



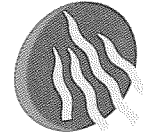
Hon Stephen Robertson MP
Member for Stretton

Ref CTS 06610/11

QLD COMPETITION AUTHORITY

14 JUN 2011

DATE RECEIVED



**Queensland
Government**

**Minister for Energy and
Water Utilities**

Mr Brian Parmenter
Chairperson
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

09 JUN 2011

Dear Mr Parmenter

I refer to the Amended Ministers' Referral Notice (the Amended Direction) which directs the Queensland Competition Authority to recommend irrigation prices to apply to SunWater water supply schemes from 1 July 2012 to 30 June 2017.

It has been brought to my attention that the Network Service Plans which SunWater was required to submit to the Authority by 10 January 2011 make reference to a National Water Initiative requirement that all non-urban offtakes are metered in accordance with the national metering standard by July 2020. In particular, I understand that SunWater has proposed to the Authority that the cost of it complying with the National Framework for Non-urban Water Metering be treated as a potential price review trigger, pursuant to Section 1.3 of the Amended Direction.

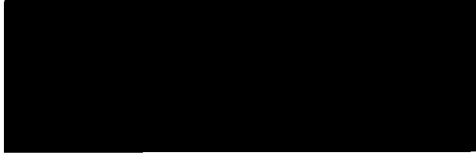
SunWater will indeed be expected to comply with this national metering framework as part of commitments the Queensland Government has made within the Council of Australian Governments (COAG) process. However, I wish to advise that, in reporting to the Queensland Government its recommendations for the 2012–17 irrigation price path, the Authority should not treat the cost of SunWater's compliance with the national metering framework as a potential price review trigger. Further, the Authority is requested to consider only those metering costs which are part of SunWater's forecast efficient costs as presented in its Network Service Plans, including, for example, corrective and preventative maintenance costs related to metering. Therefore, the Authority should not address metering costs set out in Section 5 of each of SunWater's Network Service Plans, *Risks to the Plan and Possible Price Reset Triggers*.

The Queensland Government is yet to make a decision on the extent to which costs associated with the implementation of the national standard for non-urban metering will be recovered in irrigation prices. It would therefore be premature and potentially misleading for the Authority's reports to signal that irrigation prices will most likely be recovering these costs for SunWater at some stage.

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Should you have any further enquiries, please do not hesitate to contact Mr Greg Claydon of the Department of Environment and Resource Management on telephone 3330 6109.

Yours sincerely



STEPHEN ROBERTSON MP

Queensland Competition Authority Act 1997
Section 23

AMENDED MINISTERS' REFERRAL NOTICE

Referral

As the Minister for Finance and the Arts and Treasurer of Queensland, pursuant to Section 23 of the *Queensland Competition Authority Act 1997* (the Act), we hereby amend our Direction of 17 December 2010 and direct the Queensland Competition Authority (the Authority) to recommend irrigation prices to apply to the following SunWater water supply schemes (WSS) from 1 July 2012 to 30 June 2017 (the price path period):

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 Authority 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 as follows:
- a) to provide a revenue stream that allows SunWater to recover:
 - i) efficient operational, maintenance and administrative costs to ensure the continuing delivery of water services;

For the removal of doubt, costs include, but are not limited to:

 - electricity costs;
 - recreation management costs;
 - compliance with workplace, health and safety; and
 - compliance with Australian and Queensland Government initiatives on water management, planning, trading, accounting, metering and measurement.
 - ii) prudent and efficient expenditure on renewing and rehabilitating existing assets through a renewals annuity;
 - iii) to put beyond doubt, costs exclude any rate of return on existing rural irrigation assets (as at 30 June 2012); unless current prices are already above the level required to recover i) and ii), in which case water prices are to be maintained in real terms based on an appropriate measure of inflation as recommended by the Authority; and

- iv) a commercial return of, and on, prudent capital expenditure for augmentation commissioned after 30 June 2012;
 - b) the Authority is not to consider the regulated asset base (RAB) for existing irrigation assets (that is assets commissioned prior to 1 July 2012);
 - c) in considering the tariff structures, the Authority should have regard to the fixed and variable nature of the underlying costs; and
 - d) the Authority is to adopt tariff groups as proposed in SunWater's network service plans. The Authority is not to investigate additional nodal pricing arrangements.
- 1.2 For the following schemes or segments of schemes, irrigation prices are to be set to:
- i) For the price path period, increase in real terms at a pace consistent with the 2006-2011 prices or until such time as the scheme reaches costs sufficient to recover 1.1 a) i) and ii); and
 - ii) include a commercial return of, and on, prudent capital expenditure for augmentation commissioned after 30 June 2012.

These schemes are:

- Redgate Relift in the Barker Barambah WSS
- Callide Valley WSS
- Maranoa River WSS
- Channel Relift in the Mareeba Dimbulah WSS
- Cunnamulla WSS
- Three Moon Creek WSS

- 1.3 The Authority must recommend appropriate regulatory arrangements, including price review triggers and other mechanisms, to manage the risks associated with the allowable costs identified in 1.1 (above) outside the control of SunWater.
- 1.4 For the purposes of this Direction, the Authority is not to consider the recovery in prices of capital expenditure for dam safety upgrades.
- 1.5 The Authority is to have regard to the level of service provided by SunWater to its customers of the water supply scheme, including for capital expenditure on existing assets or for the construction of new assets.
- 1.6 In recommending irrigation prices the Authority must have regard for the legitimate commercial interests of SunWater, and the requirement for SunWater to operate as a commercial entity, subject to 1.1 (above).
- 1.7 For relevant schemes, the Authority is to review drainage charges and channel water harvesting charges.
- 1.8 If the Authority calculates tariffs for a water supply scheme, or segment of a water supply scheme that may have the effect of a price increase for irrigators that is higher than the Authority's measure of inflation,

- a) the Authority must consider the need to implement a price path for the introduction of the price increase to moderate price impacts on irrigators, and that has regard for SunWater's legitimate commercial interests;
- b) a price path may be longer than one price path period, however the Authority must provide its reason for the longer timeframe; and
- c) if the Authority recommends not to implement a price path, the Authority must give its reasons.

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

SunWater must provide its Network Services Plans and supporting documentation to the QCA by no later than 10 January 2011.

The Authority must provide to the responsible Ministers and the Minister for Energy and Water Utilities the:

- a) Draft Report and draft irrigation prices by no later than 31 October 2011; and
- b) Final Report and recommended price paths by no later than 30 April 2012.

The Final Report will inform the Government's deliberations for price paths to apply to SunWater's irrigation water prices for the period commencing 1 July 2012 and ending 30 June 2017.

4. Other matters

To put beyond doubt, nothing in this Referral prevents SunWater from setting full commercial prices for urban and industrial customers.

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

ANDREW FRASER

RACHEL NOLAN

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