Burdekin River Irrigation Area Irrigators Ltd (BRIA)

Submission to the QCA

4th November 2019

BRIA
Burdekin River Irrigation Area

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4th November 2019
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Mr Page

Re: Rural Irrigation Pricing Review 2020-24

Thank you for the opportunity to provide a further submission to the Queensland Competition Authority's Rural Irrigation Pricing Review.

BRIA Irrigators Ltd (BRIA) represents irrigators in the Burdekin Haughton Water Supply Scheme (BHWSS), who produce sugar cane, horticulture and grain crops with irrigation water being a critical input cost. As an associate member of QFF we have provided input to the QFF submission and support the views put forward in that document.

BRIA wishes to respond to the QCA's Draft Report and provide further comment on key issues raised in our initial submission outlined below.

1. Capacity to Pay
2. Dam safety – Dam Improvement Program (DIP)
3. Operating costs including
    - Inspector-General Emergency Management
    - Electricity
    - Insurance
    - Renewals
    - Corporate overheads
    - Distribution losses
    - Cost of review and further reviews during the price path
    - Tariff Structures in the BHWSS
    - Drainage Charge
    - Access Charge
    - Regulated Asset Base
    - Appendix A - Methodology

Should you have any further queries please contact

Mario Barbagallo, Chairman 0429 181 276 or

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Capacity to Pay

BRIA's initial submission raised customers capacity to pay as a key issue. We recognise that the QCA is directed to recommend prices which fully recover prudent and efficient costs and we acknowledge that the QCA has attempted to balance the legitimate commercial interests of SunWater, with the commercial interests of BHWSS customers, by proposing less than cost reflective prices which transition to a cost reflective price target over time.

BRIA does not support differential pricing within the BHWSS based on customers in individual sections of the scheme perceived capacity to pay.

However, BRIA maintains the view that the addition of charges associated with the Burdekin Falls Dam upgrade during the next price path will significantly exceed all BHWSS irrigators' capacity to pay.

Dam Improvement Program (DIP)

The Burdekin Dam was constructed to promote regional development and provide a secure water supply for the people of Townsville and Thuringowa cities as well as supplying water for irrigation needs. Press releases and statements by both State and Federal Governments at the time the dam was constructed and opened confirm this.

BRIA does not accept that irrigators are the sole impactors or beneficiaries of the Burdekin Falls Dam, or that the dam was constructed solely to provide water to irrigation customers.

BRIA maintains its position that dam improvement costs if included in irrigation pricing tariffs would exceed irrigators capacity to pay, and that dam improvement costs should be met by Government on behalf of the community, as it provides a public benefit and community safety.

We do not have any confidence that SunWater's forecast expenditure for the DIP at the Burdekin Falls Dam will not escalate well beyond the projected $344 million, and as a consequence the increase in charges for distribution customers would not be limited to the $12.02/ML estimated by the QCA. However an additional $12.02/ML would increase water charges as a percentage of total sugarcane production costs from 20% to 25%.

QCA in its draft determination has referred to the IPART ruling on dam safety standards and consistent with that ruling BRIA submits that dam safety upgrades for infrastructure built before 1997 are legacy costs and should be met by Government.

Inspector-General Emergency Management

BRIA does not accept the proposal that irrigators should pay additional costs for flood monitoring and reporting, over and above the costs currently passed through to irrigators through the operation and maintenance of existing gauging stations.

BRIA considers that these services are a Government requirement provided for the benefit of the broader community and costs should be met by Government.

Electricity

BRIA previously submitted that we did not support SunWater's proposed electricity cost pass through, and that fixed components of electricity charges should be allocated to the fixed component of water charges. We also recommended that the QCA estimate the electricity cost per megalitre as a key input to variable water charges.

Since that time BRIA has provided input to, and supports in principle, subject to efficiency KPI's being established with full transparency, the QFF - SunWater joint submission to the QCA, which proposes an electricity pass through method which requires the allocation of true fixed and variable electricity costs to the fixed and variable components of water charges.

Insurance

BRIA notes that the QCA proposes to accept SunWater's revised (higher) insurance costs as they are driven by recent changes in insurance market rates. However it is not clear to BRIA that the assessment of the appropriateness of the level of insurance coverage, deductibles and procedures for procuring insurance, has satisfied QCA that only insurable assets are being insured and that SunWater's flood-related and non-routine expenditure have been excluded from the calculation of the renewals annuity balance. BRIA requests that QCA confirm that our concerns in this regard have been addressed.

Renewals

BRIA supports the QCA's proposed reduction in SunWater's forecast renewals expenditure following an assessment of the prudent and efficient level of forecast expenditure.

Corporate Overheads

BRIA supports the QCA's proposal that the size of overheads to be allocated to SunWater's corporate overhead costs be reduced, as they were significantly higher than its historical expenditure.

