



29 February 2024

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Submitted [Online](#)

Dear Queensland Competition Authority

Thank you for the opportunity to provide a submission to the Queensland Competition Authority's Irrigation price investigation 2025-29. This letter is specifically in response to the Irrigation pricing proposal by Sunwater.

Queensland Cane Growers Organisation Ltd (CANEGROWERS) is a not-for-profit public company with the sole purpose of promoting and protecting the interests of sugarcane growers since inception in 1925.

CANEGROWERS is the peak body for the sugarcane industry, with 13 affiliated district offices in Queensland, our strong regional presence ensures that services and advocacy are provided in local communities as well as at the highest levels of industry and government decision-making. In relation to Sunwater's footprint, CANEGROWERS represents the interests of cane growers in Bundaberg, Burdekin, Eton, Lower Mary, Mareeba-Dimbulah, Pioneer, and Proserpine irrigation schemes.

Customer Engagement

Sunwater has undertaken a robust engagement process which included multiple rounds of direct engagement with customers, as well as an ongoing consultative committee. CANEGROWERS regularly attended the consultative committee sessions and commends the efforts made by Sunwater staff in their provision of information to the representatives on the committee as well as through regional forums. The forums held at each scheme provided water users with opportunity for direct feedback to Sunwater and reported on within their proposal. Feedback from individual farmers that has been received by CANEGROWERS indicated that some were unable to attend sessions because they were held during a time that they were in the middle of harvesting their crop. Sugarcane has a long harvesting campaign, so it is acknowledged that this situation would be difficult to avoid.

Pricing Concerns

CANEGROWERS is satisfied with the overall level of due diligence applied in the determination of the cost build up for pricing. **However, we are concerned about the upward trend in all cost factors relevant to the delivery of bulk irrigation water.** Farmers are price-takers, and output prices seldom follow the upward trend in input prices. Combined with the ambitious changes taking place in the energy sector, the high risk of increased cost volatility for both electricity and water has the potential to severely affect irrigated agriculture. Within this context we ask that the QCA carefully interrogates the rigour of the assumptions made and the data sources used. Certain elements have created cause for concern that we are unable to resolve independently. These relate to:

- The extraordinarily high cost of the renewal of the billing system. While it is acknowledged that Sunwater has complex billing management requirements, a renewal of \$40.9 million



seems extremely costly. It is difficult for our organisation to critically assess this cost, and CANEGROWERS requests that the QCA specifically reviews this estimate.

- Sunwater has indicated that insurance costs have been thoroughly reviewed. However, since the last irrigation price review insurance costs have risen by 30% placing significant upward pressure on irrigation water prices. CANEGROWERS recommends that QCA reviews insurance costs and ensure any reduction in asset base and/or rationalisation of insurable assets has been properly accounted. In addition, what opportunities may exist for innovative insurance approaches through a whole of state government for a combined asset base to be insured (if this could spread risk and reduce the overall portfolio)?
- CANEGROWERS does not support including dam safety improvement costs in the irrigation water pricing pathway, and recommends that this be recognised as a community cost. As has been stated in the past, the inclusion of dam safety costs was never considered when the dams were originally proposed, and therefore were outside the scope of any cost/benefit analysis, and any consideration by irrigators in regard to the economics of irrigation.

RAB Approach

Sunwater has proposed adoption of a Regulated Asset Base (RAB) approach to renewals cost recovery. CANEGROWERS members are not in support of this proposed change. In its report, Sunwater acknowledges the responses in the Bundaberg and Burdekin schemes (accounting for 84 per cent of the “strongly disagree” responses). Our growers are unsupportive for a range of reasons, including the following:

- Reduced transparency if the long-term forecast of capital expenditure is no longer provided (i.e. will only see the current and perhaps subsequent price period as needed for the RAB and could lose sight of the long-term planning).
- Incentive to maximise capital costs (e.g. gold-plating) as this will provide a return on capital.
- Potential intergenerational inequity arising when large capital works are required to replace ageing assets. Growers felt that it is better to spread the future cost as an annuity over the 30-year forecast period to ensure the next generation are not saddled with a large, shock, capital cost. That is, growers have concerns about the irregular/lumpy cash recovery profile that will result from changes in the RAB over time, whereas the annuity continuously smooths this over a rolling 30-year period.
- There are no operational cost savings demonstrated within the proposal that would be achieved though the purported increased efficiency and flexibility.
- There is an incentive to set a WACC rate as high as can be motivated to generate additional revenue. If the main source of capital for Sunwater is from treasury, then the return on capital should simply be set at the treasury rate to be a true cost reflective approach.
- It creates an additional tax bill for Sunwater’s return on capital earnings that is not incurred within the annuity approach.
- There is still subjectivity arising from estimates of the useful life of renewals investments / assets.

One of the reasons that Sunwater would prefer to adopt a RAB approach is that it does not rely on a long-term asset management plan. Whilst robust asset management plans, are inherently difficult to develop, they do facilitate productive and dynamic efficiency through high quality information about



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the network and its condition and provide forward looking costs to assist decision making. The annuity process enables this and ensure an automatic 'smoothed' payment profile over time.

We look forward to continued engagement with Sunwater in the near future through the Consultative Committee and will be eager to review the QCA's findings in July 2024. Should you have any questions for CANEGROWERS, please contact chris_gillitt@canegrowers.com.au.

Yours sincerely

Dan Galligan
Chief Executive Officer