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Dear Mr Page,

Irrigation Pricing Review 2020 – 24: Submission on draft report

Introduction

The Central Highlands Regional Council (CHRC) covers an area of greater than 60,000 square kilometres, and encompasses the major townships of Blackwater, Bluff, Capella, Duaringa, Emerald, Springsure and Tieri. It supports a total population of 28,684 and delivered a gross regional product of \$3.682 billion to the Queensland economy (2017).

CHRC has allocations in the Nogoia Mackenzie and Dawson Water Supply Schemes (WSS). These allocations provide water to population centres within the CHRC area that deliver vital services to the agricultural and mining industries, and the health and education sectors.

At present the CHRC is negotiating water pricing and contracts for its allocations with SunWater and welcomes the opportunity to make a submission to Queensland Competition Authority (QCA) on the lower bound irrigation price review, as it makes up a large part of the upper bound price that will be charged to CHRC.

CHRC also wish to provide comment as it represents the interests of the rate payers within the local government area (LGA).

CHRC believes the cost allocations and increases across the Nogoia Mackenzie and Dawson WSS are excessive and unjustified, and provides the following recommendations and detailed explanations.

Areas for Consideration

1. Headworks Utilisation Factor (HUF):

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

2. Inspector-General Emergency Management (IGEM)

- CHRC recommends that QCA review the requirement for the efficient cost, allocation of, and beneficiary pays approach for the IGEM costs. CHRC do not believe QCA as

a regulator, considered the points put forward by CHRC relating to the IGEM costs in the QCA draft prices.

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

CHRC 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.

- CHRC does not support water users being asked to pay for significant works where there has been no consultation, engagement or oversight on the cost and/or requirement.
- No detailed information on the cost and requirement has been made available.
- CHRC rejects that 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.
- CHRC believes the DIP is a shared responsibility and recommends that both Government and community pay its costs.

Detailed explanation

1. 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 such as 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 the maximum allowed in the water plan of 56,000 ML HP and 156,113ML MP. Compared to actuals of 46,127 ML of HP and 185,732 ML of MP to which the calculated percentage is then applied. By not using the actual volumes, 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 185,732 ML of MP?

HP and MP allocation holders are not guaranteed water but have a reliability range determined by the Integrated Quantity and Quality Model (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.

CHRC 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.

2. 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 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.

CHRC believes there has been no consideration given to the large costs already being passed onto water users and ratepayers through the continued operation and maintenance of rainfall stations and gauging stations throughout our LGA and 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.

CHRC 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.

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

Dam safety is one of the largest cost increases for affected schemes. *CHRC does not support water users being asked to pay for significant works where there has been no consultation, engagement or oversight on the cost and/or requirement.* Furthermore, CHRC 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. CHRC 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 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. CHRC contends that whether a flood mitigation benefit is formal or not, it is taken advantage of over time 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 for State and Local Government)
- Roads across flood plains (advantage through reduced costs for State and Local Government)
- Rail Bridges (advantage through reduced costs for 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. (Benefits to communities, state and local Government)

The Fairbairn Dam spillway in Emerald provides an excellent example. The spillway reduces a 100-year Average Recurrence Interval (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 Probable Maximum Flood - 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. CHRC respectfully highlights that Government has a critical and primary role to rectify existing infrastructure problems within the communities associated to the DIP.

CHRC 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 CHRC 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.

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

Water provides a vital part of the economy within the local government area. The industries that make up that economy operate within a very competitive market place. With that in mind CHRC requests QCA consider the issues and recommendations raised in this submission.

If you have any queries please do not hesitate to contact our CHRC Manager Water Utilities, Peter Manning on (07) 4982 8383 or email PManning@chrc.qld.gov.au

Yours faithfully

A handwritten signature in black ink, appearing to read 'G. Joubert', with a stylized flourish at the end.

Gerhard Joubert
General Manager Infrastructure and Utilities