CANEGROWERS
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The Manager
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001
Email: water.submissions@qca.org.au

Dear Sir

Re: Draft Report – SunWater Irrigation Price Review 2012-17
Bundaberg Bulk and Distribution Scheme Report

CANEGROWERS Isis is the local representative body for sugarcane growers supplying the Isis Central Sugar Mill near Childers. The Isis Central Sugar Mill is grower owned and therefore the sugarcane growers for whom CANEGROWERS Isis acts have a large investment not only in primary production but also in manufacturing. The future viability of the Isis sugar industry is dependent on having access to a reliable water supply at affordable prices.

QCA's recommended irrigation prices to apply to the Bundaberg Distribution System for 2012-17, in comparison to actual prices paid since 1 July 2006, are surprisingly high. We were under the impression that by the end of the last (2006-11) Price Path Bundaberg Water Supply Scheme Channel irrigators would be paying close to lower bound costs. What then has caused a blow out in SunWater's costs that these current prices provide revenue that is so far below prudent and efficient costs?

We struggle to comprehend where it has all gone wrong to warrant such a big escalation in recommended prices going forward. It is indeed unfortunate that we do not have the capacity to unravel SunWater's costs to argue our case. The bureaucracy is such that SunWater can spend what they like, with little or no consultation, in the knowledge that such costs will ultimately be recouped from the users.

Given that this is the case, the main thrust of our submission is to ask 'what if' questions in the hope that QCA may delve further into the data provided by SunWater.

Fixed and Variable costs

QCA has calculated water use in five of the last eight year as 46.7%, a very low level, but there are circumstances that have contributed to this low usage. Low announced allocations, increases in allocation during February (resulting in lower yield response compared to the main summer irrigation period) and rainfall all impact on water use. It would be useful to model the 'beneficial' water available rather than simply water used as a percentage of nominal allocations across the whole year. We believe it is only then that we can make valid comments on the application cost reflective fixed and variable costs.

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However, it is our opinion that all allocation holders should share and contribute to the costs, irrespective of the level of use. It's the allocation that determines entitlement and, presumably the share of costs, not water use. Allocation holders are granted entitlements based on the rules specified in the Resource Operations Plan. Whether allocation holders' chose to use, or not use, the water is up to the individual. It is our opinion that a low Part A (Allocation Charge) and high Part B (Use Charge) penalises the user and rewards the non-user. The consequence of this action could result in less water use and eventually the cost of Part B becomes prohibitive.

CANEGROWERS Isis requests QCA investigate the impact on water prices of using a higher water use figure. We suggest QCA should model water use on 60% usage as this is the number that SunWater was happy with in the last Price Path.

In developing the case for doing this extra modelling, CANEGROWERS Isis has given weight to the fact (i) current storage levels are at full supply level; (ii) improved commodity prices exist for the foreseeable future; (iii) irrigators are demonstrating a higher level of optimism; and (iv) climate change (expect more variability in rainfall). Sugarcane growers and millers can now fix prices 3 years forward and at current prices many are doing so. It is arguable therefore, that water use during the next five years is likely to be at a higher level than the previous five years.

The following table shows the level of Announced Allocations available to irrigators and the sugar prices paid in those years. The one missing ingredient is actual water use which was not available to us. Please note the first 13 years have AAs above 100%. During this period irrigators could access announced allocations higher than nominal allocations and the reason why the AAs were above 100% is because some irrigators used more than 100%. So in the years of 200% AA there were some irrigators who actually used this figure and if the AA was not increased then the irrigator would have been deemed to have used water in excess of his entitlement and could have been penalised. However, as can be seen by the table there were many years when 100% allocation was not achievable.

CANEGROWERS Isis feels that it should explain that when announced allocations are set at low levels at the start of the water year, irrigators are reluctant to commence irrigating until they can be more certain that they will not run out of water. There is no point in starting too early only to run out of water because this would be a waste of effort and money and the result would be the same (low productivity) had they not irrigated.

Table 1

SURFACE WATER Bundaberg

ANNOUNCED ALLOCATION IN PERCENT MEDIUM PRIORITY WATER ONLY

DATE	SYSTEM											
	South Side				North Side							
	Burnett River	Woongarra	Isis		Kolan River	Goorburrum	Gin Gin	Bingera	Abbotsford	Average	Actual Water Use	Sugar Prices
1/07/88	150	150	150		150	150	150	150	150	150		334
1/07/89	150	150	150		150	150	150	150	150	150		
1/03/90	150	150	150		150	150	150	150	150	150		363
1/07/90	160	160	160		160	160	160	160	160	160		
1/02/91	200	200	200		200	200	200	200	200	200		344
1/07/91	150	150	150		150	150	150	150	150	150		
1/12/91	200	200	200		200	200	200	200	200	200		303
1/07/92	170	170	170		170	170	170	170	170	170		
1/04/93	170	170	170		185	185	170	170	185	176		
1/05/93	200	200	200		200	200	200	200	200	200		309

