

### 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 **St George 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 Beardmore Dam/Balonne River and Thuraggi Watercourse tariff groups.

However, our recommended alternative tariff group prices do not differ from our recommended prices for the existing tariff groups.

For the medium priority tariff groups, our recommendations result in the fixed price increasing to the cost-reflective level immediately and the volumetric price decreasing to the cost-reflective level immediately.

For the high priority local management supply, our recommendations result in the fixed price increasing by our estimate of inflation (2.24%) plus \$2.38/ML (2020–21 dollars) for the first three years of the price path period and reaching the cost-reflective level in 2023–24. The volumetric price decreases to the cost-reflective level immediately.

Our recommended prices are shown in the table below.

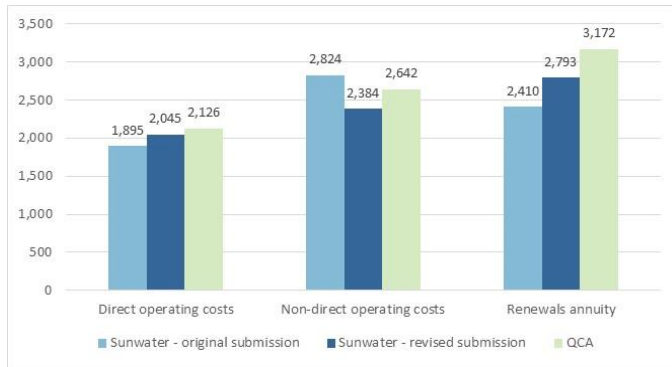
#### Recommended prices for irrigation customers—\$/ML

Tariff group	2019–20 (Existing)	2020–21	2021–22	2022–23	2023–24
<b>St George—Beardmore dam or Balonne River (medium priority)</b>					
Fixed (Part A)	21.91	22.91	23.42	23.95	24.48
Volumetric (Part B)	1.38	1.09	1.11	1.14	1.16
<b>St George—Thuraggi Watercourse (medium priority)</b>					
Fixed (Part A)	21.91	22.91	23.42	23.95	24.48
Volumetric (Part B)	1.38	1.09	1.11	1.14	1.16
<b>St George alternative tariff group</b>					
Fixed (Part A)	n.a	22.91	23.42	23.95	24.48
Volumetric (Part B)	n.a	1.09	1.11	1.14	1.16
<b>St George (medium priority local management supply)</b>					
Fixed (Part A)	20.86	22.91	23.42	23.95	24.48
Volumetric (Part B)	1.38	1.09	1.11	1.14	1.16
<b>St George (high priority local management supply)</b>					
Fixed (Part A)	29.04	32.07	35.22	38.50	39.94
Volumetric (Part B)	1.38	1.09	1.11	1.14	1.16

### We have recommended adjustments in scheme costs for St George WSS

We increased Sunwater's proposed scheme costs by 11% 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—St George 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

### 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.

### IGEM 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).

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.

### Renewals annuity

Irrigation stakeholders raised concerns about the increase in renewals expenditure.

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.

## 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>St George— Beardmore dam or Balonne River (medium priority)</b>		
0	5	12
25	4	11
50	4	11
75	3	11
100	3	10
<b>St George— Thuraggi Watercourse (medium priority)</b>		
0	5	12
25	4	11
50	4	11
75	3	11
100	3	10
<b>St George alternative tariff group</b>		
0	5	12
25	4	11
50	4	11
75	3	11
100	3	10
<b>St George (medium priority local management supply)</b>		
0	10	17
25	9	17
50	9	16
75	8	16
100	8	15
<b>St George (high priority local management supply)</b>		
0	10	38
25	10	37
50	10	36
75	9	36
100	9	35

## 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.