Dawson Valley Irrigators Group

Submission to QCA in relation to Sunwater Water Pricing Review.

Dawson Valley Irrigators would like to contribute their thoughts and concerns to QCA as they prepare the Sunwater Water Pricing Review.

The Sunwater History of the Dawson Valley Water Supply Scheme.

The Dawson Valley Water Supply Scheme was Queensland's first major irrigation undertaking and was established by resolution of State Parliament in 1923. Construction of works within the Area commenced in 1924. The first farms in the Theodore Section on the right bank of the Dawson River were opened in1926 and landholders occupied their selections early in 1927. The first farms in the Gibber Gunyah Section on the left bank of the Dawson River were opened and occupied in 1957. The Dawson Valley Water Supply Scheme extends along the Dawson River from upstream of Theodore to downstream of Boolburra, north of the Capricorn Highway. It contains two channel systems – Theodore and Gibber Gunyah.

The scheme relies on a network of weirs along the Dawson River - Theodore Weir Constructed in 1930, Orange Creek Weir Constructed in 1932, Moura Weir Constructed in 1946, Glebe Weir Constructed in 1971, Neville Hewitt Weir Constructed in 1976, and Gyranda Weir Constructed in 1987. Sunwater claim that the channel supply network is 56 kilometres in length**,** *but local irrigators dispute this length.* A drainage system, comprising 54 kilometres of open earth drains, is also in place- *once again this is disputed*. The Theodore Pumping Station, with three centrifugal pumps, and 2 pumps on Castle Creek supplies water to the Theodore channel system. The Gibber Gunyah system is supplied by a separate pumping station comprising three pumps in the Dawson Anna Branch on the western side of the river. Crops grown in the scheme include cotton, fodder, cereal and horticultural crops such as wheat, barley, oats, maize, mung beans, soybeans, sunflowers, sorghum and peanuts. The scheme provides water for the towns of Theodore, Moura, Baralaba and Duaringa. (*Banana & Woorabinda also supplied)* Coal mines and an ammonium nitrate plant in the Moura-Kianga area, and a gold mining venture at Cracow are also supplied from this scheme.

Dawson Irrigators would like to contribute ideas, comments and questions to QCA as they prepare to develop issues papers dealing with the following issues:

1. Form of regulation
2. Tariff structure
3. Assessment of headworks utilisation charges
4. Asset valuations
5. Rate of return on assets
6. Asset consumption
7. Capacity to pay

8. Pricing principles for dam spillway upgrades

1. *Form of regulation*

For the last price path we were able to choose between a price cap and a revenue cap. Our scheme selected a price cap which involved setting fixed prices for the 5 year term with total charges paid dependent on the volumes of water sold.

Dawson Channel Irrigators should have the option of running the channel system themselves.

Past investment decisions for maintenance and upgrade of a very old Dawson scheme have resulted in poor functioning of the scheme.

A full efficiency review of Sunwater was conducted for the development of the current price path but did not include structural efficiency issues at scheme level.

- Will QCA conduct an efficiency assessment at least comparable to that undertaken for the current price paths? Will such an analysis be made fully transparent?
- Will Sunwater consult with the local advisory committee to prepare a network service plan and document efficient operating costs? To what degree will this plan address scheme based efficiency issues including such issues as impediments in the scheme to making efficiency gains?

Scheme information/reporting:

- Will scheme information be adequate to assess critical issues such as scheme segmentation, separation of irrigation costs from urban and other industry costs?
- Will the analysis trap all forms/sources of scheme revenues?
- Is scheme information up to date/correct? We don't believe so…
- What level of reporting will QCA make widely available on scheme costs and analysis of critical issues?
- Will Sunwater be required to report annually on costs over the price path period?

It is our understanding that QCA has been requested to establish an appropriate rate of return on scheme assets. The following questions are raised:

- Is this process going to enable QCA to identify/investigate **all** beneficiaries of relevant infrastructure (i.e. dam and weirs).
    - Theodore Community was built around irrigation.
    - Recreation Facilities
    - Townships –Theodore, Moura, Baralaba, Duaringa
    - Beneficiaries of the weir structures through flood mitigation
- Is QCA intending to establish whether existing infrastructure has already been paid for by irrigators? The Dawson Scheme is a very old scheme.

Dawson Irrigators don't believe that we should be paying any rate of return, because we're on a very old, over-allocated and inefficient scheme, that can't deliver the water that we are entitled to

now. We were assured that the scheme would be upgraded and become cost efficient, prior to it being privatized, and handed over to Sunwater, and this did not occur.

