

### 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 Bundaberg water supply scheme (WSS) and distribution system, which is located near the towns of Bundaberg, Childers and Gin Gin.

Issues related to the prices for non-irrigation customers are outside the scope of our review.

### How we have recommended prices

In recommending prices we have not included a return on, or depreciation of, investments made prior to 1 July 2000.

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

The volumetric prices (Part B and Part D) recover variable costs (e.g. a portion of labour costs and electricity costs relating to pumping) that change with water usage. The remaining costs associated with this scheme are recovered by the fixed prices (Part A and Part C). We have assessed all expenditure to ensure that Sunwater only recovers prudent and efficient costs.

It is government policy that, over time, irrigation prices should transition to fully recover prudent and efficient costs of operating, maintaining, administering and renewing each scheme. Cost recovery for Sunwater's irrigation customers will improve from 91 per cent in 2020–21 to 94 per cent 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 cost reflective.

The total fixed price increases by up to \$2.38/ML (\$2020–21) plus inflation. The total volumetric price increases by our estimate of inflation (2.37 per cent) from 2020–21 onwards.

### What prices have we recommended?

After extensive consultation with irrigators, we have released our draft report.

For river-only customers in the Bundaberg WSS, our draft recommendations result in the fixed (Part A) price increasing over the four-year price path, and the volumetric (Part B)

price decreasing to cost reflective immediately. These draft prices will cover costs by the end of the pricing period.

For the Bundaberg distribution system, our draft recommendations result in price increases to the total fixed (Part A and Part C) price over the pricing period, and the total volumetric (Part B and Part D) price decreasing to cost reflective immediately.

However, in this system, draft prices will not cover costs by the end of the pricing period. Cost recovery will increase from the 76 per cent in 2020–21 to 82 per cent by 2023–24.

Dam safety upgrades for this scheme are due to be commissioned in 2026–27. While this will not impact on prices in this pricing period, we have estimated the impact in the year following commissioning (2027–28) to be:

- \$0.25/ML increase to the cost reflective fixed (Part A) price for the Bundaberg WSS
- \$0.47/ML increase to the total cost reflective fixed (Part A and Part C) price for the Bundaberg distribution system.

Our draft recommended prices are shown in the table below.

#### Draft recommended prices for irrigation customers—\$/ML

Tariff group	2019–20 (Current)	2020–21	2021–22	2022–23	2023–24
<b>Bundaberg WSS</b>					
Fixed (Part A)	13.06	13.89	14.22	14.56	14.90
Volumetric (Part B)	1.31	1.19	1.22	1.25	1.28
<b>Bundaberg distribution system</b>					
Fixed (Part A)	7.54	10.10	12.77	14.56	14.90
Volumetric (Part B)	1.31	1.19	1.22	1.25	1.28
Fixed (Part C)	45.08	46.15	47.24	49.37	53.10
Volumetric (Part D)	58.94	51.00	52.21	53.45	54.71
<b>Total Fixed</b>	<b>52.62</b>	<b>56.25</b>	<b>60.02</b>	<b>63.93</b>	<b>68.00</b>
<b>Total Volumetric</b>	<b>60.25</b>	<b>52.19</b>	<b>53.43</b>	<b>54.70</b>	<b>55.99</b>

## How we have addressed stakeholder concerns

### Dam safety

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

Dams in Queensland have generally been built for the primary purpose of supplying water to users. 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 have reflected the informal flood moderation benefits of dams by only allocating 80 per cent 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) 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), electricity costs and insurance costs.

We propose to accept Sunwater's revised (lower) IGEM costs provided to us in its June 2019 regulatory model. However, we have proposed allocating this between irrigation and non-irrigation customers using the headworks utilisation factor. See Part B (sections 2.9 and 7.3) of the draft report for further details.

