ROUND ONE CONSULTATION – ISSUES ARISING

[This note records issues identified, and views expressed, by stakeholders present at the meeting. The Authority is yet to form any opinion on these issues and views. As appropriate, issues will be addressed in the Authority's reports.]

Scheme: Central Lockyer (including Morton Vale Pipeline) Water Supply Scheme

Date: Monday 25 June 2012

QCA Contact: Angus MacDonald (07) 3222 0557 or water.submissions@qca.org.au

1.1 Regulatory Framework

- Irrigators confirmed that some water licences specify an irrigable area and some irrigators may take up to 4ML/ha. However, the specifications on water licences are likely to vary from property to property depending on when they were issued and the location.

- Irrigators raised that some Morton Vale Pipeline irrigators have surrendered their interim water allocation and sold their property. Where new owners now want to irrigate, it is not clear that they can access water (in the absence of trading) and further, in some cases the access to the Morton Vale Pipeline has been removed.

1.2 Pricing Framework

- Seqwater confirmed that the Crowley Vale Water Board prices are subject to the Authority's investigation. Irrigators noted that there are some 'commercial' rural and irrigation customers drawing from the Crowley Vale Water Board system, including a major onion growing/packing operation.

Morton Vale Pipeline Capital Charge

- Irrigators recall that the capital charge for Morton Vale Pipeline customers was waived by SunWater for the first two years of the 2006-11 price paths due, in part, to the decision not to pressurise the pipeline for customers (this decision represented avoided renewals expenditure for SunWater). Irrigators noted that this (agreed) reduced service particularly impacts customers whose off-takes are higher than the outlet in Lake Clarendon. As the pipeline is currently gravity fed, when storage in Lake Clarendon is low these customers cannot access water.

- Irrigators also recalled, but could not be definitive in this regard, that the decision was a deferral of this renewals expenditure. Accordingly, irrigators are hopeful that (through consultation with Seqwater) this renewals expenditure could eventually be agreed and implemented to ensure that affected irrigators have the same service standard as other Morton Vale Pipeline customers.

- Irrigators confirmed that they have not been paying the Morton Vale pipeline capital contribution (despite the contractual agreement to do so) for several years, that is, 2006-07 to the present day. Irrigators noted that from the time of the transfer of the assets to Seqwater from 1 July 2008 (2008-09), they could have been asked to recommence payment, but were not.

- Copies of the contract will be made available by irrigators if the Authority requests a copy. Seqwater undertook to provide a copy on 28 June 2012, as part of its overall response to the Authority's data request.

Tariff Structures

- Irrigators suggested that there are pumping costs associated with the off-stream storages and that these are likely to be considered a variable cost as they relate to water use.

- Irrigators recall that the drought tariff for Morton Vale Pipeline was implemented at the commencement of the 2006-11 price path, but that relatively early in the price path it reverted to the non-drought tariff.

- Customers holding a water licence have not been paying Part A charges in the scheme now since 2006-07 as individual volumes are yet to be specified. Morton Vale pipeline customers have been paying the Part A charge as each customer has a contracted volume.

- Irrigators indicated that a 100% Part B water use charge in the order of $300/ML was too high. However, one irrigator indicated that for some irrigators with 'commercial' operations $200/ML may not be too high if there was no Part A (fixed) charge and only if the water was 100% reliable (high priority) and delivered under pressure to the farm gate.

- Concern existed that some farmers may not be able to afford the lower bound charges submitted by Seqwater, particularly those growing relatively low value crops. This is particularly the case given current other pressures being experienced by Lockyer irrigators (including rising farm costs and increasing competitive pressures that reduce revenues received / commodity prices).

- As an alternative to only variable (water use) charges, irrigators were not certain what blend of Part A and Part B charges would be beneficial and considered that the Authority's recommended prices needed to provide more clarity, given the wide range of uncertainty (in terms of pricing outcomes) in this scheme particularly.

- Irrigators accepted that the key consideration for tariff structures will be whether, in the absence of nominal WAE (at a property level) for water licence holders, the Authority is able to obtain appropriate data from the relevant Government department to allocate fixed costs to irrigators in the form of a Part A charge.

- Queensland Farmers' Federation (QFF) stated that they had prepared a report in 2006 (as part of SEQ regional planning in relation to agriculture) that included hectares of irrigable area; however, the QFF figures differed to the Government department figures for the Lockyer Valley, so they may not be appropriate for cost allocation and price purposes.

1.3 Renewals Annuity

- Morton Vale Pipeline customers were pleased with the positive renewals balance and the fact that Seqwater's current forecast negative annuity was reducing total costs allocated to customers of this distribution system.

- Irrigators representing both tariff groups noted that a further submission on this topic (renewals balances) was due from Seqwater to the Authority in July 2012 and this may change the balances. Irrigators were hopeful that the positive balance would remain.

1.4 Operational Expenditure

Direct Operating Costs

- Irrigators questioned why maintenance costs were so high in Central Lockyer WSS – particularly why they are higher that operational activities. Irrigators would like to see a detailed breakdown of operational and maintenance costs.

- Irrigators agreed that the Authority's review of operating costs should consider a sample of maintenance costs in this scheme particularly, and an investigation of why the costs are so high relative to other schemes and, according to irrigators, given the 'low maintenance' nature of this scheme.

Non-Direct Costs

- The non-direct costs appear to be very high.

1.5 Draft Prices

- As noted above (see Tariff Structures), irrigators suggested that a $200/ML volumetric charge is the maximum some irrigators could realistically pay, but only with 100% reliability, delivered under pressure to the farm gate. That is, this is not a likely scenario for the medium priority water allocations under review.

- Irrigators did not agree that it costs $305/ML to deliver water as it is a gravity fed system with little pumping costs. They considered that if this is the price to be recommended by the Authority, then there may be a significant political reaction.

- Irrigators suggested that for 2012-13 and the 2013-17 regulatory period, irrigation water use over the regulatory period will be higher than average (based on past irrigation data) as the aquifers and dams are full and 100% announced allocations are available. The primary driver will simply be because there is more water available – it is not possible to factor in commodity prices in these schemes. Irrigators noted that the current average nine-year water use is approximately 25% of WSS nominal allocations and indicated that whilst water use will likely be higher than this, it is hard to estimate the percentage with accuracy.

- Cost reflective tariffs cannot be introduced as permanent trading is not possible in Central Lockyer. Irrigators do not have an opportunity to respond to higher prices by selling their interim water allocation - they can only surrender their interim water allocation.

- Irrigators noted, however, that the Authority's approach to price paths of introducing $2/ML plus 2.5% CPI per annum to increase Part A charges is (at least in the short term) not overly concerning. The concern is full lower bound cost recovery in a scheme that has such high costs per ML.

- Irrigators are concerned about the long-term viability of irrigators in the Central (and Lower) Locker WSSs. It was noted that the Authority's review may be beneficial in this regard, as it will likely bring scheme costs and price issues into focus in a transparent manner. This could be the basis for further discussions with Government and industry representatives (likely outside of the Authority's current irrigation pricing review process).