29 November 2010

BUNDABERG REGIONAL IRRIGATORS GROUP

REPRESENTING MEMBER IRRIGATORS IN THE BUNDABERG IRRIGATION AREA

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Submission to QCA
Irrigation Prices for the Bundaberg Scheme 2011 to June 2016 on Issues Papers Released as at November 2010.

This submission has been developed in response to the information provided on the QCA website.

BRIG anticipates that significant further information will become available to allow stakeholders additional informed comment on the issues to be addressed.

As such BRIG may raise additional issues, or provide further detail on issues identified in this submission to QCA.

NERA Economic Consultation: Form of Price Control
BRIG holds the view that a price cap is the preferred option.

Should fixed costs be matched to Part A and variable costs matched to Part B, much of the debate relating to different levels of water use (availability and sales) is removed.

BRIG supports and would like to draw QCA's attention to the NWI requirement that prices are to *"... give effect to the principle of 'user pays' and achieve pricing transparency in respect of water storage and delivery in irrigation systems and cost recovery for water planning and management"* (p3)

In section 2.2 p4 of this paper reference is made to setting prices which give a rate of return on the construction of new assets.

BRIG trusts that this means that the existing customers will not be paying for assets constructed to service new customers. This is clearly outside of the current agreement in relation to delivery of Paradise Dam water where channel capacity is limited.

The sale of new allocation from Paradise has already constrained the flow rate available to south side irrigators when their supply is being pumped from Monduran.

Price Waterhouse Coopers : Pricing Principles for Dam Safety Upgrades
BRIG is of the opinion that the welfare and safety of the community created by the safety upgrades is determined by the State Government and is captured by the community and as such costs should be the Governments responsibility.

NERA Economic Consulting : Single or Multiple Rates of Return

This paper fails to discuss or acknowledge the assured income that SunWater receives via Part A charges based on the nominal allocation.

SunWater gets paid whether there is water for sale or not.

SunWater gets paid whether crop prices are high or not.

In short SunWater has minimal risk.

In assessing the credit rating some examination of SunWater's bad debt situation should also be considered.

BRIG believes:

- That SunWater is risk free in terms of bad debt associated with irrigation in the Bundaberg Scheme and that any rate of return above the bond rate is not justifiable.

- That the SunWater owned Paradise Dam allocation should not be considered in any pricing discussions.

- That the schemes across the state are very different and BRIG would like to see more compelling argument/s that different rates of return should not apply.

Price Waterhouse Coopers : Pricing Principles and Tariff Structures for SunWater's Water Supply Schemes

BRIG believes:

- That this paper strongly supports our nodal point pricing argument and philosophy.
- If Part A charges match fixed costs and Part B charges match variable costs, the need to accurately predict water availability and use is very much diminished.
- Adoption of nodal or segmented pricing in the Bundaberg Scheme would allow the equitable introduction of differing escalators for Part A and Part B charges so that their increases match more closely SunWater's cost increases/ decreases.
- Chapter 4 deals with only 2 non-water tariff charges. Do the Terms of Reference allow QCA to examine all SunWater charges? For example, special meter reading (usually required when farms are sold) is now charged at $117.00 per hour. Justification for this level of charge would be of interest to BRIG.

SAHA : Issues Paper on Renewals Annuity or a Pricing Principles and Tariff Structures for SunWater's Water Supply schemes

The SAHA paper on Renewals Annuity vs. Depreciation raises many more issues - mostly external to the topic.

BRIG has the following comments to offer:

- In the disclaimer it appears that the authors of this paper do not have access to the SunWater renewals annuity information. Does this constrain the ability of QCA to make an objective assessment and subsequent recommendation/s.?
- There needs to be very clear definitions for the process of allocating expenditure to negate the incentive to allocate everything as capital and get a rate of return on it.
- In paragraph 10 of the Executive summary, it states that SunWater has detailed long

term asset management plans and customers are involved in their formulation.

This is simply untrue.

This whole paper reflects the idea that customers are consulted on asset management plans and that the funds go into a sinking fund.

This is also untrue.

In a similar vein section 9.7 is also untrue.

- In section 2.11 the annuity is more than expenditure across the state. Does this mean that the annuity is funding operational cash requirements?
- Additionally the Bundaberg Scheme has some system problems and expenditure should be made or the price to irrigators reduced.
- BRIG supports and agrees with the philosophy identified in section s3.1 through to 3.5.
- In section 9.7. SunWater is attributed with the comment that "where the entitlement value is high, then this is clear evidence of a capacity to pay higher infrastructure charges. BRIG contends that in the Bundaberg scheme allocation price is falling (old water) and that is why much of the Paradise allocation (new water) remains unsold. Intuitively the more you pay for the nominal allocation the less you can afford annual charges.

BRIG believes:

- The renewal annuity method be retained but with much greater transparency and irrigator input into its operation.

Further information or clarification can be provided on any aspect of this submission. Enquiries should be directed to Mr. Dale Holliss, Co. Secretary, Bundaberg Regional Irrigators Group Ltd on (07) 4151 2555.

Yours faithfully

[redacted]

MA Smith
Deputy Chairman

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