

# Queensland Competition Authority

## Irrigation price review 2020-24

Consultation on draft report

23 September 2019

# Today's session

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# Purpose of this workshop

- Role of the QCA
- Pricing framework
- Apportioning dam safety upgrade capex
- Scheme-specific pricing issues
- Review of cost drivers
- Prices and bill analysis
- Sunwater's supplementary submissions
- Next steps

# QCA's role

- The Queensland Competition Authority (QCA) is the independent economic regulator for Queensland under the QCA Act 1997.
- The QCA does not have a standing remit to investigate water issues in Queensland.
- The QCA investigates water issues in Queensland where we have been referred an investigation by the Treasurer under the QCA Act 1997.
- The QCA:
  - does not make policy
  - does not make the final decision.
- The Irrigation Price Review 2020-24 is a separate regulatory process to other activities undertaken by the QCA (e.g. setting regulated retail electricity prices under the Electricity Act).

# Purpose of our draft report

- Sets out our draft recommendations and explains how we have arrived at them
- Provides stakeholders with an opportunity to review and comment on our proposed approach, prior to us finalising our report
- We take all submissions into account when we recommend final prices to the Government.

# Who are we recommending prices for?

- Scope of our review is set by the referral notice
- Only recommending prices for **irrigation customers** in the schemes/systems listed in the referral notice
- Irrigation customers *use water for the irrigation of crops or pastures for commercial gain*
- Prices for non-irrigation customers in the specified schemes/systems are out of scope.

# The pricing framework

- We must conduct our investigation in accordance with the relevant legal framework
- For this investigation, the key components are the referral and the QCA Act
- The framework:
  - directs us to provide recommendations on particular issues
  - provides guidance on the matters we must consider
  - sets out the pricing principles we are to apply in calculating recommended prices.

# The pricing framework

- Referral reflects the Government's water pricing policy, which aligns with its commitments under the National Water Initiative
- Policy applies different pricing frameworks and objectives to different customer groups, with:
  - prices for certain irrigation customers determined by the Government and expected to transition over time to prices that recover lower bound costs
  - prices for other customers negotiated by the relevant water business with their customers and expected, where practicable, to transition over time to full commercial prices.

# The pricing framework – lower bound

- 'Lower bound' prices 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 of existing assets (as at 1 July 2000).
- Full commercial or 'upper bound' prices include the same costs as lower bound prices as well as a provision for the costs of capital
- 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 pricing framework

We must have regard to the following when recommending prices:

- section 26 matters, including:
  - efficient resource allocation
  - social welfare and equity considerations
  - economic and regional development issues
- matters required by the Treasurer's referral notice, including:
  - allowable costs and the government's pricing principles
  - balancing legitimate commercial interests of businesses with interests of their customers
  - where possible, transparent and simple revenue and pricing outcomes

# The pricing framework

- The matters we are required to consider are diverse and may at times require us to make judgements about the relative importance of matters in particular circumstances
- We have considered all issues raised in submissions in deciding the relative importance to attach to the relevant matters
- We have emphasised the pricing principles as these principles give effect to the Government's lower bound cost target
- The Government has indicated that, in setting the lower bound cost target for irrigation water prices and establishing a gradual transition path to that target, it has considered a range of matters including customers' capacity to pay and benefits of industry to the Queensland economy

# Dam safety upgrade capex

- Directed by Government to provide prices with and without an allowance for dam safety upgrade capex
- The Government will decide which set of prices will apply when it sets prices
- Consistent with the referral, our draft prices and proposed approach to apportioning dam safety upgrade capex only apply to irrigation customers in the specified WSSs and distribution systems

# Dam safety upgrade capex – proposed approach

- Only prudent and efficient upgrade capex that is required to meet dam safety obligations
- Dam safety upgrade capex should generally be treated as a normal cost of operation in supplying water services
- Regulatory asset base (RAB) approach, as-commissioned basis
- Allocated to water users unless there is a clear justifiable basis for allocating some of the costs to other parties
- Two primary reasons for allocating costs to other parties:
  - Dam provides a formal flood mitigation service
  - For dams that do not provide a formal flood mitigation service, dam provides informal flood moderation / management benefits

# Dam safety upgrade capex – proposed approach

- Where a dam provides a formal flood mitigation service, that service should be recognised in the allocation of costs, including dam safety upgrade costs
- The costs associated with that service should not be apportioned to irrigators
- The costs associated with that service should be allocated to the beneficiaries of that service (where possible) or the broader community

## Dam safety upgrade capex – proposed approach

- Some dams that do not have a formal flood mitigation role may still provide informal flood moderation and/or management benefits for downstream communities
- In light of those benefits, there is a case for sharing some of the costs of dam safety upgrades with the beneficiaries in the broader community where the upgrades will result in improved flood moderation or management
- For dams that do not provide a formal flood mitigation service, dam safety upgrade capex should be:
  - allocated using a general allocation ratio (dam-specific allocation ratios only used in certain circumstances) that allocates 80 per cent of the irrigation share of these costs to irrigation water users
  - the remaining 20 per cent should not be included in the allowable cost base for irrigation pricing purposes

## Dam safety upgrade capex – Burdekin-Haughton

- Dam safety upgrades for this scheme are due to be commissioned in 2024–25.
- On an ‘as-commissioned’ basis, capex is incorporated in the RAB in the year of commissioning. Therefore, the capex in this scheme will not impact on prices in this period.
- We have estimated the impact in the year following commissioning (2025–26) to be:
  - \$10.21/ML increase to the cost reflective fixed (Part A) price for the Burdekin-Haughton WSS
  - \$12.02/ML increase to the total cost reflective fixed (Part A and Part C) price for distribution system customers.

# Pricing for the Giru Benefited Area

In the 2012 review, we recommended that:

- the 2006–11 price path arrangements continue and that the charge be set to recover revenue equivalent to 51 per cent of the bulk charge and 51 per cent of the distribution system charge (as the remaining 49 per cent was supplied by natural yield)
- as for the future, Sunwater investigate the hydrological circumstances of the area to confirm the current cost allocation, or negotiate alternative arrangements with the irrigators

# Pricing for the Giru Benefited Area

Sunwater's November 2018 submission:

- included a report it had commissioned to assess the groundwater hydrology and the interaction of surface and groundwater in the GBA
- indicated that it may be appropriate for the QCA to review the 49% discount

# Pricing for the Giru Benefited Area

- Our proposed approach to cost allocation is that, given the regulatory framework in place, customers should be allocated those costs that need to be incurred by Sunwater to supply customers in a specified tariff group
- We engaged a consultant (Water Solutions) to provide expert advice on the hydrological basis for a reasonable cost allocation for irrigators in the tariff groups

# Pricing for the Giru Benefited Area

## Water Solutions

- identified issues with the modelling in the report commissioned by Sunwater and as a result, it had significant concern about using the results of the modelling for pricing
- considered, even with those issues, that the modelling indicated that the contribution of natural flows was very small
- considered that while the model could be updated to address the issues, the revised model was unlikely to identify that natural flows provide a material contribution to the water security of irrigators in the GBA

# Pricing for the Giru Benefited Area

## Water Solutions

- reviewed the supplemented releases and extractions presented in Sunwater's submission and considered that this historical data indicated that irrigators in the GBA were receiving little contribution from natural flows in dry periods
- concluded that there did not appear to be a strong basis for differential pricing of medium priority users in the GBA on the basis of natural flows in the Haughton River
- recommended that Haughton Zone A (including the GBA) pay the same price as other customers in the distribution system

# Lower bound costs

Cost-reflective prices that incorporate costs allowable under referral:

