



Mareeba Dimbulah Irrigation Area Council
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Irrigation Price Review 2020-24 Submission Mareeba Dimbulah Water Supply Scheme (MDWSS)

Declining Block Tariff System

It has not been possible to fully consider the cost implications of the proposed price path as there is no pricing model available for MDWSS declining block tariffs.

The MDIA Council supports the retention of the existing Declining Block Tariff System for the MDWSS as this system ensures the long-term viability & the capacity to pay of the larger customers who hold the majority of the water allocation which in turn ensures the long-term viability of the scheme.

- Based on figures from December 2016, 4% of MP irrigators (38 customers) hold 53% of the MP water allocations (500ML+ allocations).
 - Economies of scale tell us that it must be cheaper to deliver 77,208ML of water to 38 MP customers than it is to deliver 66,433.75ML of water to 919 MP customers
- It is cheaper to deliver water to a large allocation holder on a per unit basis
 - On a per unit of water basis it is cheaper to administer 1 x 500ML allocation account than it is to administer 10 x 50ML allocation accounts
 - The cost per unit of water on reading and maintaining water meters is also cheaper for 1 x 500ML allocation holder than 10 x 50ML allocation holders
 - The larger the water allocation the cheaper the cost per unit of water for maintenance of the delivery system
 - The Larger water users order large, constant volumes of water for extended periods of time in one order (i.e. repeat / standing orders). Not only is this an administration saving but it also means that the constant volume of water requires less gate adjustments for extended periods than is required for small customers whose water usage and frequency fluctuates.
 - Larger water users place water orders which reduces SunWater's losses resulting from having to guess releases and subsequently releasing more water than is used
 - Larger water users are more flexible to the needs of SunWater. i.e. quite often the large customers will be asked by SunWater to take water earlier or later than ordered to help reduce losses and manage water delivery.

Recommendations:

1. The Declining Block Tariff should remain for the MDWSS as QCA has no sound economic rationale for removing the declining block tariff which has historically been and continues to be the agreed position of irrigators in the scheme.
2. QCA should be retaining the declining block tariff as a pricing driver that promotes usage not penalise those who use more. Without these drivers there will be higher prices for all.
3. We request that QCA examine SunWater's costs to determine the comparison between SunWater's time and resources servicing the scheme and the unit cost of water supplied and serviced. We believe that this examination will show that the larger the water user the cheaper it is for SunWater to service and supply them

Insurance Costs

Recommendations:

1. QCA needs to review whether SunWater has listed assets in the MDWSS as insured when they are in fact uninsurable. Any assets deemed to be uninsurable should be removed from the list of insured assets and the cost pass through adjusted accordingly
2. QCA needs to review whether SunWater has listed any works that are related to possible insurance claims as non-routine maintenance costs and if so, these items should be removed from the list of non-routine costs
3. QCA should request SunWater to investigate whether self-insurance would reduce the insurance cost

Electricity

Passing 100% of the electricity costs through the variable water charges disadvantages the customers who are using their allocation as they are paying for all the electricity costs, whilst customers who don't use their allocation or may be making an income through temporary transferring allocation are receiving the benefit of having the water available but are not paying for electricity costs proportionally.

The direct pass through of electricity costs in the variable water charges continues to drive unaffordable water prices, particularly for the MDWSS re-lift irrigators.

The Local management process gave us an opportunity to look at driving electricity efficiency through options such as hydro and solar. Allowing SunWater to pass through 100% of electricity costs gives no incentive for them to look at driving efficiency gains.

After reviewing the SunWater data we question whether the electricity prices presented reflect the increases forecast from 2020 when the current electricity tariffs become obsolete.

Recommendations:

1. SunWater need to define electricity cost components as being fixed or variable to enable QCA to review the % of electricity costs that should be apportioned to fixed v's variable.
2. QCA need to review whether SunWater are modelling correct forecast pricing for electricity from 2020 and make sure that when setting prices, it is allocated to a cost/ML.

Shift to Cost Reflective Volumetric Water Charges (Parts B & D)

We believe that the State Government's directive to implement immediate cost reflective volumetric charges will drive up the water prices in the MDWSS scheme – particularly for re-lift customers who already have limited capacity to pay.

It is imperative for QCA to review pricing implications for all tiers within the MDWSS when considering 'balancing the legitimate commercial interests of the businesses with the businesses of the customers, including considering less than cost reflective volumetric prices which are necessary to moderate bill impacts for customers'. Investigations in the MDWSS will show that customers across our scheme are financially constrained as a result of fluctuating prices for produce and spiralling electricity prices.

The directive to implement immediate cost reflective volumetric charges gives SunWater no incentive to drive efficiency gains in key price areas such as electricity and as such will continue to drive prices up for customers.

Recommendations:

1. When considering 'balancing the legitimate commercial interests of the businesses with the businesses of the customers, including considering less than cost reflective volumetric prices which are necessary to moderate bill impacts for customers' QCA must derive a balanced policy that transitions schemes to cost recovery. In the MDWSS this will need to include a review of each tier of

the scheme and in particular the re-lift customers as they have the least capacity to pay and will likely face the most significant price increases.

