

# **SUBMISSION**

## **TO**

### **NATIONAL COMPETITION POLICY**

### **2004 WATER REFORM ASSESSMENT**

**April 2004**

#### **INTRODUCTION**

This submission is from the Pioneer Valley Water Board requesting that the National Water Initiative provide for irrigation water supply businesses to hold bulk entitlements for their schemes. Bulk water entitlements help to ensure the future viability of the schemes while being fully compliant with NCP requirements for water trading.

The submission covers two main areas of the NCP 2004 Assessment of Water Reforms in Queensland as they directly impact on the Board's irrigation scheme. These two areas are the establishment of water entitlements systems and water trading.

#### **BACKGROUND TO PIONEER VALLEY WATER BOARD**

The Pioneer Valley Water Board is a statutory water authority in Queensland under the Water Act 2000. The Board was formed in 1996 to build and operate the irrigation reticulation works as part of the Teemburra Dam Project. The Project was approved for funding under the joint Queensland and Commonwealth Governments Sugar Industry Infrastructure Package with a condition that the local sugar industry provided up-front contribution of one third of the irrigation component of the scheme. The Board was formed principally to facilitate the raising of the sugar industry contributions and has constructed and financed infrastructure including pump stations, pipelines and balancing storages to serve some 300 properties in the Pioneer Valley. Total irrigation water allocation in the Pioneer River Water Supply Scheme is 46,448 megalitres per annum all of which is included in the Pioneer Valley Water Board scheme.

The total cost of the irrigation scheme was approximately \$20 million. It was financed through an \$11 million contribution from Mackay Sugar Cooperative Association Ltd and Queensland Treasury Corporation loans to the Board of \$7.5 million. The Queensland Government principally provided in-kind contributions. The Pioneer Valley Water Board operates on a full cost recovery basis and has structured the irrigation water charges so that its five separate reticulation areas meet the cost of supply into each area. This has been done through a three part tariff structure including a loan repayment levy, fixed operating charge and a usage charge. The loan repayment levy will be in place for a further 14 years until the Board's loans are paid off.

The Pioneer Valley Water Board purchases water in bulk supply from SunWater who own and operate the major water storages in the Pioneer River catchment. Regulated water supply in the Pioneer River Water Supply Scheme is drawn from the water storages in combination with

natural streamflow within the catchment. SunWater also owns and operates the adjoining Eton Water Supply Scheme which also services sugar cane farms. The Eton Scheme is based on water supply from Kinchant Dam which is filled from pumping from the Pioneer River during periods of high flow.

## **WATER ENTITLEMENTS SYSTEM**

The Water Resource Plan for the Pioneer Valley was released by the Queensland Government in December 2002. The preparation of a draft Resource Operations Plan (ROP) is now under way and is expected to be released in the first half of 2004. The final ROP will provide the separation of land and water allocation in the Pioneer Valley with a water entitlements system that will allow a market in water to develop. This is fully supported by the Pioneer Valley Water Board as it is aimed at achieving the principal goals of COAG water reform consistent with the movement of water to its highest and best use in the valley.

However, the Pioneer Valley Water Board has serious concerns for the future viability of its irrigation scheme due to the proposed changes to the law. Large scale trade of water away from the area or parts of the area while an initial debt is still outstanding for the establishment of the scheme will result in a significant solvency risk. The other major concern of the Board is for the potential impact on increases in future water charges in reticulation areas where large volumes of water permanently trade out of those areas. The Board has raised these concerns in all submissions to the Queensland Government for both the Water Resource Plan and the draft ROP processes.

The Queensland Water Act 2000 allows for a statutory water authority such as the Pioneer Valley Water Board to be dissolved so that it can convert to an alternative institutional structure. The Board proposes to convert the irrigation scheme into an irrigator owned co-operative with a bulk water allocation for the scheme. The bulk water allocation is the sum of the individual irrigator's current allocations plus distribution system losses for delivery of the individual allocations in the reticulation areas. The Board firmly believes that a bulk allocation for the scheme with individual water entitlements stapled to shares in the co-operative is the appropriate model to ensure that the irrigation scheme retains its economic viability for the future.

