Queensland Competition Authority

Irrigation price review 2025-29

Stakeholder workshops on draft report

July/August 2024

Today's session

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Purpose of this workshop

The purpose of today's session is to:

- provide an overview of the QCA's draft report
- provide information to help stakeholders with their submissions
- answer questions about the draft report.

QCA's role

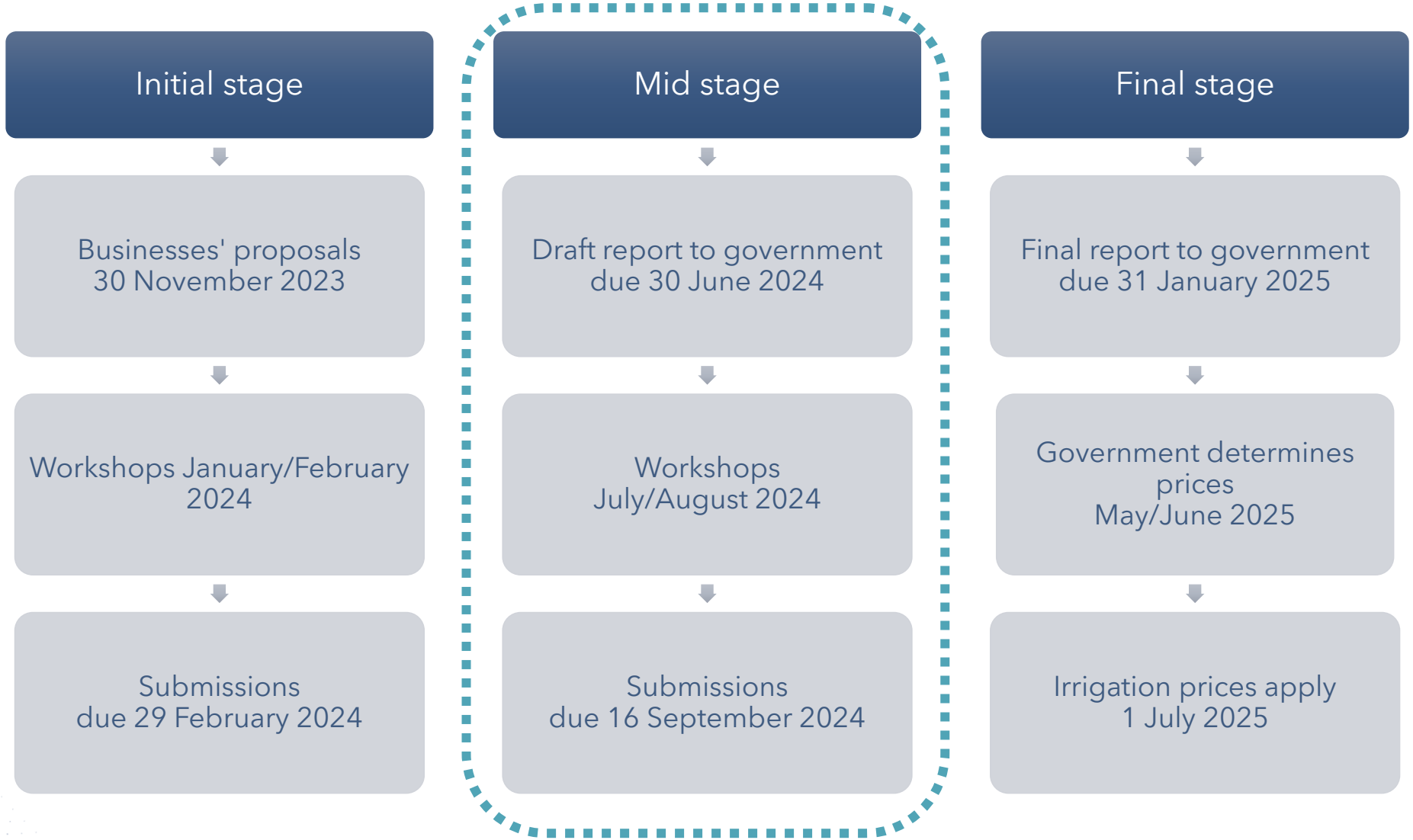
- The QCA is the independent economic regulator for Queensland.
- The Queensland Government can direct the QCA to review and make recommendations about irrigation prices.
- The QCA does not:
  - make water policy
  - determine irrigation prices.
- This review is separate to other reviews undertaken by the QCA (e.g. setting retail electricity prices under the Electricity Act).

