BIA scheme and achieve CoAG, NCP and NWI requirements to achieve full cost recovery and no cross subsidisation.**

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\* Part (B) charge comprises cost of electricity for pumping in each segment.



COPY FOR YOUR  
INFORMATION



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30 October 2006

Mr Ken Matthews  
Chairman and CEO  
National Water Commission  
95 Northbourne Avenue  
CANBERRA ACT 2600

Dear Ken

**RE: NWI Obligations and Pricing Principles – Bundaberg Irrigator Issues**

You would be aware from our recent correspondence that the Bundaberg Regional Irrigators Group (BRIG) is endeavouring to overcome the flawed system that SunWater continues to apply to its water charges for Bundaberg irrigators. BRIG members are particularly concerned that given the recent opportunity to rectify this long standing anomaly SunWater has not done so and maintains a state of denial that a cross subsidy even exists in the Bundaberg scheme despite the hard evidence establishing this fact.

Bundaberg irrigators are most concerned that this denial that the postage stamp pricing structure in Bundaberg does not include a sizeable and improper cross subsidy extends to the government regulator (Department of Natural Resources, Mines and Water) as shown in recent correspondence received by BRIG from the Director General of DNR&M, Mr Scott Spencer. A copy of this letter is attached. While Bundaberg irrigators are in despair over this seemingly endless series of denials, BRIG has increased its resolve to overcome this unacceptable outcome. BRIG has written to the Queensland Competition Authority (QCA) indicating abnormalities with the process which were adopted by SunWater during the recent irrigation water price review. A copy of this letter is also attached. Some questions remain for which BRIG seeks clarification regarding the SunWater process, now defended by DNR&M, given this most recent correspondence.

- The claim (letter from Scott Spencer) that “postage stamp pricing” within a scheme is not a cross subsidy and that it is consistent with NWI principles requires further explanation given that the degree of the cross subsidy affecting Bundaberg irrigators is up to \$1M per year and is well understood by Government, DNR&M, SunWater and irrigators.

- Mr Spencer's letter appears supportive of the process, which was implemented by SunWater during the price review. BRIG has a contrary view given the lack of direct irrigator involvement, poorly presented cost analysis and discussion opportunity, and policy constraints favouring a default status quo outcome as determined by a non-representative state level committee with almost no opportunity to develop alternatives. A closer examination of actual events and records from meetings of Tier 1 and particularly Tier 2 would contradict this DNR&M presumption about the integrity of the system, which had been adopted to provide a proper review process. The letter to QCA outlines some of BRIG's concerns about this process.
- DNR&M indicate that the SunWater process complied with CoAG policy with regard to review by an independent regulator. Mr Spencer's letter indicates that the government would have set charges in the event that prices could not be settled "within the required timeframe" by the SunWater process. This does not appear to have any relationship to disputes about outcomes of the process, and establishes an outcome by government decision rather than by an independent regulator. While the time based condition seems inconsistent with genuine dispute against the decisions made, the SunWater process was never going to contradict this timing deadline having a default position already in place in the event that a Tier 2 agreement could not be achieved – as was the case with Bundaberg. Is it the intent to have this dispute resolution process by an independent regulator applied against the decisions, the timing, or the decision making process? DNR&M seem to express the view that in the SunWater case it was about the timing of the decision.
- The comment that the matter of differential pricing will now be taken up as part of the next review is of little comfort to Bundaberg irrigators likely to pay up to \$5M above their full cost in the intervening period. This comes on top of amounts paid for some considerable time, and after similar assurances have been given to Bundaberg irrigators ahead of previous price reviews and after submissions and depositions made by Bundaberg irrigators to remove the cross subsidy. Bundaberg irrigators do not accept this "we'll fix it up next time" approach by DNR&M and SunWater.

Your comments and advice on the above matters would be very much appreciated. Should you require any further information regarding the concerns raised by BRIG, please do not hesitate to contact myself on (07) 4151 2555.

