SUBMISSION

ON

QCA REVIEW OF

BURDEKIN HAUGHTON WATER SUPPLY SCHEME

04 November 2002

INTRODUCTION

This submission is from the Pioneer Valley Water Board that owns and operates an irrigation water supply scheme in the Pioneer Valley at Mackay. The water supply is obtained in bulk from the Pioneer River Water Supply Scheme which is operated by SunWater. The Pioneer Valley Water Board has provided this submission as it is most concerned with the implementation of price paths in Queensland in total ignorance of the impact of irrigation water pricing on rural and regional economies. The predominate impact is the potential stagnation of agricultural production due to in-affordability of irrigation water particularly in areas where production returns are dictated by world market pricing that is corrupt. This is the current situation in the sugar industry which is the major crop irrigated in the Burdekin and is the only crop irrigated at Mackay.

The other major concern is the lack of credibility from water users for the so called "efficient" costs for operation of irrigation schemes that were adopted by the Queensland Government's Water Reform Unit for setting lower bound cost recovery targets on which the price paths were based. Also, it is apparent that the commercial agenda set for SunWater by the Government ignores the general intent of COAG which is to provide for the sustainable management of water resources in Australia.

This submission covers two main areas, the validity of lower bound cost recovery targets and the appropriate rate of return on irrigation water supply assets.

LOWER BOUND TARGETS

The Premier's Task Force that was established in late 2001 was clearly informed of the high level of dissatisfaction from irrigators of the process adopted by the Water Reform Unit to set lower bound cost recovery targets. It is accepted that the consultation phase for the establishment of water pricing arrangements following the current price paths is now beginning and will hopefully take more notice of irrigator concerns than the previous exercise. However, the situation remains that much of the unrest over pricing is that the efficient costs used to set the lower bound targets are seriously flawed.

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A further concern with the process of price path setting is the total refusal by both Government and SunWater to make available to water users the detailed cost data for schemes. With this approach from Government and the cost concerns above, there is little wonder that the situation with pricing in the Burdekin has developed.

SunWater recently announced that it has been able to achieve efficiency targets more quickly than had been anticipated by the WRU. This is not surprising when close examination of the efficient costs set (as outlined for the Pioneer) show them to be extremely generous to SunWater and very detrimental to users.

It is of serious concern that the Ministers' Direction for the QCA review of the Burdekin pricing did not permit review of the lower bound costs for the price path. It is quite apparent that, in a number of schemes not only the Burdekin, there is a rate of return included in the lower bound. Surely this approach has stepped well outside the guidelines set by COAG for water reform in Australia.

There is no prospect for the QCA analysis of the pricing issues in the Burdekin as presented in the draft report to be accepted by irrigators while there remains the concerns as expressed herein over the efficient cost targets that have been used as the basis for price paths.

APPROPRIATE RATE OF RETURN

Chapters 6 and 7 of the draft QCA Report provide an extensive coverage of the matter of rate of return on assets. Unfortunately, the discussions focuses more on the commercial agenda set by the Government for SunWater than it does on the real issue involved which is the future viability of irrigated agriculture in Queensland. It is a commercial given that entities must achieve a return on assets but, if this leads to the demise of irrigated agriculture through unaffordable water, then there is no gain for any stakeholder. All that happens is for rural communities to shrink further and more reliance on the social system develop.

As discussed previously, the matter of present rate of return is compounded by the firm belief by water users that the lower bound cost recovery targets are well above the true efficient costs to operate schemes.

The COAG water reforms have had some success in other states where water has moved to higher value crops and increased the level of affordability for irrigators. It is interesting though that Governments in those states have chosen to hand over the control of the irrigation assets to local management and not establish Government owned entities to require a return on the assets which is simply another form of State taxation.

The situation in Queensland is far removed from other states where monocultures of sugar cane exist in irrigation schemes and where there is no higher value crop to move water to unless there is to be major shift from one agricultural industry to another. This shift cannot occur without major impact on total regional economies involving all levels of stakeholders, not just the irrigation water users who are the current targets of the water reforms.

It is totally unacceptable for the QCA to suggest that a rate of return of some 8% plus is appropriate for existing schemes with the only justification being that "Corporatised entities, such as SunWater, are required to operate on a commercial basis and to enhance the value of their business to shareholders". With the issues raised above, this only increases irrigators concerns that the agenda is to increase commercial returns to Government rather than support an efficient and productive irrigation industry in Queensland.

For existing irrigation schemes, the rate of return on assets should be zero in line with the minimum COAG requirements unless there is open and transparent negotiation by Government with irrigators on all aspects and impacts of a rate of return policy in individual schemes. The negotiations should include, as a bare minimum, the following.

- The true efficient costs of scheme operation
- Economic analysis of irrigated agriculture on a regional basis
- Capacity of irrigators to pay