

Queensland Competition Authority

Issues Paper

Sunwater irrigation pricing proposal—access charge

September 2019

SUBMISSIONS

Closing date for submissions: 4 November 2019

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (QCA). Therefore submissions are invited from interested parties concerning its assessment of Sunwater's proposed access charge. The QCA will take account of all submissions received within the stated timeframes.

Submissions, comments or inquiries regarding this paper should be directed to:

Queensland Competition Authority
GPO Box 2257
Brisbane Q 4001

Tel (07) 3222 0555

Fax (07) 3222 0599

www.qca.org.au/submissions

Confidentiality

In the interests of transparency and to promote informed discussion and consultation, the QCA intends to make all submissions publicly available. 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.

The assessment of confidentiality claims will be made by the QCA in accordance with the *Queensland Competition Authority Act 1997*, including an assessment of whether disclosure of the information would damage the person's commercial activities and considerations of the public interest.

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. It would also be appreciated if two versions of the submission (i.e. a complete version and another excising confidential information) could be provided.

A confidentiality claim template is available on request. We encourage stakeholders to use this template when making confidentiality claims. The confidentiality claim template provides guidance on the type of information that would assist our assessment of claims for confidentiality.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at our Brisbane office, or on our website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact us on (07) 3222 0555.

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THE ROLE OF THE QCA – TASK, TIMING AND CONTACTS

The Queensland Competition Authority (QCA) is an independent statutory body which promotes competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's primary role is to ensure that monopoly businesses operating in Queensland, particularly in the provision of key infrastructure, do not abuse their market power through unfair pricing or restrictive access arrangements.

The QCA's primary role with respect to irrigation water pricing is to recommend prices to be charged by Sunwater and Seqwater to irrigation customers in specific water supply schemes and distribution systems. In recommending prices, we take into consideration the matters in section 26 of the Queensland Competition Authority Act 1997, inclusive of the terms set out in the Minister's referral notice (Appendix A).

Key dates

QCA publishes notice of investigation	31 October 2018
Initial stakeholder submissions identifying key issues to be considered in QCA review	30 November 2018
Lodgement of regulatory submissions by Sunwater and Seqwater	By 30 November 2018
Draft report to the Queensland Government	By 31 August 2019
Submissions due on draft report and Sunwater access charge issues paper	4 November 2019
Final report to the Queensland Government	By 31 January 2020

Contacts

Enquiries regarding this project should be directed to:

ATTN: Darren Page

Tel (07) 3222 0555

www.qca.org.au/Contact-us

INTRODUCTION

The Queensland Government has directed us to investigate pricing practices relating to the storage and supply of water by Sunwater and Seqwater (the water businesses) in specific water supply schemes (WSSs) and distribution systems, where those activities are undertaken for an irrigation service.¹ A copy of the referral for the investigation is at Appendix A.

The key objective of the review is to recommend prices to be charged by the water businesses to irrigation customers in the specified WSSs and distribution systems for the period 1 July 2020 to 30 June 2024. The Government will consider our recommendations when it sets those prices.

The purpose of this paper is to outline Sunwater's proposal (Appendix B) regarding an access charge and to provide stakeholders with the opportunity to comment on it. Sunwater did not provide the detail of this proposal in its initial regulatory submission in November 2018.² It was instead provided in a late submission in July 2019.³ Sunwater has worked with QFF to develop the proposal and has advised that QFF has provided conditional support for it.⁴

We welcome the water businesses working with their customers to reach agreement on issues of concern. We are generally receptive to recognising such agreements when we determine our recommended irrigation prices for the period 1 July 2020 to 30 June 2024, subject to any agreement being consistent with the requirements set out in the referral.

Our draft report does not contain a detailed assessment of Sunwater's access charge proposal, as Sunwater's additional submission was provided too late for us to give all stakeholders an adequate opportunity to review and comment on the proposal, prior to us forming a view on it in our draft report. We will include a detailed assessment in our final report and we would therefore welcome submissions from stakeholders on the issues raised in this consultation paper. Where possible, stakeholders should provide detailed arguments and evidence to support their views.

