CANEGROWERS

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Professor Flavio Menezes
Chairman
Queensland Competition Authority
GPO Box 2257
BRISBANE Q 4001

Attention: Mr Darren Page (*darren.page@qca.org.au*)

Dear Sir

Irrigation Price Review 2020-2024

Thank you for the opportunity to respond to QCA's draft report Rural Irrigation Price Review 2020–24.

Representing around 75 per cent of Australia's sugarcane growers, CANEGROWERS is the peak body for the sugarcane industry in Australia. The Queensland sugar industry relies heavily on irrigation. The cost of water used is threatening the international competitiveness of farmers in our industry and in other agricultural industries across the state.

CANEGROWERS represents the interests of cane growers in SunWater's Bundaberg, Burdekin, Eton Lower Mary, Mareeba-Dimbulah, Pioneer and Proserpine irrigation schemes.

CANEGROWERS is also an active member of Queensland Farmers' Federation (QFF) and endorses the points raised in the QFF response to the draft report.

The circumstances confronting of the sugarcane industry since 2011/12 – both in terms of low international prices and constraints in accessing water due to the prevailing drought – limit the capacity of canegrowers to pay more for water over the forthcoming regulatory period.

Any increases in charges can be expected to have significant dire consequences not only for cane growers and the regional communities in which they operate. The total sugar supply value chain supports approximately $4 billion in economic activity in Queensland and over 23,650 jobs providing $1.36 billion in livelihood and wages. The industry contributes around $1.1 billion in taxation revenue to federal, state and local governments.

As previously indicated, we are also concerned that QCA has not had the opportunity to make public certain information and analysis which could be relevant to both the principles underpinning future prices and their level. Indeed, we have no details of the position QCA is proposing in relation to SunWater's proposed electricity cost pass through mechanism (in response to more recent proposals) or minimum access charge regime.

In the interests of procedural fairness, CANEGROWERS consider that further consultation is necessary should the QCA's final recommendation for irrigation water prices to be higher than that contained in the draft report.

In particular QCA:

- must consider the capacity of canegrowers to pay higher water prices over the forthcoming regulatory period.
- has the discretion to consider lower than existing fixed prices, as well as volumetric prices, when considering the moderation of bill impacts for customers and should do so.
- should not increase prices for water services over the next regulatory period for schemes where cane is the dominant crop.
- should recommend Government put in place a distinct and separate review process with appropriate consultation with all affected parties before any dam safety expenditure is incorporated in irrigation prices.
- should recommend Dam safety upgrade capex not be treated as a normal cost of operation in supplying water services to users and should only be considered for future augmentations or new schemes.
- should recommend Dam safety upgrade capex and IGEM costs be allocated to government.
- should: (a) exclude from regulatory fees the costs incurred by QCA in addressing excessive costs incurred as a result of SunWater not engaging effectively with customers and (b) that the efficient costs of QCAs review be allocated to all water users (not only irrigators).

Further details of CANEGROWERS' concerns with the draft report and recommendations to QCA are outlined in Attachment A.

More detailed scheme specific concerns will be provided in submissions by individual schemes. For example, significant concerns have been identified relating to the hydrological basis for estimating natural yield in the Giru Benefited Area which will be addressed by CANEGROWERS Burdekin submission.

Regards

Dan Galligan
Chief Executive

Cc: Charles Millsteed (charles.millsteed@qca.org.au)

