

Submission

28 October 2019

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Mr Page,

RE: Rural irrigation Pricing Review 2020-24 Draft Prices

2PH farms has water allocations across 3 irrigation schemes in Queensland and uses that water to produce some of the best citrus and table grapes in the world. To continue to grow in the local and world markets, it is important to not only have the best quality products but to ensure it is delivered onto the consumers shelf at a competitive price. With that in mind we ask QCA to reconsider the issues raised in this submission.

1. Headworks Utilisation Factor (HUF):

- 2PH does not support SunWater's proposed HUF methodology
- 2PH recommends that QCA review the HUF methodology being used to allocate costs in the Nogoa Mackenzie scheme. This did not happen in setting the draft prices, only the calculation was reviewed.

2. Cost allocation of review

- 2PH is disturbed that QCA would consider only irrigators as the beneficiary of this review and have them cover the cost. This review will be used by SunWater to set all water prices across their customer base and therefore must be allocated across all customers.

3. Inspector-General Emergency Management (IGEM)

- 2PH recommends that QCA review the requirement for the efficient cost, allocation of, and beneficiary pays approach for the IGEM costs. 2PH does not believe QCA as a regulator, considered the points put forward relating to the IGEM costs in setting the draft prices.

4. Declining Block Tariffs

The declining block tariff was allowed in draft prices in the Mareeba Dimbulah scheme. 2PH would like to contend that the declining block tariff approach is:

- an impediment to the trading of water and allocation,
- does not promote competition across industries,
- does not consider economic and regional development issues, including employment and investment growth.
- does not promote the best use of water.

5. Dam safety upgrades, Dam Improvement Program (DIP)

2PH believes QCA has not been given the time or the resources to review the DIP costs, or the allocation or prudence of them and this has been reflected within the draft prices.

- 2PH does not support water users being asked to pay for significant works where there has been no appropriate consultation, engagement or review on the cost and/or requirement of DIP.
- 2PH rejects that only water users should be asked to pay for the dam safety upgrade where flood mitigation benefits of the dam are realised and socialised through the wider community.
- 2PH believes the DIP is a shared responsibility and recommends that both Government and community pay its costs.

Headworks Utilisation Factor

The QCA review of the HUF was limited to calculations and in no way reviewed the methodology which was the focus of our submission.

- The HUF evaluations do not take into consideration any scheme rules like carryover. In the Nogoia Mackenzie scheme carryover water during low announced allocation years makes up the biggest component of the water stored within the storages.
- Using the worst 15-year period of modelled water availability (1/07/1934 to 30/06/1949) to set the HUF must be questioned just as it would be if the HUF were to be set using the best 15 years of modelled water availability.
- Volumes used in the calculations to establish the HUF for High Priority water (HP) and Medium Priority water (MP) are at maximum allowed in the water plan of 56,000ML HP and 156,113ML MP. Compared to actuals of 46127ML of HP and 185732ML of MP to which the calculated percentage is then applied. By not using the actuals, it is deliberate cost shifting to HP allocation holders. Are we to believe that if all MP allocation could be converted to HP allocations there would be no HUF costs for 185732ML of MP?

HP and MP allocation holders are not guaranteed water but have a reliability range determined by the IQQM over the total period of data availability delivered by the operating rules. The IQQM model assumes 100% of the allocation made available in a water year is used in that water year. This is impossible to achieve. Because of this, the carryover rules have been developed to allow for better utilisation of allocations.

The carryover rule in the Nogoia Mackenzie scheme is now a major part of water users water management. This is driven by the nature of the scheme with the total allocation available from the scheme making up less than 18% of the storage capacity of the scheme. Building reliability of supply using carryover plays a big part of the higher water usage within this scheme as well as the development of high value crops and industries. There is no HUF cost allocated to carryover water.

If you model the scheme performance over the complete IQQM period with carryover in place you will see that most water years where there is HP announced allocation only, there will be carryover water made up of MP allocations as the biggest percentage of the available water within the scheme. The HUF does not take this into account.

2PH recommends that QCA calculate the HUF using the total period of the IQQM model and uses the actual HP and MP allocations within the scheme. Anything less than that is just fabrication of numbers to suit a predetermined outcome.

Cost allocation of review

QCA has allocated regulatory costs or fees relating to this investigation based on Irrigation water entitlements (ML held by irrigation customers in each of the water supply schemes specified in the referral).

The cost of the review must be across all water users, as the cost reflective lower bound price is used as a building block for all Water Allocation Entitlements (WAE).

There is no doubt that the prices, costs and cost allocation methods established from this review will be used for the purposes of setting urban and industrial prices over the term of this price path, whether they are called irrigation prices or lower bound prices. It is government policy that the lower bound price is one of the building blocks that must be used to set water prices across all uses.

2PH recommends the cost of the review be across all WAE not just Irrigation WAE.

Inspector-General Emergency Management (IGEM)

The new costs proposed to be allocated to water users for IGEM are *on top of* the costs already being met by water users for flood mitigation and a very large network of existing SunWater Stream gauging stations which are available and are used in all flood modelling, monitoring and flood warning systems.

If the dams were not in place, there would still be a requirement by Government to manage the risk during events to assist populated areas within these zones. Given the requirement to manage the risk is not brought about by the capture of water, it is unacceptable that the cost should be passed solely to water users.

