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Submission

8 March 2019

Mr Charles Millsteed
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

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

Dear Mr Millsteed

Re: Rural irrigation pricing review 2020-24 - Seqwater Schemes

The Queensland Farmers' Federation (QFF) is the united voice of intensive, semi-intensive and irrigated 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 farmers 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)
- Flowers Australia
- Pork Queensland Inc.
- Queensland United Egg Producers (QUEP)
- Queensland Chicken Meat Council (QCMC)
- Bundaberg Regional Irrigators Group (BRIG)
- Burdekin River Irrigation Area Irrigators Ltd (BRIA)
- Central Downs Irrigators Ltd (CDIL)
- Pioneer Valley Water Cooperative Ltd (PV Water)
- Theodore Water Pty Ltd.

QFF welcomes the opportunity to provide comment on the Rural irrigation price review 2020-24 with reference to Seqwater schemes. We provide this submission without prejudice to any additional submission from our members or individual farmers.

QFF supports Seqwater's recommendation that QCA should not have to undertake significant investigations into the cost estimates and approaches which have already been recommended by the QCA in the 2018-21 Urban Bulk Water Price Review. As Seqwater also points out the 'irrigation services are a comparatively small part of its business (only around 0.4%) in revenue terms.'

This submission will primarily address the issues and concerns raised by customers in the Seqwater consultation sessions. These issues include:

- Allocating costs using Headworks Utilisation Factors
- Forecast cost targets for Central Lockyer and Morton Vale schemes
- Long term water usage forecasts for the Lockyer Valley schemes
- Allocating costs at 95% of fixed costs
- Forecasts of meter replacement costs
- Performance, sustainability and access to water in the Lockyer Valley schemes and the Pie Creek and Cedar Pocket schemes.

It is noted that Seqwater has forecast that three schemes (Mary, Logan and Warrill) will have 2019-20 bulk fixed prices above the cost reflective level proposed for 2020-21. This will mean that in accordance with the Referral Notice requirements there would be no increase to the bulk fixed prices from 2020-21. However, five schemes have 2019-20 bulk fixed prices significantly below the 2020-21 cost reflective level:

- Lower Lockyer – more than $38/ML below cost reflective
- Central Lockyer and Morton Vale – more than $50/ML below cost reflective
- Cedar Pocket – more than $340/ML below cost reflective
- Pie Creek – has a significant fixed cost reflective distribution charge.

These schemes face price path increases of inflation plus an additional component of $2.38/ML from 2020-21 well into the future given the continued application of this transition pricing policy.

Most schemes have 2019-20 expected variable prices above the proposed cost reflective level for 2020-21, which under the Referral Notice would result in variable price reductions. Pie Creek is again the exception with a major variable cost reflective distribution charge. The Referral Notice makes allowances for this tariff group to moderate potential bill impacts.

Allocating costs using the Headworks Utilisation Factors (HUF)

Seqwater proposes variations to the HUF for the Logan, Mary and Warrill schemes consistent with the methodology for the HUF approved by QCA. Prices are expected to be above the cost target for the next regulatory period in these schemes, partly due to the application of the revised HUFs.

QFF supports Seqwater's recommendation to apply revenue recovered above cost reflective in these three schemes in the new price path to reducing the substantial negative ARR renewals fund balances in each of the Logan, Mary and Warrill schemes.

Forecast cost targets for the Central Lockyer and Morton Vale schemes

Seqwater's cost targets for the Central Lockyer and Morton Vale schemes have been substantially revised for 2020-21 from the QCA 2013 review target (escalated to 2020-21) due mainly to the revision of the renewals annuity in each scheme.

QFF recommends that the revision of renewals annuity and material cost components be reviewed. This review should consider whether the costs relate to uncertainty and delay in the implementation of reforms for this scheme and whether customers should have to meet the full costs of making up what could be a backlog of investments.

Long term water usage forecasts for the Lockyer Valley schemes

Seqwater is forecasting substantial reductions in water usage in the Logan and Central and Lower Lockyer schemes for the new price path based upon water use data for the 15-year period to 2017-18. QFF is not questioning the revised usage data as it highlights a significant issue of the impact that water availability is having on water use, particularly in the Central Lockyer and Lower Lockyer schemes. The submission prepared by the Lockyer Water Users Forum addresses this issue in detail.

Lower Lockyer is an important case example as the scheme has had water trading occurring for some time but there is no improvement in the demand levels for water. Investigations are proceeding in the Central Lockyer to define and regulate water entitlements including water trading opportunities. However, scheme customers believe that the provision of additional water is the only way to improve the availability of water in the scheme.

QFF recognises that the Referral Notice does not permit QCA to consider issues of water availability; however, this is a significant issue that QFF expects will impede the implementation of water reforms in both Lockyer schemes.

QFF recommends that a review of the performance of both the Central Lockyer and Lower Lockyer schemes be conducted to examine opportunities that will help both schemes to adjust to pricing impacts other than long term transition prices.

Allocating costs at 95% of fixed costs

Seqwater assesses that 95% of costs are fixed and do not vary with demand. Accordingly, they proposed to recover 95% of costs via fixed charges and the remainder as variable charges.

The Lockyer schemes are opposed to paying for 95% of costs for water with significant limitations on water availability and transition prices annually shifts this burden to customers over a longer term.

QFF recommends that QCA consider reducing this fixed cost burden during periods of low water availability.

Forecasts of meter replacement costs

Seqwater has made significant progress with the replacement and upgrading of meters in several schemes. There remains a significant backlog in metering in the Central Lockyer scheme and there is an ongoing program of meter roll out in the Lower Lockyer.

Consultation meetings identified that Seqwater forecasts of metering costs were well in excess of actual costs of implementing the metering program. It would appear from the consultation sessions that

Seqwater is continuing with their approach to forecasting metering costs and this will apply in the Central Lockyer.

QFF recommends that QCA review the cost forecasts for metering to take into account efficiencies gained in the application of the program in other schemes in SEQ.

Vulnerability of some schemes and the impacts of prices

While the implementation of transition pricing will moderate the impact of cost reflective prices for customers in the Locker Valley, Pie Creek and Cedar Pocket, each of these schemes face long periods of annual real price increases to achieve cost reflective prices. Issues such as poor water availability and high fixed charges will make the transition process much more difficult. As outlined above, implementation of water trading is unlikely to provide an effective adjustment mechanism except for Pie Creek where there is an opportunity to trade water out of the scheme onto the Mary River.

QFF welcomes the commitment of the State Government to undertake a full investigation into the options to make additional water available for irrigation use in the Lockyer Valley. This is a significant initiative and if successful, will promote continued irrigation development in the valley.

Pie Creek and Cedar Pocket schemes face an uncertain future, each having a small customer base and high costs. Pie Creek has special pricing arrangements, put in place by QCA for the current price path, which reflect the impact of very high costs of distributing water in the scheme.

QCA does not have a brief to address issues such scheme performance apart from considering moderating the impact of prices.

QFF recommends that QCA review the implications of long-term transition pricing and high fixed charges. For example, should cost reflective charges remain as a target for schemes with significant water availability problems or very high costs relative to the customer base?

Yours sincerely

Travis Tobin
Chief Executive Office