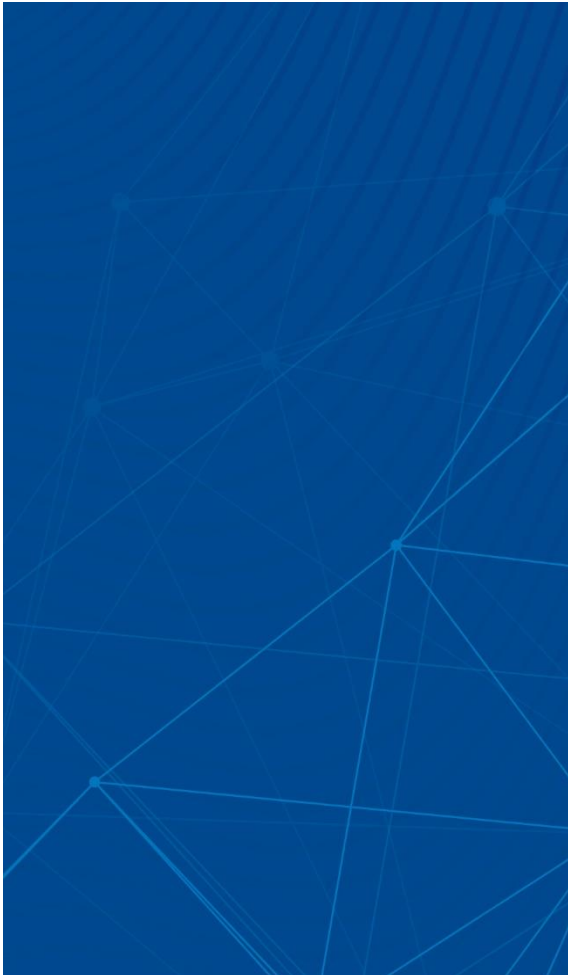


March 2019

Rural irrigation price review 2020–24: apportionment of dam safety upgrade costs

Submission



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The Local Government Association of Queensland

Local government is the level of government which most closely aligns to the community and their aspirations. In Queensland, there are 77 local governments that cover the length and breadth of our State. From the most northern parts of Australia's Cape York, to the most rural and remote areas of our State's borders, local government covers every inch of Queensland's 1.8 million square kilometres.

The Local Government Association of Queensland (LGAQ) was established in 1896 to represent the collective interests of this diverse level of government as its peak body. We are one of the oldest and most stable peak organisations in Australia, yet we are known for our innovative and ground-breaking policy and business achievements. In 2017, we were recognised by the Queensland Government as a Queensland Great for our institutional service.

The LGAQ is 100% council-owned. As a not-for-profit public company limited by guarantee, we exist to serve each and all the state's 77 councils. Our members trust us to deliver support and advice to all levels of council, from the mayor to the most junior employee. This daily support and guidance are coupled with our commitment to ensuring the interests and entitlements of our member councils are always advanced and protected.

Scope of Response

The LGAQ appreciates the opportunity to provide comment on the Rural irrigation price review 2020–24: apportionment of dam safety upgrade costs (the Review).

Whilst the current Queensland Competition Authority (QCA) Review concerns cost apportionment for dam safety upgrades that SunWater and Seqwater could recoup via irrigation pricing, the methodologies/approaches QCA develops in formulating its recommendations to Government are likely to have financial impacts on local governments. Consequently, the LGAQ makes this submission to QCA on behalf of local governments that may be impacted directly or indirectly by pricing decisions resulting from the Review.

The LGAQ acknowledges the value of submissions provided from individual Queensland councils such as Lockyer Valley Regional Council and North Burnett Regional Council – or regional council organisations like the Wide Bay Burnett Regional Organisation of Councils. As councils are best placed to provide advice about their individual circumstances this response is limited to providing a general overview of the issues broadly relevant to Queensland local governments.

Summary and Recommendations

Local governments have their own dam safety costs that are in addition to the costs of dam safety upgrades for SunWater and Seqwater. In most instances the affected communities will bear the cost burden of dam safety for both local government-owned and state-owned dams.

There should be greater scrutiny of the benefit to cost ratios of dam safety investment to ensure that limited public dollars are spent on the most effective public safety interventions.

