



Deputy Premier  
Treasurer  
Minister for Aboriginal and Torres Strait Islander Partnerships

Our Ref: 01852-2018

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29 OCT 2018

Professor Flavio Menezes  
Chair  
Queensland Competition Authority  
GPO Box 2257  
BRISBANE QLD 4001

Dear Professor Menezes

Flavio,

Please find enclosed a referral notice issued under section 23 of the *Queensland Competition Authority Act 1997*, referring the relevant monopoly business activities of SunWater and Seqwater to the Queensland Competition Authority (the Authority) for an investigation about pricing practices in relation to rural irrigation prices to apply from 1 July 2020 to 30 June 2024.

I appreciate the Authority's continued involvement in ensuring rural irrigation prices have effective regulatory oversight.

I am advised that officers from Queensland Treasury have consulted with the Authority in the preparation of this referral notice. SunWater and Seqwater have also been advised of this investigation and have been encouraged to work closely with the Authority to ensure the reporting timeframes for the review are met.

Should you have any queries regarding this matter, please contact Mr Dennis Molloy, Assistant Under Treasurer, Shareholder and Structural Policy Division on (07) 3035 1988.

Yours sincerely

**JACKIE TRAD MP**  
**DEPUTY PREMIER**  
Treasurer  
Minister for Aboriginal and Torres Strait Islander Partnerships

Encl.

Cc: The Honourable Dr Anthony Lynham MP,  
Minister for Natural Resources, Mines and Energy

QUEENSLAND COMPETITION AUTHORITY ACT 1997  
Section 23 and Section 24

REFERRAL AND DIRECTION NOTICE

**A Section 23 – Referral**

(1.1) As the Treasurer of Queensland, under section 23 of the Queensland Competition Authority Act 1997 (the Act), I refer the monopoly business activities of SunWater and the Queensland Bulk Water Supply Authority (trading as Seqwater) (the businesses) described in paragraph A(1.2) to the Queensland Competition Authority (the Authority) for an investigation about pricing practices relating to those activities.

(1.2) The monopoly business activities are:

- the bulk water storage and water distribution undertaken by SunWater; and
- the bulk water supply undertaken by Seqwater,

to the extent those activities are:

- undertaken for an irrigation service as defined in the *Water Act 2000*<sup>1</sup>; and
- in the water supply schemes and distribution systems (WSS) set out in Schedule 1 excluding water services provided by Burnett Water Pty Ltd in relation to Paradise Dam and Kirar Weir, consistent with the Authority's Final Report SunWater Irrigation Price Review: 2012-17 Volume 1.

**B Section 24 – Directions**

(1.1) Under section 24 of the Act, I direct the Authority to make recommendations about the following matters:

- (a) appropriate prices (including drainage prices, water harvesting prices and termination fees for relevant WSS) to be charged by the businesses for the period of 1 July 2020 to 30 June 2024 (the price path period) in relation to the monopoly business activities specified in paragraph A(1.2), subject to paragraph C(1.7); and
- (b) appropriate price review triggers and other mechanisms, to manage the risks associated with material changes in the allowable costs identified in paragraph C(1.2) outside the control of the businesses.

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<sup>1</sup> For clarity, an irrigation service is defined in Schedule 4 of the *Water Act 2000* as the supply of water or drainage services for irrigation of crops or pastures for commercial gain.

- (1.2) The recommendations made by the Authority under B(1.1) should include two sets of appropriate prices in relation to prudent and efficient capital expenditure associated with dam safety upgrades, one set where all dam safety upgrade capital expenditure is excluded and one set where an appropriate allowance for capital expenditure forecast to be incurred from 1 July 2020 onwards is included. The recommendations made by the Authority are not required to specify which set of prices are to apply.
- (1.3) In making its recommendations under B(1.2), the Authority is to develop and apply an appropriate approach for apportioning dam safety upgrade capital expenditure and explain this approach and its application as part of its recommendations.
- (1.4) The recommendations made by the Authority under B(1.1) should adopt the current tariff groups for all WSS, other than where the Authority develops alternative tariff groups for the categories of prices listed in Schedule 3 as required under paragraph B(1.5).
- (1.5) The Authority is to review the tariff groups for the categories of prices listed in Schedule 3 and develop alternative tariff groups. The recommendations made by the Authority should include two sets of appropriate prices, one set which maintains the current tariff groups and one set based on the alternative tariff groups. The recommendations made by the Authority are not required to specify which set of prices are to apply.
- (1.6) Under section 24 of the Act, I direct the Authority to consider the stated matters listed as “Matters for consideration in making recommendations” in paragraph C when conducting the investigation and making the recommendations under paragraph B.

