

Rural Irrigation Price Review 2020-24

Submission to the Queensland Competition Authority

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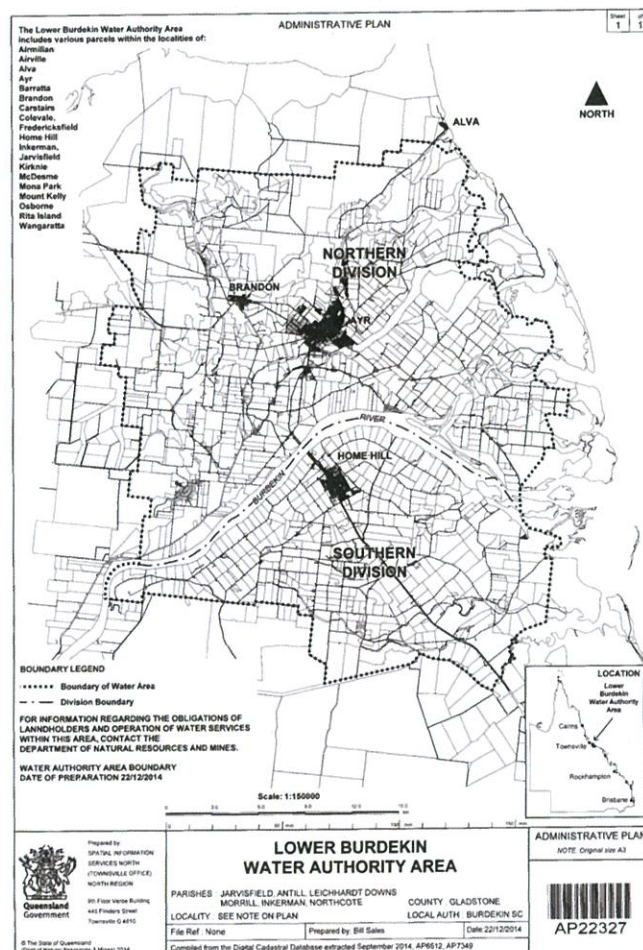
Overview

1. This submission is made on behalf of Lower Burdekin Water to the Queensland Competition Authority (“**the QCA**”) in respect of the Rural Irrigation Price Review 2020-2024 (“**the Review**”).

Background

2. Lower Burdekin Water (“**LBW**”) is an amalgamation of the former North and South Burdekin Water Boards. Operating in the Burdekin area in North Queensland, LBW is an autonomous statutory groundwater resource management authority responsible for the economic and environmentally sustainable management of the groundwater resource within its authority area. LBW is SunWater’s largest customer in the Burdekin Haughton Water Supply Scheme.

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3. LBW is a category-two water authority for the purposes of the *Water Act 2000* (Qld), holds a distributions operations licence and is a water service provider for the purposes of the *Water Supply (Safety and Reliability) Act 2008* (Qld).

4. LBW holds various water allocation entitlements (WAEs) through which it accesses water from the Burdekin River. These WAEs, totaling 255,000ML, are utilised by LBW throughout its authority area for LBW's statutory purpose of aquifer replenishment and to service supply needs for agriculture and industry in the Burdekin region together with the urban needs of the townships of Brandon, Ayr and Home Hill.
5. LBW manages Australia's largest coastal aquifer recharge system to carry out its replenishment activities for the primary purpose of managing the saltwater interface between the Burdekin Delta and the coastal fringe. Throughout its authority area of more than 75,0000 ha, LBW currently has 320 km of pipelines and constructed channels, six river pump stations, 12 re-lift pump stations, natural lagoons, artificial aquifer re-charge pits, road culverts, inverted siphons, fish ladders, earth bunds and control gates and structures.
6. LBW currently services 417 ratepayers including the Burdekin Shire Council. The distribution of water to irrigators and customers through the distribution system compliments LBW's water replenishment activities in addition to providing water for a thriving agricultural industry and local communities. LBW is operated on a not-for-profit basis on behalf of our customers with surplus revenue being reinvested into infrastructure renewal and improvement programs.

