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Charles Millstead
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Millstead

Sunwater Limited (Sunwater) welcomes the opportunity to provide comments to the Queensland Competition Authority (QCA) on its draft *Statement of regulatory pricing principles for the water sector*.

We consider it important to note that under the existing regulatory framework a referral notice is issued by the Queensland Government for the QCA to investigate pricing practices relating to monopoly business activities and recommend prices, and that the referral notice, which may reflect broader policy settings that are in addition to or outside the pricing principles, takes precedence over the QCA's pricing principles.

Nonetheless, Sunwater generally supports the pricing principles contained in the QCA's draft statement, subject to the following concerns being addressed.

Conflicting priorities and trade-offs

Sunwater recognises that pricing principles play an important role in economic regulation, by providing guidance to regulated entities and stakeholders on how the regulator will perform its functions. However, Sunwater suggests that the statement should provide more explicit advice on how the QCA weighs or assigns priority to potentially conflicting pricing principles.

Further, it is vital for the QCA to explain what trade-offs are made when recommending prices and to give stakeholders the opportunity to provide input on these trade-off decisions during the review process. The QCA's statement should therefore be amended to include this requirement.

Principle 1—Prudency and efficiency of the cost base

The QCA has indicated that for expenditure to be prudent it should be '*justified by reference to an identified need or cost driver*' (p.14). In its 2020–2024 irrigation price investigation for Sunwater, the QCA expanded on this with the following examples:

- the expenditure is required to deliver agreed service levels
- the expenditure is required to meet new legal or regulatory obligations
- there is a reasonable expectation of future benefits.

Sunwater recommends including these examples (and others, as required) to provide further guidance to stakeholders on what will constitute *prudent expenditure*.

Sunwater also notes that the approach the QCA has previously taken to assess the prudency and efficiency of costs is more extensive than that identified on page 14 for cost of service regulation. For example, in the 2020–2024 irrigation price investigation, the QCA and/or its consultant also:

- examined Sunwater’s asset planning and management framework, forecast methodology and approach to cost estimation
- reviewed, in depth, a large sample of historical and forecast annuity-funded projects. In doing so, it sought business cases; asset age, risk and condition information; the scope of works; cost estimates; procurement, planning and project management documents etc.
- replicated Sunwater’s cost allocation methodology for non-direct costs, while proposing only minimal changes to the allocation of non-direct costs
- required detailed information from our insurance broker, outlining their approach to procuring insurance products, when Sunwater’s internal procurement approach had already been confirmed to be appropriate.

Sunwater believes it would be helpful for the statement to describe in more detail the approaches the QCA may take in assessing the prudence and efficiency of costs.

Further, the QCA may consider providing regulated entities with clearer guidance prior to the lodgement of their regulatory proposal on the types of information the QCA requires to conduct its investigation. This could be achieved by developing high-level information requirements, in consultation with stakeholders, and publishing them in the statement or a separate non-binding guideline. Detailed information requirements could be tailored to the individual water business, once the relevant Ministerial referral notice is received.

Principle 5—Replace reference to setting prices

The reference to ‘*In setting prices*’ should be removed from Principle 5 and replaced with ‘*In developing their regulatory proposals*’. The Queensland Government, not Sunwater, sets prices for irrigation customers in regulated schemes.

Principle 5—Defining tariff structure and recognising customer engagement limitations

Sunwater promotes and welcomes customer feedback through a wide variety of channels including the Sunwater website, phone, mail, email and in person. All customer feedback is documented internally and may be used to inform Sunwater’s regulatory proposal to the QCA. We therefore support the inclusion of a pricing principle that ensures consideration of customer input when developing a regulatory proposal.

However, it is important to recognise that Sunwater’s engagement with customers on tariffs is shaped by the current regulatory framework in Queensland. Sunwater therefore suggests the QCA clearly define in its statement the specific aspects of tariffs it expects regulated entities to consult on, having regard to this framework.

We consider there are two key components related to tariffs—tariff groups and tariff structure.

In Sunwater’s view, a **tariff group** refers to a group of customers within a scheme who have similar characteristics, e.g. sub-scheme location, cost of supply and volume of entitlements. Changes to tariff groups are generally set by the Ministerial referral notice and may require an assessment of trade-offs between different groups of customers (as was the case for the alternative Three Moon Creek tariff group recommended in the 2020–2024 irrigation price investigation) or the underlying hydrology of the system, the formal mapping of which is undertaken by the Department of Regional Development, Manufacturing and Water.

Accordingly, it is not appropriate for Sunwater to make these assessments or consult with customers on the potential price impact of alternative tariff groups. Rather, we understand that such evaluations are embedded in the issues the QCA is required to consider and consult on under both the *Queensland Competition Authority Act 1997* and the Ministerial referral notice.

A **tariff structure** is comprised of three defining characteristics:

- the type of charge, e.g. fixed charge, volumetric charge or access charge
- the parameters of the charge, i.e. specific characteristics that relate to the charge that influence how it is applied. For example, a fixed charge is applied based on the nominal volume of water allocations held by the customer; a

volumetric charge is applied based on the megalitres of water taken by the customer; and an access charge is applied as an annual charge per customer.

- the rate applied to each charge.

Sunwater believes that our most meaningful conversations with irrigation customers will relate to the first two characteristics. This is because decisions on the rate to apply is a matter for the Queensland Government. In setting irrigation prices, the Queensland Government aims to balance cost recovery for the services provided and impacts on customers.¹ It is not appropriate for Sunwater to make such assessments.

If Sunwater is required to engage with customers on prices as part of our regulatory proposal, those prices would be based on Sunwater's estimate of costs, incorporating existing tariff structures and (time permitting) the requirements of the referral notice. While a cost-based assessment of prices with Sunwater may be the first step for customer engagement in a price review process, subsequent discussions with the QCA should provide an opportunity for customers to provide input on how the matters that must be considered by the QCA under both the Ministerial referral notice and the *Queensland Competition Authority Act 1997* are applied.

Principle 7—Predictability

Principle 7 refers to predictability, but the corresponding text on page 23 does not mention predictability or outline factors the QCA will consider in applying this principle. Recognising that the role of the pricing principles is to produce a stable regulatory regime, Sunwater suggests removing predictability as an individual principle.

Other matters

Sunwater also considers that the statement would benefit from clarification on these points:

- Capital expenditure (and some operating expenditure) may be recovered through an annuity, as is the case for Sunwater's renewals expenditure. We recommend adding a footnote to this effect on page 13.
- To implement nodal pricing, the QCA (in consultation with stakeholders) would first need to establish a methodology detailing how shared costs would be allocated between different supply points.

Thank you for considering Sunwater's input. If you would like to discuss this submission, please contact Courtney Chester, Regulatory and Pricing Lead.

Yours sincerely



Glenn Stockton AM
Chief Executive Officer

¹ Queensland Government (2020), *Seqwater and Sunwater irrigation pricing*, 2 December 2020, Viewed on 27 January 2021, <https://www.business.qld.gov.au/industries/mining-energy-water/water/industry-infrastructure/pricing/irrigation>

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