The current process of establishing dam safety upgrade requirements fails to adequately consult with and incorporate the views of the affected communities into the process for determining acceptable risk - particularly in regard to the cost of the proposed measures. Consequently, there is no regard for capacity to pay that should reasonably constrain the cost of proposed solutions. Thus, the dam safety solutions are becoming purely technical and consultant-driven without regard to the attitudes and opinions of the communities who are ultimately bearing the substantial costs of the upgrades.

The QCA should examine dam safety upgrade costs in line with the Referral and Direction Notice for the Review section C.1.7, that "...the costs will generate net positive benefits for existing customers and customers have been consulted." Where this cannot be demonstrated for the proposed costs they should be reconsidered.

With rare exception dams are constructed with the intention, at least in part, of economic development in a regional area. Consequently, the benefits of a dam reach beyond the immediate customers of entities that own and/or manage the dam, and includes the Queensland and Australian governments that originally invested into the dam to secure the economic outcomes.

Historic subsidies and contributions must be appropriately considered for infrastructure costs, specifically those relating to dam safety upgrades, noting that comparable investments were subject to considerable subsidies in the past to minimise costs to the community.

Given the cost of upgrades for particular dams can be very costly, these costs would more appropriately be considered capital investment when they substantially change the character of the infrastructure.

LGAQ suggests QCA consider an approach similar the New South Wales Independent Pricing and Regulatory Tribunal (IPART) approach to legacy costs in its review for assets built before 2000.

Costs should be allocated, after they are first determined to be prudent and efficient, to those parties that have an interest in the existence and operation of the dam. The proportion of that interest for each party should be used in determining the allocation.

Relevance of the Review to local government

Local governments are responsible for water supply in more than 370 communities across Queensland. Bulk water arrangements to supply these drinking water schemes are provided in a variety of ways:

- Bulk water sourced from local government owned dams, weirs, barrages
- Local government owned bore fields tapping allocated groundwater
- Bulk water purchased from Queensland Government entity (e.g. SunWater, Seqwater) usually subject to supply contracts
- Bulk water supplied from other LGs
- In some cases, a combination of all or some of the above.

