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Director
Murray-Darling Basin Inquiry
Australian Competition and Consumer Commission
GPO Box 3131
Canberra ACT 2601

Sunwater response to Murray–Darling Basin water markets inquiry Interim report

Thank you for the opportunity to make a submission to the Australian Competition and Consumer Commission in respect of the Murray–Darling Basin water markets inquiry interim report (the interim report).

Sunwater is a Government Owned Corporation, fully owned by the Queensland Government. Our organisation is primarily concerned with Delivering Water for Prosperity.

Sunwater provides water and associated services, making the most of the available water supply for our agriculture, urban and industrial customers. We operate 365 days a year to deliver for our customers. We understand the essential role our customers play in regional growth and prosperity.

Our 19 dams and 2,100 kilometres of pipeline store, capture and deliver around 40 per cent of the water used commercially in Queensland to more than 5,000 customers.

Industry, mining and government turn to Sunwater when they need the right solution for:

- designing, developing, managing and operating bulk water infrastructure
- conducting environmental impact studies
- finding new ways to deliver water to remote locations.

Sunwater is on the ground where and when our customers need us, supplying water to agriculture, urban and industrial customers throughout Queensland.

Our strong regional presence helps us understand and better adapt to our customers' needs and changing environment.

We supply our urban, industrial and irrigation customers across 31 bulk water and irrigation supply schemes and 14 pipelines, engaging with government and Irrigation Advisory Committees to drive efficiency and minimise costs.

Our commitment to open and transparent engagement, customer advocacy and a flexible approach ensures we reliably deliver water to sustain our customers.

We help our customers thrive by:

- working with them to make the most of the available water supply
- ensuring our resources are geared towards timely and cost-efficient water delivery
- understanding their needs and adapting to changes in their environment.

Our organisation provides the following comments / feedback specifically in relation to Options for Market Reform as set out on pages 34-37 of the interim report, under four key headings and six (numbered) sub-headings.

Sunwater notes that the subject of comments below is an *interim* report, and we would seek generally to closely examine and better understand details and potential impact of proposals contained in the *final* report prior to providing any confirmation of our organisation's support or endorsement of any recommendation or action proposed in the interim report.

Please note that these comments apply to the relatively very small Murray Darling Basin (MDB) portion of Queensland's water supply schemes. Sunwater would wish to express additional comments and/or concerns if consideration were to be given by the ACCC to recommending similar changes to water supply market requirements outside of the MDB area, applying to other various unconnected schemes in Queensland.

Conduct of Market Participants

1. There is insufficient regulatory oversight, and enforcement and compliance activity, in relation to some practices of some market participants

Sunwater supports appropriate oversight of water brokers. Within Queensland water is purchased and sold by a variety of entities including real estate agents (regulated industry) and irrigation representative bodies (no oversight). Market / price data obtained from these entities is not always shared, which may restrict the ability of less informed market participants to gain knowledge to compete for water in an open and transparent process. It must be noted that this is similar to market data sharing arrangements in other markets eg land sales.

The benefits of increased oversight for Irrigation Infrastructure Operators (IIO's) such as Sunwater are less clear. Sunwater operates under a Water Trading Code of Conduct which is enforced by our Shareholding Ministers and subject to independent compliance audits. Sunwater applies Ringfencing Guidelines to ensure that trading activities are undertaken at arm's length by an independent broker to ensure that our market knowledge is not utilised to our advantage in the trading process. The Code and Guideline are published on our website, along with our water trading policy and dispute resolution process.

Introducing additional levels of regulation will introduce additional compliance costs that will be passed on to customers in accordance with cost reflective pricing principles laid out by the Queensland Competition Authority (QCA). The benefit of any such proposed additional oversight to customers must be weighed up against the costs that will be imposed upon them. Given the existing regulation processes already in place for the management of trading activities, Sunwater questions the benefit of introducing an additional level of regulation to the Queensland based MDB supply schemes.

Improving Trade Processes and Market Transparency

2. Practical changes to trade processing are needed to improve the quality and timeliness of core market data

Sunwater supports the principle that sound and timely market data should be made available to market participants.

In 2019, Sunwater commenced trading its own allocations via the Water Exchange platform which makes all temporary trading prices and volumes available publicly.

Queensland does not currently possess a system that records all details of seasonal trades, but is mindful of the ongoing need to improve data quality and collection processes.

Only five small Queensland water supply schemes are located within the MDB and the associated volume (and monetary value) of temporary trades is extremely low (see table 1 below).

Table 1. Queensland MDB Schemes data.

QUEENSLAND MDB SCHEME	MACINTYRE BROOK	ST GEORGE	CUNNAMULLA	UPPER CONDRAMINE	CHINCHILLA	MARANOA RIVER
# OF SUNWATER CUSTOMERS (CURRENT)	91	175	24	92	28	4
TOTAL SUNWATER-OWNED ALLOCATIONS IN SCHEME (ML)	926	20	120	261	6	5
TOTAL WATER ALLOCATIONS IN SCHEME (ML)	24,997	84,575	2612	33,960	4049	805
VOLUME AVAILABLE TO TRADE, FY21	0	0	80	0	0	0
TOTAL SUNWATER VOLUME TRADED, FY20	925	0	0	0	0	0
# OF SUNWATER TRADES, FY20	9	0	0	0	0	0
AVERAGE \$/ML VALUE, FY20	\$274	-	-	-	-	-

Therefore development of a dedicated system that details temporary trading data will represent a large cost relative to the expected benefit.

