

FACT SHEET

Seqwater Irrigation Prices for 2013-17: Lower Lockyer Valley Scheme

In 2012, the previous State Government directed the Queensland Competition Authority (QCA) to recommend irrigation water prices for the Lower Lockyer Valley Water Supply Scheme (WSS) from July 2013 to June 2017. The Government directed that, over time, irrigation prices should recover prudent and efficient asset renewal costs and operating costs.

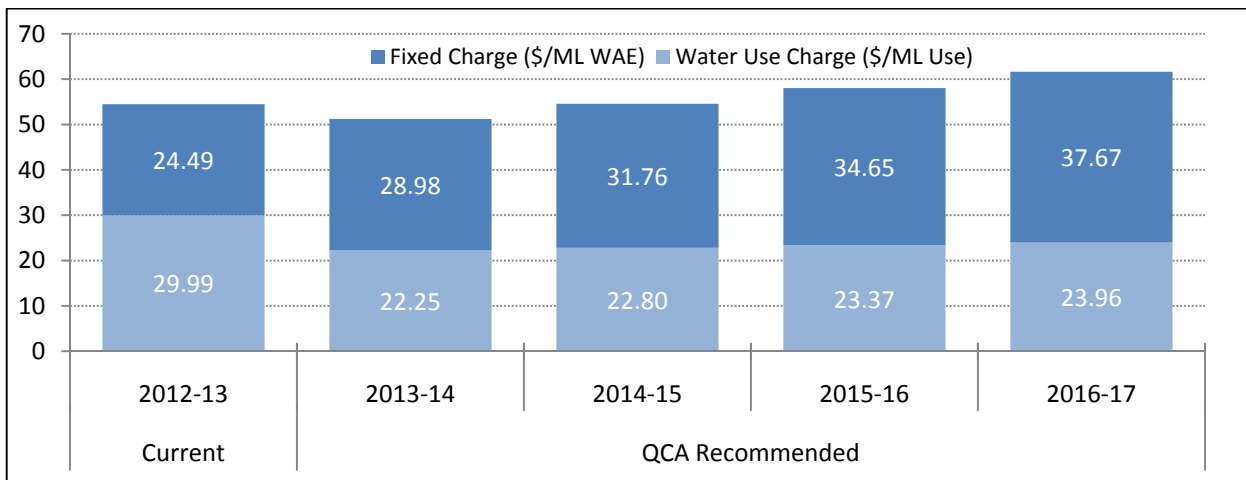
After extensive consultation with irrigators, the QCA has released its Final Report. For this scheme, the QCA recommends gradual price increases over the four-year price path. However, in this scheme, prices will not cover costs by the end of the pricing period.

Prices

The QCA recommends two-part tariffs consisting of a fixed charge per megalitre (ML) of water access entitlement (WAE) and a volumetric charge per ML of water use. This ensures the equitable sharing of costs.

Variable costs (e.g. a portion of labour costs) are recovered through volumetric charges. In Lower Lockyer Valley WSS, the recommended 2013-14 cost-reflective volumetric charge is lower when compared to 2012-13. To maintain revenues, the balance not recouped by the volumetric charge is recovered by the fixed charge, which is higher compared to 2012-13. The recommended volumetric charge increases annually by CPI (2.5%) and the fixed charge increases by \$2/ML per year plus CPI.

Figure 1: Current and Recommended Prices – Lower Lockyer Valley WSS (\$/ML)

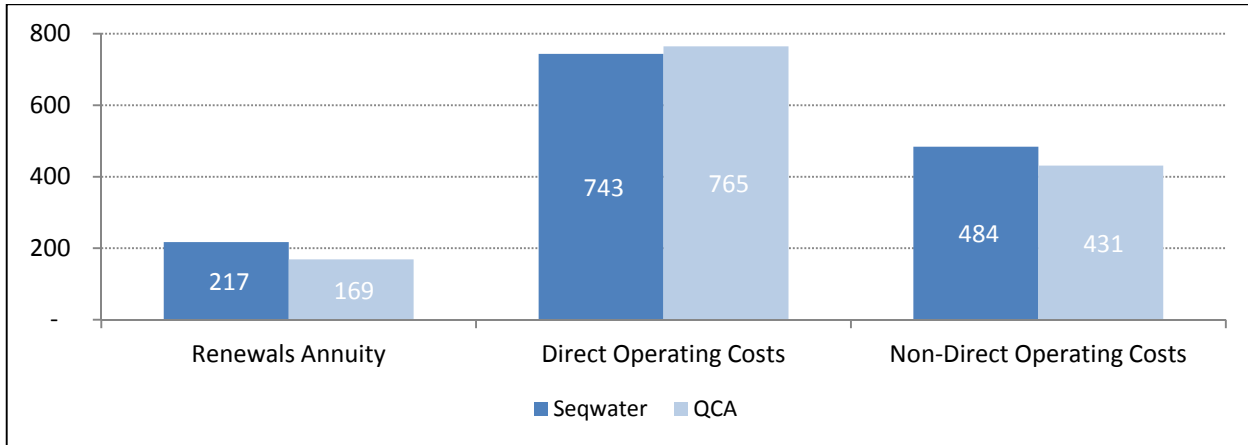


Note: Adding the fixed and volumetric charges can be misleading in terms of price-impact, as volumetric charges only apply where water is used. Consequently, an irrigator's unique water-use profile will determine the change in individual irrigation water bills from year-to-year. An indicative water bill analysis appears in Table 1.

Costs of Irrigation Services

Figure 2 shows Seqwater's proposed and the QCA's recommended renewals annuity (renewal and rehabilitation of existing assets), direct operating (maintenance and on-ground staff) and non-direct operating (overhead and administration) costs for the scheme as a whole. The QCA estimates a reduction of 5% in proposed costs.

Figure 2: Scheme Total Costs (2013-14 \$'000)



Note: Seqwater costs are based on November 2012 submitted renewals and April 2012 submitted direct and non-direct operating costs. Revenue offsets are not included in the charts.

The QCA estimates current irrigation revenue to be \$324,000. Cost recovery will improve from the current 27% to 34% by 2016-17. This represents a subsidy, paid by the Queensland taxpayer, which will reduce over time as recommended prices increase.

Local Impacts

The QCA recommends that the Government introduce permanently tradable water allocations by 30 June 2015. Higher fixed charge should encourage water trading, increasing productive water use and local economic activity.

Table 1 presents an estimate of the change in water bills (compared to the bill that would apply were the current charges to continue in real terms), for various levels of water use.

Table 1: Change in Water Bill

Water Use as a Portion of Entitlement Held	Water Bill Change at 2013-14 Prices	Water Bill Change at 2016-17 Prices
0%	15%	39%
25%	5%	24%
50%	-1%	14%
75%	-5%	7%
100%	-8%	2%

Note: 2012-13 prices were inflated at CPI (2.5% per year) to allow comparisons of bills in the years indicated.

What Happens Now?

The Government will consider the QCA's report and decide whether the recommended prices will apply from 1 July 2013 to 30 June 2017.