2PH believes there has been no consideration given to the large costs already being passed onto water users and rate payers through the continued operation and maintenance of rainfall and gauging stations throughout our water schemes which is the primary source of information being used during all flood events and the IGEM program. This data benefits all and is being paid for by a few, who are now going to have the proposed cost of IGEM added on top.

2PH recommends QCA better understand the costs already being passed on to our water users and rate payers before recommending a direct pass through of the new SunWater IGEM costs.

Declining block Tariffs

The QCA Mareeba-Dimbulah draft prices are showing a difference in fixed price/ML of over \$16 between tariffs. E.G Small users are being asked to pay \$16/ML/year more for the fixed cost of water. This is on top of the access charge already in place. The access charge has now been substantiated by Sunwater and covers the costs incurred in supplying small users. Why are smaller users being asked to subsidise larger water holders' costs? The water reform process and current water policy in Queensland is built around the best use of water to be driven by price/market. How

does the declining block tariff fit within this policy? 2PH would like to contend that the declining block tariff approach is:

- an impediment to the trading of water and allocation, (complexity of transfer adjustment fees being applied with trades across tariffs}
- does not promote competition across industries, (subsidising the cane industry at the risk of slowing down the development of higher/better end uses.)
- does not consider economic and regional development issues, including employment and investment growth. (It is not allowing price and markets to determine best end use but is trying to use pricing to set predetermined economic outcomes which is not in the best interests of the area or state.)

2PH would like to suggest that QCA has failed in its job as a pricing regulator by proposing the declining block tariff continues in Mareeba-Dimbulah.

Dam safety upgrades, Dam Improvement Program (DIP)

2PH does not support water users being asked to pay for significant works where there has been no appropriate consultation, engagement or review on the cost and/or requirement of DIP.

Furthermore, 2PH believes it is impossible to ask customers of a monopoly provider to comment on a cost allocation process for a major cost item such as dam safety without any detailed information on the cost and requirement.

When a dam has been in place for some time, the flood mitigation benefit of the storage structure enables urban expansion and growth in areas that would *not*, pre-dam, have been developed. This increased population is then proposed as a trigger for dam safety upgrades. ***2PH rejects that water users should be asked to pay for the dam safety upgrade where flood mitigation benefits are realised and socialised through the wider community.*** To separate dams that are classified as flood mitigation dams, from dams that have a large flood mitigation benefit due to their design, is a very contestable distinction.

QCA has tried to establish the difference between a formal and informal flood mitigation benefit of a dam. They have done this with very little information or knowledge. 2PH contends that whether a flood mitigation benefit is formal or not, it is taken advantage of overtime and in most cases that is what is driving the need for the Dam safety upgrades.

Some examples of this are:

- Urban development (driving requirement, Local Government)
- Road bridges (advantage through reduced costs, State and Local Government)
- Roads across flood plains (advantage through reduced costs, State and Local Government)
- Rail Bridges (advantage through reduced costs, Aurizon and State Government)
- Mines on Flood plains (Greater access to minerals with more royalties to State Government and bigger profits to Large companies. This is also driving employment and urban development which in turn is driving requirement for DIP)
- Reductions in insurance premiums and payouts. (Communities, state and local Government)

The Fairbairn Dam spillway in Emerald provides an excellent example. The spillway reduces a 100-year ARI to a 50-year ARI through the town of Emerald. This reduces the total tangible damage from the 2008 flood from \$251.2M to \$27.4M or a 78% reduction in residential properties flooded (*GHD Peer Review Report for Central Highlands Regional Council*).

Throughout Queensland most local government authorities limit developments to areas that are above the modelled 1 in 100-year flood height only, therefore in a large weather event, communities would be inundated well before the proposed DIP (1 in 100,000-year event or PMF) came into effect.

In Emerald, the State Government designed and built Main Roads bridge infrastructure which causes a very large percentage of the flooding throughout the town in any event above a 1 in 25-year ARI. Limited flood impact assessments were not completed for these structures before their completion. 2PH respectfully highlights that Government has a critical and primary role to rectify existing infrastructure problems within the communities associated to the DIP.

2PH recommends that State Government should focus on issues that have large scale impacts at regular intervals (1 in 25-year ARI) before focusing on DIP which has an impact downstream during events that range from 1 in 10,000-year ARI to 1 in 100,000-year ARI.

The populated areas downstream of dams have developed to service the industries established from the stored water. If the cost of the water is pushed beyond affordability of those industries, the unintended but certain consequence will be to reduce economic activity, population and returns to Government.

The cost allocation of the dam safety upgrade program needs to be attributed beyond water users, as 2PH believes the affordability of our regional towns and industries is at risk with the excessive, increased charges proposed.

Under the referral notice only the costs of DIP incurred after the start of next price path (2020/21 water year) will be added to the lower bound prices. This will add over 10% to the lower bound costs of Nogoia bulk water supply *if* the costs are within the time frames and budgets proposed.

2PH believes the cost of the DIP is a community cost, driven by Government requirement and recommends that both Government and community pay.

2PH and water users are not going to accept major cost items like DIP without full and transparent scrutiny of the cost and requirement for them. This pricing review so far has not gone close to achieving any scrutiny of the cost and requirement for DIP.

2PH would appreciate QCA taking full consideration the above recommendations and facts in setting the final prices for the upcoming 2020/24 pricepath.

Yours sincerely,

Craig Pressler

2PH Farms

