

What is the irrigation price review and why is the QCA undertaking it?

The primary purpose of the irrigation price review is to recommend prices for the supply of water for irrigation services by Sunwater and Seqwater in specified water supply schemes (WSSs) and distribution systems for the period 1 July 2020 to 30 June 2024.

We are undertaking the review in response to a direction from Government. The Government's direction is set out in its referral, which defines the scope of our review, directs us to provide recommendations on particular issues, provides guidance on the matters we must consider, and sets out the pricing principles we are to apply in calculating recommended prices.

The Government will consider our recommendations when it sets prices for irrigation customers in the relevant WSSs/systems.

Why have we been asked to recommend prices for irrigation customers only?

We have been directed to recommend prices for irrigation customers only in the specified WSSs/systems. The exclusion of non-irrigation customers from the scope of our review reflects the Government's water pricing policy. Under that policy, the Government applies different pricing frameworks and objectives to the two customer groups, with:

- prices for irrigation customers in the specified WSSs/systems determined by the Government and expected to transition over time to prices that recover lower bound costs
- prices for other customers (for example, urban and industrial) in the specified WSSs/systems negotiated by the relevant water business with their customers and expected, where practicable, to transition over time to full commercial prices.

What are lower bound prices and why do only irrigators get access to these prices?

'Lower bound' prices are prices, for each WSS/distribution system, that recover the prudent and efficient costs of operating, maintaining, administering and renewing each scheme. These costs exclude certain costs, such as a return on, and depreciation of, investments made prior to 1 July 2000. In contrast, full commercial or 'upper bound' prices include the same costs as lower bound prices as well as a provision for the costs of capital. It is important to note that while lower bound prices are referred to as 'cost reflective', they still involve a subsidy from taxpayers, as the water businesses are neither earning a return on, nor recovering, the initial investment in the existing assets.

The Government has previously indicated that in setting the lower bound cost target for irrigation 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.

Are there any rules that the QCA must follow when it undertakes its review?

We must undertake our review and make recommendations in accordance with the relevant legal framework, including the referral and the QCA Act. The referral defines the scope and timeframe of our review, including the dates by which we must provide our draft and final reports to the Government. The QCA Act also sets out certain matters that we must consider as part of our review.

Consultation is a key part of our investigation and we have consulted extensively with the water businesses and other stakeholders in developing our draft report. For example, we have invited submissions from stakeholders on a dam safety consultation paper and on the cost submissions from the water

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businesses. We also held 15 workshops for stakeholders in January and February 2019.

What matters does the QCA consider when it undertakes its review and recommends prices?

We are required to consider the matters in section 26 of the QCA Act and the terms of the referral. The matters in section 26 are diverse and include the need for efficient resource allocation, the protection of consumers from abuses of monopoly power, and economic and regional development issues. The referral also sets out pricing principles that we are required to consider as part of our review.

