**<u>Eton Irrigation Submission to QCA Water Pricing Principles Review</u>**

**Eton Irrigation Background**

The Eton system was built in the 1980s as a Queensland State Government system to distribute water from Kinchant Dam, 40 km west of Mackay.

Kinchant Dam, built across Sandy Creek in 1977, gets most of its stored water from the Pioneer River with only a small percentage coming from natural inflows.

Water from the river is pumped from Mirani Weir into an 8 km diversion channel that discharges into the dam, where it is then distributed to the Eton system.

The Eton system delivers up to 51,900ML of irrigation water to 315 customers covering approximately 15,000 hectares of irrigated land using 35km of open channel, 130km of pipeline and 6 pump stations.

A move toward local management of the Irrigation Scheme had been discussed and considered by customers of the Irrigation Scheme and the Queensland Government for over 20 years. Work commenced in 2012 when Government began detailed investigations into the feasibility of Local Management for Sunwater's irrigation schemes.

In late 2016, the Queensland Government set up Eton Irrigation and appointed the Board to negotiate and investigate the local management proposal with the Queensland Government and ultimately, if accepted by the Board and the Customers, to become the owner and operator of the Irrigation Scheme.

In 2019 a proposal put to the members was accepted by over 85% of the Water Allocation holders by volume.

In March 2020, Eton Irrigation Pty Ltd came into being and took over ownership and operation of the system. Note that Kinchant Dam remains owned and operated by Sunwater.

In December 2020, the company converted to a co-operative. It currently has 5 Directors on the Board (3 members and 2 independents) and 9 employees.

Austin Evans
General Manager
Eton Irrigation
austin.evans@etonirrigation.com.au
0427 277 906
11 Flaherty St
Eton Qld 4741

**Eton Irrigation and the Water Pricing Principles**

Eton Irrigation is generally happy with most of the water pricing principles. The one area that we have issues with is the Return on Capital being included in the efficient costs. We understand that the justifications for it include:

- Motivation for the entity to invest and operate well – ie justify the investment
- Create a level playing field for possible competitors that may want to enter the field.

**Motivation**

It is understood that the QCA is concerned if the rate of return is too low, that *"it could have a chilling effect on investment leading to inadequate capacity and/or service quality and potentially reduce revenues to the point where the financial sustainability of a regulated entity is endangered".* However, this assumes that the motivation for investment is a simplistic, straight dollar return on capital. The real motivation comes from government (the owner) and directs the entity to provide the services. The return for the government is a more nuanced, indirect benefit through maintained or increased economic activity and jobs – a direct return is not the only motivation for these entities.

Eton Irrigation is in exactly that situation. Eton Irrigation is not looking for a rate of return in our business (ie we have adopted a zero rate of return). We are running our system on behalf of our members/customers as a service. Our goal is to break even in the long term.

The absence of a direct return does not sap our motivation and lead to a decline in capacity and/or service quality. Providing the appropriate capacity and/or service quality is the role of our entity and we are directed to do that by our owners – we do not need to earn a return on capital to do that. Sunwater should be operating in the same way.

**Level Playing Field for Possible Competitors**

We understand that if a viable possible competitor wanted to compete against Sunwater, they would be at a disadvantage unless Sunwater had to allow for a return on capital to match the potential competitor's need to make a profit. However, Sunwater is a monopoly business with no competitors in the Mackay region. More than that, there are no potential competitors, or viable competitors or likely competitors. Therefore, including a rate of return to create a level playing field for a potential competitor that doesn't/won't ever exist, is just extra costs for the Sunwater customers for no reason.

**Zero Rate of Return**

Eton Irrigation's position is that water should be provided at cost (or subsidised) as a service to the community that underpins economic activity and jobs in this region. Therefore, we believe that the Qld Govt should have a zero rate of return for Sunwater. It has been commented that this was part of the original business case before Kinchant Dam was built.

Although this may seem to be an unusual approach to take (from a purest economist point of view), the position of the Queensland government in water seems to indicate that they are not looking for a return. The pre-election commitment to discount irrigation prices by 15% (broadacre) and 50% (horticulture) clearly shows that they see water as a driver of economic activity and jobs in the regions and that it should not be a money maker for the Queensland Treasury.

The zero rate of return approach would also be much easier to implement than the discounts. The practical application of the discounts split between horticulture (50%) and non-horticulture (15%) is very difficult. Within Eton we are mostly Sugar Cane (15% discount) but we do have some small amounts of horticulture (macadamias, limes, mangoes etc - 50% discount). Some farms even have both on the one farm. Despite multiple enquiries by Eton Irrigation, QFF and others, no method of applying these different discounts in the real world has been put forward.

This is a real-world example of where tax and transfers don't work.

Eton Irrigation is also a member of the QFF and supports their submission.