Burdekin River Irrigation Area Irrigators Ltd (BRIA)

Submission to the QCA Draft Report

Rural Irrigation Price Review 2025-2029

16th September 2024

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INTRODUCTION

BRIA Irrigators Ltd. support the continuation of the role the Queensland Competition Authority (QCA) plays in recommending rural irrigation prices to the Queensland Government. The QCA Review provides irrigators the opportunity to raise any concerns they may have with Sunwater's irrigation pricing proposal for the ensuing Price Path as well as question the methodology applied by Sunwater to justify costs and prices.

We consider the QCA's Rural Irrigation Pricing Review 2025-2029 Draft Report provides an independent and balanced view of prudent and efficient costs that should be recovered by Sunwater consistent with the government's pricing principles and provide the following response.

ENTITLEMENTS AND USAGE

BRIA disagrees with the QCA's acceptance of Sunwater's inclusion of a 20- year average and all distribution loss WAEs (including 75,370ml where the costs are borne by Sunwater) when calculating usage percentages for the BHWSS.

As outlined in our previous submission, we believe that the correct calculation for medium priority irrigation pricing purposes should be the 10-year average medium priority usage (284,976ml) as 87.8% of irrigation distribution customers entitlements (324,395ml).

Water demand in the BHWSS cannot be considered volatile as determined by Sunwater's consultants KBR and a 20- year average does not allow for Sunwater's efficiency gains that saw losses decrease from 94,418ml to 57,987ml during the last 10 years.

BRIA questions why this calculation is still used when there has been a concerted effort to correctly apportion costs between fixed and variable thus ensuring Sunwater's revenue is adequate regardless of usage.

Despite the QCA's updated assessment in the draft review "using the most recent data on maximum distribution losses for the period 2011-12 to 2022-23 shows no change in the efficient level of distribution loss WAEs for Bundaberg and Burdekin-Haughton schemes", the average usage and average loss figures in the BHWSS provided to BRIA by Sunwater do not support this statement.

BRIA requests clarification and further explanation from the QCA.

OPERATING EXPENDITURE

BRIA Irrigators Limited are concerned at the ever-increasing OPEX within Sunwater. While we appreciate the reductions that the QCA has made in the Draft report, we are of the view that more saving could be made by comparing Sunwater's costs with the locally managed schemes within Queensland which were previously under Sunwater management, rather than benchmarking against other similar sized Government owned organisations, which in our view are also likely to be inefficient.

We ask QCA to compare costs with Local Management Authorities previously under Sunwater management and investigate where they have made savings when at the same time Sunwater's costs have escalated.

RAB—RENEWALS ANNUITY

BRIA supports the QCA's draft determination that Sunwater should not adopt a RAB approach to fund the maintenance and renewal of Sunwater's assets.

We understand that Sunwater is still intent on adopting a RAB approach despite customers lack of support for the change.

The QCA have previously identified issues with Sunwater's asset planning and management (2012 Review) that have still not been adequately addressed. This has likely resulted in lower renewal annuity balances, with some schemes in negative balance and it appears that Sunwater's solution to this dilemma is to move to a RAB approach where they repair assets and then collect the required funds from customers retrospectively.

BRIA believes that Sunwater need to better manage the renewals planning and the required annuity rather than adopting a RAB approach which simply allows them to be reactive rather than proactive and maintaining a 30-year forward view. This is essential for both Sunwater and its customers in planning and would be regarded by most as proper and prudent management.

We were surprised by QCA's comment that "customers have raised a series of concerns with the RAB approach, but we consider they are largely unfounded", when many of the same concerns had been identified by SAHA International, a consultant commissioned by the QCA in 2010.

Some of SAHA'S determinations were:

- *A renewal 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.*

- *The renewals approach is more relevant to situations where the system as a whole is intended to be maintained indefinitely.*
- *RAB will potentially result in a lumpy expenditure recovery profile. A Renewals annuity approach is an alternative approach that establishes a smoothed recovery profile.*
- *Regulatory depreciation approach requires all asset replacement expenditure to be capitalised, whilst under the renewal's annuity approach, asset maintenance and refurbishment are treated as operating expenditure.*

BRIA believes that asset maintenance and refurbishment would only be capital if it were a complete replacement and not just simply repairing or refurbishing an existing asset. To have all asset refurbishment costs capitalised is against accepted accounting principles and would result in perverse outcomes.

We have difficulty understanding why a Government Owned Corporation Sunwater should adopt a RAB approach when Local Government Authorities are required to operate a renewals annuity type fund to ensure that they have sufficient funds to provide for asset maintenance and replacement when required rather than simply billing their current ratepayers when an asset needs replacing or refurbishing.

