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Queensland Cane Growers Organisation Ltd
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Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001
Via: Website

Dear Queensland Competition Authority

Queensland Competition Authority's (QCA) Irrigation Price Investigation 2025-29

Thank you for the opportunity to provide a further submission to the Queensland Competition Authority's (QCA) Irrigation price investigation 2025-29 in response to the QCA's assessment of the Sunwater proposal.

Queensland Cane Growers Organisation Ltd (CANEGROWERS) is a not-for-profit public company with the sole purpose of promoting and protecting the interests of sugarcane growers since its inception in 1925.

Representing over 70 per cent of Australia's sugarcane growers, CANEGROWERS is the peak body for the sugarcane industry. With 13 district offices in Queensland, our strong regional presence ensures that services and advocacy are provided in local communities as well as at the highest levels of industry and government decision-making.

CANEGROWERS represents a significant portion of Queensland's irrigation customers with membership across the Bundaberg, Burdekin, Eton, Lower Mary, Mareeba-Dimbulah, Pioneer and Proserpine irrigation schemes.

Key Concerns and Recommendations

1. **Affordability and Price Stability**
   The overarching concern among irrigators is the affordability of water, especially in light of rising input costs, volatile commodity prices, and the potential impact of climate change and increasing rainfall variability. The proposed price increases, pose a significant risk to the financial viability of many farming operations. The weighted average (weighted by L-T average volumetric usage) Part B increases for sugarcane schemes amounts to 14.6% as a compound annual growth rate for the price path period. This is multiple orders of magnitude greater than any inflation expectation. In addition to this, under the Regulatory Asset Base (RAB) framework, there will likely be less price stability in future.

   CANEGROWERS urge the QCA to recommend a substantial reduction in irrigation prices across all schemes. The QCA's draft position to reduce Sunwater's total allowable costs is a positive step, but we believe further reductions are warranted to ensure the long-term sustainability of the irrigation sector.

   The transition to a RAB framework is a major concern due to the potential for price volatility and intergenerational inequity. The RAB could lead to unpredictable and potentially sharp price increases in the future, impacting the financial stability of irrigators. We recommend retaining the existing renewals annuity approach, which provides greater price stability and ensures that each generation contributes to the cost of asset renewals.

2. **Transparency and Efficiency**
   There is a need for greater transparency and efficiency in Sunwater's cost structure and capital expenditure plans. The lack of detail in certain expenditure areas, such as the new billing system and

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specific dam projects, raises concerns about cost control and the potential for overinvestment. CANEGROWERS urge the QCA to continue to scrutinize these expenditures carefully and ensure they are justified and necessary.

The efficiency of Sunwater's operations should be further improved. As the QCA's analysis suggests, there is room for efficiency gains, particularly in areas such as procurement, technology implementation, electricity usage, cost control and labour productivity. CANEGROWERS recommends that Sunwater implement a robust efficiency program to identify and realize cost savings, which should be passed on to customers through lower prices. It is therefore important to maintain and even seek to increase the OPEX efficiency target until there is clear improvement in the identified areas. The QCA highlights that while Sunwater generally executes projects efficiently once they're properly scoped, there are inefficiencies stemming from inadequate asset planning and management. This has been identified by QCA findings with examples identified where:

- Sunwater's understanding of the condition and performance of its assets is lacking;
- Sunwater's long-term planning for asset replacement is not up to industry best practices;
- Sunwater's unit cost estimates in its data management system are often outdated;

The QCA report asserts that Sunwater has the potential to achieve significant efficiencies in its renewals program and outlines several measures that Sunwater could implement to realize these efficiencies, including developing an asset health reporting system, improving asset condition assessments, and creating more robust cost estimation tools. CANEGROWERS recommends that the QCA set "stretch" efficiency targets that properly motivates Sunwater to make these improvements. Viewed against the cost-saving achievements by Local Management Authorities (LMA), there is significant evidence to support even higher efficiency targets (for example, LMAs had achieved an average OPEX cost savings of 24%).

3. Regulatory Asset Base

CANEGROWERS members are generally opposed to the proposed change to a RAB for capital renewals. The various reasons put forward relate to the following issues:

- Increased Price Volatility: since a RAB-based approach reflects current capital expenditure needs more closely; it can introduce price volatility depending on the scale and timing of renewals. Our growers prefer the stability of the annuity model, which smooths prices over a long period and reduces unpredictability. In addition, there is a risk of sudden large unforeseen capital renewals which could result in sharp price increases.
- Lack of Transparency: CANEGROWERS contends that the RAB-based method is more complex and less transparent. Understanding how costs are calculated and recovered is likely to be more difficult compared to the relatively more straightforward annuity method, leading to a perceived lack of control over price increases.
- "Gold-plating" or over-capitalisation: with a guaranteed return on investment there is an incentive for over-invest in infrastructure, increasing the asset base, and driving up prices unnecessarily to recover capital costs.
- Inclusion of tax allowance (RAB compared with an annuity) is considered as an additional cost burden on irrigators and effectively an additional rate of return to the government. Under a Renewals Annuity, expenditure is treated as operational and is fully tax deductable.

The Weighted Average Cost of Capital (WACC) includes a return on capital. The government has committed to ensure that Lower Bound pricing principles will apply, which requires that there is no profit margin or return on investment included in the price, on that pricing includes only the essential expenses of delivering the service. The WACC should therefore not follow traditional means of calculation, but rather reflect the actual cost of capital that Sunwater pays to Treasury.