2. In the Ministerial announcement regarding the price path review the Minister stated that the previous policy on water pricing would continue which effectively means the \$2/ML + CPI increase on the combined water charge for customers below lower bound. The Directive to QCA however does not reflect the Government Policy. As such the combined annual price increases must be reflected as follows:
 - a. Bulk Customers (Parts A & B combined)
 - i. Above Lower Bound – No price increase
 - ii. At Lower Bound – increase of CPI only
 - iii. Below Lower Bound – increase of \$2.38 + CPI
 - b. Distribution Customers (Parts A, B, C & D combined)
 - i. Above Lower Bound – No price increase
 - ii. At Lower Bound – increase of CPI only
 - iii. Below Lower Bound – increase of \$2.38 + CPI

Fixed Water Charges (Parts A & C)

Recommendations:

1. In the Ministerial announcement regarding the price path review the Minister stated that the previous policy on water pricing would continue which effectively means the \$2/ML + CPI increase on the combined water charge for customers below lower bound. The Directive to QCA however does not reflect the Government Policy. As such the combined annual price increases must be reflected as follows:
 - a. Bulk Customers (Parts A & B combined)
 - iv. Above Lower Bound – No price increase
 - v. At Lower Bound – increase of CPI only
 - vi. Below Lower Bound – increase of \$2.38 + CPI
 - b. Distribution Customers (Parts A, B, C & D combined)
 - vii. Above Lower Bound – No price increase
 - viii. At Lower Bound – increase of CPI only
 - ix. Below Lower Bound – increase of \$2.38 + CPI

Distribution Losses – Bulk Water Costs

SunWater is proposing for all bulk water distribution losses allocation costs to be passed through to the distribution schemes. Given that SunWater will now have the ability to temporary transfer unused distribution losses, an average distribution loss volume required to deliver water should be calculated and only that cost passed through to the distribution scheme.

Recommendations:

1. QCA needs to request SunWater to calculate a prudent average distribution loss volume that is required to deliver water and that calculation should be the only cost passed through to the distribution scheme.
2. SunWater should be required to review each scheme's distribution losses allocations and identify areas within the schemes where losses can be reduced, and projects put forward for external funding as they have done in the Mareeba Dimbulah Irrigation Area. This will create allocation availability and an income for SunWater and reduce the distribution losses charges being passed through to customers.

Inspector-general Emergency Management (IGEM) Costs

SunWater has allocated \$0.69/ML to the Mareeba Dimbulah Water Supply Scheme for emergency action plans and seasonal event responses as a result of the findings of the inspector-general which has seen SunWater set up a \$2.5M Flood Room. Irrigators are already picking up the costs of the Stream gauging stations which are used in flood modelling and monitoring.

Recommendations:

1. Government has passed an unnecessary cost impost onto SunWater to carry out flood mitigation and management work which arguably should be the responsibility of Government as it provides a benefit to the wider community not the scheme customers. QCA should not accept this cost as a pass through to scheme customers and should recommend that this cost be passed back through to the Government.

Recoupment of QCA Costs within the new Irrigation Price Path

As part of the Referral Notice the Government has allowed for the recoupment of up to \$2.5M of the Queensland Competition Authority's costs to run this irrigation price path review. This \$2.5 M is not included in the SunWater cost models and as such irrigation customers will be picking up these costs in the new price path.

Recommendations:

1. The Government's referral notice is a blatant cost shift. Determining irrigation prices is a Government / SunWater cost and this cost **should not** be borne by irrigators.
2. The referral notice gives scope for QCA to recover costs up to \$2.5M. There must be a transparent mechanism where QCA has to disclose and justify their costs for running this irrigation price path process.

Meter Replacement

SunWater's non-routine forecast for meter replacement over the next 5 years in the Bulk NSP forecasts to replace 9 meters at a total cost of \$50,000 (ave. \$5,555.55 per meter). In the Distribution NSP they forecast to replace 48 meters at a total cost of \$1.215Million (ave. \$25,312.50).

Recommendations:

1. QCA needs to review and compare the Bulk and Distribution Network Services Plans non-routine forecasts for meter replacement and request SunWater to explain the disparity in the cost of replacing meters in the bulk v's distribution.

Dam Safety

The State Government's directive to QCA to investigate the proportion of dam safety upgrade capital that should be allocated to irrigators is unacceptable.

Dam safety is a cost that should be borne by the wider community and we do not accept that we should pay on principle that irrigation customers 'contribute to the need or derive a benefit' from a dam safety upgrade.

It will be impossible for SunWater to provide QCA with accurate costings on future dam improvement projects and as such any future water price increases as a result of dam safety cost apportionment will be guess work at best. If project budgets blow out this may lead to increased water prices in future price paths.

It should also be noted that we strongly object to SunWater's proposal to apply a rate of return on Dam Improvement Projects as this will add significant cost and lead to longer term transitional price paths.

Recommendations:

1. In order to assess how future Dam safety upgrades / improvement projects are funded into the future the Government needs to have a clear mechanism to assess:
 - a) who derives the benefit – this will require extensive consultation with irrigation customers, community groups, recreational groups, tourism industry, Local Government etc.
 - b) the apportioning of costs
 - c) cost recovery mechanism

Given that the irrigation customers are just one sector 'contributing to the need or deriving a potential benefit' it is extremely premature of the Government to direct QCA to include an assessment of apportioning dam safety upgrade costs to this this price path review. As such we strongly recommend that the Government remove this Direction from this price path review.

Access Charge

Recommendations:

1. QCA needs to request SunWater to define what costs the access charge covers / offsets
2. Any price increase in the access charge should be no more than CPI

Corporate and Local Area Support Costs

Recommendations:

2. QCA needs to request justification from SunWater as to their allocation process of corporate and local area support which shows a substantial forecast increase in local area support costs from 2018/19 as well as corporate support costs continuing to increase.

Cost of Recreational Activities

The MDIACouncil has always argued that irrigators should not be burdened with the costs of recreation and as such supports the State Government's decision that recreational costs are passed on to the wider community

Recommendations:

1. QCA needs to seek clarification from SunWater to ensure that any current non-routine expenditure which may currently be attributed to recreational costs are excluded from the calculations in the new price path.

Yours faithfully



Guiesppe Moro
Chairman MDIACouncil