

Queensland Competition Authority

Guidance for stakeholders

Rural irrigation price review 2025–29

March 2023

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1 ABOUT THE REVIEW

1.1 What we have been asked to do

We have been directed by the Queensland Government to review the irrigation pricing practices of Seqwater and Sunwater. We are conducting the review under a referral issued by the Treasurer under sections 23 and 24 of the *Queensland Competition Authority Act 1997* (QCA Act).¹

The purpose of the review is to recommend irrigation prices for the period from 1 July 2025 to 30 June 2029 (the price path period). The government will take our price recommendations into account before determining the prices that the businesses can charge.

1.2 Purpose of this paper

This paper provides information to stakeholders about how we intend to conduct the review, including our approach to stakeholder consultation and key review dates.

We have separately published guidance to the businesses about our expectations for their pricing proposals.

1.3 Pricing practices within the scope of our review

Seqwater and Sunwater are the main providers of bulk water services in Queensland.² In accordance with the referral, we are reviewing the prices these businesses charge for providing irrigation services³ in each of the water supply schemes and associated distribution systems specified in the referral.⁴

The focus of our review is the prices charged for the core irrigation service that the water businesses provide, which is the storage and delivery of water to irrigation customers. We are also reviewing prices for ancillary irrigation services, such as water harvesting services, where those services are provided by the businesses.

Prices for the following services that the businesses provide are outside the scope of our review:

- non-irrigation services, including the supply of water to local councils, water retailers (for on-supply to businesses and households) and industrial customers
- water services that Burnett Water Pty Ltd provides in relation to Paradise Dam and Kirar Weir
- irrigation services that Seqwater provides in the Central Brisbane River water supply scheme.

However, the prices charged for some of these services may be indirectly affected by our recommendations, and our review will take these broader impacts into account. For instance,

¹ The referral is available on our website.

² For more information about the water businesses, see Appendix B.

³ For the purposes of the review, irrigation services are defined as the supply of water or drainage services for irrigation of crops or pastures for commercial gain.

⁴ Our review will recommend prices for the schemes in the Murray-Darling Basin. Although Sunwater is subject to the Commonwealth Government's Water Charge Rules 2010 for these schemes, Sunwater was granted an exemption from the operation of the requirements of divisions 2, 3 and 4 of Part 6 of the rules for a five-year period in December 2021. See Australian Competition and Consumer Commission, [Decision on the exemption of Sunwater Limited from the operation of divisions 2, 3 and 4 of Part 6 of the Water Charge Rules 2010](#), 15 December 2021.

prices for some non-irrigation customers may be impacted by our findings, because we assess costs at the scheme level—including the costs of supplying any non-irrigation customers in the scheme—and we decide on an appropriate allocation of total scheme costs between the different customer groups.

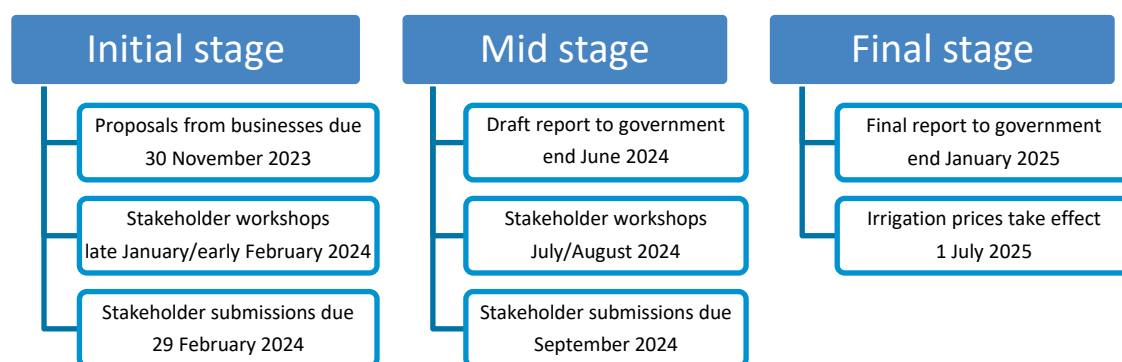
1.4 Review process and key dates

The water businesses will develop their pricing proposals informed by the scope and parameters contained in the referral. We have provided guidance to the businesses setting out our expectations for their proposals.⁵ We expect proposals to be informed by meaningful engagement with customers and to include the information we require to undertake an effective assessment. The proposals are due by 30 November 2023.