Yours sincerely



Dale Holliss  
Secretary  
Bundaberg Regional Irrigators Group  
CC: Mr V Aeuckens







Ref CTS 11362/06

**3 1 JAN 2007**

Mr Mike Smith  
Agricultural Manager  
Bundaberg Sugar  
PO Box 500  
Bundaberg Qld 4670

RECEIVED			
0 1 FEB 2007			
ACTION:			
GDM	<input checked="" type="checkbox"/>	GFL	<input checked="" type="checkbox"/>
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KIP	<input type="checkbox"/>	RGP	<input type="checkbox"/>

Dear Mr Smith

I refer to your letter of 16 October 2006 concerning SunWater irrigation water pricing in the Bundaberg Water Supply Scheme. I have been requested to reply to you on the Minister's behalf.

I would also like to acknowledge your earlier letter of 28 August 2006 to the then Minister for Water and Premier which has been referred to the Department and I apologise for the delay in responding to it. In that letter you point out your dissatisfaction with the Queensland Government's response in a letter to Ms Jenni Matilla regarding the 'signing off' of irrigation water prices between the Tier 2 Working Group and SunWater. Thank you for clarifying the Bundaberg Regional Irrigators Group's position with respect to this matter.

Turning now to the letter of 16 October 2006, there are several important issues raised. I have grouped them into the following underlined headings.

Representation for irrigators in Bundaberg

Your letter states that the current Bundaberg Scheme Customer Council "can not identify a democratic representation" of irrigators on rural water price paths. My understanding is that customer councils consist of a group of SunWater customers either within an individual scheme or a group of schemes that are representative of the broader customer base for the area. The issue of representation on the Bundaberg Customer Council has to be resolved between the irrigators within the scheme.

Issues relating to the Tier 1 and 2 Process

You raised an issue relating to how the Tier 1 process resulted in "a uniform system of pricing for all schemes" which did not take account of diversity within schemes such as Bundaberg. I do not believe that this reflects the price setting process. The joint submission prepared by SunWater and the Queensland Farmers' Federation in 2004 set out the process by which prices would be determined. This joint submission took into account comments received and discussions held between many of the Chairs of the Customer Councils and SunWater.



The Tier 1 process, working within the Government's pricing policy framework, articulated the following outcomes for all schemes:

- Identify the future service requirements, standards and obligations that need to be delivered over the period of the price path.
- Assess the forward looking estimates of costs required for efficient delivery of the services over the price path period.
- Set tariffs at a level that was sufficient to receive the revenue required over the price path period.

The Tier 1 group set common principles with respect to these outcomes as well as the reference tariffs that ensured that there was sufficient revenue for efficient delivery of services. Tier 2 groups were able to take scheme specific issues into account in the determination of service standards, water usage, and tariff structure. The key task was to finalise the irrigation tariffs that apply for the next price path based on the Tier 1 recommendations and the Government Policy framework.

I appreciate that the issue of insufficient time for the Tier 2 process in the Bundaberg situation has been raised a number of times. This issue will be taken into consideration for the next pricing setting process.

Turning now to the issue you raise with respect to the 'no change default' position imposed by SunWater. The dispute mechanism as it related to Tier 2 process was if a Tier 2 group cannot agree prices by 30 June 2006 with SunWater, then the Government will intervene and set prices.

I understand that the Bundaberg Tier 2 group met five times in total. At the meeting of 8 June 2006 a vote was taken and resulted in an equal split of views. A Tier 2 representative wrote to the then Minister and asked for an extension of time and additional community service obligations (CSOs) so that they could implement nodal pricing. The then Minister advised the Tier 2 final meeting through SunWater, and then in writing that these proposals were not likely to be accepted and that this issue would be taken up for consideration in the determination of future pricing policy. Consistent with the dispute resolution policy, it was not necessary for the Government to intervene as, at the final meeting, the Tier 2 group recognised that they could not get agreement and signed off on the reference tariffs. I acknowledge that not all members of the Tier 2 group were satisfied with this outcome.

