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HON WARREN TRUSS MP

Minister for Agriculture, Fisheries and Forestry

Mr EJ Hall
Chief Executive
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

19 NOV 2002

Dear Mr Hall

My attention has been drawn to the Queensland Competition Authority draft report *Burdekin Haughton Water Supply Scheme: Assessment of Certain Pricing Matters relating to the Burdekin River Irrigation Area*. In particular, the report concludes that Commonwealth grants for the construction of the Burdekin Dam were not capital contributions (i.e. a subsidy). The implication of this is that SunWater will recover, through water charges on users, a return on the grant paid to the Queensland Government by the Commonwealth for the construction of the dam. This is contrary to the intention of the Commonwealth grant.

Officers from the Department of Agriculture, Fisheries and Forestry – Australia (AFFA) previously advised that it is a matter of judgement as to whether this assistance can be regarded as a capital subsidy. However, the agreement between Queensland and the Commonwealth, *Agreement under the National Water Resources (Financial Assistance) Act 1978 in relation to the provision of financial assistance to Queensland in respect of the construction of a dam on the Burdekin River (1984)*, provided that the Commonwealth financial assistance was by way of non-repayable, non-interest bearing grants. Clearly, the Commonwealth had no intention of recovering these funds. I assume that Queensland would not recover these sunk costs either.

The advice from AFFA acknowledged that Commonwealth Government water policy of the time notes “water prices need to be set at a level to cover the full cost of water supply including adequate depreciation”. This does not mean that irrigators should have to repay the Commonwealth grant. Instead, I believe that the Queensland operators of the dam needed to recover from irrigators the ongoing operational costs, including recognition that the asset would depreciate over time and that funds needed to be set aside for its refurbishment and/or replacement.



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I understand that, as the agreement and construction of the dam were both completed well before the recognition of full cost recovery principles by the Council of Australian Governments (COAG) in 1994, there would be no requirement under the COAG water reforms for Queensland to recover the construction cost. I also understand that other states are viewing capital investment prior to 1994 as sunk costs but, in line with their commitments under the COAG agreement, are seeking to recover future asset replacement and refurbishment costs. For investments after 1994, the COAG Water Reform Framework requires that new developments be economically viable and water charges recover the full cost of supply.

I trust this information is helpful in finalising the pricing issue for the Burdekin Haughton Water Supply Scheme. Should you require any further clarification, please contact Mr Ian Thompson, Executive Manager of Natural Resource Management in AFFA on 02 6272 4623.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Warren Truss', written in a cursive style.

WARREN TRUSS