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Chief Executive
Queensland Competition Authority
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By email: water.submission@qca.org.au

Dear Mr Hall

It is important that water users have confidence in QCA's final recommendations for the next price path for SunWater's irrigation prices. Irrigation water prices must be efficient and prudent. Cost reflective pricing can only produce this outcome if the costs are truly reflective of the commercial decisions, operating and capital, that a customer focussed business operating in a competitive market would incur.

As a statutory monopoly, SunWater's behaviour is vastly different to that of a firm competing for business, its costs and prices are also higher than would be the case if it faced the commercial disciplines of a competitive market.

In a cost reflective pricing environment, without competitive drivers to contain costs while focussing on the needs of customers, SunWater has shown in its response to the QCA draft that it operates with an expectation that increases in expenditure will be passed on as higher prices in each new price path. SunWater has raised a number of new cost items without full explanation, supporting documentation or justification that, if introduced without critical assessment and analysis, will significantly increase the price of water in many schemes. It is important that QCA undertake a full investigation of the SunWater proposal, for users to have confidence in any inclusion of associated costs in the new price path.

Of particular concern are the estimates of the costs of flood damage and of replacing the inflatable (fabri-dam) bags in a number of schemes.

- Flood damage, associated costs and insurance claims, QCA must assess:
  - the adequacy of the response and associated expenditure incurred. There is insufficient information in the SunWater submission to enable QCA to make this assessment. SunWater has not demonstrated that it has taken advantage of the opportunity arising from its flood repair activities to consult users and properly take into account their changing needs as it has responded to flood damage.
  - the appropriateness of SunWater's insurance policies, the level of cost recovery including SunWater's internal processes and provisions made for covering its $10 million insurance excess.
  - the manner in which these costs are distributed across irrigation schemes.

- Inflatable bags (fabri-dams), for which proposals come forward without consultation or complete information, QCA must assess:
  - the likely needs of the schemes over the next five to ten years
  - the impact on water entitlements
  - whether the replacement of existing structures with like-for-like is appropriate
  - there are alternative structures or new technologies that will deliver the benefit at lower cost or have a longer life than the fabri-dams?

It is important that in its final report, QCA draws attention to the inadequate and late provision of information provided by SunWater on costs. No costs should be included in the recommended price path for which there is no supporting information. QCA must have an opportunity to fully investigate the cost claims and satisfy itself of the merit of those costs.

In order to recommend a prudent and efficient price path, QCA will need to fully investigate these and other issues arising from the SunWater submission. This will take time, time which is not available to QCA ahead of its 30 April 2012 reporting deadline.

Operating without market disciplines, SunWater operates in isolation of its users. It has a supply-side focus and little incentive to drive efficiency gains or deliver productivity improvements. Cost reflective pricing means all cost increases, whether the result of changing user needs or new regulatory demands, are passed through as higher prices to irrigation users who, in turn, are unable to pass them on in the prices received for their agricultural products.

CANEGROWERS overarching recommendation is that the QCA final report must include disciplines on SunWater that require it to achieve ongoing efficiency gains. In addition to the specific recommendations contained in CANEGROWERS previous submissions, this can be achieved in three ways.

- First, by discounting annual price increases by an amount equivalent to an annual productivity dividend.
- Second, by requiring SunWater’s distribution schemes to be managed locally.
- Third, by introducing business practices in which investment decisions and work programs built on sound business cases linked to strategic plans form the basis of SunWater’s consultation both with its government stakeholders and irrigation water users.

Despite the good faith QCA and its officers have displayed throughout the process and the manner in which the investigation has been conducted, the constraints and inadequacies of QCA’s terms of reference have reduced our confidence in the final outcome. It is important that these limitations are noted in QCA’s final report so they can be addressed in future price reviews.

CANEGROWERS seeks the introduction of disciplines on SunWater and a pricing path which would mirror those resulting from a competitive market structure. The price path should provide performance incentives, encourage SunWater to reduce its cost structures, establish efficient and prudent prices for water users and put all schemes on a long term sustainable footing.

It is clear that QCA would require more time than is available to properly assess the claims made by SunWater in its response to the QCA’s draft report. For irrigation water users to have confidence in the next price path it is important that a transparent and credible set of pricing recommendations are made. Costs for which QCA has not received all relevant information in a timely fashion for full analysis should be excluded from the recommended price path.

Yours sincerely

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Warren Males
Head – ECONOMICS