The model for water entitlements proposed by the Queensland Government is for end users to hold water allocations. The Queensland Government proposes issues with viability of infrastructure operators be addressed through supply contracts with irrigators and buy out or excision fees for water trading away from infrastructure.

Water trading within the Pioneer Valley is discussed in detail in the next section of this submission but the following comments are offered in relation of the Board's proposed co-operative structure in regard to the CoAG requirements for water entitlement systems.

1. Under the co-operative model, shares in the co-operative would issue for water allocation on a one share per megalitre of current water allocation basis. Hence, irrigator ownership of a water entitlement is explicit as it is directly attached to shares in the co-operative. The co-operative shares register is a public register from which information on the ownership of shares and water allocation can be obtained. Further, mortgages and charges can be registered over shares and stapled water entitlements in the same manner as interests in water allocations can be recorded.

2. The volume of water entitlement held by an individual in the co-operative model is clearly evident from the number of shares held by that individual with the direct linkage between shares and megalitres of water allocation. Whilst the co-operative would hold the legal entitlement to the bulk water the irrigators would have an equitable entitlement to their share of the water.
3. Within the Pioneer Valley Water Resource Plan, all irrigation water allocations rest in the high class B priority group where the monthly supplemented water sharing index is to be at least 95%. This water sharing index applies to a bulk allocation that would be held by a co-operative and to individual water allocations that would be held by end users. The co-operative model for water entitlements provides the CoAG requirement for clear specification of reliability of the individual entitlement.
4. Transferability of entitlements within the co-operative model is discussed in detail in the next section however, the water trading regime within the proposed Pioneer co-operative appear to provide a much more flexible and less cumbersome arrangement than a system based on end user entitlements.
5. Water quality is not included in the water entitlement system established for the Pioneer Valley in the Water Resource (Pioneer Valley) Plan 2002.

The Pioneer Valley Water Board believes that a co-operative structure for its irrigation scheme with a bulk water allocation for the scheme fully complies with CoAG requirements for the establishment of water entitlement systems.

## **WATER TRADING**

Prior to presenting details of the water trading arrangements for the proposed co-operative structure for the Pioneer Valley Water Board's scheme, it is necessary to provide some details of the Pioneer River catchment so that the natural water trading restrictions in the region can be appreciated.

The Pioneer River catchment area is only a total of 1500 square kilometres with a straight line distance from the source of the river to its mouth of less than 100 kilometres. Rainfall and streamflow are predominately during the summer wet season with an annual average discharge of just under one million megalitres. As with all coastal catchments in North Queensland, regulated water entitlements are obtained through the construction of dams and weirs. The Pioneer River has Teemburra Dam in its headwaters and three weirs along its lower section. The Pioneer River is also waterharvested from into Kinchant Dam to provide regulated water entitlements for the Eton Water Supply Scheme.

The CoAG requirements for water trading dictate the removal of barriers to trading as much as possible so that water's contribution to the national economy can be maximised. In the context of trade barriers, the following are the specific conditions within the Pioneer River catchment.

- Interstate water trading from the Pioneer catchment is not physically possible
- Intrastate water trading to other catchments from the Pioneer is possible but would require substantial pumping stations and pipelines to deliver the water. However, if trade

did occur, the water entitlement would remain as an entitlement within the Pioneer catchment as it has been created from the infrastructure in the Pioneer catchment.

- Inter-scheme water trading within the Pioneer catchment is possible between the Pioneer Valley Water Board scheme and the Eton Water Supply Scheme but would be severely limited due to substantial differences between the water entitlements in the two areas. Pioneer entitlements are based on in-stream water storages and natural flows in major tributaries of the catchment while Eton entitlements are based on waterharvesting from the Pioneer River into a large off-stream storage. Delivery infrastructure allows for Pioneer water to be supplied into the Eton scheme but the entitlement would remain as a Pioneer entitlement. Trading of Eton water entitlement to the Pioneer scheme would require construction of an off-stream storage to allow capture of the entitlement during waterharvesting events.
- Intra-scheme trading within both the Pioneer Valley Water Board scheme and the Eton Water Supply Scheme is possible subject to hydrological constraints to be set in the ROP and delivery infrastructure constraints within the schemes.

