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2 FAIRBAIRN IRRIGATION NETWORK

2.1 ABOUT

Fairbairn Irrigation Network Limited (FIN) is a locally owned company managing the distribution of up to 86,000 ML of water from the Fairbairn Dam to channel customers. Through an extensive irrigation supply and drainage network, FIN is responsible for the timely delivery of water for use in irrigated annual crops, horticulture, and stock and domestic supply.

2.2 SHAREHOLDERS

Currently FIN's 88 Shareholders represent approximately 80% of the total number of eligible allocation holders in the scheme, many of whom also hold river allocations.

2.3 DIRECTORS

Independent Board Chair	Anne Marie O'Callaghan
Shareholder Director	Ross Burnett
Independent Director	Emma McCullagh
Shareholder Director	Hamish Millar
Shareholder Director	Peter Galea
Independent Director	David McDougall

3 THE EMERALD IRRIGATION DISTRIBUTION SCHEME

3.1 FAST FACTS

- ✓ The area irrigated by the distribution system is about 15,000 hectares, sourced from the Fairbairn Dam
- ✓ Irrigated crops - Cotton, cereals, citrus and other crops such as macadamias and grapes
- ✓ Customers = 150 irrigators
- ✓ Channels and pipelines = 126km
- ✓ Pump stations = 4
- ✓ Drains = 144km
- ✓ Off takes = 237
- ✓ Water transported = 86,000 ML
- ✓ Water Allocation Entitlement's = 83,000 ML (approx.)
- ✓ Distribution Losses = 28,697 ML

4 BACKGROUND

In December 2018, Fairbairn Irrigation Network submitted an initial response to the referral notice;

Contact us



Email: emerald@tmairrigation.com.au

Anne Marie O'Callaghan (Chair)
0428 582 852

Ross Burnett
0427 336 340

Peter Galea
0417 636 881

Hamish Millar
0418 741 553

Emma McCullagh
0438 789 488

David McDougall
0419 782 419

- Dam Safety Program Costs
- Renewals Annuity
- Flood Monitoring and Reporting Costs
- Recreation Costs
- Electricity and Insurance Costs

In February 2019, FIN provided lengthy submissions to the QCA on a variety of issues and a detailed submission on the paper - *Rural irrigation price review 2020–24: apportionment of dam safety upgrade costs*.

Following the release of the draft report FIN would like to comment on the following;

- Dam Safety Program Costs
- Renewals Annuity
- Flood Monitoring and Reporting Costs
- Electricity and Insurance Costs
- Customer Access Charge

5 DAM SAFETY PROGRAM COST

The proposal by the QCA to apportion the costs of dam safety upgrade program to irrigation customers is not supported by FIN.

It is FIN's view that such expenditure is a community cost and that this pricing review has not provided sufficient investigation or justification of the costs and methodology to set a precedent for the inclusion of such costs in the price path review.

The QCA states that:

“Dams in Queensland have generally been built for the primary purpose of supplying water to users. As a compliance cost, we consider that dam safety upgrade expenditure should be treated as a normal cost of operation in supplying water services to customers.” (Queensland Competition Authority, 2019)

FIN disagrees with this assertion on the basis that dams were built for both economic growth and community benefit, and their very purpose has changed over the years as communities have changed. Irrigators are not alone in the use of dam water however it should be recognized that a key outcome of each dam construction is the provision of both tangible and intangible benefits to a range of users and the broader community. FIN contends that when calculating the attribution of costs for Dam Safety projects, the costs should be allocated to the prime drivers and beneficiaries of the safety upgrades being Government and the community. Irrigators who are already the main source of funding for the upkeep and maintenance of the dam through existing regulated pricing should not be required to contribute further to the upgrade of what is a community asset, simply because it is difficult to ascertain, attribute, and collect revenue from community beneficiaries. Such community value should be funded by the Government directly or indirectly for the benefit of its tax paying community members.

QCA acknowledge *‘ that the informal flood moderation benefits for communities downstream of dams should be acknowledged in the allocation of dam safety upgrade capex. As the external*

Contact us



Email: emerald@lmairrigation.com.au

Anne Marie O'Callaghan (Chair)
0428 582 852

Ross Burnett
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0417 636 881

Hamish Millar
0418 741 553

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David McDougall
0419 782 419

positive benefits that may potentially accrue to the broader community cannot be quantified easily, we have exercised our judgment in determining the reduction to apply to the irrigation water users' allocation and consider that they should only be allocated 80 per cent of their share of dam safety upgrade capex. We propose that the remaining 20 per cent of the irrigator water users' share of dam safety upgrade capex be allocated to the Government, as it is not feasible to allocate this share of costs to individual beneficiaries in the broader community.'
(Queensland Competition Authority, 2019)

The general nature in which the 80/20 split has been determined lacks logic and proper consideration. Allowing 20% for the 'informal' flood moderation benefits ignores the obvious community economic benefits of dams and the reasoning that it is difficult to quantify reinforces FIN's view that the pricing review has not provided sufficient investigation into dam safety cost sharing.

