

Queensland Government's rural Irrigation Water Pricing Policy

All irrigation farmers with water allocations from Sunwater are going to be VICTIMS of EXTORTION by the QUEENSLAND GOVERNMENT which very likely will result in their FARM INCOMES and also consequently their FARM VALUES being largely DESTROYED.

Under the Queensland government's rural irrigation pricing policy the Queensland Government have the stated objective to increase charges to irrigation users through their Sunwater Queensland state owned monopoly based on a calculated rate of return for the depreciated replacement values of the EXISTING dams constructed many years ago to develop regional Queensland. It is clearly, stated that within 15 years irrigators will pay their calculation of depreciated full replacement costs. If this results in double or triple current water pricing irrigators will have to pay it. Within that time they have a transition period where they will charge irrigators up to the maximum they think that irrigators can afford to pay. In other words they want to keep irrigators alive but poor. Sounds more like a medieval feudal robber barons policy than a 21st Century democratic government.

Let me tell you as a CPA finance professional these charges simply arbitrarily made up and not real expenditures by Sunwater. They are simply extortion.

These charges are analogous to local governments across Australia deciding to increase rates by, say, ten times by charging rate payers for the replacement cost of all of the roads and other infrastructure that have been constructed over the last 200 years. It would be extortion and nothing to do with real expenditures.

These charges are analogous to the government deciding to add tolls to every existing bridge to charge motorists for the replacement cost of all of the old bridges. It would be extortion and nothing to do with real expenditures.

If the government tried to extort money from the public through these methods there would be such an uproar they would be very deservedly voted out of government at the next election. As irrigators are a small part of diverse rural electorates they are exposed to unjust exploitation in this manner. Democracy is simply the method of a party gathering votes to win enough seats to be the elected government. It does not mean that the elected government will treat all citizens in a just, fair and equitable manner.

Irrigation farmers contracted to take the irrigation water from Sunwater on the implied basis that the charges would increase in future as real expenditures were necessary. The same as when one buys a house, you expect that the rates will increase roughly in line with inflation. To say that that Sunwater charged farmers too low in the past and now will charge more is unfair as irrigation farmers made their decisions to acquire water allocations and their significant investment decisions based on the original water charges and reasonable assumptions regarding increases.

If Sunwater decides to build a new dam now and charge at their calculated full cost recovery then that is fair enough as the potential customers will either contract to buy from Sunwater at those higher charges or not at all. To charge a lower rate and without upfront advice to the potential customers that you will be making significantly higher charges in future is a fraudulent misrepresentation. It would be just a trick to lock the customers in to buying the water capacity. The same as if you bought a house with a \$2,000 annual rate charge but later the council decided to increase the rates to \$20,000. It may be legal but it is unfair, unjust and extortion as you are not buying a commodity, you cannot switch to another council which charges lower rates without suffering the full loss in the resale value of your property. The irrigation farmers are in the same predicament.

Imagine, buying a new car 10 years ago for \$30,000 from say Holden and now Holden comes along today and tells you that they sold the car to you too cheaply and now are going to charge you more based on the cost difference with a new car today. You don't get the new car, you get nothing but have to pay Holden extra. They then tell you that you have to pay, as the Queensland government has passed a law to make you pay. Legalised extortion.

Why is the Queensland Government Doing This?

Simple. The obvious conclusion is that they are looking for ways to increase their revenues. However, that is not what they say or will say. The basic reason claimed is that they want farmers to be more efficient with the use of water. However, this cannot be the real reason as it is the fact that the extra revenue from the increased charges will not be paid back to the farmers as a group. I have learned over many years of investing - don't listen too much to what people say but follow the money. It doesn't lie.

The government and public make the false assumption that farmers waste water. This is a nonsense. Irrigation water is expensive even now, before these proposed extortionate price increases. Irrigation water is a major expense for irrigation farms. Every megalitre wasted is the farmer's money lost. Why would farmers waste water when it is a major farm expense already? This message needs to be well communicated to the public and government.

Take my farm as an example (I don't mean that literally but it seems that is what the Queensland Government is going to do). I own a 150ha irrigation farm with water supplied by Sunwater through the Burdekin-Haughton channel scheme. Irrigation is done by flood irrigation. The soils are clay soils and we use a recycle pit (as is typical) to recycle water to use again on the farm. This is the most efficient way we can water the crop. The water cost for the farm is about \$ 60,000 per year which is a bit less than the fertiliser cost. Obviously water is already a major cost and I already have every incentive to minimise its cost. If water charges were to say double the damage would be a catastrophe. The farm income would decrease significantly and if a loss year (which every farmer knows is not uncommon) the loss would increase significantly and the value of the farm would decrease by a large amount. The extra charges from the water price increases would be a 100% loss to me and a 100% gain to Sunwater. I would never be able to increase water efficiency to recoup those losses. If I could invest to increase water efficiency then the farm would not have the funds to do so. As I said follow the money.

Furthermore, another irony, is that the Burdekin River floods almost every year so every megalitre saved just ends up in the ocean. It cannot be more clear that this Queensland government program of extortion is a costly farce.

Sunwater charge my farm \$ 34,000 per year as a fixed capacity charge (Part A). I pay this whether I use the water or not. This is over 60% of the annual water cost. If the government is serious about increasing water efficiency the whole water charge should be changed to be variable (Part B). However, the government don't want Sunwater to bear the risk of insufficient water usage whether that be due to lack of rainfall filling the dam or farmers using less water through water efficiency so they transfer all of that risk to the farmers by charging them the capacity charge. If I do not use all the water allocation each year I can sell the excess water on a temporary transfer. However, I have not been able to sell that excess water above the capacity charge (Part A) per megalitre, that I have to pay to Sunwater. I.e. I always make a loss on the temporary water transfer. From this it can be concluded that Sunwater are already charging over the market price for the water allocation and instead of the water price being increased it should be reduced.

Sunwater do not want the farmers to use less water because if the farmers do use less water there is less income for Sunwater. If the government's stated aim is to increase water usage efficiency then it should instruct Sunwater to convert all of the Part A (capacity) charges to Part B (usage)

charges without any total price increase. Then the farmers have much more incentive to use less water. See what Sunwater has to say then and watch how much their profits drop. Sunwater is in the business of selling water. They don't want farmers to use less water. As I said follow the money.

How increase Water Usage Efficiency

I am sure an eminent economist like Ross Garnaut would tell you that the proper and equitable manner to increase water efficiency is to eliminate the capacity charge (Part A) and charge the total price for water in Part B the water usage charge. The additional funds raised from an increase in water prices should be paid back to the farmers based on the existing water allocation. The result is that farmers who reduce water use more than others in the group will pay less for water. Farmers would then have the funds to invest in infrastructure to increase water efficiency. The government (or Sunwater) would have no net gain and the farmers as a group incur no loss from the water price increase.

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