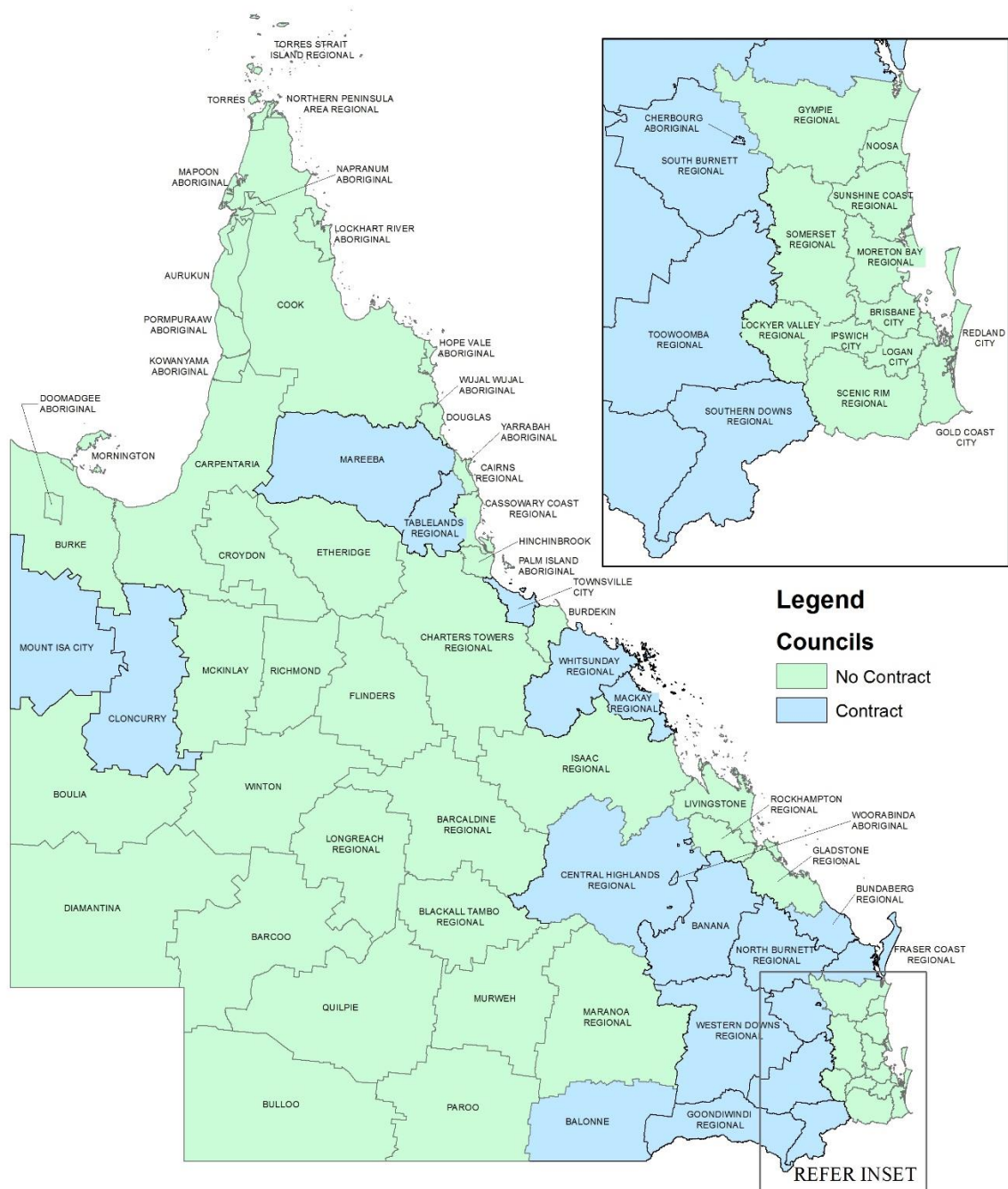


Figure 1 - Local governments with SunWater contracts for bulk water supply

There are many dams or weirs in Queensland that provide bulk water storage to town water supplies. Prior to 2000 there were at least 34 dams constructed, with the majority built between 1950 and 1985 (see Table 1). The LGAQ is aware of only three that have been constructed since 2000: Suhrs Creek, Paradise and Wyaralong.

Table 1: Queensland Town Water Supply Dams (excl. Seqwater) constructed prior to 2000

Year	Dam Name*	Type	Height (m)	Length (m)	Storage (ML)	Serving
1927	Connolly	Rockfill	22	145	2590	Warwick
1942	Cooby Creek	Rockfill	31	207	20930	Toowoomba
1942	Gordonbrook	Earthfill	21	480	6500	Kingaroy
1950	Eastine Creek	Earthfill	20	220	730	Mt Garnet
1950	Lake George	Rockfill	15	100	1000	Chillagoe
1954	Storm King	Gravity	10	198	2180	Stanthorpe
1957	Leichhardt	Rockfill	27	259	109000	Mt Isa
1959	Paluma	Earthfill	20	318	12340	Ingham
1959	Middle Creek	Earthfill	25	128	1220	Sarina
1965	Perserverance	Rockfill	53	197	30940	Toowoomba
1965	Cannibal Creek	Earthfill	16	120	180	Cooktown
1965	Spring Creek	Earthfill	18	20	612	Cooktown
1968	Burru No 2	Gravity	12	122	1605	Hervey Bay
1968	Jandowae	Earthfill	4.2	2100	955	Jandowae
1970	Fitzroy Barrage	Gravity	10	396	65920	Rockhampton
1974	Ross River	Earthfill	33	8670	417000	Townsville
1976	Copperlode Falls	Rockfill	43	180	45560	Cairns
1976	Julius	Buttress	38	400	107500	Mt Isa
1976	Bingegang Weir	Gravity	11	223	8060	Dingo
1977	Solomon	Earthfill	17	408	487	Palm Island
1982	Palmerville Station	Rockfill	16	130	750	Palmerville
1982	Theresa Creek	Gravity	19	684	9200	Belyando
1983	Cressbrook Creek	Earthfill	59	363	81842	Toowoomba
1984	Awoonga	Rockfill	45	800	250000	Gladstone
1984	Lenthalls	Earthfill	32	445	15500	Hervey Bay
1985	Wujal Wujal	Earthfill	24	240	560	Wujal Wujal
1990	Horn Island	Rockfill	26	390	2400	Thursday Island
1990	Kellys	Rockfill	10	200	1700	Ingham
1993	Chinaman Creek	Gravity	19	153	2750	Cloncurry
1993	Dumbleton Weir	Gravity	15	217	8780	Mackay
1994	Belmore Creek	Earthfill	21	400	5200	Croydon
1994	Wild River	Earthfill	19	230	260	Herberton
1998	Mt Morgan	Gravity	15	464	2926	Mt Morgan
1999	Minggudjandjamba Banbarribarra	Rockfill	31	400	660	Palm Island