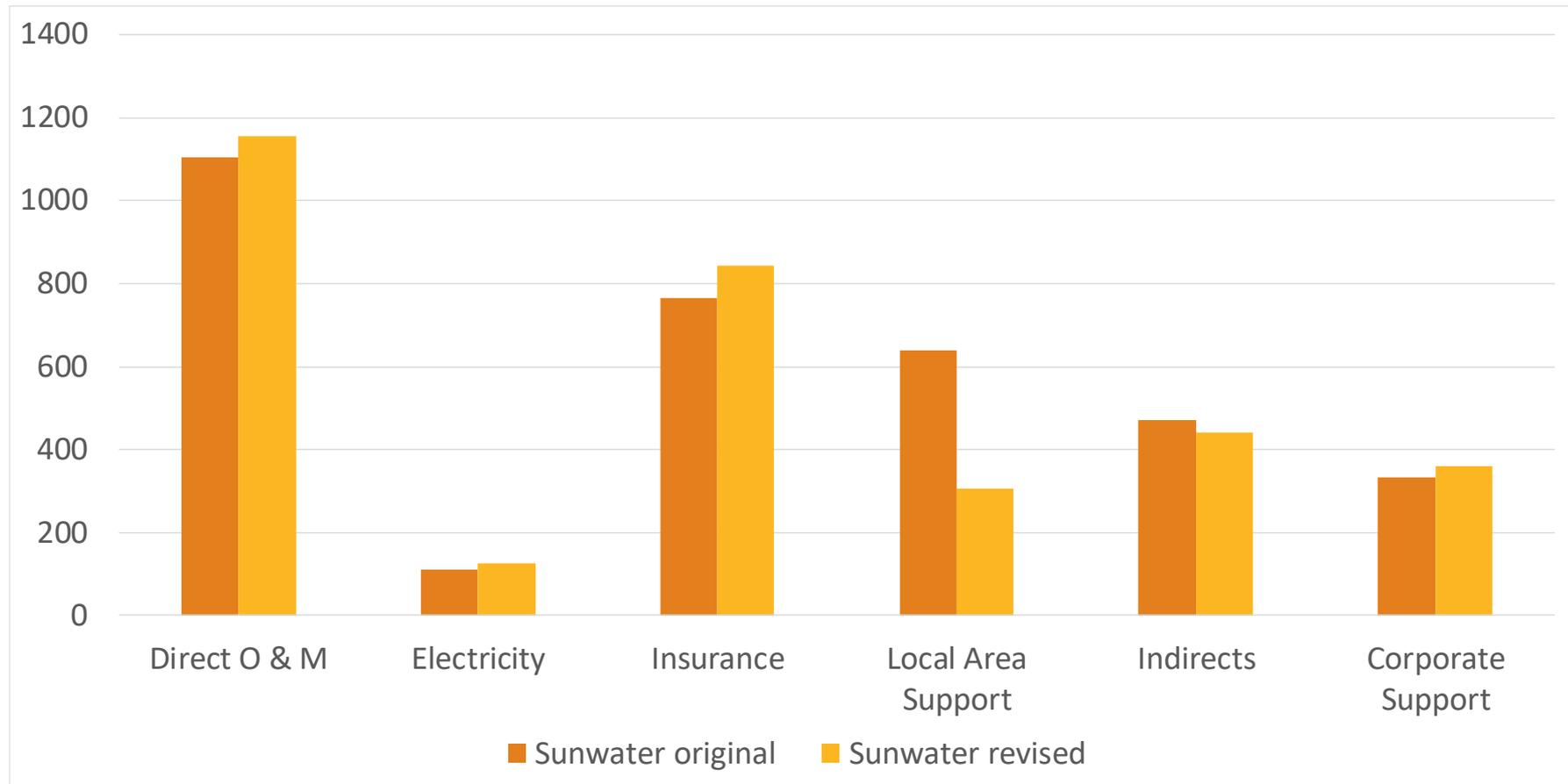
- prudent and efficient costs allowable under the referral:
  - operational, maintenance and administrative costs
  - appropriate allowance for expenditure on renewing existing assets
  - QCA fees (up to \$2.5 million cap) – not included in Sunwater’s costs/prices.
- includes costs required to meet regulatory obligations or deliver agreed service levels.
- costs recoverable from prices exclude:
  - the recovery of capex prior to 1 July 2000 used to build existing assets
  - subject to certain exceptions:
    - recreational costs incurred from 1 July 2020
    - costs associated with augmentation of existing assets, new assets, or any capex that is not like-for-like or does not reflect regulatory requirement.

# Operating expenditure

- Sunwater's submission (November 2018)
  - November 2018 submission based on Sunwater's budgeted costs for 2018-19
  - Cost categories with increases from 2012 review were:
    - bulk WSS: insurance costs + renewals annuity
    - distribution system: direct O&M, electricity, insurance and non-direct opex.
- Sunwater's updated cost forecasts (June 2019)
  - Sunwater advised that updated forecasts provided a more accurate forecast of the costs of operating irrigation service contracts, with key changes:
    - ↑ direct O&M (due to increased direct charging of labour to service contracts, and reallocation of light vehicles from local area support costs)
    - ↓ local area support costs (due to increased direct charging of labour to service contracts, and reallocation of light vehicles to direct operations)
    - further changes to its cost allocation methodology, as the initial submission was provided before it had completed the review and update of this.
    - Updated electricity (↓ distribution system costs), insurance (↑), IGEM costs (↓) and renewals costs (↓).

