

# Queensland Competition Authority

Guidance note

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## Rural irrigation price review 2020–24

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October 2018

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# 1 INTRODUCTION

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## 1.1 Context

The Queensland Government (the Government) has asked the Queensland Competition Authority (QCA) to investigate the pricing practices for monopoly business activities of SunWater and Seqwater relating to the supply of water for irrigation services, in specified water supply schemes and distribution systems. A referral notice for the investigation (the referral) was issued to the QCA under section 23 of the *Queensland Competition Authority 1997 Act* (the QCA Act).<sup>1</sup>

The key objective of this review is to recommend prices to be charged by SunWater and Seqwater (the water businesses) to irrigation customers for the period 1 July 2020 to 30 June 2024 (the price path period).<sup>2</sup>

## 1.2 Purpose of this document

This document outlines the approach we intend to follow when we consider the matters in the referral, consult with stakeholders, and manage information gathering processes.

We are outlining our approach at the start of the investigation as part of promoting a regulatory process that is effective, transparent and efficient.

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<sup>1</sup> The referral is provided in Appendix A.

<sup>2</sup> In accordance with section 24 of the QCA Act, the Minister can direct the QCA to make recommendations about stated matters.

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## 2 APPROACH TO THE REVIEW

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### 2.1 Referral

The referral for this investigation (**Appendix A**) is set out in several parts:

- Part A asks us to investigate the pricing practices of the water businesses in relation to bulk water supply for irrigation services.
- Part B sets out the matters that we have been asked to make recommendations on. This includes:
  - appropriate prices for monopoly business activities relating to irrigation services provided by the water businesses over the price path period
  - appropriate price review triggers and other mechanisms, to manage the risks associated with material cost changes outside the control of the water businesses
  - two pricing options for treating capital expenditure associated with dam safety upgrades
  - alternative tariff groupings for specified water supply schemes.
- Part C sets out the matters that we are to consider when conducting the investigation.
- Parts D, E and F set out requirements for consultation, timeframes for conducting the investigation, and other matters clarifying the prices to apply for bulk water supply for non-irrigation services, as well as the QCA's powers under the QCA Act.

### 2.2 Irrigation services

SunWater and Seqwater provide water supply services to irrigation customers. They also provide services to a range of other customers, including water retailers, other industrial customers, local government and other water access entitlement (WAE) holders.

#### 2.2.1 Defining irrigation services

Under the terms of the referral, an irrigation service is defined as the supply of water or drainage services for irrigation of crops or pastures for commercial gain.<sup>3</sup> This represents a departure in terminology from the previous review<sup>4</sup>, which required us to more broadly recommend 'irrigation prices to apply to' specified water supply schemes.

Compared to our previous review, this change implies our recommended prices may relate to a narrower range of irrigation customers, since customers not engaged in the irrigation of crops or pastures for commercial gain (such as those involved in sporting or recreational activities), should not be considered.

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<sup>3</sup> Consistent with Schedule 4 of the Water Act 2000.

<sup>4</sup> We completed our previous review of irrigation prices for SunWater in 2012 (QCA, *SunWater Irrigation Price Review: 2012–17*, final report, May 2012) and Seqwater in 2013 (QCA, *Seqwater Irrigation Price Review: 2013–17*, final report, April 2013).

## 2.2.2 Local management arrangements

The Government has been looking at transitioning SunWater's eight distribution systems to local management arrangements, where local irrigators would own and operate the systems.<sup>5</sup>

The referral states that we are not required to recommend prices for distribution systems that transfer to local management arrangements before we release our draft report.

## 2.3 Approach to this review

### 2.3.1 Review process

In accordance with section 25 of the QCA Act, we published a notice of investigation on 31 October 2018 stating our intention to conduct an investigation into the pricing practices of the water businesses.

As directed under the terms of the referral, we will:

- undertake an open consultation process with all relevant parties
- provide a draft report by 31 August 2019
- provide a final report and recommended price paths by 31 January 2020.

Section 173(1)(d) of the QCA Act states that we must comply with natural justice in undertaking an investigation. Consistent with this, we intend to promote a structured approach to stakeholder consultation as outlined further in section 3 below.

### 2.3.2 Legislative principles

In conducting an investigation into the pricing practices of the water businesses, we must have regard to the matters in section 26 of the QCA Act (**Appendix B**), inclusive of the terms of the referral.<sup>6</sup> These matters include:

- economic factors, including the cost of providing the goods or services in an efficient way, the need for efficient allocation of resources and the protection of consumers from abuses of monopoly power
- non-economic factors, including social welfare and equity considerations (such as the availability of goods and services to consumers and the social impact of pricing practices), and economic and regional development issues.

