Irrigation price review 2020-24

Consultation on draft report

20 September 2019
Today’s session

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Purpose of this workshop

• Role of the QCA
• Pricing framework
• Apportioning dam safety upgrade capex
• Review of cost drivers
• Scheme-specific pricing issues
• Prices and bill analysis
• Sunwater’s supplementary submissions
• Next steps
QCA’s role

• The Queensland Competition Authority (QCA) is the independent economic regulator for Queensland under the QCA Act 1997.

• The QCA does not have a standing remit to investigate water issues in Queensland.

• The QCA investigates water issues in Queensland where we have been referred an investigation by the Treasurer under the QCA Act 1997.

• The QCA:
  – does not make policy
  – does not make the final decision.

• The Irrigation Price Review 2020-24 is a separate regulatory process to other activities undertaken by the QCA (e.g. setting regulated retail electricity prices under the Electricity Act).
Purpose of our draft report

• Sets out our draft recommendations and explains how we have arrived at them

• Provides stakeholders with an opportunity to review and comment on our proposed approach, prior to us finalising our report

• We take all submissions into account when we recommend final prices to the Government.
Who are we recommending prices for?

- Scope of our review is set by the referral notice
- Only recommending prices for **irrigation customers** in the schemes/systems listed in the referral notice
- Irrigation customers *use water for the irrigation of crops or pastures for commercial gain*
- Prices for non-irrigation customers in the specified schemes/systems are out of scope.
The pricing framework

• We must conduct our investigation in accordance with the relevant legal framework

• For this investigation, the key components are the referral and the QCA Act

• The framework:
  – directs us to provide recommendations on particular issues
  – provides guidance on the matters we must consider
  – sets out the pricing principles we are to apply in calculating recommended prices.
The pricing framework

• Referral reflects the Government's water pricing policy, which aligns with its commitments under the National Water Initiative

• Policy applies different pricing frameworks and objectives to different customer groups, with:
  – prices for certain irrigation customers determined by the Government and expected to transition over time to prices that recover lower bound costs
  – prices for other customers negotiated by the relevant water business with their customers and expected, where practicable, to transition over time to full commercial prices.
The pricing framework – lower bound

• 'Lower bound‘ prices recover the prudent and efficient costs of operating, maintaining, administering and renewing each scheme. These costs exclude certain costs, such as a return on and of existing assets (as at 1 July 2000).

• Full commercial or 'upper bound' prices include the same costs as lower bound prices as well as a provision for the costs of capital

• While lower bound prices are referred to as 'cost reflective', they still involve a subsidy from taxpayers, as the water businesses are neither earning a return on, nor recovering, the initial investment in the existing assets.
The pricing framework

We must have regard to the following when recommending prices:

• section 26 matters, including:
  – efficient resource allocation
  – social welfare and equity considerations
  – economic and regional development issues

• matters required by the Treasurer’s referral notice, including:
  – allowable costs and the government’s pricing principles
  – balancing legitimate commercial interests of businesses with interests of their customers
  – where possible, transparent and simple revenue and pricing outcomes
The pricing framework

• The matters we are required to consider are diverse and may at times require us to make judgements about the relative importance of matters in particular circumstances

• We have considered all issues raised in submissions in deciding the relative importance to attach to the relevant matters

• We have emphasised the pricing principles as these principles give effect to the Government’s lower bound cost target

• The Government has indicated that, in setting the lower bound cost target for irrigation water prices and establishing a gradual transition path to that target, it has considered a range of matters including customers' capacity to pay and benefits of industry to the Queensland economy
Dam safety upgrade capex

• Directed by Government to provide prices with and without an allowance for dam safety upgrade capex
• The Government will decide which set of prices will apply when it sets prices
• Consistent with the referral, our draft prices and proposed approach to apportioning dam safety upgrade capex only apply to irrigation customers in the specified WSSs and distribution systems
• There are no dam safety upgrade projects forecast to commence in this scheme during this pricing period.
Dam safety upgrade capex – proposed approach

• Only prudent and efficient upgrade capex that is required to meet dam safety obligations
• Dam safety upgrade capex should generally be treated as a normal cost of operation in supplying water services
• Regulatory asset base (RAB) approach, as-commissioned basis
• Allocated to water users unless there is a clear justifiable basis for allocating some of the costs to other parties
• Two primary reasons for allocating costs to other parties:
  – Dam provides a formal flood mitigation service
  – For dams that do not provide a formal flood mitigation service, dam provides informal flood moderation / management benefits
Dam safety upgrade capex – proposed approach