Burning issues or questions?

Please tell us your burning issues or questions that you would like us to cover in this session:

- can be general / high level
- can be specific / detailed.

Timeline for the review



Overview of our draft price recommendations

- Consistent with the requirement in the referral, we applied the government's pricing principles to reach our draft price recommendations.
- The pricing principles constrain the increases required each year to reach the price target for each tariff group.
- The price target reflects the prudent and efficient costs allocated to each tariff group, but excludes allowances for pre-2000 capex and dam safety upgrade capex.
- If prices reach the price target during the price path period, the price target applies for the rest of the period.

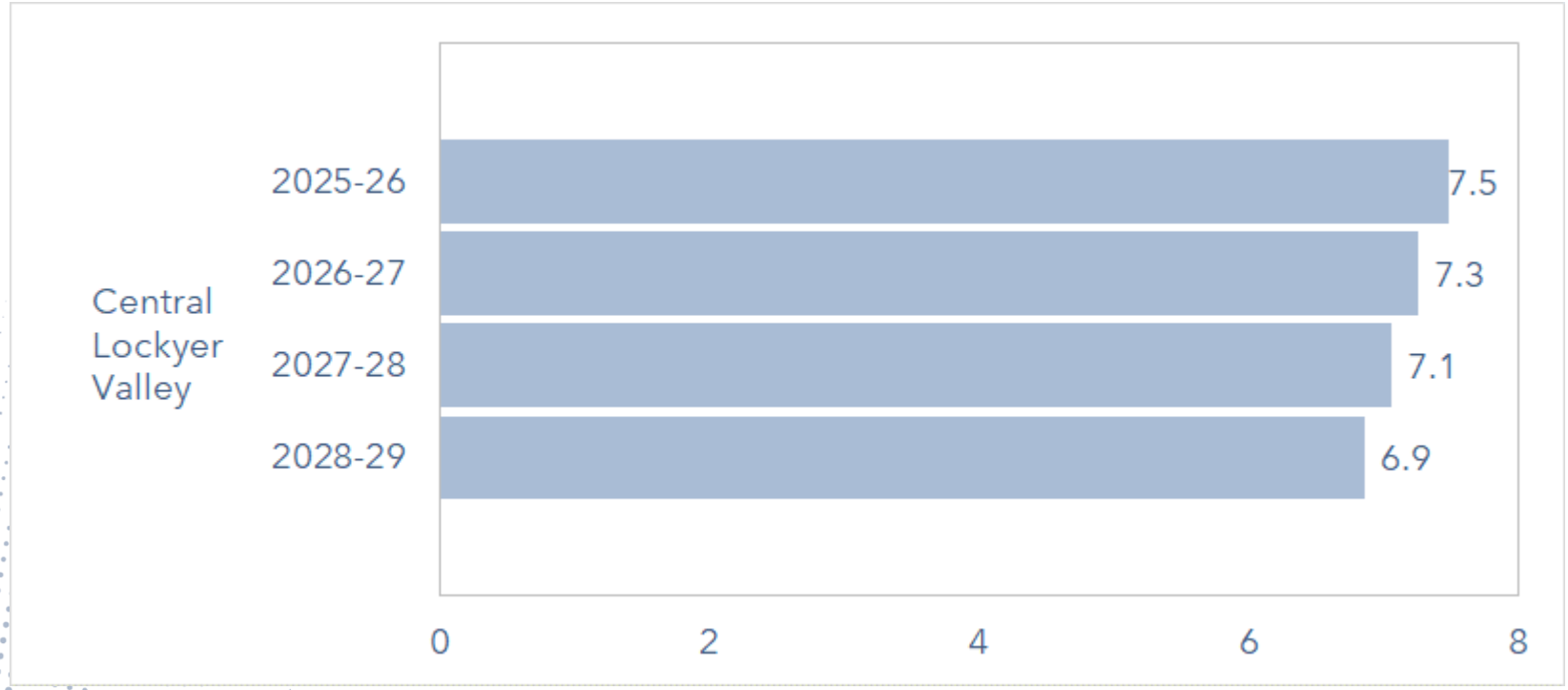
Stakeholder concerns about affordability

