Central Highlands
Regional Council

Our Ref:	
Your Ref:	
Contact Name:	**Gerhard Joubert**
Telephone:	(07) 4980 6350
Fax:	1300 242 687
Email:	gjoubert@chrc.qld.gov.au
Address:	PO Box 21, Emerald QLD 4720

8 March 2019

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

Dear Mr Page

Submission: Rural irrigation pricing review 2020-24

The Central Highlands Regional Council (CHRC) covers an area of greater than 60,000 square kilometres, and encompasses the major townships of Arcadia Valley, Bauhinia, Blackwater, Bluff, Capella, Comet, Dingo, Duaringa, Emerald, Rolleston, Sapphire Gemfields, Springsure and Tieri. It supports a total population of 28,684 and delivered a gross regional product of $3.682 billion to the Queensland economy (2017).

CHRC has allocations in the Nogoa Mackenzie and Dawson Water Supply Schemes (WSS). These allocations provide water to population centres within the CHRC area that deliver vital services to the agricultural and mining industries, and the health and education sectors.

At present the CHRC is negotiating water pricing and contracts for its allocations with SunWater and welcomes the opportunity to submit on the low bound irrigation price review, as it makes up a large part of the Upper bound price that will be charged to the Council.

CHRC also makes important comments which represents the interests of the rate payers within the local government area (LGA).

CHRC believes the cost allocations and increases across the Nogoa Mackenzie and Dawson WSS are excessive and unjustified, and provides the following recommendations and detailed explanations:

1. **Headworks Utilisation Factor (HUF):**
   - CHRC does not support SunWater's proposed HUF methodology
   - CHRC recommends that QCA review the HUF methodology being used to allocate costs in the Nogoa Mackenzie scheme.

2. **Non-Routine expenditure:**
   - CHRC recommends a review of past and future non-routine expenditure with a focus on the AMS, as well as the removal of all flood costs that should be covered under insurance

3. **Overheads (Non-direct costs)**
    - CHRC recommends QCA review the step increases in overheads and report on the prudence of the driver and allocation of these costs.
    - We request that QCA review the prudence of using a forecast cost year as the base year.

4. **Inspector-General Emergency Management (IGEM)**
    - CHRC recommends that QCA review the requirement for the efficient cost, allocation of, and beneficiary pays approach for the IGEM costs.

5. **Dam safety upgrades, Dam Improvement Program (DIP)**
    - CHRC does not support water users being asked to pay for significant works were there has been no consultation, engagement or oversight on the cost and/or requirement.
    - No detailed information on the cost and requirement has been made available.
    - CHRC rejects that water users should be asked to pay for the dam safety upgrade where flood mitigation benefits are realised and socialised through the wider community.
    - CHRC believes the DIP is a shared responsibility and recommends that both Government and community pay its costs.

Headworks Utilisation Factor

The HUF proposed by SunWater for the Nogoa Mackenzie WSS to allocate costs is changing from 45% Medium Priority (MP) - 55% High Priority (HP) to 28% MP - 78% HP.

This will have a very large impact on the price for HP allocations. The current Part A HP is $28.81 for 2019/2020, the impact of SunWater's proposal on the price results in $52.61 for 2020/21.

The cost allocation process through the HUF is very different to the conversion factor set under the water planning process of 3 MP to 1 HP.

The reasons given for the major changes are:

- New IQQM.
- Change to water allocation entitlement groupings
- Removal of the Bedford Weir Bag.

In response to this:

- There was a very small amount of change in the new IQQM. The period used in the HUF calculations is still the same as that used in the last pricing review.
- Regards to the change to water allocation entitlement groupings, there is only again a very small change, in MP allocations being converted to HP allocations. The IQQM takes into consideration the minimum and maximum volumes allowed to be converted.
- The removal of the Bedford Weir Bag has been presented as not impacting scheme reliability, by SunWater publicly to water users for the last 9 years. SunWater are now suggesting that it impacts on the HUF. If the removal of the bag is having such a large impact on the HUF, the weir needs to be upgraded to the previous capacity; otherwise SunWater is strongly inferring that the HUF is unrelated to the reliability of supply.

