

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 **Central Lockyer Valley water supply scheme (WSS)** and **Morton Vale Pipeline distribution system**. 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 a two-part tariff for the tariff group in this scheme. The first part (Part A and Part C) is a *fixed price* per megalitre (ML) of water access entitlement (WAE), and the second part (Part B and Part D) 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 associated with this scheme are recovered by the fixed price. We have assessed all expenditure to ensure that Seqwater 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 Seqwater's irrigation customers will improve from 74% in 2020–21 to 77% 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 river-only customers in the Central Lockyer Valley WSS, 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, and the volumetric price decreasing to cost-reflective immediately. Prices will not recover costs by

the end of the pricing period. Cost recovery will increase from 68% in 2020–21 to 79% by 2023–24.

For Morton Vale Pipeline distribution system, our recommendations result in the total fixed price increasing by inflation plus \$2.38/ML (2020–21 dollars) over the price path period. Total volumetric prices increase by inflation over the price path period. Prices will not recover costs by the end of the pricing period. Cost recovery will increase from 72% in 2020–21 to 82% by 2023–24.

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
Central Lockyer Valley WSS					
Fixed (Part A)	35.42	38.59	41.89	45.32	48.88
Volumetric (Part B)	11.46	11.01	11.26	11.51	11.77
Morton Vale Pipeline distribution system					
Fixed (Part A)	35.42	38.59	41.89	45.32	48.88
Volumetric (Part B)	5.72	8.02	8.20	8.38	8.57
Fixed (Part C)	10.34	10.58	10.81	11.05	11.29
Volumetric (Part D)	9.47	7.51	7.68	7.85	8.03
Total Fixed	45.76	49.17	52.70	56.37	60.17
Total Volumetric	15.19	15.53	15.88	16.23	16.60

Over the past year, there has been public consultation on the Government's proposal to convert water entitlements in the Central Lockyer Valley WSS to tradeable WAEs. On 13 December 2019, the Moreton water plan amendment was finalised. However, the final water entitlement notice, water management protocol, operations manual and resource operations licence (ROL) are not expected to be released until February 2020. The prices in the table above are based on the priority groups and volumes of water allocations in the current Interim ROL in place for this scheme.

We have recommended that prices for the Central Lockyer Valley WSS should be updated to take into account the Water Plan (Moreton) (Supply Scheme Arrangements) Amendment Plan 2019 as soon as practicable after the associated planning documents are finalised.

How we have addressed stakeholder concerns

Dam safety

Some irrigation stakeholders have raised concerns about the allocation of dam safety expenditure to irrigators, and the precedent our recommendation will set for the allocation of future dam safety expenditure.

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.

Operating costs

Some stakeholders raised concerns with our level of assessment into costs within this scheme.

We have taken our findings in relation to our 2018–21 Seqwater bulk water price review into account in assessing prudent and efficient expenditure.

Based on our prudence and efficiency assessment, our adjustments to Seqwater's proposed operating expenditure for this scheme include:

- reducing Central Lockyer Valley electricity costs to reflect historical electricity consumption
- accepting Seqwater's revised insurance costs submitted to us in response to our draft report
- reducing the labour cost share allocated to Morton Vale Pipeline to what we consider reflects a more appropriate labour cost apportionment
- removing billing system expenditure from non-direct operating expenditure.

More details are in Part C (section 2.2) of our report.

Renewals annuity

Some irrigation stakeholders raised concerns about material renewals expenditure forecasts for Central Lockyer Valley and the prudence and efficiency of meter replacement costs.

We assessed Seqwater's renewals expenditure for projects in Central Lockyer Valley, including metering upgrades, to be prudent and efficient. See Part C (sections 3.3 and 3.4).

Tariff structure

Some irrigation stakeholders were concerned about the fixed/variable tariff structure, and asked that we look into a more flexible tariff structure given the poor reliability of the Lockyer schemes.

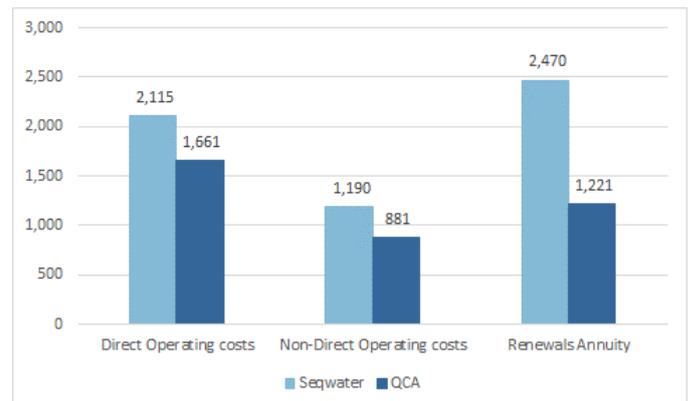
We do not consider that supply reliability concerns are best addressed through adjusting the tariff structure. Any relief from Part A charges during a drought is also a matter more appropriately determined by the Government.

Further details are in Part A (sections 2.6 and 3.2) of our report.

We have recommended adjustments in scheme costs for Central Lockyer Valley WSS and Morton Vale Pipeline distribution system

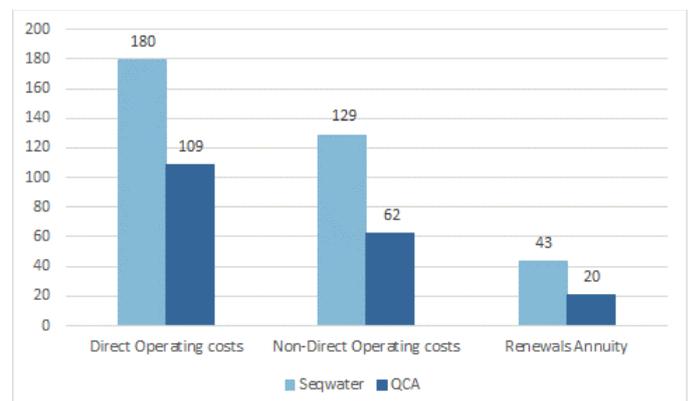
We made adjustments to Seqwater's proposed scheme costs over the pricing period 1 July 2020 to 30 June 2024. This includes the adjustments to Seqwater's proposed operating expenditure outlined above, and accepting Seqwater's revised renewals expenditure which they submitted in January 2019.

Total scheme costs over the price path period—Central Lockyer Valley 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.

Total scheme costs over the price path period—Morton Vale Pipeline distribution system (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 our recommended costs for Seqwater schemes are in Part C (chapters 2 to 4) of our report.

We have assessed local impacts

We moderated bill impacts for the tariff groups 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 total fixed price for each tariff group increases by inflation plus \$2.38/ML (2020–21 dollars) over the price path period.

For the Morton Vale distribution system tariff group, we have recommended that the existing 2019–20 total volumetric price only increases by our measure of inflation over the price path period.

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 C (chapters 7 and 9, and appendix B) 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 (%)
Central Lockyer Valley WSS		
0	9	38
25	8	35
50	7	33
75	6	31
100	6	29
Morton Vale Pipeline distribution system		
0	7	31
25	7	30
50	7	28
75	6	27
100	6	26

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.