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<sup>5</sup> <https://dnrme.qld.gov.au/land-water/initiatives/lma-sunwater>. Bundaberg and Lower Mary distribution systems formally withdrew from the local management process in 2017. St George and Theodore distribution systems transferred to local management arrangements on 30 June 2018 and 2 October 2018, respectively. If agreement is reached on the final terms of the transfer and there is sufficient customer support, then the Emerald and Eton distribution systems may transfer before the end of 2018–19.

<sup>6</sup> Section 26(3) states that sections 26(1) and (2) do not limit the matters to which the QCA may have regard in conducting an investigation. This would include the Minister's stated matters for consideration under section 24(1)(b).

## 2.4 Approach to calculating prices

### 2.4.1 Government pricing principles

Paragraph C(1.1) of the referral asks us to recommend prices that apply the principles in Schedule 2 of the referral, which include:

- recommending prices that are based on all tariff groups transitioning to cost-reflective prices that incorporate efficient costs allowable under the referral
- in considering tariff structures, have regard to the fixed and variable nature of the underlying costs
- independently calculating the fixed and volumetric prices for each tariff group.

#### Cost-reflective prices

To establish recommended prices, we first need to derive cost-reflective prices that incorporate efficient costs allowable under the referral and increase by the QCA's measure of inflation over the price path period. These allowable costs are outlined in paragraph C(1.2) of the referral and include prudent and efficient operational, maintenance and administrative costs<sup>7</sup>, and an appropriate allowance for prudent and efficient expenditure on renewing existing assets. Allowable costs also include the QCA's regulatory fees up to a cap of \$2.5 million.

Allowable costs exclude:

- the recovery of capital expenditure prior to 1 July 2000 used to build the existing assets
- the costs of supplying 185,000 mega litres to Lower Burdekin Water
- subject to certain exceptions:
  - recreational costs incurred from 1 July 2020<sup>8</sup>
  - costs associated with augmentation of existing assets, new assets or any capital expenditure that is not a like-for-like or modern equivalent replacement or does not reflect a regulatory requirement<sup>9</sup>.

In recommending cost-reflective fixed and volumetric prices, we also need to have regard to the fixed and variable nature of the underlying costs.

#### Recommended prices

##### Fixed prices

Under the terms of this referral, key differences from the previous review are that:

- Fixed prices are to be derived independent of the changes in volumetric prices, whereas in the previous review the fixed prices at the start of the price path period were adjusted to offset changes in volumetric prices.
- At the start of the new price path, the fixed bulk (Part A) price for distribution system customers<sup>10</sup> is to be no more than the cost-reflective fixed price, whereas in the previous

<sup>7</sup> Prudent and efficient operational, maintenance and administrative costs may include an end-of-period adjustment for specified historical costs outside the entity's control.

<sup>8</sup> Unless we are satisfied there is customer support for these costs to remain included.

<sup>9</sup> See section 2.4.4 below.

<sup>10</sup> This includes customers of distribution systems operated by a local-customer-owned company or cooperative and customers of distribution systems operated by SunWater or Seqwater.

review the fixed (Part A) price was the same for bulk and distribution system customers and, in some cases, was higher than the cost-reflective fixed price<sup>11</sup>.

The principles in Schedule 2 of the referral require us to apply the following general rule<sup>12</sup> to the bulk fixed price (Part A) and to the total fixed price (Part A + Part C) for each tariff group:

- If the prevailing (2019–20) fixed price is below the initial (2020–21) cost reflective fixed price, then the prevailing fixed price is increased annually by inflation plus \$2.38 (from 2020–21, increasing by inflation each year) until the cost-reflective fixed price is reached.
- If the prevailing (2019–20) fixed price is above the initial (2020–21) cost-reflective fixed price, then the prevailing fixed price should remain unchanged until the cost-reflective fixed price is reached, with the exception of the bulk fixed (Part A) price that applies to customers of a distribution system<sup>13</sup> which should be reduced to the cost-reflective fixed (Part A) price (with this reduction fully offset by an increase in the distribution fixed (Part C) price).

#### Volumetric prices

The referral requires that in recommending volumetric prices (Part B and Part D), we should have regard to moving to cost-reflective prices immediately. Paragraph C(1.4) directs us to consider less than cost-reflective volumetric prices to moderate bill impacts for customers.