- We acknowledge customer's concerns about the affordability of irrigation prices.
- We have limited scope to consider or address those concerns, because we are required to recommend prices that are consistent with the government's pricing principles.
- However, our price recommendations may indirectly affect affordability:
  - we ensure that only prudent and efficient costs are recovered through the price target
  - when setting the price target, we have some scope to consider customer preferences.
- It is a matter for the government to provide additional support to address affordability concerns or to meet other policy objectives.

Draft price recommendations – Central Lockyer Valley

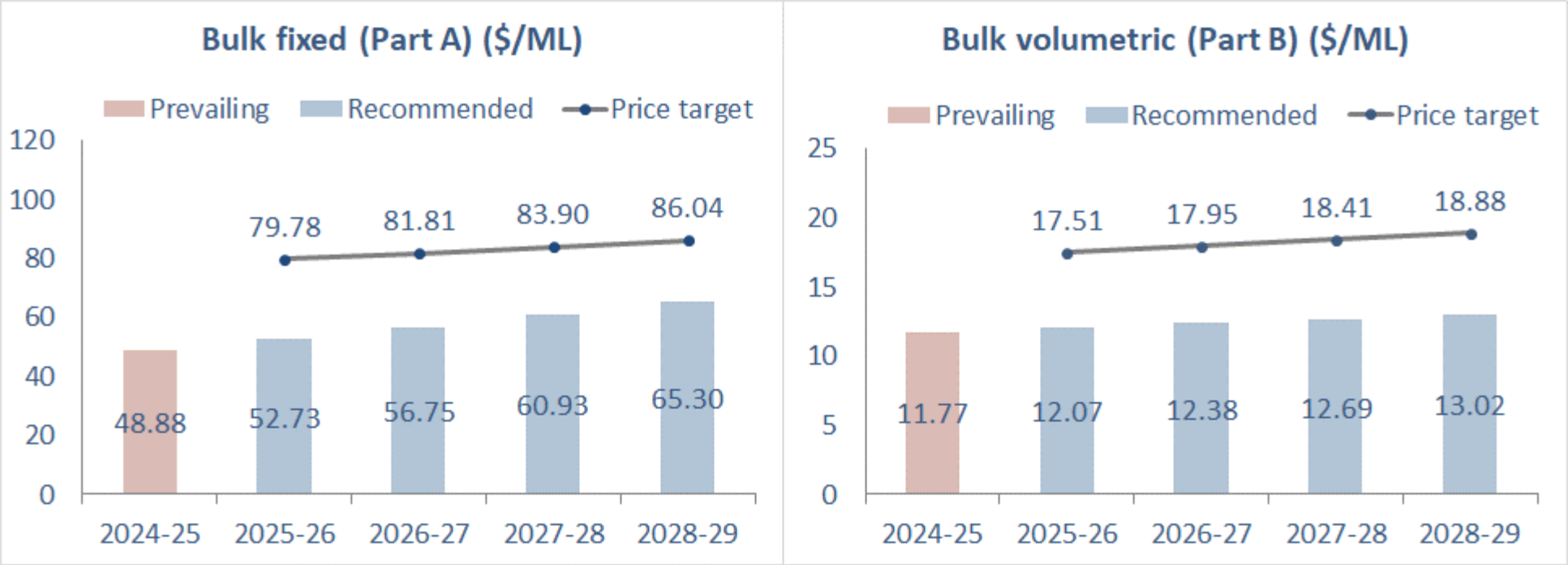
- Based on our draft price recommendations, we estimated the average change in prices for each year of the price path period from 2025–26 to 2028–29.
- Price changes for individual customers will vary if their water usage differs from the assumed scheme usage (32.5% of WAE).

