COTTON AUSTRALIA

Rural irrigation price review 2025–2029
Queensland Competition Authority
GPO Box 2257
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By *online submission form*

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Cotton Australia is the peak body representing the interests of Queensland's cotton growers, many of whom operate within, and are serviced by, the Sunwater footprint.

The viability of our irrigated cotton producers is directly impacted by Sunwater irrigation pricing, and at the very least our growers expect that Sunwater applies the same level of efficiency improvement and cost control that they applies to their own farming businesses.

While we do have a small cohort of growers in the northern and coastal areas of Queensland, most of our irrigation production occurs from the Nogoa-McKenzie, down through the Dawson Valley and Burnett regions, across the Darling Downs, out to the Condamine-Balonne and along the Border Rivers.

This submission focuses on a number of across-the-business issues, as well as drawing on specific examples from some of the growing areas listed above.

Cotton Australia urges the Queensland Competition Authority (QCA) to respectfully consider the submissions made by individual irrigators and their local irrigation representative bodies, as well as the submission made by the Queensland Farmers Federation (QFF) of which Cotton Australia is an active member.

Cotton Australia would be delighted to assist the QCA and its consultants, in making introductions to irrigators and their organisations, should the QCA wish to take a more substantive look at issues raised during the submission process.

Cotton Australia would like to acknowledge the significant effort Sunwater has gone to, to engage with its irrigation customer base, in the preparation of this price path journey. Its willingness to actively engage with its customers and their representatives has been refreshing.

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Executive Summary

Cotton Australia believes the Price Investigations should focus on the following key areas:

- The justification for adjusting the Base Case Expenditure, rather than using the QCA Allowable Expenditure.
- A commitment to undertake a close study of the efficiencies and savings achieved under LMA, and how they can be replicated across Sunwater.
- A forensic review of the costings around the proposed new water accounting and billing system.
- An independent review of the relative merits of the RAB vs Annuity renewal approach. In particular the risks inherent in each system if actual expenditure is not consistent with planned expenditure.
- Blow-outs in expenditure in particular schemes, such as the Nogoa-McKenzie and Upper Condamine, where very significant price increases are being proposed, even though in the last price-path they were recognised as being operated at Lower-Bound cost recovery (indeed for many years they were paying well above Lower-Bound).
- The extraordinarily high support/overhead costs that are being incurred in schemes, where most are seeing half of their expenditure allocated to cover support costs.
- The lack of detail on proposed capital expenditure, which makes it almost impossible for stakeholders to make any judgement on the prudency of such expenditure. As just one example, metering replacement makes up a significant capital cost in many schemes, yet no detail has been provided on the number of meters to be replaced, and therefore it is implausible to assess the unit cost.
- The misleading nature of proposed pricing for the Dawson Valley scheme, where at first glance, it appears customers will see a genuine and significant reduction in prices. However, this is predicated on the adoption of the RAB approach, and the return of the positive annuity balance of the pricing period. This “sugar-hit” should have been explicitly shown as a discount on proposed prices, rather just showing the price.
- There is no doubt that the cost of insurance will be an ongoing and challenging problem for Sunwater and its customers. Cotton Australia believes greater effort needs to be put into exploring alternative and more cost-effective insurance options.

General Submission

Base Case Expenditure

Cotton Australia is very concerned about Sunwater’s attempt to adjust the 22/23 Base Case costs of $69m to $72m. Cotton Australia recognises that all businesses faced challenges during the Covid period, however that period was atypical, and Sunwater should not be allowed to use this as an excuse to implement an unreasonable step change in its cost base and therefore pricing.

Across the business this attempt made be relatively modest but in some schemes it is very significant and really cannot be explained, given Sunwater as a whole, and schemes on their own are relatively stable businesses, and should not be subject to wild swings in expenditure.

Cotton Australia points to the Nogoa-McKenzie where Sunwater is seeking to increase the cost base from the QCA Inflation-adjusted figure of $2.36m to $3.6m. There can be no justification for such a substantial rise.

It is also particularly galling when these increases are occurring in schemes that for many years were considered fully cost-recovered at Lower Bound (and in fact for years paid above Lower Bound due to government policy) and are now being identified as operating at below Lower Bound and are being subject to hefty price increases.

A similar scenario is occurring in the Upper Condamine, with an increase proposed from $1.56m to $1.90m, and once again this is a scheme that has historically been operating at Lower Bound and is now facing significantly increased prices to meet a new, much higher level of Lower Bound.

The LMA Experience

Approximately five years ago, four former Sunwater distribution schemes transitioned to local ownership as part of the Local Management Arrangement program. Cotton is a significant crop in three of those LMA schemes (Fairbairn Irrigation, Theodore Water and Mallawa Irrigation), and Cotton Australia has a close working relationship with these schemes.

