



QUEENSLAND FARMERS' FEDERATION

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Submission

20 November 2018

Mr Ray Rapinette
Director, Corporate Services
Queensland Competition Authority
Level 27, 145 Ann Street
BRISBANE QLD 4000

Via email: www.qca.org.au/submissions

Dear Mr Rapinette

Re: Queensland Competition Authority (QCA) Fee Framework

The Queensland Farmers' Federation (QFF) is the united voice of intensive agriculture in Queensland. It is a federation that represents the interests of peak state and national agriculture industry organisations, which in turn collectively represent more than 13,000 primary producers across the state. QFF 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)
- Flower Association
- Pork Queensland Inc.
- Queensland United Egg Producers (QUEP)
- Bundaberg Regional Irrigators Group (BRIG)
- Burdekin River Irrigation Area Irrigators Ltd (BRIA)
- Central Downs Irrigators Ltd (CDIL)
- Pioneer Valley Water Cooperative Ltd (PV Water)
- Queensland Chicken Meat Council (QCMC).

QFF welcomes the opportunity to provide comment on the Queensland Competition Authority (QCA) Fee Framework. QFF provides this submission without prejudice to any additional submission provided by our members or individual farmers.

The united voice of intensive agriculture



Background

The QCA's primary role is to ensure monopoly businesses operating in Queensland, particularly in the provision of key infrastructure, do not abuse their market power through unfair pricing or restrictive access arrangements. The QCA administers and discharges its responsibilities by ensuring compliance with the *Queensland Competition Authority Act 1997* (the Act) and other relevant legislation including the *Electricity Act 1994*. The QCA's services and functions are detailed in the Act and the services and functions for which fees are payable are included in Schedule 1 of the Queensland Competition Authority Regulation 2007 (the Regulation).

The majority of QCA's operations are funded by fees paid by the entities it regulates. In turn, fees charged to regulated entities may be passed on to the customers of the regulated entity via a QCA Levy.

Section 3 of the Regulation allows the QCA to charge fees for providing a service or performing a function set out in Schedule 1 of the Regulation provided the amount charged is:

- (a) considered to be reasonable by the QCA; and
- (b) not more than the reasonable cost of providing the service or performing the function.

Separately from fees, the QCA's only other source of revenue is provided via a grant from the State Government. Operational expenditure that is not reasonable to charge to regulated entities and monitored sector entities is funded by the grant.

QFF understands that the purpose of this fee framework (<http://www.qca.org.au/getattachment/654eb7a5-e1c5-4dc2-ac55-b909cc942ba3/QCA-Fee-Framework-2018-Draft-Review-and-Update.aspx>) is to set out the approach and methodology the QCA will apply when determining and allocating fees to regulated entities and other entities or industries the QCA is directed to monitor.

QFF's Position

Price/revenue regulation is a surrogate for market competition. In the absence of competition, customers are exposed to the risks of monopoly supply which may result in inadequate service standards and/or over-pricing (customer gouging). As such, Queensland's regulatory framework and associated principles for both electricity and irrigation water pricing is to ensure that price/revenue levels are efficient in terms of preventing monopoly exploitation of customers while ensuring that the monopoly business is sustainable.

QFF regards the lack of market competition in irrigation water and particularly electricity to regional Queensland as a failing of government. The costs associated with this failing (i.e. the lack of retail and competition in particular) should not be passed onto consumers, who typically have no choice but to deal with the monopoly, leaving them disadvantaged by the monopoly situation in addition to being liable for the costs incurred to regulate the monopoly.

Transparency

Where fees are proportioned to users, QFF believes that it is in the interests of Queensland's water and electricity customers that there is greater transparency and evidence of prudence in the QCA cost structures and the costs ultimately apportioned to specific user groups.

QFF notes the over simplistic example 'cost estimate' provided as part of the Fee Framework Paper. In all cases, customers require more detailed information regarding cost apportioned and the prudence of those costs including an options analysis where appropriate. For example, QFF is aware that the QCA has a limited workforce and, as such, relies on consultants where required to fulfil critical skills and

knowledge gaps (which we note is not a cost line item). It would be beneficial to customers to understand in advance which elements of an investigation will be undertaken internally and which will be subject to external analysis (and potentially higher fees). If indicative of what can be expected, QFF is also concerned that organisational overheads are almost as much as the cost of the people assigned to undertake the investigation work.

QFF would also like to understand how the cost structure and apportionment of fees compares to other regulatory bodies such as the NSW Independent Pricing and Regulatory Tribunal (IPART), including clearly defined benchmarking where appropriate with like for like services.

QFF also suggests that there must be greater specificity about the cost allocation methodology employed by the QCA to determine whether its costs (comprising staff and other costs, particularly those associated with consultancy fees) are funded from the QCA Levy or the State Government grant.

Cost Allocation - Irrigation Pricing Review

The Fee Framework states,

The apportionment of the costs of any regulation of government owned water businesses will be determined having regard to fairly allocating the costs to the beneficiaries of the regulatory service, and having regard to the terms of any specific direction notice issued by the Treasurer. The apportionment of shared costs or fees will generally be based on water volume or other relevant measure. For example, shared regulatory costs or fees relating to any regulation for the supply of water to irrigation customers will be based on water entitlements (mega litres) held by irrigation customers of each water business¹

QFF understands that SunWater has raised a number of concerns around the existing Irrigation Pricing Review, specifically that *while some aspects of the irrigation price review can reasonably be apportioned across all irrigation customers, the referral notice identifies issues that apply to a limited number of schemes*. For example, dam safety or the development of alternative tariff groups.

QFF supports the principle of a user pays system acknowledging that some schemes will require further man-hours and resources, and possibly the appointment of suitably qualified consultants to provide the analysis required to make robust pricing decisions. However, in the case of the current Referral Notice (dated 29 October 2018) the individual irrigation schemes have had no control over the content of the Referral Notice and would therefore be penalised for studies and additional QCA work for which they have no control and may not support – dam safety, which QFF considers a public good, and the development of alternative tariff groups as a result of poor government decision-making processes which have impacted scheme viability.

QFF therefore only supports a direct user pays concept where additional investigation has been specifically requested by the user(s) and a full estimate of fees has been provided in advance.

QFF supports SunWater's position that for *'expenditure on issues affecting all service contracts, allocate costs via a common allocator, potentially based on the share of total expenditure'*. However, the nature of the common allocator requires further consultation with all customers and may vary over time.

Electricity

Energy Queensland Limited (EQL) has advised QFF that they will not be providing a submission to the QCA's Fee Framework update at this stage, and they do not have any issues with the QCA's current approach to apportion the fees for electricity distribution equally to Ergon and Energex. EQL has also advised that they are satisfied for the electricity retailer component to continue to be applied only to retailers with over 1,000 customers.

¹ QCA 2018, Draft Fee Framework, p.4



If you have any queries about this submission, please contact Dr Georgina Davis at georgina@qff.org.au.

Yours sincerely

Travis Tobin
Chief Executive Officer