1/07/93	120	120	120		120	120	120	120	120	120		
1/04/94	180	180	180		180	180	180	180	180	180		352
1/07/94	110	110	110		110	110	110	110	110	110		392
1/07/95	35	35	35		35	35	35	35	35	35		
1/12/95	40	40	40		40	40	40	40	40	40		
1/01/96	50	50	50		60	60	60	60	60	56		
1/03/96	50	50	50		75	75	85	85	75	68		
1/04/96	60	60	60		80	80	90	90	80	75		378
1/07/96	50	50	50		50	50	50	50	50	50		
4/02/1997	65	65	65		65	65	65	65	65	65		
19/03/1997	75	75	75		75	75	75	75	75	75		342
1/07/1997	15	15	15		15	15	15	15	15	15		
24/11/1997	15	15	15		20	20	20	20	20	18		
17/12/1997	20	20	20		25	25	25	25	25	23		
16/01/1998	25	25	25		30	30	30	30	30	28		
25/02/1998	28	28	28		35	35	38	38	38	34		
27/04/1998	30	30	30		35	35	38	38	38	34		340
1/07/1998	15	15	15		30	30	30	30	30	24		
29/09/1998	25	25	25		40	40	40	40	40	34		
9/02/1999	25	25	25		50	50	50	50	50	41		
1/04/1999	30	30	30		60	60	60	60	60	49		357
1/07/1999	20	20	20		40	40	40	40	40	33		
9/11/1999	25	25	25		40	40	40	40	40	34		
4/02/2000	25	25	25		60	60	60	60	60	47		
29/03/2000	30	30	30		60	60	60	60	60	49		254
1/07/2000	20	20	20		30	30	30	30	30	26		
3/11/2000	30	30	30		35	35	35	35	35	33		
16/11/2000	30	30	30		40	40	40	40	40	36		
16/01/2001	45	45	45		60	60	60	60	60	54		
22/02/2001	45	45	45		65	65	65	65	65	58		
30/03/2001	45	45	45		70	70	70	70	70	61		
12/04/2001	50	50	50		75	75	75	75	75	66		253
1/07/2001	20	20	20		30	30	30	30	30	26		
22/11/2001	20	20	20		40	40	40	40	40	33		
15/02/2002	30	30	30		40	40	40	40	40	36		
28/02/2002	35	35	30		40	40	40	40	40	38		332
1/07/2002	5	5	5		10	10	10	10	10	8		
6/09/2002	10	10	10		10	10	10	10	10	10		
14/02/2003	100	100	100		100	100	100	100	100	100		277
1/07/2003	100	100	100		100	100	100	100	100	100		232
1/07/2004	100	100	100		100	100	100	100	100	100		256
1/07/2005	91	91	91		91	91	91	91	91	91		
1/01/2006	100	100	100		100	100	100	100	100	100		322
1/07/2006	46	46	46		46	46	46	46	46	46		367
1/07/2007	3	3	3		28	28	28	28	28	19		
24/07/2007	3	3	3		47	47	47	47	47	31		
5/11/2007	24	24	24		47	47	47	47	47	38		
22/02/2008	81	81	81		81	81	81	81	81	81		275
1/07/2008	26	26	26		92	92	92	92	92	67		
31/07/2008	40	40	40		100	100	100	100	100	78		327
1/07/2009	50	50	50		85	85	85	85	85	72		435
1/07/2010	100	100	100		100	100	100	100	100	100		432
1/07/2011	100	100	100	100	100	100	100	100	100	100		Est. 485

CANEGROWERS Isis also argues the consequence of increasing water prices beyond affordability is the fear that irrigators will use less water. Irrigators currently use water efficiently but it is a juggling act, balancing application against likely weather events. A high water price will force irrigators into stretching out their irrigation rotations in the hope that it will rain, thus saving the cost of irrigation. A high water price will also hinder investment in infrastructure including the adoption of technological enhancement of irrigation systems.

QCA should model the effects of the recommended water prices are likely to have on water usage in the future.

The Law of Diminishing Returns is applicable in this scenario. The less water used will negatively impact crop yield, which then lowers income. Less income impacts on the irrigator's capacity to buy water resulting in lower future yield and less future income and so on.

Termination Fees

If the justification for having high termination fees is the concern about creating stranded assets, then the government and QCA should be more worried about making water affordable to prevent irrigators from wanting to terminate their contracts because of cost.

CANEGROWERS Isis agrees with QCA that other users should not be responsible for carrying fixed costs on account of WAE shifted back to the river. Instead of having a fixed policy apply to WAE shifted back to the river, there should be flexibility to take account of the individual circumstances.