2. Tariff structure

When establishing tariff structures, **all** revenue streams must be taken into account. The Scheme information document refers only to revenue derived from Part A and Part B Charges. Other revenue streams are received by Sunwater in the Dawson Valley include:

- Drainage diversion licences
- Infrastructure land leases
- Drainage charges
- Storage rental charge
- Transfer adjustment fees
- Exit fees
- Delivery of High Priority water
- Distribution losses allocation sales
- Seasonal assignment of Sunwater allocation

Historically, we have had a two part tariff. One component (Part A) reflects Sunwater's fixed costs. The second component (Part B) is for the cost of Sunwater's water delivery. With the age of the Dawson Scheme, the Part B charge is the only driver for Sunwater to deliver the water efficiently. We believe that a lower part A and higher part B charge would encourage Sunwater to operate the scheme more efficiently.

Cost Structure
If QCA is endeavoring to investigate the efficient costs of Sunwater, lower bound costs data should be separated to clearly identify maintenance and administration costs.

Current prices were escalated each year by the Consumer Price Index. If any indexation is to be used, CPI is the preferred method as it is a transparent process. Previously, Sunwater has indicated that it would prefer an indexation method utilizing power costs. We strongly object to this proposal as power is a very small portion of scheme operating costs.

Drainage rates – The Dawson channel scheme would like all drainage charges to be levied separate to the 2 part tariff, and should be recovered on a per hectare charge.

Water *Use Forecasts* -. This figure has been recently established through reliability forecasts from :

- The Resource Operations Plan (ROP)
- Water Resource Plan
- IQQM Modeling

Free water allocations – Sunwater is required to deliver water to certain customers in some schemes at no charge. Dawson irrigators believe that these customers should be paying for the service, and not be subsidized by irrigators.

Recreation costs – Current prices to irrigators cover the cost of providing and maintaining recreational facilities at storages. Recreational costs should be allocated on a user-pays system. The biggest use made of the recreational facility is by urban and industrial consumers. However, irrigators continue to contribute the biggest portion of recreation facility costs. Costs could easily be apportioned by reference to population demographics.

3. Assessment of head-works utilization charges

Conversion factors – The longer term hydrologic performance of scheme entitlements was used to assess conversion factors which are applied to allocate scheme costs between urban/industrial and rural sectors for the assessment of the current price path. Dawson irrigators no longer support this approach.

In previous pricing rounds, a conversion factor for pricing was set at 2.5:1 (MP:HP). Since that time, following extensive modeling, a conversion factor has been set by DERM for the Dawson, and will be revealed in the Draft Review of the Water Resources Plan, which is soon to be released. Given the amount of research conducted by DERM in determining this conversion factor, it is appropriate that this factor be used in the utilization of head-works pricing.

4. Asset valuations

QCA wants to review approaches to valuing assets including the 'capital efficiency' approach preferred by Sunwater and the deprival value endorsed by COAG. It will be difficult to provide responses on these approaches until documentation can be provided.

- Some scheme investments have resulted in lower reliabilities and higher costs for rural water users. How should these investments be valued?
- How will investments in head-works for flood mitigation be deducted from asset valuations?
- Will capital contributions be deducted from the value of head-works assets?
- What information will be required to assess these requirements?

5. Rate of return on assets

QCA has been asked to investigate a rate of return on the value of scheme assets required for bulk water supply. Channel systems are to be valued at zero.
The approach to be adopted, to assess a return on bulk assets is to take into account issues such as levels of service, efficient operating costs, irrigator's capacity to pay and the achievement of commercial returns within 15 years.

We oppose the imposition of any rate of return on Sunwater assets along the Dawson, due to the age of all facilities, and that we consider this a new tax.

The approach to rate of return is not consistent with that adopted in southern states and is likely to result in water prices in Sunwater schemes that are not competitive with southern schemes.

There are also State and Commonwealth Government investment programs which are helping southern schemes to modernize and be competitive.

6. Asset consumption

QCA proposes to investigate whether a renewals annuity or a regulatory depreciation allowance should be applied for pricing purposes. The current price path is based on a renewals annuity approach which growers support as it has worked well. It will be difficult to provide responses on these approaches until QCA can provide information in regard to both approaches.

7. Capacity to pay

Capacity to pay investigations will not be given the time or funds necessary to adequately assess the differences between channel and river based schemes, between the range of agricultural products grown in each scheme and between growers. Variations in the market value of agricultural produce into the future will also have to be assessed.

We are concerned about the conduct of an assessment of capacity to pay approach for the following reasons:

- There will not be sufficient time to undertake an adequate assessment of capacity to pay per scheme which would need to survey a defined percentage of customers in each industry in each channel and river scheme. This analysis would have to be updated for each 5 year price path over the proposed 15 year term.
- It is unclear what the basis for assessment of the capacity to pay would be. For example will it be based on the top or the bottom performing segment of industries in each scheme or an average of performance across industries?
- How will differences in data availability from scheme to scheme be addressed in adopting a consistent approach to assessing capacity to pay

No industry has any long term future if Government can set a charge based upon that industry's capacity to pay. By determining a "capacity to pay", Government implies that any improvement in productivity achieved in that industry will automatically cause them to pay more for their inputs. Given the current policy that water prices cannot be decreased, if an inaccurate forecast of capacity to pay is made in the first instance, there is a very high probability that an industry or region will be destroyed.