*Dams in bold have been identified as needing upgrades to meet dam safety requirements

Local governments own and/or operate 133 dams and weirs, 29 of which are referable under the *Water Supply (Safety and Reliability) Act 2008*. Based on information provided by the Department of Natural Resources, Mines and Energy (DNRME), Table 2 provides details of local government owned dams that also require dam safety upgrades to meet legislative and regulatory compliance obligations. DNRME advise that as further assessments are done, dams may be added or taken off the list. Estimated upgrade costs shown are in some cases dated and preliminary in nature.

As at the time of this submission, there are 13 local governments directly affected by dam safety requirements. This equates to at least \$148M worth of upgrades, noting that cost estimates are available for only six of the 15 dams affected. These costs are in addition to the costs of dam safety upgrades for SunWater and Seqwater that may potentially be passed on

to councils and the communities they serve. All but 4 of these local governments are customers of either SunWater (see Figure 1) or Seqwater (all Southeast Queensland councils are Seqwater customers), meaning that in most instances the communities will bear the cost burden of dam safety for both local government-owned and state-owned dams.

Table 2 – Local Government dams requiring safety upgrades

Dam Name	Local Government Dam owner	Upgrade required by:	Estimated cost	Town Water Supply
Awoonga Dam	Gladstone AWB	2025	Unknown	Yes
Chinaman Creek Dam	Cloncurry	2035	Unknown	Yes
Connolly Dam	Southern Downs	2022	\$800K - \$1.6M	Yes
Cooby Creek Dam	Toowoomba	2025	\$36.5m	Yes
Copperlode Falls Dam	Cairns	2035	\$1.5M - \$3.0M	Yes
Cressbrook Creek Dam	Toowoomba	2025	\$102M	Yes
Gordonbrook Dam	South Burnett	2025	Unknown	Yes
Jandowae Dam	Western Downs	2025	\$6.5 - \$11.3M	Yes
Lake Dennis Dam	Logan City	2025	Unknown	No
Loders Creek Detention Basin	City of Gold Coast	2025	Unknown	No
Marburg Detention Basin	Ipswich City	2025	Unknown	No
Middle Creek Dam	Mackay	2035	Unknown	No
Rosewood Detention Basin	Ipswich City	2035	Unknown	No
Suhrs Creek Dam	Charters Towers	2025	\$1.12M	Yes
Theresa Creek Dam	Isaac	2035	Unknown	Yes

Risk assessment and risk management approaches

Acknowledging that assessing the suitability of dam safety standards and requirements are outside the scope of the QCA Review, a discussion about the resulting costs would be incomplete without a brief discussion of them. Although the Australian National Committee on Large Dams (ANCOLD) has existed since 1937, the current dam safety standards represent an ever-increasing attempt to manage risk to the lowest levels possible. This acceptable risk can vary from a 1 in 2000 annual exceedance probability for acceptable flood capacity (AFC) to 1 in 10,000,000.

Due to advances in knowledge of failure risks of dams, increases in the consequences of failures (e.g. population growth in downstream areas, higher property values), along with improving understanding of extreme rainfall events and floods, dam owners are constantly reassessing dam safety requirements applying to their assets. Coupled with changing public sentiments on dam safety, such as following the major flood events in Southeast Queensland in 2011 and 2013, there has been a sharp increase in the scope and cost of works to minimise risk to as low a level as possible.

Where ANCOLD provides “...guidance in achieving excellence for all aspects of dam engineering, management and associated issues,”¹ the Queensland Government establishes the mandatory AFC all proposed and existing referable dams in Queensland must be able to

¹ About Us, ANCOLD 2012. Available from: https://www.ancold.org.au/?page_id=3469

safely pass. The Guidelines on Acceptable Flood Capacity for Water Dams (the Guidelines) are empowered by the Section 572 of the Water Supply (Safety and Reliability) Act 2008.