### **C Matters for consideration in making recommendations**

- (1.1) The Authority is to apply the Principles in Schedule 2 in recommending appropriate prices under this Notice. However, where the Authority is recommending appropriate prices that include dam safety upgrade capital expenditure under paragraph B(1.2) or for alternative tariff groups under paragraph B(1.5), the Authority may apply the Principles in Schedule 2 as it considers appropriate.

- (1.2) The Authority is to consider the following matters in relation to costs and in recommending appropriate prices under this Notice:
- (a) Subject to paragraphs C(1.1), C(1.3) and C(1.7) the following costs are to be recovered over the price path period:
    - i. prudent and efficient operational, maintenance and administrative costs<sup>2</sup> (for clarity, this may include an end-of-period adjustment relating to historical costs that were unforeseen and unable to be managed, on the basis of changing market conditions for inputs or the result of regulatory imposts, and in accordance with the Authority's recommendations from its May 2012<sup>3</sup> and April 2013<sup>4</sup> reports); and
    - ii. an appropriate allowance for prudent and efficient expenditure on renewing existing assets<sup>5</sup> (for clarity, this allowance should also account for prudent and efficient renewals expenditure incurred in the previous price path periods).
  - (b) For the avoidance of doubt, costs recovered under paragraph C(1.2)(a) are to include the following:
    - i. costs incurred by the businesses to implement the 2015 recommendations made by the Inspector-General Emergency Management;
    - ii. costs that are required to meet regulatory obligations or deliver agreed service levels, where costs to deliver agreed service levels are not materially higher than the costs of like-for-like replacement or modern equivalent replacement; and
    - iii. regulatory fees charged by the Authority to the businesses to make the recommendations under this Notice up to \$2.5 million. For clarity, the Authority should detail the total cost incurred by the Authority in making the recommendations under this Notice.
  - (c) for clarity, the value of the asset base for existing assets (as at 1 July 2000) should not be considered.
- (1.3) Costs associated with the provision of recreation facilities that are incurred by the businesses from 1 July 2020 onwards that would not otherwise be incurred to supply water, are not to be included, unless the Authority is satisfied that there is customer support for these costs to remain included.
- (1.4) Subject to paragraphs C(1.1) and C(1.2) (above), the Authority should have regard to:
- (a) balancing the legitimate commercial interests of the businesses with the interests of their customers, including considering less than cost reflective volumetric prices which are necessary to moderate bill impacts for customers, and
  - (b) ensuring, where possible, that revenue and pricing outcomes are both simple and transparent for customers.

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<sup>2</sup> Including an allowance for tax (where applicable).

<sup>3</sup> Final Report, SunWater Irrigation Price Review 2012-17, Volume 1.

<sup>4</sup> Final Report, Seqwater Irrigation Price Review 2013-17, Volume 1.

<sup>5</sup> Existing assets are assets commissioned prior to 1 July 2000. Expenditure on renewing assets should not include costs associated with augmentation of existing assets or new assets, subject to paragraph C(1.7).



