Seqwater: Submission to the QCA's 2025-29 Irrigation Price Investigation

30 November 2023

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Executive summary

The Queensland Competition Authority (QCA) has commenced its review of pricing practices related to Seqwater's irrigation services for the period from 1 July 2025 to 30 June 2029 (the 2025-29 investigation). This is based on the Referral Notice issued on the 10th of March 2023 by the Treasurer and Minister for Trade and Investment (the Minister).

Seqwater has around 1,200 irrigation customers across seven bulk water schemes and two distribution systems. The Referral Notice has not asked the QCA to recommend a price for medium-priority water allocation holders in the Central Brisbane River Water Supply Scheme (WSS), as Seqwater has agreed with the mid-Brisbane irrigators to set these prices separately.

One of Seqwater's key priorities for this review is to attain customer endorsement of proposed costs and prices. To achieve this outcome, it undertook a transparent and collaborative consultation process with customers, from which agreed actions were directly fed into the development of the pricing proposal. While Seqwater recognises that full customer endorsement of its proposed costs and prices is not always feasible, it has conducted its engagement with a view to minimising the points of disagreement, and where differences of view remain, ensuring that it has clearly explained its position to customers.

Seqwater's engagement was conducted over three phases from February to November 2023:

- Phase 1 – customer forums, customer survey and customer reference group meetings were held for each applicable WSS, where Seqwater outlined how irrigation prices are set, how the pricing proposal was being developed and where customers could provide value and influence in the proposal. Seqwater also sought feedback from customers on the current level of service and what they wanted out of the price review.
- Phase 2 – allowed customers to scrutinise Seqwater's draft pricing proposal for each scheme and sought feedback from customers to ensure that expenditure proposals are prudent and efficient.
- Phase 3 – having considered customer feedback from Phase 2, Seqwater circled back to customers with final pricing proposals.

Feedback received from customers through the engagement process is summarised in this proposal, as well as in the relevant individual scheme reports. Importantly, this included endorsement (by around 80% of customers who responded) of Seqwater's current service standards.

Seqwater has welcomed customers' feedback and considers it integral in shaping a proposal that appropriately balances its business interests with those of the customers it services, noting that there are a number of areas where these interests directly align. This also supplements the ongoing engagement that Seqwater continues to undertake as part of business-as-usual activities, central to which are the annual Scheme Performance Reports that are published for each scheme.

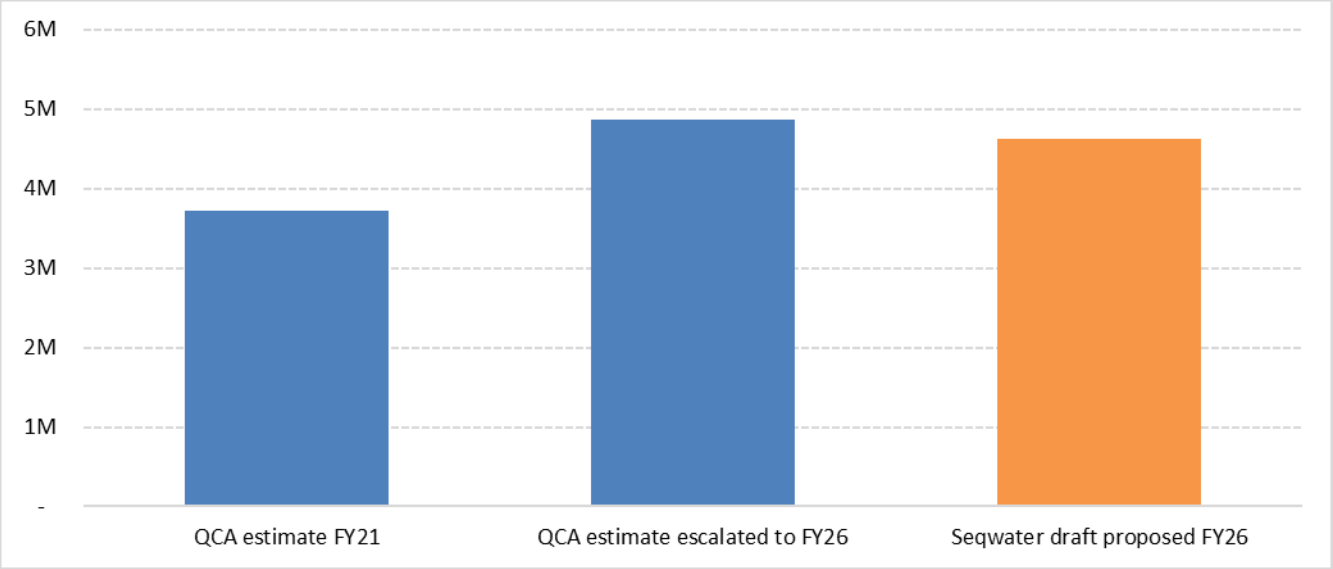
The outcome of Seqwater's engagement was that all Customer Reference Group (CRG) members from each scheme (Cedar Pocket, Central Lockyer Valley (including Morton Vale Pipeline), Mary Valley (including Pie Creek), Logan River, Lower Lockyer Valley and Warrill Valley) endorsed the proposed costs in the submission. The Central Lockyer Valley and Lower Lockyer Valley CRGs also had the opportunity to review their respective scheme submissions, which they also endorsed.

There was also evidence of high levels of support for Seqwater's overall submission from the broader customer base in all schemes. In particular, the CRG members addressed their fellow peers at their respective forums stating that the CRGs are in support of Seqwater's pricing proposal, appreciative of Seqwater's transparency and were seeking the support of the forum participants, which was received.

The current 2020-24 price path period has proven a challenging one with cost pressures in a number of areas that were not anticipated and have been largely beyond Seqwater's control. Despite this, its proposed total costs have only marginally increased relative to the last irrigation pricing review concluded in 2020.

The figure below compares the QCA's recommended total irrigation allowable costs in the first year of the previous price path period (2020–21) to Seqwater's proposed total irrigation costs (before QCA fees). The QCA's 2020–21 costs have been escalated by actual and updated CPI to arrive at a 2025–26 estimate for comparison. This shows that Seqwater's proposed irrigation costs for the first year of the 2025-29 price path period are 5 per cent lower than the QCA's (escalated) forecast for 2020–21.

QCA estimated costs (irrigation share excluding Central Brisbane WSS and QCA fees) compared to Seqwater's proposed irrigation costs: 2025-26 ($m, nominal)



Seqwater continues to apply the base-step-trend approach to forecast operating expenditure, having regard to the terms of the Referral Notice and the QCA's Guideline. The overall approach remains consistent with the 2020-24 investigation. This includes having regard to the outcomes of the 2022-26 bulk water price review.

- The base year for forecast operating expenditure is 2023-24, which was derived by escalating Seqwater's actual 2022-23 expenditure by the RBA's forecast inflation rate for 2023-24, which is 3.5 per cent.[1] The exception to this is labour expenditure, which is based on the 2023-24 corporate budget. The base year costs are then escalated forward using the QCA's approved escalation factors from the 2022-26 bulk water price review, updated where necessary, for the balance of the 2025-29 price path period.
- In terms of actual 2022-23 expenditure, Seqwater spent less than forecast for asset maintenance, which was offset by increases in local government rates, insurance premiums and dam safety inspection costs. It is important to note that Seqwater does not expect to maintain this lower expenditure on asset maintenance, which is currently under review. Seqwater does not expect to complete this review in time for the 2025-29 investigation and hence will seek to address any increase in costs in the next price investigation (while absorbing any increases over the 2025-29 price path period).

[1] Reserve Bank of Australia (2023). Statement on Monetary Policy - August, Chapter 5 Economic Outlook.

- Seqwater has also forecast three step changes, including: water accounting system costs (which is relevant to all schemes), groundwater management costs for the Central Lockyer Valley WSS and dam safety inspections (which is relevant to all schemes).
- Total forecast operating expenditure for the 2025-29 price path period is $30.9 million. This compares to total expenditure recommended by the QCA of $26.7 million (excluding the Central Brisbane WSS and QCA fees) for the current 2020-24 price path period.

In terms of asset renewals and other capital expenditure:

- For the 2020-24 price path period, Seqwater's total expenditure on renewals is forecast to be $9.5 million. This is $4.9 million above the QCA's recommended allowance of $4.6 million (excluding the Central Brisbane WSS and QCA fees).
- Seqwater has forecast renewals expenditure for the 2025-29 price path period consistent with the approach used in the last investigation, and in accordance with the terms of the Referral Notice. This is based on the capital planning and delivery framework that was endorsed by the QCA in the 2022-26 bulk water price review, resulting in it largely accepting Seqwater's actual and forecast capital expenditure as prudent and efficient. Seqwater has also engaged with its customers in each scheme in developing the forecast, including ongoing reporting under the Scheme Performance Reports.
- Total forecast renewals expenditure for the 2025-29 price path period is $6.2 million.
- Seqwater has also identified relatively minor additional (non-renewal) capital expenditure in individual schemes. These are addressed in the relevant scheme reports.

Seqwater proposes to continue to recover the cost of renewals based on a renewals annuity. This will be based on a 30-year planning period and a post-tax nominal WACC (developed in compliance with the QCA's preferred approach) of 6.53 per cent.

Given the marginal overall increase in costs, the level of customer support for its proposal and the work recently completed for the 2022 urban bulk water price review, it is submitted that Seqwater's proposed expenditure for irrigation services is prudent and efficient and that the resulting prices achieve an appropriate balance between Seqwater's business interests and those of its customers.

The table below sets out the prevailing prices for 2024–25 (reflecting the continuation of the current price path) compared to Seqwater's proposed cost-reflective lower bound prices and prices in accordance with government policy for 2025–26.

Expected 2024–25 prices compared to proposed costs 2025-25, dollars per ML (before QCA fees)

	Actual prices	Proposed cost reflective price	Proposed prices			
	FY25	FY26	FY26	FY27	FY28	FY29
Cedar Pocket						
Part A	34.61	452.12	38.17	41.90	45.81	49.90
Part B	46.81	85.36	48.10	49.42	50.78	52.18
Central Lockyer Valley						
Part A	48.88	79.66	52.83	56.97	61.29	65.81
Part B	11.77	17.23	12.09	12.43	12.77	13.12
Morton Vale Pipeline						
Part A	48.88	79.66	52.83	56.97	61.29	65.81
Part B	8.57	17.23	8.81	9.05	9.30	9.55
Part C	11.29	20.21	11.60	11.92	12.25	12.58
Part D	8.03	12.06	8.25	8.48	8.71	8.95
Bundled Fixed	60.17	99.87	64.43	68.89	73.54	78.39
Bundled Volumetric	16.60	29.29	17.06	17.53	18.01	18.50
Logan River						
Part A	20.53	23.78	23.70	24.43	25.10	25.79
Part B	15.19	24.10	15.61	18.64	21.91	25.35
Lower Lockyer Valley						
Part A	62.11	86.63	66.43	70.94	75.64	80.55
Part B	28.19	50.83	28.97	29.76	30.58	31.42
Mary Valley						
Part A	15.51	16.09	16.09	16.54	16.99	17.46
Part B	8.72	6.49	6.49	6.67	6.85	7.04
Pie Creek						
Part A	15.17	16.09	16.09	16.54	16.99	17.46
Part B	8.53	6.49	6.49	6.67	6.85	7.04
Part C	54.34	480.18	57.94	62.21	66.68	71.34
Part D	91.54	295.83	96.33	98.98	101.70	104.50
Bundled Fixed	69.51	496.28	74.03	78.75	83.67	88.80
Bundled Volumetric	100.07	302.32	102.82	105.65	108.55	111.54

	Actual prices	Proposed cost reflective price	Proposed prices			
	FY25	FY26	FY26	FY27	FY28	FY29
Warrill Valley						
Part A MP	20.56	19.74	20.56[(a)]	20.56[(a)]	20.84	21.42
Part B MP	11.81	9.94	9.94	10.21	10.49	10.78
Part A HP	169.53	137.54	137.54	141.32	145.21	149.20
Part B HP	7.93	16.91	9.94	10.21	10.49	10.78

(a) This price does not reflect government policy, instead it has been held constant to the prevailing FY25 price in accordance with preference of Warrill Valley customers.

Seqwater's proposed costs are marginally higher relative to the previous irrigation price review, and result in the following indications for the cost recovery position of the irrigation tariff groups:

- Five tariff groups are expected to remain below cost recovery and proceed on the price path according to the policies set out in the Referral Notice: Cedar Pocket, Central Lockyer Valley, Morton Vale, Lower Lockyer Valley and Pie Creek.
- The remaining tariff groups are expected to be at cost recovery: Logan River, Warrill Valley and Mary Valley.

More information is provided for each scheme in the accompanying scheme reports.

Definitions

Terminology used in this submission	Description
2020-24 investigation	The QCA's most recent irrigation price investigation, covering the period from 1 July 2020 to 30 June 2024
2020-24 price path period	The period over which current irrigation prices apply, being from 1 July 2020 to 30 June 2024
2022-26 bulk water price review	The QCA's review of Seqwater's SEQ bulk water prices from 2022-2026, completed in April 2022.
2025-29 investigation	The QCA's current irrigation price investigation, covering the period from 1 July 2025 to 30 June 2029
2025-29 price path period	The period over which irrigation prices determined from the QCA's 2025-29 investigation will apply, being from 1 July 2025 to 30 June 2029
ARR	Asset Restoration Reserve: this acts like a bank account for schemes to manage the funding of costs for renewals expenditure on the scheme.
Bulk scheme	A scheme that supplies water from storage assets
Cost reflective price	Represents the costs of the scheme allocated to irrigation based on the proposed cost allocations and represented on a per megalitre basis. This submission includes both fixed (Part A or C) and volumetric (Part B or D) costs per megalitre as cost reflective prices.
CRG	Customer Reference Group
CSO	Community Service Obligation
Distribution system	A scheme that takes water from a bulk scheme and uses distribution assets to transport water for additional users.
HP	High Priority water entitlement
HUF	Headworks Utilisation Factor: this is the method used to determine the allocation of headworks-related costs between high priority and medium priority customers.
Irrigation only	The irrigation share of costs – in shared schemes the irrigation share is only a proportion of the whole of scheme costs.
ML	Megalitre
MP	Medium Priority water entitlement
QCA's Guideline	Queensland Competition Authority (2023). Guidelines for Pricing Proposals: Rural Irrigation Price Review 2025-29, March.
QCA's WACC Guideline	Queensland Competition Authority (2023). Final Report, Rate of Return Review, Version 2, July

Terminology used in this submission	Description
Raw water	Untreated water not fit for drinking
Scheme	Water Supply Scheme or distribution system
SPR	Scheme Performance Report
Shared scheme	A water supply scheme that provides water for both irrigation services and urban bulk water supply.
Tariff group	A customer group paying the same tariffs. Some schemes have more than one tariff group, for example a bulk scheme is a different tariff group to a distribution system.
Urban water supply	Treated drinking water bulk supply to distributors
WAE	Water Access Entitlements including Water Allocations or interim water allocations or other rights to access water as relevant.
Water Act	*Water Act 2000*
Whole of scheme	Costs representing total scheme costs, not just the irrigation share
WSS	Water supply scheme

1. Introduction

Seqwater welcomes the opportunity to provide this submission to the Queensland Competition Authority (QCA) setting out its proposed prices for irrigation services for the relevant schemes to apply from 1 July 2025 to 30 June 2029 (the 2025-29 price path period). This submission has been prepared based on the terms contained in the Referral Notice issued to the QCA by the Treasurer and Minister for Trade and Investment in March 2023. Seqwater has also had regard to the *Guidelines for Pricing Proposals* issued by the QCA in March 2023 (the QCA's Guideline)[2].

Overall, the Referral Notice and the QCA's Guideline largely contemplate continuation of the same regulatory framework and approaches applied in the QCA's 2020-24 irrigation price investigation (the 2020-24 investigation). This includes having regard to the QCA's findings from its 2022-26 investigation of Seqwater's urban bulk water prices, where relevant.

Seqwater and its customers highly value a stable and predictable regulatory framework. This has been reflected in Seqwater's approach to this review.