- Where a dam provides a formal flood mitigation service, that service should be recognised in the allocation of costs, including dam safety upgrade costs.
- The costs associated with that service should not be apportioned to irrigators.
- The costs associated with that service should be allocated to the beneficiaries of that service (where possible) or the broader community.
Dam safety upgrade capex – proposed approach

• Some dams that do not have a formal flood mitigation role may still provide informal flood moderation and/or management benefits for downstream communities

• In light of those benefits, there is a case for sharing some of the costs of dam safety upgrades with the beneficiaries in the broader community where the upgrades will result in improved flood moderation or management

• For dams that do not provide a formal flood mitigation service, dam safety upgrade capex should be:
  – allocated using a general allocation ratio (dam-specific allocation ratios only used in certain circumstances) that allocates 80 per cent of the irrigation share of these costs to irrigation water users
  – the remaining 20 per cent should not be included in the allowable cost base for irrigation pricing purposes
Lower bound costs

Cost-reflective prices that incorporate costs allowable under referral:

• prudent and efficient costs allowable under the referral:
  – operational, maintenance and administrative costs
  – appropriate allowance for expenditure on renewing existing assets
  – QCA fees (up to $2.5 million cap) – not included in SunWater’s costs/prices.

• includes costs required to meet regulatory obligations or deliver agreed service levels.

• costs recoverable from prices exclude:
  – the recovery of capex prior to 1 July 2000 used to build existing assets
  – subject to certain exceptions:
    ▪ recreational costs incurred from 1 July 2020
    ▪ costs associated with augmentation of existing assets, new assets, or any capex that is not like-for-like or does not reflect regulatory requirement.
Operating expenditure

• Sunwater’s submission (November 2018)
  – November 2018 submission based on Sunwater’s budgeted costs for 2018-19
  – Cost categories with increases from 2012 review were:
    ▪ bulk WSS: insurance and renewals annuity

• Sunwater’s updated cost forecasts (June 2019)
  – Sunwater advised that updated forecasts provided a more accurate forecast of
    the costs of operating irrigation service contracts, with key changes:
    ▪ ↑ direct O&M (due to increased direct charging of labour to service
      contracts, and reallocation of light vehicles from local area support costs)
    ▪ ↓ local area support costs (due to increased direct charging of labour to
      service contracts, and reallocation of light vehicles to direct operations)
    ▪ further changes to its cost allocation methodology, as the initial submission
      was provided before it had completed the review and update of this.
    ▪ Updated insurance (↑), IGEM costs (↓) and renewals costs.
Sunwater’s proposed opex

Mareeba-Dimbulah WSS – base year opex ($’000, $2018-19)
Sunwater’s proposed opex

Mareeba-Dimbulah DS – base year opex ($’000, $2018-19)
## Opex – QCA assessment approach

### Review Sunwater’s cost submission
- Is the forecasting method reasonable?
- Has Sunwater addressed relevant issues and actions arising from the 2012 review?

### Assess prudence and efficiency of direct costs
- Is the base year cost prudent and efficient?
- Have one-off and non-recurrent costs been removed?
- Are proposed step changes reasonable?
- Are proposed escalation rates and efficiency gains

### Assess prudence and efficiency of non-direct costs
- Is the base year cost base prudent and efficient?
- Would costs be reasonably incurred by a stand-alone irrigation business?
- Are costs allocated to service contracts appropriately?
- Are proposed step changes & escalation rates reasonable?

### Comparison of proposed costs and QCA’s alternate costs
- Develop alternate estimates at relevant cost category level.
- Determine materiality of difference between proposed costs and QCA’s alternate estimates.
- If difference is material, substitute proposed cost.
Direct operations & maintenance costs

• Base year costs
  – Difficulties with November 2018 proposed base year costs due to issue with direct charging of labour costs to irrigation service contracts (did not appear to be fully accounted for), and budgeted not actual costs.
  – June 2019 proposed costs were provided too late into the review, and this data was budgeted not actual costs.
  – We developed alternate base year costs using historical costs, adjusted for direct charging issue and change in Sunwater’s cost allocation of light vehicles from non-direct (local area support costs) to direct O&M.
  – Historical costs (2012-13 to 2017-18) generally prudent and efficient
  – However 2016-17 and 2017-18 impacted by under-charging of labour to service contracts (AECOM assessed that average labour utilisation should be 88% rather than 83%)
Direct O&M – bulk WSS

