

Why are we recommending irrigation prices?

The Queensland Government directed us to recommend irrigation prices for Sunwater and Seqwater customers over the pricing period 1 July 2020 to 30 June 2024.

This includes prices for irrigation customers in the **Barker Barambah water supply scheme** (WSS). Prices for non-irrigation customers are outside the scope of our review.

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

How we have recommended prices

We recommended two-part tariffs for the tariff groups in this scheme. The first part (Part A) is a *fixed price* per megalitre (ML) of water access entitlement (WAE), and the second part (Part B) is a *volumetric price* per ML of water used.

The volumetric price recovers variable costs (e.g. a portion of labour costs, and electricity costs relating to pumping) that change with water usage. The remaining costs are recovered by the fixed price. We assessed all expenditure to ensure that Sunwater only recovers prudent and efficient costs.

We applied the pricing principles in the referral, as these give effect to the Government's water pricing policy. Under that policy, prices are to gradually transition over time to the 'lower bound cost target'. This target recovers the irrigation share of the scheme's operating, maintenance and capital renewal costs but does not recover a return on, or of, the scheme's existing asset base (as at 1 July 2000). We also moderated bill impacts by capping total price increases to inflation plus \$2.38/ML of WAE (from 2020–21, increasing by inflation). More details are in Part A (chapter 2) of our report.

Under our recommended prices, cost recovery for Sunwater's irrigation customers will improve from 90% in 2020–21 to 94% by 2023–24. The shortfall is currently funded by a subsidy, paid by the Queensland taxpayer, which will reduce over time as prices transition to the lower bound cost target.

What prices have we recommended?

For this scheme, our recommendations result in the fixed price increasing by our estimate of inflation (2.24%) plus \$2.38/ML (2020–21 dollars) over the price path period. The volumetric price differs between the two tariff groups in this scheme:

- For the Redgate relief tariff group, the existing price increases by inflation over the price path period.

- For the river tariff group, the price reduces to the cost-reflective level at the start of the price period, and then increases by inflation over the price path period.

Our recommended prices in this scheme will not recover costs by the end of the pricing period. Cost recovery will increase from 67% in 2020–21 to 82% by 2023–24.

Dam safety upgrades for this scheme are due to be commissioned in 2027–28. While this will not have an impact on prices in this price path period, the estimated impact in the year following commissioning (2028–29) will be an increase of around \$20.33/ML to the fixed component of the lower bound cost target.

Our recommended prices are shown in the table below.

Recommended prices for irrigation customers (\$/ML)

Tariff group	2019–20 (Existing)	2020–21	2021–22	2022–23	2023–24
Redgate relief					
Fixed (Part A)	25.93	28.89	31.97	35.18	38.51
Volumetric (Part B)	22.56	23.07	23.58	24.11	24.65
River					
Fixed (Part A)	25.93	28.89	31.97	35.18	38.51
Volumetric (Part B)	4.60	4.26	4.35	4.45	4.55

How we have addressed stakeholder concerns

Tariff structure

Some irrigation stakeholders were concerned about supply reliability in this scheme and asked that we look at pricing alternatives. These alternatives included:

- reducing the fixed price and increasing the volumetric charge to maintain Sunwater's revenues, taking into account the 15-year reliability of the scheme
- a drought relief mechanism whereby some assistance for payment of the fixed price would be provided when the announced allocation falls below a threshold.

We do not consider that supply reliability concerns are best addressed through adjusting the tariff structure. While we acknowledge the concerns raised by customers in schemes affected by drought, we consider that any relief from Part A charges during a drought is also a matter more appropriately determined by the Government. More details are in Part A (sections 2.6 and 3.2) of our report.

Operating costs

Some irrigation stakeholders in this scheme raised concerns with costs incurred to implement the 2015 recommendations made by the Inspector-General Emergency Management (IGEM costs) and insurance costs.

We accepted Sunwater's revised (lower) IGEM costs provided to us in June 2019. However, we allocated this between irrigation and non-irrigation customers using the headworks utilisation factor. More details are in Part B (section 2.9) of our report.

While we accepted Sunwater's final insurance costs for 2019–20 as a base year estimate, we also allocated these costs between irrigation and non-irrigation customers using the headworks utilisation factor. More details are in Part B (section 2.6) of our report.

Renewals annuity

Some irrigation stakeholders in this scheme raised concerns with specific renewals projects and the length of the annuity planning period.

We identified improvements to Sunwater's asset planning and management to ensure assets are not replaced earlier or later than required.

We accepted Sunwater's 30-year planning period for calculating its renewals annuity allowance. However, we adjusted the timing and costs of Sunwater's proposed renewals program, resulting in a reduction in Sunwater's proposed renewals annuity costs. More details are in Part B (chapter 3) of our report.

Other matters raised by stakeholders

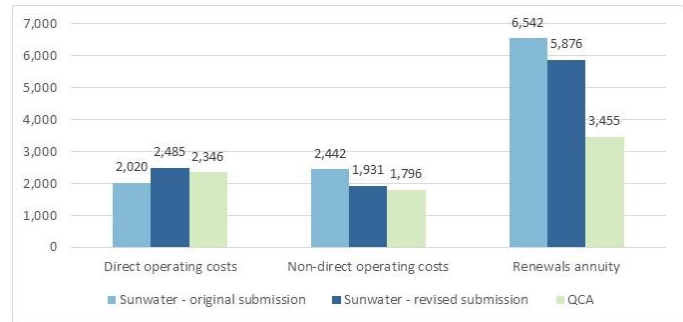
Some irrigation stakeholders in this scheme raised concerns about price levels, affordability and the impact of higher water prices on their businesses, regional economies and local communities.

We consider that recommending prices that are consistent with the Government's pricing principles takes into account social welfare, capacity to pay and regional development considerations. We also moderated bill impacts. More details are in Part A (chapter 2) of our report.

We recommended a reduction in scheme costs for Barker Barambah WSS

We reduced Sunwater's proposed scheme costs by 31% over the pricing period 1 July 2020 to 30 June 2024.

Total scheme costs over the price path period—Barker Barambah (2018–19 dollars) (\$'000)



Notes: 1. Revenue offsets are not included in the charts. 2. QCA non-direct operating costs includes the QCA regulatory fees.

More details on recommended costs for Sunwater schemes are in Part B (chapters 2 to 4) of our report.

We assessed local impacts

We moderated bill impacts in this scheme by limiting the increase in the combined fixed and volumetric price to inflation plus \$2.38/ML of WAE (from 2020–21, increasing by inflation). We have recommended that the fixed price increases by inflation plus \$2.38/ML (from 2020–21, increasing by inflation) over the price path period, and that the existing 2019–20 volumetric price for the Redgate relift tariff group increases by inflation only.

The table below presents an estimate of the change in water bills (compared to the bill based on existing prices), for various levels of water use.

More details on bill impacts are in Part B (chapters 7 and 9, and appendix C) of our report.

Change in water bill

Water use as portion of entitlement held (%)	Water bill change from 2019–20 to 2020–21 (%)	Water bill change from 2019–20 to 2023–24 (%)
Redgate relift		
0	11	49
25	10	41
50	9	37
75	8	33
100	7	30
River		
0	11	49
25	11	46
50	10	44
75	9	43
100	9	41

Where you can find out more

The final report is on the [QCA website](#) in three parts:

- Part A—key regulatory and pricing framework issues that apply to both Sunwater and Seqwater
- Part B—Sunwater schemes
- Part C—Seqwater schemes.

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.