



Hon Henry Palaszczuk MP
Member for Inala



**Queensland
Government**

**Minister for Natural Resources,
Mines and Water**

Ref CTS 02187/06

20 APR 2006

Mr Alwyn Heidke
Chair
Bundaberg Canegrowers
PO Box 953
Bundergerg Qld 4670

Dear Mr Heidke



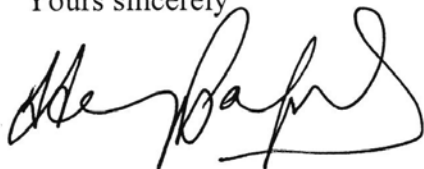
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Thank you for your representation at the Bundaberg Community Cabinet regarding SunWater's water pricing regime for the Bundaberg Water Supply Scheme.

As the determination of water prices for particular State owned irrigation schemes is a SunWater responsibility, a copy of your submission has been forwarded to Mr Peter Noonan, Chief Executive Officer, SunWater for his consideration in future negotiations on water pricing for the Bundaberg Scheme.

I am confident that the points you have made in your submission will be considered in further deliberations of SunWater's pricing regime for the Scheme.

Yours sincerely



Henry Palaszczuk MP
Minister for Natural Resources,
Mines and Water

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Queensland
Government

Hon Henry Palaszczuk MP
Member for Inala

Ref CTS 04333/06

Minister for Natural Resources,
Mines and Water

28 JUN 2006

Mr Alwyn Heidke
Chairman
Bundberg CANEGROWERS Ltd
PO Box 953
Bundaberg Qld 4670

Dear Mr Heidke

I refer to your letter of 24 May 2006 concerning the price setting process for the Bundaberg Water Supply Scheme (WSS).

Your letter has made a number of points, some of which were also raised by the deputation from the Bundaberg CANEGROWERS Water Committee at a meeting with me in Bundaberg in February. At the time of your letter water irrigation prices in the Bundaberg WSS had not been agreed. However, I understand that agreement has been reached with SunWater on prices for the next five year price path. I commend both irrigators and SunWater for seeking and achieving consensus on this issue and finalising negotiations within the required timeframe. **NOT TRUE**

Albeit prices have been agreed, I would still like to take the time to address the issues which you raise in your letter. Firstly, I note your reference to the appointment of Ms Jenni Mattila for the Bundaberg Regional Irrigators Group (BRIG). I received a letter from Ms Mattila on 16 May 2006 which outlined her concerns with the Tier 1 Report. Mr Michael Tandy of my office, has responded to Ms Mattila and I attach a copy of this reply for your information. Mr Tandy has responded in some detail to the issues she raised and in that letter has addressed the issue you raised on whether or not the "Tier 1 Report breaches long standing State and Commonwealth policy principles on water pricing" or that "an Independent Pricing Regulator cannot appropriately address our (BRIG) issues".

Secondly, I would also like to address with you what I understand was the primary difficulty in price setting in Bundaberg. I am advised that this issue was due to the use of postage stamp pricing within the Bundaberg Channel Tariff Group and that prices do not reflect the actual cost of water delivery for a number of different sections within the Channel. BRIG is concerned that there is cross-subsidy between water users in the Channel.

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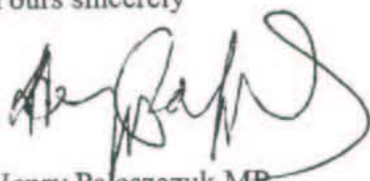
The Queensland Government's view is that the use of postage stamp pricing within a tariff group (segment) is not a cross-subsidy and that this form of pricing is consistent with Council of Australian Government principles. The main issue of cross-subsidy is between sectors where irrigators, urban users and industrial water users should each face their respective cost burdens within a scheme and/or tariff group. I am satisfied that this element has been dealt with adequately by the Tier 1 review.

Pricing below a scheme or tariff group level is a question of practicalities and negotiation as to the extent which it is feasible to introduce a differential pricing regime. Clearly it is not practical to have a separate tariff for each customer, but it may be reasonable to have a separate tariff for major sections within the tariff group. However, that is considered a matter for local negotiation and indeed the Tier 1 and Tier 2 process is specifically designed to accommodate such local issues in negotiations in setting prices.

Within these negotiations, the Government policy is that prices paid by irrigators cannot be reduced. This refers to the total tariff price paid by customers, by adding the Part A and Part B tariffs in a tariff group. That is, while there may be a change in the relative size of the tariff elements, the total price cannot reduce. I am advised that this may partially act as a constraint to the extent to which differential pricing may be introduced. However, it does not fully exclude it.

If you require any further information regarding this matter, please do not hesitate to contact Ms Rose McGrath, Senior Project Officer of the Department on telephone 3224 8255.