Base year costs 5.5% higher than November 2018 submission

- We have:
  - averaged historical costs at scheme level to address year-on-year variability (reducing base year cost)
  - corrected historical costs for under-charging (increasing base year cost)
  - transferred fleet costs to direct O&M (increasing base year cost)

- Base year costs 12.4% lower than June 2019 submission
  - While Sunwater has attributed its higher base year costs (as compared to its most recent actuals) to under-charging and transferred fleet costs, we have insufficient justification for the level of increase at the time of the draft report.
Direct O&M – bulk WSS

$ thousand

Corrective Maintenance
Preventative Maintenance
Operations
Direct Labour Costs

$ thousand

$416 $352 $555 $529 $517 $408 $463 $565

$467 $463 $555 $529 $517 $408 $463 $565

QCA Recommended

$210 $223 $266 $275 $252 $221 $253 $280

$280 $253 $221 $252 $275 $266 $223 $210
Direct O&M – distribution

Base year costs 17.4% higher than November 2018 submission

• We have:
  – averaged historical costs at scheme level to address year-on-year variability (reducing base year cost)
  – corrected historical costs for under-charging (increasing base year cost)
  – transferred fleet costs to direct O&M (increasing base year cost)

• Base year costs 4.8% lower than June 2019 submission
  – While Sunwater has attributed its higher base year costs (as compared to its most recent actuals) to under-charging and transferred fleet costs, we have insufficient justification for the level of increase at the time of the draft report.
Direct O&M - distribution

$ thousand


Corrective Maintenance
Preventative Maintenance
Operations
Direct Labour Costs

QCA Recommended

$2,015 $2,045
$2,205
$2,049
$2,006
$1,927
$2,148
$2,657

$1,297 $1,262
$1,371
$1,314
$1,223
$1,195
$1,359
$1,478

$0 $500 $1,000 $1,500 $2,000 $2,500 $3,000

Queensland Competition Authority

25
Electricity – distribution system

- Base year costs
  - Developed alternative estimate to compare with Sunwater’s submission
  - Alternative fixed and variable electricity cost $/ML calculated using historic water and electricity usage/demand and 2019-20 electricity tariffs.

- Fixed versus variable split
  - Fixed and variable costs calculated using underlying electricity tariff structure – variable costs converted to $/ML based on water usage forecasts for re-lift section only

<table>
<thead>
<tr>
<th></th>
<th>Fixed cost ($’000)</th>
<th>Variable cost ($/ML)</th>
<th>Water usage (ML)</th>
<th>Total cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunwater (June 2019)</td>
<td>-</td>
<td>6.46</td>
<td>97,692</td>
<td>631,000</td>
</tr>
<tr>
<td>QCA draft</td>
<td>133</td>
<td>66.24</td>
<td>5,042</td>
<td>467,000</td>
</tr>
</tbody>
</table>
Electricity – distribution system

• Step change due to phase out of transitional tariffs
  – Transitional tariffs to be phased out in 2021-22
  – Have determined step change in 2021-22 based on our AECOM’s assessment of the optimal tariff for connection sites on transitional/obsolete tariffs
  – Have applied AEMO escalation factors for pre and post transition years

<table>
<thead>
<tr>
<th>Fixed/variable</th>
<th>2019-20</th>
<th>2020-21</th>
<th>2021-22</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed ($’000)</td>
<td>133</td>
<td>130</td>
<td>91</td>
</tr>
<tr>
<td>Variable ($/ML)</td>
<td>66.24</td>
<td>64.77</td>
<td>84.61</td>
</tr>
</tbody>
</table>
Electricity cost pass-through mechanism

