

# Pioneer Valley Water Co-operative Limited.

A co-operative formed under the *Cooperatives Act 1997*.  
ABN: 55 322 373 770

PO Box 275  
(Level A, 120 Wood Street)  
Mackay QLD 4740

Ref: SF 10-018-20

4th November 2019

Queensland Competition Authority  
GPO Box 2257  
BRISBANE QLD 4001

## **RE: Rural Irrigation Price Review 2020-24**

This submission reiterates and expands upon Pioneer Valley Water Co-operative Limited (PVWater)'s submission of March 2019.

### **Introduction**

PVWater is cognisant of the Queensland Competition Authority (the Authority)'s obligation under Part 3 Division 3 Section 24 of the *Queensland Competition Act 1997* (the Act) to comply with Ministers' Directions in relation to investigations into pricing practices.

In their Rural irrigation price review 2020-24 Part A , QCA Approach states

“We must undertake our investigation and make recommendations in accordance with the relevant legal framework ('the pricing framework'), including the Minister's referral and the QCA Act.

We note that under Section 26 of the Act, there are a range of matters which must be given due regard in the conduct of such an investigation, and we **once again** encourage the Authority **not** to be tempted to give those matters perfunctory service.

We draw the Authority's attention to the following matters specifically:

#### **“Section 26           Matters to be considered by authority for investigation**

- (1) In conducting an investigation under this division, the authority must have regard to the following matters—
  - (c) the protection of consumers from abuses of monopoly power;
  - (g) the impact on the environment of prices charged by the government agency or other person carrying on the monopoly business activity;
  - (h) social welfare and equity considerations including community service obligations, and the social impact of pricing practices;
  - (j) the need for pricing practices not to discourage socially desirable investment or innovation by government agencies and persons carrying on non-government business activities;
  - (m) economic and regional development issues, including employment and investment growth;”

We further encourage the Authority:

- to include in the Authority's report to government, detailed outcomes in relation to the Authority's consideration of the above matters;
- to view irrigation pricing in the context of those outcomes, not merely in the context of cost recovery; and
- to make full use of the discretion allowed under paragraph C (1.4) (a) of the Minister's Referral and Direction Notice in relation to moderation of bill impacts, by recommending a commensurate reduction in volumetric (Part B) prices.

The Government has previously indicated that in setting the lower bound cost target for irrigation water prices and establishing a gradual transition path to this level, it has considered a range of matters, including customers' capacity to pay and the historical regional development driver for many of the schemes."

### **Unfortunately the facts do not bear this out!**

- SunWater is a monopoly power
- Communities are suffering from ever rising water prices to the extent that irrigation water usage has reduced by more than two-thirds
- Rural property values have dropped due to attached water allocations putting downward pressure on sales.
- Farmers are struggling to create viable succession plans for their families to follow on with.

### Affordability

PVWater is a not-for-profit, locally owned and managed small business, operating in the Pioneer Valley, which extends westward and inland from Mackay.



The business is registered as a service provider under the *Water Supply (Safety and Reliability) Act 2008* and holds a distribution operations licence (DOL) under the *Water Act 2000* for the Pioneer River Water Supply Scheme (PRWSS).

PVWater is responsible annually for distribution of up to 47,390 megalitres of water (including losses allocations) for irrigation across an area of around 22,000 Ha. Usage is devoted overwhelmingly to the production of sugar by PVWater's approximately 250 customers.

The Teemburra Dam Project commenced with an 80-year infrastructure outlook, and proceeded only after **government provided indicative subsidised pricing** designed to:

- make water affordable for supplementary irrigation, providing for ongoing drought proofing, and improved productivity outcomes in the agricultural sector;
- deliver downstream regional economic and development benefits including employment and investment outcomes for the Mackay region; and
- encourage irrigators to take up allocation and to make significant investments in on-farm irrigation infrastructure.