Stakeholders can provide comments as a separate submission or as part of their submission on our draft report, which has been released at the same time as this consultation paper. Details on how to make a submission appear on page i. An indicative timetable for the review appears on page iii.

¹ 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'.

² Sunwater, sub. 11.

³ Sunwater, sub. 154 (access charge).

⁴ Sunwater, sub. 154.

OVERVIEW OF THE PROPOSAL

In its November 2018 submission, Sunwater said that QFF had raised the possibility of a minimum access charge in all service contract areas to cover the fixed administration costs associated with maintaining each customer account and to ensure there is no cross subsidisation between customers who hold a small number of water allocations and those who hold larger amounts.⁵

Sunwater provided a late submission on fixed customer access charges on 5 July 2019 and advised that since providing its November 2018 submission, it had worked closely with QFF to explore the possibility of an administratively simple access charge that supports cost reflective pricing by:

- ensuring that all customers pay the fixed costs associated with their account and that there is no cross-subsidisation between customers
- incentivising customer behaviours that enable Sunwater to reduce those fixed costs (for example, paying bills on time).⁶

Sunwater said that as part of the proposal, revenues generated by the access charge would be offset by reductions in fixed (Part A) prices, and customers whose behaviours contribute to Sunwater reducing its customer administration costs would be entitled to a discount on the access charge.⁷

Sunwater said that the fixed administrative costs that could be recovered through an access charge included:

- billing, water accounting, water sharing, call centre, Resource Operations Licence compliance, account management and water account management
- depreciation costs associated with Sunwater's water accounting systems (eg Orion, Bills).⁸

Sunwater supplied underlying costing information associated with customer management at a state-wide level, indicating a 2018–19 cost reflective fixed access charge of \$950. The possibility of a discount on the customer access charge if certain behavioural milestones occur was included in Sunwater's analysis.

Sunwater believed that it had demonstrated sufficient irrigation customer support for its access charge proposal to be favourably considered by us. Sunwater said that this proposal was a direct result of a six-month collaboration between Sunwater and QFF, and that additional consultation had included presentations to the Irrigation Customer Reference Group⁹ in April 2019 and the Lower Mary Advisory Board in May 2019.¹⁰

Sunwater also advised that QFF's support for the proposal was subject to a number of conditions, including:

- QFF Water and Energy Policy Committee (WEPC) members were only supportive of a revenue neutral proposal

⁵ Sunwater, sub. 11, p. 75.

⁶ Sunwater, sub. 154.

⁷ Sunwater, sub. 154.

⁸ Sunwater, sub. 154.

⁹ Membership of this group is drawn from a cross-section of Sunwater's irrigation customers—for more information see Sunwater, sub. 11, p.10.

¹⁰ Sunwater, sub. 154.

- WEPC members were broadly supportive of a specific account keeping charge, subject to the provision for particular schemes to 'opt-out' where there are not a significant number of small users, or for those schemes who do not want to disincentivise small water users
- WEPC member support was dependent on an appropriate and formalised hardship program for irrigators who experiencing genuine adversity
- QFF's support was without prejudice to the Mareeba-Dimbulah scheme which currently charges customers an access charge of \$670.99 which offsets selected fixed charges.
- QFF's support was without prejudice to distribution systems owned and operated by local management entities, who may apply charges as gazetted
- The charge must be simple and transparent to all users
- The charge must be levied only once to a customer's account, regardless of the number of off-takes.¹¹

¹¹ Sunwater, sub. 154, p.1, 2.