BRIA notes the QCA assessment that "Sunwater's proposed WACC is reasonable and provides a return on investment commensurate with the regulatory and commercial risk involved", however we maintain our view that irrigators do not have the capacity to pay above efficient lower bound water charges which do not include a rate of return.

In our view it makes no sense for a Government Owned Corporation Sunwater to extract above lower bound charges from irrigators which then requires a subsidy from Government, as irrigators do not have the capacity to pay this increase and some schemes have still not met the lower bound threshold.

BRIA disagrees with QCA's statement that "Sunwater does not earn a rate of return on pre 2000 assets or dam safety upgrade capex, this provides an additional subsidy to customers." BHWSS irrigators paid full market prices for their land and water entitlements at public auctions which were advertised nation- wide and to suggest they are now receiving a subsidy is akin to a homeowner purchasing a house in 1990 and subsequently the previous owner requiring additional payment in 2024 because property values had increased.

BRIA Irrigators urge the QCA to resist Sunwater's attempt to adopt a RAB approach for the 2025-2029 Price Path despite their failure to gain customer support.

ELECTRICITY COST PASS-THROUGH (ECPT)

BRIA Irrigators support the approach adopted by the QCA in relation to the electricity cost pass through trial conducted by Sunwater during 2020-2023. The QCA's decision to make a cost adjustment after subtracting the amounts already returned to customers and smoothing the adjustments over the 2025-2029 price path is viewed as being fair and reasonable.

BILLING SYSTEM RENEWAL

BRIA Irrigators support the QCA's approach to Sunwater's proposed $38.6 million investment to replace their current billing system.

We did not dispute the need to replace the current system but considered the cost of $38.6 million with $1.7 million annual operating costs excessive. BHWSS customers share of these proposed costs would have been $3.49 million or $11,185 per customer.

The QCA's assessment that an $ 18.5 million cost is appropriate together with offsets associated with the decommissioning of the Orion system resulting in $100,000 to be recovered from regulated schemes provides a fair and reasonable outcome in our view.

BRIA is aware that Sunwater intends to submit a counter proposal reducing their investment to $34.9 million and urges the QCA to retain the proposed adjustments contained in their Draft Report.

TARIFF GROUPS IN THE BHWSS

Giru Benefited Groundwater Area Zone A

BRIA Irrigators share Sunwater's concerns regarding creating another tariff group within the BHWSS and supports the QCA's preliminary view that there does not appear to be a basis for providing a differentiated price to the Giru Benefited Groundwater Area (GBGA) customers.

BRIA's position regarding a discounted GBGA tariff is articulated in detail in our initial submission to the QCA (29th February 2024) and does not require repeating in this supplementary submission.

However, should consideration be given to reverting to a discounted tariff in the GBGA, BRIA channel distribution customers have categorically rejected any costs associated with supplying water to GBGA customers being recovered from other BHWSS customers. The particular costs that need to be recovered by Sunwater from GBGA customers together with structural changes required at the Haughton Balancing Storage (HBS) were provided in our initial submission.

BRIA Irrigators view implementing a discounted price for water extracted by underground bores in the GBGA as problematic when much of that groundwater is supplied by the channel distribution system. The scheme was designed as a supplemented groundwater system where releases from the HBS replenished the groundwater aquifer, hence the name Giru Benefited Groundwater Area.

Incentivising groundwater extraction to mitigate rising groundwater levels across all sections of the BHWSS would be better achieved by means other than discounting water charges. Other sections of the BHWSS that have suitable underground supply are utilising it. 50,000ml was extracted in the 2023-2024 water year.

Gladys Lagoon

BRIA's position regarding the Gladys Lagoon tariff remains as submitted previously and is consistent with our approach to the GBGA.

BURDEKIN FALLS DAM IMPROVEMENT PROGRAM – BULK WATER PRICES

BRIA Irrigators request the QCA to provide more detailed information justifying the 48% increase in bulk water charges in the first year of the price path for the Burdekin-Haughton Scheme.

We were unable to determine from Table 56, page 149, Appendix C of the draft report where the increase in costs occurred and are concerned that Sunwater are attributing costs from the Burdekin Falls Dam Improvement Program (DIP) to Bulk Water costs.

The allocation of costs for preliminary work associated with dam improvement to bulk water charges would be inappropriate in our view. Any cost incurred for preliminary investigation, design, testing or engineering studies associated with the DIP should be capitalised as part of the DIP and not be included in water charges.