

#### 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 **Lower Mary water supply scheme (WSS)** and **distribution system**. 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 and Part C) is a *fixed price* per megalitre (ML) of water access entitlement (WAE), and the second part (Part B and Part D) is a *volumetric price* per ML of water used.

The volumetric price recovers variable costs (e.g. a portion of labour costs, and electricity costs relating to pumping) 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?

For river-only customers in the Lower Mary WSS, our recommendations result in the fixed price remaining constant over the pricing period, and the volumetric price decreasing to the cost-reflective level immediately. Prices fully recover costs.

For the Tinana Barrage and Teddington Weir tariff group, our recommendations result in the fixed price remaining constant and the volumetric price increasing by our estimate of inflation (2.24%) from 2020–21 to 2022–23. In 2023–24, the volumetric price increases by higher than inflation to remain at the lower bound cost target. Prices fully recover costs.

For the Lower Mary distribution system tariff group, our recommendations result in the total fixed price increasing by our estimate of inflation (2.24%) plus \$2.38/ML (2020–21 dollars) until prices reach the cost-reflective level in 2022–23. Total volumetric prices decrease to the cost-reflective level immediately. Prices fully recover costs by the end of the pricing period.

Our recommended prices are shown in the table below.

#### Recommended prices for irrigation customers—\$/ML

Tariff group	2019–20 (Current)	2020–21	2021–22	2022–23	2023–24
<b>Lower Mary—Mary Barrage</b>					
Fixed (Part A)	15.10	15.10	15.10	15.10	15.10
Volumetric (Part B)	1.98	0.86	0.88	0.90	0.92
<b>Lower Mary—Tinana Barrage and Teddington Weir</b>					
Fixed (Part A)	24.83	24.83	24.83	24.83	24.83
Volumetric (Part B)	9.51	9.72	9.94	10.16	13.49
<b>Lower Mary distribution system</b>					
Fixed (Part A)	7.31	6.21	6.35	6.50	6.64
Volumetric (Part B)	1.98	0.86	0.88	0.90	0.92
Fixed (Part C)	47.00	51.70	55.29	57.77	59.07
Volumetric (Part D)	70.27	67.01	68.51	70.05	71.62
<b>Total Fixed</b>	<b>54.31</b>	<b>57.91</b>	<b>61.64</b>	<b>64.27</b>	<b>65.71</b>
<b>Total Volumetric</b>	<b>72.25</b>	<b>67.87</b>	<b>69.39</b>	<b>70.95</b>	<b>72.54</b>

#### How we have addressed stakeholder concerns

##### Access charge

Some irrigation stakeholders support the inclusion of an access charge in principle. However, are concerned about the level of customer support.

We welcome the water businesses working with their customers to reach agreement on issues of concern. We are generally receptive to recognising such agreements when we recommend irrigation prices, subject to any agreement being consistent with the requirements set out in the referral.

Given the importance of the access charge and its impact on affordability, we have recommended that an access charge not be introduced until further consultation is undertaken with Sunwater's customers, particularly with small water users.

See Part B (section 6.3) of our report for further details.

### Electricity cost pass through mechanism

Some stakeholders expressed concern for Sunwater's proposed electricity cost pass through mechanism.

We are concerned that the automatic pass through of electricity costs has the potential for large bill impacts and reduced incentives for the efficient use of electricity.

We have encouraged Sunwater to further refine the proposal and demonstrate clear customer support. The Government may wish to consider any such agreement were one to be reached subsequent to our report.

More details are in Part A (section 3.3) of our report.

### Headworks utilisation factor

Some stakeholders raised concerns over the suitability of a headworks utilisation factor (HUF) in the Lower Mary scheme.

The HUF approach takes into account the water planning framework (including water sharing rules and other operational requirements) determined by 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, reviewed the proposed HUF for this scheme and determined that it has been appropriately calculated.

See Part B (section 7.3) of our report for further details.

### Other matters raised by stakeholders

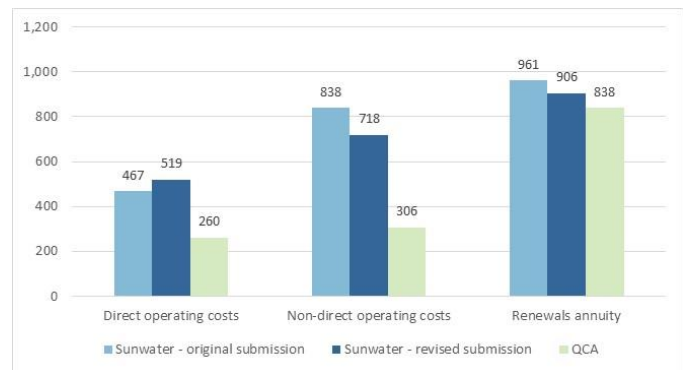
Some irrigation stakeholders in this scheme have raised concerns about price levels, affordability and the impact of higher water prices on their businesses, regional economies and local communities.

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 a reduction in scheme costs for Lower Mary WSS and distribution system

We reduced Sunwater's proposed scheme costs by 38% over the pricing period.

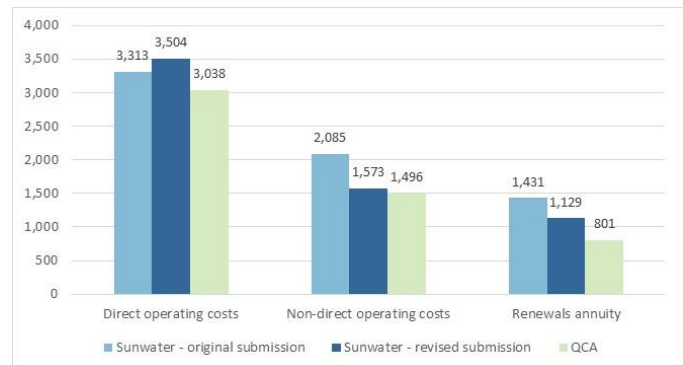
### Total costs over the price path period—Lower Mary WSS (2018–19 dollars) (\$'000)



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

We have reduced Sunwater's proposed distribution scheme costs by 22% over the pricing period.

### Total costs over the price path period—Lower Mary distribution system (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

We moderated bill impacts in the Lower Mary distribution system tariff group by limiting the increase in the combined fixed and volumetric price to inflation plus \$2.38/ML of WAE (from 2020–21, increasing by inflation). We have recommended that the total fixed price increases by inflation plus \$2.38/ML (from 2020–21 dollars, increasing by inflation) over the price path period, and that the total volumetric price decreases to the cost-reflective level immediately.

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 (%)
<b>Lower Mary—Mary Barrage</b>		
0	–	–
25	(2)	(2)
50	(3)	(3)
75	(5)	(5)
100	(7)	(6)
<b>Lower Mary—Tinana Barrage and Teddington Weir</b>		
0	–	–
25	0	4
50	0	7
75	0	9
100	1	12
<b>Lower Mary distribution system</b>		
0	7	21
25	3	16
50	2	13
75	0	11
100	(1)	9

## 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.