• Sunwater submitted proposal with in-principle support from QFF
• The QCA welcomes stakeholder submissions on the proposal
• Mechanism involves following steps:
  – **Step 1**: remove electricity costs from Part B/D tariffs
  – **Step 2**: calculate fixed and variable electricity charges – the fixed charge to be added back to Part A/C water charges; the variable charge to be treated as a standalone charge independent of Part B/D water charges
  – **Step 3**: in May each year, compare revenue received (from fixed and variable electricity charges) with actual electricity costs and announce any discount/surcharge to the variable electricity charge for the next FY
  – **Step 4**: publish information on energy usage and targets in NSPs
  – **Step 5**: where targets are not met, customers could request a prudency and efficiency review of electricity pass through costs
Electricity cost pass through mechanism

• Sunwater has proposed three options for the structure of electricity charges:
  – **Option 1**: the charge is fully volumetric (based on 5 years of historical data on electricity and water use and Sunwater’s assessment of the best available electricity tariffs)
  – **Option 2**: the charge includes a fixed component (calculated to reflect the extent to which total electricity costs have varied with water use over the last five years)
  – **Option 3**: the fixed component is calculated so that, when applied to the last five years of actual data, the revenue Sunwater receives is at least equal to the actual cost of electricity

• The QCA will assess this proposal taking into account customer feedback including:
  – The extent of buy-in from the customer base
  – Any changes to the mechanism proposed by customers
Insurance

• Base year costs
  – Competitive procurement processes and reasonable level of coverage
  – Have accepted June 2019 revised costs – key driver is higher market rates due to a change in asset risk assessment

• Escalation over price path
  – Have escalated base year costs by CPI over the price path
Non-direct opex

• Base year costs
  – Assessed 2017-18 as appropriate base year
  – AECOM adjusted these for under-charging issue and changes to cost allocation methodology from 2017-18 to 2019-20 (e.g. fleet costs).
  – For corporate support, reduced 2017-18 cost base for projected reductions in some cost centres (Finance, Legal, reduced rent). Did not incorporate budgeted cost increases in some cost centres.

• Step change in base year costs
  – Accepted June 2019 revised (lower) IGEM costs as these are a new regulatory obligation on Sunwater
Renewals expenditure

• Have identified improvements in asset management and planning:
  – Better inspection and maintenance regimes
  – The use of modern equivalent replacement values
  – Consistent guidelines for options analysis

• Recommend a reduction of 7.3% in historical renewals relative to November 2018 submission of $104.9 million

• Also excluded flood repair costs (net of insurance revenues) if insurance claim has not been finalised – no such projects in Mareeba bulk WSS or distribution system

• QCA’s 30 year renewals profile is 29.5% lower than Sunwater’s November 2018 submission of $1.8 billion, due mainly to change in timing of forecast renewals.
Timing of renewals expenditure

• AECOM recommended Sunwater develop asset specific decay curves to improve renewals forecasts
  – Currently assumes all assets fail at same rate - e.g. all assets (regardless of type) will require replacement by the end of their service life
  – In practice failure rates will differ depending on asset type

• AECOM estimated the impact of better planning using industry standard decay curve
  – Best practice requires assets to be maintained in state of good repair
  – Estimate that by uniformly extending asset lives by 10% assets could still be maintained in state of good repair – condition rating of assets remain in acceptable range after asset life extension

• Estimate is conservative as we do not have complete data on, e.g., asset condition ratings
Forecast renewals for WSS assuming 10% increase in useful life ($2018-19, millions)

Value of renewals beyond the price path drops from $21.3 million to $19.4 million
Forecast renewals for distribution system assuming 10% increase in useful life ($2018-19, millions)

Value of renewals in price path period drops from $5.2 million to $4 million

Value of renewals beyond the price path drops from $123.3 million to $50.7 million
Allowable costs

Mareeba-Dimbulah WSS – base year costs ($’000, $2018-19)
Allowable costs

Mareeba-Dimbula DS – base year costs ($’000, $2018-19)
Distribution losses

• We have estimated costs associated with historical excess distribution loss WAEs, and allocated the bulk holding (fixed) costs of these to Sunwater.

• This is on the basis that distribution system customers should not pay for distribution loss WAEs in excess of what is required to meet actual loss releases.

• Distribution system customers pay costs of remaining loss WAE.

• To calculate the efficient level of distribution loss WAEs, we have generally taken the maximum distribution loss WAEs required over the past 15 years after adjusting for distribution system water usage.