- (1.5) Where the Authority considers that it has been demonstrated that customers have agreed to the costs and/or prices proposed by the businesses and the Authority considers that the proposed prices are in line with the requirements of this Notice, the Authority must have regard to these agreements in recommending appropriate prices.
- (1.6) Where relevant, the findings of the Authority's investigation of Seqwater's bulk water prices for the 2018-21 period should be taken into account in recommending appropriate prices.
- (1.7) For the purposes of this Notice, the recommended appropriate prices should not recover costs associated with augmentation of existing assets, new assets<sup>6</sup> or any capital expenditure which is not like-for-like or modern equivalent replacement or does not reflect a regulatory requirement unless the Authority is satisfied that the costs will generate net positive benefits for existing customers and customers have been consulted. Where the Authority is not so satisfied, prices to recover these costs are a commercial matter for the businesses to negotiate with customers.
- (1.8) The Authority should consider and analyse how its recommended appropriate prices might be reflected in customer bills for each tariff group in all WSS (excluding drainage prices, water harvesting prices and termination fees) and provide this analysis and estimated customer bills as part of its recommendations.

#### **D. Consultation**

The Authority must undertake an open consultation process with all relevant parties, as required by section 25 of the Act, and consider submissions within the timetable for the delivery of the Final Report to the Treasurer detailed in paragraph E. All reports and submissions must be made publicly available, including on the Authority's website.

#### **E. Timing**

- (1.1) The notice given and published by the Authority under section 25 of the Act on receipt of this Referral and Direction Notice, must require submissions on proposed costs (and supporting information) to be made to the Authority by the businesses by no later than 30 November 2018.
- (1.2) The Authority must provide to the Treasurer and the Minister for Natural Resources, Mines and Energy the:
  - (a) Draft Report by no later than 31 August 2019; and
  - (b) Final Report and recommended price paths by no later than 31 January 2020.
- (1.3) The Final Report will inform the Treasurer's and Minister for Natural Resources, Mines and Energy's deliberations in determining price paths to apply for the period from 1 July 2020 to 30 June 2024 by direction under section 999 of the *Water Act 2000* in relation to SunWater and under section 1013D of the *Water Act 2000* in relation to Seqwater.

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<sup>6</sup> New assets are assets commissioned after 1 July 2000.

**F. Other matters**

- (1.1) For the avoidance of doubt, nothing in this Notice prevents the businesses from negotiating full commercial prices to supply water other than for the monopoly business activities described in paragraph A(1.2).
- (1.2) The Authority may exercise all the powers under Part 6 of the *Queensland Competition Authority Act 1997* in undertaking the investigation under this Notice.



**HON. JACKIE TRAD MP**

DEPUTY PREMIER

Treasurer

Minister for Aboriginal and Torres Strait Islander Partnerships

## **Schedule 1**

### Water Supply Schemes operated by SunWater

Barker Barambah  
Bowen Broken Rivers  
Boyne River and Tarong  
Bundaberg  
Burdekin-Haughton  
Callide Valley  
Chinchilla Weir  
Cunnamulla  
Dawson Valley  
Eton  
Lower Mary  
Lower Fitzroy  
Macintyre Brook  
Maranoa River  
Mareeba-Dimbulah  
Nogoa-Mackenzie  
Pioneer River  
Proserpine River  
St George  
Three Moon Creek  
Upper Burnett  
Upper Condamine

### Distribution Systems operated by SunWater

Bundaberg  
Burdekin-Haughton  
Eton  
Emerald  
Lower Mary  
Mareeba-Dimbulah  
Theodore

### Water Supply Schemes operated by Seqwater

Cedar Pocket  
Central Brisbane River  
Central Lockyer Valley  
Logan River  
Lower Lockyer Valley  
Mary Valley  
Warrill Valley

### Distribution Systems operated by Seqwater

Morton Vale Pipeline  
Pie Creek

Note: Where the Authority is advised before publication of its Draft Report that final agreement has been reached on the terms to transfer operation of a distribution system owned by SunWater to a local customer owned company or co-operative, then the Authority is not to provide prices to recover the cost of the infrastructure for this distribution system.