Sunwater may, however, be able to publish some temporary trade data on its website at regular intervals at limited cost, thereby ensuring historical trade data is available to the public. Sunwater does not yet collect price information as part of its temporary trade approval process, but is again mindful of the future need to improve data quality and collection processes. This position would need to be reviewed and addressed in order to support change as outlined.

Notwithstanding these observations, Sunwater supports in principle initiatives outlined in a) through d) under item 2, page 34 of the interim report. This in principle support is highly qualified, with significant concerns remaining regarding administrative burden on Sunwater and customers, details of systems, some commercial/contractual considerations, implementation and practical operation of initiatives proposed, when compared to the value of imposing initiatives.

3. Practical changes need to be underpinned by clear and comprehensive mandates to provide efficient trade services and high-quality information to market participants.

Sunwater agrees with the principle that high quality information should be made available to market participants and broadly supports the initiatives outlined in items a) to l) under item 3 on page 35 with the following caveats:

- Sunwater supports a) and b) noting the observations above regarding a preference for cost-effective and appropriate mechanisms for making this data available such as regular web site updates containing the latest trade data. Options such as online databases that operate in real time are not considered a cost-effective solution, given the volume and frequency of trades in the Queensland MDB schemes (see Table 1 above).
- With respect to item c), Sunwater notes that the Queensland Department of Natural Resources, Mines & Energy currently publishes monthly summaries of permanent trade data, and hence it is neither necessary nor appropriate for Sunwater to duplicate this process as the IIO.
- Sunwater does not support the initiatives outlined in e) or f) relating to registration of contracts or single party identifiers. These initiatives appear to be targeting traders who are undertaking disparate trades and cannot be identified for regulation purposes. The volume of trades in Queensland based MDB schemes is so low that this issue is not evident in Queensland. Adding the complexity of registering contracts and requiring all Sunwater customers to hold a new unique identifier is regarded as unnecessary and adding administrative burden to deliver consistency with southern parts of the MDB. To ensure that no unnecessary complexity is introduced, it is suggested that an existing identifier may be used. This may be the customer's ABN, water allocation or water off take ID.
- Sunwater supports item h) noting that Sunwater does not currently charge its customers for processing temporary trade transactions.
- With respect to point i) please note that water delivery rights are not relevant to the Queensland based MDB schemes which are river delivery schemes only.

4. Digital technologies offer the opportunity to streamline trade services, at the same time as improving information quality and availability

Sunwater is concerned about cost benefit of initiatives outlined in section 4.

The cost and time associated with upgrading Sunwater's existing water accounting systems to enable the better, easily shared information as suggested in the report would likely be high given that existing systems

are not capable of the high level of integration proposed. These additional costs, if borne by Sunwater, would heavily impact Sunwater's entire customer base, not only Sunwater's MDB-based customers who represent a small fraction of the overall customer base (see Table 1 above).

Given the low comparative volume of trades conducted in Queensland's MDB schemes that are not interconnected nor connected with the southern parts of the MDB (see Table 1 above), the measures suggested are likely to impose significant additional costs on Sunwater's customers which are likely to outweigh marginal benefits to customers in Queensland's MDB schemes, in the absence of support from the Australian Government to fund technology requirements additional to existing systems.

Improving Market Architecture

5. The design of the southern connected Basin market architecture has not kept pace with increasing trade activity, and the ACCC is seeking to identify options for reform

The recommendations in this section again appear to be focused on the issues associated with trading in the southern parts of the MDB and do not apply to the five Queensland-based supply schemes (e.g. grandfather tagging, inter-valley trades, and transmission loss factors in the southern connected MDB).

Sunwater particularly notes the suggestion of moving to continuous accounting and capacity sharing arrangements. Sunwater already administers capacity sharing in two of the Queensland MDB-based schemes.

Sunwater's experience is that the capacity sharing systems come with additional administration and water accounting costs compared to announced allocation schemes.

As the system of continuous accounting currently operates, administrative costs are higher than other schemes, primarily due to water accounting resources and more regular meter reading. However, Sunwater notes that there is medium-term future potential of back-to-base metering and automatic water accounting systems which could reduce these costs.

It is recognised that continuous accounting and capacity sharing can encourage individual water use efficiency above traditional announced allocation schemes where unused water is shared across all customers at years end.

Where our customers support capacity sharing, and have a full understanding of associated cost, Sunwater would support implementation.

Sunwater wishes to state clearly that continuous accounting and capacity sharing may not suit all relevant water supply schemes in Queensland, and would seek to fully consult, and better understand the impacts on customers prior to any future implementation.

Changes to Market Governance

6. There is a need to reconsider governance frameworks to enable independent and clear decisions on the development of market settings.

Sunwater supports clear governance frameworks for water trading, however until specific initiatives are proposed no comments can be provided.

Sunwater requests that the ACCC bear in mind that any structural changes to the water management regime required to meet MDB requirements may have ramifications for the remainder of the water supply schemes in Queensland, the vast majority of which do not form part of the MDB. The solutions being proposed by ACCC in many aspects of the report have been suggested to solve problems that do not exist in Queensland, and may result in perverse or unintended consequences for the sake of achieving consistency with the southern states which possess very different markets to Queensland.

On behalf of Sunwater, thank you once again for the opportunity to provide feedback on the interim report.

Yours sincerely



Glenn Stockton AM
Chief Executive Officer