This submission is structured as follows:

- Chapter 2 provides an overview of Seqwater's business, regulatory framework and the key issues for this review
- Chapter 3 provides a brief overview of Seqwater's approach, including customer engagement
- Chapter 4 explains the proposed operating expenditure forecast
- Chapter 5 explains the proposed renewals expenditure forecast
- Chapter 6 details the calculation of the renewals annuity
- Chapter 7 addresses other costs
- Chapter 8 sets out water entitlements and usage forecasts
- Chapter 9 explains Seqwater's pricing methodology and cost allocation approaches
- Chapter 10 summarises the proposed prices and CSOs for the 2025-29 price path period.

As with Seqwater's submission to the 2020-24 investigation, more details for each scheme are provided in the individual scheme reports provided with this submission. This includes more detail on Seqwater's customer engagement in each scheme and the expenditure proposals.

[2] Queensland Competition Authority (2023a). Guidelines for Pricing Proposals: Rural Irrigation Price Review 2025-29, March.

2. Overview

- Seqwater delivers irrigation services to around 1,200 customers in seven WSSs. In 2022-23, total revenue from irrigation services accounted for 0.32 per cent of Seqwater's total revenue.
- Seqwater has faced several challenges that were not anticipated at the start of the current price path period, such as the far-reaching impacts of the COVID-19 pandemic and major flood events in 2022. Despite these challenges, after allowing for the impact of higher-than-expected inflation Seqwater has managed to keep costs stable.
- The purpose and scope of the Referral Notice for the 2025-29 investigation is largely consistent with the 2020-24 investigation. A difference is that the Central Brisbane River WSS has been excluded from the scope of the 2025-29 investigation.
- The overall structure and intent of the price path arrangements have been similarly maintained under the Pricing Principles. This provides that prices for all tariff groups are to transition from the 2024-25 (fixed and volumetric) prices towards the (fixed and volumetric) Price Target.
- Overall, Seqwater's regulatory and contractual frameworks are largely the same.
- Seqwater is not proposing any material changes to the approaches used to develop its cost forecasts and resulting proposed irrigation prices for the 2025-29 price path period. This also reflects the fact that all stakeholders value a stable and predictable regulatory framework. Seqwater has conducted extensive engagement with customers in informing its proposed irrigation prices.

2.1. Seqwater's business and operating environment

2.1.1. Overview of Seqwater's services

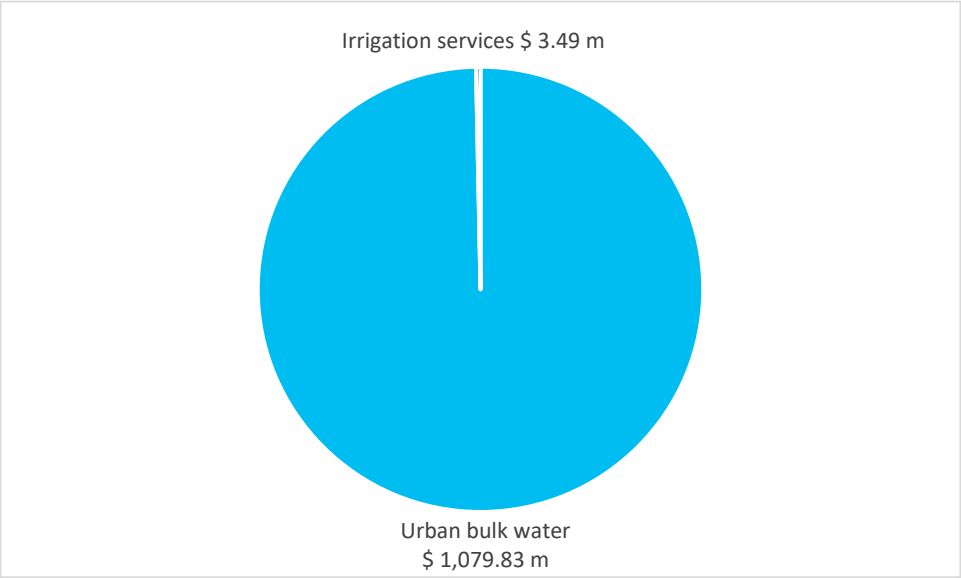
Seqwater delivers safe, secure and cost-effective bulk water supply for over three million people across South East Queensland (SEQ), including around 1,200 irrigation customers in seven WSSs. Seqwater provides flood mitigation services, catchment management and recreation facilities.

On behalf of Seqwater's communities, it manages $11 billion of water infrastructure assets, including dams, weirs, reservoirs, pumps and pipelines, conventional water treatment plants, as well as climate resilient water sources, such as the Gold Coast Desalination Plant (GCDP) and the Western Corridor Recycled Water Scheme (WCRWS). Seqwater's operations extend from the New South Wales border to the base of the Toowoomba ranges and north to Gympie.

In the 2022-23 financial year, total revenue from irrigation water sales[3] accounted for 0.32 per cent of total revenue from water sales of $1.08 billion, with the balance coming from urban bulk water sales.

[3] Note water sale revenue excludes Community Service Obligation payments received from government.

Figure 2-1 Seqwater – revenue from water sales 2022-23 ($m)



Source: Seqwater (2023). Annual Report 2022-23, p.39

Seqwater's irrigation prices in some schemes do not recover the minimum costs of providing the irrigation services. For these schemes, the Government provides Seqwater with a Community Service Obligation (CSO) payment.

While irrigation supplies are a very small part of Seqwater's business, its obligations to its irrigation customers are taken seriously and it looks to deliver quality service at the lowest possible price. These irrigation customers are rural landholders and businesses that use water for irrigation purposes, supporting a wide variety of farming and agriculture activities, such as orchards, vegetable and fodder crops, dairy and grazing.

The irrigation (or part-irrigation) WSSs owned by Seqwater comprise:

- Cedar Pocket WSS
- Central Brisbane River WSS
- Central Lockyer Valley WSS
- Logan River WSS
- Lower Lockyer Valley WSS
- Mary Valley WSS
- Warrill Valley WSS.

The Referral Notice excludes the Central Brisbane River WSS from the 2025-29 investigation.

Seqwater also owns two distribution systems that are also subject to this investigation:

- the Morton Vale Pipeline, from which customers can take water from the Central Lockyer; and
- the Pie Creek distribution system, which supplies irrigators by pumping water from the Mary Valley.

2.2. Operating environment

There are a number of challenges that have impacted Seqwater and its customers that were not anticipated at the start of the current price path period. These include, but are not limited to:

- pressures on the availability and prices of key inputs due to global externalities (i.e. the pandemic and Russia/Ukraine war);
- major flood events in 2022, including resulting flood damage;
- the ongoing impact of climate change and natural disasters on the availability and cost of insurance; and
- increases in energy prices.

Seqwater also has ageing assets that have required continuous monitoring and maintenance.

Despite these challenges, as shown in this submission, after allowing for the impact of higher than expected inflation Seqwater has managed to keep costs relatively stable.

2.3. Regulatory framework

2.3.1. Price regulation

Seqwater's irrigation prices are set by the Queensland Government under an Irrigation Pricing Direction Notice issued by the Responsible Ministers under the *Water Act 2000* (the Water Act). This applies to the pricing of an irrigation service, which is defined under Schedule 4 of the Water Act as "the supply of water or drainage services for irrigation of crops or pastures for commercial gain."

As the supply of bulk water for an irrigation service have been declared as a monopoly business activity under the *Queensland Competition Authority Act 1997* (the QCA Act), the Responsible Minister under that Act[4] is able to refer these activities to the QCA for a price investigation. In setting irrigation prices, the Government will consider the QCA's recommendations from its most recent price investigation.

The prices charged for Seqwater's urban bulk water services[5] are also subject to price monitoring by the QCA. While there are some differences in the regulatory framework applying to the pricing of urban water services, many of the costs of providing these services are shared. The QCA's investigation of costs as part of its most recent urban bulk water price investigation (the 2022-26 bulk water price review) is therefore relevant to this review.

Seqwater has other customers whose prices are not regulated under either framework. These include commercial and other raw water customers who own Water Access Entitlements (WAEs) in the schemes and do not fall within the definition of irrigation customers. They are therefore not regulated by the Irrigation Pricing Direction Notice. Seqwater is able to negotiate and set prices for these customers commercially. While the prices for these customers are not subject to this review, the WAEs for these customers may be relevant.

2.3.2. Referral Notice

The QCA's most recent irrigation price investigation covered the period from 1 July 2020 to 30 June 2024 (the 2020-24 investigation). In March 2023 the Queensland Government issued a new Irrigation Pricing Direction Notice for the period from 1 July 2023 to 30 June 2025, with the prices for 2023-24 and 2024-25 inclusive of a 15 per cent discount.

[4] Currently the Treasurer and Minister for Trade and Investment.
[5] Involving the supply of treated bulk water to the SEQ Service Providers, who on-supply this treated water to households and businesses in SEQ.

In March 2023 the Treasurer and Minister for Trade and Investment issued a Referral Notice to the QCA requesting it to investigate Seqwater's (and Sunwater's) pricing practices for irrigation services for the period from 1 July 2025 to 30 June 2029.[6] Overall, the purpose and scope of this Referral Notice is largely consistent with the last review.

The Referral Notice again sets out the Pricing Principles to apply in setting tariffs in each scheme, based on the intent to transition all prices to a cost-reflective price (or Price Target) via a price path. The Referral Notice clearly sets out the 'Allowable Costs' that together comprise the total costs of delivering irrigation services that would be reflected in the Price Target.

The overall structure and intent of the price path arrangements have been similarly maintained under the Pricing Principles. This provides that prices for all tariff groups are to transition from the 2024-25 (fixed and volumetric) prices towards the (fixed and volumetric) Price Target.

- Once the fixed and/or volumetric price reaches the Price Target, that (fixed and/or volumetric) Price Target applies for that tariff group for the remainder of the 2025-29 price path period.
- If a fixed or volumetric price is above the Price Target, it must immediately adjust back to the relevant Price Target.[7]

There have been some modifications to the Pricing Principles compared to the 2020-24 Referral Notice, with the same principles now applying to WSSs and distribution systems. These are discussed further in Chapter 9.

As noted above, the Central Brisbane River WSS has been excluded from the scope of the 2025-29 investigation. This is because Seqwater has agreed with mid-Brisbane irrigators to set these prices separately. The Referral Notice also provides that the QCA is not required to recommend a price for low priority water in the Central Lockyer Valley WSS.

Consistent with the Referral Notice for the 2020-24 investigation, for Seqwater the QCA is to have regard to its findings from the 2022-26 bulk water price review, where relevant. Seqwater has therefore used the same approaches that the QCA assessed as prudent and efficient in that review.

In the 2020-24 investigation, the QCA was also directed to recommend two sets of prices 'with and without' prudent and efficient expenditure associated with dam safety upgrades. The costs associated with dam safety upgrades have been explicitly excluded from the scope of Allowable Costs in the Referral Notice for the 2025-29 price path period and hence will not form part of this review.

One of the recommendations emerging from the QCA's 2020-24 investigation was for Sunwater and Seqwater to work with customers and Government to transition from a renewals annuity to a Regulated Asset Base (RAB)-based approach for calculating irrigators' share of asset renewal expenditure. In the Treasurer's letter accompanying the Referral Notice for the 2025-29 investigation, it is stated that this remains subject to ongoing consideration with proposals relating to a RAB-based methodology not expected to be available as part of this review.

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[6] This was issued under section 23 of the *Queensland Competition Authority Act 1997*.

[7] In the 2020-24 Referral Notice, different treatments applied between WSSs (where the only fixed price applicable is the Fixed (Part A) price) and distribution systems, where Fixed (Part A) and Fixed (Part C) prices are applicable. For WSSs, if the prevailing Fixed (Part A) price is above the cost-reflective Fixed (Part A) price, the prevailing price is to be maintained in nominal terms until the cost-reflective price is reached (except for those prices applying to customers of a distribution system operated by a local customer owned company or co-operative, which would be subject to immediate transition). For distribution system prices, the transition is to be immediate.

2.3.3. Contractual framework

Irrigation supplies in all schemes are subject to contractual terms. These are generally standard across all users and reflect the standard supply contracts set under the Water Act. Under this standard contract, the customer, as owner of the WAE, bears the risk of the availability of water under their WAE. Customers can also trade WAEs in accordance with the requirements of any relevant Resource Operations Licence (ROL), Operations Manual and/or Water Management Protocol. Each scheme's Resource Operations Plans (ROPs) were recast into contemporary documents under provisions of the Water Act: a Water Management Protocol, one ROL and an Operations Manual.

These regulations also place requirements on Seqwater to undertake metering activities and water accounting. Seqwater is responsible for reading meters and monitoring water accounts to check on compliance and report any issues to the regulator, the Department of Regional Development, Manufacturing and Water (DRDMW).

Service standards have been established in all WSSs, except Central Lockyer Valley. Central Lockyer Valley's service standards were instead developed in consultation with customer representatives in 2001 and were carried across to Seqwater from Sunwater. The service standards for Central Lockyer Valley have been defined in the contract terms and through the water planning processes.

The legislative documents Seqwater now operates under for the Central Lockyer Valley WSS, which were still being finalised at the time of the 2020-24 investigation, are outlined below:

- the Water Plan (Moreton) Amendment Plan 2019, finalised 13 December 2019
- the ROL, granted on 3 March 2020
- the Operations Manual, approved 27 February 2020.

A Water Entitlement Notice was issued, showing the WAEs that were converted from water licences and interim WAEs. The main change here is that the WAEs are now all volumetric.

2.3.4. Other

Where relevant, any changes in regulatory obligations and standards are identified in this submission (including individual scheme reports). A key example is the change in regime in relation to dam safety inspections, which has resulted in additional costs.

2.4. Key issues for this review

Seqwater is not proposing any material changes to the approaches used to develop its cost forecasts and resulting proposed irrigation prices for the 2025-29 price path period. This also reflects the fact that all stakeholders value a stable and predictable regulatory framework. As outlined in Chapter 3, Seqwater has conducted extensive engagement with customers in informing its proposed irrigation prices.

Points to note regarding Seqwater's submission include the following:

- The cost forecasts currently exclude flood damage costs, which are subject to an insurance claim. Depending on the timing and outcome of that claim, Seqwater may need to seek recovery of any unclaimed costs via prices as part of this irrigation price investigation or the next.
- Seqwater is currently undergoing a review of its asset maintenance program. This will not be completed in time for this review and will therefore not impact the proposed expenditure forecasts and prices for the 2025-29 price path period. Seqwater may need to seek recovery of any associated cost increases as part of the next irrigation price review.

- During the consultation with users in the Warrill Valley WSS, they expressed a preference for constant prices over time. In direct response to that feedback Seqwater is therefore proposing an alternative approach to setting the price path for that WSS. This is set out further in Chapter 9 and in the individual scheme report.

2.5. Cost recovery and pricing

This submission includes proposed prices for eight tariff groups. Prices for only three of these tariff groups are estimated to have generated sufficient revenue to recover their cost target, while the remainder are still forecast to be recovering revenue below the cost target and therefore will continue on price path arrangements. These schemes that are below cost recovery will require a CSO payment from Government to ensure that Seqwater is able to recover the costs of delivering irrigation services. Relative to the last review there are no changes to the respective cost recovery positions of the schemes.

Table 2-1 Proposed irrigation cost target and indicative cost recovery position (before QCA fees)

Tariff group	Cost target 2025-26 ($M)	Cost recovery position
Cedar Pocket	0.28	Below cost recovery
Central Lockyer Valley	1.51	Below cost recovery
Morton Vale	0.10	Below cost recovery
Logan River	0.42	Already cost recovery
Lower Lockyer	1.02	Below cost recovery
Mary Valley	0.39	Already cost recovery
Pie Creek	0.46	Below cost recovery
Warrill Valley	0.44	Already cost recovery
Total	**4.63**	

Note: Total may not add correctly due to rounding.

