BUNDABERG REGIONAL IRRIGATORS GROUP
REPRESENTING MEMBER IRRIGATORS IN THE BUNDABERG IRRIGATION AREA

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Registration of Interest and initial submission to QCA Irrigation Prices for the Bundaberg Scheme 2011 to June 2016

Introduction

Bundaberg Regional Irrigators Group Ltd (BRIG) has been established to represent irrigators in the Bundaberg district across a range of commodity groups including sugarcane, grain and horticulture. Our purpose is to ensure a fair and reasonable system exists for the charging of use and access to water for irrigation purposes; to support and encourage self-management of the Bundaberg Irrigation scheme/s; and develop projects and policy to ensure the efficiency, viability and sustainability of irrigators in the Bundaberg Region.

A large number of BRIG members are irrigators in the SunWater Bundaberg Scheme. We are based in Bundaberg and will bear the consequences that arise from the implementation of future price paths and as such wish to register as an Interested Party with QCA in this process.

We welcome SunWater's written advice to Bundaberg customers that QCA will provide its advice in an open, transparent and consultative way and would like to formally advise QCA that we appreciate the opportunity and look forward to providing QCA with assistance in this process.

Whilst we have members that are members of other organisations we have no affiliation with QFF, Queensland CANEGROWERS, GROWCOM or any other peak body who may purport to be representing our irrigator's interests.

BRIG does enjoy unequivocal support from Bundaberg CANEGROWERS Ltd, Bundaberg Sugar Services Ltd, and Bundaberg Sugar Ltd.

Comments on the terms of reference

BRIG is disappointed that the Minister's terms of reference issued to QCA do not allow consideration of the following issues related to water pricing:

- Self management - The opportunity to examine whether local/self management can reduce water costs as well as improving service standards.

- Service standards - There was insufficient time for customers to examine the service standard /price relationship during the previous water pricing negotiations and there was an undertaking and an expectation that this would be considered in the next available process. (How can you set price without knowing the service level?)

- The Bundaberg Irrigation scheme was built when both federal and state governments considered such infrastructure projects as nation building and they sought no direct rate of return on the capital invested from irrigators. The COAG agreement of 1994 changed this approach with governments now seeking a rate of return on schemes that were not designed to meet these costs.

  In the Bundaberg Scheme, internal cross subsides have supported sub sections of the scheme that would not be justified under a more stringent investment policy.

  BRIG believes that the National Water Initiative (NWI) requires that these within scheme cross subsidies now cease. The option of a CSO for part of a larger scheme does not appear to have been considered.

- The Minister's direction that a rate of return be sought on dams and weirs and that no rate of return is sought on existing channel assets appears to continue the past and present discrimination against river irrigators.

  While SunWater charges per Ml are lower for river irrigators than channel irrigators, the final delivered cost of water for river irrigators is higher in many instances. This is, primarily due to the fact that they have to fund their own infrastructure and in some cases very significant energy costs associated with high lifts from the river.

  In the past price path, river irrigators were discriminated against by the State Government's direction that no water charges could be reduced (down to lower bound).

<u>Matters to be addressed within the current terms of reference</u>

BRIG expects the topics to cover the following issues:

Tariffs
BRIG is seeking to have a tariff structure (known locally as "nodal point pricing") introduced that complies with the terms of the National Water Initiative (NWI) – *"give effect to the principle of user-pays and achieve pricing transparency in respect to water storage and delivery in irrigation systems and cost recovery for water planning and management" (Clause 64 iv).*

Differential tariff structures are already in place within SunWater schemes:

- Water from Paradise dam within the Bundaberg scheme and
- Re lift within the Mareeba Dimbulah Scheme.

BRIG acknowledges that the cost associated with the allocation of all Sunwater costs to a nodal point may increase the schemes administrative cost and as such proposes that only electricity (pump station) costs be allocated on a nodal point basis.

It should be noted that the Bundaberg Scheme has very high energy costs per Ml delivered compared to most other schemes and that variable and sometimes very high energy costs are incurred delivering water to different sections of the scheme.

BRIG suggests that nodal allocation of any return on capital component on **new** channel investment may also be required.

Allocation of fixed costs
The Synergies report on January 2010 suggests that the current price path continues to discriminate against the river irrigators (see cost allocation section on page 142). Allocating office costs between river and channel irrigators on the basis of nominal allocation would appear to be unfair.

Intuitively the number of staff per Ml involved in river operations must be much less than those involved in the channel operations.