Pre-Dam Water Allocation Entitlement

7. LBW holds water allocation entitlements totaling 185,000ML ("**the Pre-Dam Allocation**") which is supplied free by SunWater Ltd ("**SunWater**") and for which SunWater receives funding under a community service obligation. The current CSO will expire prior to implementation of the 2020-2024 price path.
8. Previous assessments of the treatment of this Pre-Dam allocation have consistently found that LBW should not incur any charges related to this allocation.
9. The referral and direction notice gazetted 2 November 2018 ("**the Referral Notice**") expressly excludes the cost of SunWater supplying the 185,000ML to LBW from the recoverable costs to be included when calculating the prices applying to the remaining water allocation entitlements.¹
10. SunWater have indicated that they expect the CSO to continue by the inclusion of the

¹ Paragraph G of Schedule 2

arrangement in their regulatory model.² This is consistent with LBW's position and expectation of this current pricing review.

11. However, if the CSO does not continue, the cost of supplying the Pre-Dam Allocation would result in the tripling of LBW's SunWater costs (bringing it to the equivalent of 39% of LBW's total costs of business in 2017-18).
12. LBW is not in a position to absorb the additional costs as a non-for profit business, the only course of action would be to increase charges to its ratepayers and customers by 22%.
13. LBW submits that the Pre-Dam Allocation should continue to be supplied without charge to LBW. In support of its submission, LBW relies upon:
 - (a) The QCA Final Report SunWater Irrigation Price Review: 2012-17 ("**the 2012 Price Review**") which acknowledged:
 - (i) that Government policy as at the 2006 price path review³ stated that free water allocations represented pre-existing entitlements and were a condition precedent to the schemes in which they occur;⁴
 - (ii) the Government policy stated above continues to apply;⁵
 - (b) SunWater's submissions to the QCA in the 2012 Price Review that:
 - (i) free water allocations should be considered on the basis of their original intent;⁶
 - (ii) the proposed criteria on which to base the assessment which included:

*"(b) compensation arrangements: these relate to agreements where an entity held a pre-existing right to water which needs to be preserved as a condition of the storage development or as a legislative or policy requirement.";*⁷

² SunWater: Irrigation Price Review Submission 1 July 2020 to 30 June 2024 dated 6 November 2018 ("**SunWater's Submission November 2018**"), p72; Irrigation Price Review Submissions Appendix I Pricing Arrangements for irrigation customers dated 6 November 2018, p13

³ SunWater Irrigation Price Review 2005-2006 Tier 1 Report, April 2006 p77

⁴ 2012 Price Review Volume 1, May 2012 p91

⁵ As evidenced by paragraph G of Schedule 2 of the Referral Notice

⁶ 2012 Price Review Volume 1, May 2012 p91

⁷ 2012 Price Review Volume 1, May 2012 p91

- (iii) free water allocations arising from compensation agreements should be considered a cost of the scheme's development.⁸
- (iv) SunWater had concluded that free water allocations were delivered as a result of a compensation arrangement, as distinct from a commercially negotiated water supply arrangement.⁹

and concluded that:

"(b) for compensation arrangements, the pre-existing rights to free water should be maintained where they are the result of an existing agreement or as part of a current legislative or Government policy."

- (c) In Volume 2 of 2012-17 Price Review, the QCA further dealt with the Burdekin Haughton Water Supply Scheme's "free water allocations", referring to:
 - (i) SunWater's conclusion that the receipt of the free water allocations was as a result of a compensation arrangement, as distinct from a commercially negotiated water supply arrangement;¹⁰
 - (ii) the then Boards' submissions regarding:
 - (A) the cost effects of removing the Pre-Dam Allocation and the significant financial risks to LBW and its customers;
 - (B) the need for the entitlements to realise its natural resource management objectives in relation to the groundwater aquifer; and
 - (C) inconsistency of the loss of the Pre-Dam Allocation with State objectives for the management of the aquifer.¹¹
 - (iii) The QCA goes on to recommend that there be no charge for the Pre-Dam Allocation.

14. In LBW's submission the CSO now provided by government further supports its position that the Pre-Dam Allocation should remain non-chargeable to LBW.

⁸ 2012 Price Review Volume 1, May 2012 p91

⁹ 2012 Price Review Volume 1, May 2012 p92

¹⁰ 2012 Price Review Volume 2 Burdekin Haughton Water Supply Scheme, April 2012 p17

¹¹ 2012 Price Review Volume 2 Burdekin Haughton Water Supply Scheme, April 2012 p17

15. LBW would also appreciate the opportunity for a briefing on the detailed approach to the treatment of the Pre-Dam water within SunWater's regulatory pricing model and any QCA determination.