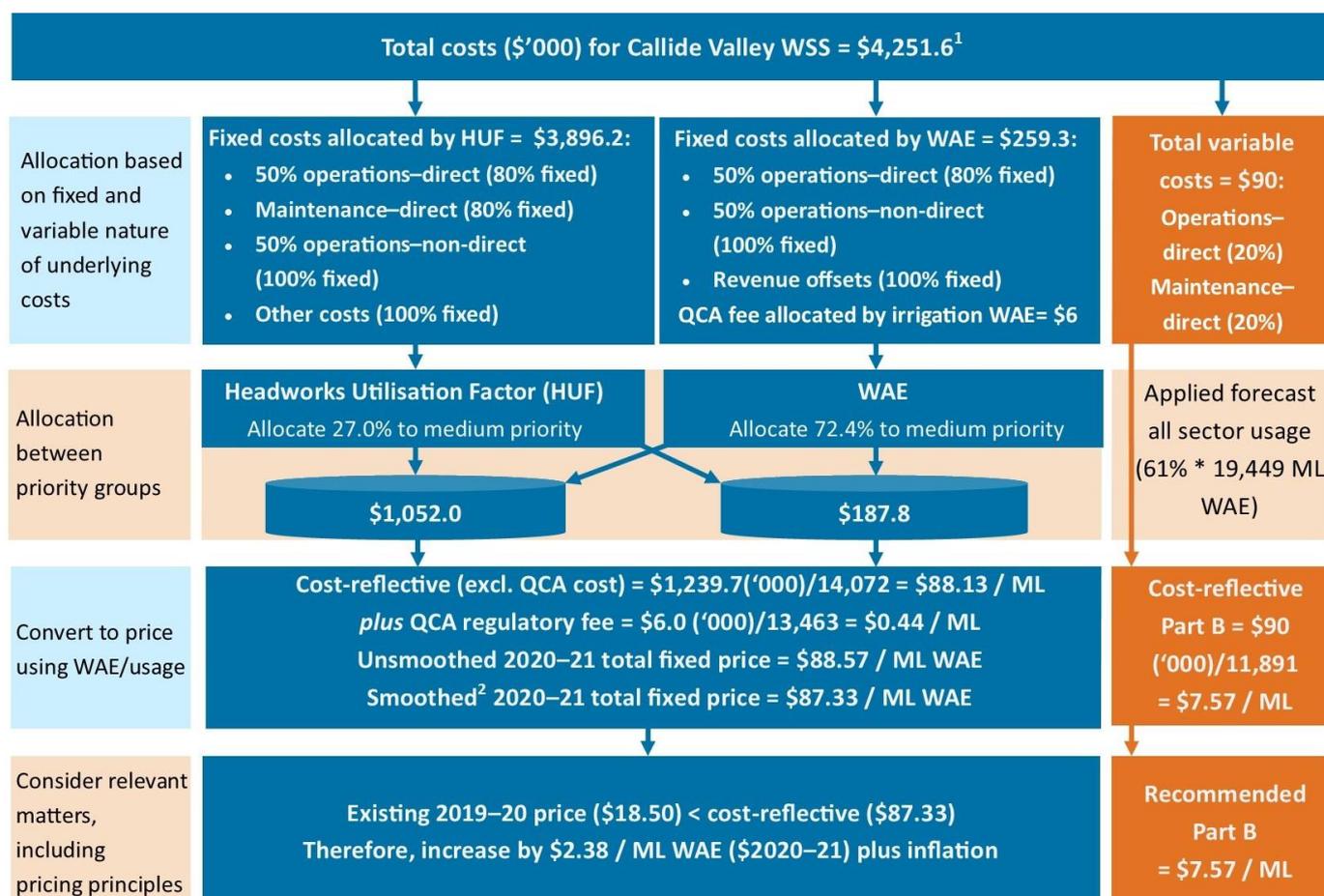
In conducting our review, we have considered the section 26 matters and the terms of the referral. We have also considered all of the issues raised in stakeholder submissions.

In recommending prices, we have emphasised the pricing principles, as those principles give effect to the Government's water pricing policy.

One of the key tenets of that policy is that prices should increase gradually until they reach a cost-reflective level, where they recover the irrigation share of the scheme's operating, maintenance and capital renewal costs but do not recover a return on, or of, the scheme's initial asset base (as at 1 July 2000).

How have you calculated the draft recommended prices and moderated bill impacts?

Our approach to deriving recommended prices is largely consistent with the approach adopted in our previous 2012 and 2013 reviews. The main steps are illustrated below for Callide Valley WSS.



Notes: 1. See Part B (Appendix C) and Part C (Appendix B) reports for scheme-level costs. 2. Cost reflective prices are 'smoothed' to increase by inflation over the price path period.

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For schemes with existing prices above lower bound costs, we have recommended that the existing volumetric price increases by no more than inflation.

For schemes with existing prices below lower bound costs, we have moderated bill impacts by recommending less than cost reflective volumetric prices for the following tariff groups where this would otherwise lead to price increases well above the maximum level of annual real price increases of \$2.38/ML of WAE (plus inflation) that have occurred in previous price periods:

- Barker Barambah—Redgate Relift; Burdekin distribution system—Giru Benefitted Area; and Maranoa River WSS (Sunwater)
- Cedar Pocket WSS and Pie Creek distribution system (Seqwater).

Why do you release a draft report?

We release a draft report to provide stakeholders with an opportunity to review and comment on our proposed approach and prices, prior to us finalising our report.

What are the next steps in the review?

Public involvement is a key part of our decision-making process and we intend to run workshops in regional Queensland in September 2019. We also invite interested parties and stakeholders to comment on our draft report (submissions are due by 4 November 2019).

We will take any submissions into account as we prepare our final report, which must be provided to the Government by 31 January 2020. The Government will then consider our recommendations when it sets prices for irrigation customers in the relevant WSSs and distribution systems.

Further information

Our draft report, along with scheme information sheets and other relevant materials can be accessed at the [QCA website](#).