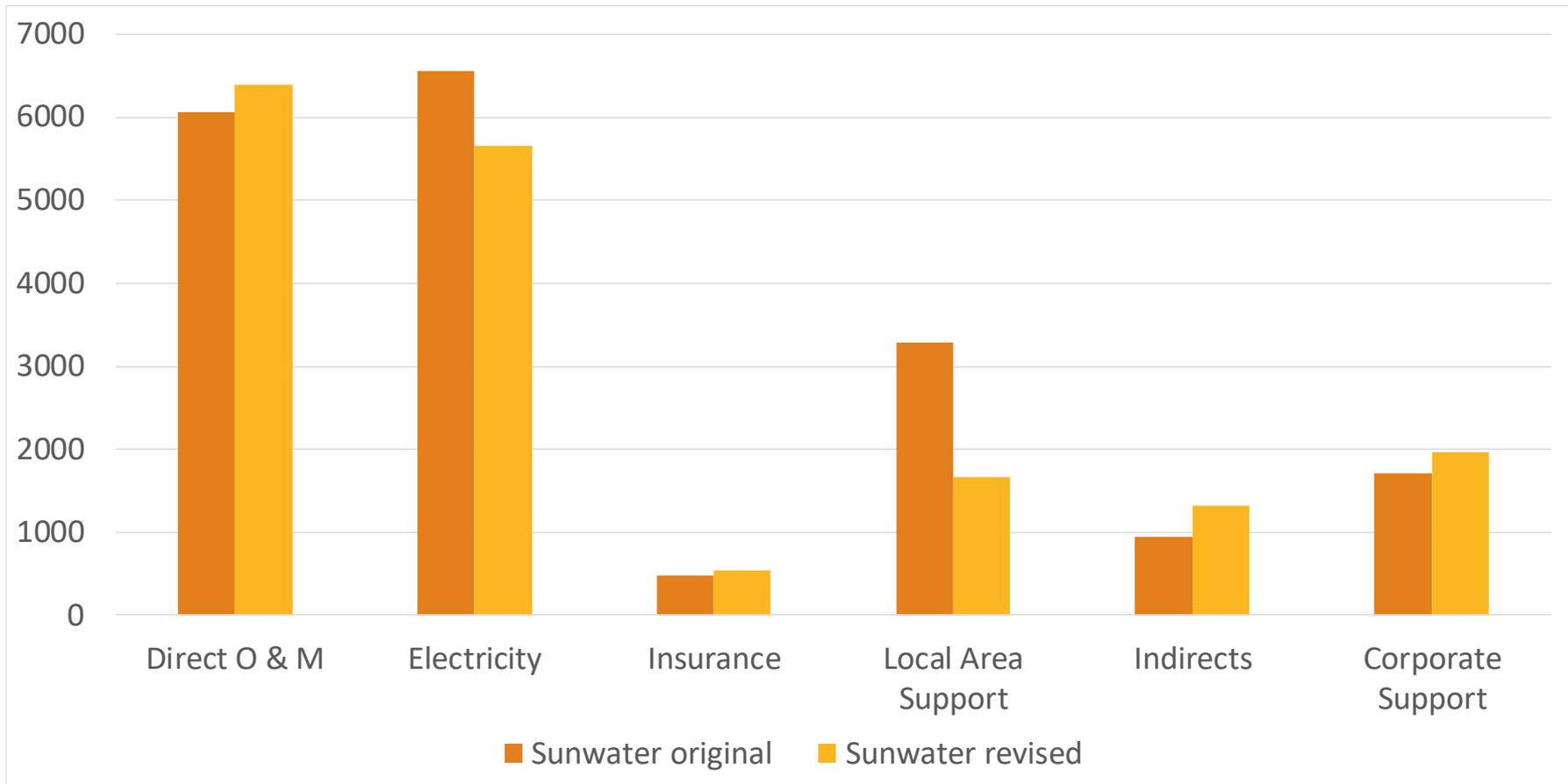
# Sunwater's proposed opex

Burdekin-Haughton WSS – base year opex (\$'000, \$2018-19)



# Sunwater's proposed opex

Burdekin-Haughton DS – base year opex (\$'000, \$2018-19)



# Opex – QCA assessment approach

## Review Sunwater's cost submission

- Is the forecasting method reasonable?
- Has Sunwater addressed relevant issues and actions arising from the 2012 review?

## Assess prudence and efficiency of direct costs

- Is the base year cost prudent and efficient?
- Have one-off and non-recurrent costs been removed?
- Are proposed step changes reasonable?
- Are proposed escalation rates and efficiency gains

## Assess prudence and efficiency of non-direct costs

- Is the base year cost base prudent and efficient?
- Would costs be reasonably incurred by a stand-alone irrigation business?
- Are costs allocated to service contracts appropriately?
- Are proposed step changes & escalation rates reasonable?

## Comparison of proposed costs and QCA's alternate costs

- Develop alternate estimates at relevant cost category level.
- Determine materiality of difference between proposed costs and QCA's alternate estimates.
- If difference is material, substitute proposed cost.

# Direct operations & maintenance costs

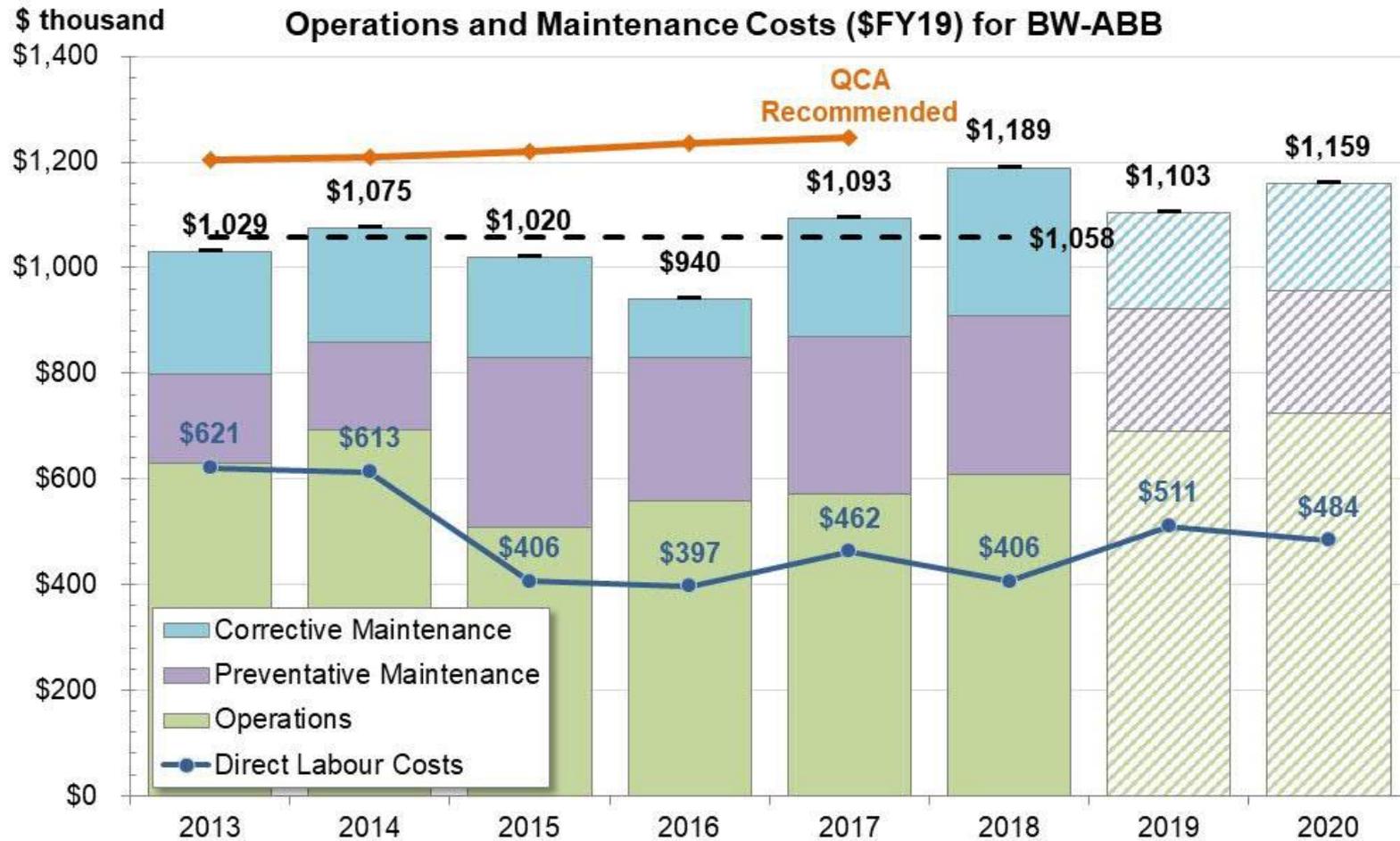
- Base year costs
  - Difficulties with November 2018 proposed base year costs due to issue with direct charging of labour costs to irrigation service contracts (did not appear to be fully accounted for), and budgeted not actual costs.
  - June 2019 proposed costs were provided too late into the review, and this data was budgeted not actual costs.
  - We developed alternate base year costs using historical costs, adjusted for direct charging issue and change in Sunwater's cost allocation of light vehicles from non-direct (local area support costs) to direct O&M.
  - Historical costs (2012-13 to 2017-18) generally prudent and efficient
  - However 2016-17 and 2017-18 impacted by under-charging of labour to service contracts (AECOM assessed that average labour utilisation should be 88% rather than 83%)

# Direct O&M – bulk WSS

Base year costs broadly equal to November 2018 submission

- We have:
  - averaged historical costs at scheme level to address year-on-year variability (reducing base year cost)
  - corrected historical costs for under-charging (increasing base year cost)
  - transferred fleet costs to direct O&M (increasing base year cost)
- Base year costs 4.2% lower than June 2019 submission
  - While Sunwater has attributed its higher base year costs (as compared to its most recent actuals) to under-charging and transferred fleet costs, we have insufficient justification for the level of increase at the time of the draft report.

