



Contact: Lisa Welsh
Direct line: 0418 612 044
Our ref: 2447037

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Professor Flavio Menezes
Chair
Queensland Competition Authority
PO Box 2257
BRISBANE QLD 4001

Dear Professor Menezes,

Supplementary Submission to the Irrigation Price Review: Access Charge

On 6 November 2018, Sunwater provided a comprehensive submission to the Queensland Competition Authority's (QCA) review of irrigation prices. In that submission, Sunwater advised that during the pre-submission consultation phase, the Queensland Farmers' Federation (QFF) had raised the possibility of a minimum access charge in all service contract areas to cover the fixed administration costs associated with maintaining each customer account and to ensure there is no cross subsidisation between customers who hold a small number of water allocations and those who hold larger amounts. Sunwater indicated that we were investigating this further, in conjunction with QFF, and would keep the QCA informed of the outcome of this investigation.

Since providing our submission to the QCA, Sunwater has been working closely with QFF to explore the possibility of an administratively simple Access Charge which supports cost reflective pricing by:

- ensuring that all customers in schemes providing services to irrigation customers pay the fixed costs associated with their account and that there is no cross-subsidisation between customers
- incentivising customer behaviours that enable Sunwater to reduce those fixed costs, eg paying bills on time and maintaining a positive water account balance.

Importantly, as part of the proposal, revenues generated by the Access Charge will be offset by reductions in Part A fixed charges, and customers whose behaviours contribute to Sunwater reducing our customer administration costs will be entitled to a discount on the Access Charge.

I am pleased to advise that Sunwater's investigations with QFF have now progressed to the point where QFF is supportive of applying an Access Charge, with a number of clarifications as outlined in the letter of 10 June 2019:

- QFF Water and Energy Policy Committee (WEPC) members are only supportive of a revenue neutral proposal
- WEPC members are broadly supportive of a specific account keeping charge, subject to the provision for particular schemes to 'opt-out' where there are not a significant number of small users or for those schemes who do not want to disincentivise small water users
- WEPC member support is dependent on an appropriate and formalised hardship program for irrigators who experiencing genuine adversity
- QFF's support is without prejudice to the Mareeba-Dimbulah scheme which currently charges customers an access charge of \$670.99 which offsets selected fixed charges.

- QFF's support is without prejudice to distribution systems owned and operated by local management entities, who may apply charges as gazetted
- The charge must be simple and transparent to all users
- The charge will be levied only once to a customer's account, regardless of the number of off-takes
- There was unanimous support from WEPC for specific cost-reflective charges relating to 'unauthorised use' and 'do not take' letters. The nature of this support included a cost-reflective average cost approach being applied to these activities.

Sunwater agrees with the points raised by QFF. I note that Sunwater has formally approved and is currently implementing a new hardship policy to provide payment assistance to customers experiencing genuine financial difficulties.

In relation to the 'opt-out provisions' requested by QFF, Sunwater recognises that some schemes may prefer to retain some cross-subsidisation of costs to maximise the number of customers within a scheme. Sunwater estimates that at least 80% of bulk and distribution scheme customers would need to adopt the new tariff structure for Sunwater to realise the savings needed to provide the discount to customers. In addition, it would not be feasible for individual customers within a scheme to opt-out as this would add complexity to prices and additional costs to Sunwater, which is inconsistent with the objective of the proposal. Therefore, Sunwater believes it would be feasible for a limited number of schemes to opt-out for the access charge proposal to achieve its objectives.

Attachment A provides the details of Sunwater's proposed Access Charge and associated changes to Part A charges for your consideration. I note that Sunwater has provided most of these details in our 30 April 2019 response to a formal Request for Information issued by the QCA as part its irrigation price review and a presentation by Sunwater and QFF to officers of the QCA on 31 May 2019.

Sunwater believes that it is important that all stakeholders are aware of the proposed details of the Access Charge so they can consider and provide comment on the proposal during the review process. In particular, Sunwater requests that the QCA consider this proposal and provide their views on the Access Charge in its draft irrigation price review report, due to be released on 31 August 2019, so that stakeholders can have the opportunity to address the proposal in their submissions to the draft report.

