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Queensland Competition Authority
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Dear Sir/Madam

Re: Irrigation price investigation 2025–29

Our members produce a range of crops in the Bundaberg Regional Council footprint.

In 2021/2022 Agriculture Forestry and Fishing accounted for $1.958 billion of gross value in the Bundaberg regional council area. The total for all industry sectors was $9.248 billion. [1]

Intensive irrigated agriculture is the foundation of the Bundaberg economy and accounted for around $1.727 billion or 18.6% of the total for the regions gross value.

The water energy nexus is not well understood outside the irrigated farming community; water and energy are the most important inputs to our various cropping systems.

SunWater accounts for around 65% of the irrigation water applied to farms in our region and we consider SunWater to be a critical supplier to our various production functions.

We wish to see a sustainable outcome for all irrigators in all sections of the scheme and SunWater's long term sustainability.

Because of the importance to our businesses, we have allocated considerable time and money over the past 20 years to understanding the Bundaberg SunWater Scheme and can demonstrate that knowledge down to a pump station level.

Our involvement has included the Local Management Arrangement Investigations, various regulated price path reviews undertaken by Queensland Competition Authority (QCA), Service and Performance Plans, Irrigation Advisory Committees and, more recently, the Strategic Water Assessment process.

We applaud SunWater for the much-improved consultation process and the efforts to engage with their Bundaberg customers and we look forward to that continuing.

We have met with and workshopped and agreed the contents of this submission with CANEGROWERS Isis, Bundaberg CANEGROWERS, Bundaberg Ag Food and Fibre Alliance (BAFFA) and Bundaberg Sugar. As such the following observations and requests to QCA are representative of around 90,000 ML or around 60% of the nominal allocation in the scheme.

[1] Source: National Institute of Economic and Industry Research (NIEIR) ©2023. ©2023

RAB Vs Annuity:

Our group is opposed to changing to a Regulatory Asset Base (RAB) approach to recover renewal and refurbishment costs:

The key reasons being:

- There are inter-generational equity issues with a RAB. This generation can use and wear out an asset without contributing, leaving the next generation to fully fund the replacement/refurbishment of that asset. With the current annuity methodology, funds are available for repair/replacement when the need arises.

- It is essential to understand the future capex plans by SunWater. For example, if they are to undertake $50 million of climate abatement work, then an annuity approach will be better as the annuity approach will smooth prices over the longer term. We note the QCAs role as a regulator is to assess the prudency and efficiency of proposed adaptation projects.

  We note that the published guidance from the QCA around climate adaptation and mitigation does not consider impacts of specific pricing methodologies (Climate Change Related Spending, September 2023; Final Position Paper on Climate Change Related Expenditure, September 2023). However, we do note the case studies of Horizon and Sydney Desalination and ask the QCA to investigate further the implications of RAB versus Annuity approaches to climate related expenditure at small and large-scale.

  With a RAB, the contribution required will result in prices rising sharply from price path to price path as high value assets are refurbished.

- SunWater have flagged "A fourth tax allowance building block" as a component of the RAB. Irrigators do not want to be paying a tax to the State Government through our water charges.

  Under a Renewals Annuity, expenditure is treated as operational, and is fully tax deductable.

  Under a RAB, expenditure is treated as Capital, meaning that a tax liability may exist.

  Whilst Government Owned Corporations (GOCs) do not pay tax to the Federal Government, the same amount of tax is paid to the State Government as a tax equivalent and in our view is a rate of return.

  There is also the risk that this system will encourage gold plating of the schemes by SunWater given the guaranteed return via the WACC.

- In 2010 QCA engaged SAHA consultants to review both options. In their opinion:

  "A Renewals Annuity approach applies best where there is a dominance of renewable long-life assets such as dams and earthen channels and/or where the expected asset life is greater than that of its components".

  We suggest QCA revisit this report for detail.

Further Discussion:

The major impact in absolute cost terms of the asset renewal and refurbishment collection process falls on the schemes with distribution assets.

SunWater reports (Table 19, p 51) that they received responses from 9.1 % of eligible customers through the *go vote platform*. They then go on to acknowledge that the responses in the Bundaberg and Burdekin Haughton schemes accounted for 84% of the opposition to the proposed change.