• In the Mareeba-Dimbula distribution system, the full allocation of distribution loss WAEs are sometimes required.
## Distribution losses

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<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>HP DL WAE</td>
<td>8,000</td>
<td>8,000</td>
<td>8,000</td>
<td>8,000</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td>MP DL WAE</td>
<td>37,000</td>
<td>37,000</td>
<td>37,000</td>
<td>37,000</td>
<td>37,000</td>
<td>37,000</td>
</tr>
<tr>
<td>Actual DLs (HP + MP)</td>
<td>34,150</td>
<td>22,545</td>
<td>31,113</td>
<td>30,607</td>
<td>25,248</td>
<td>24,584</td>
</tr>
<tr>
<td>HP DL WAE used</td>
<td>8,000</td>
<td>8,000</td>
<td>8,000</td>
<td>8,000</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td>MP DL WAE used (1)</td>
<td>26,150</td>
<td>14,245</td>
<td>23,113</td>
<td>22,607</td>
<td>17,248</td>
<td>16,584</td>
</tr>
<tr>
<td></td>
<td>(71%)</td>
<td>(39%)</td>
<td>(62%)</td>
<td>(61%)</td>
<td>(47%)</td>
<td>(45%)</td>
</tr>
<tr>
<td>Distribution system</td>
<td>76%</td>
<td>68%</td>
<td>80%</td>
<td>84%</td>
<td>73%</td>
<td>59%</td>
</tr>
<tr>
<td>water use as a % of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WAE (2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MP DL WAE used,</td>
<td>94%</td>
<td>57%</td>
<td>78%</td>
<td>72%</td>
<td>64%</td>
<td>75%</td>
</tr>
<tr>
<td>adjusted for actual</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>water use (1)/(2)</td>
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</tbody>
</table>
Distribution losses

• We believe Sunwater is best placed to manage the risk of distribution loss WAEs in excess of the efficient level.
• Impact on distribution system cost-reflective prices:
  – Part C (fixed tariff) +$4.47/ML
  – Part D (volumetric tariff) +$0.20/ML
• We recommend that Sunwater should review its distribution loss WAEs and develop a strategy for their future treatment prior to the next price review
• For the next price review process, we would expect to be assessing the reasonableness of Sunwater's proposed strategy for its holdings of distribution loss WAEs, including Sunwater's views on the efficient level of its distribution loss WAE holdings.
Termination fees

• Since the 2012 review there has been no change to the ACCC Water Charge (Termination Fees) Rules 2009. The rules determined that termination fees in the Murray-Darling Basin should be calculated as up to 10 times the relevant cost reflective fixed tariff.

• As Sunwater is subject to GST payment on termination revenue it receives, the ACCC multiplier of up to 10 adjusted for GST results in a multiplier of up to 11.

• We consider that a termination fee applied as 11 times the cost-reflective distribution fixed (Part C) price balances the interests of Sunwater and customers with providing appropriate incentives for Sunwater to supply only those services required by their customers. Therefore, we propose no change to current arrangements.
Termination fees

• We note that the termination fee multiplier is set to a level of up to 11 times the relevant cost reflective fixed tariff (including GST). 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.
## Termination fees

Maximum termination fee per tariff group ($/ML WAE nominal):

<table>
<thead>
<tr>
<th>Tariff group</th>
<th>2020-21</th>
<th>2021-22</th>
<th>2022-23</th>
<th>2023-24</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside a relift up to 100 ML</td>
<td>560.71</td>
<td>575.35</td>
<td>590.34</td>
<td>605.68</td>
</tr>
<tr>
<td>Outside a relift 100 ML to 500 ML</td>
<td>493.78</td>
<td>506.83</td>
<td>520.20</td>
<td>533.88</td>
</tr>
<tr>
<td>Outside a relift over 500 ML</td>
<td>381.99</td>
<td>392.40</td>
<td>403.05</td>
<td>413.95</td>
</tr>
<tr>
<td>River supplemented streams &amp; Walsh River</td>
<td>266.09</td>
<td>272.40</td>
<td>278.85</td>
<td>285.46</td>
</tr>
<tr>
<td>Relift</td>
<td>582.00</td>
<td>595.80</td>
<td>609.92</td>
<td>624.37</td>
</tr>
</tbody>
</table>
Drainage charges

• In the 2012 review, we considered that the drainage price should represent the costs associated with providing drainage services. With a fixed charge recovering fixed drainage costs to ensure Sunwater does not face volume and revenue risk.

