Queensland Competition Authority

September 2019

Information sheet

Rural irrigation price review 2020–24, draft

Lower Mary water supply scheme and distribution system

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 Lower Mary water supply scheme (WSS) and distribution system, which is located near the town of Maryborough.

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 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 Lower Mary WSS, our draft prices fully recover costs.

For the Lower Mary distribution system, our draft prices will not cover costs by the end of the pricing period. Cost recovery will increase from the 88 per cent in 2020–21 to 96 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
Lower Mary – Mary Barrage					
Fixed (Part A)	15.10	15.10	15.10	15.10	15.10
Volumetric (Part B)	1.98	1.01	1.04	1.06	1.09
Lower Mary – Tinana and Teddington					
Fixed (Part A)	24.83	24.83	24.83	24.83	24.83
Volumetric (Part B)	9.51	9.74	9.97	10.20	10.44
Lower Mary distribution system					
Fixed (Part A)	7.31	5.86	6.00	6.14	6.29
Volumetric (Part B)	1.98	1.01	1.04	1.06	1.09
Fixed (Part C)	47.00	52.12	55.79	59.61	63.57
Volumetric (Part D)	70.27	71.13	72.82	74.55	76.31
Total Fixed	**54.31**	**57.98**	**61.79**	**65.75**	**69.86**
Total Volumetric	**72.25**	**72.15**	**73.86**	**75.61**	**77.40**

How we have addressed stakeholder concerns

Headworks utilisation factor

Some stakeholders raised concerns over the suitability of a headworks utilisation factor (HUF) in this scheme.

The HUF approach takes into account the water planning framework (including water sharing rules and other operational requirements) determined by the Department of Natural Resources, Mines and Energy (DNRME) in estimating the relative benefits of bulk water assets attributable to medium and high priority customers.

Our consultant, Water Solutions, has reviewed the proposed HUF for this scheme and determined that it has been appropriately calculated.

See Part B (section 7.3) 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 give effect to the Government's water pricing policy. One of the key principles is that prices should increase gradually until they reach a 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 Lower Mary WSS and distribution system

In our draft report, we have reduced Sunwater's proposed scheme costs by 41 per cent over the pricing period.

Total costs over the price path period—Lower Mary WSS (2018–19 dollars) ($'000)

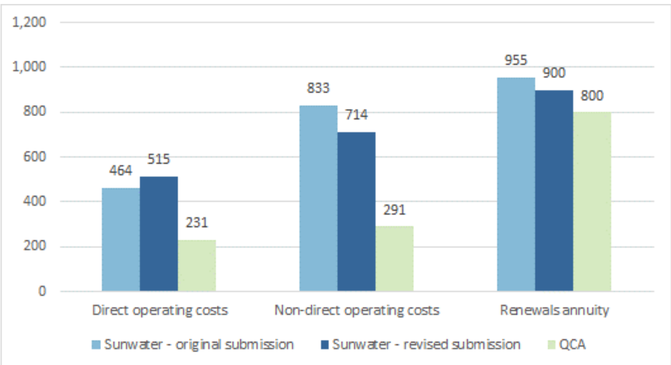

Figure notes: 1. Revenue offsets are not included in the charts. 2. QCA Non-direct operating costs includes the QCA regulatory fees.

We have reduced Sunwater's proposed distribution scheme costs by 20 per cent over the pricing period.

Total costs over the price path period—
Lower Mary distribution system (2018–19 dollars) ($'000)

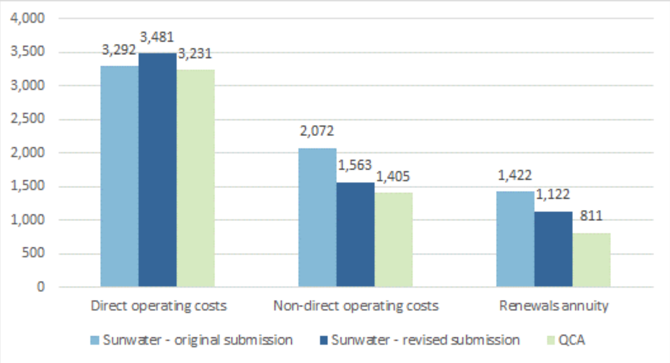

Figure notes: 1. Revenue offsets are not included in the charts. 2. QCA Non-direct operating costs includes the QCA regulatory fees.

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 (%)
Lower Mary – Mary Barrage		
0	-	-
25	(1.6)	(1.4)
50	(3.0)	(2.8)
75	(4.4)	(4.0)
100	(5.7)	(5.2)
Lower Mary – Tinana and Teddington		
0	-	-
25	0.2	0.9
50	0.4	1.6
75	0.5	2.2
100	0.7	2.7

Lower Mary distribution		
0	6.8	28.6
25	5.0	23.3
50	4.0	20.0
75	3.3	17.9
100	2.8	16.4

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.

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:

- 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.

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