#### Irrigation Pricing issues in the Bundaberg Water Supply Scheme

You have raised two distinct issues on pricing relating to the Bundaberg Channel and River tariff groups respectively in the Bundaberg Water Supply Scheme. These issues are:

1. Irrigators pay an average price in the Bundaberg Channel tariff group which is not commensurate with their electricity costs.
2. Irrigators in the Bundaberg River tariff group pay prices which are above lower bound prices.

As I understand it, your concerns mainly relate to the Bundaberg Scheme's river irrigators although I note that the forthcoming survey deals with the nodal pricing issue.

With respect to the Bundaberg River tariff group, your concerns are, as I understand them: firstly, cross-subsidisation between the Bundaberg River irrigators with those in the Channel tariff group; and secondly, that river irrigators are paying prices above lower bound costs.



There is no cross-subsidisation between the channel and river tariff groups in the Bundaberg Water Supply Scheme. River irrigators are not paying for any of the costs incurred in delivering water to the Channel tariff group. Reference tariffs are set at the tariff group level to recover the efficient costs incurred in supplying water within the tariff group.

Where Government subsidies exist, as in the Channel tariff group, these are made explicitly clear and are published in the Tier 1 Report April 2006. This report is on SunWater's website. This report and its working papers also contain an explanation as to how reference tariffs are derived.

Your second concern relates to the Government policy of 'no price decreases' where schemes are paying above lower bound. This policy is that no real prices can be reduced below the 2005/2006 price level. In order to adhere to this policy SunWater indexes the prices by CPI annually for the duration of the price path. The Government policy of 'no price decreases' is necessary in order to meet the National Water Initiative commitment of transitioning schemes to meet their upper bound costs.

The role of the Queensland Competition Authority (QCA)

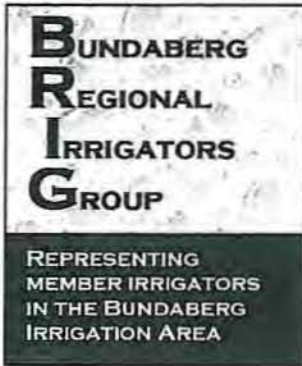
The final point you raise relates to how "Tier 1 participants agreed with SunWater to deny an independent appeal process such as to the Queensland Competition Authority (QCA) against decisions determined by this process". This is an inaccurate account of what happened. The joint submission proposed that Tier 1 members would have the ability to seek a binding independent QCA determination on specific issues where there was failure to reach agreement or if the negotiations could not be completed. However, Government policy modified this dispute resolution process in January 2006 by stating that the Government would intervene if agreement could not be reached. Government policy also stated that the 'QCA will continue to provide status-quo monopoly prices oversight for rural irrigation water in SunWater schemes which means pricing matters must initially be referred to the Government'.

Thank you for both of your letters. I can assure you that your issues with respect to the price negotiation process will be taken up in future reviews of rural irrigation water pricing policies. Should you have any further enquiries, please do not hesitate to contact Ms Rose McGrath, Senior Project Officer of the Department on telephone 3224 8255.

Yours sincerely



Michael Tandy  
Senior Policy Advisor



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5 February 2007

Hon Malcolm Turnbull MP  
Minister for The Environment and Water Resources.  
PO Box 1840  
BONDI JUNCTION NSW 1355

Dear Mr Turnbull

On behalf of the members of the Bundaberg Regional Irrigators Group I would like to extend our congratulations to you on being appointed to the ministry of The Environment and Water Resources. Since meeting with yourself and Hon Paul Neville 14 June 2006 we have followed your progression and comments in relation to water issues with positive interest and support.

I have attached correspondence that BRIG sent to the Queensland Competition Authority and also a copy of their response. This response clearly proves the lack of independent review and system failure in Queensland.

We would appreciate any comments and/or advice that you may have on how we might progress these matters as we are becoming increasingly frustrated by the lack of action and commitment the Qld Government and SunWater have towards an equitable and transparent pricing regime in the Bundaberg Water Supply Scheme.

