

Mr Rick Stankiewicz
Director
Queensland Competition Authority
Level 19, 12 Creek Street
GPO Box 2257
Brisbane QLD 4001
Australia

RE: Review of prices for SunWater water supply schemes

I refer to the Ministers' Referral Notice requesting that the QCA review prices for SunWater water supply schemes. Lower Burdekin Water (LBW) is a joint venture between the North Burdekin Water Board and the South Burdekin Water Board. Jointly the Water Boards are the biggest water user (by volume) from the Burdekin-Haughton Water Supply Scheme (BHWSS). Clearly the outcomes of the QCA review could have a profound impact on our business and the viability of the 625 irrigators that we service.

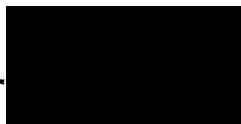
LBW requests that we are included in all relevant consultation to be undertaken by the QCA for this review, commencing with the visit to the Burdekin on 18th May.

Please find attached our initial submission to the QCA. It includes:

- background information on our operations to assist with your review; and
- comments of the scope and content of the QCA review as it relates to our business and customers.

LBW looks forward to the opportunity to constructively participate in the QCA's review of pricing in the BHWSS to ensure SunWater' prices are truly efficient. If any further information is required, please do not hesitate to contact me on (07) 4783 1988.

Regards



Andrew Kelly
Executive Officer
Lower Burdekin Water

Lower Burdekin Water Submission to the Queensland Competition Authority review of prices for SunWater water supply schemes

1. Background – Lower Burdekin Water Boards

This submission relates to the North Burdekin Water Board (NBWB) and the South Burdekin Water Board (SBWB). From the outset it needs to be stressed that the Water Boards are not part of the Burdekin-Haughton Water Supply Scheme (BHWSS).

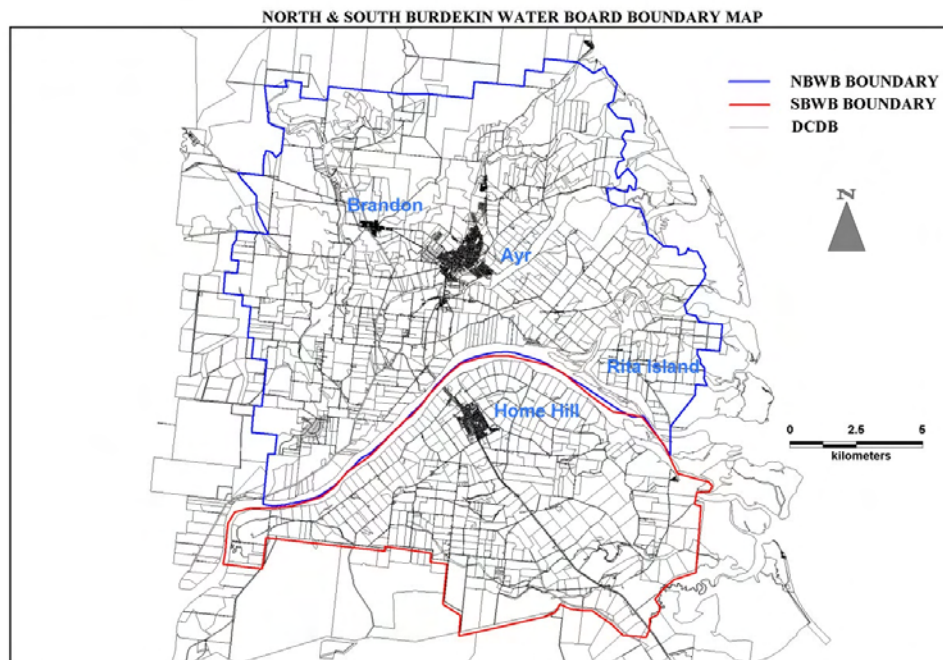
Under the operational area of both of the Water Boards lies a natural freshwater aquifer that interfaces with seawater along the coastal boundary. A level of freshwater must be maintained in the aquifer to ensure the seawater interface does not encroach inland to a point that may threaten the fresh groundwater available for irrigation, domestic, stock and industrial purposes, and the quality of the aquifer generally.