It is evident that the minimisation of water trading barriers within the Pioneer Valley Water Board's irrigation area needs to focus principally on barriers within the scheme. There should be provision for water entitlement to actually be used outside the scheme but that the entitlement always remains within the scheme. Permanent trading would be possible with the buyer continuing to pay all relevant charges to the co-operative. As mentioned previously, all irrigation water entitlements in the Pioneer are within the Pioneer Valley Water Board scheme.

The proposal by the Pioneer Valley Water Board to establish a co-operative for the scheme with individual water entitlements stapled to shares in the co-operative allows for a very simple trading regime to be developed for the scheme. The following is a broad overview of the proposed water trading regime within the co-operative structure and which would be encapsulated in the co-operative's rules.

- On formation of the co-operative, the five separate reticulation areas would be issued with separate classes of shares
- Each share class would attract the loan repayment levy and fixed operating charge for the respective reticulation area
- All shares would remain within the same class regardless of where the water entitlement may actually be used following trade including outside of the present Board scheme (intrastate trading or inter-scheme trading as above)
- Non-shareholders could become members of the co-operative through share acquisition. Water delivery would be subject to separate contractual arrangements with the co-operative or another water service provider
- Usage charge would apply for the reticulation area where the water was actually used regardless of share class applying for the allocation
- Trading restrictions would only apply for hydrological constraints or delivery infrastructure capacity constraints.
- Monitoring of water trading would be through the register of shares and water entitlements in the co-operative

The alternative water trading arrangements based on end user entitlements in the Board scheme would be a much more complex regime than the procedure outlined above. The central

requirement under end user entitlements is for there to be supply contracts between end users and service providers, in this case the Pioneer Valley Water Board. A condition of the contracts is that excision fees are to be prescribed for water entitlement that is proposed to trade away from a reticulation area in the Board scheme. The excision fees are intended to cover the loss in revenue for an infrastructure operator due to trade of water. In the Pioneer Valley Water Board scheme, excision fees would themselves have the potential to become a barrier to trade due to the significant annualised cost for loan repayment, future asset replacement and operational costs to be included in the fees.

Also under the end user entitlement system, there appears to be a substantial administration requirement for the establishment and ongoing management of supply contracts with 300 irrigators in the scheme. The end user system would have control of trading done centrally and away from the local area where the full implications of proposed trades can be readily and accurately assessed.

We understand there is significant on-going temporary trading in the private irrigation schemes and Victorian Government owned Rural Water authorities on the Murray Darling. The proposed co-operative model for the Pioneer Valley Water Board's scheme does not create any of the perceived barriers to permanent water trade between irrigation districts in NSW and Victoria. In the first instance, the Board's scheme is totally within a closed catchment which raises substantial physical barriers to trading with another district. Secondly, the proposed water trading through share trading and water entitlements in the co-operative does allow for water to be used outside of the scheme area if the physical barriers were to be overcome.

## **SUMMARY**

The following summarises the views of the Pioneer Valley Water Board on the advantages of the co-operative model in regard to establishing water entitlements in the Pioneer Valley and in creating a water market in accordance with CoAG requirements.

1. A co-operative model for the Pioneer Valley Water Board scheme establishes a water entitlement system that provides clear specification of ownership, volume, reliability and transferability of the individual entitlements.
2. A co-operative model for the Pioneer Valley Water Board scheme allows the establishment of an extremely efficient water trading regime for the scheme with no barriers to trade other than those imposed by hydrological and infrastructure capacity constraints and without lengthy and cumbersome approval processes required under an end user entitlement system.

## **CONCLUSION**

The Pioneer Valley Water Board requests that the 2004 NCP assessment of water reform fully consider this submission and provide direction under the National Water Initiative to support the concept of bulk water entitlements for irrigation schemes such as the Pioneer Valley Water Board. This will enable such schemes to retain their economic viability with minimal impact on existing irrigators in the schemes while fully complying with CoAG water reform requirements.