The LGAQ accepts the role of ANCOLD in providing expert guidance, as well as the need for legislative requirements for dam safety. We also support the general principle given in the Guidelines that "...a dam whose failure would cause excessive damage or the loss of many lives should be designed to a proportionally higher standard than a dam whose failure would result in less damage or fewer lives lost."

Notwithstanding, the current process fails to adequately consult with and incorporate the views of the affected communities into the process for determining acceptable risk - particularly in regard to the cost and impact of the proposed measures. To be clear, community consultation is not important for reviewing the engineering of risk mitigation measures. Rather, such engagement is necessary in establishing acceptable target risk levels for a community and communicating the cost and impact of proposed solutions. The community should have a right to know and comment on the impact of decisions made to mitigate risk. Further, without such community engagement there is no regard for capacity to pay that should reasonably constrain the cost of proposed solutions. Thus, the dam safety solutions are becoming purely technical and consultant-driven without regard to the attitudes and opinions of the communities who are ultimately bearing the substantial costs of the upgrades.

There should also be greater consideration of the benefit to cost ratio for dam safety. In some instances the ratio may be significantly lower than those for other important safety risks such as traffic incidents and public health. For example, the Australian Government's Black Spot program provides funding for safety upgrades of sites with a proven history of crashes. The program requires a benefit to cost ratio of at least 2 to 1, with a history of at least three casualty crashes over a five-year period². Understandably dam failures are a different risk to manage than traffic incidents, and casualties are an unreasonable requirement in justifying investment in dam safety. Nonetheless, there should be greater scrutiny of the benefit to cost ratios of dam safety investment³ to ensure that limited public dollars are spent on the most effective public safety interventions. The substantial investment into dam safety may mean that other more urgent and effective public safety interventions may be constrained because the required funds have been spent.

Further, the LGAQ believes that many upgrades are biased towards capital solutions rather than social or environmental solutions that could provide similar outcomes at greatly reduced costs. Rather than a mathematical exercise that considers water volumes that are held and released by the dam, a broader common-sense approach is needed to find appropriate ways to manage flood and dam failure risks. For example, a 1 in 10,000,000 annual exceedance probability for AFC would likely mean that the surrounding areas are already destroyed by a weather event long before failure of the dam occurs, meaning dam safety measures to this level would be unnecessary.

Again, noting that the QCA is not permitted to question the existing dam safety requirements, the LGAQ questions whether the proposed solutions are in fact the best solutions for the relevant communities. Without proper consideration of appropriate non-infrastructure options

² Black Spot site eligibility, Australian Government 2017. Available from:

https://investment.infrastructure.gov.au/infrastructure_investment/black_spot/black_spot_sites_eligibility.aspx

³ Appendix B—Methodology for demonstrating compliance with the as low as reasonably practicable principle, Guidelines on Acceptable Flood Capacity for Water Dams, Queensland Government, 2017.

the initial and whole-of-life costs for infrastructure-based solutions will continue to put upward pressure on bulk water pricing.

As appropriate, the LGAQ encourages the QCA to examine dam safety upgrade costs in line with the Referral and Direction Notice for the Review section C.1.7, that "...the costs will generate net positive benefits for existing customers and customers have been consulted." Where this cannot be demonstrated for the proposed costs they should be reconsidered.

Historic subsidies

Historically dam construction in Queensland has been funded totally or in part by the Queensland and Australian governments. With rare exception dams have been constructed not only for agricultural benefit, but also with the intention of encouraging economic development in a regional area. Consequently, the benefits of a dam reach beyond the immediate customers of entities that own and/or manage the dam and includes the surrounding communities, as well as the Queensland and Australian governments that originally invested into the dam to secure the economic outcomes.

SunWater, a Government Owned Corporation and Seqwater, a Queensland Government Statutory Authority, are responsible for water infrastructure assets totalling \$13 billion and \$11 billion respectively. The bulk of SunWater assets were funded by the State. Seqwater assets made up of assets transferred from Southeast Queensland Councils that were funded in part by grants and subsidies from the State. Other local government owned dams throughout Queensland were funded from similar grants and subsidies. A summary of historic subsidy rates provided under the Local Governing Bodies' Capital Works Subsidy Scheme' is shown in Table 3.

