

QLD COMPETITION AUTHORITY

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Queensland
Government

Department of
Natural Resources and Mines

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Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Sir/Madam

The Department of Natural Resources and Mines welcomes the opportunity to provide a submission to the Queensland Competition Authority's Seqwater Irrigation Price Review 2013-2017 (Attachment 1).

The key issues of concern in the submission relate to:

- recommendations that the department review distribution losses associated with Seqwater water supply schemes and create tradable water allocations in the Central Lockyer Water Supply scheme by 2015;
- the draft report's proposed price path for the Central Lockyer WSS, which proposes no Part A charge and a reduction of 56% of the current Part B charge; and
- errors of fact in the draft report.

Should you wish to discuss the attached submission, please contact Audrey van Beusichem, Director, Water Policy of the Department of Natural Resources and Mines on telephone 3224 7312.

Yours sincerely

[Redacted signature]

Lyall Hinrichsen
Executive Director, Water Policy

Attachment 1: Department of Natural Resources and Mines submission on the Queensland Competition Authority's Seqwater Irrigation Price Review 2013-2017

CC: Department of Energy and Water Supply
CC: Mr Wally Kearnan, Executive Director, South Region

Department of Natural Resources and Mines submission on the draft 2013-17 QCA Seqwater Irrigation Price Review.

Background

The Department of Natural Resources and Mines (DNRM) is providing this submission on the Seqwater Irrigation Price Review 2013–17 draft report. Comment is provided in terms of factual correctness of the draft report as well as to specific references to the water planning framework, policies, processes and the associated implications of QCA recommendations.

For ease of reading, DNRM has made general comments followed by scheme specific comments which are set out below.

General comments

QCA recommendations:

- 1) DNRM review and determine the efficient level of all bulk and distribution loss WAE to ensure that bulk and distribution system customers do not pay for loss WAEs held by Seqwater in excess of requirements (including for Pie Creek tariff group). The review should be completed by 30 June 2015**

DNRM does not support QCA's recommendation and provides the following context to clarify the policy intent underpinning the specification of distribution loss water allocations under the water planning process.

Integral to the distribution of water is that a certain volume has always been 'lost'. Under the water reform process with the establishment of Interim Resource Operations Licences (IROL), to enable the operation of Water Supply Schemes (WSS), it became necessary to explicitly account for the distribution losses incurred in the operation of existing water infrastructure. In order to establish these 'distribution losses', DNRM was required to create an adequate allowance that would meet the actual losses in most years.

The initial allocation of the loss allowance adopted a strategy that minimised the risk of the water supply scheme operator having insufficient water to meet its needs and its obligations of supply to its customers. An inadequate allowance would have the potential to adversely impact on the water supply scheme operator leaving the operator unable to meet its obligations.

The information available to determine the initial loss allocations was limited, but included documentation such as release and delivery information and the number of channel fills used. This lack of information coupled with the minimisation of risk policy led to a conservative volume being allocated for losses.

The distribution loss interim water allocations (IWA) required to operate a scheme varies from scheme to scheme and can change over time depending on the type, age and condition of the scheme distribution assets, the adopted mode of scheme

operation and maintenance regimes, climatic conditions and seasonal water demands of scheme entitlement holders reliant on the scheme.

The hydrological model underpinning each Water Resource Plan (WRP) and Resource Operations Plan (ROP), and subsequent nominal volume attached to distribution loss water allocations, factors in full utilisation of entitlement and the water supply scheme operator's ongoing ability to supply water for all allocations, including those that currently use less water than their entitlement allows. It is this reliability that underpins the security of entitlement and gives the entitlement its permanently tradable asset value.

The mechanism available for reducing the volume of distribution loss water allocations in a WSS would be to change the purpose of the distribution loss water allocation to another purpose. This change may be applied for by the entitlement holder (Seqwater) under section 130 of the *Water Act 2000*. These changed water allocations could then be sold on the water trading market.

Such a change of purpose would need to be instigated by Seqwater as the holder of the distribution loss water allocations. Seqwater would make the application to change the purpose of a water allocation from 'distribution loss' to another purpose. The grounds for such a change for example could be revised operational requirements or improved infrastructure or better information. Such an application would need to be supported by sufficient information to enable the chief executive to decide the application, including documentation of the actual distribution losses incurred within the scheme.

The change provisions related to distribution loss allocations have long been seen as an essential mechanisms to ensure that the water supply scheme operator is only able to change the purpose of a distribution loss allocation if it can be demonstrated that doing so will not impact on the interests of other scheme entitlements. The volume of water allocation needed to cover the distribution losses is essentially a function of operation, asset maintenance and contractual arrangements between the scheme operator and the customer. As such, it is inappropriate for a natural resource regulator such as DNRM to be exercising judgement as to what the appropriate water distribution entitlement volume should be.

2) DNRM should ensure that permanently tradeable water allocations be in place for every Seqwater irrigation customer by 30 June 2015;

DNRM supports this recommendation for the Lower Lockyer Valley WSS and the Warrill Valley WSS as they form part of the DNRM approved work plan. DNRM is on track to meet this recommendation. However DNRM proposes a revised timeframe and outcome for the Central Lockyer Valley WSS.

