lockyer water users forum

Mr Charles Millsteed
Chief Executive Officer
Queensland Competition Authority
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3rd November 2019

Via email: http://www.qca.org.au/Submissions/Water

Dear Mr Millsteed,

Re: Central and Lower Lockyer Irrigators Submission on Draft Report – Rural Irrigation Price Review 2020-24 Part C: Seqwater - August 2019

This submission is on behalf of the Lockyer Valley Irrigators in the Central Lockyer water supply schemes and the Lower Lockyer water supply scheme.

Our submissions in March of this year and October 2018 asked the Authority to investigate the implications of the continuing poor annual performance of the water supply assets in determining prices for irrigation supply in both schemes over the next four years.

The QCA, while acknowledging the low water reliability issues for the schemes has rejected adjusting the tariff structure because the of the terms of reference for the investigations applied by the State Government.

It is noted that the Authority has recommended that 'prices for the Central Lockyer Valley WSS be updated to take into account the Water Plan (Moreton) (Supply Scheme Arrangements) Amendment Plan 2019 as soon as practicable after it is finalised'. We support this recommendation as the draft plan has addressed issues about the performance of scheme assets in recharging groundwater supply within the scheme. It will be important for the QCA to address the implications of the draft plan for pricing outcomes once the draft plan is approved for implementation.

No measures have been considered by the QCA or the State Government to address the continuing impact high fixed prices will have on irrigation farming in the Lower Lockyer. It is our view that the continued application of the pricing principles outlined in the State Government's referral will eventually drive commercial irrigation out of the Atkinson Dam Scheme.

This submission addresses the key issues that the QCA has failed to investigate in the draft report. The issues are dealt with in the order outlined in the draft report.

Prices are for the supply of water for irrigation purposes

The State Government requires the QCA to determine prices for the supply of water for irrigation services. These services are defined broadly in the Water Act 2000 as the 'supply of water or drainage services for irrigation of crops or pastures for commercial gain'. The QCA advises that this terminology is more specific than that used in the previous reviews 'and means that our recommended prices may potentially apply to a narrower range of irrigation customers compared to our previous review'. No attempt is made to identify which customers may be affected by this change in definition. For example, what are the implications for smaller farms that may not now be considered as using water for stock and domestic purposes. What other farming operations will be faced with paying significantly more for their water supply. The impact of these changes could be significant but customers have not been adequately informed and had the opportunity to submit on the impacts changes in prices will have.

Capital and operating cost assessments including renewals forecasts to 2027-28 and beyond

Customers in all schemes have not had sufficient opportunity to review the QCA analysis of capex and opex. The timing available since the release of the report is limited. Customers would need to engage consultants to review the costs analysis to be able to submit by 4th November. This engagement would need to also involve scrutiny of the financial model to adequately assess the QCA's investigations. The financial model has not been made available.

SEQWater also submitted to the QCA revised forecasts of renewals in November 2018 and January 2019. These changes have been accepted by the QCA but an opportunity should have been provided to review these updated estimates at an earlier stage of the investigations. The QCA failed to consult with customers during the conduct of investigations despite our formal requests. Investigations have been conducted behind closed doors without any opportunity to submit on revised capex and opex proposals.

Continuing the policy with renewals of replacing like with like is questioned particularly for schemes facing significant problems meeting cost reflective targets. Is it still relevant to continue with this approach given these cost recovery problems. Annual reviews of Network Service Plans don't really provide the opportunity to discuss this issue. The QCA recommendations for SEQWater to improve consultation in the future is of little benefit for this new price path. QCA should have investigated alternative capex programs to identify cost efficiency outcomes. Attention has been given to the future implementation of a regulated asset base (RAB) approach but this does not change the outcomes for this price path. We would need to be convinced that application of a RAB would make any change to our capex outcomes in future pricing investigations.

Conclusion: ***The QCA investigations do not adequately address the cost issues facing the Central and Lower Lockyer schemes.***

Water access entitlements in the Central Lockyer scheme.

QCA has accepted 5,051 ML as the volume of water access entitlements for the Morton Vale pipeline to calculate the Part C distribution fixed price for pipeline customers. The QCA notes that this volume includes entitlements that were handed back in the period before the 2013 pricing determination. It is also noted that the Water Act was only amended in 2017-18 to provide processes to deal with the hand back of entitlements. The QCA uses SEQWater's submitted water allocation entitlements of 3,420ML to calculate the bulk fixed price for the scheme.

The QCA justifies this approach on the basis of consistency with the 2013 pricing determination and to avoid pipeline customers paying the cost of the handed in entitlements. It is understood that SEQWater covers the cost of these unused entitlements.

