

KELSEY CREEK WATER BOARD

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Submissions
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Sir

Re: Submission – SunWater Irrigation Pricing 2011-2016

Following the Round 2 Consultations recently undertaken by the Authority, and in response to SunWater's Network Service Plan for Proserpine River, Kelsey Creek Water Board would like to make the following comments and observations:

1. Network Service Plan

As noted by consulting engineers, Arup, SunWater has actively sought to minimise operational costs across the organisation. Structural changes during 2009 yielded some significant benefits in the final year of the current Price Path. However, it should be noted that most of these benefits will have dissipated by 2011 and operational costs are projected to increase steadily over the next Price Path. Indirects & Overheads will increase by almost 19% between 2010 and 2011. Sunwater maintain that the majority of the cost increase is associated with controlling the noxious weed, Mimosa Pigra. Given the current and expected levels of Peter Faust Dam over the next few years, eradication programs are likely to be curtailed resulting in lower control costs.

2. Tariff Groupings

During the Round 2 Consultation it was revealed that SunWater proposed to maintain the existing Tariff Groupings i.e. Proserpine River and Kelsey Creek Water Board. Although proposing to maintain these two tariff groups, Sunwater was of the opinion that, historically, costs to supply the Board were less despite the lack of evidence to support a price differential.

The 'history' of the price differential precedes the inception of this board when the presiding State Government negotiated funding for construction of Kelsey Creek Irrigation Scheme with the local sugar industry. Proserpine Sugar Mill negotiated to contribute over 6% of the total construction cost on the basis that neither the mill nor irrigators in the scheme would be charged the Benefitted Area Levy. The government has upheld this commitment since commencement of the scheme's operations in 1996.

The Board is endeavouring to obtain supporting evidence of these arrangements, however given the difficulties in accessing archival documents and the time constraints imposed by this submission, we are unable to provide at this time.

Nevertheless, Kelsey Creek Water Board strongly supports continuation of the current arrangements and supports Sunwater's proposed tariff Groupings for the Proserpine River Scheme.

3. Tariff Structure

It was further noted at the Consultation Meeting that Ministerial Direction requires all costs to be recouped and that there was significant support for the continuation of two-part tariffs. Currently, tariffs are calculated on the basis that both fixed and variable costs are recovered proportionately. Typically for Kelsey Creek Water Board this is collected 66% fixed and 34% variable. Kelsey Creek Water Board strongly supports the status quo on tariffs.

It could be argued that the current tariff structure fails to reflect any particular cost, and that delivery charges should reflect the underlying cost of providing the service i.e. volumetric charges should recover variable costs and fixed charges should recover fixed costs. At this stage the principal variable cost for SunWater is electricity with all other costs deemed to be fixed. Projections for the new Price Path for the Kelsey Creek Irrigation Scheme would therefore be 93% fixed and 7% variable. The Board submits that such a cost recovery ratio would dramatically reduce the efficiency of the scheme. Such tariff structure would encourage over-utilisation of the resource which contravenes the principles of the government's Rural Water Use Efficiency program and nullifies any gains made to date.


The Board further submits that the classification of fixed and variable costs is subjective. For example, costs to control Mimoso Pigra would vary from year to year, dependent on the water level of Peter Faust Dam and the ability to undertake the eradication program. Costs associated with maintenance and presentation of recreational facilities would also vary in a similar manner.

Furthermore, a volumetric charge which exceeds the variable cost of supply will generally result in underutilisation of the service and consequently a reduction in revenues.

In order to maintain water use efficiency, Kelsey Creek Water Board strongly supports continuation of the current tariff structure.

Kelsey Creek Water Board wishes to thank the Authority for the opportunity to comment on the current proposals.

Yours faithfully



Doug Lee
Chairman
Kelsey Creek Water Board