• We recognise that there are significant costs and complexities involved with establishing an appropriate methodology for separating drainage costs. We now consider that it is most likely that these costs will outweigh the benefits to customers.

• As no submissions were received in relation to the Mareeba-Dimbulaah distribution system, we recommend drainage costs associated with this system should continue to be recovered from the Part C tariff.
Cost allocation (fixed and variable costs)

• Fixed/variable split from 2012 review is appropriate starting point.
• Propose to allocate 20 per cent of direct operations and maintenance costs to variable costs.
• For schemes where pumping costs are directly related to water usage, we have assigned fixed/variable split based on fixed/variable nature of underlying electricity tariff components.

<table>
<thead>
<tr>
<th>Cost component</th>
<th>Sunwater proposed</th>
<th>QCA draft</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations &amp; maintenance</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>Electricity pumping costs</td>
<td>100</td>
<td>Scheme-specific</td>
</tr>
<tr>
<td>Other electricity costs</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>Non-direct costs</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Renewals annuity</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dam safety upgrade capex</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Cost allocation (medium/high priority)

- Reassessed allocation of bulk WSS costs, particularly in light of new compliance costs (IGEM and dam safety upgrade capex)
- Components of fixed operations costs that are asset-related should be allocated using HUF, as this takes into account the differential in benefits received by each priority group.

<table>
<thead>
<tr>
<th>Cost component</th>
<th>Bulk allocation</th>
<th>Distribution allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>50% HUF/50% WAE</td>
<td>WAE</td>
</tr>
<tr>
<td>Electricity (fixed)</td>
<td>HUF</td>
<td>WAE</td>
</tr>
<tr>
<td>Insurance</td>
<td>HUF</td>
<td>WAE</td>
</tr>
<tr>
<td>IGEM costs</td>
<td>HUF</td>
<td>WAE</td>
</tr>
<tr>
<td>Maintenance</td>
<td>HUF</td>
<td>WAE</td>
</tr>
<tr>
<td>Renewals annuity</td>
<td>HUF</td>
<td>WAE</td>
</tr>
<tr>
<td>Dam safety upgrade capex</td>
<td>HUF</td>
<td>WAE</td>
</tr>
<tr>
<td>Variable costs</td>
<td>Usage (per ML)</td>
<td>Usage (per ML)</td>
</tr>
</tbody>
</table>
Scheme-specific pricing issues

Customer access charge

• We acknowledge that some activities (and costs) are likely to vary per customer, rather than by WAE.
• Sunwater has not been able to provide us with sufficiently disaggregated cost data at the scheme level to allow us to determine the quantum of costs that vary per customer.
• In the absence of updated costing information that would support a change from the current charge, combined with customer support for its retention, we recommended increase by inflation only.

Walsh River & supplemented streams:

• In the absence of compelling new information, and the likelihood of a future hydrological study as part of the Nullinga Dam business case, we have maintained the 40 per cent on the basis of stability in pricing and consistency of approach.

Barron Falls hydro-electric facility

• We accepted that 18% of opex for the bulk WSS should be attributed to the Barron Falls hydro-electric facility based on the most recent six-year average.
Scheme-specific pricing issues

Channel customers outside relift (declining block tariff):

• Sunwater said that specific pricing arrangements were a matter for the QCA and the government.

• Under the terms of the referral, the three blocks in the outside relift section are distinct tariff groups.

• In the 2012 review, we concluded that there was sufficient evidence to suggest that a material difference existed in fixed costs between the three tariff groups.

• In the absence of updated information on Sunwater's cost of supply to the three different customer groups, we are unable to update the pricing differential.

• Sunwater, in consultation with irrigator advisory committees and customers, is best placed to consider the interests of customers and provide greater transparency as to the underlying costs.

• This is particularly relevant for this tariff structure that has been developed (and refined) over time to deal with local circumstances.
## Cost-reflective prices 2020-24 ($/ML)

<table>
<thead>
<tr>
<th></th>
<th>Access charge</th>
<th>2020-21</th>
<th>2021-22</th>
<th>2022-23</th>
<th>2023-24</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Actual 2019-20</strong></td>
<td>687.77</td>
<td>704.07</td>
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<td>737.84</td>
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</tr>
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<td>Part A</td>
<td>15.87</td>
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<td>5.43</td>
<td>5.55</td>
<td>5.69</td>
</tr>
<tr>
<td>Part B</td>
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QCA recommended prices

Key changes from previous review:

- Fixed prices to be derived independent of the changes in volumetric prices.
- Fixed bulk (Part A) price for distribution customers no more than cost-reflective.

