

### 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 recommending prices for irrigation customers in the **Pioneer River 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) 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) until the price reaches the cost-reflective level in 2022–23. The volumetric price increases by our estimate of inflation (2.24%) until 2021–22, and increases by higher than inflation in 2022–23 to reach the cost-reflective level. Prices fully recover costs from 2022–23 onwards.

Dam safety upgrades for this scheme are due to be commissioned in 2022–23. This impacts on our recommended prices from 2022–23 onwards. We have estimated the impact in the year following commissioning (2023–24) to be an increase in the cost-reflective fixed price of \$1.15/ML.

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
<b>Pioneer River WSS (excluding dam safety)</b>					
Fixed (Part A)	14.81	17.52	20.35	21.42	21.90
Volumetric (Part B)	3.13	3.20	3.27	3.92	4.01
<b>Pioneer River WSS (including dam safety)</b>					
Fixed (Part A)	14.81	17.52	20.35	21.87	22.36
Volumetric (Part B)	3.13	3.20	3.27	3.92	4.01

### How we have addressed stakeholder concerns

#### Access charge

Some irrigation stakeholders support the inclusion of an access charge.

We welcome the water businesses working with their customers to reach agreement on issues of concern. We are generally receptive to recognising such agreements when we recommend irrigation prices, subject to any agreement being consistent with the requirements set out in the referral.

Given the importance of the access charge and its impact on affordability, we have recommended that an access charge not be introduced until further consultation is undertaken with Sunwater's customers, particularly with small water users.

See Part B (section 6.3) of our report for further details.

#### Dam safety

Some irrigation stakeholders have raised concerns about the allocation of dam safety expenditure to irrigators.

The primary service provided by most dams that are within the scope of our review is the supply of water to users. In order to provide that service, the water business must comply with a range of regulatory obligations, including dam safety requirements. As a compliance cost, we consider that dam safety upgrade expenditure should be treated as a normal cost of operation in supplying water services to customers.

We 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.

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

See Part A (Chapter 4) of our report for further details.

### Electricity cost pass through mechanism

Some stakeholders expressed concern for Sunwater's proposed electricity cost pass through mechanism.

We are concerned that the automatic pass through of electricity costs has the potential for large bill impacts and reduced incentives for the efficient use of electricity.

We have encouraged Sunwater to further refine the proposal and demonstrate clear customer support. The Government may wish to consider any such agreement were one to be reached subsequent to our report.

More details are in Part A (section 3.3) of our report.

### Headworks utilisation factor (HUF)

Some irrigation stakeholders raised concerns with Sunwater's proposed HUF methodology.

The HUF approach then takes into account the water planning framework (including water sharing rules and other operational requirements) determined by DNRME in estimating the relative benefits of bulk water assets attributable to medium and high priority customers.

Our consultant, Water Solutions, reviewed the proposed HUF for this scheme and determined that it has been appropriately calculated.

See Part B (section 7.3) of our report for further details.

### Operating costs

Some irrigation stakeholders in this scheme have 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.

We accepted Sunwater's revised (higher) insurance costs as they are driven by recent changes in insurance market rates. We also recommended allocating this between irrigation and non-irrigation customers using the headworks' utilisation factor. See Part B (section 2.6) of our report for further details.

### Renewals annuity

Some irrigation stakeholders raised concerns about Sunwater's asset management practices and the prudence and efficiency of some projects.

We identified improvements to Sunwater's asset planning and management to ensure assets are not replaced earlier or later than required. See Part B (section 3.2) of our report for further details.

We reduced Sunwater's forecast renewals expenditure by 35.2% (relative to the November 2018 submission) to reflect our assessment of the prudent and efficient level of expenditure. See Part B (sections 3.4 and 3.5) of our report for further details.

### Other matters raised by stakeholders

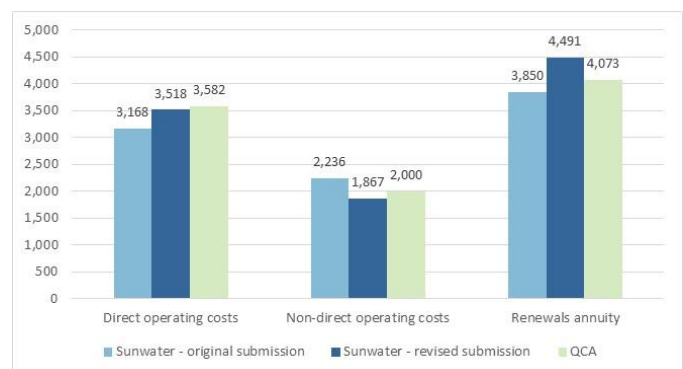
Some irrigation stakeholders in this scheme raised concerns about price levels, affordability and the impact of higher water prices on their businesses, regional economies and local communities.

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 have recommended an increase in scheme costs for Pioneer River WSS

We increased Sunwater's proposed scheme costs by 4% over the pricing period 1 July 2020 to 30 June 2024, due mainly to higher renewals expenditure provided to us in June 2019.

#### Total scheme costs over the price path period—Pioneer River WSS (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 have 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) until the price reaches the cost-reflective level in 2022–23, and that the existing 2019–20 volumetric price only increases by inflation in the first two years and higher than inflation in 2022–23 to reach the cost-reflective level.

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 (%)
<b>Pioneer River WSS (excluding dam safety)</b>		
0	18	48
25	18	47
50	17	46
75	16	45
100	16	44
<b>Pioneer River WSS (including dam safety)</b>		
0	18	51
25	18	50
50	17	49
75	16	48
100	16	47

### 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.