QCA framework/ position	CANEGROWERS Comments
1. Price paths (Interpretation)	
The Queensland Competition Authority (QCA) view is that in 2000, the Government established a lower bound cost recovery target for irrigation prices in existing irrigation schemes that it considered was the minimum level of cost recovery for a water business to be viable. This lower bound target remains, and prices are expected to transition to it over time. (Part B, section 7.5) Government has indicated that in setting the lower bound cost as a target and establishing a gradual transition path to that target, it has considered a range of matters including: a) customers' capacity to pay b) the historical regional development driver for many of the schemes c) the benefits/costs arising from a subsidy targeting a particular sector or purpose (Part B, section 7.5.3). By recommending prices consistent with the lower bound cost target and the pricing principles outlined in the Referral, the QCA considers it has taken into account relevant Section 26 matters in the QCA Act including social welfare and equity considerations, and economic and regional development matters. (Part B, section 7.5.3)	CANEGROWERS has concerns about QCA's interpretation of the requirements of the QCA Act and the Referral. There is no evidence that Government has considered the capacity of cane growers' to pay when setting the level or timing for the achievement of the lower bound target. Section 26 of the QCA Act is quite clear in its terms <u>and is mandatory</u>. QCA in conducting an investigation that has been referred to it <u>must</u> have regard to all matters listed in section 26(1) including social welfare and equity considerations including community service obligations, the availability of goods and services to consumers and the social impact of pricing practices (section 26(1) (i)); and the economic and regional development issues, including employment and investment growth (section 26(1) (m)). The government policy position on setting lower bound cost as a target was established in 2000. In framing the current Referral, the government has not taken cane growers' (lack of) capacity to pay higher prices over the forthcoming regulatory period. QCA is obliged to do so in establishing a transition path to the lower bound target. Given the sugar industry's current economic circumstances (outlined below), it is clear the transition path should be longer than envisaged in the draft report. ***The QCA must consider the capacity of canegrowers to pay higher water prices over the forthcoming regulatory period.***
The ability of the QCA to adjust the fixed component of prices is limited by the pricing principles in Schedule 2 of the Referral. The Referral does provide the QCA with the scope to consider less than cost	The Referral explicitly requires the QCA to have regard to 'balancing the legitimate commercial interests of the businesses with the interests of their customers, including considering less than cost reflective volumetric prices which are necessary to moderate bill impacts for customers' (paragraph C (1.4).

reflective volumetric prices where necessary to moderate bill impacts (Part B, section 7.5.3).	Clause C (1.4) **does not exclude** the QCA from exercising its discretion to moderate bill impacts in any way (and indeed by providing the example of volumetric charges overrides the requirements of Schedule 2). That is, QCA has the discretion to override the requirements of Schedule 2 when considering the moderation of bill impacts. ***QCA has the discretion to consider lower than existing fixed prices, as well as volumetric prices, when considering the moderation of bill impacts for customers and should exercise this discretion.***
2. Price paths (cane growers lack of capacity to pay)	
QCA consider that 'moderating bill impacts' involves transitioning any volumetric price increases required to move to cost-reflective prices (and meet the lower bound cost objective) in a staged manner that allows users sufficient time to adjust. (Part B, section 7.5.3)	a) Since the review of SunWater's irrigation prices issued by the QCA in July 2012, the index of prices received by Australian farmers has fallen from 147.1 (2011-12) to a forecast 103.5 (2019-20).[1] b) Global sugar production is projected to increase to around 198 million tonnes in 2023–24 in the absence of substantial policy reforms in major sugar-producing countries. Continuing government support policies in China, the European Union, India, Thailand and the United States contribute to lower prices and an erosion of global trade opportunities. [2] c) Australia, Brazil and Guatemala have commenced an action in the WTO, challenging the validity of India's sugar subsidies, one cause of the global production surplus. The WTO has established a Panel to resolve the dispute. Resolution of the dispute is not expected until the end of the 2020-24 regulatory period. d) Essentially, over the next regulatory period, an initial 1% increase in sugar prices in 2019-20 is expected to be constrained subsequently by several

[1] ABARES, Sugar March Quarter 2019 accessed 9 September 2019 http://www.agriculture.gov.au/abares/research-topics/agricultural-commodities/mar-2019/sugar

[2] ABARES, 'Sugar: March Quarter 2019', accessed 9 September 2019, http://www.agriculture.gov.au/abares/research-topics/agricultural-commodities/mar-2019/sugar

	factors. These include: record carry-over stocks in India and Thailand; trends towards lower (per capita) consumption due to health concerns, sugar taxes and a substitution towards alternative sweeteners; further promotion of investment into the sugar industry in Brazil.[3] e) Unlike other farmers growing annual crops, a decision to grow sugarcane requires at least a five-year investment commitment by growers. Soil quality and climatic conditions make sugarcane the sole viable and economically valuable crop in many districts. These fixed factors when combined with high investment in farm layout, specialised sugarcane producing equipment and other assets mean for many the barriers to change are high. f) An assessment of irrigators' (lack of) capacity to pay has been outlined by the Burdekin River Irrigation Area Irrigators Ltd (BRIA) in their submission of 8 March 2019. Further, the working papers of an ACIL-Allen project being undertaken to support the development of the Australian sugar industry's trade strategy show that as a baseline the cost of raw sugar production in Australia is currently USD376/t compared with the average free traded raw sugar market price in 2018 of USD276/t. g) The adoption of more efficient technology for the application of water or sourcing water from alternative sources is not always possible for a range of reasons (including funding at a time of low prices). h) Where adjustment is possible, significant outlays and time are required before any return on the investment is received. i) Trading of water entitlements is not always available as an option.[4]

