QUEENSLAND FARMERS' FEDERATION
Primary Producers House, Level 3, 183 North Quay, Brisbane QLD 4000
PO Box 12009 George Street, Brisbane QLD 4003
qfarmers@qff.org.au | 07 3837 4720
ABN 44 055 764 488

Submission

4 November 2019

Professor Flavio Menezes
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Via online: https://www.qca.org.au/submissions/

Dear Professor Menezes

Re: Queensland Competition Authority (QCA) irrigation price investigation 2020-24

The Queensland Farmers' Federation (QFF) is the united voice of intensive, semi-intensive and irrigated agriculture in Queensland. It is a federation that represents the interests of peak state and national agriculture industry organisations, which in turn collectively represent more than 13,000 farmers across the state. QFF engages in a broad range of economic, social, environmental and regional issues of strategic importance to the productivity, sustainability and growth of the agricultural sector. QFF's mission is to secure a strong and sustainable future for Queensland farmers by representing the common interests of our member organisations:

- CANEGROWERS
- Cotton Australia
- Growcom
- Nursery & Garden Industry Queensland (NGIQ)
- Queensland Chicken Growers Association (QCGA)
- Queensland Dairyfarmers' Organisation (QDO)
- Australian Cane Farmers Association (ACFA)
- Flowers Australia
- Pork Queensland Inc.
- Queensland United Egg Producers (QUEP)
- Queensland Chicken Meat Council (QCMC)
- Bundaberg Regional Irrigators Group (BRIG)
- Burdekin River Irrigation Area Irrigators Ltd (BRIA)
- Central Downs Irrigators Ltd (CDIL)
- Fairbairn Irrigation Network Ltd
- Mallawa Irrigation Ltd
- Pioneer Valley Water Cooperative Ltd (PV Water)
- Theodore Water Pty Ltd.

QFF welcomes the opportunity to provide comment on the QCA's irrigation price investigation 2020-24. We provide this submission without prejudice to any additional submission from our members or individual farmers.

Background

QFF represents intensive agriculture, a sector that makes a major contribution to Queensland's state and regional economies and employment. This sector – which includes sugarcane, cotton, production horticulture (fruit and vegetables), lifestyle horticulture (nursery and garden) and intensive animal industries, and had a farm gate value of $7.7 billion in 2017-18[1] to the Queensland economy – uses water to generate world leading, high quality produce servicing local and world markets. Maintaining and growing the quality and reach of this sector is dependent on these industries remaining competitive.

For many of our stakeholders, water is a critical input cost. There is a high dependence on supplemented irrigation, particularly as the frequency and length of drought conditions across the state increases. While the current, protracted drought conditions continue, and drought reform processes are underway, irrigators remain highly uncertain about their future – and their capacity to pay for irrigation water. This discussion needs to be front of mind as QCA continues to make decisions that affect water affordability and utilisation. Queensland producers can only continue to operate when the cost of irrigation is cost recoverable through productivity.

Key concerns

1. Dam safety upgrades, Dam Improvement Program (DIP)
    a. QFF does not support including dam improvement costs in the water pricing pathway. DIP is a community cost, driven by government requirement.
    b. QFF recommends that both government and community pay for DIP.
2. Inspector-General Emergency Management (IGEM)
    a. QFF recommends that QCA review the allocation of costs, and uses a beneficiary pays approach for the IGEM costs. This is clearly a government cost driven by a government requirement.
3. Cost of review
    a. QFF recommends the cost of the review be across all water allocation entitlements (WAE) not just irrigation WAE.
4. Electricity
    a. This is part of the proposal QFF and SunWater are working through, and have provided a separate, joint submission.
    b. QFF recommends that QCA consider the electricity pass through method which includes the allocation of true fixed and variable costs and an annual balancing.
5. Reviews during price path (revenue and cost risks)
    a. QFF does not support reviews during the price path. Mechanisms already exist to manage interim cost risks intra-review period, with the exception outlined below.
6. Insurance costs
    a. QFF questions whether the insurance costs have been reviewed correctly and strongly recommends QCA reviews insurance costs with the reduction in asset base taken into consideration.
7. Access charges
    a. QFF supports the access charge approach if it does not have a net cost impact on each scheme and individual schemes retain the ability to opt out.
    b. QFF does however question the SunWater cost of maintaining a customer account, as it appears comparatively high.

Further explanations and justifications on each of these issues are provided below.

[1] Extrapolated from data accessed from the Queensland Government Statistician's Office, **Agriculture: Gross value of production by commodity, Queensland, 1984–85 to 2017–18 (table)** https://www.qgso.qld.gov.au/statistics/theme/industry-development/agriculture/value

1. Dam Improvement Program (DIP)

The revised dam safety upgrade program has been reduced for the price path from $385.7 million to $41.9 million. While it is appreciated that the cost of the program has been substantially reduced, it remains the intent of QCA to include dam improvement costs in the price pathway, which QFF does not support. Further QCA's proposed costs are based on 50% of the preliminary business case costs. Historically, SunWater projects have delivered overbudget, with existing examples suggesting costs extending to 150% of preliminary business case projections.