#### 2.4.2 Dam safety upgrade costs

Paragraph B(1.2) of the referral requires the recommendations made by us to provide an additional set of prices that include an appropriate allowance for prudent and efficient capital expenditure associated with dam safety upgrade costs that are forecast to be incurred from 1 July 2020 onwards. This means that we will provide two sets of recommended prices for the price path period: one that includes a share of the capital expenditure associated with dam safety upgrades forecast to be incurred from 1 July 2020, and one that excludes all dam safety upgrade capital expenditure.

As part of this investigation, we will consult with stakeholders about possible pricing approaches for apportioning dam safety upgrade capital expenditure, and will develop and apply an appropriate approach.

#### 2.4.3 Alternative tariff groups

Under paragraph B(1.4) of the referral, we have been asked to recommend prices that adopt the current tariff groups except for those we have been asked to review in paragraph B(1.5) for certain water supply schemes.

We are also required to provide two sets of recommended prices for the tariff groups we have been asked to review: one that maintains the existing tariff group(s), and one that applies the alternative tariff group(s).

For the tariff groups that we have been asked to review, the recommendations made by us are not required to specify which set of prices are to apply.

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<sup>11</sup> In each of these cases, the total fixed price (Part A + Part C) was no more than the total cost-reflective price.

<sup>12</sup> Subject to paragraph H of Schedule 2 of the referral (for the Central Brisbane River water supply scheme).

<sup>13</sup> This includes customers of distribution systems operated by a local customer owned company or co-operative and customers of distribution systems operated by SunWater or Seqwater.

#### 2.4.4 Costs associated with augmentations, new assets or other non-renewals capital expenditure

Subject to certain conditions, paragraph C(1.7) of the referral requires us to make recommendations on prices that exclude costs associated with the following:

- augmentations of existing assets
- new assets
- any capital expenditure that is not a like-for-like or modern equivalent replacement or does not reflect a regulatory requirement.

We have been asked to recommend prices that do not recover the above costs unless we are satisfied that the inclusion of these costs will generate net positive benefits for existing customers and relevant customers have been consulted.

In considering this matter, we may have regard to factors including:

- whether socialisation of the above incremental costs with existing costs would be expected to lead to lower prices for existing users
- whether there is evidence of other benefits to existing customers such as operational benefits that reasonably translate into economic benefits to existing customers
- whether there is evidence that existing customers have agreed to bear the costs associated with the particular capital works.

#### 2.4.5 Other matters for consideration

Other matters in the referral that we are to consider in recommending prices include:

- balancing the legitimate commercial interests of the water businesses with the interests of customers, including considering less than cost-reflective volumetric prices to moderate bill impacts for customers
- ensuring, where possible, transparent and simple revenue and pricing outcomes
- having regard to our recent findings in relation to Seqwater's bulk water prices for the 2018–21 period
- having regard to agreements where it can be demonstrated that customers have agreed on costs or prices with the business for irrigation services, and they are in line with the requirements set out in the referral
- providing an estimate of customer bills arising from recommended prices, exclusive of drainage and harvesting prices, and termination fees.

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## 3 APPROACH TO CONSULTATION

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Public involvement is an important component of the regulatory process. Effective consultation with stakeholders is integral to achieving a balanced and transparent regulatory process, as well as supporting accountability and confidence in our decision-making.

### 3.1 Consultation process

In the previous irrigation price review for each water business, we made recommendations relating to each water business improving their customer consultation processes. We consider that effective customer engagement provides opportunities for closer alignment of the outcomes sought by businesses and their customers.

Compared with the previous review, we expect submissions from the water businesses to be better informed by customer consultation. This should enable a more targeted approach to our consultation with stakeholders.

We consider that a targeted consultation approach will minimise the imposition on stakeholders, and allow us to address a range of complex, scheme-specific issues in a timely and cost-effective manner.

A high priority for the QCA is to identify material issues during the initial submission process, and through early engagement with stakeholder and industry groups. This will enable us to determine the appropriate extent of scheme level consultation, and explore issues that may require further investigation.

#### Consultation approaches

To ensure all stakeholders have adequate opportunity to identify and comment on relevant issues, we are planning an ongoing consultation program with stakeholders, including peak industry groups and customers of each relevant water supply scheme and distribution system.

We may use, but are not limited to, the following consultation approaches:

- targeted consultation papers
- workshops on specific or scheme-based topics.

An appropriate process will be determined as the scope and complexity of issues becomes clear.