Yours sincerely



Henry Palaszczuk MP
**Minister for Natural Resources,
Mines and Water**

Att



Queensland
Government

Ref CTS 03690/06

Office of the
Minister for Natural Resources,
Mines and Water

28 JUN 2006

Ms Jenni Mattila
Jenni Mattila and Co
Lawyers
PO Box 1685
Double Bay NSW 1360

Dear Ms Mattila

The Honourable Henry Palaszczuk MP, Minister for Natural Resources, Mines and Water has asked me to reply to your letter of 16 May 2006 concerning the Tier 1 Pricing Report. I understand you have sent a similar letter to the Director-General of the Department of Natural Resources, Mines and Water. This response is a joint reply on behalf of both the Minister and the Director-General.

In establishing its policy positions on water pricing targets and processes, the Government has been very conscious of its obligations under the National Water Initiative (NWI). However, the commitment with respect to the use of independent regulators under that initiative is not exactly as you have expressed it. The Queensland Government believes it is consistent with Clause 77 of the NWI which states:

Independent pricing regulator

"The Parties agree to use independent bodies to:

- i) set or review prices, or price setting processes, for water storage and delivery by government water service providers, on a case-by-case basis, consistent with the principles in paragraphs 65 to 68 above;
- ii) publicly review and report on pricing in government and private water service providers to ensure that the principles in paragraphs 65 to 68 above are met."

The Government decision on the process for setting prices for SunWater's irrigation customers was that SunWater should seek to do so in accordance with the Government policy '*Rural irrigation water prices for SunWater schemes*'. This policy is generally consistent with the original joint Queensland Farmers Federation/SunWater price setting proposal. As part of the price setting process, if SunWater and customers cannot settle prices within the required timeframe, the Government will determine the prices to be charged, which could involve the Government asking the Queensland Competition Authority (QCA) to carry out a prices oversight role if required. To date there has been no reason to ask the QCA to review any particular issues with the price setting process and the Tier 1 process has been a very comprehensive process which achieved consensus.

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The primary issue you raise is the level of postage stamp pricing versus a more detailed level of price segmentation. The Government is of the view that the use of postage stamp pricing within a scheme is not cross-subsidy as discussed in the Council of Australian Governments commitments. The main issue of cross-subsidy is between sectors where irrigators, urban users and industrial water users should each face their respective cost burdens within a scheme. I believe that this element has been dealt with adequately by the Tier 1 review. Below that it is a question of practicalities and negotiation as to the level of price disaggregation. Clearly it is not practical to have a separate tariff for each customer, but it may be reasonable to have a separate tariff for major scheme segments. However, that is considered a matter for local negotiation, taking into account desirable long-term pricing signals and historical commitments.

In making this decision, there are other factors which also need to be taken into account. The Government has decided that prices paid by irrigators cannot be reduced in the five year period of the new price paths. This refers to the total tariff price paid by customers, by adding the Part A and Part B tariffs in a scheme. That is, while there may be a change in the relative size of the tariff elements, the total price cannot reduce. I understand that this may be seen as an impediment to restructuring of tariffs, but there are broader reasons why the Government has made this decision.

You claim that the Tier 1 report on Bundaberg breaches four key pricing principles. I cannot see any evidence for this claim. The Tier 1 report has:

- Dealt with the issues of full cost recovery within the policy bounds set by the Government and has proposed a pricing regime which will achieve lower bound cost recovery for the scheme by year 5.
- Reflected that the process has been of a high standard, and the level of transparency within that process has been extremely high.
- Removed any sectoral cross-subsidies. Within the irrigation sector, clearly, it is cheaper to supply the farm closest to the source rather than the next one along, and so forth. The question is what level of disaggregation is acceptable in determining tariff structures. There is no breach of NWI commitments to maintain the Bundaberg scheme as a full postage stamp pricing arrangement – the question is really one of acceptability to the local community. If the community can agree on an arrangement, then that can be progressed. If, however, there is division of views, then there needs to be a determination of whether to leave the arrangements essentially as they are or whether transition arrangements are able to be put in place to commence some rate of change. The Tier 2 group should seek to settle what point of balance they see as reasonable.
- Set out publicly the Community Service Obligations (CSOs) offered by Government. Where the Government does not require immediate achievement of lower bound cost recovery, the CSOs have been identified on a transparent basis as required by the NWI.

I understand that the Bundaberg Water Supply Scheme has agreed with SunWater on prices for the next five year price path. The Minister commends both irrigators and SunWater for seeking and achieving consensus on this issue, and finalising negotiations within the required timeframe.

The Minister thanks you for bringing this matter to his attention. If you require any further information regarding this matter, please do not hesitate to contact Ms Mary Chapman, Principal Project Officer, Water Reform of the Department on telephone 3227 6692.

Yours sincerely



Michael Tandy
Senior Policy Advisor