

Mary Valley Water Supply Scheme

SEQWater Irrigation Price Review 2013 – 2017

Introduction

The basis for the following comments on the irrigation pricing path for the period 2013 – 2017 have been based on Volumes 1 and 2 as prepared by Queensland Competition Authority on the proposed SEQWater pricing policy for irrigated water drawn from the Mary River.

There are matters relevant to the operation of Borumba Dam, which remain silent in the two volumes addressing pricing policy, which warrant consideration by the Queensland Government if the operation of Borumba Dam is to reflect its value as a long-life infrastructure.

Once long-life infrastructure, which does not deteriorate significantly with usage is installed, it is generally in both the commercial and public interest, to effectively utilise the capacity. (Vol. 1 p57)

Firstly as a cost effective tool, for not only irrigators, but local authorities and the Queensland Government, Borumba Dam storage can be utilised as an aid to the mitigation of floods. Although without raising the current dam wall, the short time intervals between recent floods (Jan – Feb 2013) adds a degree of difficulty to this task.

Secondly, the interconnection of water storages also has the potential to deliver operational cost efficiencies for the delivery of water back into the Brisbane area.

It is understood that Baroon Pocket Dam is so situated that it has adequate elevation to be able to cost effectively deliver water for domestic and industrial consumption back into Brisbane by gravity.

Interconnection by pipeline to Borumba Dam has the potential to enhance that capability and reduce the pressure for irrigation water price recovery from Mary Valley irrigators. This has particular relevance against a background of declining water usage by irrigators.

Volume 2 Fig. 3.1 provides a graph of water usage for the Mary Valley Tariff Group over a ten year period from September 2002 through to June 2012. A trend line for Medium Priority Irrigation Water Users shows that in approximately 4-5 years water usage will be approaching zero.

This is an indicator that irrigators are unable to cost effectively utilise water through a combination of the rapidly increasing cost of irrigation water delivered on the ground and contemporaneously diminished revenues.

The best example is the rate of loss of dairy farmers. QDO Vice-President, Ross McInnes, has been recently quoted in the rural press saying that there are 55 fewer dairy farmers in Queensland over the two year period since Australia day 2011.

Maximum effort is required to drive down costs for all irrigators so as to enable the effective use of Borumba Dam as an important long life communal item of infrastructure.

Operation and Maintenance of Recreational Area Expenses

One class of costs to be included in the calculation of operational and maintenance expenses to be recovered from irrigators are those costs associated with recreational areas. This is set out in Appendix A: Ministerial Direction Govt. Gazette No. 2 06 January 2012.

The former Premier and Deputy Premier and Treasurer provided this direction.

Following the January 2013 floods the current Queensland Government put the case and successfully argued that the Federal and Queensland Governments should bear the costs associated with making good to recreational areas rather than these costs becoming the responsibility of the relevant local authority. This returned cost sharing arrangements to historical settings under flood recovery assistance measures between the Federal and State Governments.

Recreational areas are utilised by the community as a whole. The recreational facilities associated with Borumba Dam are undoubtedly utilised by not only members of the local community but also from intrastate and to a lesser extent interstate.

In a detailed examination of SEQWater expenses SEQWater has suggested that maintenance of Borumba Dam grounds may be less than one FTE employee.

There are other significant expenses associated with Recreational areas such as re-sealing of access roads.

It is proposed that operation and maintenance costs associated with Borumba Dam be shared between the Queensland Government and Gympie Regional Council on a fifty-fifty basis.

As Gympie Regional Council is well equipped to undertake maintenance of its vast array of recreational facilities throughout its local authority area, it is proposed that SEQWater examine the feasibility of Council undertaking the maintenance of recreational areas on behalf of SEQWater.

Water Meter Replacement

The forward pricing policy discussions place a good deal of emphasis on the replacement of water meters. Water meters are given a life of 10 years in the pricing policy discussion papers.

Along the Kybong reach of the Mary River, Sunwater replaced older water meters with new state of the art stainless steel meters within the last ten years. As was understood at the time, these water meters were expected to have both a long life and would provide accurate readings of water delivered to licence holders.

The pricing policy papers discusses the reliability of these meters and, also raises OH + S issues regarding safe access for meter readers.

Water consumption is declining, lower than anticipated water consumption has the potential to extend the life of water meters.

Two issues arise from the capital budgeting which arises as a consequence:

It appears that a schedule of water meters recording manufacturer, date of installation and schedule for testing, repair or replacement has yet to be developed in detail. The life expectancy of these meters is not known. The impact of low water usage on life expectancy of these meters is not known.

The potential for meters to be repaired/have any worn elements replaced to return water meters to active service is not discussed. Feedback from water meter manufacturers should be developed to optimise costs of maintaining water meters in sound operating condition.

The required information could be developed in the first instance by SEQWater water meter readers progressively recording data on meter installations as part of their quarterly meter reading tasks.

A detailed plan could then be developed for testing at a time in accordance with the recommendations of the meter manufacturer along with options for refurbishment of water meters in lieu of replacement. This approach could be tested on a limited sample of water meters to prove the veracity of refurbishment as opposed to replacement.

It is proposed that this element of forward capital expenditures be re-visited within twelve months with a view to revising down the future capital allocations for water meter replacement.

Water Trading

Data provided within the water pricing policy discussion papers indicates that permanent water trading within the Mary Valley WSS is less than 0.3%.

Over a four year period there has been virtually no permanent water trades.

The pricing policy papers assume that there is or will be a ready market for permanent water trades.