Sunwater submitted revised electricity costs in June 2019. We propose to accept the revised electricity costs for bulk schemes as it is not materially different from our alternative estimates. However, we have reduced electricity costs for distribution systems. See Part B (section 2.5) of the draft report for further details.

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

### Renewals annuity

Some irrigation stakeholders raised concerns about Sunwater's asset management practices and the prudence and efficiency of meter replacement costs.

We have 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) for further details.

We have reduced Sunwater's forecast renewals expenditure by 29.5 per cent (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) for further details.

We have assessed Seqwater's renewals expenditure to be prudent and efficient. See Part C (sections 3.3 and 3.4).

### Water use forecasts

Some irrigation stakeholders asked us to review Sunwater's use of a 15 year water use average for calculating the volumetric charge.

To establish a meaningful water use denominator, we consider that the approach to estimating the assumed level of water use should be representative of normally occurring conditions, consistent with our approach to estimating base year variable costs.

The variability in climatic conditions throughout Queensland makes accurately forecasting water usage at the scheme level over a multi-year period challenging. Climatic conditions involve extreme conditions that will influence water usage by irrigators. We consider that a 20-year averaging period appropriately covers a range of conditions.

See Part B (section 5.2) for further details.

### Recreation costs

Some irrigation stakeholders raised concerns over the recovery of renewals expenditure relating to recreation services from irrigators.

We have reviewed Sunwater's forecast renewals expenditure to ensure that expenditure relating to recreational services have been excluded. See Part B (section 3.4) for further details.

### Distribution losses

Some irrigation stakeholders were concerned about the level of distribution loss WAE allocated to irrigators.

We have estimated the costs associated with historical excess distribution loss WAEs, and allocated the bulk holding (fixed) costs of these to Sunwater on the basis that distribution system customers should not pay for distribution loss WAEs in excess of what is required to meet actual loss releases.

See Part B (section 6.3) for further details.

### Tariff structure

Some irrigation stakeholders were concerned about the fixed/variable tariff structure, and asked that we look into a more flexible tariff structure that could accommodate the diversity of users and the seasonal influences. In addition, electricity costs should be considered and recovered through a fixed and variable \$/ML component.

As the businesses' costs are largely fixed, aligning the tariff structure with the nature of the underlying costs is also consistent with our proposed allocation of volume risk. It will also help to address the revenue adequacy requirements in the referral notice.

We consider that our proposed approach of assigning some electricity costs to fixed costs based on the underlying nature of the electricity tariffs better meets the requirements set out in the referral notice, which requires us to have regard to the underlying fixed and variable nature of costs in setting prices.

Further details are in Part B (sections 6.2 and 7.2) of the draft report.

**Termination fee**

Some irrigation stakeholders were concerned about the level of the termination fee.

We note that a lower multiple could be applied at Sunwater's discretion, should it be consistent with Sunwater's commercial interests (e.g. in the interests of more efficient system management).

We also note that customers do have the option of permanently trading their water entitlements to other distribution system users, which does not incur a termination fee. Alternatively, customers can choose to retain ownership of their distribution system WAE and engage in temporary trading.

See Part B (section 8.1) for further details.

**Other matters raised by stakeholders**

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

In recommending prices, we have emphasised the pricing principles set out in the referral, as these principles give effect to the Government's water pricing policy. One of the key principles of that policy is that prices should increase gradually until they reach the cost-reflective level, which 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 initial asset base (as at 1 July 2000).

The Government has previously indicated that in setting the lower bound cost target for irrigation water prices and establishing a gradual transition path to this level, it has considered a range of matters, including customers' capacity to pay and the historical regional development driver for many of the schemes.

See Part A (Chapter 2) for further details.

**We have recommended a reduction in scheme costs for Bundaberg WSS and distribution system**

In our draft report, we have reduced Sunwater's proposed WSS costs by 13 per cent over the pricing period 1 July 2020 to 30 June 2024.

