

### 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, which is located near the town of Gatton.

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 a two-part tariff for the tariff group in this system. 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) that change with water usage. The remaining costs associated with this system are recovered by the fixed prices (Part A and Part C). We have assessed all expenditure to ensure that Seqwater 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 Seqwater's irrigation customers will improve from 75 per cent in 2020–21 to 77 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 plus inflation. The total volumetric price increases annually 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 Central Lockyer Valley WSS, our draft recommendations result in the fixed (Part A) price increasing over the pricing period, and the volumetric (Part B) price decreasing to cost reflective immediately.

For the Morton Vale Pipeline distribution system, our draft recommendations result in price increases to the total fixed

(Part A and Part C) price and the total volumetric (Part B and Part D) price over the pricing period.

However, in Central Lockyer Valley WSS, draft prices will not cover costs by the end of the pricing period. Cost recovery will improve from 64 per cent in 2020–21 to 73 per cent by 2023–24.

In addition, draft prices in Morton Vale Pipeline distribution system will not cover costs by the end of the pricing period. Cost recovery will improve from 66 per cent in 2020–21 to 74 per cent by 2023–24.

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>Central Lockyer Valley WSS</b>					
Fixed (Part A)	35.42	38.64	41.93	45.31	48.76
Volumetric (Part B)	11.46	11.17	11.43	11.70	11.98
<b>Morton Vale Pipeline distribution system</b>					
Fixed (Part A)	35.42	38.64	41.93	45.31	48.76
Volumetric (Part B)	5.72	11.17	11.43	11.70	11.98
Fixed (Part C)	10.34	10.59	10.84	11.10	11.36
Volumetric (Part D)	9.47	10.77	11.02	11.28	11.55
<b>Total Fixed</b>	45.76	49.22	52.77	56.40	60.12
<b>Total Volumetric</b>	15.19	21.93	22.45	22.98	23.53

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 23 July 2019, the Minister asked for a new draft Moreton water plan amendment to be prepared, replacing the draft Moreton water plan amendment released in 2018. The prices in the table above are based on the priority groups and volumes in the current Interim Resource Operations Licence in place for this scheme.

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

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.

### 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 have 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. The Government's pricing principles in the referral also limits our ability to rebalance tariff structures.

We note that the Government is currently working with irrigators in the Central Lockyer Valley and Lower Lockyer Valley WSSs to investigate potential options to address the reliability issues in those schemes. We encourage both parties to continue those investigations.

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 (section 2.1) and Part C (section 6.2) of the draft report.

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

In our draft report, we have made adjustments to Seqwater's proposed scheme costs over the pricing period 1 July 2020 to 30 June 2024. This includes removing billing system expenditure from non-direct operating costs 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)

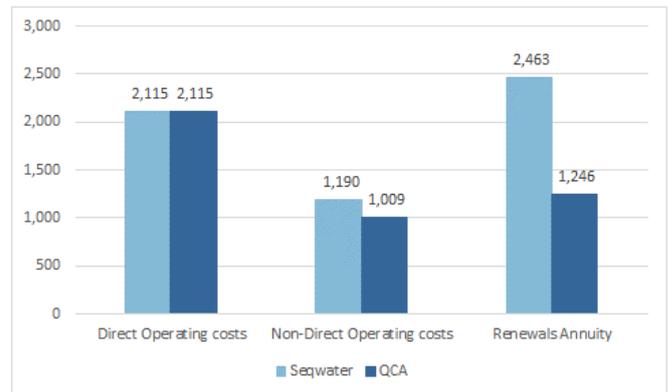


Figure notes: 1. Revenue offsets are not included in the charts. 2. QCA Non-direct operating costs includes the QCA regulatory fees.

### Total scheme costs over the price path period—Morton Vale Pipeline distribution system (2018–19 dollars) (\$'000)

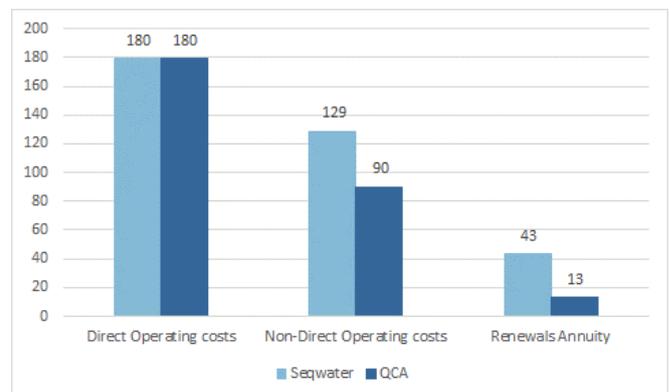


Figure notes: 1. Revenue offsets are not included in the charts. 2. QCA Non-direct operating costs includes the QCA regulatory fees.

Further details on our recommended costs for Seqwater schemes are in Part C (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 C (chapter 9, appendix B 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>Central Lockyer Valley WSS</b>		
0	9	38
25	8	35
50	7	33
75	7	31
100	6	30
<b>Morton Vale Pipeline distribution system</b>		
0	8	31
25	10	33
50	13	35
75	15	36
100	17	37

### 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 (submissions are due by 4 November 2019) and to attend the workshops we will be running in regional Queensland in September/October 2019.

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.