Recommendation: ***That the treatment of the handed in allocations in the Morton Vale distribution scheme be investigated by the State Government in consultation with scheme customers to allow the QCA to update prices as soon as possible.***

Forecast volumes and entitlement usage

The QCA has proposed using a 20 year period to assess water use for the purpose of assessing volumetric tariffs. In Central Lockyer Lake Clarendon received 11% and Bill Gunn Dam 30% of entitlements over this period and Lower Lockyer 19%. The three schemes were built to supply water for irrigation but the storage works have not been able to deliver the volumes of water in accordance with designed performance standards. The table attached in the appendix to this report shows the performance of storages in the schemes relative to their design capacity. The Table below included in our March submission summarises the data from the appendix1.

Scheme	Commissioned (1st release)	Years of Data	Capacity	Performance (Average)
Atkinson Dam	1972	45 years	31,300 ML	19%
Lake Clarendon (includes Mortonvale Pipeline releases)	1995	22 years	21,000 ML	11%
Bill Gunn Dam	1989	28 years	7,520 ML	29%

The draft plan for the Central Lockyer scheme provides for two thirds of groundwater entitlements to be treated as low priority while further investigations are conducted into levels of recharge performance from scheme storages compared with recharge that occurs naturally.

As outlined in the introduction to this submission we support the QCA's recommendation that 'prices for the Central Lockyer Valley WSS be updated to take into account the Water Plan (Moreton) (Supply Scheme Arrangements) Amendment Plan 2019 as soon as practicable after it is finalised.'

Conclusion: ***The QCA does not make any provision in the draft report to address the poor performance of the Lower Lockyer water supply scheme. Most customers in the scheme have no alternative supply.***

Tariff structure

The QCA recommends a tariff structure of a volumetric price that covers the variable costs of supply and a fixed price that recovers the balance of the revenue requirement.

The Authority acknowledges the concerns raised by customers in schemes with low reliability particularly in Lockyer Valley. However, the option of adjusting the tariff structure to address low reliability of supply was rejected as it was inconsistent with the Government's requirements in the referral that fixed charges be no lower than the existing 2019–20 fixed price. They also noted that 'rebalancing the tariff structure may mask the underlying problems in some schemes and delay the timely consideration and resolution of those problems'.

We question this conclusion given that the QCA adjusted the tariff structure in the Pie Creek distribution scheme to address the impact of very high fixed costs. It is understood that this determination was based upon an assessment of capacity to pay for the four commercial irrigation farms in the scheme.

We understand that the State Government's referral requires the QCA to take into account capacity to pay. However, we have not had the opportunity to prepare an adequate scheme wide case for the Lower Lockyer which addresses the issue of capacity to pay for a majority of entitlement holders. Such a case would need to address the long term impact on commercial irrigation farming of high fixed charges and continuing poor scheme water reliability. The assessment of bill impacts conducted by the QCA assumes there are no impacts with prices over the current price path. Also there is no investigation of the longer term impacts of continuing to apply the tariff structure proposed in the draft report. Customers are effectively paying six times the proposed fixed charge given that they are not receiving a reasonable supply reliability of 70 to 80%.

It is also important that investigations address the impact of high fixed charges on the application of not only the water pricing principles of the National Water Initiative but also for the implementation of water planning provisions and particularly the implementation of water trading. Water trading is promoted as an effective market mechanism to help schemes such as the Lower Lockyer to boost demand and thereby drive down prices.

What has been the benefit of water trading in the Lower Lockyer in improving water use over the term of the current price path? Are high fixed charges impeding the functioning of the water market? Is water being purchased in the scheme for irrigation or for other non-irrigation purposes? How is it possible for a water trading mechanism to be viable when scheme performance is 19% and has delivered nil water for over 3 years, the mechanism cannot be relevant to the operational reality and therefore cannot work.

It is unlikely that customers of the Lower Lockyer scheme will have the time and resources to undertake this brief for the QCA.

The financial impact is clearly identified by Lower Lockyer Irrigator Ray Mayne who done the maths based the last 20 years achieving an average of 10% announced allocation. The true cost of water from Atkinson Dam is $653.30 per ML delivered. Under the proposed 2020-2024 price path the Part A charge will be $29,917 per year regardless of any scheme water delivery. Ray Mayne's analysis of water pricing and impacts is contained in appendix 2.

Conclusions:

- ***The proposed 2020 - 2024 price path will cause some Lower Lockyer Irrigators to close down and leave agriculture.***
- ***The State will end up with stranded water assets.***
- ***The current Part A fixed cost recovery model is not applicable or viable for long term poor performing water schemes.***

Recommendation: ***It is recommended that the State Government engage with the scheme customers and SEQWater to investigate the long term impacts of high fixed charges on the Lower Lockyer irrigation scheme and measures that can be implemented to address these impacts including water trading and policy changes to allow improved adjustment arrangement for tariffs.***

The State Government's referral requires the Authority to develop prices for current tariff groups for all water supply schemes.