3. Seqwater's approach to this review

- Seqwater's overall approach remains the same as was applied in the 2020-24 investigation, while complying with the terms of the Referral Notice and having regard to the QCA's Guideline.
- This includes aligning with the approaches recommended as prudent and efficient by the QCA in the 2022-26 bulk water price review.
- Seqwater has made significant enhancements to its customer engagement program in recent years, which also embeds this as part of business-usual-activities, where appropriate.
- Central to Seqwater's ongoing engagement with its irrigation customers is the annual Scheme Performance Reports. Seqwater has still undertaken a targeted consultation program to provide users across all schemes with the opportunity to be informed about its regulatory proposal and provide input into its development.

3.1. Overall approach

Overall, Seqwater has maintained the same approach as was applied in the 2020-24 investigation, having regard to the terms of the Referral Notice and the QCA's Guideline. This also reflects that all stakeholders value a stable and predictable regulatory framework.

Consistent with the terms of the Referral Notice and the QCA's Guideline, Seqwater has sought to align with the approaches recommended by the QCA in the 2022-26 bulk water price review. As with previous reviews, that involved a very detailed investigation of Seqwater's operating and capital expenditure. Since that review, Seqwater has continued to experience cost pressures in some areas, particularly uncontrollable costs such as insurance and council rates.

A base-step-trend approach has been applied in developing forecast operating expenditure consistent with the 2022-26 bulk water price review. The base year for forecast operating expenditure is 2023-24, derived by escalating actual 2022-23 expenditure by the RBA's forecast inflation rate for 2023-24, which was 3.5 per cent[8]. The exception to this is labour expenditure, which is based on the 2023-24 corporate budget. Costs associated with recreation activities are excluded as required by the Referral Notice.

The base year costs are then escalated forward using the QCA's approved escalation factors from the 2022-26 bulk water price review, updated where necessary, for the balance of the 2025-29 price path period. Further information on forecast operating expenditure is provided in Chapter 4.

As described further in Chapter 5, Seqwater's forecast renewals expenditure has also been developed under the same capital planning and delivery framework that was endorsed by the QCA in the 2022-26 bulk water price review. In that review, the QCA's (and its consultant's) endorsement of this framework underpinned its recommendations to largely accept Seqwater's forecast capital expenditure as prudent and efficient. This was also based on Seqwater's demonstrated commitment to continuous improvement.

[8] Reserve Bank of Australia (2023). Statement on Monetary Policy - August, Chapter 5 Economic Outlook.

Seqwater's policies and procedures for planning bulk water and irrigation capital expenditure (including renewals) are identical and are the basis for the proposed renewals expenditure in this submission, along with additional capital expenditure as required at a scheme level. As outlined below and in the individual scheme reports, Seqwater has engaged with customers on its expenditure proposals.

3.2. Customer engagement

As outlined in Seqwater's submission to the 2022-26 bulk water price review, in recent years the business has significantly enhanced its customer, stakeholder and community engagement. This has meant that engagement has become more embedded in Seqwater's business-as-usual activities, allowing it to consult in a more targeted manner in developing regulatory price submissions.

As noted above, unlike bulk water services where Seqwater's primary customer interface is via the five distributor-retailers, it services around 1,200 irrigation customers across seven bulk water schemes and two distribution systems (while accounting for around 0.32 per cent of Seqwater's total revenue in 2022-23). This does present some challenges in ensuring that Seqwater can engage efficiently and effectively and provide all customers with the opportunity to provide feedback if they wish to do so.

Core to business-as-usual engagement is the Scheme Performance Reports (SPRs) for each scheme, formerly known as the Network Service Report (NPR). Seqwater publishes these reports for each scheme (for current and past years) on its website annually, with a separate webpage for each scheme. They contain scheme information such as service targets, historical water usage, water charges, operating expenditure (including actual against the QCA's recommended target) and renewals. In addition to this annual report, Seqwater holds customer forums, which are open to all scheme customers and other stakeholders. Seqwater publishes any submissions made from customers or stakeholders on the annual SPRs on its website, along with Seqwater's responses and decisions.

In terms of customer engagement for this review, a key priority has been to attain customer endorsement of proposed costs and prices. To achieve this outcome, Seqwater undertook a transparent and comprehensive consultation process from which agreed actions from engagement were directly fed into to the development of this pricing proposal.

A Customer Reference Group (CRG) was also established for each scheme, with a standing Terms of Reference.

Seqwater's overall approach involved three phases:

- Phase 1: Customer forums, customer surveys and CRG meetings were held for each applicable scheme, where Seqwater outlined how irrigation prices are set, how the pricing proposal was being developed and where customers could provide value and influence in the proposal. Seqwater also sought feedback from customers on the current level of service and what they wanted out of the price review.
- Phase 2: Customers were provided with the opportunity to scrutinise Seqwater's draft pricing proposal for each scheme in more detail. Feedback was sought from customers to ensure that expenditure proposals are prudent and efficient.
- Phase 3: Having considered customer feedback from Phase 2, Seqwater then provided customers with a further opportunity to review its final pricing proposals. This also enabled customers to see where and how Seqwater had responded to that feedback.

Feedback received from customers through the engagement process included a desire for:

- price stability;
- the identification of scheme efficiencies;
- an understanding of bottom line prices and the associated impact of expenditure/service trade-offs;

- an understanding of drivers for any significant proposed repair and maintenance works;
- an understanding of water reliability/security;
- an online account to manage their water allocations;
- regulatory costs of price reviews to be minimised;
- reliability of supply when water is available, and interruptions to supply to be fixed as soon as possible;
- not paying Part A charges when water is not available; and
- the continuation of the Government CSO (where relevant).

More detailed information on Seqwater's engagement within each scheme, as well as its response to feedback, is provided in the individual scheme reports.

In addition, it was important for Seqwater to understand if customers were happy with the current service standards or wanted more or less. As such, as part of the customer survey conducted in March 2023, customers were asked "if they are happy with the current service level". The large majority (80 per cent) of customers responded saying 'Yes" they are happy. This feedback was used as the basis for developing draft proposed costs and prices using current service levels.

The QCA's Guideline sets out four principles for effective engagement.[9] Seqwater's compliance against each principle is summarised below.

Table 3-1 Summary of compliance against the QCA's engagement principles

QCA Principle	Seqwater's compliance
Promote an understanding of customer needs by ensuring a broad representation of customer views	• In addition to informing the proposal, Seqwater obtained feedback from the CRG on how it should best present information to the wider customer forums to ensure that it was relevant, targeted and meaningful. • All customers in the scheme were invited to attend the forums (held as part of the annual SPR as well as in preparation for the price submission). They were also invited to complete an on-line survey.
Be cost-effective and targeted to what customers value and can influence	• Customers had the opportunity to either attend meetings in person or complete the on-line survey. • Seqwater's annual SPR engagement discusses performance against service standards as well as updates on actual expenditure relative to forecast. • In the engagement conducted for this price submission, Seqwater focussed on explaining its expenditure, as well as other key issues such as the treatment of surplus revenue and pricing arrangements.

[9] Queensland Competition Authority (2023a). pp.9-10.

QCA Principle	Seqwater's compliance
Be ongoing and occur within timeframes necessary to inform decision-making	• Core to Seqwater's ongoing engagement is the SPRs, as outlined above. This has been an important way of conveying information to customers as well as providing Seqwater with an opportunity to hear their feedback throughout the price path period. • Seqwater's engagement for this price submission was conducted in three phases, as outlined above. This occurred from March through to November 2023. • SPRs, annual customer forums, the CRGs and the annual survey are all enduring forms of customer engagement for Seqwater.
Clearly inform the planning and decision-making of the business	• The early phase of Seqwater's engagement provided an opportunity to hear customer feedback on issues of potential relevant to its submission. In the third phase of the engagement, customers were able to see the final (draft) pricing proposals, enabling them to understand where and how their feedback was ultimately reflected in Seqwater's decisions. For example, this impacted initially proposed expenditure, water usage forecasts and price structures.

Seqwater considers that its engagement process for the 2025-29 investigation has been targeted, constructive and effective.

Seqwater welcomes this feedback from its customers and considers it integral in shaping a proposal that appropriately balances its business interests with those of customers, noting that there are several areas where these interests directly align. Seqwater remains committed to continuing this engagement going forward.

4. Operating expenditure

- Seqwater continues to apply the base-step-trend approach to forecast operating expenditure, having regard to the terms of the Referral Notice and the QCA's Guideline. The overall approach remains consistent with the 2020-24 investigation. This includes having regard to the outcomes of the 2022-26 bulk water price review.
- The base year for forecast operating expenditure is 2023-24, which was derived by escalating Seqwater's actual 2022-23 expenditure by the RBA's forecast inflation rate for 2023-24, which is 3.5 per cent. The exception to this is labour expenditure, which is based on the 2023-24 corporate budget.
- The base year costs are then escalated forward using the QCA's approved escalation factors from the 2022-26 bulk water price review, updated where necessary, for the balance of the 2025-29 price path period.
- Seqwater has also forecast three step changes: water accounting system costs (which is relevant to all schemes), groundwater management costs for the Central Lockyer Valley WSS and dam safety inspections (which is relevant to all schemes).
- In the 2022-26 bulk water price review, the QCA accepted Seqwater's proposed efficiency plan in lieu of specific targets. This includes initiatives that are relevant to irrigation services. This program is underway. Consistent with the approach in the 2022-26 bulk water price review, Seqwater is therefore not proposing to apply an efficiency target to forecast operating expenditure for irrigation services for the 2025-29 price path period.
- Total forecast operating expenditure for the 2025-29 price path period is $30.8 million. This compares to total expenditure recommended by the QCA of $26.7 million (excluding Central Brisbane and QCA fees) for the current 2020-24 price path period.
- Seqwater has managed to limit increases in actual operating expenditure despite cost pressures in several areas, particularly in uncontrollable costs such as insurance and council rates, as well as increased obligations in relation to dam safety.

4.1. Overview

This chapter sets out Seqwater's forecast operating expenditure for the 2025-29 price path period, consistent with the terms of the Referral Notice. The Referral Notice requires the QCA to allow Seqwater to recover its prudent and efficient operational, maintenance and administrative costs. Seqwater has also had regard to the QCA's Guideline in developing its operating expenditure forecast, noting that the overall approach is consistent with the 2020-24 investigation.

Operating activities include service provision, compliance and other supporting activities:

- service provision relates to:
  - scheduling and releasing bulk water from storages, surveillance of water levels and flows in the river, and quarterly meter reading; and
  - customer service and account management.
- compliance requirements relate to:
  - water management and other requirements set out in the Water Plan and Resource Operations Licence (ROL);

- notifications and communications in response to the recommendations made by the Inspector General of Emergency Management;
- dam safety obligations under the *Water Supply (Safety and Reliability) Act 2008*;
- environmental management obligations to comply with the relevant water planning instruments and *Environmental Protection Act 1994*;
- land management, workplace health and safety obligations and other reporting obligations; and
- other supporting activities required to carry out services and comply with law, and which cover a range of services including central procurement, human resources and legal services.

Operating costs are mainly driven by operations activities and maintenance of the assets, meter reading and maintenance, environmental management obligations, data management, compliance reporting and customer service. Seqwater also manages recreation facilities however those costs are excluded from Allowable Costs for irrigation pricing purposes.

4.2. Approach

The base-step-trend approach is applied in forecasting operating expenditure. As set out in the QCA's Guideline, this involves:[10]

- determining an appropriate base year of prudent and efficient recurrent costs;
- incorporating forecast material step changes in operating expenditure over the price path period; and
- adjusting for trend growth in expenditure (base year and step changes) over the price path period by applying forecast input cost escalators, usage growth factors (if applicable) and forecast productivity improvements.

Consistent with the terms of the Referral Notice, the QCA's Guideline confirms that it will take into account its findings from the 2022-26 bulk water price review, stating that:[11]

> *Our assessment will therefore focus on irrigation-specific issues such as the appropriate allocation of non-direct opex to the specified schemes and the appropriate trend growth given updated conditions.*

The QCA applied the base-step-trend approach in assessing Seqwater's operating expenditure in the 2022-26 bulk water price review.

Seqwater's approach to forecasting operating expenditure for the 2025-29 price path period is consistent with the terms of the Referral Notice and the QCA's Guideline. This starts by establishing the proposed base year expenditure, which is then escalated forward using the QCA's approved escalation factors from the 2022-26 bulk water price review, updated where necessary, for the balance of the 2025-29 price path period. Seqwater has also identified some step changes, which are outlined in section 0.

The forecast excludes the following:

- The total QCA fees for this review, as they are yet to be estimated by the QCA. They are allocated to Seqwater based on WAEs. These are not captured in the operating expenditure forecast and are instead included as a separate line item in total Allowable Costs.
- Costs Seqwater incurred in responding to the major flood events in 2022, which are currently subject to an insurance claim. As at the date of lodgement of this submission, the timing and outcome of that claim is not

[10] Queensland Competition Authority (2023a). p.14.
[11] Queensland Competition Authority (2023a). p.14.

known. Depending on the timing of the claim being finalised Seqwater may need to seek recovery of any unclaimed costs as part of this irrigation price review or the next review.

As outlined in Section 2.4, Seqwater is also embarking on a review of its asset maintenance program, however this will not impact its cost forecasts for the 2025-29 price path period. Seqwater has also advised customers that this review is in progress. This is likely to result in an increase in costs for the subsequent price path period, which will be addressed as part of that investigation.

4.3. Base year operating expenditure

Seqwater's base year operating expenditure is 2023-24, derived by escalating actual 2022-23 operating expenditure by the RBA's forecast inflation rate for 2023-24, which is 3.5 per cent, except for labour costs, which are based on the 2023-24 corporate budget. Seqwater has excluded costs for recreation activities as required by the Referral Notice.

The base year operating expenditure has been reviewed to identify any non-recurrent costs. Dam safety inspections were identified as a non-recurrent cost. Dam safety costs are captured as they are incurred by Seqwater as opposed to being escalated from a base year amount, therefore there is no need to adjust the base year for these costs. No other non-recurrent costs were identified within proposed base year operating expenditure.

Seqwater's proposed base year operating expenditure (excluding costs for the Central Brisbane WSS and QCA fees) of $6.9 million for 2023-24 is consistent with the QCA's recommended allowance of $6.9 million for 2023-24. Adjusting for actual and updated inflation the QCA's recommended allowance for 2023–24 increases from $6.9 million to $7.5 million (see **Error! Reference source not found.**). While Seqwater spent less than forecasted for asset maintenance, this was offset by increases in local government rates, insurance premiums and dam safety inspection costs. On balance, this has resulted in proposed base year operating expenditure remaining consistent with the QCA's recommended 2023-24 allowance despite the high inflationary environment.

Seqwater's reduced expenditure for asset maintenance in 2022-23 (escalated to 2023-34) is unlikely to be representative of ongoing maintenance costs going forward, that is, these costs are likely to be understated. As noted previously, Seqwater is currently undertaking a review of its asset maintenance strategy (and associated costs), which will not be completed in time for the 2025-29 investigation. Seqwater expects that this review is likely to result in an increase in required maintenance expenditure, which it proposes to absorb over the 2025-29 price path period. It is proposed to consider the outcomes of the asset maintenance review as part of the next irrigation price review, such that in the event there are resulting increases in asset maintenance costs Seqwater would seek to recover these costs post-2029.

Table 4-1 Difference between QCA recommended and actual operating expenditure: 2023-24 ($m, nominal)

	2023-24
QCA's recommended opex (excluding Central Brisbane and QCA fees)	6.9
QCA's recommended opex escalated by updated inflation	7.5(a)
Seqwater's actual/budget opex	6.9

(a) The QCA's recommended opex has been escalated by 8.8 percent to account for the cumulative variance of actual and updated forecasts of inflation.

4.4. Step changes

The key step changes Seqwater is proposing for the 2025-29 price path period are as follows.

4.4.1. Water accounting system costs

Customers have expressed numerous times through Seqwater's engagement program that they would like an online portal where they can manage their water allocations, enter meter reads and monitor usage and remaining balances. In response to this feedback Seqwater is implementing a water accounting system in time for the 2024–25 financial year. Seqwater therefore proposes to recover $25,000 per annum ($2024-25) in associated operating costs as a step change for the 2025-29 price path period.

