

29 January 2021

Professor Flavio Menezes
Chair
Queensland Competition Authority
Level 27, 145 Ann Street
BRISBANE QLD 4000

Dear Professor Menezes

QCA Statement of Regulatory Pricing Principles for the Water Sector, November 2020

Council welcomes the opportunity to comment on the QCA Statement of Regulatory Pricing Principles for the Water Sector (the Statement), released in November 2020.

Agriculture in Bundaberg has been the main economic driver for a region long beset by socioeconomic disadvantage. The continuing economic development of our region is dependent on long-term availability of secure, reliable, cost efficient water for irrigation purposes.

State Government commitment to discount irrigation water prices

Bundaberg Regional Council (BRC) supports recent commitments¹ by the State Government to reduce the price of irrigated water sold by all state-owned irrigation schemes by up to half, and we would expect to see the QCA play a role in ensuring the equitable implementation of this new policy across all agricultural sub-industries.

Implications of Paradise Dam rehabilitation works

As you may be aware, there is currently much uncertainty in the Bundaberg region regarding the future of Paradise Dam following damage sustained during the 2011 and 2013 flood events.

Paradise Dam is owned by Burnett Water Pty Ltd, a wholly owned subsidiary of Sunwater, which we understand is outside the remit of the QCA. Nevertheless, the activities of Burnett Water Pty Ltd do impact on water security, reliability and cost in the Bundaberg Water Supply Scheme (BWSS).

¹ <https://www.business.qld.gov.au/industries/mining-energy-water/water/industry-infrastructure/pricing/irrigation>



In fact, evidence suggests a large amount of potential agricultural investment in the region is now on hold until a decision on Paradise Dam is finalised. While the QCA cannot investigate the pricing of water suppliers outside the referral, it is logical the QCA looks at the impacts of unregulated water prices on regulated prices when they exist in the same scheme.

Current water market pricing

In line with the above, current water prices are determined by factors inconsistent with a stable, long term water market. The entire situation disadvantages the community through no fault of its own and, to our knowledge, is unique in the state and nation. Surely this constitutes a 'public interest matter' and there is a case for intervention in the BWSS water market until such time there is certainty.

Further, water price disparity inside a scheme may inordinately influence the agricultural enterprise mix in the scheme, and independently of other input prices. The propensity for moral hazard exists when a monopoly water service can manipulate the market and enterprise mix to maximise revenue. If adjustments, or transitions, are to occur in the agricultural enterprise mix in the BWSS, they should occur according to stable, long-term market signals.

2018 Sunwater water auction

This relates to Principle 7 in the Statement. There is a perception in the Bundaberg agricultural community that Sunwater's behaviour before during and after the 2018 water auction was not at all transparent and predictable. The fact that this issue strongly influences a class action currently underway against the State Government regarding Paradise Dam is evidence of that.

Special case - Burnett Water Pty Ltd

Considering the above, the reasons Burnett Water Pty Ltd is accorded special status regarding water pricing remains unclear and, as a matter of public interest, QCA should recommend the inclusion of Burnett Water Pty Ltd in all future monopoly provider water pricing investigations.

Detailed Business Case – Paradise Dam

Building Queensland is currently formulating Detailed Business Case (DBC) to investigate options to rehabilitate Paradise Dam. While this study deals with Paradise Dam, it will provide useful insight into overall water pricing in the BWSS and we urge the QCA to take a strong interest in that document.

For example, preliminary findings from the water demand assessment component show that future water purchase plans are price sensitive to the extent that a doubling of Part A tariffs would halve future water demand growth. The region cannot afford the associated contraction of production and investment.

The demand assessment also identified further development and updating of water supply infrastructure as a key issue in the BWSS. Bundaberg Regional Council would expect to see strong engagement and consultation with industry and local government from the QCA when they consider the implications of augmentations in water supply infrastructure in the BWSS.

Efficient costs and service levels

Bundaberg Regional Council would like to see more clarity around 'efficient costs' and 'service level'.

Principle 1 states that prices should recover the efficient costs of providing the relevant services. On the face of it, this appears fair and reasonable, however the application of it needs to be transparent and consistent. I would encourage the QCA to develop a consistent methodology across monopoly water service providers such that efficient costs and service level are homogeneous for benchmarking purposes. If 'cost efficiency' means providing a 'service level' at minimum cost, then clear principles and definitions around these concepts is fundamental.

True Costs

Study of the current Statement, and previous price reviews, contributes to a perception that monopoly water suppliers may not be revealing their true costs. Realistically there is no genuine incentive to reveal true costs if the service provider loses any amount of revenue as a result of the revelation. When there is no legal recourse to prosecute a firm for gouging, then moral hazard exists for firms to manipulate any measures that are put in place.

It is not clear that the QCA truly has the ability to facilitate a competitive environment across monopoly service providers, induce them to become more cost efficient, and compel them to transfer the benefits to clients.

Allocative Efficiency

As referred to in the Statement, the term 'allocative efficiency' is a simple economic concept, however the practical impact of this concept is more nuanced. Communities have a socioeconomic imperative and transitions occurring in the local industry mix can impact the community in ways that can be hard to anticipate and often disrupt efficient economic decision making. While it is understood that monopoly water suppliers must pursue efficient costs, it is not their remit to, even incidentally, unduly influence what industries or enterprises succeed or fail in a community. Particularly in an environment of disparate internal scheme water pricing. The sugar cane industry contributes greatly to our economy and there is anecdotal evidence that many cane farmers in the BWSS would greatly increase yields, and profitability, by applying more economically accessible water to their crops.

Water scarcity pricing

Increasing the cost of irrigation water when it is most needed has the potential to elevate adverse shocks into a genuinely existential issue for businesses and industry. Water scarcity pricing must not exacerbate adverse events or contribute to the unnecessary or premature exit of a viable enterprise or industry.

I understand that the QCA has a limited brief, however I cannot overstate the importance of cost-efficient irrigation water to the prosperity of the Bundaberg region. We rely on organisations like the QCA to facilitate fair, reasonable and transparent behaviour on the part of monopoly service providers to deliver that water, and we will assist you to do that to the best of our ability.

Please don't hesitate to contact me for further discussion.

Yours faithfully

A handwritten signature in black ink, appearing to read "Jack Dempsey". The signature is fluid and cursive, with a large initial "J" and "D".

Jack Dempsey

Mayor - Bundaberg Regional Council