Table 17 (p43) lists the entitlements for all SunWater schemes.

In summary, there are 2,411,621 ML of River (Water Supply) entitlement of which 648,500 ML of nominal allocation is deliverable via a distribution system. (Bundaberg,151,284 ML: Burdekin Haughton 335,000 ML: Lower Mary, 15,262 ML, Mareeba 146,954 ML).

- 59% of the total entitlement sits in either the Burdekin Haughton or Bundaberg Schemes.
- 75% of the nominal entitlement deliverable through the Distribution systems sits in either the Burdekin Haughton or Bundaberg Schemes.

It is incongruous for SunWater to claim support for the RAB approach based on the survey results, that is 13 small schemes for the change, against three (3) larger schemes that are against.

<u>Electricity Cost Pass Through</u> (ECPT)

The Bundaberg scheme has significant lift and relift segments and is a high electricity requirement scheme with significant electricity costs incurred to deliver water to irrigators.

Over a 16-year average, Bundaberg distribution accounts for around 43% of all SunWater schemes use in annual kWh terms. (Table 25 Electricity consumption by (large use) scheme 2022/23).

For the past 16 years we have worked with SunWater and others to identify methodology that would enable electricity to be treated as a pass-through cost in the Bundaberg Scheme.

In 2020 we were advised of a methodology that was acceptable to SunWater and following representations by ourselves, Queensland Farmers' Federation (QFF) and the Burdekin representatives to Minister Lynham, QCA and others. The 'no-one is worse off' electricity cost pass-through trial for irrigation customers in the regulated Bundaberg distribution scheme commenced in 2020. (See attachment A)

The outcomes of the trial saw the following overcollection from electricity allowances returned to Bundaberg Scheme Irrigators:

2020/2021	$ 14.88 / ML resulting in $1,913,400 returned by credits across the scheme.
2021/2022	$ 13.26 / ML resulting in $ 695,200 returned by credits across the scheme.
2022/2023	$ 12.29 / ML resulting in $ 732,200 returned by credits across the scheme.

The methodology presented by SunWater in their pricing proposal is not the same as that which they developed for and used for the trial, and that has acceptance by the irrigators.

In summary the proposed methodology attempts to deduct fixed electricity costs from the Part C charge and allocate to a new Part E charge and then deduct variable electricity costs from the Part D charge and allocate to a new Part F charge.

Because the Bundaberg Scheme is close to or at lower bound for the Part A, C and D forward estimates the removal of fixed costs from the Part C charge results in a significantly lower CSO payment to the scheme overall and, consequently, a higher charge per megalitre to allocation holders via the proposed Part F charge.

Further Discussion:

We are aware that SunWater has been able to negotiate a contract for the majority of their electricity supply for the 2025/2028 price path on very favourable terms and commend them on that initiative.

We note the process outlined in Table 22 (p56) *Key design features of reporting and review process under the ECPT proposal* could be adopted with our preferred methodology.

During the consultation process SunWater advised me that QCA did not have any appetite for an Electricity Cost Pass Through. We would suggest that the majority of entitlement holders are supportive of continuing the current trial methodology (without the no one is worse off parameter) and urge QCA to consider this method and the proposed reporting methodology for the 2025 to 2029 price path.

Insurance

As previously advised, it is our view that SunWater's request for an insurance review event for the current period insurance costs is not warranted.

We acknowledge that adaptation and paying insurance premiums are different approaches to risk, with different effects on asset owners and their customers. Going forward we would be receptive to an annual review and pass-through process in conjunction with a fully transparent reporting and review process with customers.

Billing System Renewal

In their Irrigation Proposal submitted to QCA, SunWater advises that in 2022/23 they had a total of 5,196 customers (p6) and 4,372 customers receiving a price regulated water service of which 1,015 are in the Bundaberg scheme (p11).

The investment of $38.6 million ($42.4 million allowing for a 1 July 2025 commissioning date) in a customer billing and contact management system that equates to $7,429 per customer seems excessive. We do not believe that there is a strong level of justification for this spending, particularly given likely limited customer support (noting that customer support has not been specifically sought for this action and the associated costs).