To Cotton Australia's knowledge, these schemes have all been able to either maintain actual prices, reduce prices or return surpluses to shareholders, and they represent a very clear example of the adoption of prudent and efficient expenditure.

Cotton Australia does recognise that there will not always be perfect alignment between the management approach of LMAs and the management of Sunwater. However, we firmly believe that Sunwater could learn much from the management approach of LMAs and adopt much of these learnings into its management practices.

LMA's have been able to significantly reduce the proportion of their costs associated with overheads and/or support.

To that end, Cotton Australia recommends that the QCA and its consultants engage directly with the LMA schemes' directors and management and apply their approach to prudency and efficiency to the Sunwater proposal.

Water Accounting and Billing System

Cotton Australia can think of no better example of Sunwater inefficiency than its proposed capital expenditure of $38.6 million to replace Sunwater's water accounting and billing system. This system will come with an estimated annual operating cost of $1.7 million.

With 5,196 customers, this estimated capital cost equates to $7,428 per customer!!

Sunwater has estimated that the operational life of the system is 20 years.

The following is some very simple math that shows the madness and inappropriateness of this investment (Cotton Australia is not arguing that the following example represents perfect math, but it does demonstrate the need to thoroughly develop an alternative, cost effective solution).

Capital Cost $38.6 million / 20-year operational life = $1,930,000 annual cost plus $1,700,000 annual operational cost = effective annual cost $3,830,000.

Number of Customer – 5,196

Number of Water invoices (4 per year per customer) – 4 x 5,196 = 20,784

Staff that could be employed to manually bill, assuming average total employment cost of $180,000 per employee:

$3,830,000 / $180,000 = 21 staff

Number of invoices per year per staff:
20,784 / 21 = 989 invoices

Assuming 200 working days per year, number of invoices required per day per staff member:
989 / 200 = 5

Cotton Australia is not arguing for the adoption of a manual system; however, the above calculations expose the absolute lunacy of the Sunwater proposal, and how its management team is completely divorced from the idea of prudency and efficiency.

This is a very specific example, it is also an example that has a very significant impact on this price path, but further it is an example of the Sunwater approach that leads to Support Costs representing in many schemes 50% or more of total costs. ON behalf of all Sunwater customers we urge QCA to reject this ridiculous costing and direct Sunwater to return with a prudent and efficient water accounting and billing model.

RAB vs Annuity

Sunwater's proposal to shift to a Rab based renewal process is the most controversial element of this current proposal.

Cotton Australia, along with all elements of the irrigation industry has invested time and effort into trying to understand the relative merits of this proposal over the existing Annuity Based system.

On face-value Cotton Australia accepts the assurance from numerous experts that all being equal the outcome of the two systems will be the same.

However, what Cotton Australia has not been able to determine as yet is – "If all things are not equal" (actual expenditure is more or less than what was approved, expenditure is delayed, actual asset life is greater or less expected life), what are the relative merits of each system?

Therefore, to assist customers in determining their support or otherwise for the RAB approach, Cotton Australia recommends that QCA provide independent advice on the relative merits and risks associated with both systems.

Further, Cotton Australia is aware of, and shares concern, that the introduction of a RAB methodology, may make it easier for future governments to move away from the "Lower Bound" Pricing policy and introduce an element of return.

Cotton Australia seeks the QCA's view of what protection will be provided to ensure this does not occur.

There has also been little to no information on how the appropriate Weighted Average Cost of Capital (WACC) will be calculated, and how it will transparently ensure there is no element of return.

It would seem to Cotton Australia that the WACC should mirror the actual interest rate applied by the Qld Government on lending to Sunwater. Will this be the case?

There also needs to be a forensic accounting review of any declared annuity balance. As highlighted in the Central Condamine Irrigators Limited submission, there is massive inconsistency in the reporting of annuity balances, and it is imperative that irrigators have confidence that these balances are correct.

Support Costs

Across Sunwater, support costs/overheads account for 36.4% of the business operating costs. This in itself appears to be an extraordinarily high number. However, at various scheme levels this cost sometimes exceeds 50%. The support costs in key “cotton schemes” are as follows:

Nogoa-McKenzie – 39%

Upper Condamine – 45%

St George – 52%

Chinchilla Weir – 46%

Dawson Valley – 49%

This level of support costs must trigger serious investigation by the QCA and its consultants. It is almost beyond belief that approximately $5 out of every $10 in operational costs is being occurred outside the area of operation. There is no way a stand-alone business could support this level of costs.

One possible explanation is the continued growth in Sunwater staffing, while there has been no growth in irrigation or the delivery of core services.

