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22 November 2010

Mark O'Sullivan
Stakeholder Liaison Officer
Queensland Competition Authority
GPO Box 2257
Brisbane 4001

Re: Irrigation Prices for SunWater Schemes

Dear Mark,

ABOUT THE ORGANISATION

Bundaberg Fruit and Vegetable Growers Cooperative Limited (BFGV) is a membership based, not-for-profit, non-trading cooperative, established in 1948 to provide representation, information and services to commercial horticultural growers.

RATE OF RETURN AND CAPACITY TO PAY

BFGV will respond to both the *Rate of Return* and *Capacity to Pay* issue papers when they become available.

FORM OF PRICE CONTROL: SUNWATER WATER SUPPLY SCHEMES

While being very difficult to forecast future demand due to varying weather and rainfall events, BFGV believes the price cap structure with a fixed Part A of 70% and Part B of 30% has worked well in the BWSS.

Having regard to the last regulatory period where the Bundaberg WSS was under a price cap arrangement and despite actual sales being well down on the forecast demand of 60% of allocation (2007/08 and 2008/09 actual usage less than 35% of allocation), the BWSS still achieved close to or actual lower bound pricing.

BFGV supports the price cap arrangement as tariffs are stable throughout the regulatory period, whereas under a revenue cap arrangement, prices could be adjusted frequently leading to greater price volatility which may be disruptive and distort the planning of cropping cycles for irrigators.

PRICING PRINCIPLES FOR DAM SAFETY UPGRADES

We do not support the inclusion of capital costs of spillway upgrades in scheme prices. We believe that the Queensland Government has regulated to address the perceived risks of a one in one hundred thousand year flow event, thereby, instigating the spillway upgrades.

As the State Government is taking these actions to protect the interests of the Queensland Community from dam failures, it should take full responsibility for spillway upgrades.

RENEWALS ANNUITY OR A REGULATORY DEPRECIATION ALLOWANCE

Bundaberg Fruit and Vegetable Growers' fully supports the Queensland Farmers' Federation position which is:-



- The practical implications of implementing either approach for SunWater assets must take precedence in making a selection. Key issues that need to be considered include:
 - Renewals annuity is suited to the irrigation industry where assets are refurbished and enhanced over the long term rather than being replaced and involves less costly external financing;
 - Renewals annuity already provides for a rate of return and assumes the value of the existing assets (i.e. the Regulatory Asset Base (RAB) to be maintained in perpetuity;
 - SunWater customers support the existing SunWater renewals program established since 2000 because it provides them certainty into the future in regard to expenditure on renewing and rehabilitating existing assets and can be quantified in the field;
 - SunWater customers want to see the further development of asset management planning in consultation with scheme customers to underpin a continuing renewals annuity with accountability for the efficient investment of the renewals reserve as was provided for in the original customer service charter; and
 - The implications of changing to a depreciation approach will involve consideration of how positive or negative renewals reserves are to be distributed which is likely to prove difficult at the scheme level even if there are positive balances to distribute. This process will be complicated by other considerations such as pricing implications for depreciating scheme assets and data availability to support regulatory depreciation calculations.

Recommendation

QCA continue with the SunWater renewals annuity for the reasons outlined above.

PRICING PRINCIPLES AND TARIFF STRUCTURES FOR SUNWATER'S WATER SUPPLY SCHEMES

The Bundaberg Fruit and Vegetable Growers' support a standardised two part tariff that reflects the fixed and variable costs of the Scheme.

BFVG endorses the current single pricing postal stamp structure across the entire Bundaberg Water Supply Scheme.

BFVG believes that recreational costs should not be covered by irrigators but from the communities that benefit from these facilities.

We thank the QCA for providing an opportunity to comment and look forward to the release of the *rate of return* and *capacity to pay* issue papers.

Yours sincerely

[emailed]

Geoff Chivers
Chairman