Yours Sincerely

Dale Holliss  
Secretary BRIG

cc: Mr M Thompson, Director Water Policy National Water Commission

7 February 2007

Mr Michael Tandy  
Senior Policy Adviser  
To The Minister for Natural Resources and Water

Attention: Ms Rose McGrath

Dear Ms McGrath

**Re: Bundaberg Water Pricing**

Please refer to your letter dated 31 January (Your Ref. CTS 11362/06).

Thank you for your letter. On behalf of Bundaberg Sugar Ltd and other Bundaberg irrigators, I now write seeking a number of points of further clarification. Using your subject headings, these are as follows:

#### **Representation**

Can it be assumed that the Minister will require Sunwater ensure that irrigators are democratically represented on the panel which negotiates the next price path and that the current non-representative group will not be given that task?

#### **Issues relating to Tier 1 and 2 Process**

During the next price path negotiations, will a default pricing policy be negotiated at a statewide level or will the representatives from individual schemes be allowed to negotiate in a more meaningful manner?

#### **Irrigation Pricing Issues**


With respect to river water, you and Sunwater continue to insist that there is no cross subsidy between river and surface water. If the river water charges are currently above lower bound and there is no cross subsidy, is it reasonable to deduce that Sunwater makes a profit on supplying this water, or if not a profit, then a return on the assets employed?

We are well aware the National Water Initiative requires schemes to transition to meeting upper bound costs. From your letter, it appears that the Government used this to argue that no prices should decrease in the recent price path negotiations.

By our calculations, the present river water prices give a margin of 32% over the lower bound costs. Does the Government still insist that Bundaberg Scheme river irrigators are still not meeting upper bound costs? You should be aware that Sunwater, during the recent price negotiation process, could not identify the upper bound costs for the river water.

I look forward to your reply and clarification of the Government's position on these most important matters.

Yours faithfully  
**Bundaberg Sugar Ltd**



**M A Smith**  
Agricultural Manager

cc: BRIG, GFL

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RECEIVED 30 MAR 2007			
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PAI	<input type="checkbox"/>	TWN	<input type="checkbox"/>



Queensland  
Government

Office of the  
Minister for Natural Resources  
and Water

Ref CTS 01749/07

27 MAR 2007

Mr Michael Smith  
Agricultural Manager  
Bundaberg Sugar  
PO Box 500  
Bundaberg Qld 4670

Dear Mr Smith

I refer to your letter of 7 February 2007 concerning SunWater irrigation water pricing in the Bundaberg Water Supply Scheme. I have been requested to reply to you on the Minister's behalf.

In your letter you seek clarification of the Government's position on a number of important issues. I have responded to each of these under the headings used in your letter.

#### Representation and Issues relating to the Tier 1 and 2 Process

I acknowledge your concerns relating to the representation of Bundaberg irrigators and the default pricing policy position under the pricing framework for the recently negotiated 2006 - 2011 prices. The negotiation process undertaken had been proposed by the Queensland Farmers Federation and SunWater in a jointly proposed negotiation process and these issues were addressed in that process. The pricing framework to apply from 2011 will be the subject of future decisions.

#### Irrigation Pricing Issues

There is no cross subsidy between river and channel water tariff groups. The channel water tariff is not meeting lower bound. In cases such as this where individual schemes are not able to meet lower bound the Government meets the shortfall through a Community Service Obligation (CSO) payment. The total CSO payment made by the Government to SunWater to subsidise the channel water is almost \$1.6M in 2006 - 2007. The Government, not river water users, are subsidising the channel water users who are paying below lower bound.

The 2004 National Water Initiative (NWI) inter-governmental agreement includes a commitment by federal, state and territory governments to move towards more consistent approaches to water pricing. This commitment includes recovering a rate of return on rural irrigation assets, where practical.

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The Queensland Government supports the development of a national approach to rural water prices. Under the NWI agreement, the National Water Commission is responsible for driving the national water reform agenda. This includes working with the states and territories to develop consistent approaches that represent best practice in pricing and in benchmarking the efficiency of service providers. Implementation of the NWI is a matter for individual governments. In Queensland the intention is for this to be accomplished in the subsequent pricing arrangements.

