Queensland Competition Authority

Information sheet

Rural irrigation price review 2020–24, draft

Upper Condamine water supply scheme

September 2019

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), which is located near the town of Warwick.

Issues related to the prices for non-irrigation customers are outside the scope of our review.

How we have recommended prices

In recommending prices we have not included a return on, or depreciation of, investments made prior to 1 July 2000.

We have recommended a two-part tariff for the tariff group in this scheme. The first part is a *fixed price* per megalitre (ML) of water access entitlement (WAE), and the second part is a *volumetric price* per ML of water used.

The volumetric price (Part B) recovers variable costs (e.g. a portion of labour costs and electricity costs relating to pumping) that change with water usage. The remaining costs associated with this scheme are recovered by the fixed price (Part A). We have assessed all expenditure to ensure that Sunwater only recovers prudent and efficient costs.

It is government policy that, over time, irrigation prices should transition to fully recover prudent and efficient costs of operating, maintaining, administering and renewing each scheme. Cost recovery for Sunwater's irrigation customers will improve from 91 per cent in 2020–21 to 94 per cent 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 cost reflective.

The fixed price increases by up to $2.38/ML plus inflation. The volumetric price increases annually by our estimate of inflation (2.37 per cent) from 2020–21 onwards.

What prices have we recommended?

After extensive consultation with irrigators, we have released our draft report.

For this scheme, our draft recommendations for the Upper Condamine–Sandy Creek or Condamine River tariff group result in fixed (Part A) prices remaining constant over the pricing period and volumetric (Part B) prices decreasing to cost reflective immediately.

Our draft recommendations for the Upper Condamine–North Branch tariff group result in the fixed (Part A) price remaining constant over the pricing period. Given that existing prices in this tariff group are more than sufficient to recover lower bound costs, we have maintained the volumetric (Part B) price in real terms over the pricing period.

Our draft recommendations for the Upper Condamine– North Branch Risk A tariff group result in the fixed (Part A) price and the volumetric (Part B) price increasing over the pricing period.

In this scheme, draft prices fully recover costs.

Dam safety upgrades for this scheme are due to be commissioned in 2021–22. This only impacts on our draft recommended prices for the Upper Condamine—North Branch Risk A tariff group in this pricing period. We have estimated the impact in the year following commissioning (2022–23) to be a $1.26/ML increase to the cost reflective fixed (Part A) price for tariff groups in this scheme.

Our draft recommended prices are shown in the table below.

Draft recommended prices for irrigation customers—$/ML

Tariff group	2019–20 (Current)	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	5.45	5.58	5.71	5.84
North Branch					
Fixed (Part A)	47.64	47.64	47.64	47.64	47.64
Volumetric (Part B)	15.19	15.55	15.92	16.30	16.68
North Branch– Risk A (excluding dam safety)					
Fixed (Part A)	13.44	13.88	14.21	14.55	14.89
Volumetric (Part B)	15.19	18.04	18.46	18.90	19.35
North Branch– Risk A (including dam safety)					
Fixed (Part A)	13.44	14.65	15.00	15.35	15.72
Volumetric (Part B)	15.19	18.04	18.46	18.90	19.35

How we have addressed stakeholder concerns

Dam safety

Some irrigation stakeholders have raised concerns about the allocation of dam safety expenditure to irrigators.

Dams in Queensland have generally been built for the primary purpose of supplying water to users. 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 have reflected the informal flood moderation benefits of dams by only allocating 80 per cent 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) for further details.

IGEM costs

Some irrigation stakeholders have raised concerns about the allocation of costs incurred to implement the 2015 recommendations made by the Inspector-General Emergency Management (IGEM costs) to irrigators.

We propose to accept Sunwater's revised (lower) IGEM costs provided to us in its June 2019 regulatory model. However, we have proposed allocating this between irrigation and non-irrigation customers using the headworks utilisation factor. See Part B (sections 2.9 and 7.3) of the draft report for further details.

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 have 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) for further details.

We have reduced Sunwater's forecast renewals expenditure by 29.5 per cent (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) for further details.

Other matters raised by stakeholders

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

In recommending prices, we have emphasised the pricing principles set out in the referral, as these principles give effect to the Government's water pricing policy. One of the key principles of that policy is that prices should increase gradually until they reach a cost-reflective level, where they recover the irrigation share of the scheme's operating, maintenance and capital renewal costs but do not recover a return on, or of, the scheme's initial asset base (as at 1 July 2000).

The Government has previously indicated that in setting the lower bound cost target for irrigation water prices and establishing a gradual transition path to this level, it has considered a range of matters, including customers' capacity to pay and the historical regional development driver for many of the schemes.

See Part A (Chapter 2) for further details.

We have recommended a reduction in scheme costs for Upper Condamine WSS

In our draft report, we have reduced Sunwater's proposed scheme costs by 13 per cent 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)

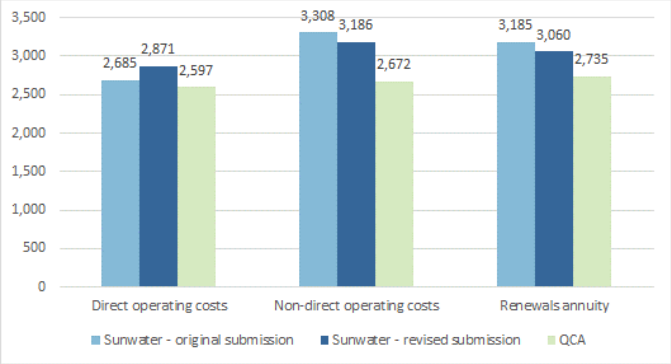

Figure notes: 1. Revenue offsets are not included in the charts. 2. QCA Non-direct operating costs includes the QCA regulatory fees.

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

We have assessed local impacts

In recommending prices, we have considered bill impacts for irrigation customers.

The table below presents an estimate of the change in water bills (compared to the bill based on current prices), for various levels of water use.

Further details on bill impacts are in Part B (chapter 9, appendix C and chapter 7) of the draft report.

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	(0.1)	0.2
50	(0.2)	0.4
75	(0.2)	0.5
100	(0.3)	0.7
North Branch		
0	-	-
25	0.2	0.7
50	0.3	1.4
75	0.5	1.9
100	0.6	2.4
North Branch– Risk A (excluding dam safety)		
0	3.3	10.8
25	6.7	14.5
50	8.9	16.8
75	10.4	18.4
100	11.5	19.6
North Branch– Risk A (including dam safety)		
0	9.0	16.9
25	11.2	19.2
50	12.5	20.7
75	13.5	21.7
100	14.2	22.5

How you can get involved

Public involvement is a key part of our review. Our draft report provides stakeholders with an opportunity to review and comment on our proposed approach and prices, prior to us finalising our report and providing it to the Government by 31 January 2020.

We now invite stakeholders to comment on this draft report (submissions are due by 1 November 2019) and to attend the workshops we will be running in regional Queensland in September/October 2019.

We also invite stakeholders to consider and provide comment on late submissions provided by Sunwater on a minimum access charge and an electricity cost pass through mechanism.

An indicative timetable for the remainder of our review is provided in the table below.

Timetable

Task	Date
Stakeholder workshops on draft report	September–October 2019
Submissions on draft report due	1 November 2019
Final report provided to the Government	By 31 January 2020
Final report published	Early February 2020

Where you can find out more

For more information please see the QCA website for:

- Part A of the draft report for key regulatory and pricing framework issues that apply to both Sunwater and Seqwater
- Part B of the draft report for Sunwater schemes
- Part C of the draft report for Seqwater schemes.