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Submission

3 December 2018

Mr Darren Page
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Via email: http://www.qca.org.au/Submissions/Irrigation-Pricing-Review

Dear Mr Page

Re: Rural irrigation pricing review 2020-24 - Issues

The Queensland Farmers' Federation (QFF) is the united voice of intensive 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 primary producers 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)
- Bundaberg Regional Irrigators Group (BRIG)
- Burdekin River Irrigation Area Irrigators Ltd (BRIA)
- Central Downs Irrigators Ltd (CDIL)
- Pioneer Valley Water Cooperative Ltd (PV Water)
- Queensland Chicken Meat Council (QCMC).

QFF welcomes the opportunity to outline issues of importance for the pricing investigations and provides this submission without prejudice to any additional submission provided by our members or individual farmers.

QFF would like to see a review of costs in the following areas:

Renewals Annuity

There is a significant jump in the renewals annuity across all schemes which raises questions about SunWater's capability to manage the spend on projects as part of their asset management system. SunWater is allowing overspend to be passed through from price path to price path with no rigorous assessment of cost efficiency in the implementation of the asset management program. For example, there is no assessment of the performance of the program against past forecast annuity balances provided by QCA. There is also evidence that forward planning and project investigation costs are very high and don't take into account the value of projects being delivered.

The SunWater asset management system needs to be thoroughly investigated and assessments made of categories of projects which show significant cost increases in the current price term.

Insurance costs

Insurance costs are increasing. SunWater needs to provide evidence that their insurance program is delivering cost efficiencies. For example, analysis to ensure only insurable assets are being insured. In addition, is action being taken to reduce the escalation in the costs of repairs as this would be driving up insurance costs. There have been significant costs from floods in many schemes. It would be timely to investigate the performance of the insurance program including progress with the recovery of costs from insurers. There is also a need to reconsider opportunities for self-insurance which were investigated in the local management reviews. All outstanding insurance claims need to be removed from the non-routine expenditure and impact they are having on the starting annuity balances.

Electricity

Electricity is driving up volumetric costs in many schemes. While these costs continue to be treated as a pass through allocated on the basis of water use, SunWater has little motivation to drive for efficiency gains. SunWater has indicated they are willing to assess actual electricity costs for pass through. They have suggested that modelling could be conducted to look at ways to ensure customers and SunWater are not adversely impacted by frequent movements in electricity prices.

The impact of treating electricity as a variable cost for direct pass through in volumetric tariffs (i.e. Part B and D tariffs) needs to be investigated for schemes with significant pumping costs. For example, the Eton scheme will struggle with this approach.

There are a number of schemes that face significant increases in volumetric charges as a result of the Queensland Government's direction to implement cost reflective volumetric charges (Part B and D tariffs). Transitional tariffs are required to manage this impact. This government direction will add to the difficulties customers are having coping with escalating electricity charges on farm. With the move to demand tariffs, electricity costs will have a fixed and variable component. QCA should investigate the need to ensure the fixed cost of electricity be treated as a fixed cost for prices (Part A & C tariffs).

Flood monitoring and reporting costs

In accordance with the Queensland Government's direction to QCA, SunWater is allocating their full costs of flood management including emergency action planning and monitoring and reporting seasonal flood events. While it is recognised that these flood management requirements are in response to the Inspector-General Emergency Management report, QFF proposes to challenge the Queensland Government's decision to make irrigation customers fully responsible for these costs. QFF submits that these services are for the benefit of the wider community.

Variations in Headworks Utilisation Factors

Changes to Headworks Utilisation Factors which allocate scheme costs between high and medium priority users are contributing to price increases for medium priority customers, particularly in some distribution schemes. Distribution customers also pay for the costs of distribution losses which are determined by high priority distribution losses. The assessment of these factors in distribution schemes such as the Nogoa Mackenzie need to be subject to expert review.

Recreation costs

QFF welcomes the Queensland Government's decision to exclude these costs from the irrigation pricing review. It is understood that these costs will be passed on to the wider community. The costs of providing for public recreation facilities and services has been increasing in many schemes. QFF submits that the approach to excluding these costs should be investigated to ensure that all costs for the provision and servicing of recreation demands are excluded for this and future pricing investigations.

For example, the costs for such items as upgrade and maintenance of water treatment services or investigations identifying underwater obstacles for boating activity are not costs that should be recovered from irrigation customers. Costs as part of upgrades to recreation areas so that they can be passed on to local councils should not be part of non-routine expenditure during the current or future price path.