The demand for irrigated water is diminishing and underscores the differences between the Mary Valley WSS and much larger water supply schemes such as the Murray Darling Basin WSS.

The cost for water allocation holders to surrender their water allocation to SEQWater is given as 11 times the fixed charge component of the water price – in year 2017. During the presentation to irrigators in Gympie on 12 February 2013 it was suggested that termination fees would not be calculated based on current financial year fixed charge components if surrender was attempted before 2017.

The proposed termination charge has been determined by reference to the ACCC which nominates the termination fee of 11 times the fixed charge component of the water price, including GST, as a maximum. The ACCC also in the same document, with reference to Rule 7, indicates that the

network access charge must be calculated by reference to the amounts payable by the irrigator in respect of the financial year in which notice of termination is given or the financial year in which the notice is given.

Confirmation is sought that any termination fee will be calculated based on the fixed charge component applicable in the financial year that notice of termination is given by an irrigator as opposed to the fixed charge component applicable at the end of the pricing path in 2017.

Termination fees payable for irrigators within the Pie Creek sub-system, whilst not applicable to irrigators drawing water from the Mary River, requires some mention at this point in time.

The rationale for calculating termination fees at almost \$4,000 per allocated megalitre will produce a significant downgrade in property values for those irrigators with a WAE from the Pie Creek scheme.

The construction of the Pie Creek scheme occurred many years ago at a time when current economic rationalist theories were not in contemplation to drive the efficient use of water generally. The outcome of applying such economic principles today against the framework of a water supply scheme devised many years ago against entirely economic principles is penurious to say the least.

Equally, it is inappropriate for Mary River irrigators to be called on to subsidise termination fees for Pie Creek irrigators.

This surely is a case for friendly intervention by the Queensland Government. It would not be unreasonable for Government, being the authority with the capability of evening out issues with a financial sting in the tail for individuals, to opt for a more compassionate approach to striking termination fees. Government should be able to offer termination charges which approach, but not necessarily equate to, termination fees payable by irrigators drawing water directly from the Mary River.

Queensland Government to examine subsidising the cost for irrigators of the Pie Creek scheme to withdraw from the scheme such that the recommended termination fee as proposed by QCA be made comparable, but not necessarily equal, to termination fees payable by irrigators drawing water directly from the Mary River.

Confirmation should be provided that irrigators drawing water directly from the Mary River will not be called on to subsidise irrigators of the Pie Creek scheme.

SEQWater Efficiency Objectives

Effectively SEQWater is judged to have efficiently operated Borumba Dam if it can demonstrate that it has only released sufficient quantities of water to the Mary River such that all stakeholders can take their water entitlements, provided always that Borumba Dam holds sufficient stored water to meet the requirements of high priority water users.

The consequence of this approach is that a one dimensional discipline is developed for management of stored water held by Borumba Dam.

The outcome of this approach is that levels of water storage remain high throughout the year notwithstanding the approach of the wet season or, more particularly, the approach of high intensity weather events. For example, significant rainfall delivered by the remnants of cyclone 'Oswald' or the recent convergence of an upper level trough with a low pressure cell delivering moisture onto the south east Queensland coast.

It is recognised that Borumba Dam has a limited capability of capturing water delivered via such rain events. However, the possibility exists for release of stored water ahead of these forecast events to provide additional capacity for Borumba Dam to provide the potential to contribute to the reduction of flood peaks.

Hydrologists, in conjunction with the Bureau of Meteorology, should be directed to develop an action plan to manage dam storage levels to enable increased storage capacity ahead of significant rain events for:

- **the wet season**
- **specific rain events**

The Queensland Government has instituted action to reduce the storage held by Wivenhoe and Pine River Dams to improve the prospects of minimising the potential for major flooding of Brisbane and Ipswich. This has been done in the face of an ongoing active wet season in anticipation of potentially extraordinary rain events.

Reference is made, with appreciation, to personal correspondence dated 07 February 2013 from the CEO of SEQWater wherein he advises that as of the 1 January 2013 the long-term planning for the future water infrastructure requirements for South East Queensland become the responsibility of SEQWater.

Raising the wall of Borumba Dam and institution of a water storage and release operational plan, along the lines of Wivenhoe Dam for the Brisbane Valley, would go a long way to resolving the issues listed above.

The benefits are not only a reduction in flood levels but also will yield cost savings to all three levels of government in funding the recovery from flood events coupled with direct benefits to the non-government sector.

SEQWater Reporting to Irrigators

Some discussion took place as to future reporting of SEQWater to Mary Valley WSS irrigators at the QCA presentation at Gympie on 12 February 2013.

The potential was raised for increased costs to SEQWater arising from reporting and interaction with irrigators, which would then be passed onto irrigators, became a focus of the brief discussion on future reporting.

Already facing substantial increase in costs for irrigated water, taken or not, set the scene for a reluctance to be engaged with SEQWater in this manner in the future.

The ability for irrigators to review and comment on financial and operational factors of SEQWater management of the Mary Valley WSS should be a key driver behind SEQWater seeking to improve the level of communications with irrigators. In particular, SEQWater will have a greater need to interact with irrigators of Pie Creek, and potentially Cedar Pocket.

SEQWater should be requested to advise on options for future reporting and to nominate budget cost implications. A budget of say \$20-25,000 may be a reasonable starting point for future reporting to irrigators.

SEQWater be invited to develop a proposal for communicating on progress with water pricing and budgeted expenditures to irrigators.

SEQWater be requested to indicate if a budget of \$20-25,000 would be a reasonable provision for these communications.

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