Farmers entered into a tacit contract with government, with the not unreasonable expectation that government policy would see pricing continue to be subsidised, most particularly for those inputs over which government has pricing control through Government Owned Corporations (GOCs) such as SunWater and Ergon Energy. Instead, in what may be perceived as an abuse of power implemented through their GOC's, successive Queensland governments have adopted a strategy to transition the agricultural sector towards cost recovery for critical irrigation inputs. This strategy:

- disregards the long-established premise that subsidising critical input costs enables productivity gains required by agricultural businesses to compete in a sector where commodity returns are dictated by world markets;
- conflicts with the original design premise of the Teemurra Dam Project, disingenuously failing to recognise that irrigation schemes were constructed to support the regional economy on the back of increased productivity, **were never intended to recover costs**, and would not have proceeded for irrigation on a cost recovery basis; and
- has no regard for the lack of capacity within supplementary irrigation schemes to affordably disperse the resulting water charges.

**It is critical to recognise that supplementary irrigation in a low-value crop environment, is incapable of supporting a cost recovery agenda for infrastructure. It is equally important to recognise that this is true not just for allocation creation infrastructure operated by SunWater but extends to scheme distribution infrastructure, and on-farm distribution and application infrastructure.**

### *Impacts of historic price increases*

Over the last 15 years Sun Water's Bulk Water charges have increased annually at **4.5%** (compounding) compared to average inflation of 2.43%

Moreover, increases in Bulk Water Charges ought not be viewed in isolation, rather in the broader context of flat-lining commodity prices for the prevalent agricultural crop (sugar prices are currently at similar levels to prices a decade ago), and increases in other irrigation inputs, particularly those within the state government's purview such as electricity (140% increase over the last 11 years!).

There can be no doubt at this point that the cost recovery model for critical irrigation inputs into the agriculture sector has failed water allocation holders in the Pioneer Valley, where pricing increases have:

- overseen a curtailing in irrigation practices, which have moved away from a crop promotion basis to one of crop survival. This has effectively: banished the opportunity for irrigators to offset on-farm infrastructure costs resulting from uptake of allocation associated with the Teemurra Dam Project; sabotaged envisaged economic and development benefits including employment and investment outcomes for the Mackay region; and increased risk around the potential environmental implications of run-off from agricultural land for the Great Barrier Reef Marine Park (GBRMP);
- caused changes in irrigation methodologies, which have moved away from high-pressure irrigation (efficient use of the natural resource and of electricity network and irrigation scheme infrastructure) towards less efficient low-pressure practices; and

- overseen the demise of the regional water market, with water allocations now seen as a deterrent to farm transfers, and many entitlement holders regarding their allocations as a financial burden rather than as an asset. Some farmers literally cannot give their allocations away and enquiries are being fielded regarding handing back of individual allocations, and procedures around scheme mothballing. While the option to surrender allocations exists under the *Water Act 2000*, it requires agreement by the to assume payment of associated ongoing water charges, and agreement from the DOL holder.

These outcomes are not speculation. They are already being realised. Looking at irrigation allocation usage in the two adjacent supplementary irrigation schemes in the Pioneer Valley in 2003 and again in 2015 (two years with 100% allocation availability and similarly low rainfall (958mm and 906mm)):

- Irrigation allocation usage in the PRWSS reduced from 89% of nominal allocation to 34%. That translates to 25,750MI not applied;
- Irrigation allocation usage in the adjacent Eton Water Supply Scheme (EWSS) reduced from 108% of nominal allocation to 55%, being 27,087MI not applied.

At 6 tonnes of sugar cane production per ML applied, this reduction in allocation usage amounts to 317,022 tonnes in lost production. At \$62.54/tonne (to the industry) this translates to around \$20M per annum lost revenue direct to the industry, or an estimated \$80M per annum (EM 4.0) lost to the regional economy.

