



Advancing Australian Cotton

Submission

8 March 2019

Mr Charles Millstead
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

8-3-2019

Via email: <http://www.qca.org.au/Submissions/Water>

Dear Mr Millstead,

Re: Rural irrigation pricing review 2020-24

Cotton Australia is the peak body representing Queensland's 500 cotton farmers, who on average contribute approximately \$700-800 million (farmgate) to the Queensland economy.

Cotton Australia is a proud and active member of the Queensland Farmers Federation (QFF) and strongly endorses its submission on the "Rural irrigation price review 2020-24."

Cotton Australia is also aware that a number of regionally based organisations that are associated with irrigation and cotton production will be making submissions to this review, and Cotton Australia strongly urges the Authority to take full account of the matters raised in these submissions.

It is these submissions that should provide the Authority with the detailed insight into some of Sunwater's current costings and practices, and the impact that the proposed price increases are likely to have.

It is worth noting that cotton is primarily produced in Queensland in the Border Rivers, Condamine-Balonne, Darling Downs, Burnett, Dawson Valley and Central Highlands areas, with some current expansion into the Maryborough, Mareeba, Flinders, and Gilbert districts.

Cotton Australia also notes that over the past 12 months, two former Sunwater irrigation channel schemes have successfully transitioned to local management and ownership. The former Sunwater scheme at St George is now Mallowa Water, while the former Dawson Valley channel scheme is Theodore Water.

For both these schemes, cotton represents the dominant, but not exclusive, irrigated crop.

Further, Cotton Australia is delighted to have been advised just today, that the current Sunwater Channel scheme at Emerald has overwhelmingly voted to transition to local management later this year.

In terms of this review, Cotton Australia will rely on the detailed submission provided by QFF to the Authority. The QFF submission has highlighted the cross-the-state issues that must be addressed by the Authority. Following are a small number of key issues that Cotton Australia would like to reinforce.

Key Issues

Flood repair costs – It appears Sunwater has significantly drawn on Annuity Reserves to fund flood repair costs, and are now seeking to restore the required annuity balances through increased charges. It is absolutely essential that any flood repair costs that are rightfully covered by insurance (even if claims are yet to be finalised) are not deducted from the annuity balances.

Non-Routine Expenditure – QFF have identified a 112% blow-out in non-routine expenditure over the 2013-18 period. This is alarming in both its immediate impact, but it is also likely that forecasts for the new price path period have probably been inflated, and even those inflated figures are likely to blow-out further unless Sunwater exercises much greater discipline. QFF has highlighted the issues associated with the way Sunwater applies its Asset Management System, which is artificially and significantly increasing the cost of jobs, and drawing down annuity balances.

Overheads – Cotton Australia has long been concerned with the very high Overhead (Non-Direct Costs) that are applied by Sunwater. For example, at one stage the overheads applied to a small channel scheme accounted for in excess of 65% of the scheme's total costs. The Authority should take particular heed of any examples given by local irrigator representatives through this process, as the impact of overheads on some otherwise simple purchases of goods and services can be staggering.

Opex Cost – Cotton Australia is very concerned about an ongoing trend of Opex costs growing at a rate far greater than inflation. Opex grew from \$39.6 million in 2017 to a forecast \$47.2million for 2019, an almost 20% increase over two years, while CPI is running at less than 4% for the same period. Disturbingly, Sunwater project that costs will continue to rise at a similar rate.

Specifically, electricity costs appear to undergo a step-change increase from 2022, yet the current trend on prices is downward. This downward trend is not reflected anywhere in Sunwater’s estimates. Cotton Australia is acutely aware, as should the Authority be, of the potential impact on electricity costs with the loss of transitional tariffs in 2020 and 2022, however, Sunwater should be acting to mitigate these impacts rather than build the cost into forward pricing.

Emergency Management Costs – Cotton Australia has submitted to the Authority in regards to Dam Safety Upgrade Costs, and clearly argued that those costs should be 100% community costs borne by the Government. The same applies to the Inspector-General Emergency management Costs.

The management of dams in an emergency is a task which allows for the mitigation of flood-damage downstream. It is completely unfair to saddle the water users with this cost. If the dam was not there the community downstream would still be at risk from flooding, but their risks would be increased as there would be no way to use/manage the dams to minimise the flood impact.

Access Charges – Cotton Australia strongly supports the adoption of a minimum access charge that at the very least covers the account management costs that are associated with small customers.

Cotton Australia awaits the Authority draft report, when it will respond further.

In the meantime Cotton Australia would welcome the opportunity to respond to any questions from the Authority. If required please contact General Manager, Michael Murray on 0427 707868 or michaelm@cotton.org.au .

Yours sincerely,



Michael Murray
General Manager