DNRM is engaged in implementing Government priorities across a range of water planning activities in Queensland. Priority has not been given to introducing trading for the Central Lockyer Valley WSS because of the high costs in doing so relative to the benefit when compared to other priority water planning activities elsewhere in the State.

Comments on factual correctness:

Comments by report volume

Central Brisbane River WSS Volume 2

Table 1.2, 6,771ML of irrigation water access entitlement (WAE) is added to 0ML of irrigation WAE to come to a total of 13,552ML of irrigation water. It is unclear how this total is derived.

Central Lockyer Valley WSS Volume 2

Section 1.1 Scheme Description states ‘*The scheme is located in the Clarendon Sub-artesian Area which is a benefitted groundwater area, with irrigators metered and charged for their groundwater use.*’

The Clarendon subartesian area has not existed since 2007. As a result of the commencement of the Moreton WRP, this area is now known as Implementation area 1 of the Lockyer Valley groundwater management area. The benefitted groundwater area is only part of the original sub artesian area.

On page 2 in Table 1.2, the volume of entitlements is given as 16,315ML/a. However Table 4.4 on page 59 of Volume 1 shows the total WAE in the Central Lockyer Valley Water Supply Scheme (Central Lockyer Valley WSS) to be 16,541ML/a. In addition, all of the WAE in the table in Figure 1 is shown as IWA. This is incorrect as only the surface water in the Central Lockyer is IWA. The underground water is either supplemented licences and the Morton Vale pipeline have individual contracts.

Figure.1 Summary of entitlements for Central Lockyer Valley WSS from volume 2

Table 1.2: Summary of Entitlements - Central Lockyer Valley and Morton Vale

<i>IWA</i>	<i>User/customer</i>	<i>No of customers</i>	<i>MP Volume (IWA)</i>	<i>HP Volume (IWA)</i>	<i>Comment</i>
Surface Water – Morton Vale	Irrigators	51	3,470		Customer contracts in place
Surface Water – Central Lockyer	Irrigators	205	3,115		No volumes attributed to individual customers
Ground Water – Central Lockyer	Irrigators	113	9,335		No volumes attributed to individual customers
Risk A (MP)	Crowley Vale Water Board - Irrigation	1	325		
Risk A (MP)	Stock and domestic	1	10		
Risk A (MP)	Laidley Golf Club	1	60		
Distribution losses	Seqwater			184	Held by Seqwater for Morton Vale Pipeline.
Total			16,315	184	

Source: Seqwater (2012am).

Contrary to figure 1 (above), the correct numbers of water entitlements in the Central Lockyer Valley WSS and how they are defined are as follows:

- o there are 151 water licences for the take of supplemented groundwater;

- there are 116 area based IWAs for the take of surface water;and
- in the Morton Vale Pipeline, there are 51 contract holders that do not have individual water entitlements.

Use of Lower Lockyer throughout. Example from p95 below:

*SKM's estimators additionally considered the utilisation of Brisbane contractor rates as a benchmark for rates of contractors in the **Lower Lockyer region**. It was found that although a minor premium may be expected due to the distance from Brisbane, **Lower Lockyer Valley** rates should be comparable to Brisbane's due to the proximity of major regional centres of Ipswich and Toowoomba, in addition to Brisbane. Further, SKM's estimator identified the competitive tender process in addition to removal of allowance to charge for travel time as being likely to negate any premium otherwise charged by the contractor for the work location.*

Throughout this report there are references to Lower Lockyer when they appear to mean Central Lockyer.

On page 118 of this document, it states:

'Seqwater submitted that in the Central Lockyer Valley, there are four entitlement types (High, High A, High B and medium). Seqwater holds 184ML of high priority, while irrigators hold the vast majority of the remaining WAE. The 2006 pricing review also treated all these irrigation WAE types the same for pricing purposes – for example, the irrigation customer WAE totalled 16,372ML in the Tier 1 report for Central Lockyer Valley and Morton Vale Pipeline tariff groups. This is comparable to the 16,331ML set out in above.'

There is no such thing as high A and high B in this area. These are medium priority. The only high priority is the 184 ML Morton Vale pipeline distribution losses.

Recommendation

DNRM recommends that the significant water entitlement errors relating to the Central Lockyer WSS be addressed and that the volumes dealing with the other WSSs be reviewed for accuracy.

Comment on specific water supply schemes

CEDAR POCKET DAM WSS

No Comments

CENTRAL LOCKYER VALLEY WSS (including the Morton Vale pipeline distribution system)

- *DNRM should ensure that permanently tradeable water allocations be in place for every Seqwater irrigation customer by 30 June 2015;*

DNRM cannot support this recommendation in the Central Lockyer Valley WSS because in addition to the complexity of this WSS and the low water use. The conversion of water entitlements to WA is usually driven by the need for trading (for which no demand exists in this WSS at the moment). This would also mean that other Government priorities would not be advanced during this time owing to the reassignment of resources.

