Queensland Competition Authority

Information sheet

Rural irrigation price review 2020–24, draft

September 2019

Barker Barambah water supply scheme

Why are we recommending irrigation prices?

The Queensland Government directed us to recommend irrigation prices for Sunwater and Seqwater customers over the pricing period 1 July 2020 to 30 June 2024.

This includes recommending prices for irrigation customers in the Barker Barambah water supply scheme (WSS), which is located near the town of Murgon.

Issues related to the prices for non-irrigation customers are outside the scope of our review.

How we have recommended prices

In recommending prices we have not included a return on, or depreciation of, investments made prior to 1 July 2000.

We have recommended two-part tariffs for the tariff groups in this scheme. The first part is a *fixed price* per megalitre (ML) of water access entitlement (WAE), and the second part is a *volumetric price* per ML of water used.

The volumetric price (Part B) recovers variable costs (e.g. a portion of labour costs and electricity costs relating to pumping) that change with water usage. The remaining costs associated with this scheme are recovered by the fixed price (Part A). We have assessed all expenditure to ensure that Sunwater only recovers prudent and efficient costs.

It is government policy that, over time, irrigation prices should transition to fully recover prudent and efficient costs of operating, maintaining, administering and renewing each scheme. Cost recovery for Sunwater's irrigation customers will improve from 91 per cent in 2020–21 to 94 per cent by 2023–24. The shortfall is currently funded by a subsidy, paid by the Queensland taxpayer, which will reduce over time as prices transition to cost reflective.

The fixed price increases by up to $2.38/ML ($2020–21) plus inflation. The volumetric price increases annually by our estimate of inflation (2.37 per cent) from 2020–21 onwards.

What prices have we recommended?

After extensive consultation with irrigators, we have released our draft report.

For this scheme, our draft recommendations result in the fixed (Part A) price increasing by $2.38/ML ($2020–21) plus inflation over the price path period. The volumetric (Part B) price differs between the two tariff groups in this scheme:

- For the Redgate relift tariff group, the volumetric price increases by inflation over the price path period.
- For the regulated tariff group, the existing volumetric price reduces to cost reflective then increases by inflation over the price path period.

However, in this scheme, draft prices will not cover costs by the end of the pricing period. Cost recovery will increase from the 58 per cent in 2020–21 to 71 per cent by 2023–24.

Dam safety upgrades for this scheme are due to be commissioned in 2027–28. While this will not impact on prices in this price path period, we have estimated the impact in the year following commissioning (2028–29) to be around a $22.14/ML increase to the cost reflective fixed (Part A) price.

Our draft recommended prices are shown in the table below.

Draft recommended prices for irrigation customers—$/ML

Tariff group	2019–20 (Current)	2020–21	2021–22	2022–23	2023–24
Redgate relift					
Fixed (Part A)	25.93	28.92	32.05	35.30	38.69
Volumetric (Part B)	22.56	23.09	23.64	24.20	24.78
Regulated					
Fixed (Part A)	25.93	28.92	32.05	35.30	38.69
Volumetric (Part B)	4.60	4.25	4.35	4.46	4.56

How we have addressed stakeholder concerns

Tariff structure

Some irrigation stakeholders were concerned about supply reliability in this scheme and asked that we look at pricing alternatives. These alternatives included:

- reducing the fixed charge and increasing the volumetric charge to maintain Sunwater's revenues, taking into account 15-year reliability of the scheme
- a drought relief mechanism whereby some assistance for payment of Part A would be provided when the announced allocation falls below a threshold.

We do not consider that supply reliability concerns are best addressed through adjusting the tariff structure. While we acknowledge the concerns raised by customers in schemes affected by drought, we consider that any relief from Part A charges during a drought is also a matter more appropriately determined by the government.

Further details are in Part A (section 2.1) of the draft report.

Operating costs

Some irrigation stakeholders in this scheme have raised concerns with costs incurred to implement the 2015 recommendations made by the Inspector-General Emergency Management (IGEM costs), electricity costs and insurance costs.

We propose to accept Sunwater's revised (lower) IGEM costs provided to us in its June 2019 regulatory model. However, we have proposed allocating this between irrigation and non-irrigation customers using the headworks utilisation factor. See Part B (section 2.4) of the draft report for further details.

While we have accepted Sunwater's proposed insurance costs, we have also proposed allocating this between irrigation and non-irrigation customers using the headworks utilisation factor. See Part B (section 2.3) of the draft report for further details.