# Direct O&M – bulk WSS

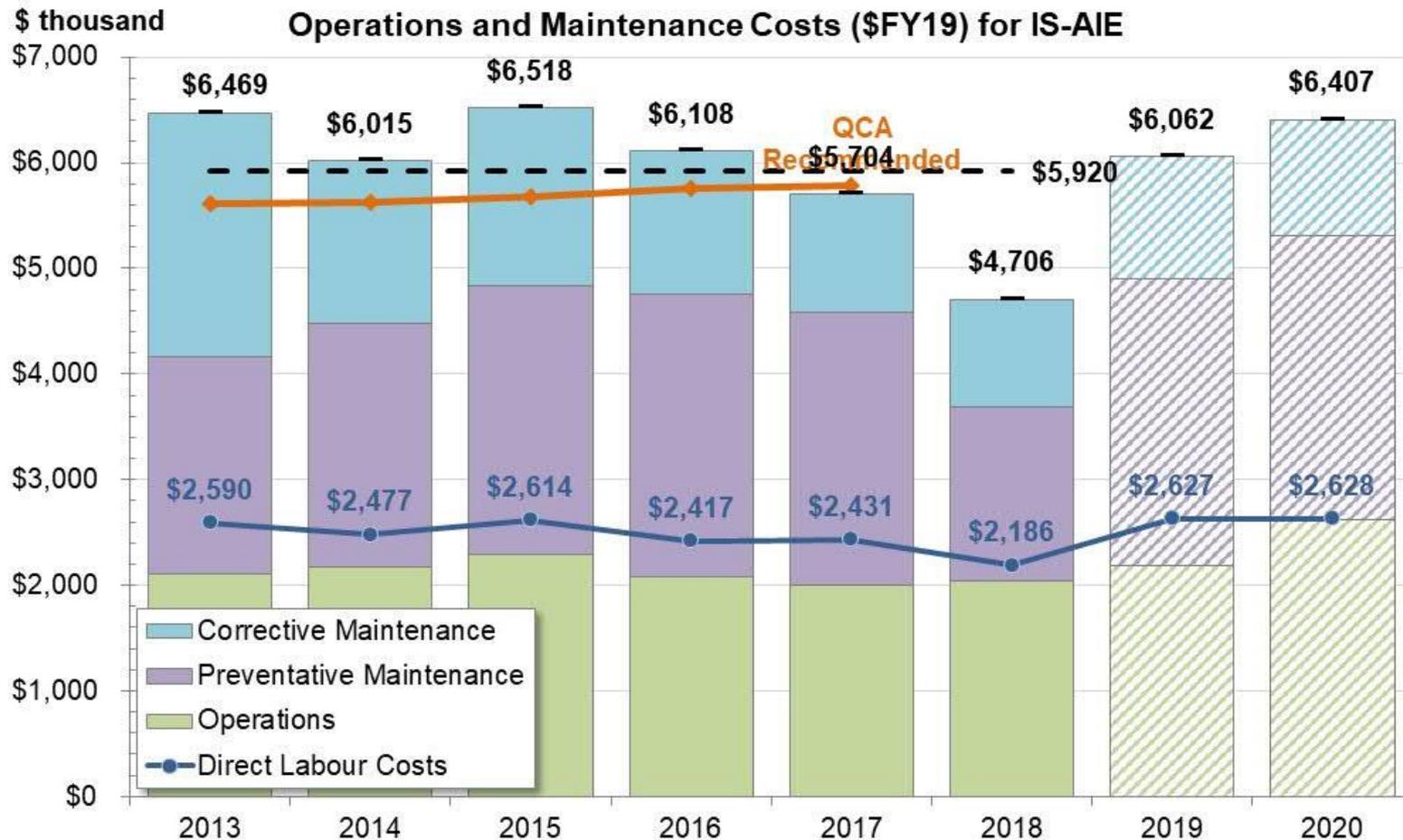


# Direct O&M – distribution

Base year costs 3.2% higher than November 2018 submission

- We have:
  - averaged historical costs at scheme level to address year-on-year variability (reducing base year cost)
  - corrected historical costs for under-charging (increasing base year cost)
  - transferred fleet costs to direct O&M (increasing base year cost)
- Base year costs 2.2% lower than June 2019 submission
  - While Sunwater has attributed its higher base year costs (as compared to its most recent actuals) to under-charging and transferred fleet costs, we have insufficient justification for the level of increase at the time of the draft report.

# Direct O&M - distribution



# Electricity – distribution system

- Base year costs
  - Developed alternative estimate to compare with Sunwater’s costs
  - Alternative fixed and variable electricity cost \$/ML calculated using historic water and electricity usage/demand and 2019-20 electricity tariffs.
- Fixed versus variable split
  - Fixed and variable costs calculated using underlying electricity tariff structure – variable costs calculated by multiplying variable \$/ML cost by water usage forecasts (excluding distribution losses).

	Fixed cost (\$'000)	Variable cost (\$/ML)	Water usage (ML)	Total cost
Sunwater (Nov18)	-	27.95	234,827	6,564,000
Sunwater (Jun19)	-	22.50	236,165	5,314,000
QCA draft	1,310	16.86	229,160	5,174,000

# Electricity – distribution system

- Step change due to phase out of transitional tariffs
  - Transitional tariffs to be phased out in 2021-22
  - Have determined step change in 2021-22 based on AECOM’s assessment of the optimal tariff for connection sites on transitional/obsolete tariffs
  - Have applied AEMO escalation factors for pre and post transition years

Fixed/variable	2019-20	2020-21	2021-22
Fixed (\$'000)	1,310	1,281	1,443
Variable (\$/ML)	16.86	16.49	16.24

# Electricity cost pass-through mechanism

- Sunwater submitted proposal with in-principle support from QFF
- The QCA welcomes stakeholder submissions on the proposal
- Mechanism involves following steps:
  - **Step 1:** remove electricity costs from Part B/D tariffs
  - **Step 2:** calculate fixed and variable electricity charges – the fixed charge to be added back to Part A/C water charges; the variable charge to be treated as a standalone charge independent of Part B/D water charges
  - **Step 3:** in May each year, compare revenue received (from fixed and variable electricity charges) with actual electricity costs and announce any discount/surcharge to the variable electricity charge for the next FY
  - **Step 4:** publish information on energy usage and targets in NSPs
  - **Step 5:** where targets are not met, customers could request a prudence and efficiency review of electricity pass through costs

# Electricity cost pass through mechanism

- Sunwater has proposed three options for the structure of electricity charges:
  - **Option 1:** the charge is fully volumetric (based on 5 years of historical data on electricity and water use and Sunwater’s assessment of the best available electricity tariffs)
  - **Option 2:** the charge includes a fixed component (calculated to reflect the extent to which total electricity costs have varied with water use over the last five years)
  - **Option 3:** the fixed component is calculated so that, when applied to the last five years of actual data, the revenue Sunwater receives is at least equal to the actual cost of electricity
- The QCA will assess Sunwater’s proposal taking into account customer feedback including:
  - The extent of buy-in from the customer base
  - Any changes to the mechanism proposed by customers

# Insurance

- Base year costs
  - Competitive procurement processes and reasonable level of coverage
  - Have accepted June 2019 revised costs – key driver is higher market rates due to a change in asset risk assessment
- Escalation over price path
  - Have escalated base year costs by CPI over the price path

# Non-direct opex

- Base year costs
  - Assessed 2017-18 as appropriate base year
  - AECOM adjusted these for under-charging issue and changes to cost allocation methodology from 2017-18 to 2019-20 (e.g. fleet costs).
  - For corporate support, reduced 2017-18 cost base for projected reductions in some cost centres (Finance, Legal, reduced rent). Did not incorporate budgeted cost increases in some cost centres.
- Step change in base year costs
  - Accepted June 2019 revised (lower) IGEM costs as these are a new regulatory obligation on Sunwater.

