17/1/2012

The Chairman,
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

water.submissions@qca.org.au

Dear Sir, **Re: Draft Prices for SunWater Irrigation Schemes**

Cotton Australia is the peak body representing Australia cotton growers, and in this capacity is delighted to lodge this submission on behalf of our Queensland growers who are irrigation water customers of SunWater.

In making our submission, it should be noted that Cotton Australia is a member of the Queensland Farmers Federation, and fully endorses not only the QFF's submission but the extensive work that QFF has done with the QCA during the inquiry.

In preparing our submission Cotton Australia engaged Geoff Kavanagh of C & R Consulting to do an in-depth review of the Dawson Valley Bulk and Distribution Schemes, the Nogoa and Mackenzie Bulk and Distribution Schemes, and the St George Bulk and Distribution Schemes.

Geoff's reports have been attached to this letter and they form the bulk of Cotton Australia's submission.

Cotton Australia would like to highlight the following points:

- The whole QCA Inquiry has just highlighted the lack of reliable financial information that SunWater is prepared to make available not only to the QCA but also to its customers.

  Cost overruns appear common, revenue offsets have not been properly accounted for, and the breakdown of costs at scheme level is inadequate.

  At a minimum SunWater must in the future:
  - Annually report to QCA and its customers its financial performance against the costs determined by QCA through this inquiry.
  - Consult with customers before making any expenditure that exceeds the budgeted amounts used for this price determination.
  - Account for and report in a transparent manner all its revenue offsets.

  QCA must establish a process that allows for price adjustments to occur, based on actual expenditure on highly variable costs such as electricity.

- While Cotton Australia concedes that there is some logic in SunWater's fixed charges reflecting its fixed costs, it is very concerned that this approach provides no incentive for

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SunWater to ensure that it delivers the maximum amount of water possible. In theory, under this pricing framework, if SunWater does not deliver one megalitre of water it will still recover all the costs it incurs. Cotton Australia believes there must be some risk sharing that creates an incentive for SunWater to maximize its deliveries.

In a similar vein, if the termination fees as proposed are adopted, SunWater again has no incentive to maintain its customer base and deliver water. With the inflated termination fees there is a strong argument that SunWater would be financially better off without any distribution scheme customers.

- It finds it astounding that QCA can recommend prices on many of the Bulk Distribution Schemes that far exceed its own calculation of cost reflective pricing. While Cotton Australia concedes that this is largely a matter of government policy, it believes QCA must make it clear to the government by having prices higher than the cost reflective prices the government is effectively seeking a rate of return through these highly inflated charges.

- It cannot accept that any organisation can apply overhead costs in to order of 40% to 60%. A common complaint from our growers is that they pay these very high water charges and see very little activity on the ground in terms of regular maintenance, etc.

  Cotton Australia sees no justification for the application of overhead costs in excess of the 34% recommended by Deloitte.

The C&R reports raise a number of concerns regarding the models used by both SunWater and QCA and these need to be fully investigated. To highlight one, the renewals costs for the Dawson Distribution Scheme are 600% higher than those submitted by SunWater.

Cotton Australia would welcome the opportunity to discuss these and any other matters with QCA.

Yours sincerely,

[redacted]

Michael Murray,
National Water Policy Manager,
Cotton Australia

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