QFF and Sunwater are continuing to work through a number of implementation issues to ensure that, if approved by the QCA, the Access Charge meets its objectives. I am confident that these issues can be resolved to the satisfaction of both Sunwater and QFF prior to the commencement of the new price path.

The Access Charge represents a simple and collaborative approach to pricing which drives more cost-efficient outcomes and enables these cost savings to be passed on to irrigation customers via lower prices. This proposal is therefore consistent with the Queensland Government's irrigation pricing policy, namely to strike a balance regarding:

- cost recovery for the services provided
- impacts on customers
- keeping prices as simple and transparent as possible.

We request the QCA to consider how it could support this proposal and we offer any assistance that you may require in briefing the Queensland Government on the merits of the Access Charge proposal. If you have any questions regarding this submission, please contact Ms Lisa Welsh, General Manager Customer Strategy.

Yours sincerely



Nicole Hollows
Chief Executive Officer

address Green Square North, Level 9,
515 St Pauls Terrace, Fortitude Valley, Queensland 4006
post PO Box 15536, City East, Queensland 4002

telephone +61 7 3120 0000 **fascimile** +61 7 3120 0260
email info@sunwater.com.au
ACN 131 034 985

ATTACHMENT A

ACCESS CHARGE PROPOSAL

Background

Sunwater has been working with the Queensland Farmers' Federation (QFF) since late 2018 to agree on the objectives for a potential minimum access charge, the parameters for the charge (such as which costs it would recover, whether it should be levied on water accounts or on each customer account) and how it can be used to incentivise customer behaviour to reduce Sunwater's customer administration costs.

During these discussions, it was agreed that the term "Access Charge" more appropriately described the customer account management activities proposed to be covered by the charge.

Objectives and scope

The agreed objective of an Access Charge is to support cost reflective pricing by:

- ensuring that all customers pay the fixed costs associated with their account and that there is no cross-subsidisation between customers
- incentivising customer behaviours that enable Sunwater to reduce those fixed costs, eg paying bills on time.

The costs that are proposed to be recovered through the Access Charge for customer administration activities include:

- billing, water accounting, water sharing, call centre, Resource Operations Licence compliance, account management and water account management including announced allocations and processing of temporary trades (\$2.944 million in 2017/18),
- depreciation costs associated with Sunwater's water accounting systems (eg Orion, Bills and Sunwater Online) (\$1.745 million in 2017/18).

Sunwater and QFF also agreed that the Access Charge is most appropriately levied on customer accounts, rather than water accounts or metered outlets, as it is the costs specifically related to customer account management that the proposed charge would recover. Metering is not considered a fixed customer account administration cost and therefore it is not proposed to be recovered via the Access Charge proposed for the new irrigation price path.

Proposed Access Charge

Sunwater and QFF considered two options for the Access Charge:

1. The cost reflective charge of \$950 (\$2018/19), based on the costs of the activities outlined above per customer account and assuming a reduction of 2 per cent in the number of customer accounts due to consolidation.
2. The current Mareeba-Dimbulah Access Charge of \$670.99 (\$2018/19).

Following consultation with QFF members and Sunwater's Irrigation Customer Reference Group, the preferred approach is the cost reflective charge – noting that these costs are currently being reviewed for prudence and efficiency by the QCA as part of the irrigation price review.

Access Charge discount

Sunwater and QFF agreed to focus on four customer behaviours that would drive reductions in customer account administration costs. These behaviours and the estimated savings are summarised in Table 1 below.

Table 1: Potential savings and Access Charge discount (\$18/19)

Customer behaviour	Saving per customer account (2018/19 & rounded to nearest dollar)
Bill and water account received via email	\$20
Bill paid on time	\$8
Use Sunwater Online for basic account enquiries	\$16
Maintain a positive water account balance at all times	\$22
Total	\$66 per account
Saving applied as a discount on a \$950 Access Charge	7%

Impact on Customers

The impact on customers of introducing an Access Charge will vary by scheme and by the number of allocations held by the customer account. The impact by scheme is heavily influenced by the number of very large users in a scheme, including whether Sunwater owns significant allocations within a scheme. In general, for lower Part A charges to offset the cost of a new Access Charge, a customer would need to hold between 91ML (Chinchilla scheme) and 1,955ML (Burdekin Haughton scheme).