## Schedule 2

### Principles

- A. Prices are to be based on all tariff groups transitioning to cost-reflective prices. Cost-reflective prices reflect the costs in paragraph C(1.2) and increase by the Authority's measure of inflation over the price path period.
- B. In considering tariff structures, regard should be had to the fixed and variable nature of the underlying costs.
- C. Fixed (Part A and Part C) prices are to be derived independently of Volumetric (Part B and Part D) prices.
- D. For water supply schemes where the only fixed price applicable is the Fixed (Part A) price:
- i. if the prevailing<sup>7</sup> Fixed (Part A) price is above the initial<sup>8</sup> cost-reflective Fixed (Part A) price, the prevailing Fixed (Part A) price should be maintained in nominal terms over the price path period until the cost-reflective Fixed (Part A) price is reached, with the exception of Fixed (Part A) prices which apply to customers of a distribution system operated by a local customer owned company or co-operative, in which case the Fixed (Part A) price should be reduced to the cost-reflective Fixed (Part A) price.
  - ii. if the prevailing Fixed (Part A) price is less than the initial cost-reflective Fixed (Part A) price, the prevailing Fixed (Part A) price should increase each year by the Authority's measure of inflation plus an additional component of \$2.38 per mega litre (from 2020-21, increasing by the Authority's measure of inflation each year) until the cost-reflective Fixed (Part A) price is reached<sup>9</sup>.
- E. For distribution systems where Fixed (Part A) and Fixed (Part C) prices are applicable:
- i. if the prevailing Fixed (Part A) price is above the initial cost-reflective Fixed (Part A) price, the prevailing Fixed (Part A) price should be reduced to the cost-reflective Fixed (Part A) price.
  - ii. if the prevailing Fixed (Part A) price is less than the initial cost-reflective Fixed (Part A) price, the prevailing Fixed (Part A) price should increase each year by the Authority's measure of inflation plus an additional component of \$2.38 per mega litre (from 2020-21, increasing by the Authority's measure of inflation each year) until the cost-reflective Fixed (Part A) price is reached<sup>10</sup>.
  - iii. if the prevailing total Fixed (Part A + Part C) price is above the initial total cost-reflective Fixed (Part A + Part C) price, the prevailing total Fixed (Part A + Part C) price should be maintained in nominal terms over the price path period until the total cost-reflective Fixed (Part A + Part C) price is reached.

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<sup>7</sup> The prevailing price for a particular tariff group is the price that relates to the 2019-20 period.

<sup>8</sup> The initial cost-reflective price for a particular tariff group is the price that relates to the 2020-21 period.

<sup>9</sup> The additional component may be less than specified in paragraph Dii in order for the price not to exceed the cost-reflective Fixed (Part A) price.

<sup>10</sup> The additional component may be less than specified in paragraph Eii in order for the price not to exceed the cost-reflective Fixed (Part A) price.



- iv. if the prevailing total Fixed (Part A + Part C) price is less than the initial total cost-reflective Fixed (Part A + Part C) price, the prevailing total Fixed (Part A + Part C) price should increase each year by the Authority's measure of inflation plus an additional component of \$2.38 per mega litre (from 2020-21, increasing by the Authority's measure of inflation each year) until the total cost-reflective Fixed (Part A + Part C) price is reached<sup>11</sup>.
- F. Volumetric prices (Part B and Part D) should have regard to moving to cost-reflective Volumetric prices (Part B and Part D) immediately.
- G. For the Burdekin-Haughton WSS, the costs of SunWater supplying 185,000 ML to Lower Burdekin Water are not to be recovered from the prices applying to the remaining water entitlements.
- H. For the Central Brisbane River WSS, where cost allocations are reapportioned as anticipated in the Final Report, Seqwater Irrigation Price Review 2013-17, Volume 2, Central Brisbane River Water Supply Scheme, or as an outcome of wider cost allocation investigations with customers, the Fixed (Part A) price for the commencement of the price path period may be less than the prevailing Fixed (Part A) price.

### **Schedule 3 – Categories of prices to be reviewed**

Part A and Part B prices for the Dawson Valley WSS  
Part A and Part B prices for the Three Moon Creek WSS  
Part A and Part B prices for the St George WSS

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<sup>11</sup> The additional component may be less than specified in paragraph Eiv in order for the price not to exceed the cost-reflective Fixed (Part A + Part C) price.