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Third Submission into the QCA Irrigation Price Review of SunWaters' St George Irrigation Scheme

Thank you again for the opportunity to make submissions into your investigations of SunWaters' St George operations.

I make the following arguments:

A) St George Bulk Price Path

I am very disappointed that in your draft report the QCA has dismissed the St George Irrigators arguments that we should not again pay for the modifications to the Thuraggi outlet and installation of the permanent pump station on Beardmore Dam, which has created a large drain on the annuities account. These works were previously funded through a water auction, this fact cannot be disputed. SunWaters' justification of using our annuities to fund these works is irrational.

Previous price paths have identified a 68-32 split between fixed and variable costs. Given there has been no change in the way the scheme operates in the past 10 years, I object to SunWaters claim that now 95% of all costs are fixed and only 5% variable. I strongly urge you to recommend the 68-32 split be reinstated as there is no rational justification in SunWaters claims that all their costs are fixed. It rather reflects SunWaters' inability to manage risk. A 95-5 split gives SunWater no financial incentive to deliver water, as they simply don't have to. Given that they are a large corporation with assets throughout Queensland, their ability to manage the small risk that a 68-32 price split delivers should not be questioned.

B) St George Distribution System

1 – QCA's dismissal of our concerns about SunWaters ability to manage their budget lacks logic. In 5 years, the distribution systems annuities budget has gone from strongly in surplus to severely in deficit. Your own consultants have stated that SunWater have refused to provide justification for this, no communication was ever given to the IAC regarding this, and yet the QCA have ignored all our legitimate concerns and proposed a massive increase in our annuity costs to cover this deficit. QCA's automatic approval of the massively expensive Intersafe project, which has never appeared on any previous maintenance schedules, was never communicated to the IAC, was not part of the previous price path, has delivered no benefits to customers nor increased the efficiency of SunWaters' own operation, defies logic. If the QCA is going to gloss over this, then we have no future in the irrigation scheme as SunWater will clearly be able to do whatever they like, wasting millions each year overspending their budget, fully expecting their irrigator customers, who have no say, no right of appeal and no alternative, to keep paying more to cover the waste. QCA's recommendation of a 66% increase in fixed (Part C) costs to cover this deficit is wrong and unjust. QCA is rewarding SunWaters appalling budget management record at our expense. It is imperative that the QCA direct our Distribution System annuities balance be restored to what its projected position was to be at this time during the previous price path, and revise down the Part C cost to $20/Ml, which is more than sufficient to maintain the efficient operation of this scheme.

2 – Your approval of SunWaters' preferred fee structure of 85-15 between fixed and delivery charges are going to have two serious implications:

Firstly you are again giving SunWater no financial incentive to deliver water, a decision which will see the city based managers waste millions more on their pet projects, and spend very little

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on urgently required maintenance necessary to deliver water to their customers. The most obvious of this been the state of the Thuraggi Watercourse, the major water delivery artery which has now undergone no maintenance for 10 years despite irrigator and local staffs' repeated pleas which the city managers continue to ignore.

Secondly, SunWater, with the QCA's approval, will create an environment where irrigators will permanently transfer water out of the irrigation area, and pay only the delivery charge to have the water temporarily delivered back on farm. This will not only become a very attractive financial option for the irrigators, it will become completely necessary as SunWaters cost structure becomes so prohibitive that irrigators will have no other option available to them. SunWater and the QCA must realize that many irrigators have an alternative water delivery system and adopting the price path that SunWater is expecting will see this become a reality. The QCA must reduce the proposed price increases and maintain the current 68-32 split between fixed and delivery charges to prevent this reality. This will force SunWater to spend their funds smartly, manage their budget correctly and look to local solutions. QCA's draft recommendation does no such thing.

C) I am dismayed at the QCA not having any concern regarding the evidence presented showing SunWater head office charges attributed to the St George Irrigation Scheme rising 500% in five years. This, in any business, in clearly unsustainable, yet you have recommended almost no efficiencies be directed in this area. SunWaters' response, which you have again fully accepted, that it is a result of centralization is illogical, as centralization is supposed to result in efficiencies and cost savings, not massive budgetary blowouts as has been uncovered in the QCA investigation process.

I note in the QCA draft report that when our water charges increase to $57.51 / Ml, we will finally be achieving full cost recovery. We were given the exact same assurance by SunWater in 2004 when they proposed, and we agreed, to a 50% increase in the cost of water to $31.84/Ml.

When taking into account the draft QCA's recommendation, SunWater will now be demanding from their irrigator customers 95% of all charges be paid quarterly in advance. Combine this with their demand for director, bank and personal guarantees against all future water charges, a policy which QCA staff are not aware that exists in any other Government corporation, my accountant advises that irrigators will be forced to show 10 years of future water charges against their balance sheets as a liability. This is going to put at risk all irrigation farmers livelihoods and ability to raise capital to fund crops and improvements.

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Scott Armstrong

Managing Director