Funding decisions by the Queensland Government taken over the previous century were made to enable economic growth, agricultural and industrial development, job production, etc in a developing economy, based on access to reliable water. In short, the Queensland Government was the owner or at least a partner in the construction of dam infrastructure across the state.

Previous and current subsidies or other contributions must be appropriately considered for infrastructure costs, specifically those relating to dam safety upgrades, noting that comparable investments were subject to considerable subsidies in the past to minimise costs to the community. Both optimisation and historic subsidies should be taken as implicit in considering the level of pricing.

Legacy costs

The gap between acceptable dam safety standards today and those from years past is the result of decisions made at the time of construction. Dams were built to standards that applied at the time and design and specifications of individual dams would have been subject of Queensland Government agencies' approval. What has been clear over the last few decades is that periodic injections of capital are needed to modify some dams as the dam safety risks change. These costs are not just due to the current or future circumstances in which a dam operates, but also because the original design and construction of the dam may not have considered these future scenarios adequately.

In previous reviews, QCA has taken the view that if dam safety upgrades were a compliance obligation then those costs were a normal cost of operation in supplying water to customers and as such prudent and efficient costs of dam safety upgrades could be recovered from customers. However, given the cost of upgrades for particular dams can be very costly, these

Table 3: Historic Subsidy Rates Provided Under the Local Governing Bodies' Capital Works Subsidy Scheme ⁴

Period	Applicable Subsidy Assumed	Notes
Prior to 30/06/1935	50% on all works	The subsidy rate applicable from 1932-1935 is presumed to apply to all assets constructed prior to 1932.
01/07/1935-30/06/1937	25% on all works	Subsidy was applied to 50% of expenditure on direct wages only, and it is assumed that direct wages accounted for half of construction costs at the time.
01/07/1937-31/10/1938	16.65% on all works	Subsidy was applied to 33.3% of expenditure on direct wages only, and it is assumed that direct wages accounted for half of construction costs at the time.
01/11/1938-30/06/1942	20% on all works	Subsidy was applied on 1/5 of annual interest and redemption costs, but it is assumed for simplicity that this equates to a 20% subsidy on works constructed during this period.
01/07/1942-30/06/1944	0% on all works	
01/07/1944-30/06/1960	33.3% on all works	A range of different subsidies were offered during this period and it is assumed that 33.3% provides a reasonably accurate representation of the average subsidy that may have been received.
01/07/1960-30/06/1969	50% for new water supply schemes to towns with no existing scheme 33.3% for major augmentation at source of supply, development of supply from new source, works involved in delivering increased supply 20% for other water supply works excluding reticulation (e.g. reservoirs, pumping and treatment plants) 0% for reticulation	In the absence of information pertaining to the establishment of new schemes, the following assumptions have been made relating to asset classifications: • Reservoirs, pump stations and trunk mains receive a subsidy of 20%; and • No subsidy on reticulation infrastructure.
01/07/1969-30/06/1981	33.3% for new water supply schemes to towns with no existing scheme, major augmentation at source of supply, development of supply from a new source or works delivering increased supply 0% for other works including reticulation and installation of meters	In the absence of information pertaining to the establishment of new schemes, the following assumptions have been made relating to asset classifications: • Dams, intake structures, treatment plants and selected reservoirs (raw/clear water storage and those on trunk mains connecting the main scheme to smaller rural schemes to provide continuity of supply) receive a subsidy of 33.3%; and • No subsidy on pump stations, pipes and distribution reservoirs.
01/07/1981-30/06/1985	20% for new water sources and treatment plants 0% on other works	Intake structures, treatment plants, trunk mains and selected reservoirs are assumed to be subject to the 20% subsidy during this period.
01/07/1985-30/06/1988	30% for new water sources and treatment plants 0% on other works	Intake structures, treatment plants, trunk mains and selected reservoirs and pump stations are assumed to be subject to the 30% subsidy during this period.
01/07/1988-30/06/1996	20% for new water sources and treatment plants 0% on other works	Dams, intake structures, treatment plants, trunk mains and selected reservoirs are assumed to be subject to the 20% subsidy during this period.
01/07/1996-31/12/2008	40% for new water sources and treatment plants 0% on other works	Dams, intake structures, treatment plants, trunk mains and selected reservoirs, pump stations and flow meters are assumed to be subject to the 40% subsidy during this period.