QUESTIONS FOR CONSULTATION

- (1) Do you support an access charge? If possible, please provide an explanation to support your view.
- (2) Do you think an access charge is consistent with the requirements in the referral (Appendix A)?
- (3) If an access charge was to be introduced, do you think it should be based on Sunwater-wide costs and customer account numbers? Or should it be based on the costs and customer account numbers for the irrigation sector, given that our investigation is limited to prices for irrigation customers?
- (4) Do you think some activities undertaken (and costs incurred) by Sunwater are likely to vary on a customer basis rather than a WAE basis?
- (5) If you answered yes to Question 4, please outline the costs that you consider are likely to vary on a customer basis and explain why you consider those costs are likely to vary on that basis rather than on a WAE basis.
- (6) Do you support Sunwater offering discounts on an access charge to customers who engage in behaviour that reduces Sunwater's customer administration costs (for example, paying bills on time)? If possible, please provide an explanation to support your view.
- (7) Are there any other issues that you think are relevant to our consideration of Sunwater's access charge proposal? If so, please be specific and provide supporting reasons in your response.

Please note that you are not limited to submitting a response on the above questions—you can provide other comments or suggestions regarding an access charge in your submission.

APPENDIX A: REFERRAL NOTICE



Deputy Premier
Treasurer
Minister for Aboriginal and Torres Strait Islander Partnerships

Our Ref: 01852-2018

1 William Street
GPO Box 611 Brisbane
Queensland 4001 Australia
Telephone +61 7 3719 7100
Email deputy.premier@ministerial.qld.gov.au

ABN 90 856 020 239

29 OCT 2018

Professor Flavio Menezes
Chair
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Professor Menezes

Flavio,

Please find enclosed a referral notice issued under section 23 of the *Queensland Competition Authority Act 1997*, referring the relevant monopoly business activities of SunWater and Seqwater to the Queensland Competition Authority (the Authority) for an investigation about pricing practices in relation to rural irrigation prices to apply from 1 July 2020 to 30 June 2024.

I appreciate the Authority's continued involvement in ensuring rural irrigation prices have effective regulatory oversight.

I am advised that officers from Queensland Treasury have consulted with the Authority in the preparation of this referral notice. SunWater and Seqwater have also been advised of this investigation and have been encouraged to work closely with the Authority to ensure the reporting timeframes for the review are met.

Should you have any queries regarding this matter, please contact Mr Dennis Molloy, Assistant Under Treasurer, Shareholder and Structural Policy Division on (07) 3035 1988.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Jackie Trad', written over a blue circular stamp.

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

Encl.

Cc: The Honourable Dr Anthony Lynham MP,
Minister for Natural Resources, Mines and Energy

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*¹; 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.

¹ 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 costs² (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 2012³ and April 2013⁴ reports); and
 - ii. an appropriate allowance for prudent and efficient expenditure on renewing existing assets⁵ (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.

² Including an allowance for tax (where applicable).

³ Final Report, SunWater Irrigation Price Review 2012-17, Volume 1.

⁴ Final Report, Seqwater Irrigation Price Review 2013-17, Volume 1.

⁵ 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 assets⁶ 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.

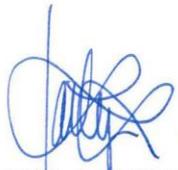
E. Timing

- (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.

⁶ 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 1Water 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 prevailing⁷ Fixed (Part A) price is above the initial⁸ 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 reached⁹.
- 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 reached¹⁰.
 - 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.

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

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

⁹ 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.

¹⁰ 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 reached¹¹.
- 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

¹¹ 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.

APPENDIX B: SUNWATER'S SUBMISSION ON AN ACCESS CHARGE



Contact: Lisa Welsh
Direct line: 0418 612 044
Our ref: 2447037

5 July 2019

Professor Flavio Menezes
Chair
Queensland Competition Authority
PO Box 2257
BRISBANE QLD 4001

Dear Professor Menezes,

Supplementary Submission to the Irrigation Price Review: Access Charge

On 6 November 2018, Sunwater provided a comprehensive submission to the Queensland Competition Authority's (QCA) review of irrigation prices. In that submission, Sunwater advised that during the pre-submission consultation phase, the Queensland Farmers' Federation (QFF) had raised the possibility of a minimum access charge in all service contract areas to cover the fixed administration costs associated with maintaining each customer account and to ensure there is no cross subsidisation between customers who hold a small number of water allocations and those who hold larger amounts. Sunwater indicated that we were investigating this further, in conjunction with QFF, and would keep the QCA informed of the outcome of this investigation.