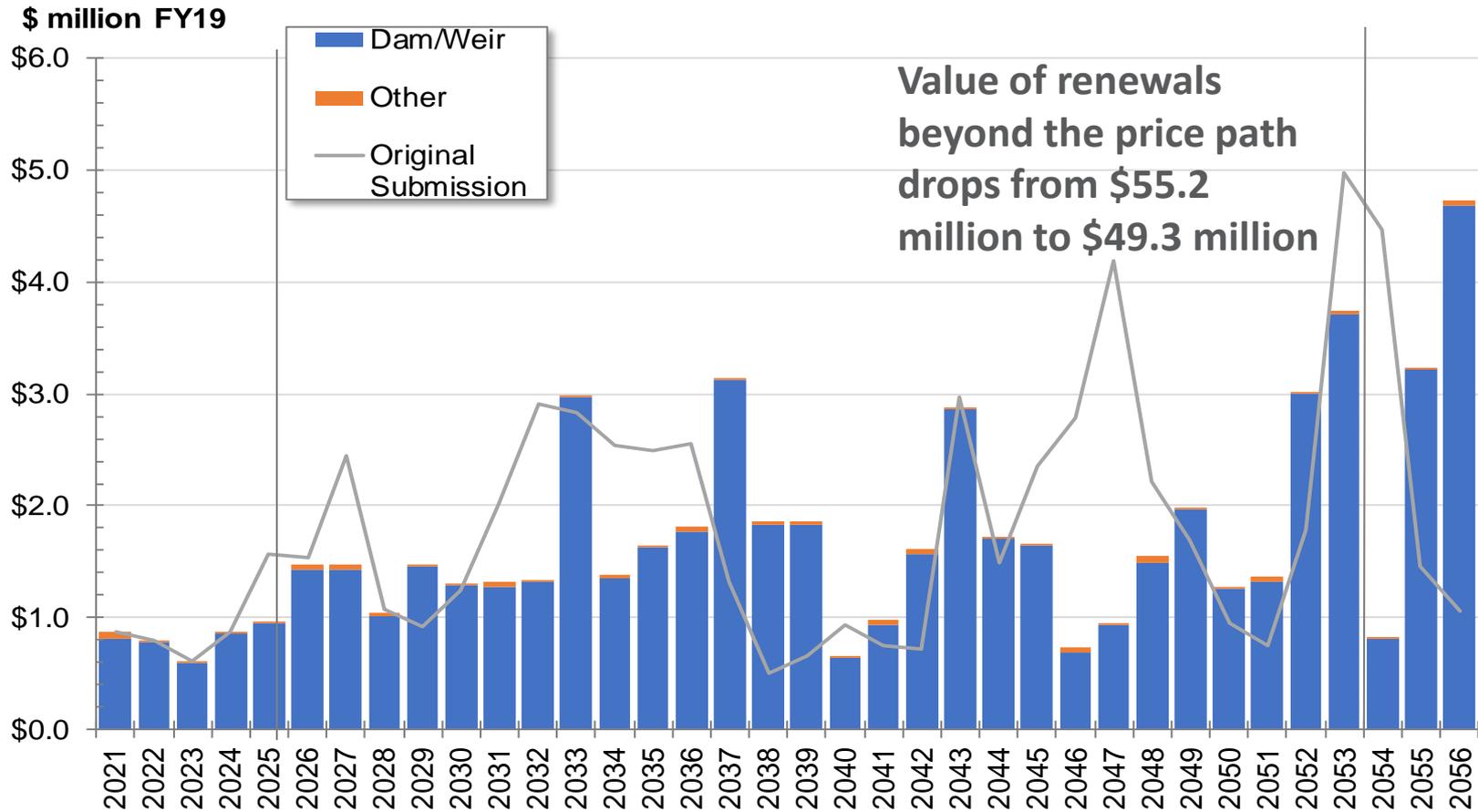
# Renewals expenditure

- Have identified improvements in asset management and planning:
  - Better inspection and maintenance regimes
  - The use of modern equivalent replacement values
  - Consistent guidelines for options analysis
- Recommend a reduction of 7.3% in historical renewals relative to November 2018 submission of \$104.9 million
- Excluded flood repair costs (net of insurance revenues) if insurance claim has not been finalised – no such projects in Burdekin-Haughton bulk WSS or distribution system
- QCA's 30 year renewals profile is 29.5% lower than Sunwater's November 2018 submission of \$1.8 billion, due mainly to change in timing of forecast renewals.