We have been advised by SunWater that much of the expense arises because of the number of contracts and different tariff groups required for different customers across the schemes. We have been further advised that Bundaberg is not a complex scheme in terms of differing contracts and tariff calculations.

Given this we question the equity associated with Bundaberg customers being requested to meet 20% of the costs. We are also of the opinion that this fails NWI guidelines of not having subsidies between schemes.

We request QCA to further investigate.

Distribution loss allocations

The following table is the actual pumping figures for the 2020/2021 water year.

It was one of the highest use years we have experienced.

PUMPING FIGURES BUNDABERG 2020-2021		Customer Volume Delivered/Metered ML					Distribution Efficiency %	Nominal allocation Available	Allocation Delivered %
		Q1	Q2	Q3	Q4	TOTAL			
	YTD Pumped Volume by SW, ML	01-Jul-20	01-Oct-20	01-Jan-21	01-Apr-21	01-Jul-20			
PUMP STATION		30-Sep-20	31-Dec-20	31-Mar-21	30-Jun-21	30-Jun-21			
Gooburrum	28,933	3,489	9,835	7,392	3,292	24,008	82.98%	27,452	105.40%
Monduran	28,810	2,360	9,557	10,112	5,898	27,927	96.93%	38,451	74.93%
Abbotsford	504	47	155	70	125	397	78.77%	871	57.86%
ISIS	58,535	4,354	12,490	17,798	12,756	47,398	80.97%	60,310	97.06%
Woongarra	38,699	2,938	11,924	11,125	6,898	32,885	84.98%	37,494	103.21%
	155,481	13,188	43,961	46,497	28,969	132,615	85.29%	157,750	98.56%

The following table lists actual pumping figures for 2022/2023 which is one of the lower use years that we have experienced.

PUMPING FIGURES BUNDABERG 2022-2023		VOLUME DELIVERED/METERED ML					Distribution Efficiency %	Nominal Allocation Available	Nominal Allocation Delivered %
		Q1	Q2	Q3	Q4	TOTAL			
	YTD	1-Jul-22	1-Oct-22	1-Jan-23	1-Apr-23	1-Jul-22			
PUMP STATION	Pumped Volume ML	30-Sep-22	31-Dec-22	31-Mar-23	30-Jun-23	30-Jun-23			
Gooburrum	14,924	856	2,400	3,671	4,309	11,236	75.28%	27,499	40.86%
Monduran	13,118	2,511	1,507	5,010	5,715	14,743	112.39%	38,571	38.22%
Abbotsford	281	15	70	30	84	200	71.08%	671	29.73%
ISIS	29,451	1,571	4,402	10,072	8,567	24,612	83.57%	61,607	39.95%
Woongarra	22,482	1,852	3,479	5,347	4,930	15,608	69.42%	37,407	41.72%
Total	**80,256**	6,805	11,857	24,131	23,605	66,398	82.73%	165,755	40.06%

Note: Allocation volumes exclude all Sunwater Accounts

Given the range of actual achieved efficiency i.e., 82% in a year where we used 40% of the nominal allocation and 85 % where we used 98.6% of the allocation, we are of the opinion that the current efficient level of distribution losses (33,888 ML) is excessive.

We request QCA to further investigate.

Lower Bound

In the past 20 years we have been seeking to achieve the elusive concept of lower bound. This is partly because the definition of lower bound tends to change from price path to price path and does not seem to match NWI or productivity commission definitions.

The forecasts for our scheme indicate that lower bound for Parts A, B, D will be met very early in this price path and that it may make sense to target the CSO exclusively to Part C.

We request QCA to further investigate.

Miscellaneous

On page 19 of the Pricing Proposal, we note that *an investment of $2.9 million per annum and an additional 21 full time equivalent roles in the customer engagement and stakeholder relations space to ensure engagement in a meaningful, timely and responsive way with customers in both regulated and non-regulated activities.*

We are not convinced that this is warranted for medium priority nominal allocation customers in our scheme.

We request QCA to further investigate.

Please call should you require further information or clarification.

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