Distribution Losses

BRIA supports the QCA allocating excess distribution loss costs to Sunwater and adopting the most recent five years data as the basis for that decision.

BRIA places a high priority on accurate metering of bulk water pumped and diverted by Sunwater and the accurate metering of all water used by customers. Inefficient metering results in inaccurate assessments of scheme distribution losses, inequitable allocation of costs across the BHWSS and inflated lower bound costs.

We submit that the QCA recommend to Sunwater that they increase their efforts to improve metering across the BHWSS.

BRIA rejects the cost allocation of 16,260ML of high priority losses to medium priority irrigation customers.

This loss allocation is clearly for the purpose of ensuring the delivery of 10,000 plus ML of high priority allocation through the medium priority distribution system in times of low or zero medium priority allocation.

BRIA recommends that the QCA reallocate this cost to high priority allocations.

Cost of Review and further Reviews during the price path

BRIA recommends that the cost of the Rural Irrigation Pricing Review 2020 -2024 be allocated to all water allocation entitlements, as the lower bound prices for irrigation entitlement holders will be used as the basis for setting urban and industrial prices over the term of this price path.

BRIA does not support further reviews during the price path, which could result in increased water charges, when irrigators have paid $2.5million to establish efficient tariffs for a four year period. We consider there are sufficient existing mechanisms to manage cost risks to SunWater.

Tariff Structures in the BHWSS - Haughton Zone A/GBA

For clarification BRIA will refer to the Giru Groundwater Area customers (as referenced in the QCA Draft Report) as Zone A/GBA customers.

The metered releases of channel water from the Haughton Balancing Storage (HBS) when compared with the metered usage of Haughton Zone A/GBA customers, clearly indicate that very little supply, other than that provided by channel diversions which are captured by the two Haughton River weirs is being utilised. The current pricing arrangement which requires Zone A/GBA customers to only pay 51% of the channel tariff results in SunWater significantly under recovering the efficient costs of supplying channel water to Zone A/GBA. ***See Table***

SunWater (2018) - Updated 19-years of available data for Giru Benefitted Area

Year	Release from Haughton balancing storage to Haughton River for GBA (ML)	Total Water Use Haughton Zone A(ML)
1999/00	25,138	22,832
2000/01	14,160	27,315
2001/02	43,685	48,059
2002/03	60,037	51,253
2003/04	42,453	42,485
2004/05	45,257	48,609
2005/06	32,136	33,125
2006/07	31,556	37,937
2007/08	22,018	30,742
2008/09	19,101	27,061
2009/10	38,465	35,571
2010/11	5,872	6,677
2011/12	29,603	20,387
2012/13	26,873	20,610
2013/14	44,671	29,668
2014/15	47,405	46,422
2015/16	47,019	47,031
2016/17	29,357	33,502
2017/18	35,291	43,814
Average	**33,689**	**34,374**

Source: SunWater 2018

BRIA cannot support the continuation of the current discounted tariff in Zone A/GBA, as the under recovery of costs by SunWater are then debited against channel distribution customers and included in the calculation of their lower bound price target.

BRIA supports the QCA Draft Proposal for "*prices that transition to a cost reflective price target for Giru Groundwater Area customers that is the same as for Burdekin channel tariff group customers".*

The QCA proposal has raised concern among Zone A/GBA customers that they will be deprived of consideration of any additional supply that may be able to be utilised from the Haughton river if they are required to pay the channel distribution tariff. **A pricing methodology which addresses that concern and could be implemented during this price path is provided in Appendix A.**

SunWater has recently reallocated the weirs within the Haughton river to distribution assets, and costs associated with them are allocated to all distribution customers. Therefore, it is necessary to have the fixed costs of distribution (Part C) allocated across all customers of the distribution scheme including Zone A/GBA and recovered by a charge per megalitre on customers water allocation entitlement (WAE).

All bulk water assets play a part in establishing the system yield, reliability and monthly performance, and therefore all bulk water costs (Part A) must also be recovered from Zone A/GBA customers on a per megalitre of allocation basis. The allocation fixed charge (Part A and C) is required to be paid irrespective of usage, which is consistent with the fixed charge which applies to all BHWSS customers.

BRIA recommends that the fixed tariff in Zone A/GBA should transition to the full fixed component (Part A and C) of the channel tariff and the variable or volumetric charge (Part B and D) should also transition to the channel tariff, as proposed by the QCA.

BRIA has proposed a pricing methodology for Zone A/GBA customers which recognises any additional supply that may be available, over and above that provided by the channel distribution system. (Appendix A)

BRIA does not support further hydrological assessments of the Haughton River, when metered releases from the HBS and metered usage by Zone A/GBA customers provide a far more reliable determination of any additional supply which can be effectively utilised.