The Water Boards were established by Orders in Council in 1965 and 1966, as independent groundwater replenishment authorities (see Attachment A). Their purpose was to deal with severe groundwater drawdown that had resulted in extensive seawater intrusion into the aquifer.

By diverting water from the Burdekin River via a substantial network of infrastructure, the Water Boards have recharged or replenished the freshwater volume of the aquifer to maintain the important freshwater interface and have controlled or prevented seawater intrusion since their inception.

The Water Boards have improved the utility of their substantial water delivery infrastructure by allowing water rate payers to take the diverted surface water for irrigation, domestic, stock and industrial purposes. Sugar is by far the dominant use. The operational areas of the Water Boards are shown in Figure 1 below.

Figure 1: North and South Water Board Areas



1.1. Current management arrangements

The Water Boards each became a Water Authority and Water Service Provider under the relevant State water legislation in 2002. The Water Boards are Category Two Water Boards under existing institutional arrangements. However, in response to the Webbe – Weller Review¹, the Boards are currently in the process of moving to a new corporate structure (see Section 1.3.2).

The Water Boards have a water authority area of approximately 41,000 hectares, a water allocation of 250,000 ML, and a ratepayer base of around 625.

The Water Boards carry out their statutory roles by constructing, maintaining and administering works for improvement of groundwater and surface water supplies within their area of operations. Their operational costs are funded completely from rates, charges and industry contributions and have never relied of any State Government assistance. The Water Boards operate under a Distribution Operations License (Attachment B) which enables each board to dam and divert water from the Burdekin River to meet their aquifer and customer service objectives.

An important distinction between the Water Boards and most irrigation service providers is that we have dual responsibilities of service provision and natural resource management (i.e. maintaining the condition of the aquifer via astute use of supplemented groundwater).

The Water Boards have a combined medium security water allocation of 255,000 ML (99,000 ML for the SBWB and 156,000 ML for the NBWB).

1.1.1. Administration – the ‘Lower Burdekin Water’ joint venture

The Water Boards have improved the efficiency of their general administration via the implementation of an unincorporated administrative joint venture, Lower Burdekin Water (LBW). The objectives of the joint venture were to avoid duplication of some service functions, to provide cost effective administrative services to both Water Boards, and to jointly undertake all compliance and financial reporting.

All administrative functions of the Water Boards are managed by Mr. Andrew Kelly as Executive Officer of Lower Burdekin Water on behalf of both Water Boards.

The administrative structure for Lower Burdekin Water consists of one Executive Officer, one Business Services Manager, five administration staff members, two Operations Managers, and eight field staff.

1.2. Efficiency in service delivery

LBW’s principal aim is to deliver efficient services to our customers. We believe we do this well and our cost of water delivered in 2007/08 was approximately \$22.50/ML. This compares well with SunWater (approximately \$159/ML across their total supply portfolio) and the Pioneer Valley Water Board, the only other large Category Two water board, with costs of approximately \$210/ML.²

LBW operates on a commercial basis to achieve full cost recovery from our rate payers and co-contributions from the sugar mills. Turnover in an average year is approximately \$5 million, returning a modest operating surplus that is reinvested in enhancing service delivery.

¹ Webbe, S & Weller, P, 2008, “A Public Interest Map: An Independent Review of Queensland Government Boards, Committees and Statutory Authorities” (Part A) and “Brokering Balance: A Public Interest Map for Queensland Government Bodies” (Part B).

² Source: NRW, 2008, Summary of annual reports and financial statements of Queensland’s Category 2 water authorities 2007–08.

An indicative cost structure for LBW is outlined in Table 1. Key cost drivers for the water boards are employee benefits, operating pump stations, SunWater charges and depreciation and amortisation.

