Queensland Competition Authority

Information sheet

Rural irrigation price review 2020–24

February 2020

Boyne River and Tarong water supply scheme

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 **Boyne River and Tarong 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) 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 inflation plus $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 result in the fixed price remaining constant over the pricing period. The volumetric price increases by our estimate of inflation (2.24%) over the price path period. Prices fully recover costs.

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
Fixed (Part A)	28.58	28.58	28.58	28.58	28.58
Volumetric (Part B)	1.77	1.81	1.85	1.89	1.93

How we have addressed stakeholder concerns

Operating 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), electricity costs and insurance 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.

We accepted Sunwater's June 2019 base year electricity cost estimates for bulk schemes as they are not materially different from our alternative estimates. See Part B (section 2.5) of our report for further details.

While we accepted Sunwater's final insurance costs for 2019–20 as a base year estimate, we also allocated these costs between irrigation and non-irrigation customers using the headworks utilisation factor. More details are in Part B (section 2.6) of our report.

Renewals annuity

Some irrigation stakeholders raised concerns about Sunwater's asset management practices and the prudency and efficiency of meter replacement costs.

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.

Risk allocation

Some irrigation stakeholders were concerned that the current risk allocation is too heavily biased toward customers and the socio-economic contributions of water are not adequately recognised in pricing.

We assessed revenue risk (the risk that the revenue received by Sunwater is different from our prudent and efficient cost allowance) and cost risk (the risk of a change in prudent and efficient costs during the price path period or that Sunwater's costs exceed the prudent and efficient level).

We recommended that revenue risk be addressed by maintaining existing tariff structures as they closely align with Sunwater's underlying cost structure. We recommended that Sunwater bear cost risk for costs within its control but that material changes in costs associated with specified cost risks be eligible for review. Further details are in Part A (Chapter 3) of our report.

Tariff structure

Some irrigation stakeholders wanted a review into tariff structure to better accommodate the diversity of users and seasons, without unduly compromising a general principle of cost reflectivity.

Aligning the tariff structure with the nature of the underlying costs is consistent with our recommended allocation of volume risk. It will also help to address the revenue adequacy considerations in the referral notice. Further details are in Part A (section 3.2) of our report.

Other matters raised by stakeholders

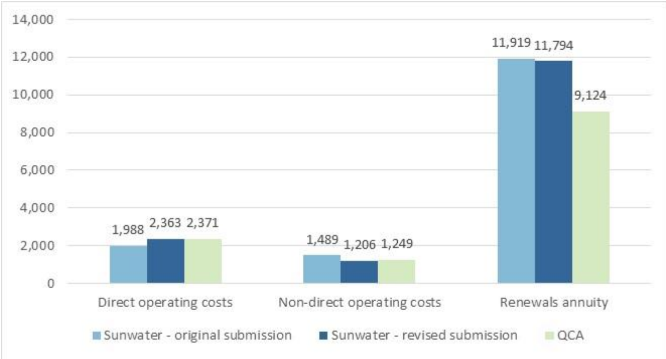
Some irrigation stakeholders in this scheme raised concerns about price levels, affordability and the impact of higher water prices on their businesses, regional economies and local communities.

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 Boyne River and Tarong WSS

We reduced Sunwater's proposed scheme costs by 17% over the pricing period 1 July 2020 to 30 June 2024.

Total scheme costs over the price path period—(2018–19 dollars) ($'000)



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

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

We have assessed local impacts

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 (%)
0	–	–
25	–	–
50	–	–
75	–	–
100	–	1

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.

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