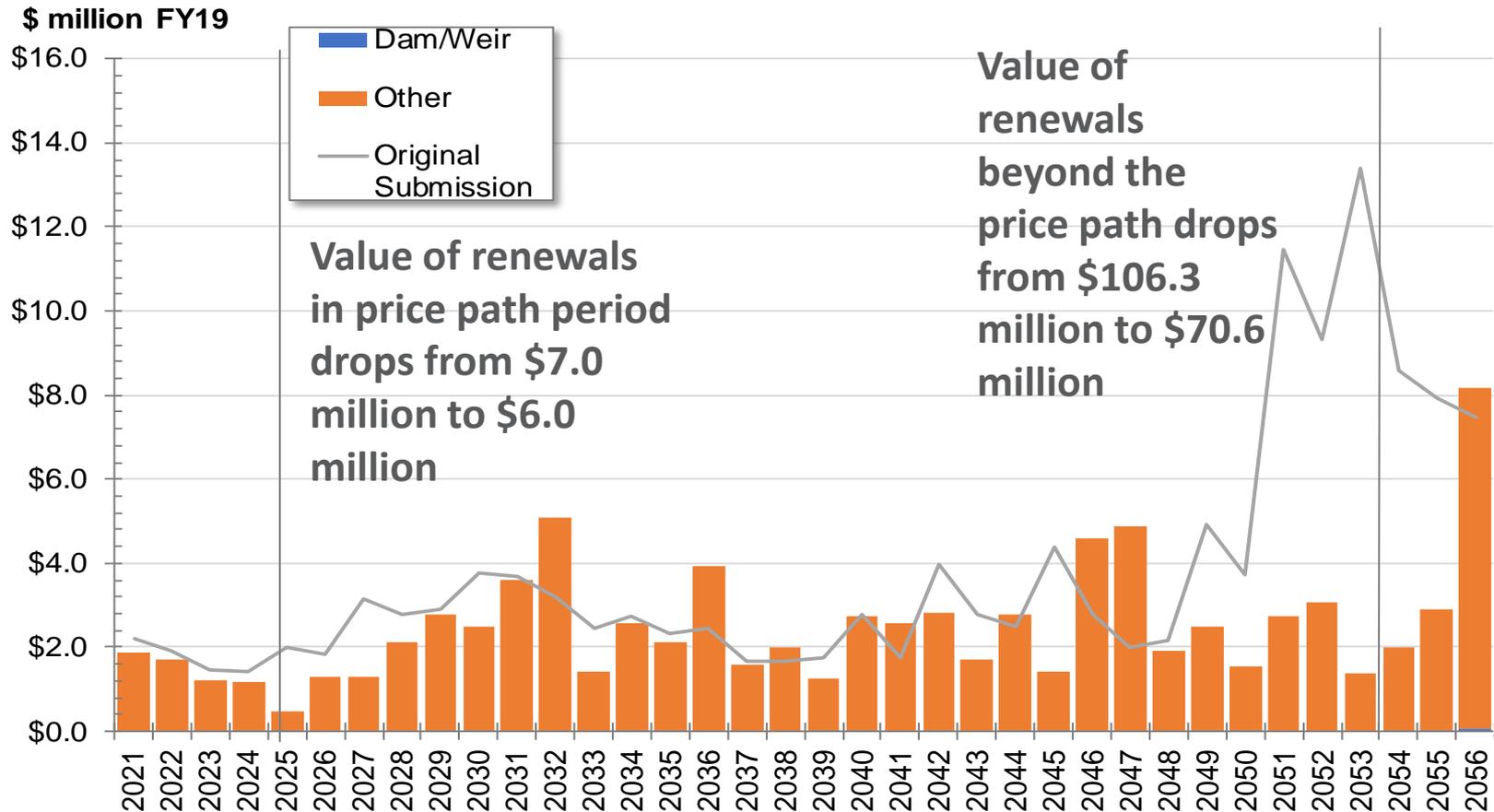
# Timing of renewals expenditure

- AECOM recommended Sunwater develop asset specific decay curves to improve renewals forecasts
  - Currently assumes all assets fail at same rate - e.g. all assets (regardless of type) will require replacement by the end of their service life
  - In practice failure rates will differ depending on asset type
- AECOM estimated the impact of better planning using industry standard decay curve
  - Best practice requires assets to be maintained in *state of good repair*
  - Estimate that by uniformly extending asset lives by 10% assets could still be maintained in state of good repair – condition rating of assets remain in acceptable range after asset life extension
- Estimate is conservative as we do not have complete data on, e.g., asset condition ratings

