

We have recommended prices for irrigation customers in 7 water supply schemes and associated distribution systems operated by Seqwater over the period 1 July 2020 to 30 June 2024.

After extensive consultation with stakeholders, we have released our final report. The Government will make the final decision on irrigation prices taking our recommendations into consideration.

Background

We undertook this review in response to a direction from Government. We have undertaken our review in accordance with the relevant legal framework, including the referral notice for this investigation and the QCA Act.

This framework defines the scope of our investigation and directs us to provide recommendations on particular issues. It also requires that we consider certain matters when undertaking our investigation. Some of these matters are set out in section 26 of the QCA Act and others in the referral.

In recommending prices, we have emphasised the pricing principles set out in the referral, as these principles give effect to the Government's water pricing policy. One of the key principles of that policy is that prices should increase gradually until they reach a cost-reflective level, where they recover the irrigation share of the scheme's operating, maintenance and capital renewal costs but do not recover a return on, or of, the scheme's initial asset base (as at 1 July 2000).

This report refers to this level of cost recovery as 'the lower bound cost target'. This level of cost recovery still involves a subsidy from taxpayers, as the water businesses are not earning a return on, or recovering the initial investment in the existing assets.

More details on this framework are provided in Part A of our report, which is available on our website.

Approach to reviewing costs

Our recommended prices seek to recover certain prudent and efficient costs. We have assessed the operating expenditure (opex), renewals expenditure and dam safety upgrade capital expenditure (capex) proposed by Seqwater for prudence and efficiency.

We have taken our recent findings in relation to our 2018–21 bulk water price review into account in assessing prudent and efficient expenditure. In that review, we assessed the prudence and efficiency of Seqwater's proposed opex and capex (including irrigation-related costs).

Key findings from cost review

Seqwater's actual irrigation scheme opex was significantly lower than our opex forecasts over the 2013–17 price path period. In addition, Seqwater's proposed base year opex is lower than actual historical expenditure.

We found that Seqwater's proposed opex was generally prudent and efficient. However, key adjustments include our acceptance of Seqwater's revised insurance costs submitted in response to our draft report and our removal of costs associated with a proposed new billing system.

More details are in Part C (chapter 2) of our report.

We have also reviewed historical and forecast renewal projects with a material pricing impact. However we have not recommended any further cost savings. More details are in Part C (chapter 3) of our report.

Dam safety

We have recommended two pricing options for those schemes with dam safety upgrade projects that are expected to be commissioned in the price path period. The decision about which set of prices should apply is a matter for the Government when it determines prices for the price path period.

The primary service provided by most dams that are within the scope of our review is the supply of water to users. As dam safety upgrade is a compliance cost, we consider that it should be treated as a normal cost of operation in supplying water services unless there is a clear and justifiable basis for allocating some of the costs to other parties.

We have reflected the incidental flood moderation benefits of dams by only allocating 80% of irrigators' share of dam safety upgrade expenditure to the allowable cost base.

We consider that where a dam has a formal flood mitigation role, the costs of dam safety upgrades should be shared with beneficiaries in the broader community.

More details are in Part A (chapter 4) of our report.

Prices and bill moderation

Given our consideration of bill impacts and the affordability concerns raised by stakeholders, we consider it is appropriate to moderate bill impacts. We have sought to recommend prices that transition gradually to the lower bound cost target, as this will give users time to adjust.

We have recommended fixed prices that transition to the fixed component of the lower bound cost target by annual increases of inflation plus \$2.38/ML of water access entitlement (WAE), consistent with the pricing principles in the referral.

Where the existing volumetric price is above the volumetric component of the lower bound cost target (the cost-reflective volumetric price), we have reduced the existing volumetric price to the cost-reflective volumetric price immediately.

Where the existing volumetric price is below the cost-reflective volumetric price, we have recommended the following transition to the cost-reflective price:

- For tariff groups with existing prices above the lower bound cost target, we have recommended that the existing volumetric price increases by no more than inflation.
- For tariff groups with existing prices below the lower bound cost target, we have moderated bill impacts by capping the increase in the volumetric price to inflation until the fixed price reaches the fixed component of the lower bound cost target.

This approach limits the increase in the combined fixed and volumetric price to inflation plus \$2.38/ML of WAE (from 2020–21, increasing by inflation).

More details are in Part A (chapter 2) and Part C (chapter 7) of our report.

What happens next?

The Government will consider our final report and make the final decision on irrigation water prices for Sunwater and Seqwater customers over the pricing period 1 July 2020 to 30 June 2024.