One related example, discussed in detail above, is the proposed ludicrous expenditure on the Water Accounting and Billing system.

Capital Costs

One of the harder items for an organisation like Cotton Australia to assess for prudency and efficiency is capital item costs, and therefore this is one area where it is imperative that QCA and its consultants really look hard at Sunwater’s proposed capital works program and estimated costs.

They must view these expenditures not through the lens of a large corporation, but through a lens of meeting the needs of the customer in the most cost-effective and prudent manner possible.

There is not enough level of detail in the overall Sunwater submission nor the individual scheme summaries for adequate assessment to be made.

To cite just one example, in many of the schemes, water meter replacement represents a significant capital cost over the price period, yet there was no detail as to how many meters are to be replaced, and therefore no way to gauge the unit cost.

Despite these limitations, there are many examples that will be highlighted by submissions from individual schemes, that do not look to be prudent and/or efficient through the eyes of irrigators that have considerable experience with civil works and pumping equipment.

To cite just a couple of examples, in the Dawson Valley Sunwater is proposing to spend $1.2m on a Dam Safety Review for the Moura Off-Stream storage. This appears to be an extraordinary amount for a type of storage that is relatively typical across the cotton growing industry.

Another example from Dawson Valley is the proposal to replace one pump and refurbish another for a combine cost of over $2 million, Again these costs do not resonate with irrigators who have vast experience in buying and replacing pumping equipment.

A similar example, although outside the current price path, is in Sunwater’s submission for the Upper Condamine where in 2047 they have estimated expenditure of $4.3m to replace a pump at the Yarramalong Pump Station.

Misleading Pricing Information

Cotton Australia is very disappointed in the manner that proposed prices have been reported for schemes that currently have positive annuity balances such as the Dawson Valley scheme.

Except by close reading, an irrigator would think that these schemes would enjoy a very satisfying, systemic reduction in prices. However, the significant price reduction only occurs because Sunwater has included the return of the Annuity Balance over the price period in the pricing.

This completely fails any transparency test.

Sunwater's pricing proposal should very clearly have shown the actual price required to meet Lower Bound pricing (or the maximum allowable increase towards Lower Bound), and then shown as a sperate line-out the amount being proposed as the rebate returning the annuity balances.

It is imperative that irrigators fully understand that once the annuity balance has been returned (at the end of the price path), then a significant price increase will be required just to return to the required level of lower bound pricing.

Insurance

Cotton Australia fully recognises that all sectors of Australian society are facing significant insurance cost increases, however, it is simply not acceptable to Queensland irrigators for Sunwater to simply pass these costs on.

While Cotton Australia cannot suggest any definitive solutions, it is essential for QCA and Sunwater to thoroughly review not only the cost of insurance but Sunwater's internal policies in regards to insurance, and question whether the risk is being managed appropriately',

Much has been made in the media over recent months about the complete unaffordability for some households where home insurance accounts for the equivalent of one month's salary. Our irrigators are facing this level of cost at a scheme level for Sunwater scheme insurance. For example, insurance accounts for 12% of all operational costs in schemes such as St George and the Upper Condamine, a figure pretty well reflective of Sunwater's insurance costs across the scheme. This is an unsustainable burden.

Cotton Australia is opposed to Sunwater being able to recover any above regulated expenditure on insurance that occurred of the current price path. While Cotton Australia does accept significant insurance price increases occurred, it doesn't think Sunwater took all the steps it could have taken to minimise its insurance expenditure and ensure it remain within the approved regulated expenditure.

Conclusion

Cotton Australia and its growers appreciate the services of Sunwater, and fully support the Queensland Government's commitment to ensuring that Qld irrigators pay no more than the Lower Bound Cost of irrigation water storage and the government's commitment that Dam Safety Upgrade costs are a community cost and not one to be borne directly by irrigators.

In accepting those above commitments, we also expect t Sunwater to deliver its services in the most cost-effective way possible and recognise that while it may be a mid to large scale organisation, it is in effect operating a number of much smaller scale businesses and its costings, in particular its support/overhead costs should be more reflective of a smaller business than a larger one.

There is no more significant example of this than Sunwater's proposal to invest $38,000,000 or $7,600 per customer into a Water Accounting and Billing system!! There is no polite way of saying this **– IT IS MADNESS!!**

Cotton Australia urges the QCA consultants to meet with irrigators, meet with the LMA's that have transitioned, and explore every way to embed efficiencies into every element of Sunwater's rural irrigation water operations to ensure cost effectiveness.

If Cotton Australia can assist in anyway, please contact Michael Murray, General Manager – 0427 707 868 or michaelm@cotton.org.au .