The water accounting system will provide a transparent, efficient, secure and easily auditable accounting tool for the management of water resources and transform Seqwater's data management and water accounting management practices. In addition, Seqwater considers that a water accounting system would:

- enhance customer experience and satisfaction;
- provide transparency to customers, as they will have online access to their water balances and be able to enter meter reads;
- improve efficiency and timelines of service delivery as information/data will be readily available; and
- facilitate better decision making, leading to a better use of water resources and associated regional economic benefits.

The water accounting system will replace the antiquated manual spreadsheets that are currently used to undertake customer water accounting, as well as billing upload sheets.

The total forecast amount of this proposed step change over the 2025-29 price path period is $107,281. Due to implementing the water accounting system as a pilot in partnership with Waterstart, the proposed costs are significantly lower relative to comparable water accounting systems implemented elsewhere. This cost will be allocated across all schemes based on their respective proportional share of customer numbers.

Table 4-2 Proposed step change for water accounting system costs ($, nominal)

2025-26	2026-27	2027-28	2028-29	Total
25,750	26,480	27,186	27,865	**107,281**

4.4.2. Groundwater management: Central Lockyer Valley

As part of a targeted amendment to the Moreton Water Plan (implemented in March 2020), Seqwater acquired responsibility for the management of 101 groundwater bores within the Central Lockyer Valley WSS. The Resource Operations Licence (ROL) requires that Seqwater monitors and reports on groundwater conditions within the Central Lockyer Valley WSS. This includes the management and monitoring of the 101 observation bores that Seqwater acquired responsibility for during the current price path period. Groundwater monitoring requirements under the ROL include[12]:

- trends in the levels of groundwater;
- the volume of groundwater used;
- the recharge characteristics of the groundwater; and
- the quality of the groundwater.

The forecast annual cost with managing these newly acquired groundwater bores in accordance with Seqwater's legislative obligations is $92,131.60 (2024$).

Table 4-3 Annual cost for groundwater management costs – Central Lockyer Valley WSS ($, nominal)

Cost Item	Annualised Cost
Standard servicing (time cost) Time taken for Seqwater for servicing, routine and non-routine works, data management and display. Includes FTE Hydrometric Officer (P5.4) plus 130% oncosts (136.12 hours).	17,696.25
Standard servicing (vehicle cost) Kilometres per routine field inspection (all 69 bores) (1365 km per trip, 2 trips per year).	5,451.25
Data management and reporting FTE Hydrometric Officer (P5.4) plus 130% on-costs (22.67 hours) and 69 sim cards for data at $5 a month.	7,027.00
Ad hoc servicing and parts Replacement of 12 AH batteries, EC Probes, CR300 loggers and modems.	54,957.43
Bore flushing Part of 10-year flood cleaning of the bores to remove material that has floated in and to get the bore levels back to the conditions on the drilling logs. Includes 69 Bore clean and blow outs to get levels back to screen depth, needed as part of 10-year maintenance program.	7,000.00
Total cost per year	**92,131.60**

Note total may not add correctly due to rounding.

[12] Queensland Government, Resource Operations Licence, *Water Act 2000*, Attachment 3 Licence holder monitoring and reporting.

The forecast step change associated with managing these newly acquired groundwater bores over the 2025-29 price path period is $395,357 (see Table 4-4). This cost is incurred in the Central Lockyer Valley WSS only.

Table 4-4 Proposed change for groundwater management costs – Central Lockyer Valley WSS ($, nominal)

2025-26	2026-27	2027-28	2028-29	Total
94,896	97,584	100,187	102,691	**395,357**

4.4.3. Dam safety inspections

Seqwater has an extensive dam safety management program, which includes daily visual inspections, routine safety audits and comprehensive assessments. A comprehensive inspection of each dam is undertaken every five years to review performance in greater detail. Every 20 years, Seqwater is required to commission an independent review of its dams against current design standards and safety guidelines. All inspection reports are submitted to the dam safety regulator once complete.

Seqwater captures the costs associated with its five-year and 20-year dam safety inspections as they are incurred as opposed to being escalated from a base year amount. Table 4-5 shows the timing and cost of the five-year dam safety inspections forecast to occur over the 2023-29 price path period. The next 20-year dam safety inspection is not due until 2029-30.

Table 4-5 Comprehensive 5-year dam safety inspections ($,nominal)

Dam	Scheme	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29
Atkinson Dam	Lower Lockyer Valley	42,231					48,483
Bill Gunn Dam	Central Lockyer Valley					47,301	
Borumba Dam	Mary Valley	42,231				47,301	
Cedar Pocket Dam	Cedar Pocket			44,803			
Clarendon Dam	Central Lockyer Valley	42,231					48,483
Maroon Dam	Logan River	42,231					48,483
Moogerah Dam	Warrill Valley				46,072		
Wyaralong Dam	Logan River			44,803			
Total		**168,924**	**-**	**89,606**	**46,072**	**94,602**	**145,450**

4.5. Cost escalators

The escalation rates applied to forecast operating costs are the proposed to be the same as those recommended by the QCA in the 2022-26 bulk water price review. Forecast CPI has been estimated using the QCA's updated methodology.[13] The proposed escalation rates are presented below.

[13] Queensland Competition Authority (2021). Final Position Paper: Inflation Forecasting, October.

Table 4-6 Proposed escalation rates (per cent)

Cost category	2025-26	2026-27	2027-28	2028-29
Employee expenses	2.36	2.36	2.36	2.36
Contract labour	2.36	2.36	2.36	2.36
Contractors (service delivery)	2.64	2.57	2.49	2.42
Electricity	2.30	2.30	2.30	2.30
Chemicals	3.00	2.83	2.67	2.50
Other materials and services	3.00	2.83	2.67	2.50
Insurance	5.00	5.00	5.00	5.00
Capital expenditure	3.00	2.83	2.67	2.50
CPI inflation	3.00	2.83	2.67	2.50

4.6. Efficiency

In the 2022-26 bulk water price review, instead of proposing an efficiency target to controllable operating expenditure, Seqwater provided the QCA with an efficiency plan. This set out the organisation's program to identify and implement initiatives to improve efficiency, underpinned by appropriate governance and accountability. After reviewing this plan, the QCA determined that no efficiency target needed to be applied as it considers this approach "superior to imposing and ongoing efficiency target".[14]

This program is now underway. For example, Seqwater is progressing the roll out of 'spend-to-save' energy projects committed to as part of the 2022-26 bulk water price review. It is also continuing to refine its broader efficiency program, including the processes of identifying and implementing efficiency opportunities across the business.

This efficiency program applies to Seqwater's total operating expenditure, including irrigation services. Consistent with the approach in the 2022-26 bulk water price review, Seqwater is therefore not proposing to apply an efficiency target to forecast operating expenditure for irrigation services for the 2025-29 price path period.

4.7. Operating expenditure categories

4.7.1. Direct costs

Direct costs are those costs that can be allocated to the individual asset or scheme level. Seqwater captures operating costs in its forecasts based on the following categories:

- **Labour.** The key tasks that require labour are:
  - scheduling and releasing bulk water from storages, surveillance of water levels and flow rates in water courses and quarterly meter reading;
  - customer service and account management; and

[14] Queensland Competition Authority (2022). Final Report, Seqwater Bulk Water Price Review 2022-26, p.30.

  - complying with the requirements of: relevant Water Plans, Interim Resource Operating Licences (IROLs), Resource Operating Licences (ROLs) and Resource Operations Plans (ROPs); dam safety obligations including under the *Water Supply (Safety and Reliability) Act 2008*; the *Environmental Protection Act 1994*; and land management, Workplace Health and Safety and other reporting obligations.

- **Electricity.** Electricity use is predominantly for lighting and equipment, however, some schemes include periodic pumping to fill storages. The Pie Creek distribution system incurs electricity costs for pumping to supply customers.
- **Repairs and maintenance.** This involves maintaining assets that support irrigation water supply including: scheduled maintenance generated by Seqwater's financial reporting system CIS; planned maintenance comprising scheduled inspections and strategic maintenance; and reactive maintenance resulting from unplanned breakdowns.
- **Other.** For example, plant and fleet costs, materials and consumables.
- **Local government rates.**
- **Dam safety inspections and surveys**.
- **Insurance.** Insurance has been allocated to schemes based on their respective asset valuations.

4.7.2. Indirect costs

Indirect costs are business operating costs that cannot be readily assigned to a scheme. This is because indirect costs derive from group or corporate functions, such as finance and human resources, which support all parts of the business. Indirect costs are considered fixed costs because they do not change with water use.

Seqwater has applied the same methodology used in previous irrigation price reviews, including the most recent 2020-24 investigation, to allocate indirect costs.

4.7.2.1. Indirect operating cost allocation to schemes

Consistent with direct costs, indirect costs for 2023-24 were derived by escalating actual indirect costs for 2022-23 by the RBA forecast inflation rate for 2023–24, which is 3.5 percent. Note that indirect costs have been reviewed to:

- identify and remove those costs not associated with the provision of services to the scheme - these costs included costs that relate solely to the provision of urban drinking water and water grid services;
- identify and remove costs that can be directly costed to scheme assets such as project management and asset planning costs, as these are allocated directly to the relevant scheme;
- identify and remove one-off and abnormal costs;
- identify those costs that can legitimately be attributed to assets where the operation and maintenance is not relevant to irrigation services, such as the GCDP and WCRWS;
- identify and remove insurance premiums for separate cost allocation; and
- identify local council rates not costed directly to schemes and allocate these as direct costs to the relevant schemes.

This review established the indirect cost bases for allocation over all assets, consistent with the approach from previous reviews. This includes that some indirect costs are allocated to assets operated by contractors, while other indirect costs are not allocated to these assets (see Table 4-7).

Table 4-7 Indirect cost bases ($m, nominal)

Indirect cost base description	
Indirect cost base for distribution over all assets	56.6

Indirect cost base for distribution over all assets plus contractors	15.0

Indirect costs are allocated to a scheme based on the proportion of direct costs used by the scheme. This is the same approach used in the 2020-24 investigation. This approach requires the following to be calculated:

- total irrigation direct operating costs as a percentage of total direct costs, excluding contractors;
- total irrigation direct operating costs as a percentage of total direct costs, including contractors; and
- direct operating costs of each tariff group as a percentage of total irrigation direct operating costs.

These percentages were applied to the indirect cost base for distribution over all assets and the indirect cost base for distribution over all assets plus assets operated by contractors. The amounts allocated to each tariff group are set out in Table 4-8.

Table 4-8 Indirect operating cost allocation to tariff groups (whole of scheme) ($, nominal)

Tariff group	
Cedar Pocket Dam	50,337
Central Lockyer Valley	250,497
Morton Vale Pipeline	15,121
Logan River	638,687
Lower Lockyer Valley	175,893
Mary Valley	198,889
Pie Creek	86,584
Warrill Valley	214,410

4.7.2.2. Non-infrastructure assets

Non-infrastructure assets are the office equipment, plant and buildings utilised in the operation of the schemes. Non-infrastructure assets do not include vehicles or mobile plant that are costed directly to tariff groups. Non-infrastructure asset costs are not included in renewals, nor are they captured in direct operating costs. However, it is necessary for these costs to be attributed to the schemes.

Consistent with the approach used previously, Seqwater has continued to use depreciation as a measure of the consumption of the service potential of these assets. As these assets generally support multiple schemes, the costs are not captured at an individual scheme or tariff group level. Accordingly, aggregate non-infrastructure depreciation for 2023-24 has been allocated to all tariff groups based on the proportion of direct costs. Table 4-9 sets out the allocation of non-infrastructure costs to tariff groups.

Table 4-9 Non-infrastructure cost allocation to tariff groups (whole of scheme) ($, nominal)

Tariff group	
Cedar Pocket Dam	3,816
Central Lockyer Valley	18,992
Morton Vale Pipeline	1,146
Logan River	48,422

Tariff group	
Lower Lockyer Valley	13,335
Mary Valley	15,079
Pie Creek	6,564
Warrill Valley	16,256

4.8. Total operating expenditure: 2025-29

Table 4-10 summarises Seqwater's total proposed operating expenditure for the eight schemes for the 2025-29 price path period (excluding QCA fees). The scheme submissions attached to this document detail the proposed operating expenditure for each individual scheme.

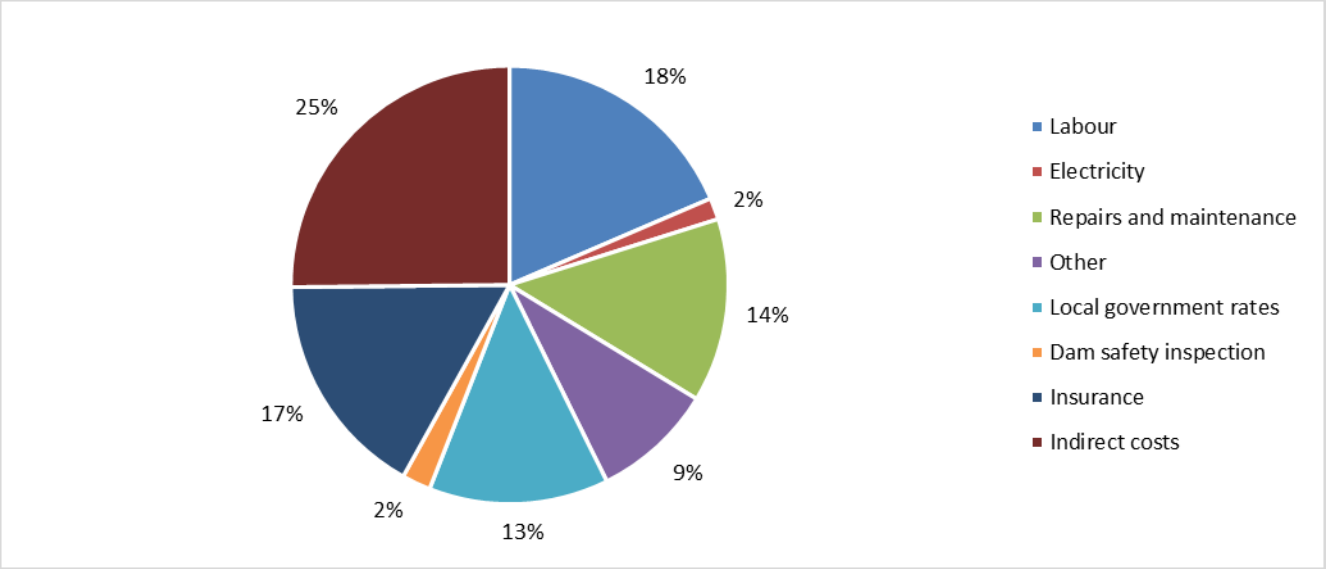
Table 4-10 Proposed operating expenditure – irrigation schemes excluding Central Brisbane ($m, nominal)

Cost category	2025-26	2026-27	2027-28	2028-29	Total
Direct costs					
Labour	1.4	1.4	1.4	1.5	**5.7**
Electricity	0.1	0.1	0.1	0.1	**0.4**
Repairs and maintenance	1.0	1.0	1.1	1.1	**4.2**
Other	0.7	0.7	0.7	0.7	**2.8**
Local government rates	1.0	1.0	1.0	1.1	**4.1**
Dam safety inspection	0.1	0.1	0.2	0.2	**0.7**
Insurance	1.2	1.3	1.3	1.4	**5.2**
Total direct costs	**5.5**	**5.6**	**5.9**	**6.0**	**23.1**
Indirect costs					
Billing system	0.0	0.0	0.0	0.0	**0.1**
Operations	1.7	1.8	1.8	1.9	**7.2**
Non-infrastructure	0.1	0.1	0.1	0.1	**0.5**
Total indirect costs	**1.9**	**1.9**	**2.0**	**2.0**	**7.8**
Total proposed operating expenditure	**7.3**	**7.5**	**7.9**	**8.1**	**30.8**

Note: Totals may not add correctly due to rounding.

The figure below shows the components of total scheme operating expenditure. Direct costs represent 75 per cent of operating costs, with the balance being indirect costs.