Table 2 below summarises the indicative reduction in Part A charges per scheme resulting from the introduction of an Access Charge, as well as the number of allocations a customer would need to hold to be no worse off under the proposal (the breakeven point). This analysis is based on the following assumptions:

1. A cost reflective charge of \$998 in 2020/21 (the \$950 cost reflective charge in 2018/19 escalated by 2.5 per cent for two years – noting that the application of CPI will be reviewed by the QCA as part of the review).
2. The model used was Sunwater’s regulatory model version 3.
3. Access Charge revenues are deducted from fixed costs which are allocated by Aggregate Megalitres (AML) to calculate the change in cost reflective Part A prices.
4. AML excludes distribution losses as these allocations generally do not incur customer administration costs. This affects the Lower Mary, Bundaberg, Eton and Burdekin Haughton schemes, and reduces the breakeven point.
5. The breakeven calculation assumes the customer is receiving the 7 per cent discount on the Access Charge.

Table 2: Summary of impact on prices and customers of the proposed Access Charge

	Total customer accounts	Access Charge revenues (\$2020/21)	Reduction in Part A charges (\$2020/21)	Breakeven ML
Barker Barambah WS	170	\$166,428	\$4.85	192
Boyne River & Tarong WS	168	\$164,470	\$3.79	245
Bundaberg WS	1092	\$1,069,053	\$5.49	169
Burdekin Haughton WS	413	\$404,321	\$0.46	2020
Callide Valley WS	140	\$137,058	\$7.05	132
Chinchilla Weir WS	41	\$40,138	\$9.91	94

	Total customer accounts	Access Charge revenues (\$2020/21)	Reduction in Part A charges (\$2020/21)	Breakeven ML
Cunnamulla WS	24	\$23,496	\$9.00	103
Dawson Valley WS	179	\$175,239	\$2.84	327
Eton WS	329	\$322,086	\$5.98	155
Lower Fitzroy WS	27	\$26,433	\$0.92	1006
Lower Mary River WS	165	\$161,533	\$5.47	170
Macintyre Brook WS	99	\$96,920	\$3.88	240
Nogoa Mackenzie WS	397	\$388,658	\$1.68	554
Pioneer River WS	15	\$14,685	\$0.19	4942
Proserpine River WS	91	\$89,088	\$1.42	656
St George WS	235	\$230,062	\$2.72	342
Three Moon WS	91	\$89,088	\$5.93	157
Upper Burnett WS	153	\$149,785	\$5.25	177
Upper Condamine WS	92	\$90,067	\$2.65	350

Notes:

1. Excludes Mareeba-Dimbulah which has a pre-existing Access Charge.
2. Excludes Maranoa River as Sunwater does not currently provide any services in this scheme.
3. Excludes Bowen Broken Rivers which does not currently have any irrigation customers.

Status of customer support for an Access Charge

Sunwater believes that we have demonstrated sufficient customer support for the proposal for the Access Charge to be favourably considered by the QCA ahead of the draft irrigation price review report.

The development of this proposal represents a large step forward in the way in which Sunwater consults with our customers and works with them to shape regulatory proposals for the consideration of the QCA. This proposal is the direct result of a six-month collaboration between Sunwater and QFF, who is recognised as the peak representative body for irrigators in Queensland.

In addition to the support received from QFF for the proposal, Sunwater has undertaken additional targeted consultation in developing the proposed approach to the Access Charge. Sunwater conducted two rounds of consultation with the Mareeba-Dimbulah Irrigation Advisory Council (MDIAC) to obtain feedback on the benefits of the existing Access Charge in that scheme. The MDIAC confirmed that their Access Charge is an important part of cost recovery in that scheme. MDIAC indicated they were interested in receiving a discount on the Access Charge to encourage customer behaviours that enable Sunwater to reduce administration costs.

An Access Charge discussion paper was provided to the Irrigation Customer Reference Group (ICRG) ahead of a meeting on 12 April 2019 to seek their feedback. The ICRG indicated a preference for the cost reflective Access Charge of \$950 and recommended further customer consultation and consideration of the impacts on small (generally non-irrigation) customers. The discussion paper was also presented to the Lower Mary Customer Advisory Board (CAB) on 17 May 2019. The CAB supported the proposal.