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BRIA IRRIGATORS LTD SUBMISSION

REGULATORY PRICING PRINCIPLES FOR THE WATER SECTOR

The Queensland Government has implemented price paths which gradually transition irrigation schemes operated by SunWater to the lower bound cost recovery level, and the Queensland Competition Authority (QCA) does not have a monopoly prices oversight role for irrigation pricing in SunWater schemes, during the period for which the price paths are in effect. However, the Authority does have a role in determining and recommending irrigation price paths under direction from the Government.

The QCA's Statement of Regulatory Pricing Principles for the Water Sector 2000 acknowledges that Queensland's irrigation sector has largely developed on the basis that water use charges covered only operating and maintenance costs, and that in recognition of the historical setting of regional development, COAG established what is referred to as the 'lower bound' as a minimum cost recovery requirement for water businesses supplying the irrigation sector.

Lower bound costs include all operation and maintenance costs as well as a renewals annuity as a component of irrigation water charges. BRIA supports the renewals annuity approach as an alternative to a rate of return. The renewals annuity is typically applied in the rural irrigation sector instead of estimating the required rate of return as the weighted average cost of capital (WACC). *Draft Statement (3.2.1 ³⁹)*

Irrigators have made their investments in Queensland irrigation schemes on the basis that there is not a requirement for a return on capital to be included in irrigation water charges, and any suggestion that this would be a requirement in future water charges may have precluded their investment. BRIA supports principle 7 in the draft statement which states that prices should be transparent, predictable, and simple.

BRIA Irrigators Ltd support the recovery of prudent and efficient operation, maintenance and renewal costs in water charges, however our submission to the QCA's Rural Irrigation Price Review 2020-24 provided a detailed analysis which showed that irrigators in the Burdekin Haughton Water Supply Scheme do not have a capacity to pay above lower bound costs in water charges.

We recommend that the QCA continue to adopt the COAG lower bound cost recovery principle, that there be no requirement for a return on equity for water businesses supplying the irrigation sector. BRIA also contends that the efficient cost base to determine future irrigation water charges should exclude capital expenditure for dam safety upgrades.

Russ McNee
Manager
BRIA Irrigators Ltd