Figure 4-1 Breakdown of total scheme operating expenditure (2025–26 to 2028–29)



5. Renewals expenditure

- For the 2020-24 price path period, Seqwater's total expenditure on renewals is forecast to be $9.5 million. This is $4.9 million above the QCA's recommended allowance of $4.6 million (excluding the Central Brisbane WSS and QCA fees).
- Seqwater has forecast its renewals expenditure for the 2025-29 price path period consistent with the approach used in the last review, and in accordance with the terms of the Referral Notice. This is based on the capital planning and delivery framework that was endorsed by the QCA in the 2022-26 bulk water price review, resulting in it largely accepting Seqwater's actual and forecast capital expenditure as prudent and efficient.
- Seqwater has also engaged with customers in each scheme in developing its forecast, including ongoing reporting under the Scheme Performance Reports.
- Total forecast renewals expenditure for the 2025-29 price path period is $6.2 million.
- Seqwater has also identified relatively minor additional (non-renewal) capital expenditure in individual schemes. These are addressed in the relevant scheme reports.

5.1. Scope

Seqwater has maintained the same definition of renewals expenditure applied in previous reviews, where renewals includes (regardless of frequency or cost) the following types of works:

- replacement of assets and components of assets, including replacements required in response to events causing asset damage;
- refurbishment of assets and components of assets, including replacements required in response to events causing asset damage; and
- upgrade or modification to assets when required for compliance purposes.

In accordance with the Referral Notice, capital expenditure (renewals) costs for dam safety upgrades are excluded, along with expenditure associated with the provision of recreation facilities incurred from 1 July 2020 (that would not otherwise be incurred to supply water).

For the 2025-29 price path period Seqwater proposes to continue to recover these costs in prices via a renewals annuity. The approach to this is described in Chapter 6.

5.2. Approach

5.2.1. Requirements

The Referral Notice requires that Seqwater's Allowable Costs include an allowance for prudent and efficient expenditure on renewing existing assets (accounting for prudent and efficient renewals expenditure incurred in

previous periods) and where applicable, improved service levels. The QCA's Guideline describes the approach it will use to assess the prudency and efficiency of renewals expenditure. It notes that:[15]

> *For Seqwater, we will take into account findings of our prudency and efficiency assessment in the 2022 bulk water review. Our assessment for Seqwater will therefore focus on the review of a sample of capex projects that are material to the price target at the scheme level and were not assessed in the 2022 bulk review.*

The QCA's recommended renewals forecasts do not make allowances for extreme weather events during the current price path period so it requires any such expenditure be separately identified in historical expenditure, excluding any amounts recovered from insurance.

5.2.2. 2022-26 bulk water price review outcomes

In the 2022-26 bulk water price review, the QCA largely accepted Seqwater's capital expenditure as prudent and efficient, in terms of both actual 2018-22 expenditure ($532.8 million) and forecast 2022-28 expenditure ($1,342.8 million). This was underpinned by its findings that Seqwater's capital planning and delivery framework continues to be sound and consistently applied, as it had found in the 2018-21 bulk water price review.[16] It noted Seqwater's demonstrated commitment to continuous improvement and the enhancements that had been made to its framework since the previous review. It further considered that "the case for continuing to undertake extensive and interrogative reviews of forecast capital expenditure was becoming less clear."[17]

Expenditure that is specific to irrigation services was not within the scope of the 2022-26 bulk water price review. However, Seqwater's policies and procedures for planning bulk and irrigation renewal expenditure are identical and are the basis for the proposed renewals expenditure in this submission. They are also used to derive any additional (non-renewal) capital expenditure that may be required in one or more schemes.

5.2.3. Seqwater's forecasting approach

Consistent with the approach applied in the 2020-24 investigation, Seqwater continues to develop its renewals forecast using a composite approach, drawing data from multiple sources to derive long-term renewals profiles.

As outlined in Chapter 6, it has continued to apply a 30-year planning horizon for the purpose of forecasting renewals expenditure. Forecasts of non-metering renewals expenditure for 2025-26 to 2052-53 is sourced from Seqwater's Asset Portfolio Master Plan (APMP).

Seqwater identified renewals needs and the schedule of projects through a range of processes, including:

- the existing Facility Asset Management Plans;
- the existing asset maintenance program;
- reports from site safety inspections and dam safety management program;
- advice from operators.

Seqwater regularly evaluates potential projects including considering condition assessments. These inform the next few years' of renewals planning at a time. In many cases over time, Seqwater has deferred the timing of major

[15] Queensland Competition Authority (2023a). p.18.
[16] Queensland Competition Authority (2022). p.31.
[17] Queensland Competition Authority (2022). p.53.

renewals works where there was not sufficient evidence that the asset required renewal, or renewal of the asset could be deferred at an acceptable risk of failing to meet service standards or compliance obligations.

5.2.4. Customer engagement

As outlined in Chapter 3, customer engagement has informed the development of Seqwater's irrigation price submission, including the capital forecasts. This includes Seqwater's ongoing engagement as part of the annual SPR, which also provides transparency in terms of actual expenditure against forecast during the price path period. Where relevant, customer engagement on any key capital initiatives planned in a scheme has occurred as part of the consultation for that scheme.

5.3. Summary of 2020-24 renewals expenditure

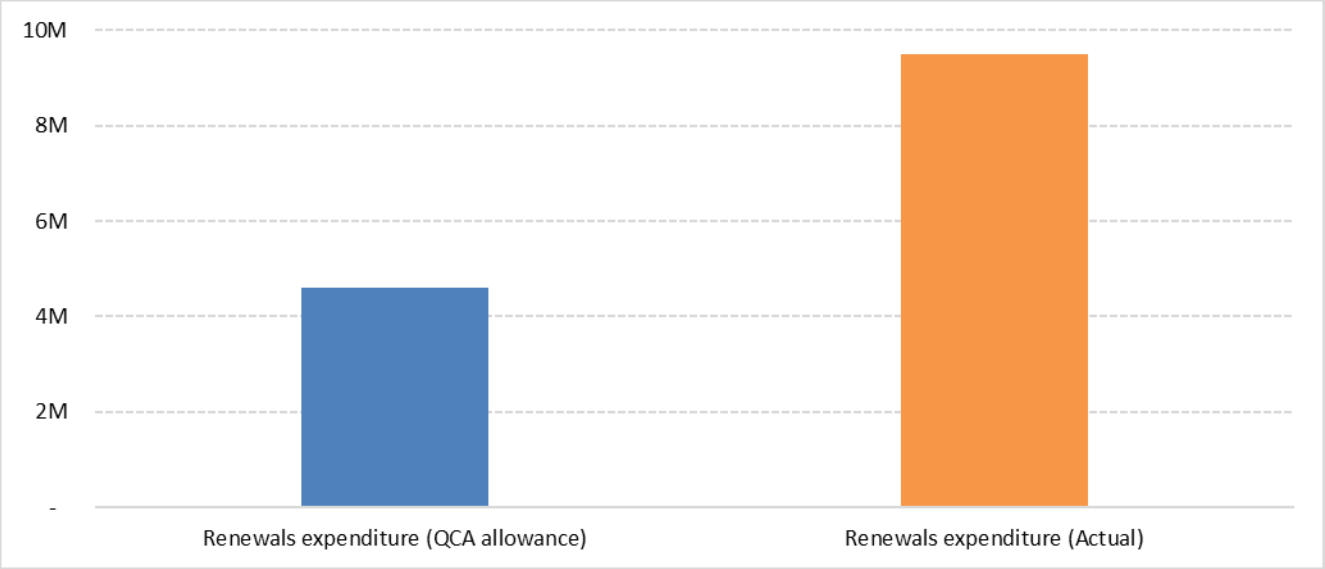
For the four years of the 2020-24 price path period, the QCA recommended a total allowance for renewals expenditure of $4.6 million (excluding Central Brisbane WSS). Total actual expenditure over the period, including forecast expenditure for 2023-24, is $4.9 million above the QCA's recommended allowance (see Figure 5-1).

During the 2020-24 price path period Seqwater has also spent the following:

- **Flood damage costs to be confirmed.** These costs are either currently or will be subject to insurance claims. Once the outcome of these claims is known, Seqwater will seek to recover any unclaimed portion of costs through each impacted scheme's renewals annuity, consistent with QCA guidance. This could either occur in time for this current 2025-29 price path period or in the next price path period, depending on the timing of the pending insurance claims being finalised.
- **$602,272 in capital expenditure for the design, development and implementation of a water accounting system over 2021-24.** As described in section 4.4.1, Seqwater has delivered the water accounting system in response to customers expressing on numerous occasions (through the engagement program) that they would like an online portal where they can manage their water allocations, enter meter reads and monitor usage and remaining balances. These costs have been allocated across all schemes (based on customer numbers) with costs captured within each scheme's metering Asset Restoration Reserve. Due to implementing the water accounting system as a pilot in partnership with Waterstart, the proposed costs are significantly lower relative to comparable water accounting systems implemented elsewhere.

Detailed discussion on capital expenditure performance for each scheme from 2019–20 to 2023–24 (including a year-on-year comparison between actual expenditure and the QCA's recommended allowance) is contained within each scheme submission.

Figure 5-1 Comparison of actual renewals expenditure against the QCA's recommended allowance: 2020-23 ($m)



5.4. Forecast renewals expenditure: 2025-29

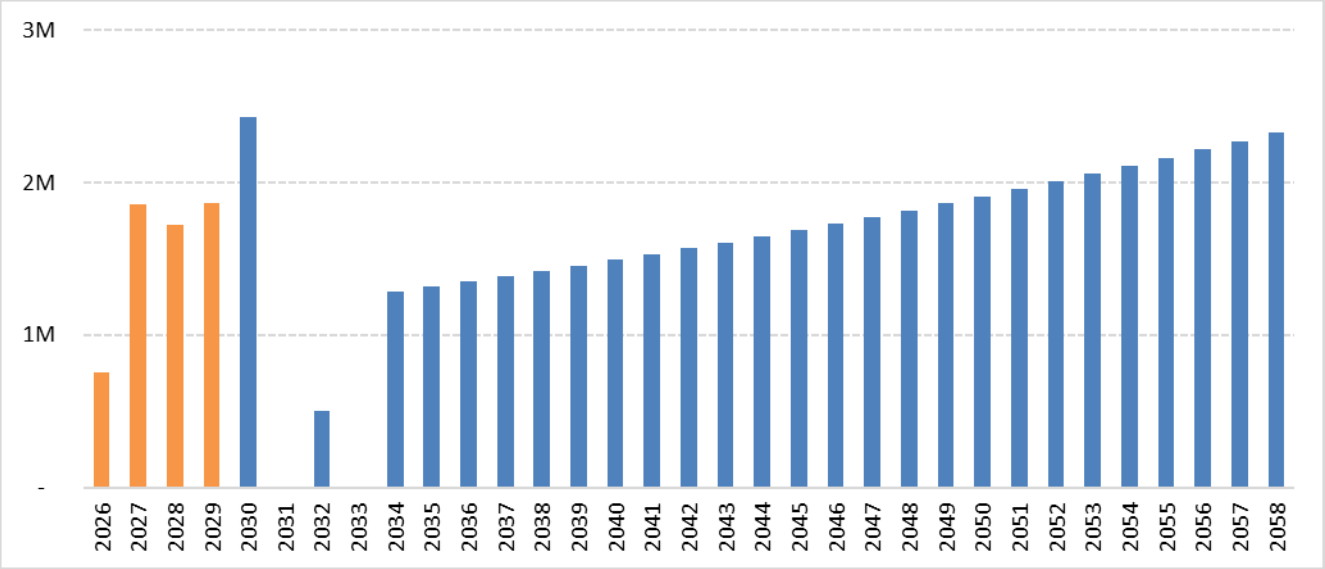
Seqwater's proposed renewals expenditure has been developed under the same framework that is applied in planning and delivering its entire capital program, which was recently assessed by the QCA as prudent and efficient in the 2022-26 bulk water price review. Seqwater's approach is consistent with the terms of the Referral Notice and the QCA's Guideline and where appropriate, has also involved consultation with relevant customers in each scheme.

Total forecast renewals expenditure for the 2025-29 price path period is $6.2 million (see Table 5-1 and Figure 5-2). A detailed breakdown of forecast renewals expenditure for each scheme is provided within the scheme submissions.

Table 5-1 Forecast renewals expenditure (excluding Central Brisbane WSS, $m, nominal)

2025-29	2029-38	2038-48	2048-58	Total
6.2	9.7	16.3	20.9	**53.1**

Figure 5-2 Forecast renewals expenditure (excluding Central Brisbane WSS, $m, nominal)



5.5. Other capital expenditure

Seqwater has identified relatively minor amounts of non-renewals capital expenditure in individual schemes. These are addressed the relevant scheme reports. As outlined above, these forecasts have been developed following the same robust planning and delivery framework that underpinned Seqwater's prudent and efficient bulk water capital forecast in the 2022-26 bulk water price review.

6. Renewals annuity

- Seqwater proposes to continue to recover the costs of renewals via a renewals annuity.
- Seqwater has calculated the renewals annuity consistent with its previous approach and having regard to the QCA's Guideline.
- Seqwater has updated the balances of the Asset Restoration Reserve (ARR) by scheme, which it continues to prefer to calculate and report on an irrigation-only basis.
- Seqwater also continues to apply a 30-year planning period as it considers that this achieves the most appropriate balance between recognising the long lives of the assets used to deliver irrigation services and the inherent uncertainty in long-term forecasting.
- The proposed post-tax nominal WACC of 6.53 per cent has been estimated in accordance with the QCA's WACC Guideline, as well as with reference to the QCA's most recent recommendations for Seqwater's irrigation and bulk water services. The material increase from the value applied in the current price path period is primarily driven by the risk-free rate, which at the time of the 2020-24 investigation, had been at historical lows. It is anticipated that this will be updated prior to the QCA's Final Decision for the purpose of setting final prices.

6.1. Approach

Seqwater clearly separates renewals expenditure from maintenance activities and the two are treated differently for pricing purposes. Maintenance is treated as an operating cost, while renewals are treated as capital expenditure and recovered through the renewals annuity. Maintenance work is about maintaining the service potential of existing assets, while renewals is about replacing assets or asset parts. For example, for a pump, maintenance work would include reconditioning the impellor, while replacing the pump would be a renewals activity.

6.1.1. Retention of the renewals annuity

As noted previously, in the 2020-24 investigation the QCA recommended that Seqwater and Sunwater transition to a RAB-based approach for the 2025-29 price path period. In the Treasurer's letter accompanying the Referral Notice for the 2025-29 investigation, it is stated that this remains subject to ongoing consideration with proposals relating to a RAB-based methodology not expected to be available as part of this review.

For the 2025-29 price path period, Seqwater will continue to apply a renewals annuity to recover its renewals expenditure. At the current time, it sees more benefit in rolling forward the current approach in the interests of certainty and predictability. During the consultation with customers for this pricing proposal, none of Seqwater's customers raised any concerns regarding the current annuity approach or indicated any interest in moving towards a RAB-based approach.

6.1.2. Seqwater's approach

The renewals annuity includes the calculation of an Asset Restoration Reserve (ARR), which acts like a notional bank account for the scheme based on what was spent for the scheme versus the revenue received for the scheme that reflects the renewals annuity component of prices. The renewals annuity component is calculated based on the opening balance of the ARR (as outlined in section 6.2), along with the forecast expenditure for the relevant scheme. It represents the annual amount that would ensure the ARR is returned to zero at the end of the period, that is, it would ensure that sufficient revenue is earned to recover the forecast renewals expenditure after taking into account

the starting balance. It is calculated using an appropriate discount rate, which is based on the Weighted Average Cost of Capital (WACC) (see section 6.3).

As outlined in Seqwater's submission to the 2020-24 investigation, a 2017 quality assurance review by Indec of Seqwater's ARR methodology found that for customers in schemes that supplied both high priority urban and medium priority irrigation users, the ARR balances had been confusing to interpret. For the 2020-24 price path period, Seqwater therefore proposed to calculate and report the ARRs for the irrigation share only.

In its Final Report for the 2020-24 investigation, the QCA accepted the merit in Seqwater's proposal to report the ARR balances for irrigation only. It also accepted that this "could be more transparent to irrigation customers for reporting purposes, particularly in the shared Seqwater schemes with high urban shares."[18] However, it still applied the whole of scheme annuity balance for the purpose of modelling prices, noting that this would not impact its recommended prices for the 2020-24 price path period.