After we receive the proposals, our consultation process will formally begin with stakeholder workshops in early 2024. We will provide further information about the workshops closer to the time. Following the workshops, we invite stakeholders to make submissions on the businesses' proposals and any other issues considered relevant to our review, by 29 February 2024.

We will provide several opportunities for stakeholders to provide their views throughout the review.

Figure 1 Indicative timetable for the review



1.5 How to keep up to date with the review

To keep up to date as our review progresses, please regularly check our [website](#) or [subscribe](#) to receive email alerts.

If you require further information, please use the [contact form](#) on our website or phone (07) 3222 0555.

⁵ The guidance is available on our website.

2 OUR APPROACH TO THE REVIEW

Our review will be conducted in accordance with the referral and the requirements in the QCA Act. This means that we will provide the recommendations we have been directed to provide and consider the broad range of matters we are required to consider.⁶

2.1 Background on irrigation pricing

The government determines the prices that Seqwater and Sunwater can charge for providing irrigation services.⁷ To inform these decisions, the government periodically directs us to review the water businesses' pricing practices and recommend prices.

Our reviews are guided by the government's irrigation pricing policy, which is that prices should gradually transition towards recovering 'allowable costs' over time. At a high level, allowable costs reflect the irrigation share of a scheme's prudent and efficient costs but exclude allowances for two types of capital expenditures—that is, capital expenditure incurred prior to 1 July 2000 to build the existing assets and capital expenditure on dam safety upgrades.

The government subsidises prices by providing a community service obligation (CSO) payment to the water businesses to make up the difference between the revenue received from customers and allowable costs, and to cover the costs of dam safety upgrade capital expenditure. As the businesses do not earn a return on pre-2000 assets, this provides an additional subsidy to customers.

Our recommendations inform the government's price decisions

Over the last 10 years, our advice and recommendations have informed the government's irrigation pricing decisions. In making its decision, the government will consider our recommendations alongside other matters.

Our first irrigation pricing reviews were completed in 2012 (for Sunwater) and 2013 (for Seqwater) and the second (combined) review was completed in January 2020. In each review, we recommended prices that were consistent with the pricing principles specified in the relevant referral for the review, which gave effect to the government's pricing policy.

Our latest review recommended prices for the current pricing period—1 July 2020 to 30 June 2024.⁸ In accordance with the pricing principles specified in the referral, we recommended that the fixed and volumetric components of a customer's prevailing price transition towards a price that recovers allowable costs (the price target) in the following way:

- fixed prices—annual increases of inflation plus an additional component of \$2.38 per megalitre of water access entitlement (from 2020–21, increasing by inflation) where the prevailing total fixed price was below the associated component of the price target⁹; no

⁶ In accordance with the requirements in sections 24(1)(b), 24(1)(d) and 26 of the QCA Act.

⁷ The businesses are directed under the *Water Act 2000* as to the prices they may charge (section 999 for Sunwater and section 1013D for Seqwater).

⁸ QCA, *Irrigation price investigation 2020–24*, final report, January 2020.

⁹ The required increase was applied firstly to the bulk fixed price (Part A).

change in the total fixed price where the prevailing total fixed price was above the associated component of the price target¹⁰

- volumetric prices—annual increases so that overall bills increase by no more than inflation plus \$2.38 per megalitre of water access entitlement (from 2020–21, increasing by inflation) where the prevailing volumetric price was below the associated component of the price target, and move straight to the price target where the prevailing volumetric price was above the associated component of the price target.¹¹

The government did not accept our price recommendations but did set prices that were based on our recommendations, as discussed further below.¹² We made other recommendations that were accepted, including recommendations on apportioning dam safety upgrade capital expenditure, addressing risks and improving customer engagement.