#### Targeted consultation papers and fact sheets

We will consider publishing targeted consultation papers if we consider there is a benefit to obtaining stakeholder comments on a specific issue, or a need to provide stakeholders with detailed technical information. For example, we released a targeted consultation paper on dam safety upgrade costs at the start of our investigation.

#### Workshops

We intend to hold workshops to provide stakeholders with an opportunity to discuss issues relating to key documents that we publish before providing submissions. The timing of these workshops will allow adequate time to prepare quality submissions.

The workshops will take place over the course of our review process, including at the scheme level. Depending on the issues raised and stakeholder interest, we may conduct other consultative approaches in some schemes.

At this stage, we anticipate holding workshops once we receive submissions from SunWater and Seqwater, and after the release of our draft report. The scheduling of workshops will be assessed as the complexity of issues and stakeholder interest becomes apparent.

### Written submissions

Stakeholders will be invited to provide written submissions in response to key documents and consultation papers that we publish.

We will not document workshop discussions as formal submissions, but we will publish meeting minutes, and anticipate that these conversations will inform our investigations.

We welcome collaboration between stakeholders to provide joint submissions on any issue.

## 3.2 Timeframes

Based on the timing set out in the referral, we have developed an indicative timeframe of key decision and consultation points.

**Figure 1 Indicative timeframes for investigation milestones**



Stakeholders will have the opportunity to provide written submissions at various stages of the investigation, including in response to:

- the notice of investigation— initial submissions will be invited to identify issues that stakeholders consider should be addressed as part of the investigation
- targeted consultation papers on key issues (e.g. dam safety upgrade costs)
- submissions by the water businesses
- our draft report.

## 3.3 Confidentiality claims

In the interests of transparency and to promote informed discussion and consultation, the QCA intends to make all submissions publicly available wherever this is appropriate. However, if a person making a submission believes that information in the submission is confidential, that person should claim confidentiality in respect of the document (or the relevant part of the document) at the time the submission is given to the QCA and state the basis for the confidentiality claim.

In accordance with section 187 of the QCA Act, information will be considered confidential where the QCA considers that disclosure of the information would damage the person's commercial activities and would not be in the public interest.

If we consider information is confidential for the purposes of the QCA Act, we must take all reasonable steps to ensure the information is not, without the person's consent, disclosed to

another person. However, stakeholders should be aware that we may still disclose confidential information without consent in particular circumstances set out in the QCA Act.<sup>14</sup>

To provide guidance on the type of information that would assist our assessment of a claim for confidentiality, we have attached a confidentiality claim template for stakeholders (Appendix C).

Claims for confidentiality should be clearly noted on the front page of the submission. The relevant sections of the submission should also be marked as confidential, so that the remainder of the document can be made publicly available. We prefer receiving two versions of the submission (i.e. a complete version and another excising confidential information).

### 3.4 Obligation on all stakeholders

Sections 230 to 233 of the QCA Act outline a number of obligations and responsibilities when providing information to the QCA. Stakeholders should be aware that it is an offence to:

- provide information to the QCA that is false or misleading to the person's knowledge (s. 230)
- provide a document to the QCA that is false, misleading or incomplete to the person's knowledge and without notifying the QCA that it is false, misleading or incomplete (s. 231)
- obstruct QCA staff members from exercising the QCA's functions under the QCA Act (s. 232)
- intimidate another person that is providing evidence as part of the investigation (s. 233).

Stakeholders should be mindful of these obligations, particularly when submitting information or participating in the review.

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<sup>14</sup> For example, section 187(3) of the QCA Act.

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## 4 INFORMATION GATHERING PROCESSES

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We expect that the water businesses will include detailed information that supports their proposed costs in their respective submissions to the QCA, which are due by 30 November 2018. In some instances, the QCA may require additional information from a water business or other stakeholders for the purposes of conducting its investigation.

### 4.1 Information requests

As a key part of our review will be to assess the prudence and efficiency of proposed costs, we will engage an independent consultant to assist with our assessment. The consultant will be required to source information from the submissions provided by the water businesses in the first instance, and liaise with the water businesses to source any further information required.

Where we have identified the need for additional information, we will generally seek to informally request the required information from the water businesses or other stakeholders.

We intend to inform stakeholders, in writing, what information is being requested and the reason it is required for our investigation. This written request will detail the type of information required, as well as its preferred format.

We will seek to minimise the burden imposed by information requests, by providing adequate notice of the specific information required.