Our March 2019 submission requested that 'Nodal Pricing should be given serious consideration to prevent cross subsidisation. The QCA's proposed prices are the same for both the Bill Gun Dam and Lake Clarendon sections of the bulk water supply scheme. However, the operation of each segment are completely different as the Bill Gun Dam is gravity fed for water both in and out whereas Lake Clarendon is dependent on electric pumps. The electricity charges to move water through Lake Clarendon are significant.

Recommendation: ***It is requested that the QCA investigate the evidence supporting the application of nodal pricing.***

Dam safety costs

Seqwater had advised that dam safety projects in the irrigation scheme have either been commissioned prior to 1 July 2020 or are not forecast to be commissioned until beyond 2023–24. A project for Atkinson Dam is to be commissioned in 2036-37. QCA outlines their proposals for the treatment of dam safety costs in their Part A draft report.
We are opposed to the QCA recommendation that 80% of the irrigation share of dam safety upgrade capital costs be allocated to irrigation water users state wide for schemes that are not designated as providing a flood mitigation benefit. We are of the view that this ratio cannot be justified for the proposals for Atkinson Dam.
In a large scale flooding event, the benefits that will accrue from any works to reduce flood damage will be of significant benefit to the extensive areas of urban, industrial and infrastructure development downstream of the Lockyer Valley. This benefit will increase significantly with the further development of the South East Queensland region.
It is also questioned whether the costs can be justified at any time in the future for a dam with such a low reliability of supply record. The prospect of having to cope with the addition of dam safety costs in a future price path raises further questions about the viability of this irrigation scheme if there is no change to government policies in regard to annual fixed price escalation and there are no improvements in supply reliability.

Conclusion: ***Lower Lockyer irrigation customers oppose the recommendations of the QCA in regard to the sharing of dam safety costs.***

Inspector-General Emergency Management (IGEM) costs

The QCA draft report for SEQWater makes no reference to the application of the full costs of flood management including emergency action planning and monitoring and reporting seasonal flood events to schemes as required in the State Government's referral. It is understood that this is because SEQWater does not perform this function at this stage.

It is understood however that SEQWater will be required to perform these functions in the future.
We are opposed to the introduction of these costs in future price paths because if our dams and storages were not in place there would still be a requirement to manage the risk to populated areas during flood events. These assets also provide flood mitigation benefits. The requirement to manage the risk is not brought about by the capture of water, so the cost should not be passed on the people using the water.

The IGEM recommendations involve the implementation of a community safety program to be delivered by the Bureau of Meteorology and the local disaster management groups. The program must be funded by the community, not SEQWater customers.

Conclusion: ***There has been no consultation with SEQWater irrigation customers about the introduction of these costs in future price paths. We are opposed to the introduction of these costs.***

KEY RECOMMENDATIONS

- It is recommended that the State Government engage with irrigation customers and SEQWater to investigate the long term impacts of high fixed charges on all Lockyer Valley irrigation schemes so measures can be implemented to address these impacts including water trading and policy changes to allow improved adjustment arrangement for tariffs.

- Create a water pricing category specifically for irrigation schemes that have been identified as having long term poor performance (less the 50% delivery). Develop new government Part A pricing policy that specifically addresses poor scheme performance which is correlated against a moving scale for fixed cost recovery that matches the annual announced allocation. If the announced allocation is 20%, then the Part A fixed cost recovery should also be set at 20%.

- Investigate options to rebirth (in progress) the three poor performing schemes in the Lockyer Valley to make them financially sustainable and viable for the irrigation community and the State Government.

Gordon Van der Est
Chief Executive Officer
Lockyer Water Users Forum

Greg Banff
Secretary/Treasurer
Lockyer Water Users Forum

Appendix 1.