Irrigators change their cropping patterns according to water availability and commodity prices. If capacity to pay were to be introduced does this mean that the prices paid would vary each and every year according to these cropping decisions?

8. Pricing principles for dam spillway upgrades

The State Government has asked QCA to address this specific issue. It would be expected that QCA should provide a report on why these upgrades are needed for specific dams and weirs and who is likely to benefit from the upgrades

QCA should also outline how the benefits and costs of these upgrades are to be apportioned between different beneficiaries.

9. Other issues

Scheme Information for Dawson Valley.

The water use data published on the QCA website for the Dawson Scheme description are strongly disputed.

Issues arising from QCA Scheme Description – Dawson Water Supply Scheme.

Scope of Services
Bulk water services are provided in relation to 57764 ML of WAE. In the Dawson Resource Operations Plan (ROP) there is a total volume of Supplemented Allocation of MP 36902ML and HP 5579ML.

Customer composition for Dawson

- We question the allocations held by Sunwater. We do not have access to accurate figures but feel that the figures given may be incorrect. The figures show for Sunwater in Figure 53, appear to be incorrect, when compared to the amount that is shown in the Fitzroy Resource Operation Plan.
- We are unsure whether the number of customers quoted includes all holders of unmetered stock and domestic allocations.
- Water availability and use for the irrigation sector.

The figures given in Table 29 (Announced allocation for the Dawson WSS (MP)) show water allocations for July **(The Dawson water year is October to September).** This misrepresents the available water for irrigators as it implies that allocation was available for the production of income for the whole water year. When these figures are viewed on a monthly basis, the picture of water availability to irrigators is quite different. It also doesn't highlight the fact that Dawson has Medium priority for Upper and Lower River irrigators and 'Medium A' for channel irrigators.

Please see the attached Table – Announced allocations for the Dawson Valley WSS. ('Medium' priority for Upper Dawson, and Lower Dawson, and 'Medium A' priority for Dawson Channel), which reflects the available water for irrigation.

The charts in Figures 58 and 59 do not indicate whether they show water use for irrigators alone, or are for all water users. If for the irrigation sector alone, we dispute the data used to produce the graphs. If QCA is endeavoring to investigate the efficient cost of Sunwater, lower bound costs data should be separated to clearly identify administration costs.

Table – Announced allocations for the Dawson Valley WSS. ('Medium' priority for Upper Dawson, and Lower Dawson, and 'Medium A' priority for Dawson Channel)

Year (Oct – Sept)		**Medium A Dawson Channel System Announced Allocation % (Date of Announcement)**					
2006/07	0% (1 Oct)	6% (15 Nov)	20% (31 Jan)	27% (22 Feb)	58% (29 March)	68% (1 July)	
2007/08	0% (1 Oct)	7% (9 Nov)	63% (3 Dec)	69% (8 Jan)	80% (3 April)	91% (8 Aug)	100% (15 Sept)
2008/09	38% (8 Oct)	40% (18 Nov)	61% (10 Dec)	72% (12 Jan)	93% (15 April)	100% (1 July)	
Year (Oct – Sept)		**Medium Upper Dawson Announced Allocation % (Date of Announcement)**					
2006/07	0% (1 Oct)	0% (15 Nov)	0% (31 Jan)	7% (22 Feb)	38% (29 March)	48% (1 July)	
2007/08	0% (1 Oct)	0% (9 Nov)	43% (3 Dec)	49% (8 Jan)	60% (3 April)	71 (8 Aug)	100 (15 Sept)
2008/09	18% (8 Oct)	20% (18 Nov)	41% (10 Dec)	52% (12 Jan)	73% (15 April)	80% (1 July)	
Year (Oct – Sept)		**Medium Lower Dawson Announced Allocation % (Date of Announcement)**					
2006/07	0% (1 Oct)	40% (15 Nov)	40% (31 Jan)	40% (22 Feb)	40% (29 March)	49% (1 July)	Revoked to 9% of unused, individual Entitlement
2007/08	0% (1 Oct)	0% (9 Nov)	71% (3 Dec)	71% (8 Jan)	71% (3 April)	74% (8 Aug)	82% (15 Sept)
2008/09	20% (8 Oct)	20% (18 Nov)	58% (10 Dec)	65% (13 Jan)	72% (15 April)	72% (1 July)	