Queensland Competition Authority

FACT SHEET

Draft report: Rural irrigation price review 2020–24

Seqwater

The Queensland Competition Authority (QCA) is reviewing irrigation prices to apply to Sunwater and Seqwater customers over the pricing period 1 July 2020 to 30 June 2024. This includes recommending irrigation prices for 7 water supply schemes and associated distribution systems operated by Seqwater.

The QCA has examined the proposed costs of Seqwater, as directed by the State Government. Based on its assessment, the QCA now presents its draft recommended irrigation prices for the period 1 July 2020 to 30 June 2024.

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

The purpose of the draft report is to provide stakeholders with an opportunity to review and comment on the QCA's proposed approach and prices, prior to the QCA finalising its report.

Background

We are undertaking the review in response to a direction from Government. The Government's direction is set out in its referral, which defines the scope of our review, directs us to provide recommendations on particular issues, provides guidance on the matters we must consider, and sets out the pricing principles we are to apply in calculating recommended prices.

We must undertake our review in accordance with the relevant legal framework, including the referral and the QCA Act. More information on this framework is provided in our 'introduction to irrigation pricing' fact sheet and our Part A report, both of which are available on our website.

Approach to reviewing costs

We are required to recommend prices that allow Seqwater to recover certain prudent and efficient costs. Accordingly, we have assessed operating expenditure (opex), renewals expenditure and dam safety upgrade capital expenditure (capex) proposed by Seqwater for prudency and efficiency. We engaged AECOM to assist us in our assessment.

We have taken our recent findings in relation to our 2018–21 bulk water price review into account in assessing prudent and efficient expenditure. In that review, we assessed the prudency and efficiency of Seqwater's proposed opex and capex (including irrigation-related costs).

Key findings from cost review

We have assessed Seqwater's proposed opex to be generally prudent and efficient. However, we have removed costs associated with a proposed new billing system as there is insufficient justification for this expenditure at this time.

Further information is available in Part C (chapter 2) of our draft report.

We have also reviewed historical and forecast renewal projects with a material pricing impact. However we have not proposed any further cost savings.

For further information, see Part C (chapter 3) of the draft report.

Dam safety

As required in the referral, we have recommended two pricing options for those schemes with dam safety upgrade projects that are expected to be commissioned in the price path period. The decision about which sets of prices should apply is a matter for the Government when it determines prices for the price path period.

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.

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.

Prices and bill moderation

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).

For schemes with existing prices above lower bound costs, we have recommended that the existing volumetric price increases by no more than inflation.

For schemes with existing prices below lower bound costs, we have moderated bill impacts by recommending less than cost reflective volumetric prices for the following tariff groups where this would otherwise lead to price increases well above the maximum level of annual real price increases of $2.38/ML of WAE (plus inflation) that have occurred in previous price periods:

- Cedar Pocket WSS
- Pie Creek distribution system.

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 invite stakeholders to comment on the 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

Further information

Our draft report, along with scheme information sheets and other relevant materials can be accessed at the QCA website.