Prices in the current pricing period

The government determined prices that were lower than the prices we recommended for the current pricing period:

- For 2020–21, prices were maintained at 2019–20 levels¹³, as part of a broader package of measures to support businesses through the covid-19 pandemic.¹⁴
- From 2021–22 to 2023–24 (and recently extended to 2024–25), prices in each year generally reflect the prices we recommended for the previous year.¹⁵ Sunwater and Seqwater were then directed to apply a 15 per cent discount to those prices. Customers growing horticulture crops (such as fruit, vegetables, nuts and turf) receive an additional 35 per cent discount (giving a total discount of 50 per cent) until the end of 2023–24.¹⁶ The decision to discount prices was described by the government as an important measure to support Queensland's economic recovery from the covid-19 pandemic.¹⁷

Reflecting customer affordability concerns, the government also decided to subsidise dam safety upgrade capital expenditure, instead of including those costs in the price target.¹⁸

¹⁰ For distribution systems, the prevailing bulk fixed price (Part A) was reduced to the associated component of the price target where the prevailing bulk fixed price was above the associated component of the price target.

¹¹ In accordance with the government's pricing principles, once a fixed or volumetric price reached the associated component of the price target, we recommended this price increase annually by inflation.

¹² However, our recommendations on miscellaneous prices were accepted. See Queensland Government, *Gazette: Extraordinary*, vol. 384, no. 5, 5 May 2020, pp. 25–30.

¹³ Unless the fixed or volumetric price we recommended for 2020–21 was lower, in which case customers were to pay the lower price.

¹⁴ A Lynham (Minister for Natural Resources, Mines and Energy), *Price freeze offers further relief for farmers*, media statement, Queensland Government, 5 May 2020.

¹⁵ Unless our recommended 2023–24 fixed price is higher than the associated component of the price target, in which case the 2023–24 fixed price (before discount) reflects the associated component of the price target. In these cases, the 2024–25 fixed price is derived by applying inflation to the 2023–24 fixed price.

¹⁶ The additional 35 per cent discount was to be paid to eligible customers as a rebate (Queensland Government Department of Regional Development, Manufacturing and Water, *Horticulture Irrigation Pricing Rebate Scheme*, viewed 10 March 2023).

¹⁷ Queensland Government, *Progress report on 2020 government election commitments*, September 2021, pp. 123–124; G Butcher (Minister for Regional Development and Manufacturing and Minister for Water), *Next steps to slashing irrigation prices unveiled*, media statement, Queensland Government, 13 May 2021.

¹⁸ A Lynham (Minister for Natural Resources, Mines and Energy), *Price freeze offers further relief for farmers*, media statement, Queensland Government, 5 May 2020.

Until relatively recently, CSO payments had been decreasing, as the gap between the revenue recovered through prices and allowable costs reduced. However, the recent support measures have seen CSO and rebate payments increase from around \$4 million in 2019–20 to \$26 million in 2021–22.¹⁹

2.2 Principles guiding our review

Under section 24(1)(d) of the QCA Act, we are required to provide our price recommendations in accordance with requirements set out in the referral. The main requirement is that prices for each tariff group are to transition towards a price target that would recover the irrigation share of a scheme's allowable costs, in accordance with the government's pricing principles.²⁰

In conducting our review, we must also consider the matters in the QCA Act and the stated matters in the referral.²¹ The matters we are required to consider are extensive, diverse and potentially conflicting—for example, the need for efficient resource allocation, the protection of consumers from abuses of monopoly power, social welfare and equity considerations, balancing the interests of the water businesses and their customers, and economic and regional development issues (see Appendix A).

Regulatory tools are limited in their ability to achieve multiple and potentially conflicting goals or objectives. While we will use our judgement to weigh up and take the various matters into account, we will prioritise economic efficiency, because promoting efficient outcomes is consistent with the overall public interest and maximising benefits to society. Prices that reflect prudent and efficient costs signal the efficient cost of providing water services to customers, promote efficient consumption and investment decisions, and protect consumers from the use of monopoly power.

In reaching our price recommendations, we would generally be receptive to recognising agreements between the water businesses and their customers, if those agreements are consistent with the promotion of efficient outcomes and the requirements in the referral. However, we may not recognise agreements if they result in inefficient cost shifting to other customers (including to non-irrigation customers) or other stakeholders (e.g. taxpayers), or if the agreements are otherwise inconsistent with the requirements in the referral.

2.3 How we will reach our price recommendations

To reach our price recommendations for the core irrigation service, we need to follow three key steps, which will be informed by our assessment of the water businesses' pricing proposals and stakeholder submissions:

- Determine the prudence and efficiency of costs in each scheme—we need to ensure that prices reflect the efficient costs of service levels that are necessary to meet regulatory obligations²² and service levels agreed with customers²³.