Table 1: Approximate costs structure

<i>Cost item</i>	<i>% of total costs</i>
Employee benefits	25
Supplies & services (e.g. admin, pump stations, maintenance)	45
SunWater charges	15
Depreciation & amortisation	15
Total	100

1.2.1. SunWater services received and related charges

Services provided by SunWater relate to the bulk water delivery of water down the Burdekin River via the Clare Weir. The typical frequency of transactions (i.e. releases of water) is weekly. SunWater do not provide any other services to LBW or our rate payers (e.g. establishment of sand dams, pumping, distribution or administration services).

Current SunWater charges are a very significant component of LBW's costs. A comprehensive summary of the Water Boards' respective SunWater charges is outlined in the Table 2. Typically SunWater charges account for 12-18% of the total LBW costs. Assuming full use of LBW's 255,000 ML allocation, SunWater charges would be approximately \$1.1 million. These costs are incurred before LBW incurs any further costs for diverting and distributing water to our rate payers.

Table 2: Current SunWater charges (assuming full use of entitlements)

<i>Charging component</i>	<i>Nominal volume (ML)</i>	<i>Charges (\$/ML)</i>	<i>Cost (\$)</i>	<i>Comments</i>
SBWB				
Pre Dam flow under OIC	74,000	\$0	\$0	Statutory obligation under OIC. No charges.
Minimum charge volume	6,000	\$15.55	\$93,300	Combined allocation & delivery charge.
SunWater Sales Component	4,000	\$15.55	\$62,200	Combined allocation & delivery charge.
Additional purchased allocation	15,000	\$15.55	\$233,250	Charges made up of allocation (\$2.28/ML) and use (\$13.27/ML).
Total SBWB	99,000	N/A	\$388,750	
NBWB				
Pre Dam flow under OIC	111,000	\$0	\$0	Statutory obligation under OIC. No charges.
Minimum charge volume	9,000	\$15.55	\$139,950	Combined allocation & delivery charge.
SunWater Sales Component	6,000	\$15.55	\$93,300	Combined allocation & delivery charge.
Additional purchased allocation	30,000	\$15.55	\$466,500	Charges made up of allocation (\$2.28/ML) and use (\$13.27/ML).
Total NBWB	156,000	N/A	\$699,750	
Total LBW	255,000		\$1,088,500	

We would like to bring it to the attention of the QCA that the overview of SunWater Water Supply Schemes prepared by Synergies is in fact misleading where it states on page 34 that "There is also 185,000 ML of 'Pre Dam allocation' in the scheme relating to the North and South Burdekin Water Boards. This allocation did not attract any cost allocation in the current water prices". This statement is misleading and is clearly not an accurate reflection of the current commercial and pricing arrangements between SunWater and LBW. The 185,000 ML flow allocation (74,000 ML for the

SBWB and 111,000 ML for the NBWB) relates to a base level of allocation under the Orders in Council (OIC) for the Water Boards. Essentially this allocation is not chargeable because:

- it reflects the fact that the Water Boards were established prior to the Burdekin Falls Dam and this volume of water was already available to them; and
- the entitlements are partly required to achieve the natural resource management objectives outlined in the OIC.

1.3. Current reforms

LBW is currently in the process of implementing two major reforms:

- implementing key findings from the Irrigation Modernisation Plan; and
- fundamental reform of governance arrangements.

1.3.1. Irrigation modernisation plan

The Water Boards have always promoted the efficient delivery of water. In 2008, the Water Boards' successfully applied to the Federal Government and obtained funds to develop an Irrigation Modernisation Plan to be used for strategic direction and public information purposes.

The Plan details operational processes and activities undertaken in the Water Boards operational areas. It has analysed the efficiency of current delivery systems, and assessed alternate infrastructure and irrigation techniques that could have an impact on LBW's natural resource management responsibilities. A key finding of the Irrigation Modernisation Plan was that there are only limited commercially viable opportunities for enhancing irrigation service delivery for LBW. However, where enhancements are commercially viable, these are to be incorporated into the long term strategies, planning and investment of LBW.

1.3.2. Fundamental reform in governance arrangements

As a natural progression from the creation of the LBW joint venture and in part response to the recommendations in the Webbe – Weller review of statutory authorities (i.e. abolish all Category Two Water Boards), LBW is currently moving towards a new legal structure (i.e. a private incorporated irrigation entity).

