



QUEENSLAND FARMERS' FEDERATION

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Submission

5 February 2021

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Submitted online: www.qca.org.au/submissions

Dear Sir/Madam,

Re: QCA Rate of return review (November 2020)

The Queensland Farmers' Federation (QFF) is the united voice of intensive and irrigated agriculture in Queensland. It is a federation that represents the interests of 21 peak state and national agriculture industry organisations and engages in a broad range of economic, social, environmental and regional issues of strategic importance to the productivity, sustainability and growth of the agricultural sector. QFF's mission is to secure a strong and sustainable future for Queensland farmers by representing the common interests of our member organisations:

- CANEGROWERS
- Cotton Australia
- Growcom
- Nursery & Garden Industry Queensland (NGIQ)
- Queensland Chicken Growers Association (QCGA)
- Queensland Dairyfarmers' Organisation (QDO)
- Australian Cane Farmers Association (ACFA)
- Queensland United Egg Producers (QUEP)
- Turf Queensland
- Queensland Chicken Meat Council (QCMC)
- Bundaberg Regional Irrigators Group (BRIG)
- Burdekin River Irrigation Area Irrigators Ltd (BRIA)
- Central Downs Irrigators Ltd (CDIL)
- Fairbairn Irrigation Network Ltd
- Mallowa Irrigation Ltd
- Pioneer Valley Water Cooperative Ltd (PV Water)
- Theodore Water Pty Ltd
- Eton Irrigation Scheme Ltd
- Pork Queensland Inc
- Tropical Carbon Farming Innovation Hub
- Lockyer Water Users Forum (LWUF).

The united voice of intensive and irrigated agriculture



QFF welcomes the opportunity to provide comment on the Rate of return review (November 2020), but as will become apparent our ability to provide detailed and technically relevant input is significantly limited. We provide this submission without prejudice to any additional submission from our members or individual farmers.

Overview

QFF as the united voice of intensive, semi-intensive and irrigated agriculture has an important role in the QCA's rate of return review, with our members relying heavily on the services provided by various monopoly providers of water and electricity, which base their pricing on regulated pricing model employed by the QCA.

QFF acknowledges that determining the rate of return is an important aspect of economic regulation, as it can have significant impacts on the revenues of regulated entities and on the prices paid by their customers. As noted in the rate of return review, it is important that the QCA carefully considers the issues that impact their approach to determining rates of return.

The background operations and profitability of the regulators that regulate the pricing for water and electricity need to be thoroughly investigated as these government owned monopoly suppliers should have a zero rate of return. There should be no excessive returns for the regulators that supply the agricultural sector with water and electricity, nor should the QCA rely on data that focuses on revenue adequacy rather than whether returns are consistent with the monopolised regulators regulating the industry.

The unfortunate reality is that QFF, as a representative of the customers of monopoly businesses regulated by QCA, does not have the internal expertise, nor the resources to engage external expertise, to meaningfully engage in the technical discussion about setting the Rate of Return.

The process significantly favours the regulated organisations and companies that have a very strong vested interest to invest in the resources to provide detailed submissions to the QCA, engage at a highly technical level, and most importantly provide a perspective that is very hard for customer organisations to challenge. *Under the Queensland Competition Authority Act 1997* the QCA is required to have regard to protect customers from the abuse of market power, for which the QCA should take this into account, but as previously mentioned, this review has been steered towards favouring the pricing process of the regulators. The actual rate of return from these regulated monopolies, that are earning greater than zero returns, signals that there are inadequacies in the market.

The result is that no matter how hard QCA tries to be balanced, there is a significant power imbalance in the favour of the regulated organisations.

It may sound far too simplistic for organisations to simply say the Rate of return is far too high, but the unfortunate reality is that is about the level of comment we can provide in processes like this. Government regulated service providers such as water, should have a zero rate of return, however if costs are 1% then this is what the rate of return should be, not the excessive inflated returns that currently exist, which are pushing consumers costs to an unsustainable level.

QFF requests that the QCA provides a collective of impacted customer representative organisations with adequate financial resourcing to professionally review the draft report when released and provide considered and technically relevant feedback to the QCA.

At this stage QFF has no choice but to limit its contribution to these high-level statements.

- Rural Water Delivery Business - It is the policy of the Queensland Government that rural water deliver charging should be set at “Lower Bound Prices” - i.e., should not include a rate of return.
- Regulated business such as electricity network companies which have Federally mandated revenue caps should be assessed as to being either entirely “Risk Free Businesses” or provided with only a very marginal risk rate. The reality is that these businesses operate in an extremely “low risk” environment.
- There always appear to be a significant lag between the commercial “spot” cost of capital, and the Cost of Capital granted regulated businesses. The cost of capital should never be greater that the “spot “rate government and their associated entities can borrow at.

Recommendation: *That the QCA provides a collective of impacted customer representative organisations with adequate financial resourcing to professionally review the draft report when released and provide considered and technically relevant feedback to the QCA.*

If you have any queries about this submission, please do not hesitate to contact Ms Sharon McIntosh at sharon@qff.org.au.

Yours sincerely



Dr Georgina Davis
Chief Executive Officer