Annual changes in draft irrigation prices, from 2025–26 to 2028–29 (% change)



Draft price recommendations – Central Lockyer Valley

Draft recommended prices – Central Lockyer Valley ($/ML)



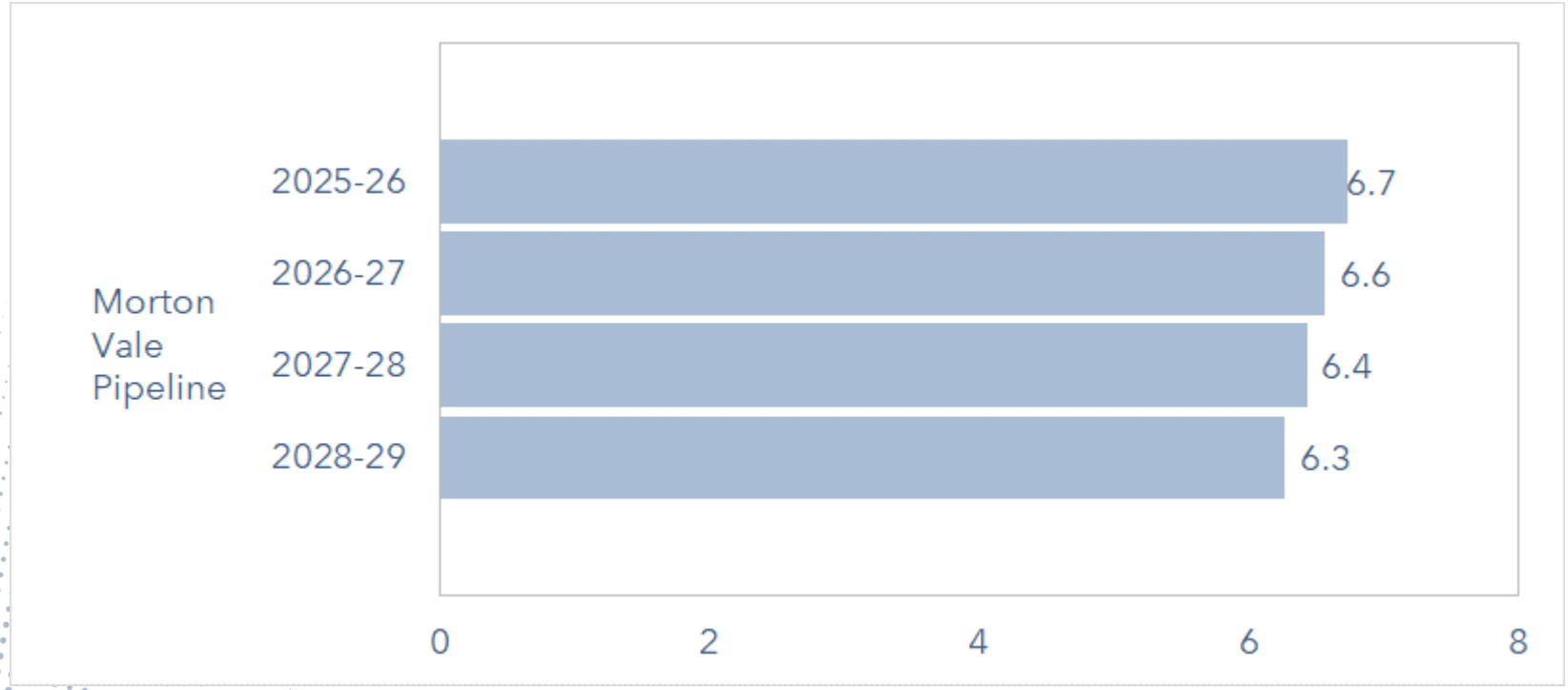
Note: The 2024-25 price is before the 15% discount that Seqwater was directed to apply.

- Recovery of allowable costs for this tariff group will increase from 66% in 2025–26 to 75% by 2028–29.

