
QUEENSLAND COMPETITION AUTHORITY ACT 1997
Section 23

MINISTERS' REFERRAL NOTICE

Referral

As the Premier and Treasurer of Queensland, pursuant to Section 23 of the *Queensland Competition Authority Act 1997* (the Act), we hereby direct the Queensland Competition Authority (the Authority) to develop irrigation prices to apply to the following SunWater water supply schemes (WSS) from 1 July 2011 to 30 June 2016:

Barker Barambah	Lower Fitzroy
Bowen Broken Rivers	Macintyre Brook
Boyne River and Tarong	Maranoa River
Bundaberg	Mareeba-Dimbulah
Burdekin-Haughton	Nogoa-Mackenzie
Callide Valley	Pioneer River
Chinchilla Weir	Proserpine River
Cunnamulla	St George
Dawson Valley	Three Moon Creek
Eton	Upper Burnett
Lower Mary	Upper Condamine

1. Matters the Authority must take into consideration

In referring this investigation, the Ministers direct the QCA under section 24 of the Act as follows:

- 1.1 For water supply schemes, or segments of schemes (except those listed in 1.2 below), bulk water supply and channel prices/tariff structures are to be set to provide a revenue stream that allows SunWater to recover:
- a) its efficient operational, maintenance and administrative costs;
 - b) its expenditure on renewing and rehabilitating existing assets, whether through a renewals annuity or a regulatory depreciation allowance;
 - c) a rate of return on assets valued at 1 July 2011, as specified in 1.4 (below) (the initial regulated asset base (RAB)); and
 - d) after 1 July 2011, a return of, and on, prudent capital expenditure on existing assets or for constructing new assets.

- 1.2 For the following schemes (schemes or segments of schemes identified as unable to meet the full costs of 1.1 a) and 1.1 b) due to hardship):
- a) irrigation prices are to be set to maintain current prices in real terms, and improve the level of cost recovery, where the capacity to do so exists;
 - b) after 1 July 2011, prices are to include a return of, and on, prudent capital expenditure to augment existing assets or construct new assets.
 - c) the Authority may recommend whether to set prices through the use of a renewals annuity or depreciation-based RAB pricing approach.

These schemes are:

- Redgate Relift in the Barker Barambah WSS
 - Callide Valley WSS
 - Cunnamulla WSS
 - Maranoa River WSS
 - Channel Relift in the Mareeba Dimbulah WSS
 - Three Moon Creek WSS
- 1.3 For 1.1 (d) and 1.2 (b), the Authority is to have regard to the agreed level of service between SunWater and the customers of the water supply scheme, including for capital expenditure on existing assets or for the construction of new assets.
- 1.4 In recommending an initial RAB (1.1 c) for irrigation supply assets (or that part of an asset used for the supply of water for irrigation purpose), the Authority is to:
- a) value the following channel distribution systems assets at zero;
 - Bundaberg channel distribution system
 - Burdekin channel distribution system
 - Dawson Valley channel distribution system
 - Eton channel distribution system
 - Lower Mary channel distribution assets
 - Mareeba Dimbulah channel distribution system
 - Emerald channel distribution system
 - St George channel distribution system
 - Callide Valley channel distribution assets
 - Yarralong Pump Station and associated distribution assets in the Upper Condamine Scheme
 - Youlambie channel distribution assets in the Three Moon Creek Scheme
 - Redgate Relift distribution assets in the Barker Barambah scheme
 - b) For other schemes or segments of schemes, apply a 'line in the sand' approach¹ to value assets for bulk water supply based upon:
 - the level of service attributed to the supply of water for irrigation;
 - the efficient operating cost of meeting the required level of service;
 - water prices reflecting the irrigators' anticipated capacity to pay;

¹ The 'line in the sand' approach can be used to set an initial regulated asset base between:

- at the upper end, a value at which customers would be better off if the asset was scrapped and a new asset installed – which is what a depreciated, optimised replacement cost provides an estimate of; and
- at the lower end, the value that the assets would have in their next best use, which for sunk investments may be very low.

- water prices achieving a commercial return over a period not longer than 15 years.

The 'line-in-the-sand' approach must not adversely affect the operator's ability to recover full commercial prices from urban and industrial customers.

- 1.5 In providing pricing recommendations for each scheme, the Authority is to also consider how to treat existing renewals reserves if it considers it appropriate to transition schemes to a depreciation-based RAB pricing approach.
- 1.6 For relevant schemes, the Authority is to review drainage charges and channel water harvesting charges.
- 1.7 The Authority is to recommend pricing principles to apply for the inclusion of capital expenditure on dam spillway upgrades.

2. Consultation

The Authority must undertake an open consultation process with all relevant parties and consider submissions within the timetable for the delivery of the Final Report to Government. All reports and submissions must be made publicly available, including on the Authority's website.

3. Timing

The Authority must provide to the responsible Ministers and the Minister for Natural Resources, Mines and Energy and Minister for Trade:

- a) a Draft Report and draft irrigation prices by no later than 31 January 2011 and;
- b) a Final Report and recommended price paths by no later than 30 April 2011.

The Final Report will inform the Government's deliberations for price paths to apply to SunWater's irrigation water prices for the five year period commencing 1 July 2011.

4. Other matters

The Authority may exercise all the powers under Part 6 of the *Queensland Competition Authority Act 1997*.

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