¹⁹ Queensland Treasury, *Budget Strategy and Outlook, Budget Paper No. 2*, Queensland Budget 2022–23, Queensland Government, June 2022, p. 208; Sunwater, *Annual Report 2021–22*, p. 54, *Annual Report 2019–20*, p. 55; Seqwater, *Annual Report 2021–22*, p. 38, *Annual Report 2019–20*, p. 41. The 2021–22 estimate includes rebate payments associated with the additional 35 per cent discount on irrigation prices for customer growing horticulture crops.

²⁰ Referral, para. B(1.1).

²¹ In accordance with sections 24(1)(b) and 26 of the QCA Act.

²² Including regulatory and legislative obligations, such as those relating to water planning and dam safety, imposed by government and other regulatory bodies.

²³ Including customer service standards.

- Decide how the scheme costs are to be allocated to tariffs and smoothed over the price path period to reach the price target for each tariff group.
- Derive prices that will transition towards the price target—these are prices that are consistent with the government's pricing principles, which are the prices we will recommend.

We also need to determine miscellaneous prices for the services provided by the businesses that are ancillary to the core irrigation service.

Determine prudence and efficiency of costs in each scheme

We will determine the prudence and efficiency of the costs of supplying customers (irrigation, urban and industrial) in each of the specified schemes. We intend to obtain external technical advice to inform our assessment.

The relevant costs for assessment are those allowable under the referral, rather than the full costs of supply. Allowable costs comprise an appropriate allowance for expenditure on renewing existing assets²⁴, a return on and of capital expenditure associated with augmentation of existing assets or new assets²⁵, operating expenditure, allowances for working capital and tax, and costs arising from review events. Excluded from allowable costs are allowances for two types of capital expenditure—that is, capital expenditure incurred before 1 July 2000 to build the existing assets and capital expenditure on dam safety upgrades.

After deciding on the prudent and efficient level of costs for each scheme, we may need to make other scheme-specific adjustments, including those for revenue offsets and distribution loss transfers.

Converting scheme-level costs into a price target for each tariff group

We will assess how the scheme-level costs are converted into a price target for each tariff group. To do this, we will assess how the water businesses propose to:

- allocate costs between fixed and volumetric tariff components, customer priority groups (for example, high priority and medium priority customers) and tariff groups (where applicable)
- convert costs into a unit cost for each tariff component (for example, a cost per megalitre of water usage).

In accordance with the referral, we will then determine the price target for each tariff group by smoothing the unit costs over the price path period so that the price target increases annually by our measure of inflation.²⁶

Transitioning irrigation prices to the price target

The last step is to apply the government's pricing principles to determine irrigation prices in accordance with the transitional path to the price target. If customers reach the price target during the price path period, their prices will then reflect the price target for the rest of the period.

²⁴ As well as, where applicable, improved service levels agreed with customers.

²⁵ Expenditure on augmentation of existing assets and new assets relates to expenditure that provides for an increase in the volume of water access entitlements that can be supplied by the infrastructure.

²⁶ Referral, Sch. 2, para. A.

Determining miscellaneous prices

We will also recommend prices for services that are ancillary to the core irrigation service, where those services are provided by the water businesses. In the 2020 review, we made recommendations about the following miscellaneous prices:

- termination fees—for the permanent transfer of distribution system water access entitlements²⁷ to a lower cost section of the scheme, generally the river or in some cases to other scheme sub-systems
- drainage prices—for removing and disposing of excess or run-off water from a customer's property (in Sunwater's Burdekin-Haughton distribution system only)
- drainage diversion prices—for allowing customers to extract water from the drainage network (in Sunwater's Burdekin-Haughton distribution system only)
- water harvesting prices—for facilitating the extraction of additional water by customers during high flow periods (in Sunwater's Burdekin-Haughton distribution system only).²⁸

2.4 Other recommendations we are required to make

In addition to recommending irrigation prices, we have also been directed to make a recommendation on mechanisms to address cost risks during the price path period. In particular, we have been directed to recommend appropriate price review triggers and other mechanisms to manage the risks associated with material changes in allowable costs that are outside the control of the water businesses.²⁹

We may make recommendations about other aspects of the businesses' irrigation pricing practices if we consider this to be appropriate.