Since providing our submission to the QCA, Sunwater has been working closely with QFF to explore the possibility of an administratively simple Access Charge which supports cost reflective pricing by:

- ensuring that all customers in schemes providing services to irrigation customers pay the fixed costs associated with their account and that there is no cross-subsidisation between customers
- incentivising customer behaviours that enable Sunwater to reduce those fixed costs, eg paying bills on time and maintaining a positive water account balance.

Importantly, as part of the proposal, revenues generated by the Access Charge will be offset by reductions in Part A fixed charges, and customers whose behaviours contribute to Sunwater reducing our customer administration costs will be entitled to a discount on the Access Charge.

I am pleased to advise that Sunwater's investigations with QFF have now progressed to the point where QFF is supportive of applying an Access Charge, with a number of clarifications as outlined in the letter of 10 June 2019:

- QFF Water and Energy Policy Committee (WEPC) members are only supportive of a revenue neutral proposal
- WEPC members are broadly supportive of a specific account keeping charge, subject to the provision for particular schemes to 'opt-out' where there are not a significant number of small users or for those schemes who do not want to disincentivise small water users
- WEPC member support is dependent on an appropriate and formalised hardship program for irrigators who experiencing genuine adversity
- QFF's support is without prejudice to the Mareeba-Dimbulah scheme which currently charges customers an access charge of \$670.99 which offsets selected fixed charges.

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- QFF's support is without prejudice to distribution systems owned and operated by local management entities, who may apply charges as gazetted
- The charge must be simple and transparent to all users
- The charge will be levied only once to a customer's account, regardless of the number of off-takes
- There was unanimous support from WEPC for specific cost-reflective charges relating to 'unauthorised use' and 'do not take' letters. The nature of this support included a cost-reflective average cost approach being applied to these activities.

Sunwater agrees with the points raised by QFF. I note that Sunwater has formally approved and is currently implementing a new hardship policy to provide payment assistance to customers experiencing genuine financial difficulties.

In relation to the 'opt-out provisions' requested by QFF, Sunwater recognises that some schemes may prefer to retain some cross-subsidisation of costs to maximise the number of customers within a scheme. Sunwater estimates that at least 80% of bulk and distribution scheme customers would need to adopt the new tariff structure for Sunwater to realise the savings needed to provide the discount to customers. In addition, it would not be feasible for individual customers within a scheme to opt-out as this would add complexity to prices and additional costs to Sunwater, which is inconsistent with the objective of the proposal. Therefore, Sunwater believes it would be feasible for a limited number of schemes to opt-out for the access charge proposal to achieve its objectives.

Attachment A provides the details of Sunwater's proposed Access Charge and associated changes to Part A charges for your consideration. I note that Sunwater has provided most of these details in our 30 April 2019 response to a formal Request for Information issued by the QCA as part its irrigation price review and a presentation by Sunwater and QFF to officers of the QCA on 31 May 2019.

Sunwater believes that it is important that all stakeholders are aware of the proposed details of the Access Charge so they can consider and provide comment on the proposal during the review process. In particular, Sunwater requests that the QCA consider this proposal and provide their views on the Access Charge in its draft irrigation price review report, due to be released on 31 August 2019, so that stakeholders can have the opportunity to address the proposal in their submissions to the draft report.

QFF and Sunwater are continuing to work through a number of implementation issues to ensure that, if approved by the QCA, the Access Charge meets its objectives. I am confident that these issues can be resolved to the satisfaction of both Sunwater and QFF prior to the commencement of the new price path.