The original arrangements, and current pricing tariff in Zone A/GBA are based on hydrological assessments which have proven unreliable and ineffective in establishing a fair and equitable pricing tariff, for this section of the BHWSS.

Should the current discounted price tariff in Zone A/GBA be continued, BRIA recommends that SunWater's costs of supplying channel water to Zone A/GBA and the cost of operating, maintaining and renewing the Haughton river weirs and re-lift pumps, together with revenue received from Zone A/GBA customers should be quarantined from the remainder of the BHWSS.

That is the under recovery of costs resulting from discounted pricing in Zone A/GBA should be debited against a lower bound price target for Zone A/GBA customers only, and not included in calculations of lower bound costs for the remainder of BHWSS customers.

Gladys Lagoon

BRIA supports the QCA proposal that Gladys Lagoon (other than natural yield) transition to full cost recovery which is the same as Burdekin channel tariff, by the end of the pricing period (2023-2024).

Consistent with our approach to pricing in Zone A/GBA, our recommendation is that SunWater install a bulk meter at the inlet structure into Gladys Lagoon, rather than conduct another hydrological assessment, and water diverted from the channel system, be charged at channel prices. We recommend the same pricing methodology apply as in Haughton Zone A/GBA to ensure Gladys Lagoon customers only pay the volumetric charge for water diverted from the channel distribution system, which is not in excess of customer usage. All usage in excess of diversions would be deducted on a pro-rata basis from Gladys Lagoon customers usage with the final quarter invoice of the water year adjusted accordingly.

Drainage Charge

BRIA supports the QCA's proposal that current drainage charges for the Burdekin Haughton Distribution System should only be increased each year in line with the QCA's measure of inflation and that SunWater put processes in place to accurately record drainage maintenance expenditure in future.

Access Charge

BRIA does not consider that a minimum access charge should apply in the BHWSS as there are less than twenty (20) customers with an allocation below 100 megalitres. We support the implementation of the charge in those schemes that consider it beneficial.

QCA should investigate why SunWater's costs of operating a customer account are excessive when compared with other businesses eg. (Ergon Energy or Telstra) rather than investigating the re-apportionment of those excessive costs.

Regulated Asset Base

BRIA notes the QCA's Draft recommendation 8

"We recommend that Sunwater should work with its customers and with Government to move to a RAB-based approach for future price reviews".

BRIA does not support a RAB-based approach and is concerned it could result in a similar outcome to the electricity industry where Government owned Corporations have gold plated assets to increase their return on investment.

Our preference would be to continue with the renewals annuity fund which we have been using since July 2000, and based on forward projections of expenditure over 30 years.

APPENDIX A: METHODOLOGY

BRIA recommends that the QCA consider an alternate pricing methodology which allows SunWater to recover the efficient costs of supplying channel water to Zone A/GBA without the need for further hydrology reports, and addresses concerns from Zone A/GBA customers that they are being deprived of any additional supply that may be available from the Haughton river.

The alternate methodology would incentivise SunWater and irrigators in Zone A/GBA to optimise all water available within the system with prudent management by all parties. This includes mandatory water ordering, accurate metering, a more reactive water release strategy and a refined operational plan for the Haughton river weirs.
BRIA's recommended approach will put in place a process that ensures irrigators below the diversion point from the channel into the Haughton river (Haughton Zone A), only pay the costs of the water delivered from the channel, and allows Zone A/GBA customers to access any additional supply that can be effectively utilised from the Haughton river, free of any charge from SunWater.

SunWater would compare the annual metered diversions from the channel system into Zone A/GBA with the annual metered water use by Zone A/GBA customers. Diversions in excess of customers usage would not attract a volumetric charge. All usage in excess of diversions would be deducted on a pro-rata basis from Zone A/GBA customers usage, with accounts for the final quarter invoice for the water year adjusted accordingly.
This tariff arrangement dispels any notion of Zone A/GBA irrigators being deprived of non-channel supply as they are only paying the volumetric charge for water diverted from the channel distribution system into the Haughton river.

Example:
ZONE A/GBA ANNUAL

- *Total metered diversions = 30,000ML*
- *Total metered customer usage = 40,000ML*

Therefore, SunWater is required to recover the cost of supplying 75% (30,000ML) of customers' total usage (40,000ML)
This would leave 25% (10,000ML) of customer usage that would not attract a volumetric tariff (Part B and D) from SunWater

This would be adjusted on an individual customer's final quarter invoice (Volumetric Part B and D) as below:

- *Annual metered usage = 800ML*
- *Annual usage after 25% adjustment = 600ML (800 – 200)*
- *Usage already paid in 3 quarterly invoices (July to March) = 550ML*
- *Usage in fourth quarter = 250ML*
- *Invoice for fourth quarter after 25% adjustment = 50ML (250-200) x Tariff (B and D)*