



North Burdekin Water Board

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15 March 2002

The Directorate
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Attention: Mr Jim Binney

Dear Sir

Re: North Burdekin Water Board Submission
Burdekin Haughton Water Supply Scheme: Assessment of Pricing

This submission seeks to complement other more detailed submissions which we are aware of. Therefore, to avoid duplication we have not forwarded documents referred to in this submission forwarded by others.

Our submission focuses on the unique position of the Delta Water Boards and the inappropriate application of irrigator pricing structures to the Boards which is effectively a water service provider equivalent to Sunwater.

We also query the indecent profit margin apparently built into these charges, and seek more detailed clarification of the price structures as set out in the Water Reform Units Five Year Price Path.

The Board is confident that your Authorities independent review of what has become an extremely vexed issue will lead to a fair resolution of the current debate and hopefully establish a foundation for transparency and improved consultation for the development of future pricing.

This submission is considered not confidential.

Yours faithfully

George Nielson
Chairman

Enc: North Burdekin Water Board Submission
Burdekin Haughton Water Supply Scheme: Assessment of Pricing

North Burdekin Water Board

**Submission to the
Queensland Competition Authority**

Burdekin Haughton Supply Scheme

Assessment of Pricing Matters

Submitted March 15th, 2002

North Burdekin Water Board Submission to the Queensland Competition Authority
Re: Burdekin Haughton Water Supply Scheme
Assessment of Pricing Matters: Submitted March 15th, 2002

North Burdekin Water Board Background:

The North Burdekin Water Board was formed in 1965 to artificially replenish the Burdekin delta groundwater resource underlying the then assigned areas of Kalamia and Pioneer sugar mills.

At the time, the concept of recharge on the scale envisaged was unique in Australia as was the self-funding and local management aspects of the proposal.

Today the Board remains an autonomous statutory groundwater resource management authority, responsible for the economic and environmentally sustainable management of the groundwater resource within the Board's proclaimed area.

The Board operates on a user-pays cost recovery basis spending some \$3 million dollars annually to replenish and manage the aquifer.

By far the bulk of revenue is raised from the sugar industry by way of a compulsory area rate per hectare of land assigned to the growing of sugar cane. Mills contribute by way of agreement negotiated annually usually equating to 50% of caneland area revenue. Growers of other crops pay the same area rate as for cane on the area cultivated.

The success of the Board's operation over the past 36 years can be gauged by consideration of the following statistics.

In 1965 the Board took control of an aquifer in severe danger of wholesale degradation and possibly total failure.

At that time, the area was producing 908, 000 tonnes off 11, 700 hectares. Today we have a relatively healthy aquifer and in recent times the area has produced 2.67 million tonnes of cane off 22, 500 hectares.

In short, the supplemented aquifer now has the demonstrated potential to service double the area with adequate water, yielding a three fold increase in production.

In general terms, the mechanisms which the Board employs to ensure the sustainability of the aquifer are as follows:

- ✧ Direct recharge of the aquifer through artificially constructed soakage pits, where water pumped from the river is diverted into these pits and percolates into the aquifer.
- ✧ Recharge through the bed and banks of natural watercourses, which form a large part of the Board's distribution system.
- ✧ Direct supply of water to irrigator's, thereby conserving groundwater and lessening the need for artificial replenishment.

The Board holds a total river allocation of 156, 000 megalitres, 45, 000 megalitres of which is subject to the riparian river rate. It is in relation to this portion of our allocation that I write in support of the Burdekin Area Irrigators contention that Sunwater charges should reflect only the efficient cost of supply ie, operations, maintenance and refurbishment.

In summary, the Boards function is one of irrigation supplier to some 22, 000 hectares of irrigated sugar land, with the overriding responsibility of sustainable management of the groundwater resource.

For the past thirty-seven years the Board has discharged these responsibilities on a cost recovery only basis. Consequently we feel well qualified to contribute to the current debate.

North Burdekin Water Board - Service Provider Equivalent of Sunwater

When making your assessment of this issue we would ask that the Queensland Competition Authority take account of the fact that this Board in discharging its statutory obligations is effectively a primary supplier of irrigation water to a designated irrigation area and in doing so performs an exactly similar function to Sunwater.

Under the principles of Competition Policy it would seem reasonable that the cost of river water to the Burdekin Delta Water Boards should be same as that incurred by Sunwater, presumably the cost of supply.

Over the years we have been frustrated in our efforts to determine what component of the riparian river rate is an actual cost to Sunwater and its precedents.

The Board therefore welcomes the Queensland Government initiative in directing the Queensland Competition Authority to conduct an independent review of pricing issues as they relate to irrigation in the Burdekin.

We are confident that the Price Path premiums of 187% of the Water Reform Units estimates of full cost recovery cannot be justified if the principles of Competition Policy are fairly applied.

Local Management Model versus Sunwater

The Burdekin Interim Local Management Committee (BILMC) engaged consultants Marsden Jacobs to develop a model for local management. This action was taken largely out of a sense of frustration with the lack of meaningful consultation with water users in the development of the Water Reform Units Price Path.

