

### 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 **Proserpine River 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, 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 this scheme, our recommendations result in the fixed and volumetric prices both increasing to cost-reflective levels immediately.

Our recommended prices are shown in the table below.

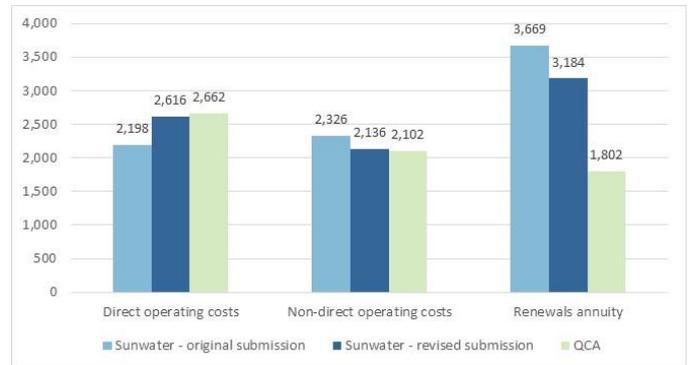
### Recommended prices for irrigation customers—\$/ML

Tariff group	2019–20 (Existing)	2020–21	2021–22	2022–23	2023–24
<b>Proserpine River</b>					
Fixed (Part A)	13.26	14.19	14.51	14.83	15.16
Volumetric (Part B)	3.02	3.47	3.55	3.63	3.71
<b>Proserpine River: Kelsey Creek Water Board</b>					
Fixed (Part A)	12.14	14.19	14.51	14.83	15.16
Volumetric (Part B)	3.02	3.47	3.55	3.63	3.71

### We have recommended a reduction in scheme costs for Proserpine WSS

We reduced Sunwater's proposed scheme costs by 20% over the pricing period 1 July 2020 to 30 June 2024.

### Total scheme costs over the price path period—Proserpine River 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.

More details on recommended costs for Sunwater schemes are in Part B (chapters 2 to 4) of our report.

### How we have addressed stakeholder concerns

#### Access charge

Some irrigation stakeholders support the inclusion of an access charge in principle. However, are concerned about what costs the access charge included.

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.

### 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.

### 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.

### Renewals annuity

Some irrigation stakeholders raised concerns about Sunwater's asset management practices and the length of the annuity.

We identified improvements to Sunwater's asset planning and management to ensure assets are not replaced earlier or later than required.

We accepted Sunwater's 30-year planning period for calculating its renewals annuity allowance. However, we adjusted the timing and costs of Sunwater's proposed renewals program, resulting in a reduction in Sunwater's proposed renewals annuity costs. More details are in Part B (chapter 3) of our report.

### Other matters raised by stakeholders

Some irrigation stakeholders in this scheme 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 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 (%)
<b>Proserpine River</b>		
0	7	14
25	7	15
50	8	15
75	8	16
100	8	16
<b>Proserpine River: Kelsey Creek Water Board</b>		
0	17	25
25	17	25
50	17	25
75	17	25
100	17	25

### 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.