Cooinda Cotton Co
10823 Carnarvon Highway
St George Qld 4487
Ph 0746252161
Email : cooindacotton@bigpond.com

Interim QCA Submission into SunWater Water Charges

Beardmore Dam and its associated irrigation infrastructures were built in the 1950's and 1960's as part of an effort by the State Government to develop the states Western areas. Some blocks were balloted but most sold at public auction with documents from the time stating funds raised would offset the cost of developing the scheme. In the late 1980's, further allocations of water were given away to landholders along the river and a further 3,000 Ml was sold at public auction. Hansard states the money raised in this auction went to further offset the building costs of the scheme. The then minister also stated that there would be no difference in the delivery cost of water regardless of whether the licenses were bought or given away.

The irrigation scheme has been responsible for the growth and success of the township of St George and the Balonne Shire in general. The exports generated from the scheme has seen the town thrive whilst other river towns in the region without an irrigation scheme such as Surat, Condamine and Dirranbandi have suffered and declined over the same time period.

The St George Irrigation scheme is largely gravity fed and thus has low operating costs. Since the schemes inception, it has been run by various Government entities, all having charged for water at the cost of operation and refurbishment of the scheme (economists refer this to lower bound costing). Despite this lower bound costing, irrigators have seen fixed water charges (called Part A charges) levied by SunWater increase by more then 500% in the 10 years SunWater have been operating the scheme. Part A charges must be paid in advance, regardless of whether water can be delivered or not. During the height of the recent drought, our farm alone paid $180,000 in Part A charges for water that did not exist. This fixed charging policy is clearly unsustainable in the St George Irrigation Area, but is another SunWater charge we have never had any input to.

The lower bound pricing policy has been in place for 50 years. Farms have been bought, developed and established for over two generations with this policy in place. To change this policy to include a return on capital will have a devastating impact on the farmers. It will effectively remove value from our own balance sheets, which we have work tirelessly to establish over the past 40 years, and give this value to SunWater for nothing in return. It will further erode the already terrible margins we operate under and will put us at a huge competitive disadvantage to our interstate and international competitors who do not irrigate under similar water pricing structures. Governments in NSW, Victoria and New Zealand have no capital charge on works built in the 1950's and 1960's (or

1970's and 1980's for that matter), our competing farmers in India, China, the USA and Brazil have no capital works charge placed on water, and indeed many have no charge at all placed on water supplied to them from Government irrigation schemes.

It is largely the result of all the maintenance and scheme upgrades over the past 50 years, which have been fully paid for by the irrigators, that the scheme has any value at all. SunWater cannot claim any capital value of the assets of the SGIA at all as we have always paid full maintenance and refurbishment costs, without which the scheme would be worthless. Farmers and irrigators are also not the only beneficiaries of the infrastructure. The irrigation scheme benefits the entire local, state and national economy through:

- **flood mitigation, which was particularly evident in the March 2010 flood**
- **recreation activities that take place on the water**
- **the road the JTW provides across the river**
- **the numerous businesses, local and national, that supply the district with goods and services**
- **environmental benefits through the release of compensation flows**

It is blatantly wrong for the Government to assume that the only money it collects from the irrigation scheme is in the form of water charges. They should not even need an economists report to work this out. The numerous taxes and charges collected throughout the region can all be applicable to the irrigation scheme, as without it the businesses, employment, production and exports would simply not exist.

It must be understood that SunWater is a Government protected monopoly that faces no competitive pressures. Farmers and irrigators who are part of the SGIA have no option but to pay SunWater charges, whether they are justified or not. If I can compare them to another Government owned corporation, QR, whose service locally got so poor and charges so high farmers now deliver their grain and cotton to the Brisbane export terminals on trucks. Farmers in this instance at least had an alternative, being road transport. With SunWater, there is no alternative. Irrigators have no input into the operation and maintenance of the scheme, there are no irrigators on the SunWater board or at any other level of management, the local advisory committees rarely meet (it is SunWater's role to run these committees) and SunWater no longer publicly release any financial results detailing where irrigators money is being spent within this scheme. There are no publicly available service targets, performance targets, efficiency targets or budgetary targets. SunWater face none of the competitive pressures that are necessary to keep businesses functioning efficiently. They are, in effect, accountable to nobody. To give an organization operating under these conditions the right to impose a 'return on assets' that they have never owned according to the capacity of their customers to pay will be an absolute disaster.

St George irrigators have never been offered our right under COAG policy to the option of local management. Some of our counterparts in Qld and irrigators in NSW and Vic largely operate with local water boards or some similar authority that is accountable to their local customers. Their charges are much

lower and their schemes much better maintained then the SGIA has been in the past 10 years. A simple benchmarking report would prove this.

Irrigators in many parts of Australia, and particularly in the lower Balonne region of the Murray Darling Basin where we are situated, have been under great pressure in recent years to upgrade and modernise irrigation practices to improve efficiencies in water use. On our farm alone this has seen investment in laser levelling, reticulation systems, a switch from flood irrigation to overhead and trickle irrigation systems and purchase of minimum tillage and satellite farming equipment. All these changes, many of them incredibly expensive, had to be financed from cash flow from our irrigation business. A move to this 'upper bound pricing' based on capacity to pay will see all investment in water efficiency measures stopped. Firstly because their will no longer be any profits to reinvest back into the farm for these measures. Secondly if SunWater determine that these measures have improved efficiencies then they will judge that capacity to pay has improved and will increase the water charges levied to you, effectively collecting for themselves the increased profits our own investments have generated. This is absolutely absurd. Clearly this water pricing policy has no place in Australia. I was clearly relieved to here of recent media reports where the Federal Court ruled against local councils charging based on 'capacity to pay'.

Thank you for the opportunity to submit this interim submission. I look forward to submitting a further report once more information is available regarding the pricing process and proposal. I trust this report will be of use and that its content will be valued.

Regards

…………………………….
Scott Armstrong
Managing Director,
Cooinda Cotton Co