

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 **Dawson Valley water supply scheme** (WSS). Prices for non-irrigation customers are outside the scope of our review.

After extensive consultation with irrigators, we have released our final report. The Government will make the final decision on irrigation prices, taking our recommendations into consideration.

How we have recommended prices

We recommended two-part tariffs for the tariff groups in this scheme. The first part (Part A) is a *fixed price* per megalitre (ML) of water access entitlement (WAE), and the second part (Part B) is a *volumetric price* per ML of water used.

The volumetric price recovers variable costs (e.g. a portion of labour costs) that change with water usage. The remaining costs are recovered by the fixed price. We assessed all expenditure to ensure that Sunwater only recovers prudent and efficient costs.

We applied the pricing principles in the referral, as these give effect to the Government's water pricing policy. Under that policy, prices are to gradually transition over time to the 'lower bound cost target'. This target 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 existing asset base (as at 1 July 2000). We also moderated bill impacts by capping total price increases to inflation plus \$2.38/ML of WAE (from 2020–21, increasing by inflation). More details are in Part A (chapter 2) of our report.

Under our recommended prices, cost recovery for Sunwater's irrigation customers will improve from 90% in 2020–21 to 94% 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 the lower bound cost target.

What prices have we recommended?

We have been directed to recommend two sets of prices for this scheme, one that maintains existing tariff groups and one that applies an alternative tariff group. This applies to the Dawson Valley–River (medium priority) and Dawson Valley–River at Glebe Weir tariff groups.

For the medium priority tariff groups, our recommendations result in the fixed prices increasing by our estimate of inflation (2.24%) plus \$2.38/ML (2020–21 dollars) until prices reach the cost-reflective level within the price path period. Volumetric prices decrease to the cost-reflective level immediately. Prices fully recover costs by the end of the pricing period.

For the high priority tariff groups, our recommendations result in the fixed price increasing by inflation plus \$2.38/ML (2020–21 dollars) over the price path period. Volumetric prices decrease to cost-reflective immediately. Prices will not recover costs by the end of the pricing period. Cost recovery will increase from 41% in 2020–21 to 47% in 2023–24 for each of the high priority tariff groups.

Our recommended prices are shown in the table below.

Recommended prices for irrigation customers—\$/ML

Tariff group	2019–20 (Existing)	2020–21	2021–22	2022–23	2023–24
Dawson Valley—River (medium priority river customers)					
Fixed (Part A)	18.04	20.82	22.13	22.62	23.13
Volumetric (Part B)	2.01	1.62	1.66	1.69	1.73
Dawson Valley—River (medium priority local management supply)					
Fixed (Part A)	13.98	16.67	19.48	22.40	23.13
Volumetric (Part B)	2.01	1.62	1.66	1.69	1.73
Dawson Valley—River high priority alternate tariff group					
Fixed (Part A)	n.a.	46.11	49.57	53.17	56.91
Volumetric (Part B)	n.a.	1.62	1.66	1.69	1.73
Dawson Valley—River (high priority local management supply)					
Fixed (Part A)	42.77	46.11	49.57	53.17	56.91
Volumetric (Part B)	2.01	1.62	1.66	1.69	1.73
Dawson—River at Glebe Weir					
Fixed (Part A)	16.18	18.92	21.78	22.62	23.13
Volumetric (Part B)	2.01	1.62	1.66	1.69	1.73
Dawson Valley—alternate tariff group					
Fixed (Part A)	n.a.	20.82	22.13	22.62	23.13
Volumetric (Part B)	n.a.	1.62	1.66	1.69	1.73

How we have addressed stakeholder concerns

Dam safety

Some irrigation stakeholders have raised concerns about the allocation of dam safety expenditure to irrigators.

The primary service provided by most dams that are within the scope of our review is the supply of water to users. In order to provide that service, the water business must comply with a

range of regulatory obligations, including dam safety requirements. 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 reflected the incidental flood moderation benefits of dams by only allocating 80% 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) of our report 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), electricity costs and insurance costs.

We accepted Sunwater's revised (lower) IGEM costs provided to us in June 2019. However, we allocated this between irrigation and non-irrigation customers using the headworks utilisation factor. More details are in Part B (section 2.9) of our report.

We accepted Sunwater's June 2019 base year electricity cost estimates for bulk schemes as they are not materially different from our alternative estimates. See Part B (section 2.5) of our report for further details.