The Access Charge represents a simple and collaborative approach to pricing which drives more cost-efficient outcomes and enables these cost savings to be passed on to irrigation customers via lower prices. This proposal is therefore consistent with the Queensland Government's irrigation pricing policy, namely to strike a balance regarding:

- cost recovery for the services provided
- impacts on customers
- keeping prices as simple and transparent as possible.

We request the QCA to consider how it could support this proposal and we offer any assistance that you may require in briefing the Queensland Government on the merits of the Access Charge proposal. If you have any questions regarding this submission, please contact Ms Lisa Welsh, General Manager Customer Strategy.

Yours sincerely



Nicole Hollows
Chief Executive Officer

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ATTACHMENT A**ACCESS CHARGE PROPOSAL*****Background***

Sunwater has been working with the Queensland Farmers' Federation (QFF) since late 2018 to agree on the objectives for a potential minimum access charge, the parameters for the charge (such as which costs it would recover, whether it should be levied on water accounts or on each customer account) and how it can be used to incentivise customer behaviour to reduce Sunwater's customer administration costs.

During these discussions, it was agreed that the term "Access Charge" more appropriately described the customer account management activities proposed to be covered by the charge.

Objectives and scope

The agreed objective of an Access Charge is to support cost reflective pricing by:

- ensuring that all customers pay the fixed costs associated with their account and that there is no cross-subsidisation between customers
- incentivising customer behaviours that enable Sunwater to reduce those fixed costs, eg paying bills on time.

The costs that are proposed to be recovered through the Access Charge for customer administration activities include:

- billing, water accounting, water sharing, call centre, Resource Operations Licence compliance, account management and water account management including announced allocations and processing of temporary trades (\$2.944 million in 2017/18),
- depreciation costs associated with Sunwater's water accounting systems (eg Orion, Bills and Sunwater Online) (\$1.745 million in 2017/18).

Sunwater and QFF also agreed that the Access Charge is most appropriately levied on customer accounts, rather than water accounts or metered outlets, as it is the costs specifically related to customer account management that the proposed charge would recover. Metering is not considered a fixed customer account administration cost and therefore it is not proposed to be recovered via the Access Charge proposed for the new irrigation price path.

Proposed Access Charge

Sunwater and QFF considered two options for the Access Charge:

1. The cost reflective charge of \$950 (\$2018/19), based on the costs of the activities outlined above per customer account and assuming a reduction of 2 per cent in the number of customer accounts due to consolidation.
2. The current Mareeba-Dimbulah Access Charge of \$670.99 (\$2018/19).

Following consultation with QFF members and Sunwater's Irrigation Customer Reference Group, the preferred approach is the cost reflective charge – noting that these costs are currently being reviewed for prudence and efficiency by the QCA as part of the irrigation price review.

Access Charge discount

Sunwater and QFF agreed to focus on four customer behaviours that would drive reductions in customer account administration costs. These behaviours and the estimated savings are summarised in Table 1 below.

Table 1: Potential savings and Access Charge discount (\$18/19)

Customer behaviour	Saving per customer account (\$2018/19 & rounded to nearest dollar)
Bill and water account received via email	\$20
Bill paid on time	\$8
Use Sunwater Online for basic account enquiries	\$16
Maintain a positive water account balance at all times	\$22
Total	\$66 per account
Saving applied as a discount on a \$950 Access Charge	7%

Impact on Customers

The impact on customers of introducing an Access Charge will vary by scheme and by the number of allocations held by the customer account. The impact by scheme is heavily influenced by the number of very large users in a scheme, including whether Sunwater owns significant allocations within a scheme. In general, for lower Part A charges to offset the cost of a new Access Charge, a customer would need to hold between 91ML (Chinchilla scheme) and 1,955ML (Burdekin Haughton scheme).