However, during the current price period SunWater is not levying any additional charge to get a further return on its rural irrigation assets. Decisions on upper-bound pricing of SunWater schemes have been deferred until the issues of asset valuation and rates-of-return can be considered as part of a more consistent, national approach.

Should you have any further enquiries, please do not hesitate to contact Mr Matt Bradbury Senior Project Officer of the Department of Natural Resources and Water on telephone 3224 8255.

Yours sincerely

A large black rectangular redaction box covering the signature area.

Michael Tandy  
**Senior Policy Advisor**



27 March 2007

Mr Michael Tandy  
Senior Policy Adviser  
To The Minister for Natural Resources and Water

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Attention: Ms Rose McGrath

Dear Ms McGrath

**Re: Bundaberg Irrigation Water Pricing – River Irrigators**

Further to my letter of 7<sup>th</sup> February, I now write seeking further clarification in relation to the Queensland Government's position regarding rates of return for irrigation water projects. I also wish to refer you to an article on page 9 of the 14<sup>th</sup> March edition of the "The Australian Financial Review" (**copy attached**). This article quotes a statement by the Deputy Premier and Treasurer, Ms Anna Bligh, that the government had reduced the commercial rate of return attributed to these (water supply) projects for the case of the SE Qld water network from 7% to 4%. We are assuming from this that the Government's policy is for a standard rate of return of 7% and for a subsidised water rate of 4%.

As noted during the recent SunWater irrigation price review and also in my letter of 7<sup>th</sup> February, Bundaberg Scheme river irrigators are paying charges which generate a margin of 32% on lower bound costs. In drawing attention to this large value during the price review process, SunWater management directed this obvious anomaly to "Government policy" and were unable to assist with further determination of an upper bound value for this particular case.

I believe that this situation requires priority attention and that DNR&W or SunWater provide the asset value deployed in providing the river water irrigation supplies so that Bundaberg river irrigators can confirm that they are not paying above upper bound costs, and rates of return higher than more recently approved projects.

I look forward to your reply and clarification of the Government's position on these most important matters.

Yours faithfully  
**Bundaberg Sugar Ltd**

**M A Smith**  
Agricultural Manager

cc: BRIG, GFL



# Qld eases water inflation, plans takeover

Mark Ludlow

The Queensland government will attempt to end unrest over planned increases in water prices by delaying the full cost recovery of \$9 billion in new water infrastructure for 10 years.

Last week, the Queensland Water Commission had planned to increase wholesale water prices by almost 150 per cent over the next six years. But the Beattie government said yesterday it would forgo \$1.5 billion in commercial returns from new water projects over the next decade to ensure that future

## KEY POINTS

- The government plans to delay cost recovery on projects for 10 years.
- Peter Beattie also plans to remove control of water from local councils.
- Mayors say that 'won't create water'.

price increases were reasonable.

The government also appointed former PricewaterhouseCoopers Queensland managing partner Darryl Somerville to review assets in south-east Queensland as it prepared to take control of water infra-

structure from 18 local councils.

Deputy Premier and Treasurer Anna Bligh said the government still intended to recoup the costs of new projects but the water commission's recommended price increases were "too much, too soon".

"Reducing the commercial returns on these investments [from 7 per cent to 4 per cent] over the next decade will go a long way to help cushion the impact on consumers," Ms Bligh told parliament.

"Extending the price path beyond five years... will also assist on lowering water prices."

Under the new plan, the average

bill would increase from \$350 to \$525 (excluding inflation) over five years, rather than \$733 under the commission's recommendations.

Ms Bligh said there would be the potential for further reductions if the federal government or local councils made a contribution.

Premier Peter Beattie defended his plans to take control of councils water assets.

"The current system is not working. For too long, councils have been making a motser from water assets and have failed to fully invest it back into water infrastructure to meet increased demand," he said.

The government said councils had squandered \$1 billion in water profits over the last three years.

Mr Beattie said the government would either take control or set up a single authority to manage water at bulk distribution and retail levels.

Council of Mayors chairman Campbell Newman welcomed the plan to reduce scheduled increases in water prices, but dismissed the government's possible takeover.

