

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 Nogoa–Mackenzie water supply scheme (WSS), which is located near the town of Emerald.

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 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 price (Part B) 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 (Part A). 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 fixed price increases by up to \$2.38/ML plus inflation. The 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.

Our draft prices for the medium priority tariff groups will fully recover costs in the medium priority tariff groups.

Our draft prices for the high priority tariff groups will not cover costs by the end of the pricing period. Cost recovery customers will improve from 72 per cent in 2020–21 to 88 per cent by 2023–24.

Dam safety upgrades for this scheme are due to be commissioned in 2020–21. This only impacts on our draft recommended prices for the medium priority local management supply tariff group in this pricing period. We have estimated the impact in the year following commissioning (2021–22) to be an increase in the cost reflective fixed (Part A) price of \$1.21/ML for medium priority tariff groups and \$12.49/ML for the high priority tariff groups.

Our draft recommended prices are shown in the table below.

Draft recommended prices for irrigation customers in Nogoa–Mackenzie WSS—\$/ML nominal

Tariff group	2019–20 (Current)	2020–21	2021–22	2022–23	2023–24
Nogoa–Mackenzie medium priority					
Fixed (Part A)	12.22	12.22	12.22	12.22	12.22
Volumetric (Part B)	1.32	0.82	0.84	0.86	0.88
Nogoa–Mackenzie high priority					
Fixed (Part A)	28.88	31.94	35.14	38.46	41.93
Volumetric (Part B)	1.32	0.82	0.84	0.86	0.88
Nogoa–Mackenzie medium priority local management supply (excluding dam safety)					
Fixed (Part A)	8.84	6.37	6.53	6.68	6.84
Volumetric (Part B)	1.32	0.82	0.84	0.86	0.88
Nogoa–Mackenzie medium priority local management supply (including dam safety)					
Fixed (Part A)	8.84	7.42	7.60	7.78	7.96
Volumetric (Part B)	1.32	0.82	0.84	0.86	0.88
Nogoa–Mackenzie high priority local management supply					
Fixed (Part A)	28.88	31.94	35.14	38.46	41.93
Volumetric (Part B)	1.32	0.82	0.84	0.86	0.88

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), insurance costs and electricity costs. In addition, electricity costs should be assessed for prudence and efficiency and recovered through a fixed and variable \$/ML component.

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 (section 2.4) of the draft report for further details.

Sunwater submitted revised electricity costs in June 2019. We have accepted the revised electricity costs for bulk schemes as they are not materially different from our alternative estimates. We have proposed that electricity costs in most bulk schemes (including this scheme) should be recovered as a fixed cost as they do not vary with water use. 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 some projects.

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.

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.

Headworks utilisation factor

Some irrigation stakeholders raised concerns with Sunwater's proposed headworks utilisation factor (HUF) methodology.

The HUF approach then 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.

Termination fees

Some irrigation stakeholders were concerned that the level of the termination fee are deterring industrial customers from trading water back into the irrigation market. Concerns were also raised about how this termination revenue is used by Sunwater.

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 a cost-reflective level, where they recover the irrigation share of the scheme's operating, maintenance and capital renewal costs but do 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 Nogoā–Mackenzie WSS

In our draft report, we have reduced Sunwater's proposed scheme costs by 16 per cent over the pricing period 1 July 2020 to 30 June 2024.

Total scheme costs over the price path period—Nogoā Mackenzie WSS (2018–19 dollars) (\$'000)

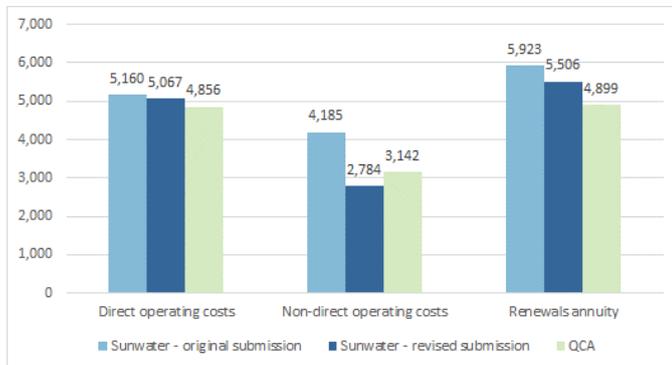


Figure notes: 1. Revenue offsets are not included in the charts. 2. QCA Non-direct operating costs includes the QCA regulatory fees.

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 (%)
Nogoā–Mackenzie medium priority		
0	-	-
25	(1.0)	(0.9)
50	(1.9)	(1.7)
75	(2.8)	(2.5)
100	(3.7)	(3.2)
Nogoā–Mackenzie high priority		
0	10.6	45.2
25	10.1	44.3
50	9.5	43.4
75	9.0	42.6
100	8.5	41.8
Nogoā–Mackenzie medium priority local management supply (excluding dam safety)		
0	(27.9)	(22.6)
25	(28.2)	(26.5)
50	(28.6)	(26.9)
75	(28.9)	(27.2)
100	(29.2)	(27.5)
Nogoā–Mackenzie medium priority local management supply (including dam safety)		
0	(16.1)	(10.0)
25	(16.8)	(14.9)
50	(17.6)	(15.6)
75	(18.2)	(16.3)
100	(18.9)	(17.0)
Nogoā–Mackenzie high priority local management supply		
0	10.6	45.2
25	10.1	44.3
50	9.5	43.4
75	9.0	42.6
100	8.5	41.8

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](#) for:

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