COTTON AUSTRALIA

Rural irrigation price review 2025–2029
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

By *online submission form*

10/09/2024

Rural irrigation price review 2025–2029 – *Draft Determination*

Cotton Australia is the peak body representing the interests of Queensland's cotton growers, many of whom operate within, and are serviced by, the Sunwater footprint.

The viability of our irrigated cotton producers is directly impacted by Sunwater irrigation pricing, and at the very least our growers expect that Sunwater applies the same level of efficiency improvement and cost control that they apply to their own farming businesses.

While we do have a small cohort of growers in the northern and coastal areas of Queensland, most of our irrigation production occurs from the Nogoa-McKenzie, down through the Dawson Valley and Burnett regions, across the Darling Downs, out to the Condamine-Balonne and along the Border Rivers.

Having reviewed the draft Determination as well as key scheme specific information sheets, Cotton Australia has prepared the following submission.

Cotton Australia urges the Queensland Competition Authority (QCA) to respectfully consider the submissions made by individual irrigators and their local irrigation representative bodies, as well as the submission made by the Queensland Farmers Federation (QFF) of which Cotton Australia is an active member.

Prior to entering into detailed comments, Cotton Australia would like to express its disappointment in the quality of the individual Scheme Information Sheets. While Cotton Australia has not reviewed all of them, it appears that there has been no effort made by the QCA to address in these sheets the specific scheme issues that were raised by stakeholders in their submissions to the Sunwater proposals.

It is unrealistic to expect most stakeholders to wade through the 197 pages of the Sunwater Report and the associated 247 pages of the Atkins Realis Expenditure Review.

COTTON AUSTRALIA LIMITED
Head Office Suite 4.01, 247 Coward St, Mascot NSW 2020 Australia
Phone + 61 2 9669 5222
Brisbane Level 8, 183 North Quay, Brisbane QLD 4000
Toowoomba Unit 3, 6 Rutledge St, Toowoomba QLD 4350
Narrabri Level 2, 2 Lloyd St, Narrabri NSW 2390
ABN 24 054 122 879

www.cottonaustralia.com.au

It would be a significant improvement, and respectful to stakeholders, if QCA would address the key concerns in the Scheme Information sheets, possibly where required, with reference to the main report, where greater detail could be provided.

Further, having attended a mix of online and in person QCA Consultation meetings, and having received reports from others, that disappointment has been compounded by another missed opportunity to provide that scheme specific information on particular cost drivers.

With some schemes expecting to see first year increases in the order of 35% to 40%, it is a huge discourtesy to them not to provide detailed commentary.

Those draft increases should also be a major flag to the QCA to take a much closer look at the drivers, there simply should not be these wild fluctuations in prices, when these schemes have been operating for 50 plus years, and if Sunwater was doing a half decent professional job, wild fluctuations should simply not occur.

How can any farming business plan and budget for such price increases?

These wild fluctuations, and the QCA's lack of detailed response to them has very significantly undermined irrigator confidence in Sunwater's management, and faith in the QCA review process.

On the positive side, Cotton Australia recognised that when reviewed as a whole, the QCA has significantly reduced the total allowable costs proposed by Sunwater, and Cotton Australia strongly urges the QCA to resist Sunwater's post Draft Determination attempts to increase allowable costs.

Cotton Australia remains very concerned that when the QCA conducts its process it tends to "benchmark" Sunwater's proposal against similar organisations. At first glance, this does not appear unreasonable, or different to best management benchmarking, however in reality, Sunwater is being "benchmarked" against other bloated, government controlled, monopolies, who largely operate outside the pricing realities faced by the private sector.

While Cotton Australia does recognise that QCA and/or its consultants did have some communication with the Qld Local Management Arrangement (LMA) schemes, the reality is that over their five years plus history they have either maintained, or reduced prices, and/or offered their members rebates.

This is the type of pricing efficiency that Sunwater should be striving for, and QCA should be driving Sunwater towards it.

Cotton Australia endorses the submission of the Queensland Farmers Federation (QFF), but for the avoidance of doubt if there is a difference in views expressed by the two submissions, the view contained in this submission, is the view of Cotton Australia.

Executive Summary

Total Allowable Costs

Cotton Australia recognises that the Queensland Competition Authority (QCA) has reduced Sunwater's proposed Total Allowable Costs but is strongly of the view that the QCA should put more efficiency pressure on Sunwater, by reducing Sunwater's Allowable Costs further.

RAB vs Annuity

Cotton Australia does not support a move from the Annuity based Renewals system to a Regulated Assets Base system.

Return of Positive Renewal Balances

Should the QCA decide to direct Sunwater to adopt a RAB approach, despite opposition from irrigator groups, then it is the position of Cotton Australia, that positive annuity balances be return to customers as rapidly as possible (over this price period) as a built in "discount" applied to the determined prices.

WAAC

In determining the Weighted Average Cost of Capital (WAAC) Cotton Australia believes it should be a simple reflection of the net cost of capital that Sunwater pays when borrowing from the Queensland Government. This would be a true reflection of the cost consistent with Lower Bound Pricing.