Provisions for Dam safety

The Queensland Government has directed QCA to review water charges for irrigation customers in those schemes where it has been determined that dam safety work has to be undertaken. QCA is to investigate the proportion of dam safety upgrades capital expenditure that should be allocated to irrigators given that they (as direct water customers) and the broader community may 'contribute to the need for, or may derive benefits from dam safety upgrades.' This direction will involve the assessment of major investment projects where it is necessary to upgrade spillways, install spillway gates and undertake structural modifications including modifications of dam embankments. There are also other smaller projects across a number of schemes.

QFF will submit that these costs are a community wide responsibility and that the government direction to QCA to investigate the apportionment of costs for irrigation customers is premature.

Irrigation communities have limited knowledge of the dam safety projects and have not been given the opportunity to question and comment on the need for these investments. Now they are being asked to provide comment on whether they should be responsible for bearing a portion of the costs. The QCA discussion paper provides no detail on the projects only a list of schemes affected. The SunWater network service plans provide only annual cost recovery.

QCA cannot go ahead with an apportionment process without firstly scrutinising the need for and efficiency of the proposed works. QFF questions how QCA can proceed in the absence of detailed specification of works and costs and adequate dissemination of information on the projects to irrigation communities. QFF also questions how QCA can adequately investigate the impacts of these projects on costs and prices in each scheme.

QFF submits that it is not appropriate for QCA to respond to this brief unless they can engage all parties likely to affected including irrigation customers, local government customers and the stakeholders in the wider community in a process which provides comprehensive information about dam safety and the scheme projects and costs. A process of consultation on apportioning the costs of dam safety for only the irrigation customers of the schemes is not acceptable.

Distribution losses on bulk water costs

Increases in the costs of bulk water charges are impacting on the cost of distribution losses allocations in distribution schemes. QFF submits that only the efficient requirement of distribution losses be allocated to the distribution schemes. The efficient requirement should also include the requirement for high priority distribution allocations. Actual distribution losses requirements must be determined for each scheme.

Access charges

Water tariffs (fixed plus volumetric) do not recover the costs for providing supply for small users using 2ML/year or less. Larger users subsidise smaller users which can involve substantial contributions in some schemes. Data collected for the distribution schemes by the local management groups identified the significance of this issue.

QFF has had discussions with SunWater about how fixed access charges could be implemented.

Metering

Now that electricity costs are a more significant cost component, more attention should be given to the value of metering for distributing electricity costs and sharing the use of entitlements. SunWater has given insufficient attention to this issue probably because, in the last price path, metering only took up a small part of the costs (around 7%).

SunWater's forecasts of the costs of replacing meters across all schemes needs to be investigated. Forecasts of up to $25,000 per meter installation is excessive.

If these are the costs for implementation of metering reforms post the completion of these pricing investigations, it is fully expected that most schemes will face a very large blow out in renewals that will have to be addressed from 2024.

Review of costs allocation methods

The following allocation methods require review:

- Overheads
- Renewals annuity
- Electricity
- Labour
- Local area support and corporate support costs
- Fixed and variable costs
- Distribution losses allocations.

Scheme rules

Annual water use over the period 2002-03 to 2016-17 is being used to allocate volumetric costs which are increasing significantly in a number of schemes. Scheme rules can limit the water that is available in a scheme for customers' use. QCA needs to investigate whether the following scheme rules are unnecessarily limiting water use and therefore putting upward pressure on water prices:

- Carryover
- Distribution loss allocations
- Peak flow sharing and trading
- Announced allocations
- Seasonal transfers from bulk to distribution.

Impacts of setting prices

It is expected that there will be significant impacts in many schemes if cost reflective volumetric charges (Part B and D) are implemented from 2020-21. It is estimated that up to 11 service contracts will face immediate increases in prices to implement volumetric cost reflective tariffs and at least six of these will have to face immediate increases of over $8/ML. A few of these schemes will also be on transitional price increases well beyond the end of 2023-24.

These forecast prices will have impacts on the schemes and their customers. Prices to recover dam safety costs will have major impacts in some schemes.

QCA should provide an outline on how they would propose to assess the impacts of these pricing outcomes to give some guidance for the preparation of submissions to meet the 22 February 2019 deadline.

Any approach should include assessments of direct impacts of prices on schemes and customers. Also, there should be assessments of the cumulative impacts where customers are trying to cope with other increasing costs on farm such as electricity. These direct impacts will have flow on impacts for local and regional economies which need to be investigated. Urgent consideration needs to be given to identify data needs to undertake these assessments.

If you have any queries regarding this submission, please contact Ian Johnson at ian@qff.org.au.

Yours sincerely

Travis Tobin
Chief Executive Officer