The timely and effective provision of information by the water businesses, and stakeholders if necessary, is important to the investigation process. It provides us with sufficient time to assess information, and give confidence to all stakeholders as to the integrity of the recommendations resulting from the investigation.

### 4.2 Section 185 notices

Our preferred approach to gathering relevant information for this investigation is through an informal process with relevant stakeholders. However, there may be some instances where we may decide to issue a written notice requesting information in accordance with section 185 of the QCA Act.

If we issue a notice under section 185, the person must comply with the notice. Compliance may require the person to either provide a statement setting out the required information, or through producing a document.

Failure to comply with the notice may result in a penalty, as provided for under section 185(3) of the QCA Act.

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## APPENDIX A: REFERRAL

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### QUEENSLAND COMPETITION AUTHORITY ACT 1997 Section 23 and Section 24

#### REFERRAL AND DIRECTION NOTICE

##### A Section 23 – Referral

(1.1) As the Treasurer of Queensland, under section 23 of the Queensland Competition Authority Act 1997 (the Act), I refer the monopoly business activities of SunWater and the Queensland Bulk Water Supply Authority (trading as Seqwater) (the businesses) described in paragraph A(1.2) to the Queensland Competition Authority (the Authority) for an investigation about pricing practices relating to those activities.

(1.2) The monopoly business activities are:

- the bulk water storage and water distribution undertaken by SunWater; and
- the bulk water supply undertaken by Seqwater,

to the extent those activities are:

- undertaken for an irrigation service as defined in the *Water Act 2000*<sup>1</sup>; and
- in the water supply schemes and distribution systems (WSS) set out in Schedule 1 excluding water services provided by Burnett Water Pty Ltd in relation to Paradise Dam and Kirar Weir, consistent with the Authority's Final Report SunWater Irrigation Price Review: 2012-17 Volume 1.

##### B Section 24 – Directions

(1.1) Under section 24 of the Act, I direct the Authority to make recommendations about the following matters:

- (a) appropriate prices (including drainage prices, water harvesting prices and termination fees for relevant WSS) to be charged by the businesses for the period of 1 July 2020 to 30 June 2024 (the price path period) in relation to the monopoly business activities specified in paragraph A(1.2), subject to paragraph C(1.7); and
- (b) appropriate price review triggers and other mechanisms, to manage the risks associated with material changes in the allowable costs identified in paragraph C(1.2) outside the control of the businesses.

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<sup>1</sup> For clarity, an irrigation service is defined in Schedule 4 of the *Water Act 2000* as the supply of water or drainage services for irrigation of crops or pastures for commercial gain.

- (1.2) The recommendations made by the Authority under B(1.1) should include two sets of appropriate prices in relation to prudent and efficient capital expenditure associated with dam safety upgrades, one set where all dam safety upgrade capital expenditure is excluded and one set where an appropriate allowance for capital expenditure forecast to be incurred from 1 July 2020 onwards is included. The recommendations made by the Authority are not required to specify which set of prices are to apply.
- (1.3) In making its recommendations under B(1.2), the Authority is to develop and apply an appropriate approach for apportioning dam safety upgrade capital expenditure and explain this approach and its application as part of its recommendations.
- (1.4) The recommendations made by the Authority under B(1.1) should adopt the current tariff groups for all WSS, other than where the Authority develops alternative tariff groups for the categories of prices listed in Schedule 3 as required under paragraph B(1.5).
- (1.5) The Authority is to review the tariff groups for the categories of prices listed in Schedule 3 and develop alternative tariff groups. The recommendations made by the Authority should include two sets of appropriate prices, one set which maintains the current tariff groups and one set based on the alternative tariff groups. The recommendations made by the Authority are not required to specify which set of prices are to apply.
- (1.6) Under section 24 of the Act, I direct the Authority to consider the stated matters listed as “Matters for consideration in making recommendations” in paragraph C when conducting the investigation and making the recommendations under paragraph B.

### **C Matters for consideration in making recommendations**

- (1.1) The Authority is to apply the Principles in Schedule 2 in recommending appropriate prices under this Notice. However, where the Authority is recommending appropriate prices that include dam safety upgrade capital expenditure under paragraph B(1.2) or for alternative tariff groups under paragraph B(1.5), the Authority may apply the Principles in Schedule 2 as it considers appropriate.