[3] ABARES, 'Sugar, September Quarter 2019', accessed 31 October 2019 http://www.agriculture.gov.au/abares/research-topics/agricultural-commodities/sep-2019/sugar

[4] The Queensland Government's Queensland Bulk Water Opportunities Statement notes that there are lower levels of permanent and seasonal trades in Queensland water markets compared with the levels of trade in southern Australian water markets and recognises that both process and regulatory changes will be required to improve their operation. See December 2018 Update.

	j) The impacts on bills over the regulatory period based on average water use and prices proposed in the draft report for cane-growing schemes, excluding dam safety upgrade costs) is significant: - Bundaberg channel (with increases of up to 16 per cent) - Burdekin channel (Giru groundwater up 41 per cent) - Eton channel (up to 22 percent) - Lower Mary channel (up to 20 per cent) - Mareeba-Dimbulah re-lift (up to 18 per cent) - Pioneer River (up to 41 per cent) - Proserpine River (up to 32 per cent)[5]. k) Having regard to expected prices for sugar, cane growers do not generally have the capacity to pay the increases in draft prices proposed by the QCA. l) Water prices should therefore not be increased over those prevailing in 2019-20 until cane growers' circumstances improve materially. m) Relying on any alternative approach, such as a hardship program to respond to individual circumstances, can be expected to involve substantial time and resources to undertake assessments. n) Any further reductions in production consequent upon the lack of affordability of purchasing water will have significant impacts on mill throughput which in many areas is already at the minimum threshold necessary to sustain production. The regional unemployment effects of any closures or further reductions in mill output are significant. The total sugar supply value chain supports approximately $4 billion in economic activity in Queensland and over 23,650 jobs providing $1.36 billion in livelihood and wages. The industry contributes around $1.1 billion in taxation revenue to federal, state and local governments. This report is

[5] QCA, 'Rural irrigation price review 2020–24 Part B: SunWater, August 2019, Draft Report', Table 100.

	available on CANEGROWERS website http://www.canegrowers.com.au/icms_docs/310175_economic-contribution-of-the-sugarcane-industry-to-queensland.pdf ***QCA should not increase prices for water services over the next regulatory period for schemes where cane growing is the dominant crop. Such schemes are: Lower Mary; Bundaberg; Pioneer; Eton; Proserpine; Burdekin; and Mareeba-Dimbula (relift).***
3. Dam safety expenditure	
QCA not to recommend which prices are to apply	
The QCA is to include two sets of appropriate prices in relation to prudent and efficient capital expenditure associated with dam safety upgrades - one set where all dam safety upgrade capital expenditure is excluded and one set where an appropriate allowance for capital expenditure forecast to be incurred from 1 July 2020 onwards is included. The recommendations made by the QCA are not required to specify which set of prices are to apply (Referral notice, Clause B (1.2).	a) As the impact of incorporating dam safety upgrade expenditure on prices can be material, a separate consultation process is required to establish whether prices should incorporate such expenditures. QCA has identified some relevant factors in Part A, section 4.8.5. Our comments on section 4.8.5 are in (c) further below. ***It is important that Government puts in place a <u>distinct and separate</u> review process with appropriate consultation with all affected parties before any dam safety expenditure is incorporated in irrigation prices***. b) Consistent with (a) above: ***Draft recommendation 3 should be adjusted to read" … , following a separate review and consultation with industry, <u>were Government to deem that prices should incorporate dam safety upgrade capex,</u> only prudent and efficient dam safety upgrade capex that is required to meet dam safety obligations should be included in any dam safety upgrade cost category".***
QCA to develop appropriate approach to apportioning expenditure	

