

8 March 2019

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Sir/Madam

Queensland Competition Authority – Sunwater irrigation pricing review submission

Bundaberg Regional Council (BRC) is pleased to provide a submission to the Queensland Competition Authority (QCA) on the Sunwater pricing review. Being a bulk water customer of Sunwater in the Burnett region, our Council would like to take the opportunity to present our views and to support the collective interests of our region in relation to the supply of regulated water. Our submission aligns with the information provided to the QCA through the WBBROC.

As the Bundaberg area is predominantly located within an agricultural district that relies heavily on irrigation scheme water, our Council is acutely aware of the importance of water security and the economic and regional development opportunities that this water security brings to our communities. We are also conscious of the social welfare issues that exist within our communities along with the limited ability for our customers to absorb any future water price increases.

As background, BRC hold both high priority and medium priority water entitlements which are predominantly used for urban water supply purposes. Our Council has been and continues to be active in investigating and purchasing additional water entitlements to ensure that appropriate water reserves are in place for our communities into the future. It is worth noting that our annual costs for raw water represent a significant portion of our overall recurrent water budget, so as community representatives, we have a vested interest in ensuring that any potential cost increases are reasonable and affordable for our customers.

Key issues for consideration

The following are key issues for consideration by the QCA.

Water security

Our Council recognises that Paradise Dam water entitlements have been undersubscribed since the initial offering and that there are a number of investigations currently underway to advise on the most appropriate way to manage/allocate these additional water entitlements.

BRC's water entitlements are sufficient to meet urban water demand for the next 10 years, however beyond this period the only water available for urban use that is considered cost effective is Paradise Dam water. Urban water is also used to support a range of industries and large businesses within the Bundaberg region which in turn adds to the economic development and growth of the region.

Consideration should be given to maintaining affordable water reserves in Paradise Dam that are available to meet future urban and agricultural water requirements for the Bundaberg region.

Cost-reflective pricing

Whilst BRC generally supports the principle of cost reflectivity, our concerns centre on cost transparency, the consistent application of pricing principles for different water entitlements, a willingness to explore mechanisms by which cost efficiencies can be demonstrated and realised (ie benchmarking against other bulk water businesses and other Sunwater regions), and the development of service levels.

There should be a greater disclosure and disaggregation of support and administration costs as these costs appear to be significantly escalating over the pricing period.

By way of example, if a decision is made to apply an upper bound price path for high priority water entitlements, then from a consistent and equitable perspective this approach should be applied to all future water entitlements. Upper bound pricing would have a significant impact on future bulk water costs for our organisation and these costs would have to be passed onto our customers.

Strategies should be developed to assist in creating an environment whereby cost reductions are rewarded both for the customer and the business. The current environment biases the majority of risk onto Sunwater's customer, with is not favourable when Sunwater is a monopoly business activity.

Price path escalation

BRC's concerns are that if a pricing path is locked in for the price path period, there is limited incentive for the business to reduce costs or to develop solutions that improve efficiency and possible service standards. Water loss reduction strategies and off peak pumping are two initiatives that could be considered to improve efficiency. Cost efficiency gains should be included in the QCA pricing review.

BRC would like to see greater certainty of costs in the future, along with the ability to realise cost reductions as a result of efficiency gains. We are also concerned that if the goal is to eventually set irrigation prices with full cost recovery and a rate of return (ie full glide path) then this would not be sustainable for both Council and the agricultural sector. Also BRC would not be in favour of glide path cost adjustments that potentially impose steep rises in the earlier years 2020-21.

In principle, BRC would welcome a price cap subject to an acceptable rate of smoothing of glide paths and within the customers capacity to pay. Under the terms of the QCA referral notice, bill impact may potentially be highest from 2019-20 to 2020-21 which is undesirable and prices beyond 2020-21 will increase by no more than inflation plus \$2.38 per ML (in \$2020-21). BRC's view is that from an affordability perspective it may be prudent to look beyond the 4 year price path period and implement a partial glide path that recovers costs over a longer period. This approach would assist with bill shock, particularly during the early years of the price path period.

Glide paths should be considered carefully in light of the public interest as well as potential customer bill impacts.

Tariff structure

BRC has some concerns with the current fixed/volumetric tariff structure, in that the structure is heavily weighted to the Part A component and that there is no correlation between cost and service standards. Water pricing remains constant even during periods of drought when announced allocations are reduced. This concern relates to paying a fixed fee when there is little water available.

We would like to see greater flexibility in the tariff structure, whether it be the ability to self-select different tariff structures that suit particular circumstances, a recognition of reduced service standards during drought or critical water sharing arrangements or the ability to include an efficiency reflective adjustment to the charges that would encourage a stronger culture of efficiency gains in Sunwater.

As an example, reducing the Part A component relative to Part B may reflect a greater value of water on a volumetric basis and encourage greater water use efficiency, water trading and economy of use. Applying an efficiency dividend to the price path could create an environment whereby there are potential wins for both the customer and Sunwater should efficiency measures be realised.

BRC would support a more flexible tariff structure that could accommodate the diversity of users and the seasonal influences without unduly compromising Sunwater's charter.

Variable Cost Escalators

The Bundaberg distribution scheme has one of the highest power costs as a portion of total water charges. With electricity charges forecasted to increase significantly over the price path period, this will ultimately place upward pressure on water prices for the scheme. BRC would support strategies with a goal to cap or maintain the current cost of electricity over the pricing period and beyond, along with investigating alternate environmentally sustainable solutions. Benchmarking electricity costs against other schemes or businesses and presenting this information to customers would also provide guidance on future investment decisions.

System water losses also contribute to overall water pricing. The Bundaberg Irrigation Scheme comprises of a significant length of clay lined open channels where the potential for water losses is considered high. Unaccounted for water through seepage and evaporation has an operational cost that from our understanding is factored into the overall tariff structure. BRC would support cost effective strategies that address these aging assets and ultimately reduce the level of unaccounted water in the Bundaberg scheme. Unauthorised abstraction is also an emerging issue in schemes particularly under periods of low allocation. Unauthorised water abstraction points once identified should be fitted with data loggers with significant penalty tariffs applied against unauthorised volumes. The installation of smart meters could be progressively introduced in the meter replacement program under a cost sharing arrangement with customers to assist regulators in identifying water theft.

BRC welcomes the allocation of recreational costs of \$97,000 for recreational users supporting the argument that the regions dams are not for the sole benefit of irrigators under an 'impactor-pays' determination.

Dam Safety Upgrades - Paradise Dam

BRC recognise that there are significant costs associated with repairs to Paradise Dam and welcome the advice from the Government that the Paradise dam will be excluded from the Dam Improvement Program and the current irrigation pricing review. However since receiving this advice, Sunwater has advised that these costs will be recovered through future entitlements, which will impact on BRC's future water purchases.

BRC are concerned about the Paradise dam repairs and the impacts these repairs or the final solution would have on the scheme. There are concerns that if there are reductions in Paradise allocations then this would affect both water security and pricing into the future. Greater transparency in relation to this issue including future cost implications for new allocations should be a consideration for the QCA.

Bundaberg Regional Council requests that the QCA's consider the information presented in this submission and invites further engagement with QCA to assist in the development of the draft report.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Stephen Johnston', written over a faint circular stamp or watermark.

Stephen Johnston
Chief Executive Officer