While we accepted Sunwater's final insurance costs for 2019–20 as a base year estimate, we also allocated these costs between irrigation and non-irrigation customers using the headworks utilisation factor. More details are in Part B (section 2.6) of our report.

Some irrigation stakeholders were also concerned with Sunwater's cost allocation methodology used to allocate non-direct costs. We reviewed the cost allocation methodology and consider it appropriate. Non-direct costs are allocated based on the share of direct labour in a scheme because these costs mainly relate to staff time on head office and local support functions. See Part B (section 2.8) of our 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 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) of our report for further details.

We reduced Sunwater's forecast renewals expenditure by 35.2% (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) of our report for further details.

Moura Off-Stream Storage

Some irrigation stakeholders said that the Moura Off-Stream Storage (MOSS) was built specifically for a single high priority customer and as such did not benefit medium priority users. These stakeholders said that 100% of the costs should be allocated to high priority users.

Sunwater has advised that MOSS provides direct benefits to those pumping directly from the Moura Weir Pool and indirect benefits to other customers. In addition, the storage in MOSS is included in the announced allocation for the whole scheme. Given that all scheme customers benefit from the operation of all the scheme assets, we consider that asset-related costs in this scheme should be allocated using the headworks utilisation factor. See Part B (section 7.3) of our report for further details.

Other matters raised by stakeholders

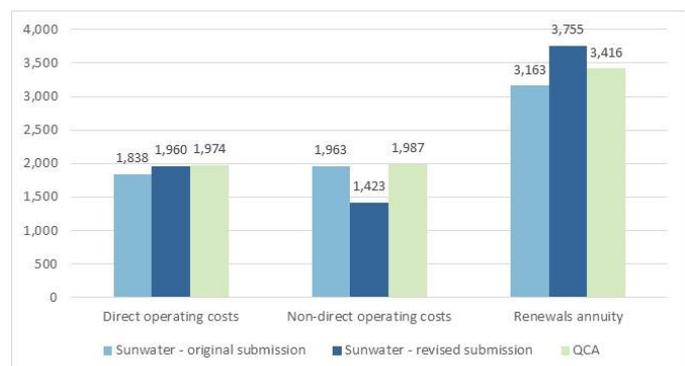
Some irrigation stakeholders in this scheme have raised concerns about price levels, affordability and the impact of higher water prices on their businesses, regional economies and local communities.

We consider that recommending prices that are consistent with the Government's pricing principles takes into account social welfare, capacity to pay and regional development considerations. We also moderated bill impacts. More details are in Part A (chapter 2) of our report.

We have recommended adjustments in scheme costs for Dawson Valley WSS

We have increased Sunwater's proposed scheme costs by 6% over the pricing period 1 July 2020 to 30 June 2024, due mainly to higher renewals expenditure provided to us in June 2019.

Total scheme costs over the price path period—Dawson Valley (2018–19 dollars) (\$'000)



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 our report.

We have assessed local impacts

The table below presents an estimate of the change in water bills (compared to the bill based on existing prices), for various levels of water use. More details on bill impacts are in Part B (chapters 7 and 9, and appendix C) of our 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 (%)
Dawson Valley – River (medium priority river customers)		
0	15	28
25	14	27
50	14	26
75	13	25
100	12	24
Dawson Valley – River (medium priority local management supply)		
0	19	65
25	18	63
50	17	60
75	16	58
100	14	55
Dawson Valley – River (high priority local management supply)		
0	8	33
25	7	33
50	7	32
75	7	31
100	7	31
Dawson – River at Glebe Weir		
0	17	43
25	16	41
50	15	40
75	14	38
100	13	37
Dawson – alternate tariff group from Dawson Valley - River (medium priority river customers)		
0	15	28
25	14	27
50	14	26
75	13	25
100	12	24
Dawson – alternate tariff group from Dawson Valley – River at Glebe Weir		
0	29	43
25	27	41
50	26	40
75	25	38
100	23	37

Where you can find out more

The final report is on the [QCA website](#) in three parts:

- Part A—key regulatory and pricing framework issues that apply to both Sunwater and Seqwater
- Part B—Sunwater schemes
- Part C—Seqwater schemes.

What happens next?

The Government will consider our final report and make the final decision on irrigation water prices for Sunwater and Seqwater customers over the pricing period 1 July 2020 to 30 June 2024.