The QCA is to develop and apply an appropriate approach for apportioning dam safety upgrade capital expenditure (Referral notice, Clause B (1.3).	
a) <u>Compliance costs not only a cost of doing business</u> QCA consider that dams in Queensland have generally been built for the primary purpose of supplying water to users, that dam safety requirements are a regulatory obligation and that it is not necessary for water users to obtain a direct benefit or operational improvement from dam safety upgrades in order for them to be allocated a share of the costs. QCA consider that costs arising primarily as a result of legislative and regulatory obligations—even where triggered by the actions of other parties or government (for example, downstream developments or the introduction of new regulatory obligations)—are a cost of doing business, as they are in any other industry (Part A, section 4.8.1).	Minister Lynham's press release (24 September 2019) in relation to the current releases from that Paradise typifies governments' views that dams have multiple public purposes and are not built solely for supplying water to users. Minister Lynham notes that: "In the meantime, Building Queensland will assess and report by February on options to ensure water security for the region for **future economic growth and to maintain community safety**." As reflected in the Minister's statement, public benefits including, community safety, future economic growth and development and preparedness for future flood events are firmly objectives of government. Indeed, the QCA has recognised that parties (other than users) should be allocated part the informal flood moderation benefits for communities downstream of dams (Part A, section 4.8.4). ***Draft recommendation 4 (a), that dam safety upgrade capex be treated as a normal cost of operation in supplying water services to users, <u>should be deleted.</u>***
b) <u>More efficient outcomes may not be achievable</u> QCA is of the view that as dam safety upgrades are a compliance cost, treating the dam safety upgrade capex as a normal cost of operation in supplying water services to customers is transparent and will help to	

signal the efficient cost of providing water supply services to irrigation customers (noting that any price signal may be tempered by the Government's pricing principles). This in turn may help to encourage efficient consumption and investment decisions (Part A, section 4.8.1)	In its Dam Safety Consultation paper[6], QCA consider that efficiency requires forward-looking costs of providing services to encourage water customers to use water to the extent they value it or trade their water access entitlements (WAEs) on temporary or permanent water markets. In many cane grower schemes, water users to do not have such options. Water trading markets are not effective or in place[7], or production in a scheme has declined for a variety of reasons (including drought) and there are few if any buyers of water allocations. Applying dam safety compliance costs to such schemes will not encourage efficient consumption and investment decisions. Rather, further cuts in production of cane can be expected as costs increase. Any such reductions in production would impose significant costs on regional communities. Only for future augmentations and new schemes would such compliance costs be relevant to efficient consumption and investment decisions. ***Draft recommendation 4(b) be amended to read dam safety upgrade capex should only be considered for future augmentations or new schemes.***
c) <u>Other considerations in allocating cost</u> QCA consider that given that the primary purpose of dam safety upgrades is to reduce the risks of dam failure to tolerable levels and have recognised the formal and informal flood moderation benefits for downstream communities. QCA do not consider that there are other reasons that warrant allocating costs to the broader community or	QCA has not directly addressed a range of other reasons raised by irrigators as being relevant to allocating costs to the broader community or other stakeholders. (Part A, section 4.8.5).

[6] QCA Consultation paper: Rural irrigation price review 2020–24: apportionment of dam safety upgrade costs. October 2018, section 5.2.
[7] The Queensland Government's Queensland Bulk Water Opportunities Statement notes that there are lower levels of permanent and seasonal trades in Queensland water markets compared with the levels of trade in southern Australian water markets and recognises that both process and regulatory changes will be required to improve their operation. See December 2018 Update.

other stakeholders and that the Government is best placed to take into account stated stakeholder concerns when it makes the decision on which set of prices it will apply (Part A, section 4.8.5)	Rather, QCA has deferred these matters to consideration by government (when government is deciding whether to incorporate dam safety upgrade costs in prices). Consistent with Referral clause B (1.3)) and section 26, QCA address the reasons raised by stakeholders to allocate the costs of dam safety upgrades to the broader community or other stakeholders. CANEGROWERS recognise that it may not be feasible or practical to unambiguously allocate these costs. For example, there may be insufficient information now to establish the initial contractual conditions that promoted irrigators' investments in a scheme. This has been a significant issue in other jurisdictions. Regulators in those jurisdictions have addressed such circumstances. In particular, IPART considers that where it is not feasible or practical to allocate costs unambiguously, and therefore to charge either impactors or beneficiaries, it is appropriate to apply the relevant charges to government. Instances cited include those relating to social welfare policy, public goods, externalities, or instances where the administrative or legislative impracticality of charging of costs occurs.[8] ***Recommendation 11 (first dot point) should be redrafted to read dam safety upgrade capex and IGEM costs should be allocated to government.*** ***[See below for CANEGROWERS position on IGEM charges].***
4. IGEM related costs	
Costs recovered are to include costs incurred by the businesses to implement the 2015 recommendations made by the Inspector-General Emergency Management (Referral notice, clause C 1.2 (b) (i).	