Table 2 below summarises the indicative reduction in Part A charges per scheme resulting from the introduction of an Access Charge, as well as the number of allocations a customer would need to hold to be no worse off under the proposal (the breakeven point). This analysis is based on the following assumptions:

1. A cost reflective charge of \$998 in 2020/21 (the \$950 cost reflective charge in \$2018/19 escalated by 2.5 per cent for two years – noting that the application of CPI will be reviewed by the QCA as part of the review).
2. The model used was Sunwater's regulatory model version 3.
3. Access Charge revenues are deducted from fixed costs which are allocated by Aggregate Megalitres (AML) to calculate the change in cost reflective Part A prices.
4. AML excludes distribution losses as these allocations generally do not incur customer administration costs. This affects the Lower Mary, Bundaberg, Eton and Burdekin Haughton schemes, and reduces the breakeven point.
5. The breakeven calculation assumes the customer is receiving the 7 per cent discount on the Access Charge.

Table 2: Summary of impact on prices and customers of the proposed Access Charge

	Total customer accounts	Access Charge revenues (\$2020/21)	Reduction in Part A charges (\$2020/21)	Breakeven ML
Barker Barambah WS	170	\$166,428	\$4.85	192
Boyne River & Tarong WS	168	\$164,470	\$3.79	245
Bundaberg WS	1092	\$1,069,053	\$5.49	169
Burdekin Haughton WS	413	\$404,321	\$0.46	2020
Callide Valley WS	140	\$137,058	\$7.05	132
Chinchilla Weir WS	41	\$40,138	\$9.91	94

	Total customer accounts	Access Charge revenues (\$2020/21)	Reduction in Part A charges (\$2020/21)	Breakeven ML
Cunnamulla WS	24	\$23,496	\$9.00	103
Dawson Valley WS	179	\$175,239	\$2.84	327
Eton WS	329	\$322,086	\$5.98	155
Lower Fitzroy WS	27	\$26,433	\$0.92	1006
Lower Mary River WS	165	\$161,533	\$5.47	170
Macintyre Brook WS	99	\$96,920	\$3.88	240
Nogoa Mackenzie WS	397	\$388,658	\$1.68	554
Pioneer River WS	15	\$14,685	\$0.19	4942
Proserpine River WS	91	\$89,088	\$1.42	656
St George WS	235	\$230,062	\$2.72	342
Three Moon WS	91	\$89,088	\$5.93	157
Upper Burnett WS	153	\$149,785	\$5.25	177
Upper Condamine WS	92	\$90,067	\$2.65	350

Notes:

1. Excludes Mareeba-Dimbulah which has a pre-existing Access Charge.
2. Excludes Maranoa River as Sunwater does not currently provide any services in this scheme.
3. Excludes Bowen Broken Rivers which does not currently have any irrigation customers.

Status of customer support for an Access Charge

Sunwater believes that we have demonstrated sufficient customer support for the proposal for the Access Charge to be favourably considered by the QCA ahead of the draft irrigation price review report.

The development of this proposal represents a large step forward in the way in which Sunwater consults with our customers and works with them to shape regulatory proposals for the consideration of the QCA. This proposal is the direct result of a six-month collaboration between Sunwater and QFF, who is recognised as the peak representative body for irrigators in Queensland.

In addition to the support received from QFF for the proposal, Sunwater has undertaken additional targeted consultation in developing the proposed approach to the Access Charge. Sunwater conducted two rounds of consultation with the Mareeba-Dimbulah Irrigation Advisory Council (MDIAC) to obtain feedback on the benefits of the existing Access Charge in that scheme. The MDIAC confirmed that their Access Charge is an important part of cost recovery in that scheme. MDIAC indicated they were interested in receiving a discount on the Access Charge to encourage customer behaviours that enable Sunwater to reduce administration costs.

An Access Charge discussion paper was provided to the Irrigation Customer Reference Group (ICRG) ahead of a meeting on 12 April 2019 to seek their feedback. The ICRG indicated a preference for the cost reflective Access Charge of \$950 and recommended further customer consultation and consideration of the impacts on small (generally non-irrigation) customers. The discussion paper was also presented to the Lower Mary Customer Advisory Board (CAB) on 17 May 2019. The CAB supported the proposal.