²⁷ Termination fees also apply for the permanent transfer of water access entitlements in the Lower Mary (Tinana Barrage and Teddington Weir) tariff group (which has previously been assigned a portion of distribution system costs).

²⁸ QCA, *Rural irrigation price review 2020–24, Part B: Sunwater*, final report, January 2020, chapter 8; QCA, *Rural irrigation price review 2020–24, Part C: Seqwater*, final report, January 2020, chapter 8.

²⁹ Referral, para. B(1.1)(b).

3 STAKEHOLDER CONSULTATION

Effective stakeholder engagement is an important part of our review and key to making informed recommendations. All stakeholders that may be impacted by our recommendations or that have an interest in our review are invited to participate.

3.1 We expect the water businesses to effectively engage with customers

In this review, we expect the businesses to take greater ownership of customer engagement—we have provided guidance to the businesses setting out our expectations. The businesses are expected to submit pricing proposals that are informed by meaningful engagement with their customers. They are also expected to take on an active role in stakeholder workshops, by presenting the key points from their proposals at our initial stakeholder workshops (see below).

3.2 Stakeholders will have several opportunities to participate in our review

We are committed to engaging meaningfully with stakeholders and reaching our recommendations in a transparent and open way. We will keep stakeholders informed throughout our review and provide several opportunities for stakeholders to participate and share their views.

Making a submission is the most effective way to provide your views

The most effective way for stakeholders to share their views and provide feedback is by making written submissions. Submissions do not necessarily need to be detailed or comprehensive—brief comments on specific issues are also welcome. We also welcome collaboration between stakeholders to provide joint submissions on an issue. Wherever possible, stakeholders should provide evidence to support their statements.

In the first phase of our review, submissions on the businesses' proposals are invited, to inform our draft recommendations. In the second phase, we will test our analysis and preliminary positions by seeking submissions on our draft report, which we will consider before finalising our recommendations.

We may also publish targeted consultation papers if we consider there would be a benefit to obtaining stakeholder comments on specific issues, or if there is a need to provide stakeholders with additional information.

We and the water businesses will directly engage with stakeholders through workshops

We will hold workshops to provide stakeholders with an opportunity to hear from the water businesses about their proposals and to learn more about our review and the direction of our thinking. Stakeholders will also be encouraged to share their views and to ask questions. While we will not document workshop discussions as formal submissions, we intend to publish meeting minutes and anticipate that the discussions will inform our assessment and recommendations. We will allow adequate time for stakeholders to prepare submissions after the workshops.

At this stage, we anticipate holding two rounds of in-person workshops—the first round shortly after we receive the businesses' proposals, and the second round following the release of our draft report. We may also hold online workshops at other times, depending on the issues that arise during the review and the level of stakeholder interest.

GLOSSARY

2020 review	the QCA's review of irrigation prices charged by Seqwater and Sunwater for the period 1 July 2020 to 30 June 2024, which was completed in January 2020
CSO	community service obligation
price path period	the period from 1 July 2025 to 30 June 2029
QCA	Queensland Competition Authority
QCA Act	<i>Queensland Competition Authority Act 1997</i>
referral	the referral for the review issued by the Treasurer under sections 23 and 24 of the QCA Act

