

## Rural irrigation price review 2020–24, draft Mary Valley water supply scheme and Pie Creek distribution system

### 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 Mary Valley water supply scheme (WSS) and Pie Creek distribution system, which is located near the town of Gympie.

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 a two-part tariff for the tariff group in this system. 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 prices (Part B and Part D) recover 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 system are recovered by the fixed prices (Part A and Part C). We have assessed all expenditure to ensure that Seqwater 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 Seqwater's irrigation customers will improve from 75 per cent in 2020–21 to 77 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 total fixed price increases by up to \$2.38/ML plus inflation. The total 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 river-only customers in the Mary Valley WSS, our draft recommendations result in the fixed (Part A) price remaining constant over the pricing period, and the volumetric (Part B) price decreasing to cost reflective immediately. These draft prices fully recover costs.

For Pie Creek distribution system, our draft recommendations result in price increases to the total fixed (Part A and Part C) price and the total volumetric (Part B and Part D) price over the pricing period.

In the Pie Creek distribution system, draft prices will not cover costs by the end of the pricing period. Cost recovery will improve from 17 per cent in 2020–21 to 19 per cent by 2023–24.

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
<b>Mary Valley WSS</b>					
Fixed (Part A)	24.13	24.13	24.13	24.13	24.13
Volumetric (Part B)	9.63	8.11	8.31	8.50	8.71
<b>Pie Creek distribution system</b>					
Fixed (Part A)	21.59	13.71	14.03	14.37	14.71
Volumetric (Part B)	9.63	8.11	8.31	8.50	8.71
Fixed (Part C)	32.71	43.75	47.22	50.77	54.41
Volumetric (Part D)	81.94	85.63	87.65	89.73	91.86
<b>Total Fixed</b>	<b>54.30</b>	<b>57.46</b>	<b>61.25</b>	<b>65.14</b>	<b>69.12</b>
<b>Total Volumetric</b>	<b>91.57</b>	<b>93.74</b>	<b>95.96</b>	<b>98.24</b>	<b>100.56</b>

### How we have addressed stakeholder concerns

Some irrigation stakeholders in this scheme have raised concerns about price levels, affordability 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 adjustments in scheme costs for Mary Valley WSS and Pie Creek distribution system

In our draft report, we have made adjustments to Seqwater's proposed scheme costs over the pricing period 1 July 2020 to 30 June 2024. This includes removing billing system expenditure from non-direct operating costs and accepting Seqwater's revised renewals expenditure which they submitted in January 2019.

#### Total scheme costs over the price path period—Mary Valley WSS (2018–19 dollars) (\$'000)

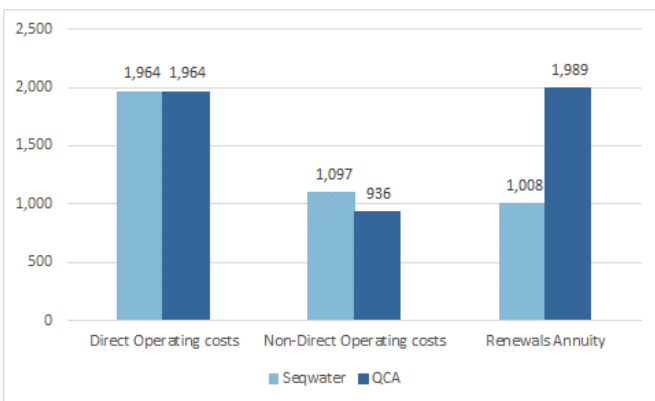


Figure notes: 1. Revenue offsets are not included in the charts. 2. QCA Non-direct operating costs includes the QCA regulatory fees.

#### Total scheme costs over the price path period—Pie Creek distribution system (2018–19 dollars) (\$'000)

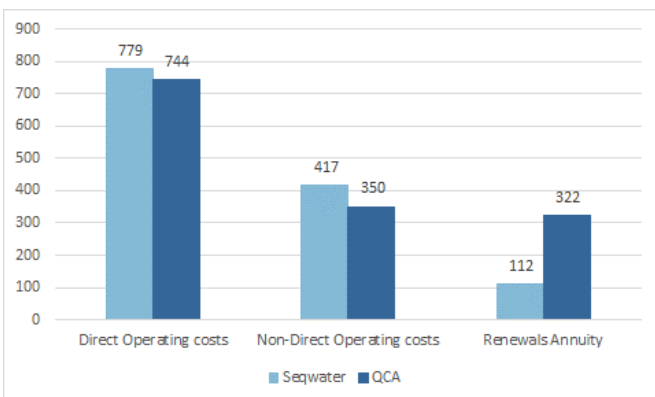


Figure notes: 1. Revenue offsets are not included in the charts. 2. QCA Non-direct operating costs includes the QCA regulatory fees.

Further details on our recommended costs for Seqwater schemes are in Part C (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 Pie distribution system tariff group by recommending that the existing 2019–20 total volumetric (Part B and Part D) 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 C (chapter 9, appendix B 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 (%)
<b>Mary Valley WSS</b>		
0	-	-
25	(1)	(1)
50	(3)	(2)
75	(4)	(2)
100	(4)	(3)
<b>Pie Creek distribution system</b>		
0	6	27
25	5	22
50	4	19
75	4	18
100	4	16

## 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.

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 [QCA website](#):

- 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