Renewals annuity

Some irrigation stakeholders in this scheme have raised concerns with specific renewals projects and the length of the annuity planning period.

We have identified improvements to Sunwater's asset planning and management to ensure assets are not replaced earlier or later than required.

We propose to accept Sunwater's 30-year planning period for calculating its renewals annuity allowance. However, we have adjusted the timing and costs of Sunwater's proposed renewals program, resulting in a reduction in Sunwater's proposed renewals annuity costs.

See Part B (chapter 3) of the draft report for further details.

Other matters raised by stakeholders

Some irrigation stakeholders in this scheme have raised concerns about price levels and the impact of higher water prices on their businesses, regional economies and local communities.

In recommending prices, we have emphasised the pricing principles set out in the referral, as these principles give effect to the Government's water pricing policy. One of the key principles of that policy is that prices should increase gradually until they reach the cost-reflective level, which recovers the irrigation share of the scheme's operating, maintenance and capital renewal costs but does not recover a return on, or of, the scheme's initial asset base (as at 1 July 2000).

The Government has previously indicated that in setting the lower bound cost target for irrigation water prices and establishing a gradual transition path to this level, it has considered a range of matters, including customers' capacity to pay and the historical regional development driver for many of the schemes.

See our draft Part A (Chapter 2) report for further details.

We have recommended a reduction in scheme costs for Barker Barambah WSS

In our draft report, we have reduced Sunwater's proposed scheme costs by 20 per cent over the pricing period 1 July 2020 to 30 June 2024.

Total scheme costs over the price path period—Barker Barambah (2018–19 dollars) ($'000)

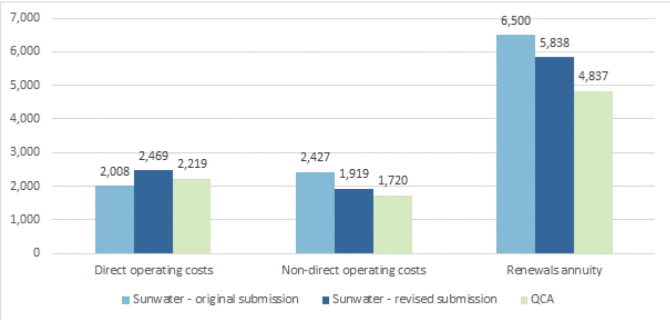

Figure notes: 1. Revenue offsets are not included in the charts. 2. QCA Non-direct operating costs includes the QCA regulatory fees.

Further details on our recommended costs for Sunwater schemes are in Part B (chapters 2 to 4) of the draft report.

We have assessed local impacts

In recommending prices, we have considered bill impacts for irrigation customers. For this scheme, we have moderated bill impacts for the Redgate relift tariff group by recommending that the existing 2019-20 volumetric (Part B) price only increases by our estimate of inflation over the price path period.

The table below presents an estimate of the change in water bills (compared to the bill based on current prices), for various levels of water use.

Further details on bill impacts are in Part B (chapter 9, appendix C and chapter 7) of the draft report.

Change in water bill

Water use as portion of entitlement held (%)	Water bill change from 2019–20 to 2020–21 (%)	Water bill change from 2019–20 to 2023–24 (%)
Redgate relift		
0	11.5	49.2
25	9.9	42.2
50	8.8	37.3
75	7.9	33.7
100	7.3	30.9
Regulated		
0	11.5	49.2
25	10.7	47.1
50	10.0	45.1
75	9.3	43.3
100	8.7	41.7

How you can get involved

Public involvement is a key part of our review. Our draft report provides stakeholders with an opportunity to review and comment on our proposed approach and prices, prior to us finalising our report and providing it to the Government by 31 January 2020.

We now invite stakeholders to comment on this draft report (submissions are due by 4 November 2019) and to attend the workshops we will be running in regional Queensland in September/October 2019.

We also invite stakeholders to consider and provide comment on late submissions provided by Sunwater on a minimum access charge and an electricity cost pass through mechanism.

An indicative timetable for the remainder of our review is provided in the table below.

Timetable

Task	Date
Stakeholder workshops on draft report	September–October 2019
Submissions on draft report due	4 November 2019
Final report provided to the Government	By 31 January 2020
Final report published	Early February 2020

Where you can find out more

For more information please see the QCA website for:

- Part A of the draft report for key regulatory and pricing framework issues that apply to both Sunwater and Seqwater
- Part B of the draft report for Sunwater schemes
- Part C of the draft report for Seqwater schemes.

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