Under these arrangements the two boards will be formally merged into a single commercial entity. Once this has been completed (subject to State Government timelines and approval processes), LBW will commence on a process of improving our service delivery and commercial arrangements (including pricing). Obviously any changes to SunWater's pricing arrangements will have a significant impact the new LBW entity and its customers.

2. Current QCA review issues

This section briefly outlines LBW's key issues with respect to the review of the BHWSS. These relate to the need to treat LBW as a specific irrigation bulk water customer within the review, and the adequacy of the scope of issues to be covered in the QCA assessment.

2.1. QCA treatment of LBW

Clearly LBW is not a typical SunWater customer. We are a major irrigation service entity on our own right. We service an area of approximately 41,000 ha which is about the same size as the area under irrigation on the BHWSS itself.

All activities undertaken to service our ratepayers including the initial diversion of water from the Burdekin River, distribution, administrative functions, and natural resource management functions are undertaken entirely by LBW.

To undertake a robust review of pricing in the BHWSS, the QCA will need to recognise the bulk water status of the Water Boards as customers and undertake all analysis accordingly.

2.2. Approach and scope of QCA review

LBW is generally supportive of the approach being adopted and scope of the QCA's review. We believe it is vital that SunWater's prices reflect *truly* efficient costs.

The scope of the QCA review as indicated in the Ministers' Referral Notice and the list of issues papers to be developed is comprehensive. However, there are a number of issues that may require clarification or additional attention.

Allocation of lower bound costs between users

It is unclear from the Ministers' Referral Notice or the list of issues papers how the QCA intends to address the allocation of lower bound costs (operations, maintenance, administration, asset renewals etc). For example, any allocation of administration costs in the BHWSS based on volumes of entitlements would not reflect actual costs. LBW accounts for only two customers, but almost half of irrigation use. While it is our understanding that these costs may not be well understood until Network Service Plans (NSPs) are developed, the approach to treating these costs should be clarified relatively early in the process to ensure all subsequent analysis will actually enable the estimation of efficient costs.

It would be prudent to ensure the NSP for the BHWSS specifically isolates activities undertaken to service LBW.

Asset valuation, commercial rates of return, and irrigators' capacity to pay

It would appear from the Ministers' Referral Notice that a line in the sand approach would be used to value the Burdekin Falls Dam and (potentially) Clare Weir.

While we agree lower bound costs should be recovered for those assets, the application of any commercial rate of return on these assets (undefined, but presumably anything up to a full weighted average cost of capital) would have a very detrimental impact on the commercial viability of our customers. Any subsequent reduction in the areas under irrigation in the area serviced by LBW would have a significant impact of both our operations and our remaining customers as the bulk of our costs are relatively fixed in nature and LBW would need to be spread those costs across a smaller customer base.

Therefore we believe that the QCA needs to pay particular attention to the capacity of irrigators to pay. Despite the fact that sugar prices are currently relatively high, the longer term outlook is possibly not so optimistic (i.e. continued high Australian dollar on the back of the resources boom, continued cost-price squeeze for growers, increasing costs in meeting environmental regulation etc).

Future augmentations and allocations of costs

Demand growth in the BHWSS attributable to irrigation in recent years has been negligible and analysis undertaken for the North Queensland Regional Water Supply Strategy concluded that irrigation would not trigger *any* augmentation of supply infrastructure in the BHWSS in the foreseeable future. Therefore, any costs attributable to augmentations of the Burdekin Falls Dam during the next regulatory period (including costs of feasibility studies, engineering studies, or actual infrastructure works) should be borne by future customers, not existing customers.

2.2.1. Ongoing consultation

The consultation process outlined on the QCA website is both comprehensive and fair. However, as a major customer of SunWater we do have concerns that consultation on the QCA's Draft Report is only proposed, "*if time permits*". Only once the Draft Report is available will SunWater customers be in a position to fully assess the impacts of any proposed pricing changes. Therefore we believe it is vital that the QCA formally commit to a round of consultation on the Draft Report.