While QCA has attempted (through the review process) to establish the difference between a formal and informal flood mitigation public benefit of a dam, we would suggest this has been prepared with limited information or knowledge. QFF contends that whether a flood mitigation benefit is formally recognised or not, the public benefit is utilised over time, and most frequently drives the need for the dam safety upgrades. Dam mitigation benefits are typically sought post dam development; therefore, the dam is not necessarily built fit for purpose.

Some examples of this are:

- Urban development (driving requirement, local government)
- Road bridges (advantage through reduced costs, state and local government)
- Roads across flood plains (advantage through reduced costs, state and local government)
- Rail Bridges (advantage through reduced costs, Aurizon and state government)
- Mines on flood plains (greater access to minerals with more royalties to state government and bigger profits to large companies. This is also driving employment and urban development which in turn is driving requirement for DIP)
- Reductions in insurance premiums and payouts (communities, state and local government).

The allocation methodology proposed by QCA to address informal flood mitigation benefit is confusing. QCA has recommended that the general allocation ratio for dam safety upgrade capex should allocate 80% of the irrigation share of these costs to irrigation water users, while the remaining 20% should not be included in the allowable cost base for irrigation pricing purposes. The 80/20 rule needs to be clarified. QCA has presented the numbers as irrigation, not lower bound, making it very confusing. Has all the Water Allocation Entitlement (WAE) been given the 80%, not just the irrigation WAE?

There is no real explanation on the 80/20 application, other than it came from IPART. However, the IPART ruling only applies to infrastructure built after 1997. Therefore, 80% of 0 is still 0.

The IPART ruling continues to treat the costs of bringing pre-1997 assets up to 1997 dam safety standards as legacy costs. These costs are not reflected in water pricing.

The draft QCA report states *"It is QCA's understanding that IPART's approach to legacy costs reflects a need to bring pre-1997 assets up to 1997 standards, and its previous decision to write infrastructure asset values down to zero as at 1 July 1997. We consider that the circumstances in Queensland are different to those in New South Wales, as the Queensland water businesses' proposed dam safety upgrades are primarily required to maintain compliance with dam safety obligations, rather than address historical issues of non-compliance. The Queensland Government also took a different approach to determining the opening infrastructure asset values, which did not involve writing down those values to zero."*

There is inconsistency in this logic, and QFF seeks clarity. Is QCA claiming that all dams in NSW built before 1997 were and have been non-compliant from the time they were built? Further, is QCA claiming that because Queensland has not written down asset values for dams that somehow this has an impact on why we should have a different ruling on dam safety upgrades?

The draft QCA report also states *"QCA considers that our general approach in previous reviews is an appropriate foundation for developing an approach to apportioning dam safety upgrade capex in the irrigation water pricing context. Dams in Queensland have generally been built for the primary purpose of supplying water to users. In order to provide that service, the water businesses must comply with a range of regulatory obligations, including dam safety requirements. It is our understanding that those dam safety requirements are the primary driver for the planned dam safety upgrades."*

QFF challenges QCA's assertion that *"Dams in Queensland have generally been built for the primary purpose of supplying water to users"*. Most dams in Queensland were built to stimulate growth and community resilience. While Hansard can be extensively referenced to support this supposition for each dam in Queensland, Queensland Government September 2019 statements, relating to water releases from Paradise Dam, continue to highlight the 'greater public good' that government clearly views as a critical function forms of dams in regional communities.

QFF believes the cost of the DIP is a community cost, driven by government requirement and recommends that both government and community pay.

QFF recognises there has been a genuine effort to reduce the DIP costs for this price path. However, its inclusion would set a policy precedent for future price paths. It would be inappropriate for QCA or the Queensland Government to expect water users to incur major cost items like DIP without full and transparent scrutiny of the cost and requirement for. It is QFF's view that this pricing review has not provided enough scrutiny or justification of the cost and requirement for DIP.

2. Inspector-General Emergency Management (IGEM)

There is some confusion regarding the allocation of costs between irrigation and other water users throughout the draft pricing review. This is also the case for IGEM costs. QFF requests answers to:

- What allocation method is used to establish the irrigation share?
- QCA appears to be confusing lower bound prices and irrigation prices. Is it the same allocation method for IGEM costs across all WAE?

This statement from QCA regarding IGEM costs requires further explanation: *"QCA considered that the purpose of the recommendations is to minimise harm to downstream communities as a result of dam outflows that are directly related to the operation of the dam during flood events."* QFF also requests answers to:

- Who would be covering the costs if the dams/weirs were not in place as the floods would be more regular and, in most cases, larger?
- Can water users be held responsible for downstream development after the dams were built. If so, what does that mean for any new dams?
- There is a lot of confusion within the QCA report between formal and non-formal flood control. The real question should be whether the dam reduces flooding impacts downstream or not? Has development downstream taken advantage of this reduced impact and therefore added to the requirement for the IGEM costs?
- Why has there been no consideration given to the large costs already being passed onto water uses through the continued operation and maintenance of gauging stations throughout the schemes which is the primary source of information being used during all flood events and the IGEM program?