This report identified a commercially viable price of less than \$3.00 per megalitre for nominal allocation of river water, substantially less than the \$11.72 per megalitre set out in the Five Year Price Path.

While the government has for the time being put the prospect of local Management on hold, members of the BILMC remain committed to the concept, believing this option to hold the greatest potential to achieve and maintain cost efficiencies.

The Board strongly believes that while Local Management can be demonstrated to be a viable option it is incumbent on Sunwater to deliver competitive pricing.

It is our serious contention that 187% of efficient cost recovery or worse still almost 400% using Marsden Jacobs figures does not demonstrate a willingness to compete commercially, rather in the absence of more detail it would appear to be the most flagrant abuse of a monopoly situation.

I hasten to add if absolute transparency and accountability can be achieved under a corporate government entity then Local Management will cease to be an issue.

In the absence of more detail we can only assume that the exorbitant margins over efficient cost recovery can only relate to either a rate of return on the capital cost of the scheme or a premium based on a perceived capacity to pay or perhaps a combination of both.

Rate of Return

With regard to Sunwater achieving a rate of return on capital invested in the scheme, we would make the following points:

- ✧ One of the fundamental objectives of COAG & NCP water reform is to achieve transparent and accountable cost structures.

If such a return is incorporated in the price as it exists today then the inclusion is totally inappropriate as neither this Board nor any other member organisations of the Burdekin ILMC were advised that this was to be the case.

- ✧ We have thoroughly researched our files from March 1997 when the Burdekin Interim Local Management Committee first met through to the adoption by the Queensland Government of the five year Price Path and we can find no reference to a rate of return being a component of the suggested price structures. On the contrary in a paper presented to the ILMC entitled "Water Reform - Making the Most of the Opportunity" the opening page - Major Objectives it is clearly stated, "That revenues will, where practical, cover scheme operations, maintenance, and refurbishment costs by the year 2001. The requirement to achieve this is MANDATORY." This point is further reinforced in a letter from Mr Steve Edwell, Water Reform Unit to Mr Russ McNee, Chairman Burdekin ILMC.

The letter is dated June 6th, 2000 and states in the opening paragraph, "You would be aware, the Water Reform Unit has given a commitment to meet with the ILMC's to discuss cost recovery price paths. To ensure long term financial sustainability, irrigation schemes are required to reach lower bound cost recovery (operating, maintenance, refurbishment and miscellaneous costs) by 2004 at the latest."

- ✧ If in the future subject to proper consultation it is agreed that a rate of return is appropriate, then this Board would contend that bulk water pricing for river supply should be based on the operation of the Burdekin Falls Dam and Clare Weir. The positive rate of return component should be clearly defined both in terms of the percentage sought and the infrastructure investment it applies to.

In the case of bulk supply pricing in the river, the rate of return to the State can only be reasonably applied to state funded infrastructure required to deliver water in the river, ie., excluding the Commonwealth contribution towards the construction of the Burdekin Falls Dam which is described as a "written off cost" in the 1992 Industry Commission Inquiry.

Capacity to Pay

Over 95% of the irrigated land in the Board area is under sugar cane. This industry is under severe pressure from protectionist policies employed by the EEC and USA and the massive increase in sugar production achieved by Brazil in recent years. Margins are wafer thin and will remain so for the foreseeable future. Quite simply "capacity to pay" no longer exists.

If "capacity to pay" constitutes an element of the premium charged by Sunwater over and above the efficient cost of supply, then it is both inappropriate and irresponsible and should be removed forthwith.

Summary

In light of the foregoing comment this Board is of the firm opinion that it will be extremely difficult for Sunwater to justify pricing of purchased river allocation at anything above the Water Reform Units identified cost of efficient supply plus refurbishment.

If a rate of return is to apply, given that this possibility was never clearly enunciated during the development of the price path, this then is an issue for the future if and when government policy dictates such an outcome.

In closing I would make the observation that the best possible rate of return to the public in general from taxpayers investment in water infrastructure comes from supplying water to the end user at the lowest possible cost.

After all, water arrives in our dams and streams at no cost to the Australian public.

At this point water has no commercial value whatsoever. The value comes when the end user produces a commodity for sale, effectively value adding the resource.

Provided costs of supply and storage are met by the end user and the water is stored and used in an environmentally sustainable way, there is still no cost to the taxpaying public.

The real return comes when produce irrigated at the lowest possible cost better enables producers to maintain their competitive edge in export markets delivering new money into the Australia economy.

Only in this way can we as Australians seek to reap the maximum economic rewards from our water resources.

To seek to take profit at the first point of sale is to severely erode the earning potential of our precious water resource.

Your review of these matters is appreciated by the Board and we trust that the information provided will assist your Authority in achieving a fair and equitable outcome for all parties.



George Nielson

Chairman
NORTH BURDEKIN WATER BOARD

References

1. Water Reform Unit, "Water Reform—Making the Most of the Opportunity" Date: ???
2. Mr Steve Edwell, Water Reform Unit, June 2000.
3. Marsden Jacob, Proposal for Local Management