

16 September 2024

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001



Submission via: www.qca.org.au/submissions

Dear Sir/Madam

Re: Draft Report - Rural Irrigation Price Review 2025-29 Sunwater (June 2024)

The Queensland Water Directorate (**qldwater**) is the central advisory and advocacy body, working with our members to provide safe, secure and sustainable urban water to Queensland communities. In providing these essential services, the urban water sector owns and operates sewer lines, water and wastewater treatment plants, pumping stations, dams, reservoirs, and a range of other critical water technologies/infrastructure.

There are 370 water supply schemes and 265 sewage schemes across Queensland. Our members currently service 2,483,140 sewerage and 2,662,366 drinking water connections. These numbers are set to substantially increase with current and projected population growth.

The Queensland sector is comprised of 73 urban water service providers, directly employing approximately 7,000 people.

qldwater represents all 73 urban water providers in Queensland – the 69 local government water service providers, two council-owned statutory authorities in south-east Queensland and the two state-government owned corporations.

Sunwater currently provides bulk water and distribution services to more than 20 local governments (urban water providers). Local governments have individual contracts and pricing arrangements with Sunwater that have evolved over time, resulting in inconsistent pricing and contractual arrangements, and a lack of transparency.

Most local government customers have more than one contract with Sunwater and there is one council in the Burnett with 15 contracts for 10,511 megalitres of water, as an example.

Sunwater has refused to negotiate or re-enter into long-term water supply contracts with local governments for some time, resulting in sector concern around the future of water pricing, inability to set council budgets and raising speculation over future price impacts on householders, particularly during a cost-of-living crisis.

qldwater notes the importance and contribution of irrigated agriculture to local government economies across Queensland. However, there is concern that the urban water sector is directly subsidising the irrigation sector, fuelled by a lack of transparency over pricing and subsidies.



qldwater welcomes the opportunity to make a submission to the consultation paper Draft Report - Rural Irrigation Price Review 2025-29 Sunwater (June 2024). **qldwater** provides this submission without prejudice to any submissions from our members or other urban water providers.

Background

The Queensland Competition Authority (QCA) has been directed by the Treasurer of Queensland to review the irrigation pricing practices of Seqwater and Sunwater, and to recommend irrigation prices to apply from 1 July 2025 to 30 June 2029.

qldwater notes concerns raised by the QCA in its Draft Report that relate to the limited information that Sunwater provided to irrigation customers when engaging on cost inputs, and some aspects of its approach to seeking and addressing feedback on technical issues such as the proposed regulatory asset base (RAB) methodology.

Sunwater has advised the urban water sector (via the Local Government Association of Queensland and **qldwater**) of its wish to move to a RAB approach for water pricing. However, the sector has received no information on the methodological changes. The urban water sector typically has a lower level of knowledge and understanding relating to water pricing and water pricing methodologies, than the irrigation community. As such, a substantial and comprehensive education campaign is required by Sunwater (including stakeholders at both Officer and Elected Member level) before discussions on methodological approaches can meaningfully commence.

A major concern of the urban water sector is the basis for the RAB – currently there are numerous water infrastructure assets where ownership and historical funding arrangements (via grants etc.) is unclear and unresolved. These basics need to be negotiated between the urban water sector and Sunwater before any methodological change should occur.

The outcomes from the irrigation pricing review (particularly around the proposed changes to pricing methodology) will have a direct impact on the urban water sector. As such, **qldwater** supports the QCA's statement in the Draft Report that *Sunwater needs to do further work on its proposal before moving to a RAB approach*.

Billing System

qldwater notes that Sunwater wishes to invest \$38.6 million to replace their existing customer billing and contact management system. Sunwater proposes to treat this *build cost* as capex to be recovered under its proposed RAB approach with a commissioning date of 1 July 2025 and an asset life of 20 years. Sunwater also proposes a step change of \$1.7 million each year of the price path period to account for the ongoing costs associated with this billing system – proposing to share the costs of its new billing system across regulated and non-regulated service contracts (presumably including the 20 urban water providers).

The urban water sector is highly concerned about the high overall cost (in opex and capex) associated with the billing system, as well as the approach to allocating these costs to schemes and individual customers, and the lack of clarity as to the allocation to irrigation versus urban customers.

Furthermore, it is unclear if the costs will be allocated per urban water customer or by contract.

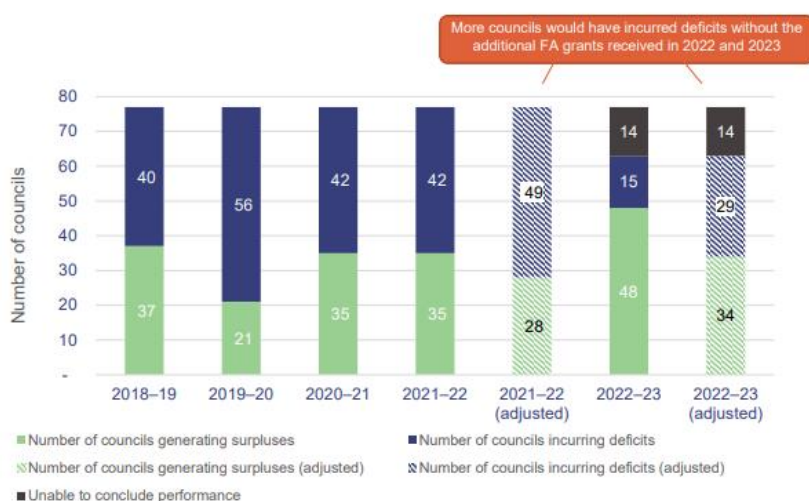
We understand that the number of customers is not the driver of the extraordinary costs quoted for the billing system, rather the complexity of the system, (noting the 129 irrigation tariff groups, as well as a requirement to undertake a water accounting element).

qldwater does not believe that the costs proposed by Sunwater in relation to a new billing system are reasonable or prudent – we are also concerned by the lack of transparency in Sunwater’s proposal as to how these costs will be apportioned across customer types.

Ability to Pay Increased Bulk Water Prices

Queensland’s local governments are already financially strained, with 29 Queensland councils incurring a deficit in the 2022-23 financial year (refer to Figure 5G¹). It is **qldwater’s** view that any additional financial strain placed on local governments will see the councils needing to further cut essential services (urban water) funding and/or further increase rates, thereby exacerbating the cost-of-living crisis.

Figure 5G
Number of councils generating operating surpluses and incurring deficits, and the effect of advance FA grants received each year – 2018–19 to 2022–23



Note: adjusted for 2021–22 and 2022–23 indicates operational results if councils received the same proportion of their FA grants as in 2020–21 and before.

Source: Compiled by the Queensland Audit Office from councils’ certified financial statements available on 31 October 2023.

If you require any further information, please do not hesitate to contact me.

Yours sincerely



Dr Georgina Davis
Chief Executive Officer

¹ Queensland Audit Office, 2024, ‘Financial Audit Report: Local Government 2023 (Report 8: 2023-24)’, p. 34, <https://www.qao.qld.gov.au/sites/default/files/2024-01/Local%20government%202023%20%28Report%208%E2%80%932023%E2%80%9324%29_0.pdf>.