[8] IPART, 'Rural Water Cost Shares, WaterNSW, Water Administration Ministerial Corporation, Final Report', February 2019, section 3.2.

A. IGEM costs not incurred solely for users of water from dams QCA consider that the purpose of the IGEM recommendations is to minimise harm to downstream communities as a result of dam outflows that are directly related to the operation of the dam during flood events. On this basis, the IGEM recommendations are better viewed as a compliance obligation placed on SunWater directly in relation to the safe operation of a dam or weir during flood events. (Part B, section 2.9.2)	CANEGROWERS recognise that the IGEM recommendations place a compliance obligation on SunWater. Notwithstanding the above, in respect to the major flooding in the Callide Valley, the IGEM noted: Homes and livelihoods were destroyed, businesses suffered losses, livestock perished, and crops and fences were washed away. Many people's safety was placed at risk by self-evacuating at night, with little warning.[9] It is clear therefore that the flood impacts being addressed are not related solely to the safe operation of a dam as they include warning messages and flood monitoring. These deleted words seem counter-productive to the argument. ***IGEM cost are incurred to provide benefits to the broader community rather than water users solely.***
Prudency and efficiency of IGEM charges unclear AECOM considered that given the risk SunWater is required to mitigate, the costs incurred were prudent and cost-effective, and *likely* to achieve the outcomes expected. (Part B, section 2.9.2)	***Details of any reservations AECOM may have regarding the likelihood of achieving the outcomes expected, together with an appropriate response to any reservations, need to be reflected in the QCA's recommendations.***
A. Allocation on the basis of HUFs/nominal WAE not appropriate QCA is of the view that IGEM costs should be allocated to medium and high priority customers using HUFs for bulk WSSs, and using nominal WAEs for distribution systems (Recommendation 11, Part B, section 7.3.4)	As QCA distribution contracts have a bulk water contract, dam safety costs (and IGEM costs) should not be paid 2 times by the same customer. There are no estimates of HUFs or nominal WAEs relevant to allocating costs to all groups potentially affected by floods as not all groups benefitting from the

[9] IGEM, '2015 Callide Creek Flood Review'.

	minimised harm are users of SunWater water services. Graziers, tourists, households relying on tank water to name some. HUFs/nominal WAEs therefore do not represent an appropriate basis for allocation of all related costs (Part B, section 2.9.2). It would be difficult and impractical to seek to identify the beneficiaries, and allocate and charge beneficiaries of incurring IGEM costs according to those benefits. Therefore, the approach adopted by IPART in such circumstances should apply.[10] ***Recommendation 11 (first dot point) be redrafted to read "dam safety upgrade capex and IGEM should be allocated to government".***
5. QCA regulatory fees	
Regulatory fees charged by the Authority to the businesses to make the recommendations under this Notice up to $2.5 million are to be recovered (Referral notice, clause C (1.2 (b) (iii)).	
QCA note that: a) there was a need to allocate more of QCAs resources to certain schemes has been a result of SunWater not effectively engaging with customers or proposing prices for certain tariff groups that have complex, scheme-specific issues and that the expected cost of the review will amount to $3.1 million (Part B, section 2.9.3) b) the investigation has been impacted by the lack of relevant and timely information from SunWater, restricting the extent to which the QCA could assess some information before releasing the draft	Consistent with only prudent and efficient costs being incorporated in prices it is important that QCA exclude from its regulatory fees those costs incurred as a result of the SunWater inefficiencies identified in a) and b). CANEGROWERS also note that in developing the pricing principles, associated estimates of costs and the basis for allocating costs (water usage, HUF's and WAEs) will also be relevant to estimating urban and industrial tariff structures and prices.