**Total costs over the price path period— Bundaberg WSS (2018–19 dollars) (\$'000)**

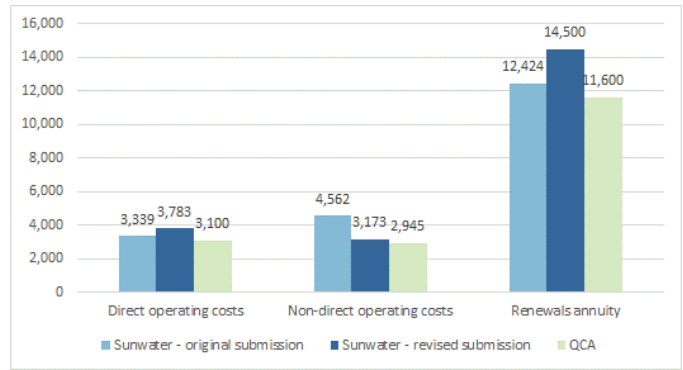


Figure notes: 1. Revenue offsets are not included in the charts. 2. QCA Non-direct operating costs includes the QCA regulatory fees.

In our draft report, we have reduced Sunwater's proposed distribution system costs by 18 per cent over the pricing period 1 July 2020 to 30 June 2024.

**Total costs over the price path period— Bundaberg distribution system (2018–19 dollars) (\$'000)**

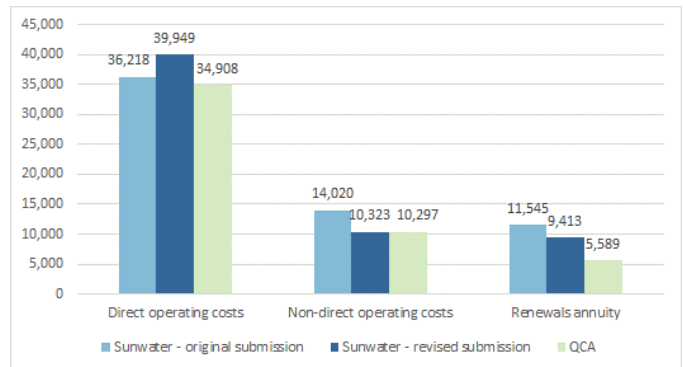


Figure notes: 1. Revenue offsets are not included in the charts. 2. QCA Non-direct operating costs includes the QCA regulatory fees.

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

**We have assessed local impacts**

In recommending prices, we have considered bill impacts for irrigation customers.

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

Further details on bill impacts are in Part B (chapter 9, appendix C and chapter 7) of the draft 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>Bundaberg WSS</b>		
0	6.4	14.1
25	6.0	13.7
50	5.6	13.3
75	5.3	13.0
100	5.0	12.6
<b>Bundaberg distribution system</b>		
0	6.9	29.2
25	2.4	21.2
50	(0.5)	16.0
75	(2.5)	12.5
100	(3.9)	9.9

## How you can get involved

Public involvement is a key part of our review. Our draft report provides stakeholders with an opportunity to review and comment on our proposed approach and prices, prior to us finalising our report and providing it to the Government by 31 January 2020.

We now invite stakeholders to comment on this draft report (with submissions due by 4 November 2019) and to attend the workshops we will be running in regional Queensland in September/October 2019.

We also invite stakeholders to consider and provide comment on late submissions provided by Sunwater on a minimum access charge and an electricity cost pass through mechanism.

An indicative timetable for the remainder of our review is provided in the table below.

## Timetable

Task	Date
Stakeholder workshops on draft report	September–October 2019
Submissions on draft report due	4 November 2019
Final report provided to the Government	By 31 January 2020
Final report published	Early February 2020

## Where you can find out more

For more information please see the [QCA website](#) for:

- Part A of the draft report for key regulatory and pricing framework issues that apply to both Sunwater and Seqwater
- Part B of the draft report for Sunwater schemes
- Part C of the draft report for Seqwater schemes.