For the 2025-29 price path period, Seqwater has continued its approach to calculate and report the ARRs for the irrigation share only.

6.1.3. Length of the planning period

Seqwater's renewals annuity for the 2020-24 price path period was based on a 30-year planning period (which is the horizon of the renewals expenditure forecast and the annuity calculation for pricing purposes). This remains appropriate for the reasons set out in its 2020-24 submission, being that:

- it more appropriately aligns with the longer lives of the assets used to provide irrigation services;
- relative to a 20-year planning period, a 30-year period reduces the inter-generational inequity of a long-lived asset being paid for by a cohort of irrigators over a shorter period of time;
- a 30-year annuity is less volatile, allowing for greater smoothing of the impact of more costly renewals projects;
- as the annuity is reviewed and recalculated at each price investigation, Seqwater is able to update the estimated timing and costs of all projects within the forecast; and
- the ARR provides a balancing mechanism to ensure the business does not over-recover renewals costs.

The QCA endorsed Seqwater's 30-year planning period in the 2020-24 investigation. The QCA's Guideline also noted that in theory "a renewals annuity should be calculated over a term equivalent to the longest life asset in the asset base."[19] Recognising the uncertainty associated with longer term forecasts, Seqwater considers that a 30-year planning period achieves an appropriate balance. It has therefore continued to apply a 30-year horizon for the 2025-29 price path period.

6.2. Historical renewals expenditure and opening balances

Seqwater's approach to rolling forward the ARR balances is consistent with past practice and the QCA's Guideline.[20] This involves the following steps:

- The opening 2019-20 balance for each scheme is rolled forward to 30 June 2024 by making the following adjustments to the opening balance in each year:

[18] Queensland Competition Authority (2020). Final Report, Rural Irrigation Price Review 2020-24, Part C: Seqwater, p.26.
[19] Queensland Competition Authority (2023a). p.21.
[20] Queensland Competition Authority (2023a). p.21.

  - adding the renewals annuity allowance from the 2020-24 investigation;
  - subtracting proposed historical prudent and efficient renewals expenditure; and
  - adjusting for interest using the post-tax nominal WACC of 4.37 per cent as recommended by the QCA in the 2020-24 investigation.
- The opening annuity balance as at 1 July 2024 is then rolled forward to the commencement of the price path period (1 July 2025) using the same approach. The QCA's recommended renewals annuity allowance for 2023-24 is increased by forecast inflation for 2024-25. This is based on the 2.24 per cent forecast of inflation used by Government to calculate 2024-25 prices.

More detail on the roll-forward for each scheme is provided in the individual scheme reports.

6.3. Weighted average cost of capital

6.3.1. Approach

A post-tax nominal WACC is applied as the discount rate to calculate the renewals annuity. This formulation captures the impact of tax in the cashflows, rather than the discount rate. As Seqwater highlighted in its submission to the 2020-24 investigation, while it has previously applied a nominal post-tax WACC in accordance with the QCA's approach and precedent, there are no tax cashflows for irrigation services. This remains the case for the 2025-29 regulatory period. However, Seqwater has still applied the QCA's preferred post-tax nominal WACC approach.

The QCA Guideline states that it will assess whether the overall WACC is 'reasonable'. If it is not considered reasonable, a more detailed bottom-up review will be undertaken.[21] This reflects the approach set out by the QCA in its most recent cross-industry review of the methodology it will apply in assessing WACC, which was completed in November 2021 (the QCA's WACC Guideline).[22] The first regulated business to be formally assessed under the QCA's WACC Guideline was Seqwater, in the 2022-26 bulk water price review.

Seqwater has estimated its proposed WACC for irrigation services for the 2025-29 price path period having regard to:

- the QCA's WACC Guideline;
- the QCA's recommendations in relation to WACC for Seqwater in the 2022-26 bulk water price review;
- the QCA's recommended WACC for Seqwater's irrigation services in the 2020-24 investigation.

Having regard to the above, Seqwater has not proposed any departures from the QCA's preferred methodologies or parameter values.

The proposed WACC has been estimated based on the following approaches and data sources.

Table 6-1 Approach used to estimate WACC

Parameter	Seqwater's approach
Risk-free rate	As per Appendix F in the QCA's WACC Guideline. The estimate is based on a 40-day average to 18 October 2023.

[21] Queensland Competition Authority (2023a). p.24.
[22] Queensland Competition Authority (2023b). Final Report, Rate of Return Review, Version 2, July.

Parameter	Seqwater's approach
Gearing	Retained the value applied in the 2020-24 investigation (60 per cent), which is also consistent with the value applied in the 2022-26 bulk water price review.
Market risk premium	Applied the value recommended by the QCA in the 2022-26 bulk water price review (6.5 per cent), which was based on the QCA's WACC Guideline. This is also the same as the value the QCA recommended for irrigation services for the 2020-24 investigation.
Equity beta	Seqwater proposes to retain the current value recommended by the QCA for the 2020-24 price path period (0.755). This is also consistent with the value endorsed by the QCA for the 2022-26 bulk water price review.[23]
Return on debt	Applied the trailing average approach, as per Appendix C of the QCA's WACC Guideline. This has been estimated using data published by the Reserve Bank of Australia as at September 2023.
Debt-raising costs	Applied the preferred value (0.1 per cent) from the QCA's WACC Guideline.
Corporate tax rate	As per the QCA's WACC Guidelines and historical precedent.
Gamma	Applied the preferred value (0.484) from the QCA's WACC Guideline.

6.3.2. Proposed WACC

Based on the above, Seqwater's proposed WACC is presented below. This is compared to the value recommended by the QCA in the 2020-24 investigation, as well as its recommended WACC for Seqwater in the 2022-26 bulk water price review.

Table 6-2 WACC comparisons

Parameter	QCA recommended for irrigation services: 2020-24 price path period	QCA recommended for bulk water services: 2022-26	Seqwater proposed for irrigation services: 2025-29 price path period
Risk-free rate	1.16%	1.89%	4.09%
Gearing	60%	60%	60%
Market risk premium	6.5%	6.5%	6.5%
Equity beta	0.755	0.766	0.755
Debt risk premium	2.09%	n/a	n/a
Debt-raising costs	Included in DRP	n/a	0.10%

[23] In that review, the QCA accepted Seqwater's proposed equity beta of 0.766, which was lower than the QCA's own equity beta assessment of 0.795. The only difference between the equity beta of 0.766 applied in the bulk water review and 0.755 is gamma – the beta of 0.766 was calculated using a gamma of 0.47, whereas the 0.755 estimate applies the QCA's current preferred value of 0.484. All other inputs are the same.

Parameter	QCA recommended for irrigation services: 2020-24 price path period	QCA recommended for bulk water services: 2022-26	Seqwater proposed for irrigation services: 2025-29 price path period
Return on debt	3.24%	4.65% (2022-23) – QTC advised, as per Referral Notice	4.79%
Corporate tax rate	30%	30%	30%
Gamma	0.484	0.484	0.484
Return on equity	6.06%	6.87%	9.00%
Post-tax nominal vanilla WACC	**4.37%**	**5.53% (2022-23)**	**6.53%**

The estimated post-tax nominal WACC of 6.53 per cent that Seqwater proposes to apply in calculating its renewals annuity has materially increased compared to the current 2020-24 price path period. As can be seen from the above, this is driven by two parameters, being:

- The risk-free rate, noting that when the WACC was set for the 2020-24 regulatory period, Commonwealth Government bond yields were at historical lows. The other key difference is that at that time, the QCA's preferred approach was to match the term to maturity for the risk-free rate to the length of the regulatory period. In the QCA's WACC Guideline (and the 2022-26 bulk water price review), it has since reverted to a ten-year term to maturity.
- The return on debt, which reflects two things, being:
  - the increase in the risk-free rate; and
  - the change in the QCA's preferred methodology from the 'on the day' approach to the trailing average and assuming an immediate transition to that approach. Seqwater's proposed estimate, calculated in accordance with the QCA's WACC Guideline, reflects a ten-year historical average.

Apart from the change in approach to estimate the return on debt, the primary driver of the higher WACC is prevailing financial market conditions. Seqwater has no control over these inputs. Further, as outlined above, the approach it has applied aligns directly with the QCA's WACC Guideline and relevant QCA precedent for irrigation and bulk water services.

Consistent with past practice, Seqwater expects that the final WACC to be applied in calculating the renewals annuity for the purpose of recommending final prices for irrigation services will be updated by the QCA for its Final Decision. Given the ongoing volatility and instability in the global economy and financial markets, these values can be expected to change further between now and the Final Decision. It is expected that the main driver of any further change will be the risk-free rate.

6.4. Proposed renewals annuity: 2025-29

Based on the above methodology and inputs, Seqwater's proposed renewals annuities are shown below.

Table 6-3 Proposed renewals annuities: 2025-29 (irrigation share, $ nominal)

Scheme	2025-26	2026-27	2027-28	2028-29
Cedar Pocket	10,353	10,443	10,533	10,625

Scheme	2025-26	2026-27	2027-28	2028-29
Central Lockyer Valley	418,235	424,787	431,475	438,302
Morton Vale Pipeline	31,235	32,568	33,938	35,347
Logan River	92,656	93,325	94,000	94,679
Lower Lockyer Valley	273,153	280,608	288,254	296,096
Mary Valley	103,971	105,169	106,387	107,625
Pie Creek	64,399	64,892	65,389	65,891
Warrill Valley	143,732	145,118	146,523	147,946
TOTAL	**1,137,734**	**1,156,910**	**1,176,500**	**1,196,512**

Note: Totals may not add correctly due to rounding.

7. Other costs

- Consistent with the 2020-24 investigation, Seqwater is not proposing an allowance for working capital (while approved for the 2022-26 urban bulk water price review) or taxation.
- Seqwater has also applied revenue offsets where appropriate in the relevant schemes, to ensure that the costs are not recovered twice. The total amount of these offsets for all schemes totals $106,792 in 2025-26.
- The Allowable Costs that are used by the QCA to recommend irrigation prices will also include the regulatory fees charged to Seqwater by the QCA. An estimate of this has yet to be provided by the QCA.

7.1. Working capital allowance

As outlined in the QCA's Guideline, a working capital allowance may be provided to recognise the costs of holding capital to manage the mismatch in the timing of receipts and payments.[24] Such an allowance has not been included in setting Seqwater's prices for irrigation services for the last two price path periods.

A working capital allowance was recommended by the QCA for Seqwater's urban bulk water services in the 2022-26 bulk water price review. However, consistent with the approach for the 2020-24 price path period, given an allowance for this for irrigation services would be very small, Seqwater is not proposing a working capital allowance for the 2025-29 price path period.

7.2. Tax allowance

The QCA's Guideline states that in previous irrigation price reviews, a zero tax allowance has been considered appropriate where a renewals annuity approach is applied, because this expenditure is excluded from the asset base and treated as 'operational' (and hence deductible for tax purposes). It considers that such an allowance may be applicable if a RAB-based approach is applied.[25]

Consistent with the approach applied in the 2020-24 investigation, Seqwater is not proposing a tax allowance for irrigation services.

7.3. Revenue offsets

The QCA's Guideline provides that revenue earned from other sources may need to be deducted to ensure that the costs are not recovered twice. It clarifies that where those costs are explicitly excluded from Allowable Costs – such as costs associated with the provision of recreation facilities – then a revenue offset would therefore not be required.[26] This is consistent with the approach taken in the 2020-24 investigation.

[24] Queensland Competition Authority (2023a). p.25.
[25] Queensland Competition Authority (2023a). p.27.
[26] Queensland Competition Authority (2023a). p.27.

For the 2025-29 price path period, Seqwater has again identified relatively small amounts of alternative revenue that has been deducted as a revenue offset in the relevant schemes. The total amount of these offsets for all schemes is $113,296 in 2025-26.

7.4. QCA fees

Under the Referral Notice, Allowable Costs includes the regulatory fees charged to Seqwater by the QCA. At the time of the preparation of this submission, the QCA had not yet provided an estimate of these fees as allocated to Seqwater and Sunwater. Once known, these fees will be included in the Allowable Costs that are used by the QCA to recommend irrigation prices.

8. Water entitlements and usage forecasts

- Consistent with the approach applied in the 2020-24 price path period, forecast Water Access Entitlements (WAEs) are based on the latest available information on ownership of WAEs in each scheme.
- Forecasts of water usage volumes are required to set the volumetric Part B and Part D tariff components in each scheme. Seqwater has specified a set of principles that it applied in forecasting water usage volumes for the 2025-29 price path period.
- The forecast is based on a simple average of the last 20 years (i.e. from 2003-04 to 2022-23), consistent with the approach applied by the QCA in the 2020-24 investigation. The exceptions to this are the Central Lockyer Valley and Mary Valley WSSs, where adjustments have been made to account for scheme-specific issues when determining their forecast water usage volumes. This was made in response to concerns raised by customers in these schemes.

8.1. Water Access Entitlements

Forecast WAEs are used in calculating proposed prices and for allocating some fixed costs between medium and high priority WAE customers in each scheme.

Consistent with the approach applied in the 2020-24 investigation, Seqwater has based forecast WAEs on the latest available information on ownership of WAEs in each scheme. It is not proposing any adjustments at a scheme level for the purpose of forecast WAEs. Table 8-1 contains the proposed medium priority WAEs by scheme.

Table 8-1 Forecast WAEs (ML) 2025-29, medium priority

Scheme	Forecast WAE
Cedar Pocket	495
Central Lockyer Valley	14,798
Morton Vale Pipeline	5,051
Logan River	13,555
Lower Lockyer Valley	11,120
Mary Valley	20,837
Pie Creek	835
Warrill Valley	20,170

The forecast of high priority WAEs for the Warrill Valley WSS is provided below.

Table 8-2 Forecast WAEs (ML) 2025-29, high priority

Scheme	Forecast WAE
Warrill Valley	200

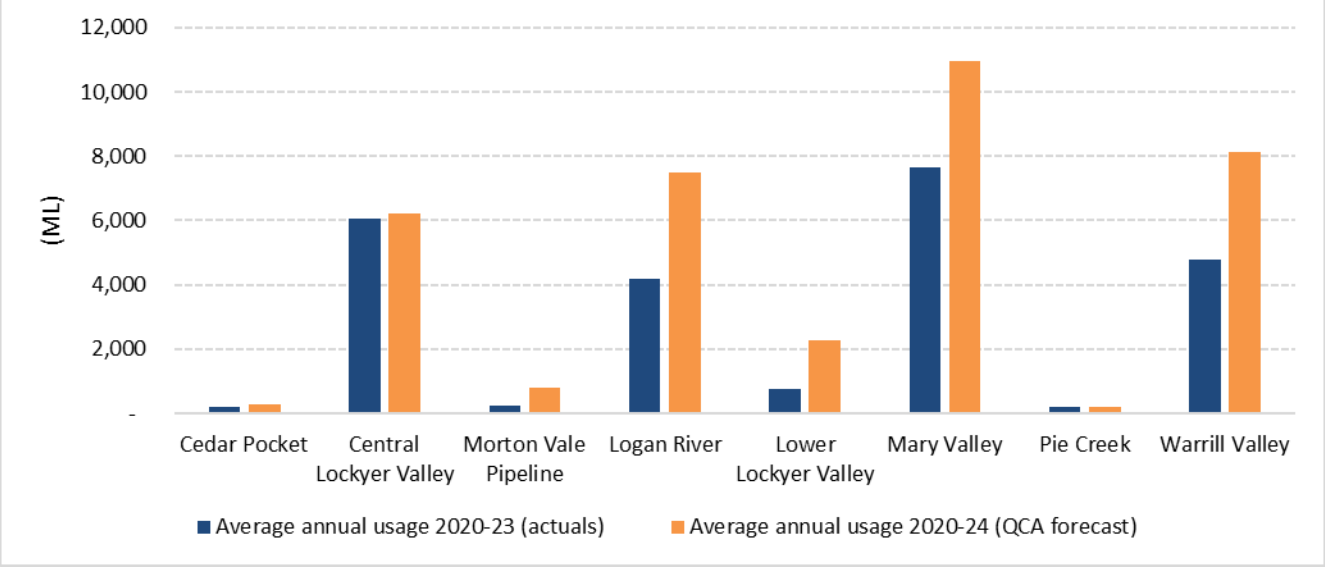
8.2. Usage volumes

Forecast usage volumes are used to determine the variable tariff components – Part B and Part D. This is set at a scheme level based on forecast usage for the scheme as a whole. Differences between actual water usage and the forecast used to set these tariff components will directly impact Seqwater's ability to earn sufficient revenue to recover its variable costs.

