

**AFFA INQUIRY**  
**INTO FUTURE WATER SUPPLIES**  
**FOR AUSTRALIA'S RURAL**  
**INDUSTRIES AND COMMUNITIES**

**August 2002**

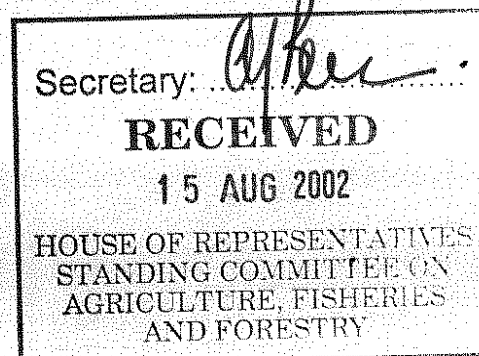
**SUBMISSION BY:** Pioneer Valley Water Board

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**INTRODUCTION**

This inquiry into the provision of future water supplies for Australia's rural industries and communities is very timely from a Queensland perspective as it coincides with the implementation of the Water Resource Planning process into a number of catchments including the Pioneer River at Mackay. This submission covers the implication for current rural water users from the Queensland water legislation and impediments to future development and maintenance of rural production in the Pioneer Valley. Although the inquiry has identified some specific terms of reference, this submission does not address them individually as most of the content can be applied to a number of the terms of reference. This submission deals with Commonwealth policies and programs that are applicable to the Council of Australian Governments water reform agenda. This submission strongly supports the water reform agenda that has driven the Water Resource Planning process in Queensland but raises some significant concerns with its implementation that should be the subject of review.

The costs of providing infrastructure for sustainable water supplies for rural industries and communities is very high and in most cases is not affordable without Government financial support and total recognition by all levels of Government of the regional economic benefits of water supply schemes. The other key aspect is that many catchments that lie outside of the Murray Darling Basin can support further development of water resources that is sustainable, particularly in coastal Queensland.



## **PIONEER VALLEY WATER BOARD**

The Pioneer Valley Water Board was formed in 1996 to build, own and operate the irrigation reticulation works as part of the Teemburra Dam Project. The Project was approved for funding under the 1993 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 total cost of the project was some \$70 million and it is the last major development for irrigation water supply in Queensland.

The Board has constructed infrastructure including pump stations, pipelines and balancing storages to serve some 300 properties in the Pioneer Valley. All irrigation water supplied by the Board is used for sugar cane that is a monoculture in the Mackay area. The total cost of the irrigation scheme was some \$20 million and was financed through a contribution from Mackay Sugar Cooperative Association Ltd of \$11 million and Queensland Treasury Corporation loans of \$7.5 million. The Queensland Government provided the balance principally through in-kind contributions.

The Pioneer Valley Water Board operates on a full cost recovery basis and has irrigation water charges that include a levy to fund the initial construction of the scheme as well as operating charges. The initial years of operation for the Board have encountered severe economic conditions in the sugar industry and have seen a very efficient operation established by the Board to meet the challenges. The Board's operations include environmental monitoring of the scheme which have shown the system to be sustainable. Apart from the economic situation due to the sugar industry crisis, the Pioneer Valley Water Board has demonstrated that the irrigation scheme is successful.

## **COUNCIL OF AUSTRALIAN GOVERNMENTS WATER REFORM**

The COAG Water Reform Framework is to provide for the sustainable management of water resources in Australia through full cost recovery pricing, establishing water entitlements, environmental allocations and institutional reform. At the high level these are all priority outcomes for the benefit of the entire country but, it is very unfortunate that the implementation of many of these reforms are a significant time and financial impost on small water supply agencies such as the Pioneer Valley Water Board. The Pioneer Valley Water Board fully supports the general intent of the Water Reform Agenda but is now confronted with an extremely time consuming process through new legislation and with the potential for increased costs of its operations that will result in significant increases in water charges.

The need for the water reform developed to address the major environmental issues in the Murray Darling Basin which includes the Condamine Balonne system in Queensland. The Murray Darling supports a wide range of irrigation practices and crops and has been heavily over-allocated for many years and has suffered severe environmental degradation. This is a far cry from the Pioneer catchment which supports a monoculture in sugar cane and is substantially under-allocated in regard to water resources at this time.

The complexities of the reform agenda required to address the issues in the Murray Darling have created a situation in the Pioneer catchment where some aspects of the reform may not be in the best interests of the future for rural industries.

The key driver in achieving the water reform is in the establishment of water entitlements so that a market in water can develop and water move to higher and better uses. In a monoculture area such as Mackay where sugar cane is the only crop grown there is no potential for water to move to other crops. Further, irrigation in the Mackay area is supplementary only with a very wide range of annual irrigation water use due to the climatic variability. Since its establishment the Pioneer Valley Water Board has delivered from 2% of annual allocation in 1997/98 which experienced a very wet spring to 70% of annual allocation in 2001/02, a particularly dry year. Due to the variability of annual irrigation demands and as it is a monoculture area, it is considered most unlikely that a significant water market will develop in the Mackay area. However, the impost of the costs associated with the change of structure for the Pioneer Valley Water Board to provide for this market will need to be borne by the irrigator who can least afford it at this time. If the situation does arise where water allocation does trade away from Cane Production Area this would lead to a reduction of sugar cane produced from that area which cannot be in the best interests of the overall sugar industry in the Mackay area.