- (1.2) The Authority is to consider the following matters in relation to costs and in recommending appropriate prices under this Notice:
- (a) Subject to paragraphs C(1.1), C(1.3) and C(1.7) the following costs are to be recovered over the price path period:
- i. prudent and efficient operational, maintenance and administrative costs<sup>2</sup> (for clarity, this may include an end-of-period adjustment relating to historical costs that were unforeseen and unable to be managed, on the basis of changing market conditions for inputs or the result of regulatory imposts, and in accordance with the Authority's recommendations from its May 2012<sup>3</sup> and April 2013<sup>4</sup> reports); and
  - ii. an appropriate allowance for prudent and efficient expenditure on renewing existing assets<sup>5</sup> (for clarity, this allowance should also account for prudent and efficient renewals expenditure incurred in the previous price path periods).
- (b) For the avoidance of doubt, costs recovered under paragraph C(1.2)(a) are to include the following:
- i. costs incurred by the businesses to implement the 2015 recommendations made by the Inspector-General Emergency Management;
  - ii. costs that are required to meet regulatory obligations or deliver agreed service levels, where costs to deliver agreed service levels are not materially higher than the costs of like-for-like replacement or modern equivalent replacement; and
  - iii. regulatory fees charged by the Authority to the businesses to make the recommendations under this Notice up to \$2.5 million. For clarity, the Authority should detail the total cost incurred by the Authority in making the recommendations under this Notice.
- (c) for clarity, the value of the asset base for existing assets (as at 1 July 2000) should not be considered.
- (1.3) Costs associated with the provision of recreation facilities that are incurred by the businesses from 1 July 2020 onwards that would not otherwise be incurred to supply water, are not to be included, unless the Authority is satisfied that there is customer support for these costs to remain included.
- (1.4) Subject to paragraphs C(1.1) and C(1.2) (above), the Authority should have regard to:
- (a) balancing the legitimate commercial interests of the businesses with the interests of their customers, including considering less than cost reflective volumetric prices which are necessary to moderate bill impacts for customers, and
  - (b) ensuring, where possible, that revenue and pricing outcomes are both simple and transparent for customers.

<sup>2</sup> Including an allowance for tax (where applicable).

<sup>3</sup> Final Report, SunWater Irrigation Price Review 2012-17, Volume 1.

<sup>4</sup> Final Report, Seqwater Irrigation Price Review 2013-17, Volume 1.

<sup>5</sup> Existing assets are assets commissioned prior to 1 July 2000. Expenditure on renewing assets should not include costs associated with augmentation of existing assets or new assets, subject to paragraph C(1.7).

- (1.5) Where the Authority considers that it has been demonstrated that customers have agreed to the costs and/or prices proposed by the businesses and the Authority considers that the proposed prices are in line with the requirements of this Notice, the Authority must have regard to these agreements in recommending appropriate prices.
- (1.6) Where relevant, the findings of the Authority's investigation of Seqwater's bulk water prices for the 2018-21 period should be taken into account in recommending appropriate prices.
- (1.7) For the purposes of this Notice, the recommended appropriate prices should not recover costs associated with augmentation of existing assets, new assets<sup>6</sup> or any capital expenditure which is not like-for-like or modern equivalent replacement or does not reflect a regulatory requirement unless the Authority is satisfied that the costs will generate net positive benefits for existing customers and customers have been consulted. Where the Authority is not so satisfied, prices to recover these costs are a commercial matter for the businesses to negotiate with customers.
- (1.8) The Authority should consider and analyse how its recommended appropriate prices might be reflected in customer bills for each tariff group in all WSS (excluding drainage prices, water harvesting prices and termination fees) and provide this analysis and estimated customer bills as part of its recommendations.

#### **D. Consultation**

The Authority must undertake an open consultation process with all relevant parties, as required by section 25 of the Act, and consider submissions within the timetable for the delivery of the Final Report to the Treasurer detailed in paragraph E. All reports and submissions must be made publicly available, including on the Authority's website.

#### **E. Timing**

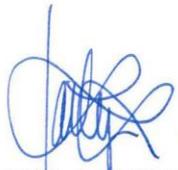
- (1.1) The notice given and published by the Authority under section 25 of the Act on receipt of this Referral and Direction Notice, must require submissions on proposed costs (and supporting information) to be made to the Authority by the businesses by no later than 30 November 2018.
- (1.2) The Authority must provide to the Treasurer and the Minister for Natural Resources, Mines and Energy the:
  - (a) Draft Report by no later than 31 August 2019; and
  - (b) Final Report and recommended price paths by no later than 31 January 2020.
- (1.3) The Final Report will inform the Treasurer's and Minister for Natural Resources, Mines and Energy's deliberations in determining price paths to apply for the period from 1 July 2020 to 30 June 2024 by direction under section 999 of the *Water Act 2000* in relation to SunWater and under section 1013D of the *Water Act 2000* in relation to Seqwater.

