

Irrigation price review 2025-29

Stakeholder workshops

Today's session

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Purpose of this workshop

- **At today's session, we want to:**
 - understand the issues of importance to stakeholders
 - provide an opportunity for stakeholders to share their views and ask questions
 - provide information to help stakeholders with their submissions.

QCA's role

- The QCA is the independent economic regulator for Queensland.
- The Queensland Government can direct the QCA to review and make recommendations about irrigation prices.
- The QCA does not:
 - make water policy
 - determine irrigation prices.
- This review is separate to other reviews undertaken by the QCA (e.g. setting retail electricity prices under the Electricity Act).

Burning issues or questions?

- Please tell us your burning issues or questions that you would like us to cover in this session:
 - Can be general / high level.
 - Can be specific / detailed.

Indicative timeline for the review

Initial stage

Businesses' proposals
30 November 2023

Workshops
January/February 2024

Submissions
due 29 February 2024

Mid stage

Draft report to govt
due 30 June 2024

Workshops
July/August 2024

Submissions
due September 2024

Final stage

Final report to govt
due 31 January 2025

Irrigation prices apply
1 July 2025

Referral notice

- The QCA has been asked to make recommendations on:
 - prices from 1 July 2025 to 30 June 2029 (including drainage prices, drain diversion prices, water harvesting prices and termination fees) that are consistent with the government’s pricing principles
 - mechanisms to manage material cost risks.
- Key changes to government’s pricing principles since 2020 review:
 - Different approach to transitioning fixed prices above the fixed price target.
 - Prescriptive approach to transitioning volumetric prices below associated target.
 - Special cases—flexibility in applying the pricing principles where improved service levels, augmentations/new assets or new tariff groups/components.
- Price recommendations could consider new tariff groups, subject to constraints about shifting costs and customer agreement.

Matters we must consider in our review

- In conducting the review, the QCA must also consider:
 - the matters in section 26 of the QCA Act, including:
 - o economic efficiency—efficient costs, efficient resource allocation
 - o business/industry specific matters—actual cost of providing services, effect of inflation
 - o customer/social impact matters—social welfare and equity considerations, economic and regional development issues
 - o environmental obligations—the impact on the environment of prices charged.
 - the stated matters in the referral (s. 24(1)(b) of the QCA Act):
 - o balancing legitimate commercial interests of businesses with interests of their customers
 - o where possible, transparent and simple revenue and pricing outcomes
 - o having regard to customer agreements in line with requirements in referral
 - o having regard to fixed and variable nature of costs
 - o having regard to our findings in Seqwater's bulk price review 2022–26.
- Judgement will be used to weigh up and take the various matters into account, but economic efficiency will be prioritised.

How we will assess pricing proposals

- We will assess the following aspects of Seqwater's proposal:
 - the operating context within which the business operates
 - whether proposals are informed by meaningful engagement with customers
 - the business's justification for the prudence and efficiency of proposed costs with reference to the views of customers and our expectations
 - the business's explanation of price targets and associated prices with reference to our expectations and for consistency with the government's pricing principles.
- Key steps to reach our price recommendations will be informed by assessment of the Seqwater's proposals and stakeholder submissions:
 - Determine the prudence and efficiency of costs in each scheme.
 - Decide how the scheme costs are to be allocated to tariffs and smoothed over the price path period to reach the price target for each tariff group.
 - Derive prices that will transition to the price target.

Customer engagement

- Our assessment of the businesses' customer engagement will be based on the engagement principles outlined in our guidelines.
- We outlined the QCA's expectations with respect to engagement on service levels, cost inputs and prices.
- We consider that, to be effective, engagement should:
 - promote an understanding of customer needs by ensuring a broad representation of customer views
 - be cost-effective and targeted to what customers value and can influence
 - be ongoing and occur within timeframes necessary to inform decision-making
 - clearly inform the planning and decision-making of the business.
- We welcome feedback from stakeholders on how effectively the businesses have engaged.

Assessment of proposed opex

- Our assessment will take account of our recommendations from our 2022 Seqwater bulk water price review including the consistency of:
 - proposed business-wide opex with QCA recommended opex in the 2022 bulk review
 - the proposed approach to allocating a portion of shared costs to irrigation schemes with the QCA recommended approach in the 2022 bulk review.
- For irrigation-specific expenditure, our approach will generally involve:
 - assessing the reasons where proposed baseline expenditure is higher than our recommended allowance from the 2020 irrigation review
 - assessing the prudence and efficiency of any proposed step changes in baseline opex over the price path period
 - reviewing input cost escalation factors and assessing the potential for efficiency gains over the price path period.

Assessment of proposed renewals and other capex

- Our assessment will take account of our findings from the 2022 bulk review including the consistency of:
 - proposed forecasts for shared assets with QCA recommended forecasts in the 2022 bulk review
 - the proposed approach to allocating a portion of shared assets to irrigation schemes with the QCA recommended approach in the 2022 bulk review.
- For irrigation-specific renewals, our approach will involve:
 - assessing the reasons where actual expenditure over the previous price path is higher than our recommended allowance from the 2020 irrigation review
 - for forecast renewals, reviewing the prudence and efficiency of a sample of material projects (e.g. metering renewals).

Approaches to managing risk

- The referral requires us to recommend appropriate price review triggers and other mechanisms to manage risks associated with material changes in allowable costs outside the control of the businesses.
- We have typically provided regulated businesses with the ability to use review events or cost pass-through provisions to recover material changes in costs when there is significant uncertainty about whether an event will occur, or specific costs are unusually difficult to forecast.
- In the 2020 review, we said that the businesses should be able to recover unexpected changes in costs associated with:
 - opex risks associated with specified events outside the control of the businesses (Review Events)
 - renewals and other capex risks (e.g. major weather events) subject to an ex post prudency and efficiency assessment.

Making a submission

- Providing written submissions is the most effective way to provide feedback.
- Submissions can be made through our website or by post.
- We welcome joint or collaborative submissions.
- Submissions can be brief comments on specific issues.
- Providing evidence to support statements is helpful.
- We publish submissions on our website.

Next steps

- Submissions are due by **29 February 2024**.
- Information about how to make a submission is available on our website: www.qca.org.au/submissions.
- All submissions received by the due date will be considered in preparing the draft report.

Questions?

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