QUEENSLAND FARMERS' FEDERATION
Primary Producers House, Level 3, 183 North Quay, Brisbane QLD 4000
PO Box 12009 George Street, Brisbane QLD 4003
qfarmers@qff.org.au | 07 3837 4720
ABN 44 055 764 488

Submission

2 February 2021

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

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

Dear Sir/Madam

Re: Draft statement - Statement of regulatory pricing principles for the water sector (November 2020)

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)
- Queensland United Egg Producers (QUEP)
- Turf Queensland
- Queensland Chicken Meat Council (QCMC)
- Bundaberg Regional Irrigators Group (BRIG)
- Burdekin River Irrigation Area Irrigators Ltd (BRIA)
- Central Downs Irrigators Ltd (CDIL)
- Fairbairn Irrigation Network Ltd
- Mallawa Irrigation Ltd
- Pioneer Valley Water Cooperative Ltd (PV Water)
- Theodore Water Pty Ltd
- Eton Irrigation Scheme Ltd
- Pork Queensland Inc
- Tropical Carbon Farming Innovation Hub
- Lockyer Water Users Forum (LWUF).

QFF welcomes the opportunity to provide comment on the Statement of regulatory pricing principles for the water sector. We provide this submission without prejudice to any additional submission from our members or individual farmers.

Summary

QFF note the key areas that we wish to address in this submission are detailed below and can be summarised as:

1) Access to affordable water.
2) Inequity of irrigation pricing.
3) Economic efficiency -prices should increase gradually until they reach a cost-reflective level.

Pricing principles

The water sector is underpinned by the *Water Act 2000* (Water Act) framework for the sustainable management of water resources, with water service providers having various obligations under the Water Act for the supply of water.

Access to reliable, affordable water is one of the most critical factors in the future success and growth of agriculture in Queensland and achieving Australia's goal of a $100 billion agricultural industry. Over 60,000 Queenslanders are employed in agriculture and the industry is the largest employer across regional Queensland. There is an opportunity for agricultural industry to provide a platform for Queensland's economic recovery, especially in regional Queensland, if existing and prospective investors can be confident that they can access affordable, reliable, and secure irrigation water.

The QCA in its Draft Statement says prices should be cost reflective, forward looking, ensure revenue adequacy, promote sustainable investment, ensure regulatory efficiency, and consider relevant public interest matters.

QFF argues that for rural water pricing (SunWater and Seqwater) the key pricing principles should be the efficient recovery of prudent costs in a manner that is transparent, predictable, and simple. QFF would like to make these following brief comments on the pricing principles listed through-out the paper.

Principle 1: Prices should recover the efficient costs of providing the relevant services.

QFF is broadly supportive of this principle. As an organisation we recognise the legitimacy of SunWater and Seqwater customers paying the prudent and efficient "Lower Bound" costs associated with delivering water. It should be clearly recognised that for rural water entitlement/licence holders Sunwater and Seqwater do not sell water, they simply store and deliver it. While we are supportive of paying "Lower Bound" costs, we certainly reserve the right to differ with SunWater, Seqwater and the Queensland Government on what are included costs, and what are efficient costs.

For example, in the recent price determination the QCA reviewed SunWater's costs and reduced them by 12%. This was a significant reduction, but it did not go far enough. SunWater's costs could be lower still, which has been identified through local management areas. Over the past few years, four irrigation schemes have transferred from SunWater to local management. Each scheme identified whether it could operate the scheme more efficiently, and these schemes were able to reduce operating costs by 24% compared with SunWater as outlined in QFF's Water Pricing Policy, October 2020. This was double the QCA's reduction.

Since beginning operation, these four schemes have each found further operating efficiencies. Some schemes have been able to freeze prices and provide bill rebates as those further operating efficiencies have been realised.

Prices are now much lower than if they had remained with SunWater and Seqwater. The key reason for the increased efficiency, is the local experience and focus that local management enables.

Further, as an industry organisation we have been successful in arguing the (temporary) exclusion of some costs altogether (Dam Safety Costs for example), as well as different apportionment of costs shares between users and government.

QFF and its member bodies are also very opposed to the continuation of pricing in some schemes that are above “Lower Bound”. It should be a very clear pricing principle for rural water pricing that no users will pay above “Lower Bound”.

QFF calls for an immediate reversal of the policy that water prices ‘cannot come down’, so as to provide pricing equity to those rural water users who are currently paying above “Lower Bound” pricing. In those circumstances where prices are below “Lower Bound” QFF supports the continuation of government support while those users adjust to “Lower Bound” pricing in an affordable transition.