8.2.1. Water use over 2020–24

Over the current 2020-24 price path period, average actual annual water use across Seqwater's schemes has been 34 per cent lower than the water use figure recommended by the QCA to determine volumetric charges. All eight schemes were lower, ranging from Central Lockyer Valley (2 per cent) to the Morton Vale pipeline where water use was 70 per cent lower than the QCA forecast. These results indicate that Seqwater has under-recovered its costs due to the lower water usage. Further, as the split between fixed and variable tariffs does not reflect actual underlying costs, the variable prices recover some fixed costs, therefore lower water usage does not provide a sufficient basis to recover fixed costs. Figure 8-1 shows the difference in water use for the current price path period to 30 June 2023.

Figure 8-1 Difference between actual and forecast annual water usage – 2020-23 (ML per annum)



Source: Seqwater calculations; QCA (2020). Rural irrigation price review 2020–24 Part C: Seqwater, Final Report, January, p. 37.

8.2.2. Approach

Forecasting usage volumes is inherently challenging as actual usage year-on-year will vary due to several factors. To date the simplest and most transparent approach has been historical usage over the long-term, which has also proven 'fit for purpose' given the nature and scale of the services being provided.

In the 2020-24 investigation, Seqwater's views were aligned with those of the QCA, and Seqwater's customers, in supporting a water usage forecast based on long-term average water use by scheme. The QCA considered that the approach should be representative of 'normally occurring conditions'. It had initially proposed a 15-year average that excluded those years where usage was below that average. Having regard to concerns Seqwater raised in response to that adjustment, in its Final Report the QCA applied a 20-year averaging period, which it also considers would obviate the need to exclude any data points.[27]

Seqwater considers that the approach should be underpinned by the following principles:

- simplicity and transparency;
- regulatory certainty and predictability;
- price stability;
- reflects the most accurate and reliable data available at the relevant time;
- adjustments to the data should only be made where it can be demonstrated that this is necessary to produce a forecast that is more representative of normally occurring conditions, having regard to the above principles.

Applying these principles, Seqwater proposes to base 2025-29 usage forecasts on a simple average of the last 20 years (i.e. from 2003-04 to 2022-23), consistent with the approach applied by the QCA in the 2020-24 investigation. The exception is for the Central Lockyer Valley and Mary Valley WSSs. Customers consider that faulty meters and the Traveston Dam buy-back scheme have impacted the historical usage of the Central Lockyer Valley and Mary Valley WSSs (respectively) and therefore adjustments need to be made to usage data in the impacted years.

Based on this feedback, Seqwater's proposed methodology to determine forecast usage for the Central Lockyer Valley and Mary Valley WSSs (which customers have agreed to) is outlined below:

- **Central Lockyer Valley WSS:** Seqwater acknowledges meters were faulty[28], whilst also acknowledging that the impact on usage measurement is also uncertain (i.e. meters could have either understated or overstated usage measurement by an amount unknown). Despite this, it proposes to absorb the risk associated with the faulty meters by increasing Central Lockyer Valley's forecast usage by 10 per cent over the 20-year historical average. Seqwater therefore proposes to derive forecast usage for the Central Lockyer Valley WSS by averaging the historical usage for years 2003-04 to 2022-23 and adding 10 per cent.
- **Mary Valley WSS:** Seqwater also acknowledges the likely impact of the Traveston Dam buy-back scheme on historical usage in the Mary Valley WSS between 2006 to 2011 in particular[29] and therefore proposes to exclude these years from the 20-year historical average when deriving forecast usage. It is proposed to derive the Mary Valley WSSs forecast usage by averaging the historical usage for years 2003-04 to 2006-07 and 2012-13 to 2022-23.

[27] Queensland Competition Authority (2020). p.36.
[28] To address this issue a major rolling meter upgrade program commenced in 2019 and finished in 2022.
[29] In 2006, the Queensland Government proposed the Traveston Crossing Dam, and set about acquiring some 464 properties in the area. The project was subsequently cancelled in November 2009.

8.2.3. Forecast water usage: 2025-29

Based on the above approach, forecast water usage for the 2025-29 price path period is specified below.

Table 8-3 Forecast water usage 2025-29 (ML per annum)

Scheme	Forecast water usage
Cedar Pocket	301
Central Lockyer Valley	5,929
Morton Vale Pipeline	601
Logan River	4,477
Lower Lockyer Valley	1,465
Mary Valley	7,721
Pie Creek	211
Warrill Valley	5,217

9. Pricing methodology and cost allocation

- Seqwater's overall methodology has been developed in compliance with the terms of the Referral Notice (having regard to amendments to the Government's Pricing Principles) and is largely consistent with the approach applied in the 2020-24 investigation. It has also followed the steps set out in the QCA's Guideline.
- Seqwater continues to apply the same methodology previously endorsed by the QCA to derive its Headworks Utilisation Factors (HUFs) for the relevant WSSs where costs must be allocated between medium and high priority customer groups (Central Lockyer Valley, Logan River, Mary Valley and Warrill Valley). Updated HUFs have been determined based on that methodology.
- While Seqwater continues to have concerns with the approach applied by the QCA in the 2020-24 investigation to allocate costs between the fixed and volumetric tariff components, it has applied that approach for the 2025-29 price path period.
- In response to feedback from customers in the Warrill Valley WSS, where a clear preference was expressed for a more stable (or constant) price path, Seqwater has proposed an alternative approach that represents a departure from the Government's Pricing Principles contained in the Referral Notice. The approach still otherwise complies with the Pricing Principles and terms of the Referral Notice and will not impact other customers outside of this scheme.
- Seqwater describes its proposed strategy for its holdings of distribution loss WAEs and how this is prudent and efficient.

9.1. Overview of the pricing methodology

As defined under the Referral Notice, for each scheme a Price Target is set based on full recovery of Seqwater's Allowable Costs. The aim is to transition irrigation prices to the Price Target in each scheme, based on the Government's Pricing Principles set out in Schedule 2 of the Referral Notice. Miscellaneous prices may also be proposed.

The approach to setting and managing the Price Target, along with irrigation prices, for each scheme remains largely consistent with the 2020-24 investigation. The main changes are to the Pricing Principles that govern the transition of irrigation prices to the Price Target, based on the following:

- Where the Total 2024-25 Fixed Price for a tariff group is above the Total Fixed Price Target(s) for 2025-26 for that group, the Fixed Price(s) should be immediately adjusted to the Price Target(s). In the current 2020-24 price path period, if this situation applies the fixed price is maintained in nominal terms until the cost-reflective price (equivalent to the Price Target) is reached.
- Where any of the 2024-25 Volumetric Prices for a tariff group are below the Volumetric Price Targets for 2025-26, an Additional Component is applied, first to Part B tariffs, and then to Part D tariffs, until the Volumetric Price Targets are reached. The Additional Component is $2.54 per ML for 2024-25 prices, increasing by inflation each year. This was not prescribed in the Referral Notice in the 2020-24 investigation, although the QCA has said that this is consistent with the approach it applied in that review.[30]

[30] Queensland Competition Authority (2023a). p.33.

In setting Seqwater's proposed Price Targets for each scheme, the QCA's Guideline sets out the following steps:

1. allocate costs between priority groups;
2. allocate costs between fixed and volumetric tariff components;
3. allocate costs between tariff groups (where applicable);
4. convert allocated costs into a unit cost for each tariff component;
5. smooth unit costs over the price path period to derive the price target.

In the 2020-24 investigation Seqwater reversed the order of the first two steps, allocating total scheme costs between medium and high priority customers first, before allocating costs between fixed and volumetric prices. Seqwater has adopted the QCA's preferred order of steps in developing its prices for the 2025-29 price path period.

In section 9.5 Seqwater also sets out an alternative pricing approach that it is proposing to apply to the Warrill Valley WSS, which is in response to customer feedback. As will be outlined below, customers in this scheme expressed a preference for price stability. This is based on limiting price increases in response to an increase in costs in future price path periods. It was acknowledged that this could necessitate allowing an over-recovery of revenue during price path periods where cost-reflective prices would be lower, on the assumption that this additional revenue will be applied to future cost increases. That is, the objective is to keep prices stable over time.

Further information on Seqwater's approach is provided below.

9.2. Allocation of costs between priority groups

The key factor that is considered in allocating capital costs between medium and high priority customers in each scheme is the Headworks Utilisation Factor (HUF). This measures the percentage of a WSS's storage headworks volumetric capacity that is effectively utilised by each priority group of water entitlements in that scheme.

As it relates to storage assets only, distribution systems do not have a HUF. Further, for the two schemes that only supply medium priority customers (Cedar Pocket Dam and Lower Lockyer Valley), there is no need to allocate costs between different priority groups. Accordingly, HUFs only need to be determined for the Central Lockyer Valley[31], Logan River, Mary Valley and Warrill Valley WSSs.

In the 2020-24 investigation the QCA accepted Seqwater's HUF methodology, which was the same as the approach used for the 2013-17 price path period. It also accepted Seqwater's updated HUFs for the Central Lockyer Valley, Logan River, Mary Valley and Warrill Valley WSSs that were calculated using that methodology.

Following a review, some of the HUFs for the 2025-29 price path period have been updated. This is based on the same standard methodology Seqwater has previously applied, as endorsed by the QCA, while ensuring it remains appropriate for each scheme.

Seqwater's proposed HUFs are presented in the table below.

[31] Note the high priority water within the Central Lockyer Valley WSS relates to the distribution loss allocation of 185ML, hence the HUF for high priority water within the Central Lockyer Valley WSS is very small.

Table 9-1 Proposed HUFs – allocation to medium priority (MP) WAEs: 2025-29 price path period (per cent)

WSS	2020-24 HUF	Proposed 2025-29 HUF	Reason for change
Central Lockyer Valley	98.9	99.1	New WAE calculation based on updated proportions of total nominal volumes of high and medium priority water allocations.
Logan River	2	1	Reduction in MP HUF is attributable to increased high priority water allocations included in the water sharing rules and supplied by the scheme.
Mary Valley	11	11	No changes to rules or data inputs since 2020.
Warrill Valley	10	9	Reduction in MP HUF is attributable to inclusion of a new cut-off rule plus a change to the high priority reserve term in the water sharing rules.

For the Cedar Pocket and Lower Locker Valley WSSs and the two distribution systems (Morton Vale Pipeline and Pie Creek), 100 per cent of fixed costs are allocated using nominal WAEs.

9.3. Allocation of costs between fixed and volumetric tariffs

Consistent with the approach applied previously, the Referral Notice requires the QCA to consider "the fixed and variable nature of the underlying costs in relation to tariff structures."[32] In Seqwater's submission to the 2020-24 investigation, it explained the issues with the QCA's previous analysis of its fixed and variable costs as part of the 2013-17 investigation, which was the basis of the allocation of costs for that price path period.[33] The QCA's analysis had also been developed based on a prior review of Sunwater's schemes.

At the time of that investigation, Seqwater expressed concerns that the QCA's approach to allocating costs between the fixed and variable tariff components results in an outcome that does not reflect the underlying nature of those costs (noting that in practice, the majority of these costs are fixed, which is typical for a rural water business). Seqwater continues to have concerns with that approach and that it overstates the proportion of costs that genuinely vary with changes in water deliveries. However, in the interests of maintaining a stable and predictable regime, Seqwater proposes to apply the QCA's approach from the 2020-24 investigation in allocating costs between the fixed and volumetric tariff components for the 2025-29 price path period. Seqwater also considered customer support for maintaining the QCA's allocation approach. Seqwater will continue to monitor this over the next price path period based on how Seqwater's costs respond to changes in usage.

9.4. Remaining steps

The remaining steps applied are as follows, in accordance with current practice and the QCA's Guideline.

Conversion of allocated costs into unit costs for each tariff component

[32] Part C, (1.1) (a).
[33] Seqwater (2018). Seqwater submission to QCA, Irrigation Price Review 2020-2024, November.

The allocated costs have been converted into unit costs for each tariff component, based on the approach applied by the QCA in the 2020-24 investigation, being:

- costs allocated to the volumetric tariff components have been converted into a cost per ML, based on forecast water usage; and
- costs allocated to the fixed tariff components have been converted into a cost per ML of WAE, based on forecast WAEs.

Smoothing unit costs to derive the Price Target

Consistent with the QCA's Guideline, Seqwater has derived the Price Target for each tariff group by smoothing the unit costs over the price path period so that they increase annually by its estimate of inflation (refer section 4.4.3).

There is one exception that has been applied in setting the price path for the Warrill Valley WSS, as outlined below.

9.5. Warrill Valley WSS: Preference for a constant price

The consensus feedback Seqwater received from customers in the Warrill Valley WSS was a preference for a constant (or relatively stable) price over time. That is, customers in this scheme are willing for Seqwater to be able to over-recover revenue in in order keep prices constant as opposed to decreasing in line with cost reflective prices with a view to allowing Seqwater to 'bank' that additional revenue to apply to any future increases in costs. This would therefore reduce the need for significant price increases in the future.

It is recognised that this is not consistent with the Government's updated Pricing Principles (refer section 9.1), which now require Seqwater to immediately adjust any fixed prices that are above the relevant Price Target (to that Price Target). The approach that would be applied in the Warrill Valley WSS is more consistent with the concept in the Pricing Principles that applied in the 2020-24 price path period, whereby surplus revenue resulting from fixed prices being maintained in nominal terms above the Price Target were reinvested into the metering ARR of impacted schemes. The QCA submitted that its final decision did not prevent Seqwater from returning the surplus revenue above the cost target to the relevant schemes and that such an approach was consistent with the principle in the Referral Notice that prices were to be based on all tariff groups transitioning to the lower bound cost target.[34]

Seqwater has determined the additional revenue that would be contributed by keeping Warrill Valley's fixed price constant in nominal terms from 2024–25 through to 2026–27 at which time Seqwater's proposed cost reflective fixed price would breach the constantly held price (see Table 9-2). The additional revenue contribution is proposed to be captured within Warrill Valley's metering ARR consistent with the approach adopted in the current price period.

Table 9-2 Proposed price stabilisation with associated revenue contribution

	2024-25	2025-26	2026-27	2027-28	2028-29
Actual price	20.56				
Part A MP ($/ML) proposed cost reflective		19.74	20.29	20.84	21.42
Part A MP ($/ML) proposed stabilisation		20.56	20.56	20.84	21.42

[34] Queensland Competition Authority (2020). p. 29.

	2024-25	2025-26	2026-27	2027-28	2028-29
Variance		0.82	0.27	0	0
WAE (ML)		20,170	20,170	20,170	20,170
Additional revenue contributed ($)		16,487	5,528	0	0

Note: Totals may not add correctly due to rounding.

The primary reason that Seqwater is proposing to apply this approach in the Warrill Valley WSS is because it is in response to a clear preference expressed by customers in that scheme. It is also considered appropriate because:

- apart from allowing Seqwater to retain any over-recovered revenue from fixed prices, the overall approach still otherwise complies with the Pricing Principles and terms of the Referral Notice;
- over-recovery of revenue was previously permitted under the former Pricing Principles;
- Seqwater will be accountable to demonstrate that any over-recovery of revenue can only be applied to reduce the revenue required to compensate it for future increases in Allowable Costs in that scheme (which by definition, must be assessed as prudent and efficient by the QCA); and
- it will not impact any customers outside of the Warrill Valley WSS.

9.6. Distribution losses

Distribution losses are water that is "lost" when delivering water for water allocations via constructed water delivery infrastructure, such as pipelines and open channels, through such processes as evaporation, seepage, pipeline leakage, accidental loss through temporary pipe failure (breaks), loss through pressure relief systems, scouring and pigging.

