

Submission to QCA:
Irrigation Prices for SunWater
Schemes: 2011-2016



What is Supplemented Allocation?

A review of all Queensland Competition Authority (QCA) documents relating to the Gladstone Area Water Board (GAWB) pricing review, failed to find any mention of supplemented allocation, or a value for it.

GAWB is the owner of the total allocation from the Awoonga Dam, but it appears that the Board places no value on the allocation as an asset, and therefore requires no return on the asset. All GAWBs rate of return is earned on the associated infrastructure. GAWB is a Government Owned Corporation (GOC) and can be compared directly with the GOC, SunWater, the only exception is GAWB owns the allocation and SunWater in the Nogoa Mackenzie doesn't as water users in Nogoa Mackenzie own the allocation.

To compare the cost of water to customers from both GOCs it would be best done as a direct cost of extraction from storage. GAWB water is supplied at a cost per year of \$300.00/ML. This price is set by QCA with;

A full rate of return on assets which industrial users pay.

No upfront costs to users for supplemented allocation.

SunWater Nogoa Mackenzie water is supplied at a cost per year of \$100.00/ML with;

A full rate of return on infrastructure which industrial users pay.

Plus an upfront payment for supplemented allocation of \$7500.00 per ML.

I have used urban and industrial users as a comparison because the QCA review of GAWB pricing only deals with urban and industrial users.

Total cost to users of GAWB water is \$300.00/ML. Total cost to users in SunWater is \$100.00/ML + \$7500.00/ML up front. Therefore, the actual cost in yearly terms is:

\$7500.00/ML x 7% per year

= \$525.00/ML per year

+\$100.00/ML:

=\$625.00 / ML per year.

The numbers above are even more interesting when you consider that it takes a lot more infrastructure to capture allocation in the GAWB Awoonga dam compared to SunWater's Fairbairn dam. Additionally, these two operators operate in basins that are actually interlinked by pipes for delivery and system take. They also compete on delivery of water and services to industry.

The question is; how is QCA going to deal with this pricing differential? Should they consider that Supplemented allocation holders own the infrastructure - this is the way they have ruled in the case of the GAWB? Do they accept that supplemented allocation holders purchased their allocations in the market for a value on the day either as water or water attached to land, these purchases set a market value for the infrastructure and established ownership of that infrastructure?

Do they include the cost of supplemented allocation as a part of the yearly cost of the delivery of water when dealing with capacity to pay as well as comparing the real cost of water with schemes like GAWB?

THE QUESTION IS WHAT DID WE PURCHASE WHEN WE PAID FOR SUPPLEMENTED ALLOCATION?

It seems QCA doesn't understand the difference between supplemented allocation and allocation. Government is going to have to make this determination.

Appendix 1 is providing evidence of supplemented allocation sales delivering a 200% return on the cost of the infrastructure built to capture it, the Bedford Weir. Since the purchases of allocation users have continued to pay a rate of return on the same infrastructure. Now the infrastructure has failed allocation holders are being asked to pay for it again to have it replaced. Do we own it? If not, how many more times do we have to pay for it?

Appendix 2 is providing evidence of supplemented allocation purchase statements released by the water commission calling it PURCHASED CAPITAL WATER which obviously infers that the purchase has something to do with the capital required to entrap the water.

Appendix 3 is providing evidence from newspaper reports quoting Mr Casey, the Minister of Primary Industries, as saying, "Future water allocations from the Water Resources Commission, for irrigation or other major users, will attract a capital charge." Mr Casey also went on to say, "I believe it is up to those who benefited from the works to pay at least part of the costs of these works. Funds raised by the sale for allocations would be used, in part, for new works and to offset part of the state's debt for existing works." We think the intent of the Minister is clearly laid out.

Appendix 4 is providing evidence of the Minister making statements in parliament. Mr Casey stated, "Where a watercourse is supplemented as a result of a Government-funded scheme, a capital charge will apply to all future allocations. Arrangements can be made for that capital charge to be paid over a reasonable period." He also stressed that the capital charges proposed are to return to the community as part of the increased values generated by public investment in water facilities.

Appendix 5 is providing evidence from a Department of Primary Industries brochure stating. "The capital charge for water allocations is levied in recognition of the value added to a property with a water allocation, and allows part of the scheme to be repaid to the taxpayer. The once-of charge does not apply to urban, industrial or mining customers, who contribute to the capital cost of assets in their annual water charges". These statements are in a sale brochure put out by Government making it very clear that if you own supplemented allocation you don't pay a rate of return.