2 or 3 part charges
BRIG believes that the 3 part charge system used in the Mareeba Dimbulah area is more transparent and allocates more equitably the administrative costs between large and small consumers.

This might become a 4 part charging system to allow nodal price energy charges to be added.

Part A vs. Part B split

The current channel water 70% Part A 30% Part B split, on average only matches Sunwater costs and the customer's charges at one level of water use. There is further distortion when this is analyzed on a nodal point basis. The introduction of nodal point pricing and the adoption of partitioned charges will simplify this issue and remove the distortion between large users and sleepers and dozers caused by the present system.

Drought tariff and revenue cap

BRIG believes that there would not be sufficient interest within the Bundaberg Scheme to adopt either of these approaches. However, a tariff which matches more closely farm outgoings with income would interest some customers. We believe that there is potential to offer a choice of tariffs in a similar way to the choice offered by our electricity supplier.

Adoption of capacity sharing or continuous accounting

BRIG is a proponent for the adoption of capacity sharing or continuous accounting within the Bundaberg scheme area. It would be most unfortunate should anything in the new pricing system prevent the adoption of a system that would improve farm productivity within the scheme area.

Other charges

It is not clear from the terms of reference whether QCA will examine all of Sunwater non-tariff charges. For example, special meter reading (usually required when farms are sold) is now charged at $117.00 per hour. Justification for this level of charge would be of interest to most customers.

Capacity to pay and return on investment

Until more details of the process are released, BRIG is unable to comment more meaningfully on these issues. BRIG reserves the right to add additional requests for information when this information is released.

Our initial thoughts and requests for further information and clarification include:

- BRIG acknowledges that the Minister has included a capacity to pay caveat on the requirement for prices to move to upper bound under the NWI agreement. BRIG believes this will moderate any increases flowing from the move towards upper bound.

- BRIG is sceptical that any meaningful capacity to pay model can be developed. A 15 year time scale in a diverse farming system will add layers of complexity. Despite this BRIG expects that sugar cane will still be the major water user over the next 15 years.

- Is BRIG correct in assuming that the value allocated to the scheme's dam and weir assets will be set for ever by this current process?

- Is BRIG correct in assuming that the greater the gap between lower and upper bound that is recovered in the new prices, the higher the asset valuation will be?

- The current lower bound pricing contains a capital component for refurbishment. Is BRIG correct in assuming that a return on this capital will be sought? This leads to questions about how Sunwater will allocate costs to capital or repairs and maintenance.

- BRIG is concerned that without a dedicated sinking fund to cover future asset maintenance and renewals irrigators may potentially be charged at the WACC at the date the capital expenditure took place.

  We would appreciate QCA's views on the pros and cons of retaining a dedicated sinking fund.

- Will the full value of local spillway upgrades be included in the asset valuation?

- Will the capital charge paid on channel assets increase over time as the asset value of refurbishment accumulates?

- Are the river water customers' meters a dam and weir asset or a channel asset?

- All irrigators pay the full Sunwater cost to have a new outlet installed. The customer cannot use a competing supplier. Ownership of the meter remains with SunWater. How should these be treated when valuing assets?

  Similarly, are channel upgrade costs that a purchaser of Paradise water may have to contribute to in order to have SunWater deliver their purchase be treated as new capital and a rate of return calculated on this investment?

Treatment of annuity balance
The most recent Sunwater annual report suggests that Sunwater holds in its accounts some $1.5 M paid by existing customers for scheme refurbishment. BRIG contends that these funds be retained for Bundaberg under any new pricing system.

Paradise Dam
BRIG is of the opinion that Burnett Water (SunWater subsidiary) should pay Part A charges for unsold Paradise Dam allocation. Clarification as to the treatment of income from Paradise electricity generation is also sought.

<u>Additional Comment and Further Submissions</u>

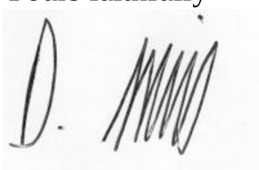
This submission has been developed in response to the information provided on the QCA website and drawing from previous experience of the current price path processes.

BRIG anticipates that significant further information will become available to allow stakeholders additional informed comment on the issues to be addressed.

As such BRIG may raise additional issues, or provide further detail on issues identified in this submission to QCA

Further information or clarification can be provided on any aspect of this submission. Enquiries should be directed to Mr. Dale Holliss, Secretary, Bundaberg Regional Irrigators Group Ltd on (07) 4151 2555.

Yours faithfully



Dale Holliss
Company Secretary