Burdekin Falls Dam Safety Upgrade Program

16. The Burdekin Falls Dam is the primary water storage facility for the Burdekin Haughton Water Supply Scheme ("**the BHWSS**") and in combination with downstream weirs and pump stations, regulates river releases to supply water to Burdekin Distribution, townships and the Burdekin Moranbah Pipeline.¹²
17. SunWater submits that its Dam Improvement Program, amongst other things responds to state and industry guidelines, including the regulatory obligation to progressively complete safety upgrades in accordance with the Queensland Government's Guidelines on Acceptable Flood Capacity for Water Dams ("**the Guidelines**").¹³
18. The Guidelines present the Queensland Government's flood adequacy standard implementation policy against which all referable dams in Queensland are to be assessed. The Burdekin Falls Dam is a referable dam. The appropriate method for the Burdekin Falls Dam is a risk assessment procedure, incorporating the 'as low as reasonably practicable' principal.
19. From a review of SunWater's Emergency Action Plan – Burdekin Falls Dam July 2018 it appears SunWater conducted a Burdekin Falls Dam Impact Assessment in June 2017.¹⁴ The impact assessment report does not appear to be publicly available. It is unknown whether this report is the basis for the proposed safety upgrade. Without the assessment report upon which the safety upgrade project parameters are based it is not possible to determine whether any proposed safety upgrades meet a rigorous prudence or efficiency test.
20. While the Emergency Action Plan outlines potential inundation maps from a dam failure, no quantitative assessment of human or economic costs is presented, and no formal cost-benefit analysis is undertaken. Given the significant capital cost of the proposed upgrades, surely a robust, detailed and transparent assessment is required before any decision is made. If such an assessment has been conducted the report should be disclosed.

¹² SunWater Limited Asset Management Plan – Burdekin Supply – Service Contract ABB Financial Years 2019 to 2024 October 2018 ("**Burdekin Supply AMP**") [2.1] p4

¹³ SunWater's Submissions November 2016 [4.5] p52

¹⁴ [3.2] p13

21. The information in respect of the regular risk assessments, the underlying assumptions underpinning the risk assessment or the options considered by SunWater in respect of the scope of the proposed works, including information such as:
- (a) whether the safety upgrade is a requirement of current infrastructure and capacity or a requirement for the proposed upgrade; or
 - (b) the benefits to be derived by the community, irrigators and other industry from the proposed upgrade

has not been provided for consideration.

22. LBW agrees with the position stated by other irrigation customers as set out by SunWater's submission to the effect that "*the QCA needs to fully consider the potential implications on customers when developing an appropriate approach for apportioning this expenditure*".¹⁵ Such implications should include a consideration of the effect of the apportionment on water prices and the customers' ability to remain financially viable. Again without the information referred to above such consideration is impossible.
23. SunWater indicates that the current dam improvement expenditure forecast for the Burdekin Falls Dam is in excess of \$340,000,000 over the next price path.¹⁶ No analysis of the proposed expenditure is provided.
24. LBW receives no government funding and is funded solely by revenue raised from its ratepayers and customers. Operating on a commercial cost recovery basis, LBW reinvests annual surplus revenues into activities that enhance service delivery and its asset renewal program. There is no surplus in LBW's budget to absorb the cost of the safety upgrade which will need to be passed on to LBW's ratepayers and customers. Therefore, the apportionment of the costs for the proposed safety upgrade will have a significant impact upon LBW and its ability to meet its environmental obligations and to service its ratepayers and customers.
25. However, before apportionment is considered, whether the proposed safety upgrade is economically viable must be first determined. It is instructive to consider the potential financial impost on customers from allowing SunWater to recover the total capital returns from users only (total capital returns peak at \$14.03 million in 2024 for the

¹⁵ SunWater's Submissions November 2016 [6.9] p75

¹⁶ SunWater's Submissions November 2016 Table 4.1 p52 c/f \$357,000,000 for the safety dam upgrade set out in the Burdekin Supply AMP Table 6 p20

Burdekin). Assuming capital returns are allocated between high and medium priority users based on the HUF, and the proportion of costs to medium priority users is allocated based on WAE, the financial impacts on LBW are significant. For example, even assuming that LBW's contribution was based on post-dam WAE only, LBW's share of total capital returns in 2024 could be around \$790,000, requiring a 10% increase in our charges to customers to recover these costs. If the basis for cost sharing also incorporated the pre-dam WAEs, LBW's share of the total capital returns in 2024 could be around \$2.9 million, requiring an increase of 36% in our charges.