CHRC recommends that QCA review the HUF methodology being used to allocate costs in the Nogoa Mackenzie scheme

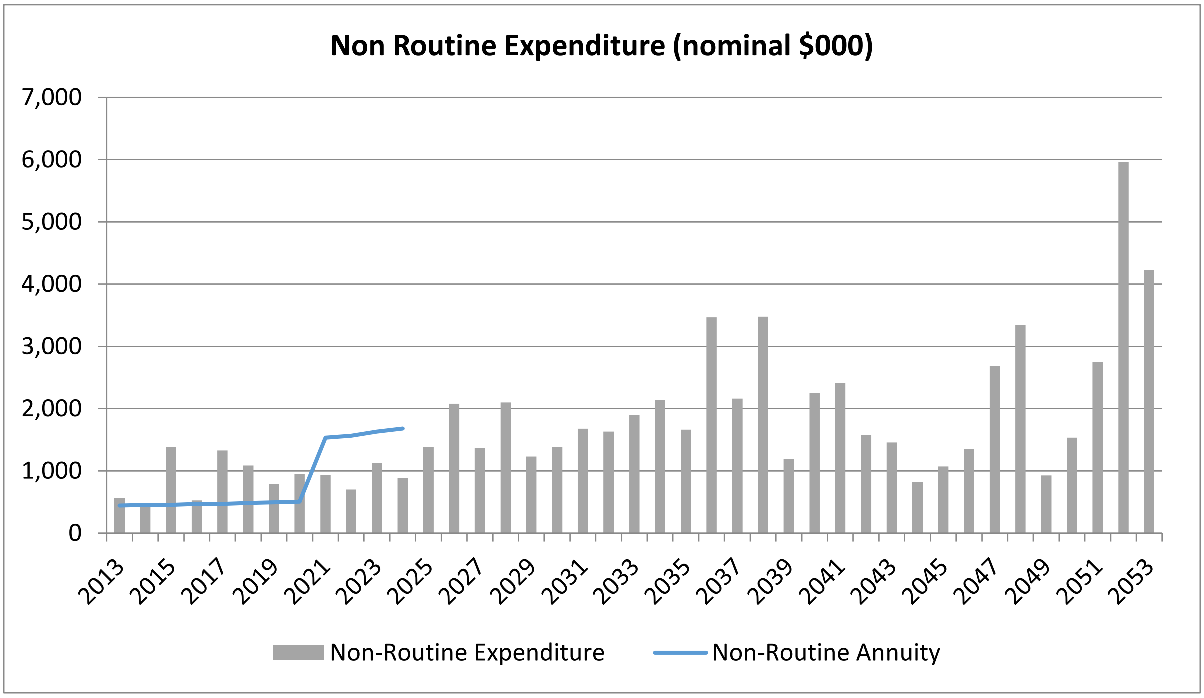
Non- Routine expenditure

Prior to any review on non-routine costs, all flood costs need to be established and removed from the non-routine annuity balances.

CHRC requests a major review of SunWater's Asset Management System (AMS). The failure of the AMS to function satisfactorily increases the costs of the Non-Routine expenditure, due to the cost of running the AMS and the inefficiencies of the approach. The asset condition assessments have and are continuing to push the assets replacements into the future but at the same time are consuming the annuity balances set aside to replace them through very expensive asset condition reporting.

CHRC recommends a review of past and future non-routine expenditure with a focus on the AMS, as well as the removal of all flood costs that should be covered under insurance.

Nogoa Mackenzie Water Supply Scheme Output Graph SunWater Financial Model



Overheads (Non-direct costs)
SunWater has used the 2018/19 water year forecasted cost as the base year when establishing overheads. This has missed the large increases in overheads for most schemes in 17/18 and 18/19 years, more so for the distribution schemes.

CHRC is recommending QCA review the step increases in overheads and report on the prudence of the driver and allocation of these costs. It should review the prudence of using a forecast cost year as the base year.

Inspector-General Emergency Management (IGEM)

The new costs proposed to be allocated to water users for IGEM are *on top of* the costs already being met by water users for flood mitigation and a very large network of existing SunWater Stream gauging stations which are available and are used in all flood modelling and monitoring.

If dams were not in place, there would still be a requirement by Government to manage the risk during events to assist populated areas within these zones. Given the requirement to manage the risk is not brought about by the capture of water, it is unacceptable that the cost should be passed solely to water users.

CHRC recommends that QCA review the requirement for the efficient cost, allocation of, and beneficiary pays approach for the IGEM costs.

Should QCA propose the cost be allocated to water users, CHRC and water users would similarly require the flood mitigation benefits from the dam be allocated a cost through the HUF.

IGEM cost allocation from SunWater

$/ML	Service Contract	Allocation Percentage	Allocation Amount $'000
$0.69/ML	LBN – Nogoa WS	5.5	159

Dam safety upgrades, Dam Improvement Program (DIP)

Dam safety is one of the largest cost increases for affected schemes.

CHRC does not support water users being asked to pay for significant works were there has been no consultation, engagement or oversight on the cost and/or requirement. Furthermore, CHRC believes it is impossible to ask customers of a monopoly provider to comment on a cost allocation process for a major cost item such as dam safety without any detailed information on the cost and requirement.

When a dam has been in place for some time, the flood mitigation benefit of the storage structure enables urban expansion and growth in areas that would *not*, pre-dam, have been developed. This increased population is then proposed as a trigger for dam safety upgrades.

