QUEENSLAND FARMERS' FEDERATION
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Submission

3 September 2021

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Submitted online: www.qca.org.au/submissions

Dear Sir/ Madam

Re: Rate of return review, Draft report (June 2021)

The Queensland Farmers' Federation (QFF) is the united voice of intensive and irrigated agriculture in Queensland. It is a federation that represents the interests of 20 peak state and national agriculture industry organisations and engages in a broad range of economic, social, environmental and regional issues of strategic importance to the productivity, sustainability and growth of the agricultural sector. QFF's mission is to secure a strong and sustainable future for Queensland farmers by representing the common interests of our member organisations:

- CANEGROWERS
- Cotton Australia
- Growcom
- Nursery & Garden Industry Queensland (NGIQ)
- Queensland Dairyfarmers' Organisation (QDO)
- Australian Cane Farmers Association (ACFA)
- Queensland United Egg Producers (QUEP)
- Turf Queensland
- Queensland Chicken Meat Council (QCMC)
- Bundaberg Regional Irrigators Group (BRIG)
- Burdekin River Irrigation Area Irrigators Ltd (BRIA)
- Central Downs Irrigators Ltd (CDIL)
- Fairbairn Irrigation Network Ltd
- Mallawa Irrigation Ltd
- Pioneer Valley Water Cooperative Ltd (PV Water)
- Theodore Water Pty Ltd
- Eton Irrigation Scheme Ltd
- Pork Queensland Inc
- Tropical Carbon Farming Innovation Hub
- Lockyer Water Users Forum (LWUF).

QFF welcomes the opportunity to provide comment on the Rate of return review, draft report (June 2021). We provide this submission without prejudice to any additional submission from our members or individual farmers.

Overview

QFF made an initial submission in February 2021, on the Rate of Return review. Unfortunately, the latest draft report does not acknowledge the risks outlined in the submission which currently impact the agricultural industry. These risks are bound within the underlying pricing structures and monopolies that our members rely on to keep their businesses viable. Financial sustainability is not a factor in determining rate of return, as various monopoly providers of water and electricity in Queensland, base their pricing on a regulated pricing models employed by the QCA.

QFF previously acknowledged that determining the rate of return is an important aspect of economic regulation, due to the variety of impacts it can have on the revenues of the regulated entities and the onflow of prices paid by their customers. It is an imperative that financial sustainability be built into the pricing model, for both suppliers and customers, otherwise the continual flow of excessive returns to the service providers that supply the agricultural sector with water and electricity, may see a decline as customers seek alternative opportunities or simply disconnect.

As noted in the QCA, rate of return review - request for comments paper[1] referenced in the current draft report, the QCA have done little to address the concerns from the agricultural sector that government-owned entities should have a zero rate of return. Government regulated services such as water, should have a zero rate of return, however if costs are 1% then this is what the rate of return should be.

The response from the QCA in the rate of return review draft report[2] stated that under their statutory obligations, they are limited to act a variety of matters due to a range of factors, depending on the part of the QCA Act that applies and, as such, conducting an investigation into monopoly businesses could inhibit the abuse of monopoly powers but also protect pricing practices as to not discourage socially desirable investment.

The failure to address the underlying reasons for inequitable rates of return, will ensure that monopolies of water and energy (which are vital for the agricultural sector to remain sustainable), will continue to see profits rise rather than providing a service at cost to their customers. As noted in our prior submission, government owned monopoly suppliers of water and electricity should have a cost of capital set using actual costs rather than excessive inflated returns.

QFF does not support the QCA's assumptions regarding lower prices, in particular, the reference in the draft report, 'if the QCA set a rate of return that is too low, then prices will be too low, causing excess consumption and as a result could potentially result in a poor allocation of the good or service.'[3] And that 'a rate of return that is too low will also lead to investment that is too low, as the firm will not have an incentive to invest at the efficient level, and will compromise efficiency.'[4]

QFF requests that the QCA seeks to develop solutions to assist regional communities, that should have water and electricity supplied at cost, securing economic activity and job security. These views have

1 QCA, Rate of return review, request for comments, November 2020.
2 QCA, Rate of return review, draft report, June 2021.p6.
3 QCA, Rate of return review, draft report, June 2021.p6
4 QCA, Rate of return review, draft report, June 2021.p6.

been articulated by QFF members Pioneer Valley[5] and Eton irrigation,[6] who are also concerned about the continual increase in costs of both electricity and water across their region.

QFF continues to seek further intervention from the QCA to investigate an alternative pricing strategy that is not only equitable for all, but sustainable for the future, that also takes into effect climatic variations that may not have been considered in pricing strategies in the past. Innovative and proactive solutions are required.

Summary
To summarise our previous response:-

• Rural Water Delivery Business - It is the policy of the Queensland Government that rural water deliver charging should be set at "Lower Bound Prices".
• Regulated business such as electricity network companies which have Federally mandated revenue caps should be assessed as to being either entirely "Risk Free Businesses" or provided with only a very marginal risk rate. The reality is that these businesses operate in an extremely "low risk" environment.
• There appears to be a significant lag between the commercial "spot" cost of capital, and the Cost of Capital granted regulated businesses. The cost of capital should never be greater that the "spot "rate that government and their associated entities can borrow at.

There should be no excessive returns for the regulated businesses that supply the agricultural sector (or other sectors) with water and electricity, nor should the QCA rely on data that focuses on revenue adequacy rather than whether returns are consistent with the monopolised regulators regulating the industry. QFF therefore requests that the QCA investigates the economic viability and long-term sustainability of the monopoly providers, as well as the consumers of water and electricity under the constant rate of return.

If you have any queries about this submission, please do not hesitate to contact Ms Sharon McIntosh at sharon@qff.org.au.

Yours sincerely

Dr Georgina Davis
Chief Executive Officer

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5 Pioneer Valley Water Co-operative Limited, sub. 4: 1; QCA, Rate of return review, draft report, June 2021.
6 Eton Irrigation, sub. 11: 2; QCA, Rate of return review, draft report, June 2021.