

QLD COMPETITION AUTHORITY

08 APR 2002

DATE RECEIVED

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5 April 2002

Mr. E. J. Hall
Chief Executive
Queensland Competition Authority
GPO Box 2257
BRISBANE Q 4001

Dear Mr Hall

I refer to your invitation to this organization to make a submission to the Burdekin Haughton Water Supply Scheme - Assessment of Pricing Matters.

This submission is being tendered on behalf of the Queensland Farmers Federation, Canegrowers, Queensland Irrigators Council and other members of the QFF Water Task Force (i.e. Cotton Australia, QLD Fruit and Vegetable Growers, QLD Dairyfarmers Organisation and QLD Pork Producers).

Your letter of 31 January outlines the key issues the Authority is required to address. It is understood that the assessment is not to consider 'lower bound' pricing issues.

This submission will not address matters of detail concerning the Scheme (e.g. historical issues, local management arrangements etc). QFF expects these issues to be addressed by local stakeholders including the Burdekin River Irrigators Association.

Issues that QFF would expect to be addressed as part of the assessment are as follows:

1. Why was the scheme originally developed? Was it part of a larger project? What was the need for the scheme? What were the benefits/costs of the scheme expected to be? How was the scheme to be financed? What was the planned scope of the scheme/project?

In other words, a decision was made many years ago to proceed with planning and development of the scheme as part of a larger water development project. The implications of that decision must be taken into account in this assessment. For example, the decision on financing and pricing for the scheme would have involved consideration of longer-term economic development benefits for the Burdekin region and the State. The Burdekin Dam project had State and Federal backing for a range of development reasons not just irrigation development.

QFF has some concerns as to how these issues can be adequately assessed on a project specific basis given the nature of past project development policy and assessment processes. The Authority must also consider the scheme within the wider context of water resource development policy at the time.

QFF Members

Agricultural Business Alliance of Queensland

- . Brismark
- . BUNDABERG SUGAR
- . Kilcoy Pastoral Co
- . KPMG
- . PORT OF BRISBANE CORPORATION
- . QUEENSLAND COTTON
- . Rabobank Group
- . University of the Sunshine Coast

Australian Prawn Farmers Association Inc.

CANEGROWERS

COTTON AUSTRALIA

Emerging Primary Industries Group

- . Aquaculture Council of Queensland
- . Australian Ginger Growers Association
- . Biological Farmers of Australia
- . Fraser Coast Essential Oils Association
- . Queensland Flower Growers Association
- . Queensland Olive Association Group

Nursery & Garden Industry Queensland

Queensland Chicken Growers Association

Queensland Dairyfarmers' Organisation

Queensland Fruit and Vegetable Growers Limited

QUEENSLAND IRRIGATORS COUNCIL

Queensland Pork Producers Inc.



Rabobank Group

Sponsors of QFF Financing Agriculture

2. How was the scheme developed and financed? What were the key development stages? Were there subsequent Government decisions that significantly altered the overall policy approach to the scheme?

It will be important to consider what actually happened with the development of the scheme compared with the initial decision. For example staging decisions may reflect different development pressures from within the irrigation sector and also from other sectors such as urban and industrial development. The scheme has always had an oversupply of water. How was the issue of spare capacity addressed?

3. What pricing policies were adopted over the life of the scheme to date that may have impacted on pricing? What were the implications of these policies?
4. As part of the determination of the five-year price paths, the Government conducted an assessment of the value of scheme asset base. It was understood that the Government revalued that share of its asset base for rural irrigation water delivery purposes. However, issues that were not clearly defined included:
 - How was the share of the asset base for irrigation water delivery purposes determined?
 - Details of the method used to value the asset base?
 - Did the asset valuation methodology take account of excess capacity, over-engineering, sub-optimal design and construction and poor location?
 - What alternative valuation methodologies such as cost or valuation based approaches could have been applied to the scheme?
5. QFF has concerns about the efforts made to value the assets for the Burdekin and other schemes as part of the five-year price paths. We would expect that an assessment of the valuation methodology, as outlined in item 3, would support our concerns. Accordingly, it is considered that the asset valuation for the Burdekin scheme be reviewed to:
 - Determine the preferred valuation approach.
 - Review the valuation in accordance with the preferred approach.
 - If a cost based approach is selected it would be expected that there would be a rigorous analysis of optimization of the asset base
 - Ensure all relevant assets have been taken into account (e.g. working capital, community assets (recreational, road access) land resumptions etc)
6. The terms of reference for the assessment specifically requires that there be an assessment of capital contributions, if any, made by irrigators, the Commonwealth, State Government and other parties. It is understood that the Authority would establish as clearly as possible how a capital contribution is determined and how it should be treated for the purposes of this assessment.

While the terms of reference for this inquiry relates primarily to the Burdekin Haughton Water Supply Scheme, the findings of the assessment will have implications for future policy discussions. In this regard it would be useful for the Authority to report on the framework used for the assessment and how this framework relates to CoAG requirements re upper and lower bound pricing and approach adopted by the Government to develop the 5 year price paths.

There is some concern amongst QFF members that the QCA Burdekin review may compromise the outcome of any future statewide policy review. QCA is asked to clarify the role the Authority plays in undertaking reviews such as the Burdekin.

Yours Sincerely

A handwritten signature in black ink, appearing to read "B. Casey", enclosed within a circular scribble.

Brianna Casey
Executive Director