CHRC rejects that water users should be asked to pay for the dam safety upgrade where flood mitigation benefits are realised and socialised through the wider community.

To separate dams that are classified as flood mitigation dams, from dams that have a large flood mitigation benefit due to their design, is a contestable distinction.

The Fairbairn Dam spillway in Emerald provides an excellent example. The spillway reduces a 100-year ARI to a 50-year ARI through the town of Emerald. This reduces the total tangible damage from the 2008 flood from $251.2M to $27.4M or a 78% reduction in residential properties flooded *(GHD Peer Review Report for Central Highlands Regional Council (CHRC))*.

Throughout Queensland most local government authorities limit developments to areas that are above the modelled 1 in 100-year flood height. Most of the communities that the dam safety upgrades (1 in 100,000-year event or PMF) aim to protect will be completely inundated.

In Emerald, the State Government designed and built bridge infrastructure which cause a very large percentage of the flooding throughout the town in any event above a 1 in 25-year ARI. Flood impact assessments were not completed for these structures before their completion. CHRC respectfully highlights that Government has a critical and primary role to rectify existing infrastructure problems within the communities associated to the DIP. We consider this a priority which has real impact, in contrast to the secondary consideration of cost allocation.

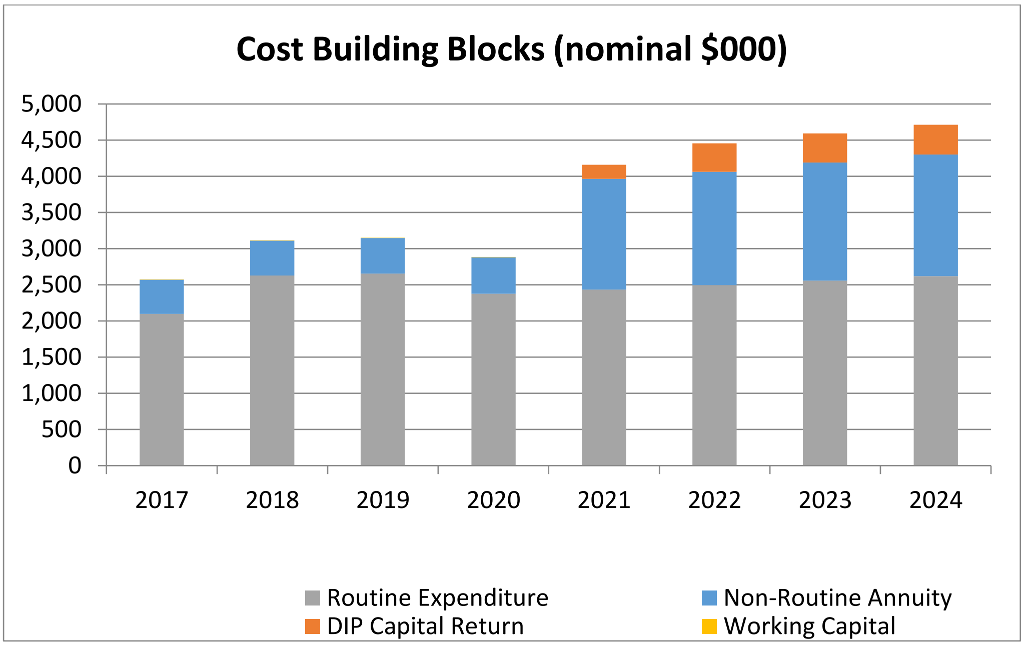
The populated areas downstream of dams have developed to service the industries established from the stored water. If the cost of the water is pushed beyond affordability of those industries, the unintended but certain consequence will be to reduce economic activity, population and returns to Government.

The cost allocation of the dam safety upgrade program needs to be attributed beyond water users, as CHRC believes the affordability of our regional towns and industries is at risk with the excessive, increased charges proposed.

Under the referral notice only the costs of DIP incurred after the start of next price path (2020/21 water year) will be added to the lower bound prices. This will add over 10% to the lower bound costs of Nogoa bulk water supply.

CHRC believes the cost of the DIP is a community cost, driven by Government requirement and recommends that both Government and community pay. As in the case of the IGEM costs, should QCA consider the DIP cost be allocated to water users, CHRC and water users would require the flood mitigation benefits from the dam be similarly allocated a cost through the HUF.

Nogoa Mackenzie Water Supply Scheme Output Graph SunWater Financial model



Water provides a vital part of the economy within the LGA. The industries that make up that economy operate within a very competitive market place. With that in mind CHRC requests QCA consider the issues and recommendations raised in this submission.

Yours faithfully

Gerhard Joubert
General Manager Infrastructure and Utilities

65 Egerton Street, Emerald QLD 4720 **T.** 1300 242 686
centralhighlands.qld.gov.au