

We have recommended prices for irrigation customers in 22 water supply schemes and associated distribution systems operated by Sunwater over the period 1 July 2020 to 30 June 2024.

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

Background

We undertook this review in response to a direction from Government. We have undertaken our review in accordance with the relevant legal framework, including the referral notice for this investigation and the QCA Act.

This framework defines the scope of our investigation and directs us to provide recommendations on particular issues. It also requires that we consider certain matters when undertaking our investigation. Some of these matters are set out in section 26 of the QCA Act and others in the referral.

In recommending prices, we have emphasised the pricing principles set out in the referral, as these principles give effect to the Government's water pricing policy. One of the key principles of that policy is that prices should increase gradually until they reach a cost-reflective level, where they recover the irrigation share of the scheme's operating, maintenance and capital renewal costs but do not recover a return on, or of, the scheme's initial asset base (as at 1 July 2000).

The report refers to this level of cost recovery as 'the lower bound cost target'. This level of cost recovery still involves a subsidy from taxpayers, as the water businesses are not earning a return on, or recovering the initial investment in the existing assets.

More details on this framework are provided in Part A of our report, which is available on our website.

Approach to reviewing costs

Our recommended prices seek to recover certain prudent and efficient costs. We have assessed the operating expenditure (opex), renewals expenditure and dam safety upgrade capital expenditure (capex) proposed by Sunwater for prudence and efficiency.

Key findings from cost review

Relative to Sunwater's November 2018 submission, we have reduced total opex over the price path by \$14.2 million (4.9%) from \$290.8 million to \$276.6 million. Our adjustments include:

- reducing non-direct opex by \$21.4 million—we have largely accepted Sunwater's June 2019 revised (lower) costs
- reducing electricity costs by \$5.9 million—largely because the end date for obsolete and transitional tariffs was extended by one year
- additional costs of \$13.1 million—associated with the inclusion of our regulatory fees, higher insurance costs (based on Sunwater's final insurance costs for 2019–20) and higher direct operations and maintenance costs (due mainly to reallocation of fleet costs from local overheads).

More details are in Part B (chapter 2) of our report.

Relative to the November 2018 submission, we have reduced Sunwater's historical and forecast renewals expenditure. Our adjustment include:

- reducing historical renewals (including non-routine operations and corrective maintenance) from \$173.4 million to \$170.2 million (down 1.8%)
- reducing forecast renewals expenditure by 35.2% to reflect our assessment of the prudent and efficient level and timing of expenditure.

More details are in Part B (chapter 3) of our report.

Dam safety

We have recommended two pricing options for those schemes with dam safety upgrade projects that are expected to be commissioned in the price path period. The decision about which set of prices should apply is a matter for the Government when it determines prices for the price path period.

The primary service provided by most dams that are within the scope of our review is the supply of water to users. As dam safety upgrade capex is a compliance cost, we consider that it should be treated as a normal cost of operation in supplying water services unless there is a clear and justifiable basis for allocating some of the costs to other parties.

We have 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.

We consider that where a dam has a formal flood mitigation role, the costs of dam safety upgrades should be shared with beneficiaries in the broader community.

More details are in Part A (chapter 4) of our report.

Prices and bill moderation

Given our consideration of bill impacts and the affordability concerns raised by stakeholders, we consider it is appropriate to moderate bill impacts. We have sought to recommend prices that transition gradually to the lower bound cost target, as this will give users time to adjust.

We have recommended fixed prices that transition to the fixed component of the lower bound cost target by annual increases of inflation plus \$2.38/ML of water access entitlement (WAE), consistent with the pricing principles in the referral.

Where the existing volumetric price is above the volumetric component of the lower bound cost target (the cost-reflective volumetric price), we have reduced the existing volumetric price to the cost-reflective volumetric price immediately.

Where the existing volumetric price is below the cost-reflective volumetric price, we have recommended the following transition to the cost-reflective price:

- For tariff groups with existing prices above the lower bound cost target, we have recommended that the existing volumetric price increases by no more than inflation.
- For tariff groups with existing prices below the lower bound cost target, we have moderated bill impacts by capping the increase in the volumetric price to inflation until the fixed price reaches the fixed component of the lower bound cost target.

This approach limits the increase in the combined fixed and volumetric price to inflation plus \$2.38/ML of WAE (from 2020–21, increasing by inflation).

More details are in Part A (chapter 2) and Part B (chapter 7) of our report.

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. More details are in Part B (section 6.3) of our report.

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.