However, government must also recognise that in some instances due to the inherent inefficiencies of some schemes “Lower Bound” pricing will never be affordable, and because of the legacy nature of these investments, government support must continue.

Principle 2: Prices should signal the efficient use of relevant services.

In a rural water environment pricing should never be used as a device to influence water use, in the manner described in the paper. In the Queensland rural water sector scenario, irrigators access to water is governed through the water resource planning, licencing and allocation process. For example, it does not matter how cheap the water service charge becomes, an irrigator cannot use any more water than what is allocated to that entitlement in that year.

Sunwater may deliver water for free, but if the irrigator’s licence limits the irrigator to 500 megalitres, that is all the irrigator can take, regardless of the price. Conversely, and irrigator is prepared to pay more per megalitre cannot simply continue to order ongoing additional water from SunWater. The irrigator is capped by their entitlement.

There is simply no role for a scarcity tax, in the pricing of rural water that is subject to a volumetric licencing and allocation framework. This is a difference situation to an urban or industrial user who is not subject to a volumetric limit on the maximum take.

Principle 3: Prices should signal the efficient scale and timing of augmentation in supply infrastructure.

As discussed above, rural water pricing principles should contain no element of “scarcity tax”. While in an urban sense, there is an argument that the more water users utilise, the more pressure there is on existing infrastructure, and therefore the more demand there is for new infrastructure, this does not apply in the rural water sense because demand is capped by the water resource planning, licencing and allocation framework.

There is a legitimate argument on how new rural water infrastructure should be paid for, and that should be determined on a scheme-by-scheme basis, and only considered when there is a new water resource, and new legal entitlements to be issued. The provision of new infrastructure, designed to cater for greater use, should never be funded by existing users whose potential use is already capped by the regulatory environment.

Principle 4: Prices should reflect the appropriate sharing of risk between businesses and their customers.

QFF recognises there is significant annual variation in revenue for organisations like SunWater and Seqwater, when water deliver charges are weighted towards volumetric use, rather than fixed charges.

However, these businesses must also recognise that irrigators by the nature of their businesses tend to make money when water is available for use and are very income restrained during periods such as drought when there is little or no water to deliver. On that basis QFF recognises the legitimacy of this principle, and generally leans to charging with a greater emphasis on high percentage of recovery from volumetric usage charging as opposed to high fixed cost charging.

Principle 5: Prices should be informed by the service standard and the tariff structure preferences of customers.

QFF supports this principle but emphasises that the engagement by the businesses needs to be genuine, with a demonstrate willingness to make changes. In the view of QFF, SunWater and Seqwater have shown an unwillingness to genuinely pursue efficiencies. This is best demonstrated by the very significant cost savings achieved by those schemes that have transitioned to LMA.

By their very nature, these schemes are driven by adopting the service standards and tariff structures of their customers (who in the overwhelming instances are also their shareholders).

QFF also acknowledges that the regulatory framework governing SunWater[1] is different to Seqwater[2], with Seqwater subject to more frequent efficiency auditing.

Principle 6: Prices should reflect the broader public interest.

QFF is generally supportive of this principle, but cautions that its application can be so subjective, that each decision utilising this principle should be considered very carefully. The over-arching guiding principle is that costs should reflect the most efficient and prudent expenditure possible.

Principle 7: Prices should be transparent, predictable, and simple.

QFF supports this principle.

Conclusion

There are still many inaccuracies with the application of equitable water pricing and the principles that underpin the regulatory framework that governs water pricing within the irrigation sector.

As such, QFF considers that prices should reflect efficient risk allocation, but that no requirement for a return on water regulators supplying water to the irrigation sector. The QCA is yet to fully investigate unsustainable water prices for the agricultural sector and without a full investigation, the water pricing principles will continue to be inequitable to the customers who in many areas are at the peril of a monopoly provider.

Whilst the inequity in water pricing remains, Queensland will continue to experience a fast decline in our regional and rural areas, risking the future viability of the intensive and irrigated agricultural sector in the state.

If you have any queries about this submission, please do not hesitate to contact Ms Sharon McIntosh at sharon@qff.org.au.

Yours sincerely

Dr Georgina Davis
Chief Executive Officer

[1] SunWater is governed under the Government Owned Corporations Act 1993
[2] Seqwater is governed under the South East Queensland Water (Restructuring) Act 2007