26. The Burdekin Haughton scheme is primarily a cane growing region. A further consideration is that past dam improvement works have been completed in areas where cane crops are grown without the cost be imposed upon to them. The proposed cost impost upon cane growers within the BHWSS creates an inequity for those growers when competing with cane growers in other areas where the dam improvements have been completed and the same cost imposition.
27. In the event that the safety upgrade is to proceed then LBW submits that the costs should not be borne solely by purchasers of water. The safety upgrade benefit is to a much broader base including land owners further downstream, Government (through protection of government assets such as road and rail systems), flood mitigation for downstream communities and the environment through increased protection from any subsequent sediment inflow to the Great Barrier Reef in a flood event. LBW submits that these costs are a community cost and should not be apportioned solely to irrigators.
28. The QCA has requested that, where possible stakeholders should provide detailed arguments and evidence to support their views.¹⁷ Presently there is insufficient information regarding the proposed safety upgrade and the cost of same for it to present the QCA with detailed submissions outlining its position. Disclosure of the risk assessment setting out the basis of the requirement for the safety upgrade and detailed costings are required so that the information can be properly considered and reviewed.
29. As set out above LBW has insufficient information to otherwise respond to the factors identified by the QCA in paragraph 2.4.4 of the Review.

Dam Capacity Upgrade

30. SunWater is currently preparing a business case for an upgrade of the Burdekin Falls

¹⁷ QCA Rural Irrigation Price Review 2020-24: apportionment of dam safety upgrade costs [1.2] p2

Dam to increase its capacity by up to 30% (“**the Dam Capacity Upgrade**”).¹⁸ The proposed disclosure will ensure transparency in respect of those works required for the safety upgrade.

31. LBW’s position in respect of the apportionment of the costs of the Dam Capacity Upgrade is that they are either a community cost or capital costs recoverable from the sale of future water allocation entitlements. This is supported by SunWater’s identification that no growth or future demand related projects have been identified for the Burdekin Distribution service contract.¹⁹
32. Consideration should also be given to whether there is cost mitigation in combining the safety upgrade works with the Dam Capacity Upgrade.

BHWSS Bulk Water

33. SunWater sets out the two part tariff system methodology for irrigation prices in its Irrigation Price Review Submission Appendix I – Pricing arrangements for irrigation customers,²⁰ for convenience we adopt that explanation:
 - *Fixed tariffs – also known as Part A tariffs (in bulk water supply schemes) and Part C tariffs (in distribution systems) – are paid according to the amount of water access entitlements held by irrigators. These tariffs are “fixed” to the extent the volume of water allocation held by the customer, regardless of their actual use in the year, does not change. However, the fixed charges will vary between customers based on their water access entitlement.*
 - *Volumetric tariffs – also known as Part B tariffs (in bulk water supply schemes) and Part D tariffs (in distribution systems) — are charges paid per megalitre of actual water used by the customer, measured at the meter or ‘offtake’.*
34. Part C and D tariffs are paid by customers of SunWater’s distribution scheme for the costs of the supply of that water through SunWater’s channel system to them.
35. The methodology above allowed for transparency in the pricing of water applied to water allocation entitlement holders who take water from the Burdekin River as opposed to those who take water from SunWater’s distribution scheme. Part C and D tariffs allowed SunWater to recover the costs associated with its distribution scheme

¹⁸ Ryan, D; Gillespie, S; 2009. The Raising of the Burdekin Falls Dam. *ANCOLD Proceedings of Technical Groups*

¹⁹ Burdekin Supply AMP [3.3] p20

²⁰ Dated 6 November 2018

on essentially a “user pays” principal.

