

Supplementary background paper
QCA review of irrigation prices

Storage rental fees

Background

The Queensland Competition Authority is currently investigating irrigation prices to apply in 22 bulk water schemes and 8 distribution systems owned by SunWater.

SunWater has previously charged storage rental fees to customers carrying over their announced allocation. These fees have only been applied in some schemes where carry over is available.

The QCA has sought clarification in relation to a number of matters indicated below. This paper sets out the QCA's questions and SunWater's response.

Question 1. What do storage rental fees relate to, and where do they apply?

The Resource Operations Plan (ROP) determines if carry over is available to water entitlement holders, and if so, the limitations and other rules (eg loss adjustments, maximum carry over volumes etc).

Carry over is available in eight of SunWater's bulk water schemes. Storage rental fees apply in three of those schemes.

Storage rental fees were developed several years ago in response to customer concerns that some customer were gaining advantage over others without contributing additional funds. The view was that if carry over is free, then some customers would utilise carry over even where they had no intent of using the water. Given the volumes that can be carried over are limited under the ROP, and applications are typically pro-rated where they exceed this volume, this would have the effect of other customers suffering restrictions to the volumes carried over.

SunWater consulted with irrigator representatives in introducing this charge, and it was only implemented where there was a level of customer acceptance of the behavioural impact that the application of the fee has i.e. in discouraging spurious applications for carry over volumes. Most recently, SunWater did not introduce this charge to the Mareeba-Dimbulah scheme given customer opposition, reflecting an absence of the concerns described above.

The table below sets out those schemes where carry over is available under the ROP, and details about any storage rental fees that apply.

Table 1. Summary of storage rental fees – schemes with Carry Over available

| Scheme (carry over available) | Storage rental fee applies? | Storage rental fee 20010-11 (\$/ML) | Average annual revenue (2006 – 2010) |
|-------------------------------|-----------------------------|-------------------------------------|--------------------------------------|
| Barker Barambah | No | - | - |
| Bundaberg | No | - | - |
| Burdekin-Haughton | No | - | - |
| Callide Valley | Yes | \$5.73 | \$8,500 |
| Dawson Valley | Yes | \$2.30 | \$8,000 |
| Mareeba-Dimbulah | No | - | - |
| Nogoa Mackenzie | Yes | \$1.95 | \$122,000 |
| Proserpine River | No | - | - |

Note: carry over was previously available in the Macintyre Brook scheme, until the introduction of continuous sharing. Accordingly, storage rental fees ceased from 2009 and prior to that generated around \$15k to \$25k per annum in revenue. Likewise carry over was available at St George prior to the implementation of continuous sharing in that scheme in the year 2000.

Question 2. How were storage rental fees treated in the current price paths?

Storage rental fees were treated as a revenue offset in the current price paths, meaning the forecast revenues were applied against the lower bound cost target for the scheme.

Question 3. What are SunWater's proposed future arrangements for the upcoming regulatory period?

In preparing Network Service Plans, SunWater assumed that storage rental fees would no longer apply, and storage rental fees were not included in the projected revenue offsets for the relevant schemes. This approach was based on an expectation that bulk water tariffs would be the sole mechanism for recovering bulk water costs from water access entitlement holders.

This is not to say that SunWater is opposed to continuing with storage rental fees, if customers and the QCA recommend a continuation, then SunWater would propose that the income be treated as a revenue offset for the next regulatory period.