FIN categorically rejects that the cost for dam safety upgrades should be apportioned to irrigation customers. Dam Safety Upgrades are a government requirement to satisfy community safety and should remain their responsibility.

6 RENEWALS ANNUITY

It is evident AECOM's review of the SunWater's renewals approach identified systematic issues within its renewals projects and SunWater's approach to asset management. QCA have recommended a reduction in forecast renewals expenditure to reflect their assessment of whether projects are considered prudent and efficient.

The systematic issues identified by AECOM in the way that SunWater manage their renewals could explain the significant increase in renewals annuity across the previous price path in all schemes. The overspend is passed through to this price path which provides SunWater with no incentive to be prudent and efficient in managing the renewals expenditure.

We look forward to reviewing SunWater's revised forecasts that reflect an improved strategy and asset renewals plan in response to the recommendation in AECOM's report and the QCA draft report.

7 FLOOD MONITORING AND REPORTING COSTS (IGEM)

FIN rejects the recommendations that the full cost of flood monitoring and reporting should be included in the price path review. FIN maintains that this is a whole of community benefit and should be apportioned as such.

SunWater submitted costs associated with implementing IGEM recommendations that it proposed to recover from irrigation service contracts. FIN request clarification on whether it is SunWater's intention to recover these costs from all WAE contracts and not just irrigation service contracts.

Contact us



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Anne Marie O'Callaghan (Chair)
0428 582 852

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0427 336 340

Peter Galea
0417 636 881

Hamish Millar
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0438 789 488

David McDougall
0419 782 419

8 ELECTRICITY AND INSURANCE COSTS

8.1 INSURANCE

QCA has allowed for a 10% increase in insurance costs from SunWater's November 2018 submission. It is noted that this has occurred despite three schemes moving to local management which would reduce the declared asset values upon which insurance premiums are calculated. It is noted that neither QCA nor AECOM have commented on SunWater's commitment to pursuing insurance claims when appropriate to ensure that the greatest benefit is derived from their insurance program

FIN requests that the QCA review the insurance costs again in light of the reduced insurable value and the recent advice from SunWater that it has reviewed its list of insured assets in line with findings arising from the Local Management Arrangement including self-insurance of certain assets, particularly earthen assets.

8.2 ELECTRICITY

Inclusion of electricity costs solely as a fixed charge in the price path review does not take into consideration new tariffs which include fixed and variable portions.

FIN requests that the QCA consider splitting the electricity cost such that the electricity is levied largely on a pass through basis, rather than as a flat fixed cost.

9 CUSTOMER ACCESS CHARGE

FIN does not support the introduction of an access charge in its scheme and maintains that a move to implement an access charges should be not be approached as a "one size fits all".

As an irrigation scheme that has recently moved to local management, a significant portion of customer account management is now undertaken by FIN, not SunWater. Therefore an access charge levied by SunWater based on state customer usage would be inequitable and disadvantage FIN's customers.

FIN contends that the costs identified by SunWater for account management are not reasonable or efficient. FIN maintains that further work should be carried out by QCA and SunWater to identify an appropriate level of costs for the services provided, requiring the implementation of significant efficiencies in the manner in which SunWater undertakes account management. Costs could then be considered such that allocation is transparent and revenue neutral. FIN has noted that SunWater are conducting an internal review of their processes to achieve efficiencies and this review and improvement actions should be implemented before the any access charge policy is determined.

FIN is concerned that the introduction of an access charge without the necessary due diligence and streamlining of services could result in a blanket approach that is neither reasonable or efficient.

10 CONCLUSION

FIN is committed to securing agriculture in the Emerald Irrigation Area for future generations. We thank the QCA for their work on the price review and request that you consider the points made in this submission.

11 BIBLIOGRAPHY

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Contact us



Email: emerald@fmairrigation.com.au

Anne Marie O'Callaghan (Chair)
0428 582 852

Ross Burnett
0427 336 340

Peter Galea
0417 636 881

Hamish Millar
0418 741 553

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0438 789 488

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