The Water Act 2000 in Queensland has also instituted a number of other aspects of water reform that have the potential to add to the costs for the Pioneer Valley Water Board to operate the irrigation scheme. These are in areas such as the Water Resource Planning process, Resource Operations Planning and Licensing, and Water Pricing.

## **WATER RESOURCE PLANNING**

The Water Resource Planning process in the Pioneer catchment has been in progress for almost three years and has consumed significant resources with participation in community consultation. The draft Water Resource Plan was released in late 2001 and required a much more intensive effort in the preparation of a response to the document particularly as a number of aspects of the draft plan suggest major impact for the Pioneer Valley Water Board and other rural water users in the area. These issues include the loss of the Board's position where it held the bulk water allocation for the scheme under the previous legislation and the loss of opportunity water supply through removal of out of allocation as an available product. A further issue is the proposal to provide for only minor further development of water resources in the Pioneer catchment. The hydrological and environmental data provided in the draft Plan clearly indicate that further sustainable water resource development above that proposed in the draft Plan is possible for the Pioneer catchment.

The Water Resource Plan is to have a life of ten years which, with only minor further development possible, may severely restrict the potential for increased irrigated agriculture within the Mackay area both for the sugar industry and for other rural industries that may emerge.

As mentioned previously, the reforms are largely being driven from an environmental agenda but the environmental issues associated with water developments in the Pioneer catchment are not significant compared to other Australian catchments. The scientific data on which environmental performance indicators are being set has only been collected in the last few years. In comparison, data for hydrological assessments of catchment performance is available for periods of almost 100 years. Unfortunately, the same level of confidence is being placed on both data sets in the development of the Plan.

Also of concern has been the reluctance by the Queensland Government to accept the advice from the community during the consultation on all of these issues. This forced the Mackay sugar industry to engage an independent consultant, at its own cost, to demonstrate to Government that more realistic outcomes are achievable under the draft Plan.

Following completion of the Water Resource Plan, the Resource Operation Planning process will begin and will lead to the issue of Resource Operation Licences. This process involves further consultation and requires water service providers such as the Pioneer Valley Water Board to submit proposals for consideration by the Regulator (the Queensland Government) on how they will operate their water supply infrastructure to meet the objectives set in the Water Resource Plan. Again this is very commendable from a theoretical perspective and may not be a major impost for large service provider organisations. However, for the Pioneer Valley Water Board where staffing numbers are low to provide a cost effective service, this will be another significant factor that diverts the Board's resources away from its core business particularly at a time when economic conditions are tight. If the Board does not fully participate in this process, there is a very real risk that the final operating conditions set by the Regulator may be a further impost. This is further compounded by the fact that the environmental data used to set the objectives is based on very limited historical information for this catchment.

## **WATER PRICING**

As part of the reforms, the Queensland Government established price paths for irrigation supply to meet the requirement for users to reach lower bound cost recovery targets. Of major concern with this is that the initial price paths were prepared very hastily with little consultation with irrigators to meet a time frame set by COAG. The data on scheme operation costs used to set benchmarks and prices for the paths was very inaccurate and there is little credibility amongst irrigators that the prices reflect anything closely resembling reality. As an example, the proposed path for the Pioneer Valley Water Board to be paid as bulk water charges to the Queensland Government Owned Corporation, SunWater has been based on so-called efficient costs that have included overheads of 400% on direct costs.

## **INSTITUTIONAL REFORM**

When the water reform agenda was first introduced a key aspect was for the management of irrigation schemes to shift so that irrigators had a greater role through local management. In the Mackay area this was seen to lead to an amalgamation of the locally managed Pioneer Valley Water Board area and the former Queensland Government managed Eton Irrigation Area which both draw water from the Pioneer catchment. The establishment of the Government Owned Corporation, SunWater to manage all Government Irrigation Schemes has not achieved that outcome with SunWater now focussed on commercial objectives to meet Government revenue targets. There now appears to be little opportunity for irrigators to become closely involved with operation of their schemes to improve efficiencies and to provide affordable water for irrigation.

## **COAG PAYMENTS**

Substantial Commonwealth payments to the Queensland Government are linked to introduction of the water reform agenda. To date there has not been any of these funds made available to agencies such as the Pioneer Valley Water Board where the agenda has the potential to become a major impost on water charges. The Queensland Government has made an offer to provide some assistance to the Board during preparation of the Resource Operation Plan submission but this does not address the longer term issues associated with the likely increased water charges to be met by the irrigators in the scheme to meet the reform agenda.