Complexity

In the Central Lockyer Valley WSS, water entitlements are defined in the following three ways:

- o there are water licences for the take of supplemented groundwater,
- o area based IWAs for the take of surface water and
- o contract holders in the Morton Vale Pipeline do not have individual water entitlements.

The supplemented groundwater part of the WSS has no Water Allocation Security Objective (WASO) so in addition to the amendment to the Moreton ROP, the Moreton Water Resource Plan would also need to be amended.

An alternative to engaging in the WRP/ROP process to grant tradable WA would be to amend the IROL and grant volumetric interim water allocations (IWA) which would allow the calculation of part A charges but not permanent trading. This could be completed by 2017 for inclusion in the 2017 –2021 price path.

Water Use

In Figure 2 below, the summary of entitlements taken from the Central Lockyer Valley WSS Vol 2 shows that the volume of entitlement is 16,315ML

Figure 3 shows that Customers in the Central Lockyer Valley WSS were [up to 30 June 2013] required to pay minimum charges regardless of water usage. This is equal to approximately 8 ML usage (which has a value of \$258). SKM found that customers owning approximately 350 of the 468 meters in the scheme paid a bill based on minimum charges rather than water usage (Meaning that they used little or no water).

QCA estimates typical water use in the Central Lockyer Valley WSS to be 6,272ML/a. (DraftReport-SeqwaterIPR-Vol2-LV-1212 p131) and the combined total medium priority water entitlement to be 16,315ML/a as shown in Figure 2.

From these figures, it can be seen that water use in the Central Lockyer Valley WSS is approximately 38% of entitlement, which indicates a very low requirement for tradable water allocations in the WSS and as such does not justify prioritisation for the conversion to tradable water allocations.

Figure 2 Central Lockyer Valley WSS- Summary of Entitlements -

<i>IWA</i>	<i>User/customer</i>	<i>No of customers</i>	<i>MP Volume (IWA)</i>	<i>HP Volume (IWA)</i>	<i>Comment</i>
Surface Water – Morton Vale	Irrigators	51	3,470		Customer contracts in place
Surface Water – Central Lockyer	Irrigators	205	3,115		No volumes attributed to individual customers
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Risk A (MP)	Crowley Vale Water Board - Irrigation	1	325		
Risk A (MP)	Stock and domestic	1	10		
Risk A (MP)	Laidley Golf Club	1	60		
Distribution losses	Seqwater			184	Held by Seqwater for Morton Vale Pipeline.
Total			16,315	184	

Source: Seqwater (2012am).

Figure 3 Central Lockyer Valley WSS- Estimated 2010-11 Water Use Revenues

<i>Usage</i>	<i>0ML</i>	<i>0-10ML</i>	<i>10-50ML</i>	<i>50-100ML</i>	<i>>100ML</i>
Number of Customers	277	78	93	17	3
Part B revenue per customer	\$0	\$160 (5ML)	\$960 (10ML)	\$2,400 (75ML)	\$6,400 (200ML)

Source: SKM (2012).

The position of the Authority is that part A charges cannot be introduced until the entitlements in the Central Lockyer Valley WSS have been converted into water allocations. This is not practicable in the timeframes proposed nor is it necessary in this WSS with such a low use of the issued entitlement.

Given that in the Central Lockyer Valley WSS 74% of the irrigators were found to be charged according to the minimum charge rather than on their water use, then should a Part A charge not be implemented, those irrigators who do not use their allocation would be in a position where they would have no charges to pay.

In addition, the groundwater monitoring infrastructure owned by Seqwater in this WSS has not been taken into consideration when determining the price path as has been done in the case of the surface water monitoring network.

Recommendations

Given the complexity of the area, the low water use and the time it will take to convert entitlements in the WSS to tradable water allocations, conversion to tradable WA would not be the best use of departmental resources at this time.

DNRM feels that it would be more cost effective to convert the water entitlements in the Central Lockyer Valley to IWA which has the advantages of:

- o Using the groundwater resources of DNRM to continue working on the more cost effective areas such as the Burdekin and the Pioneer.

- leaving open the option to convert to tradable water allocations to a point when it is deemed necessary
- establishing a volume for each entitlement and could be used as a basis for the establishment of part A charge
- allowing each IWA to be seasonally assigned.

Additionally, the proposed price path will not bring about community support for tradable water allocations as it proposes no Part A charge coupled with a reduction of 56% of the part B charge. Applying the proposed charging regime including only applying the part A charge on the grant of tradable water allocations is likely to have the perverse outcome of community opposition to converting to tradable entitlements.

DNRM supports the groundwater monitoring infrastructure owned by Seqwater in this WSS being taken into consideration when determining the price paths as has been done in the case of the surface water monitoring network.

LOGAN RIVER WSS

No Comments

LOWER LOCKYER VALLEY WSS

DNRM should ensure that permanently tradeable water allocations be in place for every Seqwater irrigation customer by 30 June 2015;

DNRM is on track to achieve this recommendation

In addition DNRM supports the exclusion of groundwater monitoring as proposed

WARRILL VALLEY WSS

DNRM should ensure that permanently tradeable water allocations be in place for every Seqwater irrigation customer by 30 June 2015;

DNRM is on track to achieve this recommendation