

## WBBROC Response to the QCA Draft Review of Sunwater Irrigation Pricing- 2019-2024

WBBROC acknowledges the primacy of the 'beneficiary-pays principle' in the recovery of the costs of providing a service. However, WBBROC contends that the recovery of indirect and future costs needs to more fully consider the current and future economic multipliers of bulk water use. This includes the potential impacts and costs of dam safety reviews on the affordability and supply reliability of supplemented schemes. While WBBROC recognises the QCA is constrained under the terms of the *Referral*, it is the strong opinion of WBBROC that transparency in the review of prudence and efficiency has not been fully realised.

### Prudence

At all four QCA workshops held in the Wide Bay Burnett region, a common theme of concern centred on the QCA's process of conducting the review within the Government's policy constraints rather than within the context of '*prudence and efficiency*'.

WBBROC has concerns on the QCA's interpretation of the term '*prudent and efficient*' in conducting the review. *Prudence* is defined in the Oxford dictionary as "*acting with or showing care and thought for the future*". Clearly this would suggest a need to consider the future effects of unsustainable cost increases on a scheme, community and/or economy as well as on SunWater's commercial interests. WBBROC believes that a balance of this consideration is not being considered in the longer term and that this perspective needs to consider the flow-on socio-economic benefits to the wider community and economy by the economic activity generated through the use of bulk water. Several workshop attendees expressed concerns whether the QCA takes into account the multiplying contribution of agriculture in rural communities. While the wider community currently benefits through the CSO subsidy, WBBROC believes that this is being eroded under policy decisions outside of the pricing review process and as such, a greater share of bulk water costs is being borne and absorbed by users. CSOs have reduced by a significant proportion of total costs over recent years; a concern shared by water users in several workshops.

Concerns have also been raised at several QCA workshops about both the prudence and efficiency of an electricity pass-through mechanism, particularly since most irrigators can't directly pass through increased costs to customers. In some schemes (Lower Mary, Bundaberg, Barker-Barambah), the proposed electricity pumping costs on a \$/ML basis appeared higher than industry best practice, in

some cases significantly so. This is further accentuated by the monopoly status of electricity distribution (commonly also government -owned corporations) in regional Queensland.

### **Capacity-to-Pay**

Several workshop attendees expressed concerns as to how the QCA assessed '*capacity to pay*' in recommending its draft prices. Pressures from commodity prices, climate change and spiralling electricity costs are forcing many users to consider their future, particularly in the cane industry. While the proposed increases in bulk water prices are not sufficient in isolation to cause insolvency, in combination with the other pressures, even modest price rises can contribute materially to structural impacts.

Views were also expressed that the QCA should more strongly voice these capacity-to-pay concerns in the final report.

### **Efficiency**

Similarly, *efficient* is defined in Oxford as "*achieving maximum productivity with minimum wasted effort or expense*". This comparative definition implies the need for an appropriate benchmark, such as industry best-practice. While WBBROC recognises the difficulty in identifying a directly comparable service provider, greater efforts need to be demonstrated in examining the efficiency of SunWater's operations to satisfy this metric. Failing the identification of a suitable benchmark, referral to the Queensland Productivity Commission for investigation should be considered.

Confidence in this regard has been diminished by several proposals for increased charges on bulk water users including electricity cost pass-through mechanism, access charges, and ..... Sunwater's revision of its November 2018 proposal mid-review is seen as a lack of financial foresight and suggests that Sunwater's accounting and planning processes are either ad-hoc or short-sighted.

Additionally, the inclusion of SunWater's last-minute proposal to consider a \$950 annual access charge on all users suggests an ambit claim and raises questions on Sunwater's ability or desire to efficiently service all customers in the longer term. As a statutory entity, Sunwater surely has a social obligation to provide access regardless of scale without individual disadvantage and the logical extension of this mechanism is that as Sunwater will progressively favour only the more profitable customers. Consultation on this proposal has been virtually absent in the QCA process apart from peak industry bodies such as QFF who may not necessarily represent all disaffected users.

Other cost components that are not adequately detailed include how insurance costs compare to water businesses in other jurisdictions (e.g. Water-NSW) and how events in other schemes such as those in North Queensland in 2019 have impacted on the insurance costs for schemes in southern Queensland. Concerns were also raised with the level of price increase associated with dam safety upgrades, and the subsequent impact on short term affordability of water to users in those schemes.

WBBROC believes that the current arrangement for cost-reflective and lower-bound pricing does not adequately encourage commercial levels of efficiency in Sunwater and as such do not clearly align with the competitive neutrality provisions of the Qld Productivity Commission Act 2015 and its Regulation.

In conclusion, WBBROC has long recognised the crucial contribution of water for economic vitality of the Wide Bay Burnett region and while WBBROC recognises the need for diligence in cost recovery, the equity of apportionment is crucial to ensuring that cost recovery burdens are shared across all beneficiaries in the regional and state economies.

## **Conclusion**

WBBROC requests firstly, that QCA review the efficiency of SunWater's operations relative to commercial best practice and secondly, that the QCA limit the cost of access to bulk water to the minimum proscribed under the terms of the Referral. Finally, WBBROC requests that QCA defer the electricity price pass-through and the access charge mechanisms until more effective consultation occurs.

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