

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 **Upper Condamine 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 \$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 for the Sandy Creek or Condamine River tariff group result in the fixed price remaining constant over the pricing period and the volumetric price increasing by inflation over the pricing period.

Our recommendations for the North Branch tariff group result in the fixed price remaining constant over the pricing period. Given that existing prices in this tariff group are more than sufficient to recover the lower bound cost target, we have increased the volumetric price by inflation over the pricing period.

Our recommendations for the North Branch Risk A tariff group result in the combined fixed and volumetric price increasing by our estimate of inflation (2.24%) plus \$2.38/ML in 2020–21 and then moving to the cost-reflective level for the remainder of the price path period. In this scheme, prices fully recover costs from 2021–22 onwards.

Dam safety upgrades for this scheme are due to be commissioned in 2021–22. However, this has no impact on our recommended prices over this pricing period. We have estimated the impact in the year following commissioning (2022–23) to be an increase in the cost-reflective fixed price of around \$1.52/ML.

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
Sandy Creek or Condamine River					
Fixed (Part A)	34.03	34.03	34.03	34.03	34.03
Volumetric (Part B)	5.57	5.69	5.82	5.95	6.09
North Branch					
Fixed (Part A)	47.64	47.64	47.64	47.64	47.64
Volumetric (Part B)	15.19	15.53	15.88	16.23	16.60
North Branch— Risk A					
Fixed (Part A)	13.44	14.30	14.62	14.95	15.29
Volumetric (Part B)	15.19	17.35	19.80	20.24	20.69

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.

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.

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

Some irrigation stakeholders raised concerns about Sunwater's renewals annuity calculations, and the large negative annuity balance given that the fixed (Part A) prices are above cost-reflective.

We have recalculated Sunwater's renewals annuity calculations. This involved:

- rolling forward our revised 2012–13 opening annuity balance for each scheme
- calculating the 2017–18 opening balance by adding the renewals annuity allowance from the 2012 review, subtracting our recommended prudent and efficient renewals costs and adjusting for interest each year
- using a 30 year planning period.

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.

Other matters raised by stakeholders

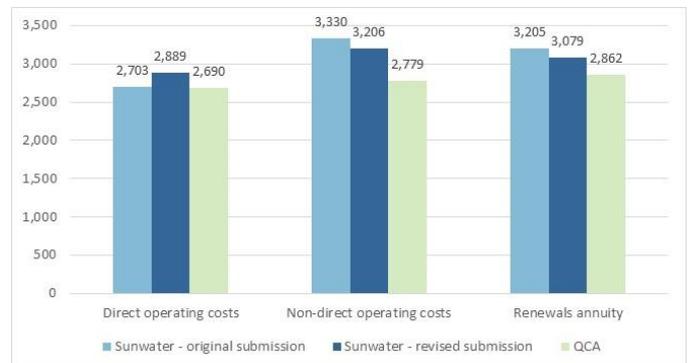
Some irrigation stakeholders in this scheme have raised concerns about price levels, affordability and the impact of higher water prices on their businesses, regional economies and local communities.

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 Upper Condamine WSS

We reduced Sunwater's proposed scheme costs by 10% over the pricing period 1 July 2020 to 30 June 2024.

Total scheme costs over the price path period—Upper Condamine 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.

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

We assessed local impacts

We moderated bill impacts for the North Branch Risk A 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).

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 (%)
Sandy Creek or Condamine River		
0	–	–
25	–	–
50	–	1
75	–	1
100	–	1
North Branch		
0	–	–
25	–	1
50	–	1
75	–	2
100	1	2
North Branch—Risk A		
0	6	14
25	8	19
50	9	22
75	10	24
100	11	26

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.