Submission

8th March 2019

Queensland Competition Authority

GPO Box 2257

Brisbane QLD 4001

Dear Mr Page

Re: Rural irrigation pricing review 2020-24

2PH Farms has water allocations across 3 irrigation schemes in Queensland and uses that water to produce some of the best citrus and table grapes in the world. To continue to grow in the local and world markets, it is important to not only have the best quality products but to ensure it is delivered onto the consumers shelf at a competitive price. With that in mind we ask QCA to consideration the issues raised in this submission.

1. Headworks Utilisation Factor (HUF)
2. Declining Block Tariffs
3. Non-Routine expenditure
4. Overheads (Non-direct costs)
5. Inspector-General Emergency Management (IGEM)
6. Dam safety upgrades, Dam Improvement Program (DIP)

Headworks Utilisation Factor

The HUF being proposed by SunWater for the Nogoa Mackenzie scheme to allocate costs is changing from 45% Medium Priority (MP)-55% High Priority (HP) to 28% MP-78% HP. This is having a very large impact on the price for HP allocations. The cost allocation process through the HUF is very different to the conversion factor set under the water planning process of 3 MP to 1 HP.

The reasons given for the major changes are:

- New IQQM.
- Change to water allocation entitlement groupings
- Removal of the Bedford weir Bag.

In response to this

- There was a very small amount of change in the new IQQM.
- With the change to water allocation entitlement groupings, again a very small change, in MP allocations being converted to HP allocations. The IQQM takes into consideration the minimum and maximum volumes allowed to be converted.
- The removal of the Bedford weir Bag has been presented to water uses, by SunWater for the last 9 years, as not impacting scheme reliability and now they are saying that it impacts on the HUF. Is SunWater proposing that the HUF has nothing to do with reliability of supply?

2PH recommends that QCA review the HUF methodology being used in the Nogoa Mackenzie scheme.

Declining Block Tariffs

The declining block tariff was allowed in the current price path in the Mareeba Dimbulah scheme. 2PH would like to contend that the declining block tariff approach is:

- an impediment to the trading of water and allocation,
- does not promote competition across industries,
- does not consider economic and regional development issues, including employment and investment growth.

Currently this is a fully allocated scheme with some of the highest allocation values in the state. This scheme also has an access charge to ensure small users do not impact on the costs allocated to large users but has a tariff in place so that small users subsidise large users.

Before QCA makes the same mistake again, 2PH recommends they review Section 26 requirements of the QCA Act and remove the declining block tariff.

Non- Routine expenditure

Before any review starts on non-routine costs, all flood costs need to be established and removed from the non-routine annuity balances.

There needs to be a major review of SunWater's Asset Management System (AMS). The failure of the AMS to deliver, is driving the costs of the Non-Routine expenditure. This is due to the cost of running the AMS and the inefficiencies of the approach. The asset condition assessments have and are continuing to push the assets replacements into the future but at the same time are consuming the annuity balances set aside to replace them through very expensive asset condition reporting.

2PH recommends a review of past and future non-routine expenditure with a focus on the AMS as well as the removal of all flood costs that should be covered under insurance.

Overheads (Non-direct costs)

SunWater has used the 2018/19 water year forecast cost as the base year when establishing overheads. This has missed the large increases in overheads for most schemes in 17/18 and 18/19 years, more so for the distribution schemes.

2PH is recommending QCA review the step increases in overheads and report on the prudence of the driver and allocation of these costs.

Inspector-General Emergency Management (IGEM)

It needs to be pointed out the new costs proposed to be allocated to water uses for IGEM is on top of the costs already being meet by them for flood mitigation and a very large network of existing SunWater Stream gauging stations which are available to be used and are used in all flood modelling and monitoring.

If the dams were not in place, there would still be a requirement to manage the risk during events to assist populated areas within these zones. The requirement to manage the risk is not brought about by the capture of water, so the cost should not be passed on to the people using the water alone.

2PH recommends that QCA review the requirement for, the efficient cost of, allocation of, and beneficiary pays approach for the IGEM costs. If QCA were to consider the cost be allocated to water users, water users would demand the flood mitigation benefits from the dam be allocated a cost through the HUF.

Dam safety upgrades, Dam Improvement Program (DIP)

Dam safety is one of the largest cost increases for the schemes that are affected. It is impossible to see how water users can be asked to pay for something they were not involved in, for the cost and requirement of.

Data from Emerald as an example:

The dam spillway reduces a 100-year ARI to a 50-year ARI through the town of Emerald. This reduces the total tangible damage from the 2008 flood from $251.2M to $27.4M or a reduction in residential properties flooded of 78% - GHD Peer review report for Central Highlands Reginal Council (CHRC). This report also states the Probable Maximum Flood (AEP, 1 in 80,000) will inundate the town of Emerald to a depth of several meters and yet currently there are major works happening to the dam to protect the town that will be under water in a 1 in 200 year flood event which is likely to happen well before the DIP design flood event.

Throughout the state of QLD most Local council limit developments to areas that are above the modelled 1 in 100-year flood height. Most of the communities that the dam safety upgrades (1 in 100,000-year event or PMF) are trying to protect will be completely inundated in a 1 in 200-year event.

Using Emerald as an example again:

Poor Local and State Government planning has seen bridges built having had no flood impact assessments completed. Currently this has resulted in a very large percentage of the flooding throughout the town in any event above a 1 in 25year ARI. Why are we even discussing the cost allocation of DIP when Government continues to turn its back on its own responsibilities to rectify existing infrastructure problems within the communities associated to the DIP.

You cannot separate dams that are classified as flood mitigation dams, from dams that have a large flood mitigation benefit due to their design. When a dam has been in place for some time the mitigation benefit of the structure is taken advantage of, by development occurring in areas that would not, pre-dam, have been developed. This development is then a trigger for dam safety upgrades as it is populated. How can the water user then be asked to pay for the dam safety upgrade?

At some point someone needs to ask the question about affordability. The example of this is the populated areas downstream of the dams that have been developed to service the industries, established from the water made available from the dams. If the cost of the water is pushed beyond affordability of the industries by having to pay for the upgrades, the populated areas will no longer exist and there will be no requirement for the safety upgrade or even the dam. The cheapest option would be to do away with the dam.

This highlights the fact that the cost allocation process of the dam safety upgrade program needs to be opened to all, not just water users, as the affordability of complete towns and industries is at risk.

It is impossible to believe a regulator is asking customers of a monopoly provider to comment on a cost allocation process for a major cost item like dam safety without any detailed information on the cost and requirement.

2PH believes the cost of the DIP is a community cost, driven by Government requirement and recommends that both Government and community pay. If QCA were to consider the cost be allocated to water users, water users would demand the flood mitigation benefits from the dam be allocated a cost through the HUF.

Yours sincerely,

Craig Pressler