Draft price recommendations – Morton Vale Pipeline

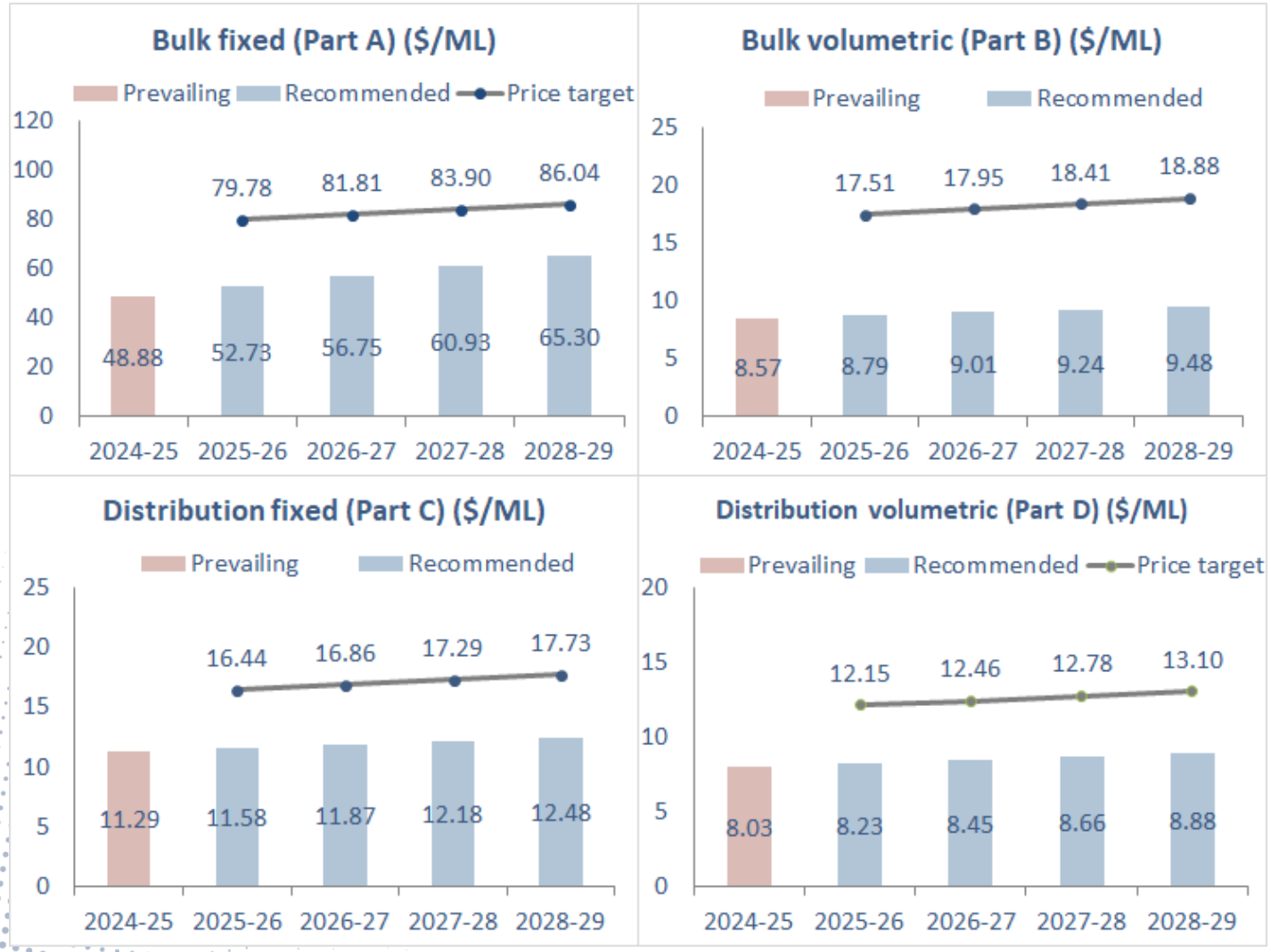
- Based on our draft price recommendations, we estimated the average change in prices for each year of the price path period from 2025–26 to 2028–29.
- Price changes for individual customers will vary if their water usage differs from the assumed scheme usage (12.1% of WAE).