Individual Scheme Impacts

The Draft Determination has done a great disservice to irrigators facing price increases in some cases in excess of 60% over the Determination Period by not providing detailed information, nor assessing the actual cost drivers in those schemes.

General Submission

Total Allowable Costs

Cotton Australia welcomes the QCA's draft determination to reduce Sunwater's overall costs by 13.6%, and strongly urges the QCA to resist any argument from Sunwater for an upward revision of these allowable costs.

Cotton Australia believes operational costs, in particular the Overheads and Indirect Costs, still offer plenty of opportunity for further reductions and adoption of efficiency.

With Overheads either close to or more than 50% in many schemes, it is hard to imagine how these can be viewed as efficient.

Sunwater has developed its own bureaucracy, and it seems incapable of adopting efficiencies in its management and back-office functions.

On one hand Cotton Australia welcomes the QCA halving the allowance for the new customer billing system to $18.5 million, and recognising operational savings that Sunwater had omitted, yet we are still outrage that a billing system can cost more than $3,000 per customer to implement.

We are aware that Sunwater plans to challenge the QCA on it allowed costs for the billing system and will seek to be allowed to recover approximately $34 million. This must be rejected by the QCA, and additional efforts must be made to provide efficiency on this project.

It defies believe that a project that was originally estimated to cost $.5-$1 million, can now be argued to cost $38 million.

We also note the steady growthy in FTE's over the past Determination period. Not only has actual FTE's increased from 211 to 242, the 2023 employment levels of 242, where 45 more than what Sunwater itself proposed during the last Determination.

It is unacceptable that FTE numbers increase, instead of decreases due to efficiencies.

Cotton Australia is opposed to the inclusion of the QCA Regulatory fee ($4 million over the Determination period) being included. This fee should be viewed as a government CSO, as its expressed purpose is to ensure equitable pricing from a government-controlled monopoly provider.

Cotton Australia supports the QCA's response to adjusting the Sunwater metering programme.

RAB vs Annuity

Cotton Australia has attempted to hold an open mind on the RAB vs Annuity debate, and although it accepts the general advice, provided by numerous sources, that if both are done properly the long-term result should be the same, Cotton Australia cannot support the adoption of a RAB based approach.

To put is simply, Sunwater's performance to date on the management and renewal of long-life assets has not been of a standard that genders trust in their ability to effectively adopt a RAB approach, without there being significant risk of a rapid growth in the RAB, and the consequential increase in renewal costs.

Return of Positive Renewal Balances

Should the QCA decide to direct Sunwater to adopt a RAB approach, despite opposition from irrigator groups, then it is the position of Cotton Australia, that positive annuity balances be return to customers as rapidly as possible (over this price period) as a built in "discount" applied to the determined prices.

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Individual Scheme Impacts

In the opening section of this submission, Cotton Australia referred to some schemes that are looking at very significant prices increase, both in the first year and over the term of this price path.

For example, Medium Priority entitlement prices in the Nogoa-Mackenzie Scheme are under the draft determination scheduled to increase by 35.8% in the first year, and by a total of 64% of the price determination period.

In straight dollar terms, in the first year Part A charges will rise from $7.25 (which was deemed by the QCA to be cost reflective as part of the last Rural Irrigation Price Review), to $10.04 in 25-26, and finishing the period at a new cost reflective price of $12.47 at the end of the pricing period.

There can be no rationale explanation as to how a scheme that for many years was actually paying well above (over double) cost-reflective at the start of the last Determination Period, can now be determined to be well below cost reflective requiring a 64% increase over the price path.

Irrigators in this scheme have not received any plausible explanation, and a partial explanation around increased costs associated with rising contractor costs, does not provide sufficient justification for such a massive increase.

Apart from pricing information and the percentage of recovery of allowable costs, the only scheme specific information covered in the Nogoa-Mackenzie Information sheet is that QCA has reduced Sunwater's proposed costs for the scheme by 14%.

This level of detail is simply not acceptable, when trying to impose such significant increases on water users.

Cotton Australia calls on the QCA to undertake a full review of Nogoa-Mackenzie costs, and provide detail commentary on what it has found, in its final report. The QCA should approach this investigation from the point of view that on face-value such a reversal in cost reflectivity over one price determination period is simply not acceptable.

A similar scenario is playing out in the Upper Condamine water supply scheme, where recommended prices are proposed to increase by 40% over the determination Period, and once again the only specific detail is that the QCA proposes to reduce Sunwater's proposed Allowable Costs by 11%.

When challenged at a consultation meeting, QCA's response was that because of the small number of irrigators on the Scheme, relatively small changes in costs, lead to significant increases in entitlement charges.

However, what is completely lacking is any detailed questioning by the QCA as to why these cost increase are justified, and how greater efficiencies could be applied.

Conclusion

Cotton Australia and its growers appreciate the services of Sunwater, and support the QCA price Determination process, however, it strongly recommends that there is still great opportunity for QCA to drive Sunwater efficiency by reducing Total Allowable Costs.

If Cotton Australia can assist in anyway, please contact Michael Murray, General Manager – 0427 707 868 or michaelm@cotton.org.au .