Seqwater owns distribution loss WAEs in distribution systems and some bulk WSSs (Lower Lockyer Valley and Warrill Valley) and these allocations are held by Seqwater to ensure that customers continue to receive reliable supply. Distribution loss allocations can only be used for the purpose of "distribution loss", which means they cannot be traded (permanently or temporarily), or with simple approvals like other WAEs. However, in some ways they are like other WAEs as they receive an announced allocation and can have a priority of high or medium.

The issue of distribution losses received more significant focus by the QCA in the 2020-24 investigation. While it noted that the volume of loss WAEs held by Seqwater was not material compared to Sunwater, it considered that the appropriateness of these still warrants further consideration.[35] It recommended that:

- prudent and efficient bulk costs associated with necessary distribution loss WAEs should be recovered from distribution system customers;
- the bulk holding (fixed) costs of distribution loss WAEs not required to service distribution system customers should be borne by Seqwater; and
- Seqwater should review its distribution loss WAEs and develop a strategy for their future treatment, prior to the next price review.[36]

[35] Queensland Competition Authority (2020). p.38.
[36] Queensland Competition Authority (2020). p.43.

The QCA's Guideline states that each business's proposal should explain its proposed strategy for its holdings of distribution loss WAEs, including demonstrating that this is prudent and efficient, along with relevant customer engagement.[37]

Seqwater's holdings of distribution loss WAEs is very small (5,715ML), including:

- Pie Creek HP (60ML) and MP (256ML);
- Morton Vale Pipeline HP (185ML);
- Lower Lockyer Valley MP (1,500ML); and
- Warrill Valley MP (3,714ML).

Seqwater only has one true distribution loss WAE, which is Morton Vale Pipeline. Seqwater's other schemes use natural creeks for part or all of their distribution.

To apply to DRDMW for an assessed change to its distribution loss WAEs, in order to successfully subdivide Seqwater's distribution loss allocation WAEs and change their purpose (in accordance with section 72 of the Water Regulation), Seqwater would need to demonstrate that:

- there is sufficient volume held under remaining water allocations to provide for distribution losses within the system; and
- the proposed changes meet the Water Plan objectives.

To submit a successful application, Seqwater would need to invest in scheme efficiencies (changes to the way schemes operate) that would reduce the volume of losses required to ensure it has the losses needed to always meet the demand of customers, especially during dry periods when losses can be higher.

Seqwater would also need to engage consultants to undertake a study to determine actual distribution loss requirements and/or savings and install additional flow monitoring to provide the confidence and evidence of actual distribution losses. Given Seqwater's small holdings of distribution loss WAEs, it concluded that the costs in undertaking these tasks would likely be greater than any subsequent benefit emanating from successfully reclassifying its distribution loss allocation WAEs. This view was shared by customers when Seqwater engaged with them on the future treatment of its distribution loss WAEs.

9.7. Warrill Valley high priority prices (lower bound)

In March 2022, Seqwater went to the market for the permanent sale of 200ML of high priority of its own WAE. The WAE was split into smaller parcels and sold via an online auction. All water parcels were purchased by existing irrigation customers, which means that a lower bound high priority charge is now required.

Seqwater's proposed Part A and Part B (HP) cost reflective prices for the Warrill Valley WSS have been derived using the following process:

a. The maximum allowable revenue (MAR) to be recovered by Part A and Part B (HP) tariffs was determined by deducting the fixed and variable irrigation share MAR from the fixed and variable overall MAR for the Warrill Valley scheme.
b. The Part A (HP) cost reflective tariff was derived by dividing the Part A (HP) MAR by forecast HP water allocation entitlement.

[37] Queensland Competition Authority (2023a). p.31.

c. The Part B (HP) cost reflective tariff was derived by dividing Part B (HP) MAR by forecast HP water usage.

Given that water is taken from a single meter, and it is therefore not possible to differentiate as to whether water taken is either HP or MP, our proposed Part B (HP) tariff for Warrill Valley has been set to equal the proposed Part B (MP) tariff for Warrill Valley WSS.

10. Proposed prices and CSOs

- The QCA's recommended costs for the first year of the current price path period (2020–21) have been escalated by actual and updated CPI to arrive at a 2025–26 estimate for comparison. This shows that Seqwater's proposed irrigation costs are 5 per cent less than the QCA's forecast for 2020–21.
- Seqwater has also proposed two Review Events for specific schemes for the 2020-24 price path period, to reflect material increases in costs that have arisen due to circumstances that are beyond its control.
- This chapter presents the expected 2024-25 prices by scheme, compared to the cost-reflective price (or Price Target) for 2025-26.
    - Five tariff groups are expected to remain below cost recovery and proceed on the price path according to the Pricing Principles set out in the Referral Notice: Cedar Pocket, Central Lockyer Valley, Morton Vale, Lower Lockyer Valley and Pie Creek.
    - The remaining tariff groups are expected to be at cost recovery: Logan River, Warrill Valley, Mary Valley.

10.1. Total Allowable Costs

Based on the terms of the Referral Notice, Seqwater's Allowable Costs comprise the following key components, which have been addressed in the preceding chapters.

Figure 10-1 Composition of Allowable Costs

Seqwater has not proposed an allowance for working capital or taxation. As appropriate, it has made adjustments at the scheme level for:

- revenue offsets;
- distribution loss transfers;
- other scheme-specific adjustments, as identified in the relevant scheme reports.

10.2. Review Events

Consistent with standard regulatory practice, the QCA's Guideline allows for specified Review Events to address changes in costs due to circumstances that are beyond the control of the business.[38] It listed the following events, which were also applied in the 2020-24 investigation:

- material changes in electricity prices during the price path period;
- material changes in insurance premiums during the price path period; and
- material changes in regulatory imposts (specifically a change in policy that materially changes the share of costs allocated to medium priority entitlement holders during the price path period or a material change in off-stream pumping costs triggered by requirements under water management protocols).

Having regard to this Seqwater is proposing two Review Events for the 2025-29 price path period, which are reflected in the proposed Allowable Costs for the relevant schemes.

10.2.1. Electricity costs – Central Lockyer Valley WSS

In its 2020 final decision the QCA highlighted that electricity costs in the Central Lockyer Valley WSS over 2013–20 had varied from $2,000 to over $100,000. The QCA noted that electricity costs in the scheme are driven by the pumping of water to the Lake Clarendon off-stream storage site during flow events and then pumping the water out for later usage. The QCA submitted that forecasting the timing of flow events is highly subjective and risks over- and under-recovery. The QCA recommended that Seqwater instead should recover a material change in off-stream pumping costs that it is unable to manage through an end-of-period adjustment. [39]

Seqwater therefore proposes to claim $154,597 of electricity costs associated with the pumping of water at Lake Clarendon in 2021–22 as a Review Event. It is proposed to recover these electricity costs through the Central Lockyer Valley WSSs renewals annuity charge by adding $154,597 of expenditure to 2021–22. Recovering these costs over 30 years is a business risk Seqwater is willing to take in the interest of customers.

10.2.2. Dam safety inspection costs – Cedar Pocket

In October 2020 the Department of Natural Resources, Mines and Energy released its Dam Safety Management Guideline. This guideline requires 20-year dam safety inspections to be carried out by an independent RPEQ[40] engineer.

In accordance with the updated Guideline in 2021–22 Seqwater engaged an independent RPEQ engineer to carry out the 20-year inspection of Cedar Pocket Dam at a cost of $300,957. The independent engineer was procured through a competitive process and found to be at market rates. The QCA allowance for this inspection was $29,169 based on the assumption that Seqwater would undertake the inspection in-house.

Seqwater proposes to claim the extra $271,788 incurred in undertaking the 20-year inspection of Cedar Pocket Dam as a Review Event. It is proposed to recover this expenditure through the Cedar Pocket WSS's renewals annuity charge by adding $271,788 of expenditure to 2021–22. Recovering these costs over 30 years is a business risk Seqwater is willing to take in the interest of customers.

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[38] Queensland Competition Authority (2023a). p.26.
[39] Queensland Competition Authority (2020). p.7.
[40] Registered Professional Engineer of Queensland

While the QCA qualifies its Review Event for material changes in regulatory imposts, Seqwater considers that the additional costs it has incurred in meeting the new dam safety requirements should be considered within the scope of this event. This is because this is change in costs was due to circumstances that are beyond the control of the business, that is, a change in regulatory requirements. It notes that it is standard regulatory practice for these types of changes in regulatory obligations to be captured as a Review Event.[41]

10.3. Proposed Allowable Costs

Based on the above, Seqwater's proposed total Allowable Costs (i.e. total costs to be allocated between irrigation and other scheme users) across all schemes are presented below, before QCA fees.

Table 10-1 Proposed total Allowable Costs (whole scheme, excluding Central Brisbane and QCA fees) – 2025-29 ($m, nominal)

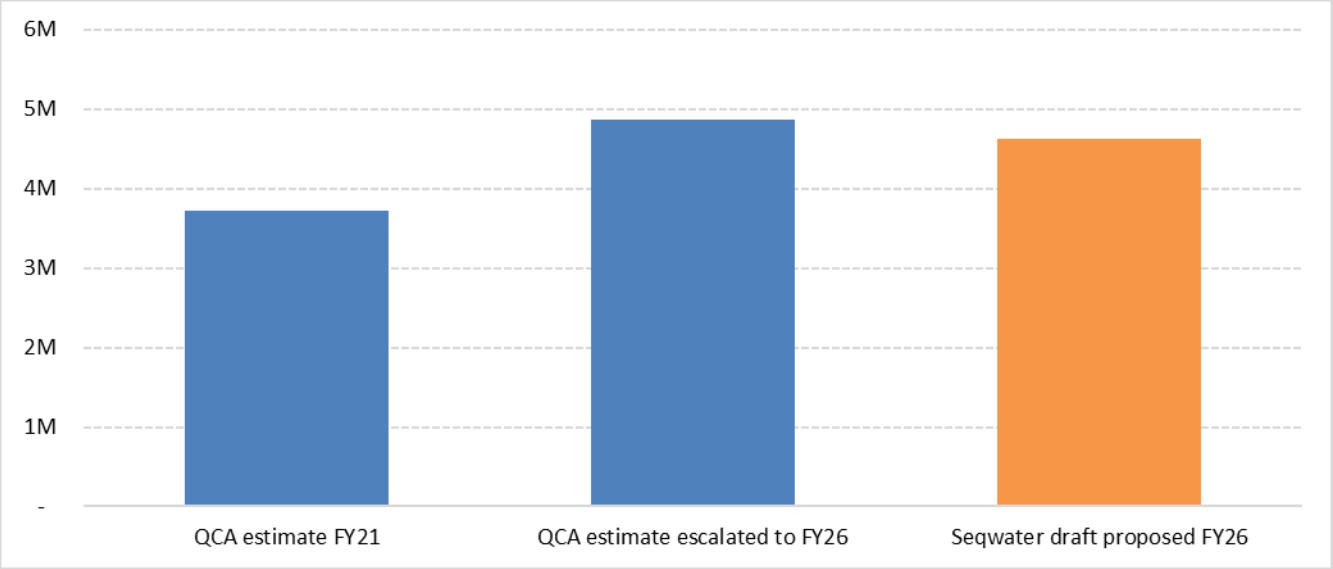
Component	2025-26	2026-27	2027-28	2028-29	Total
Operating expenditure	7.4	7.5	7.9	8.1	**30.9**
Renewals annuity	1.8	1.8	1.9	1.9	**7.4**
Revenue offsets	(0.1)	(0.1)	(0.1)	(0.1)	**(0.5)**
Total	**9.1**	**9.3**	**9.7**	**9.9**	**37.9**

Note totals may not add correctly due to rounding.

The figure below compares the QCA's recommended total irrigation costs in the first year of the previous price path period (2020–21) to Seqwater's proposed total Allowable Costs (before QCA fees). The QCA's 2020–21 costs have been escalated by actual and forecast CPI to arrive at a 2025–26 estimate for comparison. This shows that Seqwater's proposed irrigation costs are 5 per cent less than the QCA's (escalated) forecast for 2020–21.

[41] For example, in the 2022-26 bulk water price review, it is noted that the equivalent Review Event is simply defined as "law or government policy events". (Refer: Queensland Competition Authority (2022). Final Report, Seqwater Bulk Water Price Review 2022-26, p.101.

Figure 10-2 QCA estimated costs (irrigation share) compared to Seqwater's proposed irrigation costs: 2025-26 ($million, nominal)



Source: Seqwater calculations

10.4. Proposed irrigation prices per ML outcomes (before QCA fees)

Seqwater's proposed costs result in the following indications for the cost recovery position of the irrigation tariff groups:

- Five tariff groups are expected to remain below cost recovery and proceed on the price path according to the Pricing Policies set out in the Referral Notice: Cedar Pocket, Central Lockyer Valley, Morton Vale, Lower Lockyer Valley and Pie Creek.
- The remaining tariff groups are expected to be at cost recovery: Warrill Valley, Mary Valley and Logan River (by the end of the period).

The table below sets out the prevailing prices for 2024–25 (reflecting the continuation of the current price path) compared to Seqwater's proposed cost-reflective prices and proposed prices in accordance with the terms of the Referral Notice for 2025–26.

Table 10-2 Prevailing 2024–25 prices compared to proposed prices for 2025-29, dollars per ML (before QCA fees)

	Actual prices	Proposed cost reflective price	Proposed prices			
	FY25	FY26	FY26	FY27	FY28	FY29
Cedar Pocket						
Part A	34.61	452.12	38.17	41.90	45.81	49.90
Part B	46.81	85.36	48.10	49.42	50.78	52.18
Central Lockyer Valley						
Part A	48.88	79.66	52.83	56.97	61.29	65.81
Part B	11.77	17.23	12.09	12.43	12.77	13.12
Morton Vale Pipeline						
Part A	48.88	79.66	52.83	56.97	61.29	65.81
Part B	8.57	17.23	8.81	9.05	9.30	9.55
Part C	11.29	20.21	11.60	11.92	12.25	12.58
Part D	8.03	12.06	8.25	8.48	8.71	8.95
Bundled Fixed	60.17	99.87	64.43	68.89	73.54	78.39
Bundled Volumetric	16.60	29.29	17.06	17.53	18.01	18.50
Logan River						
Part A	20.53	23.78	23.70	24.43	25.10	25.79
Part B	15.19	24.10	15.61	18.64	21.91	25.35
Lower Lockyer Valley						
Part A	62.11	86.63	66.43	70.94	75.64	80.55
Part B	28.19	50.83	28.97	29.76	30.58	31.42
Mary Valley						
Part A	15.51	16.09	16.09	16.54	16.99	17.46
Part B	8.72	6.49	6.49	6.67	6.85	7.04
Pie Creek						
Part A	15.17	16.09	16.09	16.54	16.99	17.46
Part B	8.53	6.49	6.49	6.67	6.85	7.04
Part C	54.34	480.18	57.94	62.21	66.68	71.34
Part D	91.54	295.83	96.33	98.98	101.70	104.50
Bundled Fixed	69.51	496.28	74.03	78.75	83.67	88.80
Bundled Volumetric	100.07	302.32	102.82	105.65	108.55	111.54

	Actual prices	Proposed cost reflective price	Proposed prices			
	FY25	FY26	FY26	FY27	FY28	FY29
Warrill Valley						
Part A MP	20.56	19.74	20.56[(a)]	20.56[(a)]	20.84	21.42
Part B MP	11.81	9.94	9.94	10.21	10.49	10.78
Part A HP	169.53	137.54	137.54	141.32	145.21	149.20
Part B HP	7.93	16.91	9.94	10.21	10.49	10.78

(a) This price does not reflect government policy, instead it has been held constant to the prevailing FY25 price in accordance with preference of Warrill Valley customers.

10.5. Termination fees

Seqwater proposes the arrangements for termination fees should continue as per the current price path arrangements. That is, for the Morton Vale pipeline, termination fees should be 11 times the cost-reflective Part C price[42], and for Pie Creek, the termination fee should be 11 times the recommended Part C price, with the Government providing a CSO for terminations in Pie Creek.

[42] This should not be confused with other termination arrangements which are set out in the Morton Vale contract.