**Far from being able to afford an *increase* in SunWater's Bulk Water Charges, allocation holders in the PRWSS need price *relief*!**

**SunWater's projected pricing increases for holders of High Priority – B (irrigation) allocations in the PRWSS total 48% over the four-year price path, including a 21% step increase in the first year.**

### Headworks Utilisation Factor (HUF)

The Pioneer River Water Supply Scheme is currently not operated in accordance with initial hydrologic modelling for the catchment, resulting in reduced system yield and inefficient use of the resource. This has come about due to both initial operational parameters not being matched by infrastructure capability (lack of capacity through Marian Weir), and by changes to infrastructure since initial modelling (reduced release flexibility at Palm Tree Creek Outlet and removal of inflatable rubber dams from Dumbleton and Mirani Weirs). While the change in storage volumes associated with removal of inflatable rubber dams (IRD)s from Dumbleton and Mirani Weirs has been considered, **the impacts on system yield and associated reduction in reliability of supply appear to have been overlooked**, as the storage capacities for Dumbleton Weir and Mirani Weir, as shown in SunWater's NSP, have not been adjusted for removal of the IRDs and should not be relied upon.

Additionally the reduction in system yield resulting from operational constraints at Marian Weir, and the reduction in supplementation efficiency associated with downgrading of the Palm Tree Creek Outlet release mechanism (from cone valve to pepper-pot valve) require modelling and adjustment of the HUF. Under water sharing rules for the PRWSS, changes in system yield and operational efficiency impact High Priority - B allocation holders *far* more significantly than High Priority - A allocation holders and should be evaluated and reflected in the HUF.

The recalculation of the HUF as part of the current pricing review does not reflect these changes in system yield, as it relies on original IQQM modelling. Critically, system yield impacts are felt by irrigation users and needs to be reflected in the HUF so that the cost sharing arrangement remains “equitable”. Importantly changes to the HUF do not impact overall revenue for SunWater and are therefore not passed through to the Annuity. This means that a reduction to the HUF for irrigation mid-price path needs to be reflected in a change to water charges, or irrigators will be paying more than their share for the balance of the price path, with no opportunity for recovery.

**Pioneer Valley Water would like to see the ability for a pricing change mid-price path to reflect changes to the HUF resulting from review of the IQQM model for the PRWSS.** We do not believe this position waters down a general stance on disallowing mid-price-path reviews.

### *Flood Monitoring and Reporting*

PVWater contends that Inspector-General Emergency Management (IGEM) costs commencing in the PRWSS from 2018/19 at \$90K, benefit the wider community and should be borne by that community accordingly.

Irrigators do not create the need for IGEM costs. In fact, the infrastructure associated with allocation creation, and the use of that allocation by irrigators, is far more likely to mitigate flood impacts than to contribute to them.

While it makes good sense to have the GOC responsible for allocation creation infrastructure and stream monitoring involved with IGEM, there is no basis for IGEM costs to be passed through SunWater. Costs should be borne either by those whom specific IGEM infrastructure and monitoring is designed to protect, or by the whole of the community as with other costs associated with monitoring of natural disasters and weather-related emergency events.

### *Dam Safety*

As with flood monitoring and reporting, PVWater contends that costs associated with dam safety upgrades, should be borne by the broader community as the beneficiaries of the associated risk mitigation. Water allocation holders are not disproportionately responsible for the climactic changes driving dam safety upgrades.

The impacts of these costs are also likely to be more significant than currently shown in NSP forward estimates. Costs indicated represent only 50% of the current cost estimates, which SunWater has advised remain underdeveloped at this time. Previous upgrades have also run well over budget.

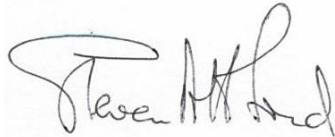
### *Access Charge*

Pioneer Valley Water supports the concept of the Access Charge, but it is not suitable/applicable to our scheme, as SunWater does not bill individual irrigators directly.

**It remains critical that individual schemes retain the ability to opt out of Access Charge arrangements.**

Thank you for the opportunity to once again submit to the 2020/24 irrigation pricing review for SunWater schemes. Please do not hesitate to contact the undersigned to discuss any aspect of this submission, or to obtain further information.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Steven Ford". The signature is fluid and cursive, with the first name "Steven" written in a larger, more prominent script than the last name "Ford".

**Steven Ford**  
**General Manager**