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<sup>6</sup> New assets are assets commissioned after 1 July 2000.

**F. Other matters**

- (1.1) For the avoidance of doubt, nothing in this Notice prevents the businesses from negotiating full commercial prices to supply water other than for the monopoly business activities described in paragraph A(1.2).
- (1.2) The Authority may exercise all the powers under Part 6 of the *Queensland Competition Authority Act 1997* in undertaking the investigation under this Notice.



**HON. JACKIE TRAD MP**  
DEPUTY PREMIER  
Treasurer  
Minister for Aboriginal and Torres Strait Islander Partnerships

**Schedule 1**Water Supply Schemes operated by SunWater

Barker Barambah  
Bowen Broken Rivers  
Boyne River and Tarong  
Bundaberg  
Burdekin-Haughton  
Callide Valley  
Chinchilla Weir  
Cunnamulla  
Dawson Valley  
Eton  
Lower Mary  
Lower Fitzroy  
Macintyre Brook  
Maranoa River  
Mareeba-Dimbulah  
Nogoa-Mackenzie  
Pioneer River  
Proserpine River  
St George  
Three Moon Creek  
Upper Burnett  
Upper Condamine

Distribution Systems operated by SunWater

Bundaberg  
Burdekin-Haughton  
Eton  
Emerald  
Lower Mary  
Mareeba-Dimbulah  
Theodore

Water Supply Schemes operated by Seqwater

Cedar Pocket  
Central Brisbane River  
Central Lockyer Valley  
Logan River  
Lower Lockyer Valley  
Mary Valley  
Warrill Valley

Distribution Systems operated by Seqwater

Morton Vale Pipeline  
Pie Creek

Note: Where the Authority is advised before publication of its Draft Report that final agreement has been reached on the terms to transfer operation of a distribution system owned by SunWater to a local customer owned company or co-operative, then the Authority is not to provide prices to recover the cost of the infrastructure for this distribution system.

## Schedule 2

### Principles

- A. Prices are to be based on all tariff groups transitioning to cost-reflective prices. Cost-reflective prices reflect the costs in paragraph C(1.2) and increase by the Authority's measure of inflation over the price path period.
- B. In considering tariff structures, regard should be had to the fixed and variable nature of the underlying costs.
- C. Fixed (Part A and Part C) prices are to be derived independently of Volumetric (Part B and Part D) prices.
- D. For water supply schemes where the only fixed price applicable is the Fixed (Part A) price:
  - i. if the prevailing<sup>7</sup> Fixed (Part A) price is above the initial<sup>8</sup> cost-reflective Fixed (Part A) price, the prevailing Fixed (Part A) price should be maintained in nominal terms over the price path period until the cost-reflective Fixed (Part A) price is reached, with the exception of Fixed (Part A) prices which apply to customers of a distribution system operated by a local customer owned company or co-operative, in which case the Fixed (Part A) price should be reduced to the cost-reflective Fixed (Part A) price.
  - ii. if the prevailing Fixed (Part A) price is less than the initial cost-reflective Fixed (Part A) price, the prevailing Fixed (Part A) price should increase each year by the Authority's measure of inflation plus an additional component of \$2.38 per mega litre (from 2020-21, increasing by the Authority's measure of inflation each year) until the cost-reflective Fixed (Part A) price is reached<sup>9</sup>.
- E. For distribution systems where Fixed (Part A) and Fixed (Part C) prices are applicable:
  - i. if the prevailing Fixed (Part A) price is above the initial cost-reflective Fixed (Part A) price, the prevailing Fixed (Part A) price should be reduced to the cost-reflective Fixed (Part A) price.
  - ii. if the prevailing Fixed (Part A) price is less than the initial cost-reflective Fixed (Part A) price, the prevailing Fixed (Part A) price should increase each year by the Authority's measure of inflation plus an additional component of \$2.38 per mega litre (from 2020-21, increasing by the Authority's measure of inflation each year) until the cost-reflective Fixed (Part A) price is reached<sup>10</sup>.
  - iii. if the prevailing total Fixed (Part A + Part C) price is above the initial total cost-reflective Fixed (Part A + Part C) price, the prevailing total Fixed (Part A + Part C) price should be maintained in nominal terms over the price path period until the total cost-reflective Fixed (Part A + Part C) price is reached.