⁴ Queensland Government (2001). *A History of the Local Governing Bodies' Capital Works Subsidy Scheme: 1932 – 2001*. Queensland Department of Local Government and Planning – Local Government Funding Division, Brisbane.

costs would more appropriately be considered capital investment when they substantially change the character of the infrastructure. For these large costs, recouping all the cost from customers could lead pricing impacts that may be unaffordable to many customers. To alleviate some of the impact on customers the concept of legacy costs should be considered in QCA's review.

Of interest, is the discussion contained in the QCA consultation paper, on how New South IPART treats legacy costs. IPART defined legacy costs as those costs caused by past users and activities that are not attributable to current and future users of the regulated service.

- Since 2001, dam safety upgrade costs (excluding legacy costs) are allocated between customers and the government (on behalf of the broader community) using a cost sharing framework.
- Costs for dam safety upgrades for pre-1997 assets to 1997 standards are treated as legacy costs and allocated entirely to the government.
- Dam safety upgrade costs established post 1997 are equally allocated between customers (50%) and government, on behalf of the broader community (50%).

LGAQ suggests QCA consider a similar approach to legacy costs in its review for assets built before 2000. For State owned assets, a similar allocation of costs is suggested, whilst with local government owned assets, the local government as owner (rather than the State), be subject of subsidy which reflects the State's original decision to partner and subsidise the construction of the asset.

Local government dam safety principles

Essential to the development of an appropriate approach for apportioning dam safety upgrade costs is the identification of potential parties and/or individuals to which costs could be allocated. To assist in developing an appropriate approach, the LGAQ has identified the following principles that reflect a preliminary position of Queensland local governments regarding dam safety. Note that these principles will need to be formalised at the LGAQ's annual general meeting later in 2019, and may be modified in that process.

- Local government recognizes that Dam Owners have legislative and regulatory obligations to ensure that dams under their control comply with Dam Safety Guidelines to minimize the risk of dam failure and to protect life and property.
- The acceptable risk levels for dam safety should be based on an open and transparent process with peer-reviewed engineering advice and community consultation in determining an acceptable level of risk.
- The costs of dam safety upgrades should consider the community capacity to pay, and the Queensland and Australian Governments should provide community service obligation payments where such work is necessary but economically unviable.
- Dams were constructed in partnership with the Queensland and Australian Governments, which should be recognised in the apportionment of dam safety costs.

- Local government believes that due to the diversity of circumstances that apply to dams across the state the dam safety upgrade costs should be apportioned based on the purpose and use of each dam.

Consultation Questions

(1) Do you agree that under the impactor pays principle, the impactors are the users of the services provided by the dams being upgraded (i.e. water storage and supply, and other services provided, such as flood mitigation and recreation)? If not, what do you consider is an appropriate approach to applying the impactor pays principle?

We accept the definition as provided.

(2) Which one of the impactor pays or beneficiary pays principles do you consider should be used as the basis for allocating dam safety upgrade capital expenditure, and why?

As there is a mix of circumstances across the portfolio of dams and weirs in Queensland, we do not believe that a single approach would distribute costs equitably. Rather a proportion of impactor and beneficiary cost allocation, coupled with community service obligations should be considered based on the services provided by each dam.

(3) With reference to planned dam safety upgrades:

(a) In addition to bulk water supply services, are there other services that the dams being upgraded provide?

The consultation paper has laid out well the other services, such as recreation. While not a service, per se, the dams in regional areas also provide an element of liveability (i.e. blue space) that has a value that is often not quantified. How this should be considered in pricing decisions is unclear, but aesthetic and liveability contribution that dams make to a regional community should be acknowledged as a social benefit.

(b) Who are the parties or individuals that should be allocated dam safety upgrade costs for each of the services provided?

Customers (impactors), the surrounding communities, and the broader public (e.g. tourists, other communities linked through economic interdependence, etc.) are all relevant parties. A dam is likely to provide direct benefits to customers, but also support regional economic development that would be difficult to attribute to a single party. In this regard, the Queensland and Australian Governments would have an interest in ensuring economic activity that is supported through the existence and operation of a dam, and in safety upgrades that protect property and public health.

(c) On what basis should they be allocated costs? For example, how do their activities generate a need for, or benefit from, the costs?

Costs should be allocated, after they are first determined to be prudent and efficient, to those parties that have an interest in the existence and operation of the dam. The proportion of that interest for each party should be used in determining the allocation.