Government pricing principles:

- QCA’s recommended prices transition to cost-reflective prices.
- Tariff split should have regard to fixed and variable nature of underlying costs:
  - Fixed prices (separately assessed for Part A, and Part A + C where relevant)
  - Volumetric prices (Part B and Part D): have regard to cost-reflective immediately, considering less than cost-reflective to moderate bill impacts.

<table>
<thead>
<tr>
<th>Existing (2019-20) fixed price</th>
<th>New (2020-24) fixed prices</th>
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<tr>
<td>Above efficient costs</td>
<td>Held constant*</td>
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<tr>
<td>Equal efficient costs</td>
<td>Indexed by inflation</td>
</tr>
<tr>
<td>Below efficient costs</td>
<td>2019-20 price + inflation + $2.38/ML ($2020-21)</td>
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</table>

* Except Part A for distribution system customers, which should be reduced to cost-reflective.
QCA recommended prices

We have sought to recommend prices that transition gradually to lower bound costs, as this will give users sufficient time to adjust.

Above lower bound prices:
• Fixed price maintained in nominal terms until this cost base is reached.
• Existing volumetric price > cost-reflective $\rightarrow$ reduce to cost-reflective
• Existing volumetric price < cost-reflective $\rightarrow$ increase by inflation only.

Below lower bound prices:
• Fixed price transitioned to cost-reflective by $2.38/ML ($2020-21) of WAE (plus inflation).
• Existing volumetric price > cost-reflective $\rightarrow$ reduce to cost-reflective
• Existing volumetric price < cost-reflective $\rightarrow$ cost-reflective, except where this would lead to total (fixed + volumetric) price increase well above $2.38/ML of WAE plus inflation.
## Recommended prices 2020-24 ($/ML)

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Sunwater’s access charge proposal

• Sunwater has worked with QFF to develop the proposal and has advised that QFF has provided conditional support for it

• QFF’s in-principle support is without prejudice to the Mareeba-Dimbulah scheme which currently has an access charge

• Not assessed in our draft report, as the supplementary submission was provided too late for us to give all stakeholders an adequate opportunity to comment on the proposal

• Have released an issues paper on the access charge proposal in conjunction with our draft report
Sunwater’s access charge proposal

• Sunwater has proposed:
  – access charge revenues would be offset by reductions in fixed (Part A) prices
  – customers whose behaviours contribute to Sunwater reducing its customer administration costs would be entitled to a discount on the access charge
  – fixed administrative costs that could be recovered include billing, water accounting, water sharing, call centre, ROL compliance, account management etc
  – Sunwater supplied underlying costing information associated with customer management at a state–wide level, indicating a 2018–19 cost reflective fixed access charge of $950.
Sunwater’s access charge proposal

• Do you support an access charge?

• If an access charge was to be introduced, do you think it should be based on Sunwater-wide costs and customer account numbers?

• Or should it based on the costs and customer account numbers for the irrigation sector?

• How to decide if a scheme has an access charge (customer vote? majority of customers?)
Next steps

<table>
<thead>
<tr>
<th>Milestone</th>
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<tr>
<td>Draft report released for consultation</td>
<td>9 September 2019</td>
</tr>
<tr>
<td>QCA community workshops</td>
<td>September and October 2019</td>
</tr>
<tr>
<td>Submissions due on draft report &amp; issues paper</td>
<td>4 November 2019</td>
</tr>
<tr>
<td>Final report provided to the Government</td>
<td>31 January 2020</td>
</tr>
<tr>
<td>Final report released</td>
<td>Early February 2020</td>
</tr>
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</table>
How to make a submission

• Online submission form at www.qca.org.au/submissions
• Or by post: QCA, GPO Box 2257, Brisbane Q 4001
• Submissions are encouraged, considered and addressed
• No need to make separate submissions on the draft report & the access charge issues paper – can make a single submission on both if preferred
• Transparency – submissions will be published
Questions?

Level 27, 145 Ann Street,
Brisbane Q 4000
GPO Box 2257,
Brisbane Q 4001
Tel (07) 3222 0555
www.qca.org.au