<sup>7</sup> The prevailing price for a particular tariff group is the price that relates to the 2019-20 period.

<sup>8</sup> The initial cost-reflective price for a particular tariff group is the price that relates to the 2020-21 period.

<sup>9</sup> The additional component may be less than specified in paragraph Dii in order for the price not to exceed the cost-reflective Fixed (Part A) price.

<sup>10</sup> The additional component may be less than specified in paragraph Eii in order for the price not to exceed the cost-reflective Fixed (Part A) price.

- iv. if the prevailing total Fixed (Part A + Part C) price is less than the initial total cost-reflective Fixed (Part A + Part C) price, the prevailing total Fixed (Part A + Part C) price should increase each year by the Authority's measure of inflation plus an additional component of \$2.38 per mega litre (from 2020-21, increasing by the Authority's measure of inflation each year) until the total cost-reflective Fixed (Part A + Part C) price is reached<sup>11</sup>.
- F. Volumetric prices (Part B and Part D) should have regard to moving to cost-reflective Volumetric prices (Part B and Part D) immediately.
- G. For the Burdekin-Haughton WSS, the costs of SunWater supplying 185,000 ML to Lower Burdekin Water are not to be recovered from the prices applying to the remaining water entitlements.
- H. For the Central Brisbane River WSS, where cost allocations are reapportioned as anticipated in the Final Report, Seqwater Irrigation Price Review 2013-17, Volume 2, Central Brisbane River Water Supply Scheme, or as an outcome of wider cost allocation investigations with customers, the Fixed (Part A) price for the commencement of the price path period may be less than the prevailing Fixed (Part A) price.

### **Schedule 3 – Categories of prices to be reviewed**

Part A and Part B prices for the Dawson Valley WSS  
Part A and Part B prices for the Three Moon Creek WSS  
Part A and Part B prices for the St George WSS

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<sup>11</sup> The additional component may be less than specified in paragraph Eiv in order for the price not to exceed the cost-reflective Fixed (Part A + Part C) price.

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## APPENDIX B: SECTION 26 REQUIREMENTS OF QCA ACT

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### Section 26 Matters to be considered by authority for investigation

- (1) In conducting an investigation under this division, the authority must have regard to the following matters—
  - (a) the need for efficient resource allocation;
  - (b) the need to promote competition;
  - (c) the protection of consumers from abuses of monopoly power;
  - (d) in relation to the goods or services to which the monopoly business activity relates—
    - (i) the cost of providing the goods or services in an efficient way, having regard to relevant interstate and international benchmarks; and
    - (ii) the actual cost of providing the goods or services; and
    - (iii) the standard of the goods or services, including quality, reliability and safety;
  - (e) the appropriate rate of return on assets;
  - (f) the effect of inflation;
  - (g) the impact on the environment of prices charged by the government agency or other person carrying on the monopoly business activity;
  - (h) considerations of demand management;
  - (i) social welfare and equity considerations including community service obligations, the availability of goods and services to consumers and the social impact of pricing practices;
  - (j) the need for pricing practices not to discourage socially desirable investment or innovation by government agencies and persons carrying on non-government business activities;
  - (k) legislation and government policies relating to ecologically sustainable development;
  - (l) legislation and government policies relating to occupational health and safety and industrial relations;
  - (m) economic and regional development issues, including employment and investment growth;
  - (n) if the monopoly business activity is a government business activity—any directions given by the government to the government agency by which the monopoly business activity is carried on.
- (2) If the investigation relates to a monopoly business activity involving the supply of water, the authority must have regard to water pricing determinations.
- (3) Subsections (1) and (2) do not limit the matters to which the authority may have regard in conducting an investigation.

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## APPENDIX C: TEMPLATE FOR CONFIDENTIALITY CLAIMS

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<b><i>Page(s) and paragraphs</i></b>	<b><i>Category of confidentiality</i></b>	<b><i>Basis for claim</i></b>	<b><i>Information as to why disclosure is not in the public interest</i></b>
Outline the relevant pages and paragraphs associated with your claim.	Outline which category of confidentiality is associated with your claim: (a) Market-sensitive cost inputs (b) Market or strategic knowledge (c) Intellectual property (d) Personal information (e) Other	Provide an explanation as to why the information falls within the selected confidentiality category and why the information is likely to damage your (or another party's) commercial activities if disclosed.	Provide any supporting information as to why it is not in the public interest to disclose the relevant information.