APPENDIX A: MATTERS WE MUST CONSIDER IN OUR REVIEW

<i>Economic efficiency matters</i>	<i>Business/industry specific matters</i>	<i>Customer/social impact matters</i>	<i>Environmental obligations</i>	<i>Other matters</i>
<p>The need for efficient resource allocation (s. 26(1)(a)).</p> <p>The need to promote competition (s. 26(1)(b)).</p> <p>The cost of providing the goods or services in an efficient way, having regard to relevant interstate and international benchmarks (s. 26(1)(d)(i)).</p> <p>The standard of the goods or services, including quality, reliability and safety (s. 26(1)(d)(iii)).</p> <p>The appropriate rate of return on assets (s. 26(1)(e)).</p> <p>Considerations of demand management (s. 26(1)(h)).</p> <p>The need for pricing practices not to discourage socially desirable investment or innovation by government agencies and persons carrying on non-government business activities (s. 26(1)(j)).</p> <p>The fixed and variable nature of the underlying costs in relation to tariff structures (s. 24(1)(b); referral, para. C(1.1)(a)).</p>	<p>The actual cost of providing the goods or services (s. 26(1)(d)(ii)).</p> <p>The effect of inflation (s. 26(1)(f)).</p> <p>Legislation and government policies relating to occupational health and safety and industrial relations (s. 26(1)(l)).</p> <p>Any directions given by the government to the government agency by which the monopoly business activity is carried on (s. 26(2)).</p> <p>The findings of the QCA's review of Seqwater's bulk water prices for the 2022–26 period (s. 24(1)(b); referral, para. C(1.1)(d)).</p>	<p>The protection of consumers from abuses of monopoly power (s. 26(1)(c)).</p> <p>Social welfare and equity considerations including community service obligations, the availability of goods and services to consumers and the social impact of pricing practices (s. 26(1)(i)).</p> <p>Economic and regional development issues, including employment and investment growth (s. 26(1)(m)).</p> <p>Customer agreements on costs and/or prices proposed by the businesses, where consistent with the requirements in the referral (s. 24(1)(b); referral, para. C(1.1)(c)).</p> <p>Revenue and pricing outcomes that are simple and transparent for customers (s. 24(1)(b); referral, para. C(1.1)(b)(ii)).</p>	<p>The impact on the environment of prices charged by the government agency or other person carrying on the monopoly business activity (s. 26(1)(g)).</p> <p>Legislation and government policies relating to ecologically sustainable development (s. 26(1)(k)).</p>	<p>Balancing the legitimate commercial interests of the businesses with the interests of their customers (s. 24(1)(b); referral, para. C(1.1)(b)(i)).</p>

Notes: 1. References to sections are to sections of the QCA Act. The section 26 matters are included in the QCA Act, and the section 24(1)(b) matters are included in the referral. 2. The requirement in section 26(2) to have regard to water pricing determinations (which are pricing determinations for private sector water supply activities that have been declared under Part 5A of the QCA Act) is not relevant to this review, because no activities have been declared and, therefore, no determinations have been made. 3. In accordance with section 26(3), we may have regard to matters not listed in this table.

APPENDIX B: SERVICES PROVIDED BY THE WATER BUSINESSES

Queensland's two main bulk water suppliers are Seqwater and Sunwater.³⁰ Seqwater supplies customers in south-east Queensland and Sunwater supplies customers in regional and rural Queensland.

Seqwater

Seqwater is a government-owned statutory authority and monopoly provider of bulk water services in south east Queensland. Seqwater owns and operates a network of water supply assets, including dams, weirs, water treatment plants, manufactured water assets (the Western Corridor Recycled Water Scheme and the Gold Coast Desalination Plant) and pipelines.

Seqwater's main service is supplying treated bulk water to the distributor-retailers servicing eleven local government areas in south east Queensland, which then deliver the water to households and businesses through their distribution networks. Seqwater also supplies Toowoomba and Gympie regional councils, power stations operated by CleanCo and Stanwell Corporation, and around 1,200 irrigation customers across seven water supply schemes and two distribution systems.³¹

The vast majority of Seqwater's revenue comes from supplying the distributor-retailers, with only around 0.5 per cent coming from irrigation customers.³²

Sunwater

Sunwater is a government-owned corporation and the main provider of bulk water services in regional and rural Queensland.

Sunwater's water storage and distribution infrastructure includes dams, weirs and barrages, pumping stations, and more than 2500 kilometres of pipelines and water channels. Sunwater supplies more than 5000 customers, including around 4,500 irrigation customers across 22 water supply schemes and five distribution systems.

Of the bulk water revenue received from customers in 2021–22, 80 per cent came from industrial customers (such as mines and power stations), 15 per cent from irrigation customers and 5 per cent from urban customers (mainly councils).³³

More information

For more information about the water businesses and the services they provide, see the [Seqwater](#) and [Sunwater](#) websites.

³⁰ Other bulk water suppliers include the Mount Isa Water Board and Gladstone Area Water Board.

³¹ Prices for irrigation services that Seqwater provides in the Central Brisbane River water supply scheme are outside the scope of this review.

³² Seqwater, *Annual report 2021–22*, September 2022, p. 38.

³³ Sunwater, *Annual report 2021–22*, September 2022, p. 54.