QFF recommends that QCA review the allocation of costs, and uses a beneficiary pays approach for the IGEM costs. This is clearly a government cost driven by a government requirement, falling into a similar category as DIP costs, and cannot be allocated to irrigators.

3. Cost of review

QCA has stated it has allocated shared regulatory costs or fees relating to this investigation based on irrigation water entitlements (ML held by irrigation customers in each of the water supply schemes specified in the referral).

The cost of the review should be across all water users as the cost reflective lower bound price is used as a building block for all WAE. Once again there is confusion between lower bound prices across all WAE and irrigation prices.

There is no doubt that the prices established from this review will be used for the purposes of setting urban and industrial prices over the term of this price path, whether they are called irrigation prices or lower bound prices. It is government policy that lower bound price is one of the building blocks that must be used to set water prices.

QFF recommends the cost of the review be across all WAE not just Irrigation WAE.

4. Electricity

QCA has allocated the electricity costs in bulk water supply schemes (excluding Barker Barambah and Upper Condamine WSS) to fixed costs.

For distribution schemes, the electricity cost estimates have been done by using an average water use with an average electricity use over the same period (last 5 years), calculated in 2019-20 base year electricity costs between fixed and variable costs based on the fixed and variable nature of the underlying tariff components, converted to 2019-20 base year electricity costs in $/ML.

QFF believes a better methodology will lead to greater transparency if irrigators can directly understand the true fixed cost of electricity in distribution schemes. This is part of the proposal QFF and SunWater are working through, and will provide a separate submission, reflecting where in the process both parties have reached agreement. QFF does however recognise that a number of stakeholders throughout regional Queensland have yet to fully understand and interact with this proposed approach.

QFF recommends that QCA consider the electricity pass through method which includes the allocation of true fixed and variable costs; however, recognising that further consultation and dialogue is required to ensure that stakeholders are sufficiently informed and engaged. The tight timeframes of the review period should not override the opportunity to provide greater good for all stakeholders, particularly one that has been driven by stakeholders.

5. Reviews during price path (revenue and cost risks)

QCA has recommended addressing cost risks by using within-period reviews or price adjustments (if the risk is material) or an end-of-period revenue adjustment (if the risk is not material). Irrigators cannot be asked to pay $2.5 million on a pricing review for only a 4-year price path, when any cost variation during the 4 years can be reviewed and reflected to a new water price.

QCA must also consider that a very large percentage of the costs already have a pass-through mechanism (renewals annuity). SunWater and QFF are also working on a proposal for this to be extended to electricity. Considering there are existing mechanisms to manage cost risks intra-review period, QFF does not see the need for any in-period or at the end of period adjustments, out-side of renewals and electricity costs. QFF does not support reviews during the price path.

There is one notable exception that some QFF members have requested be included. That is, the recalculation of HUF for the Pioneer River Water Supply Scheme based on review of the IQQM, that DNRME has advised will occur during the next pricing period (see box below for further context).

Recalculation of HUF for the Pioneer River Water Supply Scheme

The Pioneer River Water Supply Scheme is currently not operated in accordance with initial hydrologic modelling for the catchment, resulting in reduced system yield and inefficient use of the resource. This has come about due to both initial operational parameters not being matched by infrastructure capability (lack of capacity through Marian Weir), and by changes to infrastructure since initial modelling (reduced release flexibility at Palm Tree Creek Outlet and removal of inflatable rubber dams from Dumbleton and Mirani Weirs).

The recalculation of the HUF as part of the current pricing review does not reflect these changes in system yield, as it relies on original IQQM modelling. Critically, system yield impacts are felt by irrigation users and needs to be reflected in the HUF so that the cost sharing arrangement remains equitable. Importantly changes to the HUF do not impact overall revenue for SunWater and are therefore not passed through to the Annuity. This means that a reduction to the HUF for irrigation mid-price path needs to be reflected in a change to water charges, or irrigators will be paying more than their share for the balance of the price path, with no opportunity for recovery.

Pioneer Valley Water has been informed by DNRME that review of the IQQM model will occur as part of review of the PRWSS ROP imminently. Pioneer Valley Water would like to see the ability for a pricing change mid-price path to reflect changes to the HUF resulting from review of the IQQM model for the PRWSS.

6. Insurance costs

QCA has allowed for a 10% increase in insurance costs from SunWater's November 2018 submission. This 10% increase occurred, despite three distribution schemes moving across to local management. QFF questions whether the insurance costs have been reviewed correctly and strongly recommends QCA reviews insurance costs with the reduction in asset base taken into consideration.

7. Access charges

QFF and SunWater have worked together to develop an access charge method that reflects the cost of maintaining a customer water account. This cost has come in at close to $1,000 per year per customer account.

QFF supports the access charge approach if it does not have a net cost impact on each scheme and is supported by individual schemes. QFF does however question the prudency and efficiency of SunWater costs in maintaining a customer account.

Should you have any further queries arising from this submission, please contact Sharon Denny on (07) 3837 4728 or email: sharon@qff.org.au.

Yours sincerely

Travis Tobin
Chief Executive Officer