"The concern of all the mayors [is that a takeover] won't generate one more drop of water," he said.

South-east Queensland's dam levels have fallen to 21 per cent.

## Go-ahead for power station

NSW should have a more reliable supply of electricity to cope with heatwaves by late next year after a \$500 million power station received the green light yesterday. Investment bank Babcock & Brown and ERM Power, which own NewGen Power, said they would build a gas-fired power station at Uranquinty, near Wagga Wagga. NewGen director Trevor St Baker said the gas-fired plant, which will be owned and operated by NewGen, would produce some 30 per cent less greenhouse gases than a coal-fired plant.

"It is a timely response to the government's greenhouse-abatement legislation, and an important private sector competitor to government-owned power generation in the state," Mr St Baker said.

The plant is expected to be operating by the summer of 2008-09. The private sector has long warned that government ownership of power plants, and their access to benefits such as cheaper debt, undermined competition and discouraged investment in much-needed infrastructure.

Annabel Hepworth



2 April 2007

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Senior Project Officer  
Department Natural Resources & Water  
PO Box 15456  
CITY EAST BRISBANE QLD 4002

Attention: Mr Matt Bradbury

Dear Sir

**Re: Irrigation Pricing**

Please refer to your letter dated 27 March 2007 (your ref CTS 01749/07).

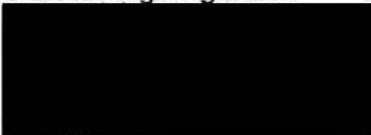
Please refer to the 4<sup>th</sup> para of your letter dealing with Irrigation Pricing Issue. My letter may have been unclear but my question was specifically targeted at river water charges.

It is agreed that Bundaberg Scheme river water irrigators are paying more than lower bound costs associated with the delivery of that water. Both SunWater and your Department have told us on many occasions that there are no cross subsidies within schemes or between schemes. Am I therefore correct in assuming the difference between river water charges and their lower bound cost of delivery is reflected in the SunWater profit?

Am I also correct in assuming that recent SunWater profits were invested at least partially, in SunWater capital works?

Could you also provide information on the quantum of recent SunWater annual profits and the Government's CSO.

Yours faithfully  
**Bundaberg Sugar Ltd**

  
**M A Smith**  
Agricultural Manager

cc: G F Longden (BBS)  
BRIG





The Hon. Craig Wallace, M.P.  
Minister for Natural Resources and Water  
P.O. Box 2454  
**BRISBANE QLD 4001**

13th April, 2007.

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As recorded in the Minutes of the final Tier 2 Review Meeting, our Council Representative, the Deputy Mayor Cr. Mal Forman, and others, noted concerns about the Irrigation Price Review process, and the subsequent outcome for the Bundaberg Scheme. For example, the realistic option of defining high pumping lift areas as a Category 3 scheme similar to the Mareeba-Dimbulah scheme was not allowed in the process.

It would be appreciated if you could request SunWater to reconsider the outcomes of the review process for the Bundaberg Water Supply Scheme with consideration being given to a Category 3 type scheme (similar to the Mareeba-Dimbulah scheme).

It being noted that if the Customer Council as the Review Group was again to vote on this matter – Bundaberg City Council would now vote to support the adoption of a differential pricing system for this Scheme.

I await your advice.

Yours faithfully,

(Peter Byrne)  
Chief Executive Officer.



**Queensland  
Government**

RECEIVED - 7 JUN 2007			
ACTION:			
GDM	<input checked="" type="checkbox"/>	GFL	<input checked="" type="checkbox"/>
CAS	<input type="checkbox"/>	DSP	<input type="checkbox"/>
RCY	<input type="checkbox"/>	BAJ	<input type="checkbox"/>
RJH	<input type="checkbox"/>	CG3	<input type="checkbox"/>
WFP	<input type="checkbox"/>	MAC	<input checked="" type="checkbox"/>
RGP	<input type="checkbox"/>	BGG	<input type="checkbox"/>
PAH	<input type="checkbox"/>	GWN	<input type="checkbox"/>
KIP	<input type="checkbox"/>	RGP	<input type="checkbox"/>

Ref M/07/01661  
CTS 03923/07

- 5 JUN 2007

Mr M Smith  
Agricultural Manager  
Bundaberg Sugar Ltd  
PO Box 500  
BUNDABERG QLD 4670

Office of the  
**Minister for Natural Resources  
and Water**

Dear Mr Smith

I refer to your letter of 27 March 2007 concerning Bundaberg Irrigation Water Pricing.