[10] IPART, 'Rural Water Cost Shares, WaterNSW, Water Administration Ministerial Corporation, Final Report', February 2019, section 3.2.

report. And that, it is intended that further detailed consideration be given to SunWater's costs and stakeholder submissions in response to the draft report (eg Part B, section 2.1)	***QCA should: (a) exclude from regulatory fees the costs incurred by QCA in addressing excessive costs incurred to address SunWater not engaging effectively with customers and (b) that the efficient costs of QCAs review be allocated to all water users (not only irrigators).***
6. Asset management	
A. Shortcomings in asset management On review of SunWater's asset management plan, AECOM identified a number of shortcomings, some which QCA recommended be addressed. AECOM considered that the current planning approach had the potential to result in an overestimation of future renewals costs, or otherwise sub-optimal outcomes. QCA recommend that SunWater undertake a detailed review and as a matter of urgency: a) improve its predictive maintenance and asset condition reporting arrangements to better inform the timing of asset replacement b) review its cost estimation approach and ensure that asset values are based on modern equivalent replacement values where appropriate c) develop transparent guidelines for options analyse (Part B, recommendation (Part B, section 3.2).	While QCA has made recommendations in the body of the report no formal recommendation is highlighted. Given the prospect of overestimation of renewal costs, it is important that QCA highlight the recommendations contained in the draft report's text as formal recommendations to ensure they are addressed. Further, rather than requiring SunWater to address the identified shortcomings 'as a matter of urgency', an appropriate timetable for addressing the outstanding matters and reporting arrangements relevant to confirming and completion of the proposed timetable should be set by the QCA. ***QCA should incorporate a formal recommendation requiring SunWater to improve its predictive maintenance and asset condition reporting arrangements, cost estimation approach and develop transparent guidelines for options analysis. QCA should also establish a formal timeframe and reporting arrangements for this purpose.***
7. Electricity	
A. Incentives for adoption of energy-efficient technology AECOM noted the apparent lack of suitable interval data for several large and small sites, stating that smart metering and associated monitoring platforms are currently available and in use amongst Australian water utilities.	CANEGROWERS note that QCA has adopted the practice of 'encouraging' SunWater to undertake particular actions on a range of issues. It would be more appropriate for QCA to recommend/require particular outcomes or provide incentives for this purpose – as these may impact on cane growers' costs. See for

AECOM recommended that SunWater increase the implementation of smart metering across the remainder of its sites. QCA 'encourage' SunWater to consider investing in smart metering where the benefits from such investment are likely to outweigh the costs. (Part 2, section 2.5.3)	example labour cost capture improvement plan (Part B, section 2.1.1), revised longer-term forecasts for bulk water (Part B, section 3.5.3). ***QCA should recommend an efficiency target (other than a general opex efficiency target) that reflects potential energy efficiency gains associated with more accepted technology/practices evident from other Australia water utilities.*** ***QCA should set deadlines and reporting arrangements for SunWater relevant to other recommended initiatives such as labour cost capture improvements and revised longer-term forecasts for bulk water.***
B. Electricity pass-through QCA recommend that the water businesses or their customers should be able to apply for a review of prices within the regulatory period where either party considers there has been a material change in costs, triggered by an unpredictable change in input markets, which they are unable to manage. QCA considers that this approach supports the principles of revenue adequacy and economic efficiency by ensuring that only changes in prudent and efficient costs that are beyond the ability of the businesses to manage are reflected in prices within the regulatory period. It also mitigates the risk to customers that prices may reflect costs that are higher than the prudent and efficient level. (Part A, section 3.3.4)	In a supplementary submission[11], SunWater have proposed that a basic variable electricity charge, although starting at the same level each year of the price period, will be adjusted annually by SunWater to offset any over-or under-recovered electricity costs from the previous year. SunWater is proposing changes to SunWater's annual network service plans, which will enable customers and their advocates to monitor the energy efficiency of major assets and the prudency of SunWater's energy strategy, *without the active engagement or oversight of the regulator.* SunWater appears to have taken some liberty in interpreting the QFF (WEPC) view in relation to support for its electricity pass through methodology. QFF has offered only in-principle support of a pass through, pending further detail. CANEGROWERS consider that the pass through should be asymmetric, with irrigators sharing the benefit from electricity price/cost reductions and SunWater bearing the risk of any increases.