The existence of the dam in the first instance justifies the costs, and the arguments used to support the business case to build the dam should still be relevant in the current need and benefits of dam safety upgrades. The contributions and expected outcomes that were defined in the creation of the dam would reasonably apply to its continued operation that requires dam safety upgrades.

Quantifying the proportion of public good, public health, economic development, or contributions to liveability that are created by a dam are likely to be challenging. However, these factors could justify the community service obligations needed to fund the difference between the costs of the upgrade and the reasonable capacity to pay of direct customers (impactors) and the affected community.

(d) Of the parties and individuals that you identified, would you consider them to be an impactor or a beneficiary, as described in this paper?

This distinction suggests a false dichotomy. While impactors are a discrete population, they may be both impactors and beneficiaries. In general, most of the parties identified in this submission are beneficiaries.

For example, agricultural operations are direct customers of the bulk water services provided by a dam. However, they also benefit from the market and economy of communities that are created because of the presence of a dam in regional areas. Without reliable and local water resources those markets would not exist.

(e) Based on the parties or individuals you have identified, on what basis should costs be allocated, and why?

(i) Amongst direct users? Direct users should be allocated costs based on their proportion of services that are provided to them by the existence and operation of the dam, in line with their reasonable capacity to pay.

(ii) Between direct and indirect users? Indirect users should also be allocated costs based on their proportion of services that are provided to them, acknowledging that they will contribute through community service obligations supported by rates and other taxation that will fund them. Given the large costs involved in some of the dam safety upgrades a single stakeholder group should not bear the weight of all the costs alone.

(4) What are the expected impacts on the interests of irrigator customers of forward-looking prices that include dam safety upgrade costs? If there are significant impacts, please be specific and provide details on how these may arise.

We are unable to comment on this question, as local government is not an irrigator customer.

(5) To what extent have irrigation customers in schemes with planned dam safety upgrades made investments on the basis that dam safety upgrade costs would not generally be recovered in irrigation prices? Please provide detailed arguments and evidence to support your view.

We are unable to comment on this question, as local government is not an irrigator customer.

(6) Are there any other issues that are relevant in the context of the public interest (including equity and fairness) that you think the QCA should consider in developing an appropriate approach for apportioning dam safety upgrade costs?

As stated previously, there is a risk that the public may pay for dam safety upgrades through multiple mechanisms. Either through costs passed on by local governments that are bulk water customers, or through community service obligations where the revenue generated by Seqwater and SunWater is insufficient to cover the costs. An equitable approach should ensure that the proportion of cost allocation is not distorted through multiple mechanisms of cost recovery.

The likelihood of any scheme to completely fund the costs of necessary dam safety upgrades is low, particularly when COAG established water pricing principles that the irrigator sector prices should be lower bound⁵. As dam safety upgrades are a regulatory requirement they must be met and funded. The QCA should strongly consider and take care that those costs are not shifted to other parties by limiting the allocation of reasonable costs to irrigators. Notwithstanding the insufficiency of irrigators or other impactors to meet all of the dam safety upgrade costs, this should not absolve any and all responsibility to contribute to them.

In addition to how costs are allocated, there should be consideration for how price path for the recovery of the dam safety upgrade costs are implemented. Where longer price paths are reasonable, they should be strongly considered to minimise price shocks to communities in Queensland. This period of payback should also be considered in terms of generational equity, ensuring that current costs aren't passed on to future customers unreasonably.

(7) Which cost allocation principle will provide direct and indirect users or beneficiaries with transparency, predictability and stability in terms of how prices that are inclusive of dam safety upgrade costs are derived?

Costs should be allocated, after they are first determined to be prudent and efficient, to those parties based on the proportion of their interest in the existence and operation of the dam.

(8) Are there any other issues that you think are relevant to how dam safety upgrade costs should be allocated amongst parties and individuals? If so, please be specific and provide supporting reasons in your response.

Other issues have been provided earlier in this submission.

Contact

Should further information on any aspect of the LGAQ's response be required, please do not hesitate to contact Mr Arron Hieatt, Lead – Water and Sewerage Infrastructure on 3000 2237 or arron_hieatt@lgaq.asn.au

⁵ Statement of Regulatory Pricing Principles for the Water Sector. Queensland Competition Authority, December 2000.