As set out in my last letter, the Queensland Government's policy is not to levy any additional charge to get a further return on its rural irrigation assets. Further work about upper bound prices has been deferred until the issues of asset valuation and rates-of-return can be considered as part of a more consistent national approach.


Under the National Water Initiative, Queensland is committed to continued movement towards upper bound prices for rural water supply schemes, where practical. The Government has a policy of 'no price decreases' because it is important that schemes with prices currently below lower bound continue to move upwards. Prices at or above lower bound will increased only in line with inflation as is the case in the Bundaberg Scheme.

The rate of return values referred to in your letter, as stated in the Australian Financial Review article about new south east Queensland urban supply infrastructure, should not be considered to be indicative of any broader Government policy on appropriate rates of return for water infrastructure across the State. The approach applied to new urban water infrastructure in south east Queensland is reflective of characteristics unique to that region, including the unprecedented expansion of infrastructure over a very short period as a result of the combined impact of the highest population growth in the nation and record drought conditions.

As indicated above, and in previous correspondence, state wide policy on asset valuation and rates of return, and their application to rural water supply schemes such as Bundaberg, has not yet been determined and is currently expected to be resolved as part of a consistent national approach prior to the commencement of the next rural water pricing period.

Thank you for raising this matter. Should you have any further enquiries, please do not hesitate to contact Ms Rose McGrath, Principal Project Officer of the Department of Natural Resources and Water on telephone 3224 8255.

Yours sincerely

  
Michael Tandy  
Senior Policy Advisor

Level 13 Mineral House  
41 George Street Brisbane Qld 4000  
PO Box 15456 City East  
Queensland 4002 Australia  
Telephone +61 7 3896 3688  
Facsimile +61 7 3210 6214  
Email NRW@ministerial.qld.gov.au  
Website www.nrw.qld.gov.au



3 July 2007

The Hon Malcolm Turnbull  
Minister for the Environment & Water Resources  
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Bondi Junction NSW 1355

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Dear Sir

**Re: Bundaberg Sunwater Scheme Irrigation Water Pricing**

You may recall that I visited you in your Canberra office last year in company with a number of Bundaberg district sugar industry representatives to discuss important issues relating to the most recent price path imposed by the Queensland Government for the Sunwater scheme. In essence, many irrigators in Bundaberg believe that elements of the pricing system do not comply with COAG principles and this was the purpose of our visit to yourself and the National Water Commission. Our understanding is that you have also raised this issue with the Queensland Government and Sunwater and in public comment.

Since the 2006 visit, both the Bundaberg Regional Irrigators Group (BRIG) and Bundaberg Sugar have corresponded a number of times with the Queensland minister for Natural Resources and Water in an endeavour to rationalize the position which has been adopted for the Bundaberg Scheme for water pricing..

Our summary of this correspondence is as follows:

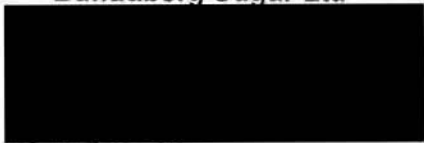
- (a) Until there is agreement between the state and federal government about the methods to be employed, Sunwater will be unable or unwilling to calculate an upper bound price for any irrigation scheme or part (sub-scheme) thereof;
- (b) The Queensland government has reported under the COAG principles that there are no cross subsidies between Sunwater schemes or between components or sub-schemes within a scheme;
- (c) Bundaberg river irrigators are paying in excess of lower bound prices (over 30% "profit margin" to SunWater) and could be paying in excess of upper bound prices - refer to (a) above;
- (d) The current pricing path imposed on the **whole** Bundaberg scheme is designed to meet, by the end of the 5 year period, the lower bound costs at the start of the period plus CPI for the **whole** scheme.