36. Part A and B tariffs were historically charged at the same rate for both water allocation entitlement holders and SunWater distribution scheme customers.
37. In 2016, SunWater adjusted Part A tariffs for its distribution scheme customers, reducing the cost to “lower bound” and increasing the Part C cost. SunWater has offset the revenue from its distribution customers for Part A that is above lower bound (\$9.00ML) against their Part C distribution tariff. Whilst other bulk water customers are required to continue to pay the prevailing price, being \$9.30 above an actual cost reflective lower bound cost. This adjustment by SunWater has reduced the transparency of its charging methodology for bulk water supplied from the Burdekin River. LBW’s position is that there should be one Part A tariff for bulk water in the BHWSS.
38. The Referral Notice at Schedule 2 paragraph E refers to distribution systems where Fixed (Part A) and Fixed (Part C) prices are applicable and by paragraph i. proposes that Fixed Part A, where it is above the initial cost reflective Fixed Part A price, should be reduced to the cost reflective Fixed Part A price. However, paragraph iii, requires a consideration of the prevailing Fixed Part A and Part C such that to be added for the purposes of calculating whether the price is above the initial total cost reflective Fixed (Part A and Part C) price.
39. The Referral Notice proposed that the two tier system for Fixed Part A pricing is to continue over the next price path.²¹
40. In the 2012 price path the Government directed that where prevailing prices were above lower bound that they would be maintained until they reached lower bound. The proposed methodology for distribution systems allows the offsetting of any funds paid by distribution scheme customers for Part A charges against any under recovery on the Part C charges.
41. LBW submits that the transparency of a single Fixed Part A charge to all customers of the BHWSS is preferable to the proposed combination.
42. If a two-tier system is to be maintained, then the calculation for the combination of the Fixed Part A and Part C charges should be published for consideration and comment.

²¹ Referral notice Schedule 2 Paragraph E

Recreational use

43. Section C(1.3) of the Referral Notice provides that costs associated with the provision of recreation facilities that are to be incurred by the businesses from 1 July 2020 onwards that would not otherwise be incurred to supply water, are not to be included unless the QCA is satisfied there is customer support for these costs to remain included.
44. In principal LBW is supportive of the exclusion of the costs associated with recreation facilities by the QCA when recommending appropriate prices under the Referral Notice. However, scrutiny must be applied to those costs which are allocated as “recreational”. For example, the costs of the Burdekin Fall Sewerage Treatment Plant works are currently in the annuities program. These are recreational costs and should be excluded.

Transparency

LBW submits that there is a need for transparency throughout the review process to ensure that all costs considered and included by the QCA when determining the prices to be recommended under the Referral Notice are clear so that they can be properly considered, and appropriate submissions made. For example:

- (a) **Annuities** - The methodology and effectiveness of SunWater’s annuities should be examined. The opportunity should be taken to assess performance of SunWater’s asset management system with a focus on examining both past and future costs to be allocated against projects to ensure that the works and associated costs are being managed in a cost-effective manner with a view to progressing proposed projects to actual asset renewal works with the minimum practicable preliminary costs.
- (b) **Annuity Charges** - The annuity charges for the bulk water substantially increase over the proposed 2020-2024 price path. The upgrade of the Clare Weir hydraulic gates is a significant driver of the increase. The function of the hydraulic gates is to increase the upstream pool height to improve pumping performance and reducing energy consumption of SunWater’s Tom Fenwick Pump Station. The only beneficiary of their function is SunWater and its distribution customers. LBW’s position is that the costs associated with upgrades of the existing infrastructure should be apportioned to the beneficiaries of those upgrade works.
- (c) **Insurance** - SunWater has indicated that insurance costs will increase. Evidence

should be provided that the insurance program is being managed cost effectively with only insurable assets being insured. Claims need to be managed effectively and resolved in a timely manner to ensure recovery is maximized.

- (d) **Inspector General Emergency Management** – These costs are captured in indirect costs apportioned to irrigators. Irrigators receive no benefit from these services. The services are provided for the benefit of the broader community and should not be apportioned to irrigators.
- (e) **Local Area Support Costs** – The costs attributed to this cost centre should be disclosed for transparency. Without a cost analysis LBW is unable to comment on the appropriateness of the costs being apportioned.
- (f) **Flood Monitoring and Reporting Costs** – These costs are, by Government directive, to be apportioned to irrigators. LBW submits that this is inappropriate in circumstances where the monitoring and reports are for the benefit of the broader community. These costs should be excluded from those costs apportioned to irrigators.



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30 November 2018