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4. **Community Service Obligations (CSOs)**
   CANEGROWERS is concerned that the current pricing proposal aims to align Giru Benefited Groundwater Area (GBGA) tariffs with the Burdekin Channel tariff without any price incentive to encourage irrigators to use groundwater. With no discount mechanism, groundwater extraction is less financially attractive for farmers due to the higher energy cost to use groundwater. To mitigate rising groundwater, it is crucial to encourage the use of groundwater for irrigation, effectively lowering the water table. Queensland CANEGROWERS supports the view of CANEGROWERS Burdekin Ltd (CBL) outlined in their submission on 28 February 2024. They note the problem of rising groundwater in the area, including GBGA. CBL cited the Department of Natural Resources paper entitled '*Lower Burdekin Groundwater Strategy Project Discussion Paper August 2017*' which identifies the lack of pricing incentive for irrigators to use groundwater, and while this continues, growers will choose surface water over groundwater unless the price of groundwater, after accounting energy costs of pumping, is materially less than surface water. Given the community and environmental benefits that would accrue by dewatering, it is recommended that a concession in prices granted to growers to preferentially access groundwater over surface water should be captured as a community service obligation (CSO). CANEGROWERS acknowledge that the QCA cannot direct the implementation of a CSO but would request that the QCA include an opinion statement on the effect of the current pricing approach will have on groundwater usage.

   Irrigation is an important driver of agricultural productivity, particularly for broadacre crops such as sugarcane, and it also underpins the viability of regions such as the Burdekin, as well as intensive industry crops (horticulture, tree crops etc). CANEGROWERS believes that it is imperative that the 15% general irrigation discount is maintained, as if it were to be removed at this stage, it would add a significant increase on top of the already high tariff increases. Sugarcane producing districts are very sensitive to productivity disturbances because the area planted to sugarcane which supplies a sugar mill is already under pressure (e.g. urban and peri-urban development) and has very limited opportunity to be increased. As such there is increasing pressure on the viability of the mills themselves which then puts the entire growing community at economic risk. There are many examples of this in the past, and most recently CANEGROWERS have seen the Mossman mill close due to insolvency on the back of dwindling cane supply. A reduction in irrigation activities due to rising costs could have the same effect and put more mills at risk. CANEGROWERS acknowledge that the QCA cannot direct the implementation of a CSO, and request that the QCA warns against any discontinuation of an irrigation CSO in the context of the current irrigation price pressure, i.e., the sugarcane scheme weighted average Part B increase of 14.6% compound annual growth rate for the price path period.

5. **Electricity Cost Pass Through (ECPT)**
   While CANEGROWERS support the concept of an ECPT, we have concerns about its implementation. The proposed methodology is complex and could lead to confusion and disputes, as well as increased administration costs. CANEGROWERS recommend a simpler and more transparent approach, similar to the trial methodology used in Bundaberg, which should be reviewed and developed for further trials during the current price path and further refined to be made ready for the subsequent price path.

6. **Specific cost considerations**
   In CANEGROWERS' initial submission CANEGROWERS argued against the extraordinarily high cost of the proposed billing system, which has been developed through Sunwater's Customer and Stakeholder Project (CASPr). CANEGROWERS agrees with the QCA that the project is necessary and that the cost efficiency of the project needs to be dramatically improved. The QCA has suggested a more efficient cost would be $18.5 million (based on benchmarking and considering avoidable cost escalations), which seems a much more prudent budget for such a project which CANEGROWERS would support. CANEGROWERS also agree that the capital cost of the new billing system should be treated as capital expenditure and amortized over 15 years and incorporated into corporate overheads.

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CANEGROWERS agrees that dam safety upgrade capital expenditure (CAPEX), i.e., costs of upgrading dams to meet safety standards, should not be included in the allowable costs that irrigators pay for. CANEGROWERS believe that all dam safety costs, including those related to maintenance and management for the purposes of dam safety, should be recognised as a community cost. As has been stated in the past, the inclusion of dam safety costs was never considered when the dams were originally proposed, and therefore were outside the scope of any cost/benefit analysis, and any consideration by irrigators regarding the economics of irrigation.

7. **Innovation for underutilised infrastructure**
   Government and Sunwater should explore discounted tariffs within schemes where water is grossly underutilised. Multi-year agreements could be struck with entitlement holders who do not take water to entice them to invest on-farm to become more regular users. Consideration should be given to investment payback periods and similarly align volumetric pricing agreements.

8. **QCA Review Process**
   CANEGROWERS supports the ongoing involvement of the QCA as an intermediary in the rural irrigation price review process as it facilitates an important price setting mechanism between end users and Sunwater. That said, the cost of the QCA review process is a burden on irrigators. CANEGROWERS recommend that the Queensland Government explore ways to reduce the cost of the review, such as conducting it less frequently or extending the scope to include all water allocation entitlements, not just irrigation WAEs.

CANEGROWERS urge the QCA to consider the concerns raised in this submission and recommend irrigation prices that are affordable, transparent, and equitable for all customers. CANEGROWERS believe that a sustainable and thriving irrigation sector is crucial for the economic and social well-being of Queensland's regional communities.

Yours sincerely

Dan Galligan
Chief Executive Officer

OUR
VOICE
GROWING
QUEENSLAND