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## Submission to the Queensland Competition Authority Irrigation Pricing Review 2020-24

7 March 2019

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### Introduction

This Submission has been made by the Lockyer Valley Regional Council to the Queensland Competition Authority (QCA) Irrigation Pricing Review 2020-24 to:

- highlight the concerns of local irrigators;
- give examples from our regional context; and to
- raise broader local government concerns.

The Submission will generally focus on the Central Lockyer Valley Water Supply Scheme (including the Morton Vale pipeline) but will also comment on the broader pricing framework.

### Lockyer Valley Region

The Lockyer Valley is a modestly sized local government area in South East Queensland. The region is a key agricultural area for the State and the Nation growing produce for domestic and international markets. The region also has significant manufacturing, construction and transport industries that are co-dependent on agriculture. Some relevant statistics include:

- A population of just over 40,000 people - growing at about 1.8% per year;
- An expected population by 2036 approaching 60 000 people;
- A workforce with strong ties to agriculture, manufacturing, construction and transport;
- Regional horticultural production is 165 000 tonnes per annum (20% of State production);
- Horticulture is the highest value industry in the region at \$300M;
- The industry is the biggest employer with more than 2000 jobs.

These statistics demonstrate the significance of agriculture to our local government area. These also demonstrate the regional economy's reliance on agriculture which in turn relies on water and water pricing. Accordingly, policy settings on water use and pricing will directly impact on agricultural production and gross regional product.

An equitable and efficient system of water pricing is essential for the region's agricultural industry to thrive. It is fundamental that the QCA protect the interests of irrigators in the monopoly water supply environment of South East Queensland.

### Under Performing Assets

A significant issue raised in the Mayor's previous submission relates to underperforming water assets in the Central Lockyer. This can be demonstrated by reference to the Seqwater Submission dated 30 November 2018 - comparing Forecast Use and Annual Actual Use for the period 2002 – 2018. Water availability over the life of these assets has been unreliable. Clearly, there are significant periods where water is not available.

## Lockyer Valley Regional Council

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The Lockyer Water Users Forum has provided additional data (attached) that indicates that in the majority of years, water is simply not available. This puts into question the commercial viability of agricultural business enterprises. It is likely that in a private enterprise scenario such assets would be written down or written off.

Despite such performance it has been proposed that the future price path contain a heavy weighting (up to 95%) on a fixed Part A charge compared to a Variable Part B charge component. Such an approach is not supported. The lack of performance of these assets does not enable such a pricing structure to be sustainable. Water users rely on the availability of water for their production to produce revenue. No water simply means no revenue and this needs to be reflected in the pricing structure.

At the recent workshop attended by water users in the Lockyer Valley, a number of users suggested that consideration should be given to pricing alternatives. This included consideration of alternative options which specified a higher operational cost with limited fixed costs. This would enable users to generate revenue and pay for the water use when the seasons allow for such use.

It may be argued that such an approach introduces risk to the pricing model of Seqwater. However given the number of assets held by Seqwater in a variety of areas across the entire South East Queensland Region, that entity is better placed than local water users to spread this risk and price accordingly.

### **Dam Safety Upgrades and Cost Allocation**

Dam safety upgrades are being programmed for specified dam assets across Queensland. This is to ensure dam safety compliance and to ensure, as far as practicable, the prevention of dam failure to protect the safety of people and property downstream from the infrastructure.

The QCA has been asked to develop two sets of irrigation pricing – one excluding capital costs for dam safety upgrades and one allowing for the inclusion of such costs. Lockyer Valley water infrastructure is not impacted by these upgrades over this price review period (2020- 2024). However, Council is concerned that precedents may be set that would impact on irrigators in the future. It is not clear why irrigators should be asked to pay for dam safety that performs a broad public benefit.

QCA has helpfully provided a discussion paper on how such costs might be apportioned. There are a number of methodologies discussed. From a Lockyer Valley Regional Council perspective, the apportionment should be to those who benefit from the safety upgrade. Other water users such as irrigators should not be responsible for these additional costs or cross subsidisation. Similarly local governments and ratepayers should not be burdened with these costs or the machinery costs of collecting such payments from benefited stakeholders.