# Forecast renewals for WSS assuming 10% increase in useful life (\$2018-19, millions)

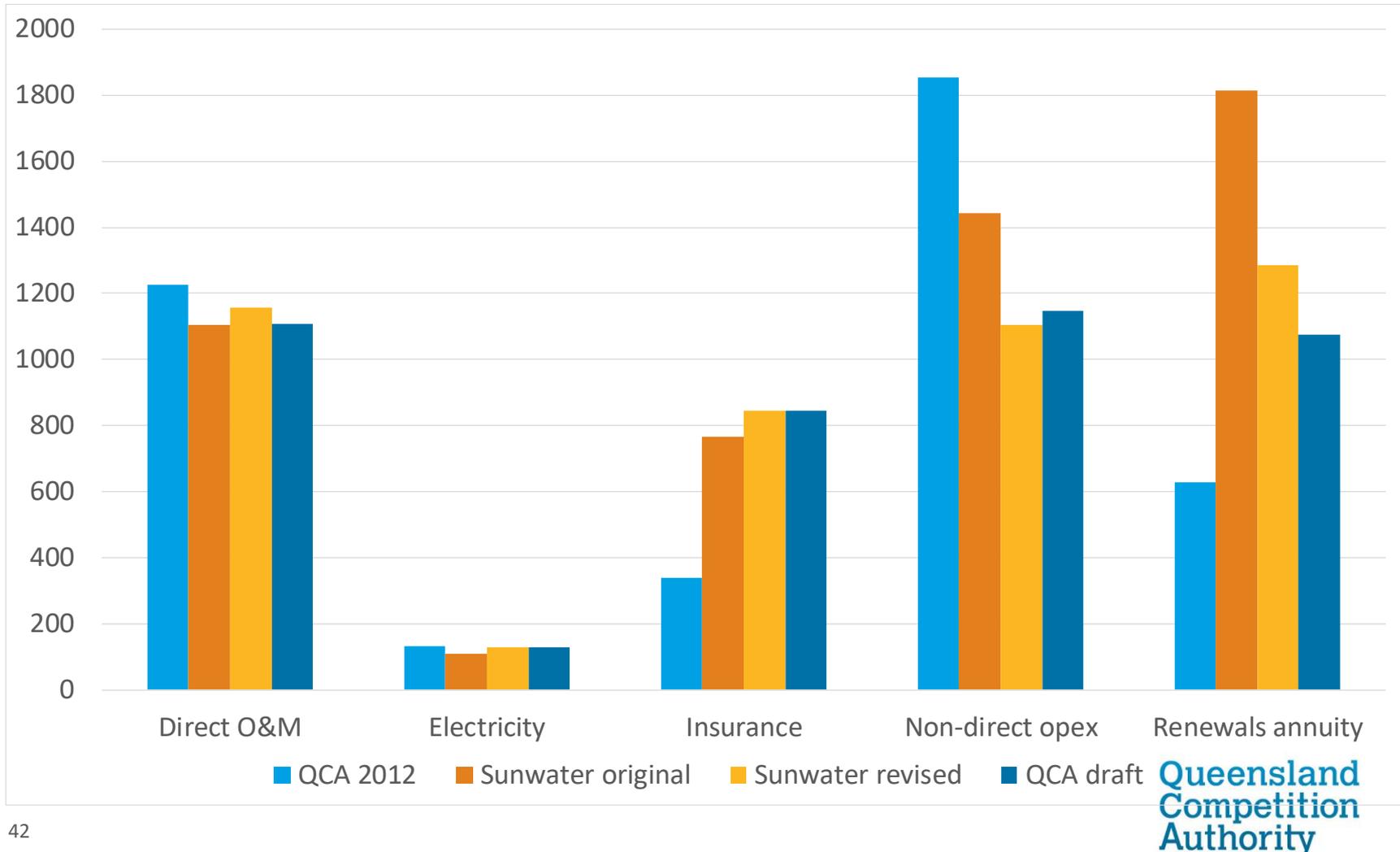


# Forecast renewals for distribution system assuming 10% increase in useful life (\$2018-19, millions)



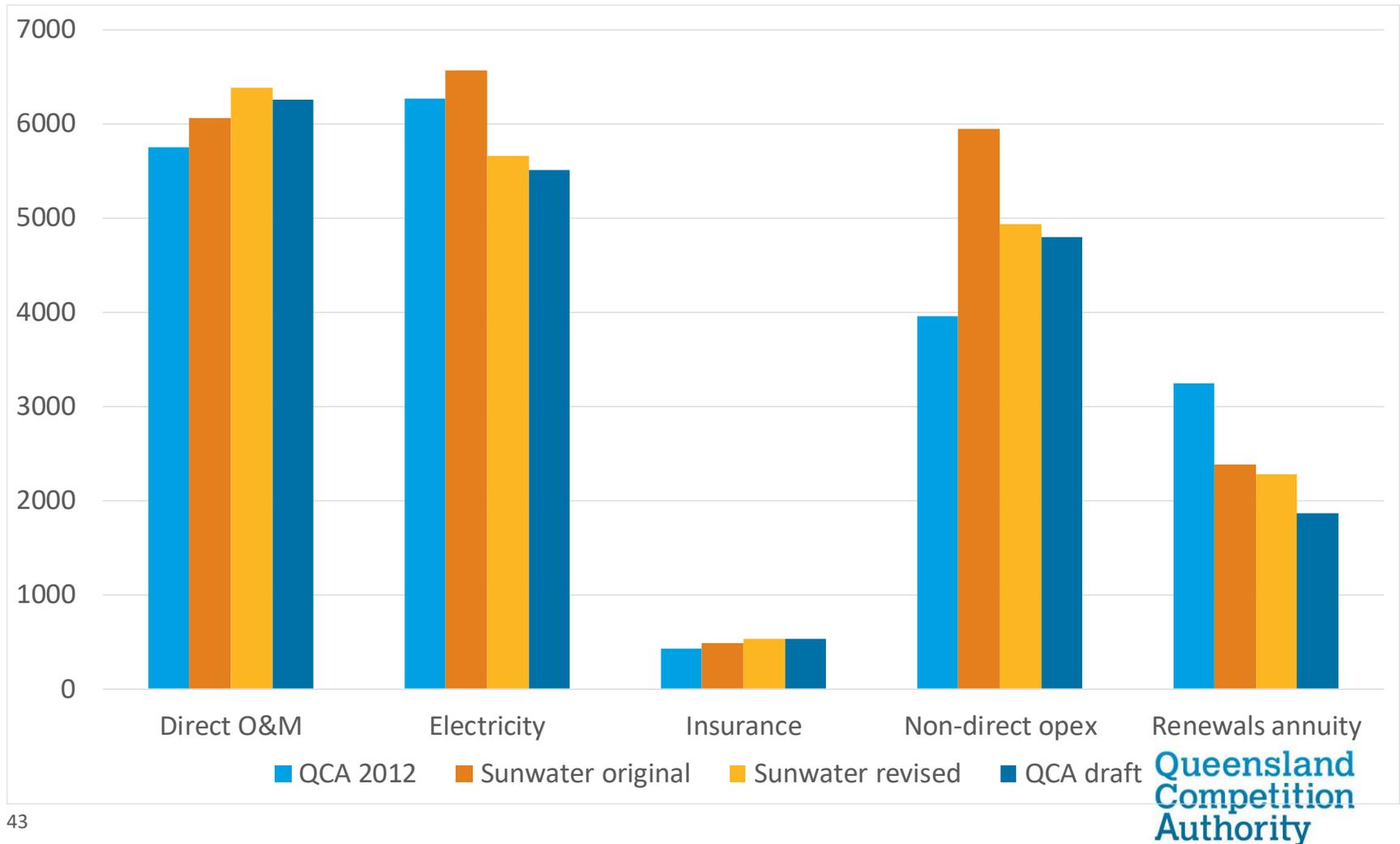
# Allowable costs

Burdekin-Haughton WSS – base year costs (\$'000, \$2018-19)



# Costs

Burdekin-Haughton DS – base year opex (\$'000, \$2018-19)



# Distribution losses

- We have estimated costs associated with historical excess distribution loss WAEs, and allocated the bulk holding (fixed) costs of these to Sunwater.
- This is on the basis that distribution system customers should not pay for distribution loss WAEs in excess of what is required to meet actual loss releases.
- Distribution system customers pay costs of remaining loss WAE.
- To calculate the efficient level of distribution loss WAEs, we have generally taken the maximum distribution loss WAEs required over the past 15 years after adjusting for distribution system water usage.

# Distribution losses

- However, the Burdekin-Haughton distribution system has experienced improved efficiency since 2014-15 due to factors including:
  - Sunwater said it has a five-year water efficiency strategy which is targeted at improving water use efficiency year-on-year in its distribution systems
  - a more formalized shutdown and treatment schedule of aquatic weed.
- For this reason, we have calculated the efficient level of distribution loss WAEs by taking the maximum distribution loss WAEs required since 2014-15, after adjusting for distribution system water usage.
- In the Burdekin-Haughton distribution system, we calculated the efficient level of distribution loss WAEs to be 100% HP (16,260 ML) and 60% MP (114,286 ML).

# Distribution losses

	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
HP DL WAE	16,260	16,260	16,260	16,260	16,260	16,260
MP DL WAE	190,477	190,477	190,477	190,477	190,477	190,477
Actual DLs (HP + MP)	108,934	173,757	134,449	103,287	69,718	62,440
HP DL WAE used	16,260	16,260	16,260	16,260	16,260	16,260
MP DL WAE used (1)	92,674 (49%)	157,497 (83%)	118,189 (62%)	87,027 (46%)	53,458 (28%)	46,180 (24%)
Distribution system water use as a % of WAE (2)	60%	81%	103%	88%	78%	93%
MP DL WAE used, adjusted for actual water use (1)/(2)	81%	102%	60%	52%	36%	26%

# Distribution losses

- We believe Sunwater is best placed to manage the risk of distribution loss WAEs in excess of the efficient level.
- Impact on distribution system cost-reflective prices:
  - Part C (fixed tariff) +\$1.45/ML
  - Part D (volumetric tariff) +\$0.10/ML
- We recommend that Sunwater should review its distribution loss WAEs and develop a strategy for their future treatment prior to the next price review
- For the next price review process, we would expect to be assessing the reasonableness of Sunwater's proposed strategy for its holdings of distribution loss WAEs, including Sunwater's views on the efficient level of its distribution loss WAE holdings.

# Termination fees

- Since the 2012 review there has been no change to the ACCC Water Charge (Termination Fees) Rules 2009. The rules determined that termination fees in the Murray-Darling Basin should be calculated as up to 10 times the relevant cost reflective fixed tariff.
- As Sunwater is subject to GST payment on termination revenue it receives, the ACCC multiplier of up to 10 adjusted for GST results in a multiplier of up to 11.
- We consider that a termination fee applied as 11 times the cost-reflective distribution fixed (Part C) price balances the interests of Sunwater and customers with providing appropriate incentives for Sunwater to supply only those services required by their customers. Therefore, we propose no change to current arrangements.

# Termination fees

- We note that the termination fee multiplier is set to a level of up to 11 times the relevant cost reflective fixed tariff (including GST). A lower multiple could be applied at Sunwater's discretion, should it be consistent with Sunwater's commercial interests (e.g. in the interests of more efficient system management).
- We also note that customers do have the option of permanently trading their water entitlements to other distribution system users, which does not incur a termination fee. Alternatively, customers can choose to retain ownership of their distribution system WAE and engage in temporary trading.

# Termination fees

Maximum termination fee per tariff group (\$/ML WAE nominal):

Tariff group	2020-21	2021-22	2022-23	2023-24
Burdekin channel	456.00	466.81	477.87	489.20
Burdekin- Giru Groundwater	456.00	466.81	477.87	489.20
Burdekin- Glady's Lagoon (other than Natural Yield)	456.00	466.81	477.87	489.20

# Drainage charges

- In the 2012 review, we considered that the drainage price should represent the costs associated with providing drainage services. With a fixed charge recovering fixed drainage costs to ensure Sunwater does not face volume and revenue risk.
- We recognise that there are significant costs and complexities involved with establishing an appropriate methodology for separating drainage costs. We now consider that it is most likely that these costs will outweigh the benefits to customers.
- For these reasons, we propose that current drainage charges for Burdekin-Haughton distribution system should be increased each year in line with our measure of inflation. Drainage revenues should continue to be treated as a revenue offset, with any revenue shortfalls being recovered from the Part C tariff.

# Drainage diversion charges

- In the 2012 review, we considered that drainage diversion charges should be set at the cost- reflective level, and charged only to customers who use the service.
- However, due to the interrelationship between drainage and drainage diversion services, many costs for these services are shared. Given the difficulties involved in separating drainage diversion costs, we believe it is most likely that the costs of establishing a cost-reflective drainage diversion charge will outweigh the benefits to customers.
- For these reasons, and as current charges were a result of customer consultation, we recommend that current charges should increase each year by our measure of inflation. Drainage diversion charge revenues should continue to be treated as a revenue offset.

# Water harvesting charges

- We recommend that distribution system water harvesting charges should consist of:
  - any applicable DNRME water harvesting charges
  - a distribution system charge per megalitre used (Part D charge)
  - a Sunwater lease fee if relevant
- However, DNRME water harvesting charges are still not applicable to the Burdekin-Haughton distribution system. Therefore, customer charges will not include a DNRME fee.
- As Sunwater incurs a cost for diverting water through distribution channels for the purpose of water harvesting, we consider that the charge for distribution system water harvesting should reflect the cost of delivery. This is represented by the Part D charge, which we calculate based on prudent and efficient distribution system costs.