	Bill Gunn Dam			Lake Clarendon			Atkinson Dam		
Capacity:	**7,520**	(constructed 1987)		**21,000**	(constructed 1992)		**31,300**		
1972							2,996	10%	
1973							5,899	19%	
1974							2,192	7%	
1975							3,478	11%	
1976							1,902	6%	
1977							3,632	12%	
1978							11,135	36%	
1979							6,006	19%	
1980							13,451	43%	
1981							7,230	23%	
1982							5,274	17%	
1983							11,232	36%	
1984							4,584	15%	
1985							7,175	23%	
1986							12,503	40%	
1987							5,183	17%	
1988							636	2%	
1989	2,900	39%					4,855	16%	
1990	2,670	36%					4,764	15%	
1991	6,930	92%					11,122	36%	
1992	2,240	30%					8,095	26%	
1993	6,732	90%					11,495	37%	
1994	200	3%					10,332	33%	
1995	-	0%		1,757	8%	1	1,464	5%	
1996	6,450	86%		7,491	36%	2	3,871	12%	
1997	2,435	32%		6,626	32%	3	10,767	34%	
1998	-	0%		1,918	9%	4	12,623	40%	
1999	2,216	29%		2,964	14%	5	2,616	8%	
2000	1,655	22%		2,257	11%	6	8,440	27%	
2001	1,757	23%		1,783	8%	7	13,619	44%	
2002	-	0%		144	1%	8	1,298	4%	
2003	-	0%		-	0%	9	-	0%	
2004	-	0%		-	0%	10	-	0%	
2005	-	0%		-	0%	11	2,102	7%	
2006	-	0%		-	0%	12	-	0%	
2007	-	0%		-	0%	13	-	0%	
2008	894	12%		780	4%	14	818	3%	
2009	7,687	102%		-	0%	15	16,075	51%	
2010	6,290	84%		1,634	8%	16	7,124	23%	
2011	217	3%		575	3%	17	3,192	10%	
2012	1,275	17%		2,647	13%	18	4,888	16%	
2013	307	4%		2,442	12%	19	5,379	17%	
2014	3,580	48%		10,472	50%	20	12,468	40%	
2015	6,110	81%		6,907	33%	21	8,610	28%	
2016	1,263	17%		-	0%	22	886	3%	
	Summary Data Bill Gunn Dam: 28 Years			**Summary Data Lake Clarendon: 22 Years**			**Summary Data Atkinson Dam: 45 Years**		
Total Water Released:			**63,808**			**50,397**			**271,411**
Target Release:			**210,560**			**462,000**			**1,408,500**
Average released per year :			**2,279**			**2,291**			**6,031**
Average % of Design Capacity:			**30%**			**11%**			**19%**
Median Release :			**1,465**			**1,696**			**5,183**
Releases in Years :			**20 out of 28**			**15 out of 22**			**41 out of 45**
Below Dead Storage:			**29%**			**32%**			**9%**

Appendix 2.

351 Rocky Gully Rd
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1st November 2019

Mr Darren Page
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RE: Atkinson Dam Irrigation Water Pricing 2020 - 2024 Price Path

I am an irrigator on the Atkinson Dam Scheme and was present and the workshop held by the QCA at Atkinson Dam on the 10th October.

My water allocation from Atkinson Dam is 482 ML, and I am one of the larger irrigators on the scheme. As you are aware there has not been a release from the scheme for some 3 years. We calculate the average water delivery since inception at 19% and your presentation indicated 16% efficiency. We are both in total agreement on the poor long term performance of Atkinson Dam.

I wish to highlight that by 2024 it is intended that water charges proposed for Part A are $62.07 (65%) + Part B of $32.61 (35%) = $94.68 in total. Based on this my actual cost for water delivered from the scheme is tabled below by announced allocation. The real cost of water delivered is over $600 ML and not the artificial representation proposed of $94.68.

Allocation %	=%/ML Delivered	Part A @ $62.07/ML	Part B @ $32.61/ML	Combined A & B	$/ML
5	24.1	$29,917.74	$785.90	$30,703.64	$1,274.00
10	48.2	$29,917.74	$1,571.80	$31,489.54	$653.30
16	77.12	$29,917.74	$2,514.88	$32,432.62	$402.38
19	91.58	$29,917.74	$2,986.42	$32,904.16	$359.29
25	120.5	$29,917.74	$3,929.50	$33,847.24	$280.88

Over the last 20 years that I have been on the scheme I would have been lucky to average 10% because of all the years that we've had zero water. As you can see in my table above, 10% is equivalent to $653.30/ML. My Part A charge alone would be $29,917.74 per year.

Please explain to me how I am expected to pay over $600 ML water charges when I cannot even generate an income because of the scheme's poor performance? Mr Page, could you please provide a written response to the question, how do I generate an income to pay $30K per year Part A charges and avoid the financial destruction of my business ?

The 2020 - 2024 price path being recommended by the QCA for Atkinson Dam will be the last straw, many of the irrigators will go out of business and State of Qld will end up with stranded assets.

It is time the QCA stepped up and provided some strategic direction to the Qld State Government that addressed the fundamental issue that Atkinson Dam and the other schemes in the Lockyer Valley are mitigated failures. It is not viable to have an escalating price path of fixed cost recovery when no product (water) is delivered.

Regards

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