

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 Three Moon Creek water supply scheme (WSS), which is located near the town of Monto.

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) 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 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.

We have been directed to recommend two sets of prices for this scheme, one that maintains existing tariff groups and one that applies an alternative tariff group.

For this scheme, our draft recommendations for existing tariff groups result in fixed (Part A) prices and volumetric (Part B) prices increasing over the pricing period.

These draft prices will not cover costs by the end of the pricing period. Cost recovery will increase from the 60 per cent in 2020–21 to 75 per cent by 2023–24.

Our draft recommendations for an alternative tariff group result in the fixed (Part A) price decreasing immediately for the River tariff group, and the fixed (Part A) price increasing for the Groundwater tariff group.

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 |
|--|----------------------|---------|---------|---------|---------|
| River | | | | | |
| Fixed (Part A) | 32.43 | 35.58 | 38.86 | 42.27 | 45.83 |
| Volumetric (Part B) | 4.78 | 5.90 | 6.04 | 6.18 | 6.33 |
| Groundwater | | | | | |
| Fixed (Part A) | 23.58 | 26.52 | 29.58 | 32.78 | 36.11 |
| Volumetric (Part B) | 4.78 | 5.90 | 6.04 | 6.18 | 6.33 |
| Three Moon Creek – alternate tariff group | | | | | |
| Fixed (Part A) | n.a. | 27.75 | 30.84 | 34.07 | 37.43 |
| Volumetric (Part B) | n.a. | 5.90 | 6.04 | 6.18 | 6.33 |

How we have addressed stakeholder concerns

Renewals annuity

Some irrigation stakeholders raised concerns about Sunwater's asset management practices and the length of the annuity.

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.

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 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).

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 Part A (Chapter 2) for further details.

We have recommended a reduction in scheme costs for Three Moon Creek WSS

In our draft report, we have reduced Sunwater's proposed scheme costs by 12 per cent over the pricing period 1 July 2020 to 30 June 2024.

Total scheme costs over the price path period—Three Moon Creek (2018–19 dollars) (\$'000)

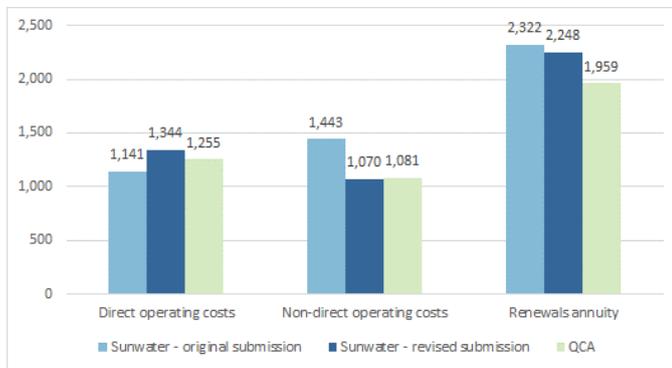


Figure notes: 1. Revenue offsets are not included in the charts. 2. QCA Non-direct operating costs includes the QCA regulatory fees.

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.

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 (%) |
|--|---|---|
| River | | |
| 0 | 9.7 | 41.3 |
| 25 | 10.2 | 41.0 |
| 50 | 10.6 | 40.7 |
| 75 | 11.1 | 40.4 |
| 100 | 11.5 | 40.2 |
| Groundwater | | |
| 0 | 12.5 | 53.1 |
| 25 | 13.0 | 52.1 |
| 50 | 13.5 | 51.2 |
| 75 | 13.9 | 50.4 |
| 100 | 14.3 | 49.6 |
| Three Moon Creek – alternate tariff group from Three Moon Creek - River | | |
| 0 | (14.4) | 41.3 |
| 25 | (13.1) | 41.0 |
| 50 | (11.8) | 40.7 |
| 75 | (10.7) | 40.4 |
| 100 | (9.6) | 40.2 |
| Three Moon Creek – alternate tariff group from Three Moon Creek – Groundwater | | |
| 0 | 17.7 | 53.1 |
| 25 | 18.0 | 52.1 |
| 50 | 18.2 | 51.2 |
| 75 | 18.4 | 50.4 |
| 100 | 18.6 | 49.6 |

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.