[11] https://www.qca.org.au/getattachment/f76ec9ea-8479-401c-9036-febaf314748d/SunWater-supplementary-submission-on-electricity-c.aspx

	The current regulatory approach masks the incentive to pursue energy efficiencies. There are questions as to how future prices might look, bearing in mind that after a step change in moving from transitional tariffs, the pressures both market and political that lie ahead are likely to be for lower rather than higher electricity prices. It is noted that part of SunWater's proposal is that if SunWater has not managed its electricity usage within the identified performance targets, customers may request a review of the prudency and efficiency of the final volumetric electricity charge by QCA under certain circumstances. SunWater also propose that: • SunWater bear the costs of its internal prudency and efficiency review. • Customers will bear the costs of a QCA review, to be included in the following years' variable electricity charge. CANEGROWERS do not support the second option as the costs would be prohibitive relative to individual canegrower's capacity to pay. Requiring SunWater to bear the cost of any QCA review would provide SunWater with incentive to ensure its energy costs were both prudent and efficient. QCA's proposed response is not yet known, and further details have been requested by CANEGROWERS from SunWater relating to potential impacts. ***Until the QCA position is known and further details on impacts available, CANEGROWERS are unable to provide further comment. CANEGROWERS and other irrigators should have an opportunity to respond to QCA's position once it is developed.***

C. Phasing out of transitional and obsolete tariffs (in 2021) Significant increases in fixed costs and some variable costs are foreseen by the QCA as tariffs are transitioned to standard business tariffs (Part B, section 2.11.3, Table 19).	This expectation pre-empts the next AER decision on electricity network tariffs in regional Queensland. ***QCA needs to reconsider the impact on the transition to standard business tariffs in the light of the AER's draft decision and Energy Queensland's response to that decision.***
8. Minimum access charges	
QCA have released a short issues paper on SunWater's proposal that QCA received on 5 July 2019. The result of a collaboration between QFF and SunWater, the minimum access charges seek to: • ensure that all customers pay the fixed costs associated with their account and that there is no cross-subsidisation between customers • incentivise customer behaviours that enable SunWater to reduce those fixed costs (for example, paying bills on time). The proposal seeks to apply a $950 access charge and is subject to a range of conditions. Stakeholders are invited to provide detailed arguments and evidence to support their views.	In principle, the objectives of the approach seem supported. Details of the manner in which the caveats are effected need to be developed (eg opt-out provisions, hardship program and the relative size of the impact of the proposed minimum access charge compared with current costs etc.) CANEGROWERS is concerned that the costs on which SunWater bases its minimum access charge exceed prudent and efficient levels. It is important that QCA review SunWater's cost structure as part of its consideration of a minimum access charge regime. ***Details of the QCA's response to the minimum access charges being proposed are not yet known and are required to support further detailed comment.***
9. Within period reviews	
QCA recommend that the water businesses or their customers should be able to apply for a review of prices within the regulatory period where either party considers there has been a material change in costs, triggered by an unpredictable change in input markets, which they are unable to manage.	As noted in 7 (B) above, CANEGROWERS consider that pass-through arrangements should be asymmetric, with irrigators sharing the benefit from price/cost reductions and SunWater bearing the risk of any increases. This will ensure that SunWater considers all options to minimise costs. Future changes in electricity costs, assessments of water yields and the recalculation of HUFs (such

QCA considers that this approach supports the principles of revenue adequacy and economic efficiency by ensuring that only changes in prudent and efficient costs that are beyond the ability of the businesses to manage are reflected in prices within the regulatory period. It also mitigates the risk to customers that prices may reflect costs that are higher than the prudent and efficient level. (Part A, section 3.3.4)	as is being considered in the Pioneer River Water Supply Scheme) are particularly relevant as they can be expected to involve changes in input costs.
10. Consultation	
QCA has noted that the investigation has been impacted by the lack of relevant and timely information from SunWater, restricting the extent to which the QCA could assess some information before releasing the draft report. And that, it is intended that further detailed consideration will be given to SunWater's costs and stakeholder submissions in response to the draft report. As a result, final prices may vary from draft prices (eg Part B, section 2.1).	CANEGROWERS is concerned that procedural fairness be observed and that stakeholders be accorded the opportunity to consider and make submissions on any QCA position on issues that have not been addressed or revealed in the draft report. These concerns also relate to receiving an opportunity to comment QCA position on electricity pass-through and minimum access charges as these were not addressed in the draft reports. ***Should final recommended prices differ materially from those in the draft report as a result of consideration of issues not previously addressed in the QCA's draft report, affected stakeholders should be afforded the opportunity to provide further comment.***