If I have stated the Queensland government's position correctly above, it is difficult to explain how points (b), (c) & (d) can all be in place at the same time. If the river irrigators are paying above lower bound cost and the whole scheme will only meet lower bound at the end of the pricing path period, then the river irrigators must surely be cross-subsidizing the Bundaberg channel irrigators.



If I am correct, the scale of the inequity continues to increase as river irrigators meet their own rapidly increasing electricity or diesel costs while channel irrigators only suffer these increases via the CPI price escalator. Some irrigators have electricity costs for lifts from the Burnett River in excess of \$60 per MI and the electricity costs will increase by 11.37% from 1<sup>st</sup> July 2007 with further increases predicted by the Queensland Premier.

Yours faithfully  
**Bundaberg Sugar Ltd**



*Paul* M A Smith  
Agricultural Manager

cc: Paul Neville  
National Water Authority  
BRIG

3 July 2007

Hon Craig Wallace, MP  
Minister for Natural Resources and Water  
GPO Box 2454  
BRISBANE QLD 4001

Attention: Michael Tandy

Dear Mr Tandy

**Re: Bundaberg Irrigation Water Pricing**

Please refer to your most recent letter dated 5<sup>th</sup> June (your reference M/07/01661 CTS03923/07).

As this correspondence has been going on for some time, could you please indicate whether I have summarised below the Queensland government's position on this matter.


- (a) Until there is agreement between the state and federal government about the methods to be employed, Sunwater will be unable or unwilling to calculate an upper bound price for any irrigation scheme or part (sub-scheme) thereof;
- (b) The Queensland government has reported under the COAG principles that there are no cross subsidies between Sunwater schemes or between components or sub-schemes within a scheme;
- (c) Bundaberg river irrigators are paying in excess of lower bound prices (over 30% "profit margin" to Sunwater) and could be paying in excess of upper bound prices - refer to (a) above;
- (d) The current pricing path imposed on the **whole** Bundaberg scheme is designed to meet, by the end of the 5 year period, the lower bound costs at the start of the period plus CPI for the **whole** scheme.

If I have stated the government's position correctly above, could you please explain how points (b), (c) & (d) can all be in place at the same time? If the river irrigators are paying above lower bound cost and the whole scheme will only meet lower bound at the end of the pricing path period then the river irrigators must surely be cross-subsidizing the Bundaberg channel irrigators.

If I am correct the scale of the inequity continues to increase as river irrigators meet their own rapidly increasing electricity or diesel costs while channel irrigators only suffer these increases via the CPI price escalator. I would like to remind you that some irrigators have electricity costs for lifts from the Burnett River in excess of \$60 per MI and that these will increase by 11.37% from 1<sup>st</sup> July 2007 with further increases predicted by the Queensland Premier.

I look forward to reading your explanation of these apparent inequities.

Yours faithfully  
**Bundaberg Sugar Ltd**



**M A Smith**  
Agricultural Manager

cc: GFL  
BRIG

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**Queensland  
Government**

Office of the  
**Minister for Natural Resources  
and Water**

Our Ref: M/07/02958

6 July 2007

Mr/Ms M A Smith  
PO Box 500  
**BUNDABERG QLD 4670**

Dear Mr/Ms Smith

Thank you for your letter dated 3 July 2007 to the Hon Craig Wallace MP, Minister for Natural Resources and Water and Minister Assisting the Premier in North Queensland.

We confirm receipt and advise your correspondence regarding the Bundaberg Irrigation Water Pricing is receiving attention.

Yours sincerely



**Staise Johns**  
**Senior Policy Advisor**  
**Office of the Minister for**  
**Natural Resources and Water and**  
**Minister Assisting the Premier in**  
**North Queensland**

RECEIVED	
10 JUL 2007	
ACTION:	
GDM	
CAS	
RCY	
RJH	
WFP	
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