# Water harvesting charges

- The Sunwater lease fee is an unregulated fixed charge set by Sunwater for providing water harvesting services. Currently, Sunwater has not set a lease fee for the Burdekin-Haughton distribution system.
- Based on our assessment, we consider that the 2012 review approach is appropriate and should continue to apply.

## Cost allocation (fixed and variable costs)

- Fixed/variable split from 2012 review is appropriate starting point.
- Propose to allocate 20 per cent of direct operations and maintenance costs to variable costs.
- For schemes where pumping costs are directly related to water usage, we have assigned fixed/variable split based on fixed/variable nature of underlying electricity tariff components.

Cost component	Sunwater proposed	QCA draft
Operations & maintenance	10	20
Electricity pumping costs	100	Scheme-specific
Other electricity costs	100	-
Non-direct costs	10	-
Renewals annuity	-	-
Dam safety upgrade capex	-	-

## Cost allocation (medium/high priority)

- Reassessed allocation of bulk WSS costs, particularly in light of new compliance costs (IGEM and dam safety upgrade capex)
- Components of fixed operations costs that are asset-related should be allocated using HUF, as this takes into account the differential in benefits received by each priority group.

Cost component	Bulk allocation	Distribution allocation
Operations	50% HUF/50% WAE	WAE
Electricity (fixed)	HUF	WAE
Insurance	HUF	WAE
IGEM costs	HUF	WAE
Maintenance	HUF	WAE
Renewals annuity	HUF	WAE
Dam safety upgrade capex	HUF	WAE
Variable costs	Usage (per ML)	Usage (per ML)

# Cost-reflective prices 2020-24 (\$/ML)

	Actual 2019-20	2020-21	2021-22	2022-23	2023-24
<b>Burdekin River</b>					
Part A	<b>12.71</b>	3.62	3.71	3.80	3.89
Part B	<b>0.54</b>	0.31	0.32	0.33	0.33
<b>Burdekin Channel</b>					
Part A+C	<b>42.59</b>	45.08	46.15	47.24	48.36
Part B+D	<b>30.14</b>	22.34	22.86	23.41	23.96
<b>Burdekin – Giru Groundwater</b>					
Part A+C	<b>21.35</b>	45.08	46.15	47.24	48.36
Part B+D	<b>15.36</b>	22.34	22.86	23.41	23.96
<b>Burdekin – Glady's Lagoon (other than natural yield)</b>					
Part A+C	<b>42.59</b>	45.08	46.15	47.24	48.36
Part B+D	<b>30.14</b>	22.34	22.86	23.41	23.96

# QCA recommended prices

Key changes from previous review:

- Fixed prices to be derived independent of the changes in volumetric prices.
- Fixed bulk (Part A) price for distribution customers no more than cost-reflective.

Government pricing principles:

- QCA's recommended prices transition to cost-reflective prices.
- Tariff split should have regard to fixed and variable nature of underlying costs:
  - Fixed prices (separately assessed for Part A, and Part A + C where relevant)

Existing (2019-20) fixed price	New (2020-24) fixed prices
Above efficient costs	Held constant*
Equal efficient costs	Indexed by inflation
Below efficient costs	2019-20 price + inflation + \$2.38/ML (\$2020-21)

\* Except Part A for distribution system customers, which should be reduced to cost-reflective.

- Volumetric prices (Part B and Part D): have regard to cost-reflective immediately, considering less than cost-reflective to moderate bill impacts.

# QCA recommended prices

We have sought to recommend prices that transition gradually to lower bound costs, as this will give users sufficient time to adjust.

## Above lower bound prices:

- Fixed price maintained in nominal terms until this cost base is reached.
- Existing volumetric price > cost-reflective → reduce to cost-reflective
- Existing volumetric price < cost-reflective → increase by inflation only.

## Below lower bound prices:

- Fixed price transitioned to cost-reflective by \$2.38/ML (\$2020-21) of WAE (plus inflation).
- Existing volumetric price > cost-reflective → reduce to cost-reflective
- Existing volumetric price < cost-reflective → cost-reflective, except where this would lead to total (fixed + volumetric) price increase well above \$2.38/ML of WAE plus inflation.

# Recommended prices 2020-24 (\$/ML)

	Actual 2019-20	2020-21	2021-22	2022-23	2023-24
<b>Burdekin WSS</b>					
Part A	<b>12.71</b>	12.71	12.71	12.71	12.71
Part B	<b>0.54</b>	0.31	0.32	0.33	0.33
<b>Burdekin Channel</b>					
Part A+C	<b>42.59</b>	45.08	46.15	47.24	48.36
Part B+D	<b>30.14</b>	22.34	22.86	23.41	23.96
<b>Burdekin – Giru Groundwater</b>					
Part A+C	<b>21.35</b>	24.24	27.25	30.39	33.66
Part B+D	<b>15.36</b>	15.72	16.10	16.48	16.87
<b>Burdekin – Glady’s Lagoon (other than natural yield)</b>					
Part A+C	<b>42.59</b>	45.08	46.15	47.24	48.36
Part B+D	<b>30.14</b>	22.34	22.86	23.41	23.96

# Sunwater's access charge proposal

- Sunwater has worked with QFF to develop the proposal and has advised that QFF has provided conditional support for it
- Not assessed in our draft report, as the supplementary submission was provided too late for us to give all stakeholders an adequate opportunity to comment on the proposal
- Have released an issues paper on the access charge proposal in conjunction with our draft report

# Sunwater's access charge proposal

- Sunwater has proposed:
  - access charge revenues would be offset by reductions in fixed (Part A) prices
  - customers whose behaviours contribute to Sunwater reducing its customer administration costs would be entitled to a discount on the access charge
  - fixed administrative costs that could be recovered include billing, water accounting, water sharing, call centre, ROL compliance, account management etc
  - 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.

# Sunwater's access charge proposal

- Do you support an access charge?
- 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?
- How to decide if a scheme has an access charge (customer vote? majority of customers?)

# Next steps

Milestone	Date
Draft report released for consultation	9 September 2019
QCA community workshops	September and October 2019
Submissions due on draft report & issues paper	4 November 2019
Final report provided to the Government	31 January 2020
Final report released	Early February 2020

# How to make a submission

- Online submission form at [www.qca.org.au/submissions](http://www.qca.org.au/submissions)
- Or by post:  
QCA, GPO Box 2257, Brisbane Q 4001
- Submissions are encouraged, considered and addressed
- No need to make separate submissions on the draft report & the access charge issues paper – can make a single submission on both if preferred
- Transparency – submissions will be published

The screenshot shows the Queensland Competition Authority's website with the 'Submissions' page selected. The page features a navigation menu with 'WHAT WE DO', 'RAIL', 'WATER', and 'E'. Below the navigation is a banner image of a landscape with the word 'Submissions' overlaid. The main content area is titled 'ONLINE SUBMISSION FORM' and contains the following fields:

- Email \*:** Text input field
- Organisation:** Text input field
- First Name \*:** Text input field
- Family Name \*:** Text input field
- Phone Number:** Text input field
- Mobile:** Text input field
- Postcode \*:** Text input field
- State \*:** Dropdown menu with 'Queensland' selected
- Details**
  - Description \*:** Text input field with 'Max 1000 characters' limit
  - Sector \*:** Dropdown menu with '<select>' selected
- Documents**
  - Upload File \*:** File upload field with 'Browse...' button
  - Additional File:** File upload field with 'Browse...' button
  - Additional File:** File upload field with 'Browse...' button
- Verification**
  - Text: 'Retype the numbers below.'
  - Text: '3-2-2-2-0'
  - Five input boxes for digits: [ ] [ ] [ ] [ ] [ ]
  - Submit** button

# Questions?

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