It may be an intractable problem to try to identify which downstream parties benefit and how to seek reimbursement of that benefit. For example, these benefits may not translate into real improvements in property value and the transaction costs of collecting any theoretical uplift and seeking payment is likely to be too inefficient to consider.

It then appears that these safety responsibilities are legacy issues related to the infrastructure owners and constructors. The responsibility for these costs may need to be considered on a case by case basis and consider which entity is best placed to carry risk and repay those capital improvement costs. Clearly, while Seqwater manages these assets, ultimately this infrastructure is owned by the State.

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## Equity

Section 26 of the *Queensland Competition Authority Act (1997)* is a key provision. This section spells out the matters to be considered by the QCA in conducting an investigation into pricing practices of monopoly businesses. One of those important matters relates to equity considerations and the social impact of pricing practices.

It is considered that this aspect of the investigation will be particularly relevant in the Central Lockyer Valley Water Supply Scheme. Firstly, equity would be compromised by the concept of pricing and charging for water that is simply not available from poorly performing assets. This inequity would lead to clear social impacts on the short term viability of businesses and communities. Secondly it relates to the equitable and socially responsible apportionment of the costs of dam safety upgrades. This apportionment will need to ensure equity and avoid burdening local governments or ratepayers who receive no additional benefit from such capital expenditure.

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	<b>Bill Gunn Dam</b>		<b>Lake Clarendon</b>			<b>Atkinson Dam</b>	
Capacity:	7,520 (constructed 1987)		21,000 (constructed 1992)			31,300	
1972						2,996	10%
1973						5,899	19%
1974						2,192	7%
1975						3,478	11%
1976						1,902	6%
1977						3,632	12%
1978						11,135	36%
1979						6,006	19%
1980						13,451	43%
1981						7,230	23%
1982						5,274	17%
1983						11,232	36%
1984						4,584	15%
1985						7,175	23%
1986						12,503	40%
1987						5,183	17%
1988						636	2%
1989	2,900	39%				4,855	16%
1990	2,670	36%				4,764	15%
1991	6,930	92%				11,122	36%
1992	2,240	30%				8,095	26%
1993	6,732	90%				11,495	37%
1994	200	3%				10,332	33%
1995	-	0%	1,757	8%	1	1,464	5%
1996	6,450	86%	7,491	36%	2	3,871	12%
1997	2,435	32%	6,626	32%	3	10,767	34%
1998	-	0%	1,918	9%	4	12,623	40%
1999	2,216	29%	2,964	14%	5	2,616	8%
2000	1,655	22%	2,257	11%	6	8,440	27%
2001	1,757	23%	1,783	8%	7	13,619	44%
2002	-	0%	144	1%	8	1,298	4%
2003	-	0%	-	0%	9	-	0%
2004	-	0%	-	0%	10	-	0%
2005	-	0%	-	0%	11	2,102	7%
2006	-	0%	-	0%	12	-	0%
2007	-	0%	-	0%	13	-	0%
2008	894	12%	780	4%	14	818	3%
2009	7,687	102%	-	0%	15	16,075	51%
2010	6,290	84%	1,634	8%	16	7,124	23%
2011	217	3%	575	3%	17	3,192	10%
2012	1,275	17%	2,647	13%	18	4,888	16%
2013	307	4%	2,442	12%	19	5,379	17%
2014	3,580	48%	10,472	50%	20	12,468	40%
2015	6,110	81%	6,907	33%	21	8,610	28%
2016	1,263	17%	-	0%	22	886	3%
	<b>Summary Data Bill Gunn Dam: 28 Years</b>		<b>Summary Data Lake Clarendon: 22 Years</b>			<b>Summary Data Atkinson Dam: 45 Years</b>	
Total Water Released:		63,808				50,397	271,411
Target Release:		210,560				462,000	1,408,500
Average released per year :		2,279				2,291	6,031
Average % of Design Capacity:		30%				11%	19%
Median Release :		1,465				1,696	5,183
Releases in Years :		20 out of 28				15 out of 22	41 out of 45
Below Dead Storage:		29%				32%	9%