How is QCA going to establish who purchased allocation or land with allocation at what price , who owns it now , what proportion of the infrastructure dose it relate to and how much of the cost of the infrastructure did it cover. Then put a pricing system in place to deal with each individual's contribution. How do you then recognise the contribution by water users to increasing the asset value of the supplemented allocation by opening up and developing regions and industries with in those regions? Do you compensate the ones that went broke trying to make a Government decision to build the infrastructure work or continue to not recognise the contributions made by charging a rate of return on the ones still operating?

Question of ownership of the infrastructure by SunWater put by a banker. Has SunWater got a title deed for the land? Have they got a rates notice, preferably a paid one? Have they got a valuator's valuation on the land and infrastructure? For that valuation to be done correctly it would be based on income derived from sale of supplemented allocation. That supplemented allocation has a current value set by a market and created by a market place. This is the approach a valuator would have to take in valuing an asset in the real world. This also deals with concerns of, was the asset built efficiently, is it in the correct place, was it built too big, small or was it built to benefit the state not just water users, all of these issues can be addressed by taking a normal business approach to valuation.

Government/SunWater has started to not sell supplemented allocation from some old schemes as part of making water available. e.g. GAWB, Burdekin pipe line, they sell the water at a yearly charge delivered without any upfront cost for supplemented allocation. This is also being proposed for new structures such as Glebe Weir, Connors River Dam and pipe line from the Fitzroy to GAWB. All of the above systems deliver water into areas that have paid large upfront costs for supplemented allocations.

Unless QCA decides to recommend a costing restructure for water charges without upfront payments for allocations we are going to have large discrepancies in the water charges from GOCs in the state. To do this they would have to use the value for supplemented allocation set by the market and charge a rate return on this asset being the supplemented allocation and add it to the yearly charge for water. The big question is, in doing this; do they still have the right to charge a rate of return on the infrastructure? One would think it would be a clear case of double dipping if they were to charge a rate of return on both the infrastructure and the supplemented allocation.

Industrial users are making decisions on where to develop based on the cost of water. This is being greatly influenced by Government and QCA decisions on water pricing. Allocation or available system yield is being made available free of charge to GOCs having a large downward impact on the value of supplemented allocations as well as decreasing water use which will push up the yearly charge on water. Current supplemented allocation holders are being left to carry the cost burden of some very poor decisions made in the past. QCA needs to address this in the pricing review.

SUNWATERS ROLE AS A SERVICE PROVIDER.

Is SunWater negating responsibility at looking for ways to bring about more water use within its operations where it doesn't own the allocation?

- *Through more availability of delivery of supply in, and outside of the schemes.
- *More efficiency in delivering water.
- *Trading of peak flow entitlements.
- *Demand forecasting.
- *Promotion of areas with decreasing water use.
- *Product development to bring about more water use.

If it is not SunWaters role to address these points then whose is it, and can they as a service provider continue to charge more for water because of declining water use without doing anything about it? Should SunWater be given the chance to negate its responsibility's in schemes in which it doesn't own all the allocation and continue to promote schemes, or sections of schemes in which it does?

QCA needs to look at these issues very closely as SunWater is a supplemented allocation holder and service provider that has a large ability to influence water markets and water use.

SUMMARY.

All documents that proclaim SunWater as the owner of the infrastructure should be removed from this pricing process and all consultants reports that have been influenced by the said documents must also be remove. This process is to determine the outcome on ownership. Not to have it predetermined before the process has started.

QCA/Government has to take into consideration the water reform process and the impacts there decisions may have on this process. Mainly best end use for water must be driven by market place and the value of water, if you destroy this through changes to yearly water charges there will be no water reform in Queensland.

Deal with what is supplemented allocation if it is not to be accepted as proof of ownership of the infrastructure which captures it, as this is what the irrigation industry were lead to believe by Government as they developed this State and purchased supplemented allocations.

Put measures in place that deal with the anticompetitive nature of water service providers that don't own allocation compared to ones that do and the consequents to the real yearly cost of water to water users.

Decide what SunWater responsibilities as a service provider are and determine whether it lines up with Government expectations.

They must also put measures in place that insure SunWater cannot abuse its powers within water markets and investigate the possible impacts that this may have had on water use, water price and supplemented allocation value insuring this round of pricing imposes the impacts back onto SunWater not users in increased water charges.