

Rural irrigation price review 2020–24

Mary Valley water supply scheme and Pie Creek distribution system

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 **Mary Valley water supply scheme (WSS)** and **Pie Creek distribution system**. 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 a two-part tariff for the tariff group in this scheme. The first part (Part A and Part C) is a *fixed price* per megalitre (ML) of water access entitlement (WAE), and the second part (Part B and Part D) 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 associated with this scheme are recovered by the fixed price. We have assessed all expenditure to ensure that Seqwater 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 Seqwater's irrigation customers will improve from 74% in 2020–21 to 77% 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 river-only customers in the Mary Valley WSS, our recommendations result in the fixed price remaining constant over the pricing period, and the volumetric price decreasing to the cost-reflective level immediately. Prices fully recover costs.

For Pie Creek distribution system, our recommendations result in the total fixed price increasing by our estimate of inflation (2.24%) plus \$2.38/ML (2020–21 dollars) over the price path period. Total volumetric prices increase by inflation over the price path period. Prices will not recover costs by the end of the pricing period. Cost recovery will increase from 17% in 2020–21 to 19% by 2023–24.

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
Mary Valley WSS					
Fixed (Part A)	24.13	24.13	24.13	24.13	24.13
Volumetric (Part B)	9.63	7.98	8.16	8.34	8.53
Pie Creek distribution system					
Fixed (Part A)	21.59	14.20	14.51	14.84	15.17
Volumetric (Part B)	9.63	7.98	8.16	8.34	8.53
Fixed (Part C)	32.71	43.70	47.12	50.65	54.34
Volumetric (Part D)	81.95	85.65	87.57	89.53	91.54
Total Fixed	54.30	57.90	61.63	65.49	69.51
Total Volumetric	91.58	93.63	95.73	97.87	100.07

How we have addressed stakeholder concerns

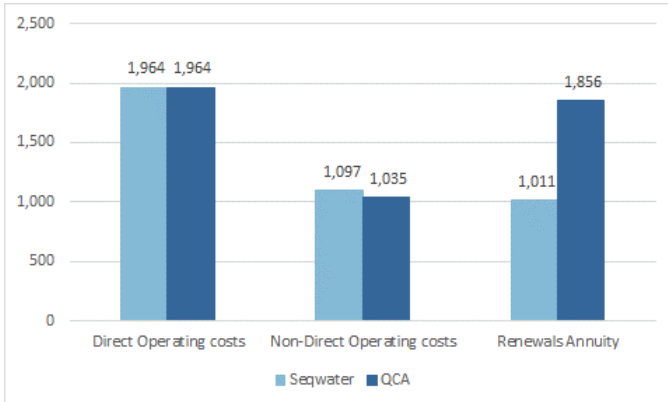
Some irrigation stakeholders in this scheme have raised concerns about price levels, affordability and the impact of higher water prices on their businesses, regional economies and local communities.

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 adjustments in scheme costs for Mary Valley WSS and Pie Creek distribution system

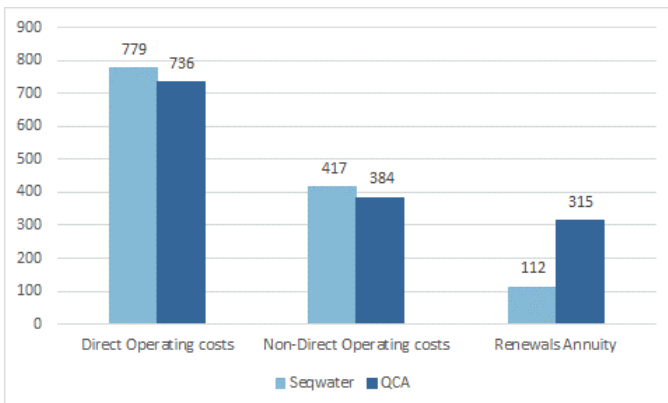
We made adjustments to Seqwater's proposed scheme costs over the pricing period 1 July 2020 to 30 June 2024. This includes removing billing system expenditure from non-direct operating costs, accepting Seqwater's revised renewals expenditure which they submitted in January 2019 and accepting Seqwater's revised insurance costs submitted to us in response to our draft report.

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



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

Total scheme costs over the price path period—Pie Creek distribution system (2018–19 dollars) (\$'000)



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

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

We assessed local impacts

We moderated bill impacts for the Pie Creek distribution system tariff group by limiting the increase in the combined fixed and volumetric price to inflation plus \$2.38/ML of WAE (from 2020–21, increasing by inflation). We have recommended that the total fixed price increases by inflation plus \$2.38/ML (from 2020–21, increasing by inflation) over the price path period, and the existing 2019–20 total volumetric price increases by inflation only.

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 C (chapters 7 and 9, and appendix B) 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 (%)
Mary Valley WSS		
0	–	–
25	(2)	(1)
50	(3)	(2)
75	(4)	(3)
100	(5)	(3)
Pie Creek distribution system		
0	7	28
25	5	22
50	5	19
75	4	18
100	4	16

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.