In the Bundaberg WSS a large quantity of unsold Burnett Water exists and the potential for SunWater to sell allocation into the channel system from where WAE has been transferred back to the river becomes available. The more spare capacity existing in a channel the greater the chance SunWater has to sell 'Peak' water thereby advantaging SunWater through the sale of 'peak' vs 'off-peak' water.

Renewals or ARR Opening Balances

It is absurd to entertain the concept that the opening renewals account balance for bulk water comes in with a negative $1,505,000.00. Bulk customers in the previous price path paid considerably above lower bound. Why has this extra revenue not been assigned to the renewals or ARR Opening Balances.

CANEGROWERS Isis is also concerned that SunWater had a large over budget spend on renewal items without consultation with customers or regard to the Standards of Service. Prior to the formation of the Irrigator Advisory Committees, which principally exist as a minor forum for SunWater to consult with customers on operations and maintenance issues, SunWater Customer Councils existed with a much broader charter.

A more optimised approach to future renewal spends is required to ensure the renewal does not exceed the scheme/system requirement and therefore exceed the customers' ability to pay for the service.

Local Management of schemes has been discussed over the years and while customers may not wish to operate the scheme, they require more input into the management of the scheme as it is they who have to pay. More consultation is necessary requirement.

A fair question to ask, maybe, is why is there no a customer representative on the SunWater Board.

Indirect costs and overheads

There is conjecture over the data and allocation of SunWater's indirect costs and overheads. It is understood that the Bundaberg Bulk has an indirect and overhead cost greater than 52% and the Bundaberg Distribution is greater than 30%. However, SunWater allocates indirect costs and overheads to other service contracts at 24%. The Deloitte Report and QCA report SunWater's total indirect and overheads percentage of total costs is 34%.

CANEGROWERS Isis questions why the indirect costs and overheads should not be applied at 34% of total costs across all sections of the business on an equal basis?

Alternatively, another way of apportioning the indirect costs and overheads could be to use SunWater's gross revenue as the determinant for allocating non-direct overheads. It is reasonable to assume that many Head Office management staff direct their activities towards those areas of the business that generates the most revenue and therefore those activities should bear the greatest portion of the overhead charges.

Distribution Losses

It is noted that QCA is recommending a review by DERM. The review of the Water Resource Plan and Resource Operation Plan by DERM is currently underway and progressing. What DERM will recommend is not known but we are optimistic.

The actual losses need to be established to stop assumed losses impacting on water prices.

Asset Management Planning

CANEGROWERS Isis wants SunWater to consult further with customers when considering asset management planning. It seems to us that the capital replacement program is determined by anticipated life of the asset rather than its real life. Equipment should only be replaced as required not by a measurement of time. Irrigators pay on the basis of nominal allocations held irrespective of whether there is water in the system to distribute.

There needs to be checks and balances in place otherwise SunWater has no incentive to reduce costs when undertaking or planning asset management. One way of making SunWater accountable is through the use of deemed prudent and efficient costs relating efficient operation rather than adopting an open cheque book approach. As stated earlier, consultation between SunWater and customers is desirable and necessary.

Price Path Duration

CANEGROWERS Isis' view is that due to a lack of confidence in SunWater's data the review process should be continued for two (2) years and water prices be indexed by CPI adjustment until all these matters are resolved. That QCA give consideration to a 10-year Price Path with full cost reflective prices achieved by Year 10. Price increases weighted by the WACC during the term to reflect the time value of money. A review be conducted at the expiry of the first 5 years of any 10-year Price Path, if adopted.

Other matters to be considered

It is our understanding that Burnett Water has a claim to 15% of the Distribution Network. If this is correct then we claim that Burnett Water should pay 15% of the total fixed costs of the Distribution Network.

There are no incentives for SunWater to achieve efficiencies beyond the productivity gains mentioned in QCA's draft report. We believe that these productivity gains will become the maximum productivity gains rather than continually striving for the greatest potential gain in efficiency.

In conclusion

Similar to previous Price Path Negotiations, insufficient actual data has been made available on which irrigators have been able to argue. SunWater has also been slow to release data and the accuracy of the data is questionable.

CANEGROWERS Isis believes that QCA has followed the Ministers' Terms of Reference and appreciates the level of consultation that has existed. However, the recommended prices are much higher than irrigators anticipated or expected and there is a very real concern that without an ability to pass on these cost pressures, irrigators are likely to reduce their water usage and that will have serious consequences on the economies of Queensland's regional and rural communities in the future.

We reserve the right to make further submissions as and if further information becomes available. We would welcome feedback from QCA if it chooses to undertake the modelling suggested in this submission.

Yours faithfully

[redacted]

Wayne Stanley
MANAGER