BUNDABERG REGIONAL IRRIGATORS GROUP
REPRESENTING MEMBER IRRIGATORS IN THE BUNDABERG IRRIGATION AREA

ABN: 86 137 318 631
Postal Address: PO Box 953,
Bundaberg Qld 4670
07 4151 2555 P
07 4153 1986 F
BRIG@bdbcanegrowers.com.au E

28 February 2011

Hon Andrew Fraser MP
Treasurer and Minister for
Employment and Economic Development
GPO Box 611
BRISBANE QLD 4001

Dear Sir,

Re: Bundaberg Irrigation Water Pricing

Please refer to your letter of 19th January (Ref No. MO/10/5004 CTS 21664/10) and our previous correspondence on this matter.

The members of the Bundaberg Regional Irrigators Group wish to applaud your decision to extend the consultation period for the QCA SunWater pricing process.

BRIG also wishes to acknowledge that your government has amended the process by deleting the capacity to pay and return on old water storage assets components of the review. However, BRIG believes it would have been very difficult for the government to impose these additional costs when competing irrigators in NSW are not exposed to such charges.

Your decision to prevent QCA from even investigating the nodal point pricing concept is extremely disappointing and we do not understand why you have taken this course of action, particularly when Premier Beattie promised this model would be considered at the next price path.

Due to your decision to not even look at the effects of our proposal Bundaberg irrigators will continue to be unfairly treated in a one size fits all postage stamp approach. With electricity prices increasing at rates well in excess of CPI the magnitude of the unfair cross subsidy will also escalate.

There is a great body of evidence that supports BRIG members' desire to implement nodal point pricing:

- In the current price path process QCA believed that there was enough evidence to initiate a study (which has now been terminated at your instruction)

- QCA's consultants during the current process have suggested that nodal point pricing would be required to meet NWI guidelines

- Nodal point pricing already exists for new irrigation water sourced from Paradise Dam which is in the Bundaberg scheme

- Nodal point pricing was recommended and adopted for the Gladstone area water board to overcome similar inequity as that faced by BRIG members

- In compliance with the NWI, cross subsidies between schemes have been abolished within Sunwater.

We are extremely disappointed that BRIG was not provided with the opportunity to make representations on this issue before your decision was made.

If sugar mill viability and the loss of associated jobs was a consideration when making your decision, BRIG believes that your advice on this matter was flawed.

Agriculture and particularly the sugar industry is a dynamic mix with rationalisation continuing as costs and prices dictate. These costs and returns vary across the irrigation area with water price making up a small portion of this mix. BRIG believes that once again government has interfered in a market process to the disadvantage of some irrigators and one milling company. This would seem to us to run counter to your stated and generally free market approach.

The members of BRIG also believe that all Bundaberg irrigators will be significantly disadvantaged by the addition of a "no price can fall" instruction (Clause 1.1 iii) in the amended referral notice. The issues arising from this are:

1. Contrary to the view presented in most analyses of your amended referral notice, some or all Bundaberg irrigators will be paying above lower bound prices while their competitors in Queensland and elsewhere will generally be paying lower bound prices. QCA may need to analyze whether the proposed charges are in fact above upper bound. This argument could not be addressed in past price path negotiations.

2. In the current price path it was recognized that river irrigators were paying above lower bound, even though these irrigators have high infrastructure and energy costs and some have incurred significant structural damage in the recent floods. In the current price path, the channel irrigators gained the benefit of this cross subsidy.

3. To reduce the impact of a similar instruction at the last price path, the Part A charge was reduced and the Part B charge increased. BRIG believes that fixed costs should be covered by Part A and variable costs by Part B charges. Most costs for the river irrigators (now called bulk water charges in the SunWater network service plan (NSP) are fixed. The current river water charges mean that water users are paying the costs of non-users (sleepers and dozers). Governments invest in irrigation schemes to generate economic activity and the current pricing seems at odds to the desired outcome.

4. SunWater are proposing in their NSP that channel irrigators will pay a bulk water charge and a distribution charge instead of a single combined charge as they do now.

There does not appear to be any logic in a proposal where river and channel irrigators have different bulk water charges so it seems likely that all irrigators will now be paying above lower bound for their bulk water.

5. With a separate distribution charge that is based solely on distribution costs, it does not seem likely that the cross subsidy that currently reduces distribution charges will be allowed so SunWater will achieve cost recovery well above lower bound in the Bundaberg Scheme. BRIG questions whether this is your governments intention.

As demonstrated above, the current price review process is exceptionally complex. With the restructuring of SunWater we are now finding that BRIG members have better knowledge of the scheme's complexity than SunWater. BRIG will continue to participate actively in the review process.

We request a meeting with yourself and/or senior advisors so that we may begin to understand the logic behind your decisions.

Yours faithfully,

[redacted]

MA Smith
Deputy Chairman
Bundaberg Regional Irrigators Group

CC: Hon A Bligh, MP, Premier
Stephen Robertson MP Minister for Energy and Water Utilities
Mr EJ Hall CEO QCA