CANEGROWERS

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MDFVGA

PRICE PATH ISSUES PAPERS SUBMISSION FOR THE MAREEBA DIMBULAH WATER SUPPLY SCHEME (MDWSS)

Form of Price Control

Issues for QCA to examine:

1. SunWater needs to better manage for the impact of demand variability on revenue through the implementation of efficiency measures to reduce variable costs (e.g. maintenance to reduce distribution losses & weed control.
2. Providing SunWater with a risk free revenue stream will discourage them from implementing efficiency measures to reduce their costs and will shift the risk solely onto irrigators.

Recommendations:

1. The continuation of the current Price Cap System for the MDWSS which provides stable tariffs allowing irrigators to plan their crop rotations and forecast their irrigation costs with some degree of certainty.
2. The Part A Tariff should reflect the fixed costs of the MDWSS and Part B should reflect the variable costs.
3. There should be NO rate of return, but if it must be introduced it should only be applied to the Part B Tariff

Pricing Principles for Dam Safety Upgrades

Issues for QCA to examine:

1. The Dam Spillway Upgrades have been regulated by the Queensland Government and as such they should bear the upgrade costs.
2. The financial implications for the MDWSS if irrigators are forced to cover spillway upgrade costs and pay a rate of return on investment.

Recommendations:

1. The Queensland Government has regulated the spillway upgrades in the interests of the Queensland community and therefore should take full responsibility for the associated costs.
2. The Queensland Government did not consult with the schemes about the proposed upgrades, costs and the expectation that irrigators should pay a rate of return on investment. Therefore irrigators should not be expected to bear any costs associated with dam spillway upgrades.
3. The dam spillway upgrades are of no benefit to irrigators and as such we do not accept the methodology that irrigators as ‘impactors and beneficiaries’ should bear any costs associated with the upgrades which were regulated by the Queensland Government.
4. The methodology used to determine the 1 in 100,000 year flood event is flawed and the impact downstream from the dam of a flood event of that magnitude would be felt long before the dam wall was breached.
5. The Tinaroo Falls Dam Spillway Upgrade was completed within the timeframe of the current price path so should therefore not be included in the new price path.
6. Queensland Government funds (which should be considered as a Community Service Obligation) were contributed to the Spillway Upgrades, not SunWater Funds. Therefore irrigators should not be expected to pay a rate of return on the asset.

Renewals Annuity or a Regulatory Depreciation Allowance

Issues for QCA to examine:

1. Irrigators support the existing SunWater renewals program because it outlines the expenditure on assets to be renewed / refurbished within the price path.
2. Irrigators would like to be consulted regarding the development of asset management plans and would like to be party to an annual review of the plans which would include benchmarking against ‘best practice’ to ensure efficient investment of the renewals reserve.

Recommendations:

1. The continuation of Renewals Annuity as it is more suited to long term asset refurbishment and provides for a rate of return and a value of existing assets to be maintained in perpetuity.
2. The Renewals Annuity Program should be fixed for the five year term of the price path and Irrigators should be party to an annual review of the program which includes benchmarking against ‘best practice’ to ensure efficient investment of the renewals reserve.

Tariff Structures

Issues for QCA to examine:

1. Implications of the following:
    a) Recovery of Recreational Costs
    b) Price Indexation on both the irrigators capacity to pay and on incentives for SunWater to meet service obligations
    c) Rate of Return on fixed tariffs

Recommendations:

1. The Tariff should remain as a two part tariff
2. The Part A Tariff should reflect the fixed costs of the MDWSS and Part B should reflect the variable costs.
3. The ratio of charges applied to the Part A & Part B Tariffs should be NO more than has been applied to each segment of the scheme under the current price path.
4. Retention of the existing Declining Block Tariff System for the MDWSS as this system ensures the long term viability & the capacity to pay of the larger irrigators who hold the majority of the water allocation which in turn ensures the long term viability of the scheme.
5. The declining block tariff should apply to the total water allocation held by an irrigator in the channel system irrespective of the geographical location of the properties on which water is being used.
6. Retention of the current Community Service Obligations for the Re-lift areas of the MDWSS.
7. There should be NO rate of return, but if it must be introduced it should only be applied to the Part B Tariff
8. Maintain the current Access Charge which supports the existing declining block tariff system to ensure capacity to pay of larger irrigators and therefore viability of the scheme
9. We do not agree with Price Indexation but if it must occur the increase should be based on no more than CPI
10. Water Demand Forecasting should be based on historical data over the last 7 years, but if there is a significant increase in water demand over two (2) consecutive years that yields a revenue windfall to SunWater the prices charged to irrigators in the following years of the price path should be adjusted down.
11. Recreation costs should not be recovered from SunWater customers but from the communities and direct users that benefit from the use of these facilities and from the government as a Community Service Obligation.

Rate of Return

Issues for QCA to examine:

1. Irrigators do not have the capacity to pay a rate of return on bulk assets and if they are forced to do so there is a real risk that the MDWSS will become unviable.

Recommendations:

1. SunWater is a monopoly supplier which operates under significantly low risk and with the continuation of a renewal annuity program and Part A charges to recover fixed costs there is no justification to applying a rate of return on bulk assets.
2. There should be NO rate of return, but if it must be introduced it should only be applied to the Part B Tariff.
3. If a rate of return is to be applied it should be no more than the risk free rate.
4. If a rate of return is to be applied it should only apply to schemes where irrigators are able to reach a rate of return on their irrigation businesses for more than 10 consecutive years. The rate of return applied to those schemes should reflect the average return of all irrigation businesses across the scheme.

Capital Cost Allocation

Issues for QCA to examine:

1. A clear distinction between bulk and distribution assets
2. Nominal entitlements supplied by headwork's to meet the capacity requirements for high priority, medium priority & hydro use
3. The Resource Operations Plan conversion factors which apply to the MDWSS
4. Implications of proposed utilisation factors on the payment of Part A tariffs

Recommendation:

1. Headwork's utilisation factors should be assessed on the basis of daily storage levels of the MDWSS over the 15 year term which reflects the poorest hydrological performance.
2. Same approach to allocate lower bound headwork costs