Annual changes in draft irrigation prices, from 2025–26 to 2028–29 (% change)



Draft price recommendations – Morton Vale Pipeline

Draft recommended prices – Morton Vale Pipeline ($/ML)



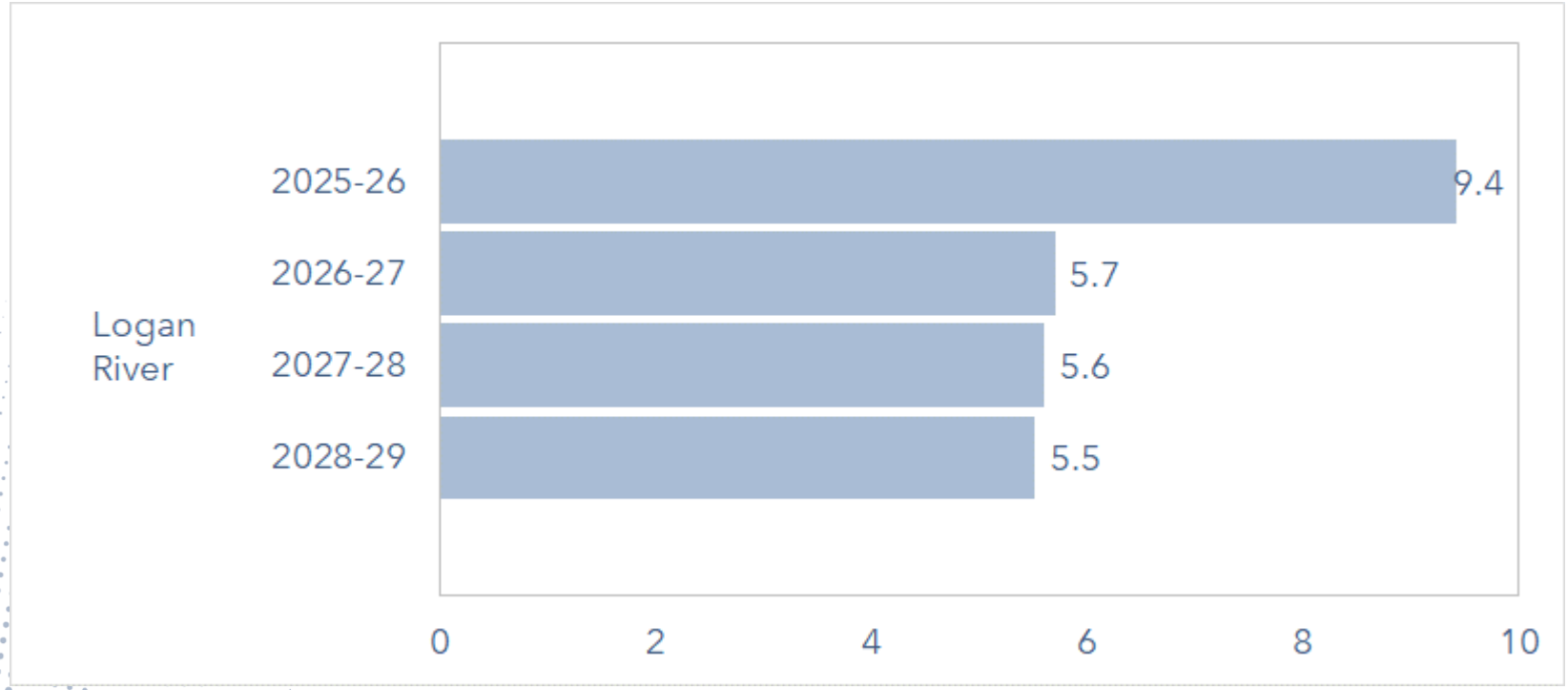
Note: The 2024-25 price is before the 15% discount that Seqwater was directed to apply.

Recovery of allowable costs for this tariff group will increase from 66% in 2025–26 to 74% by 2028–29.

Draft price recommendations – Logan River

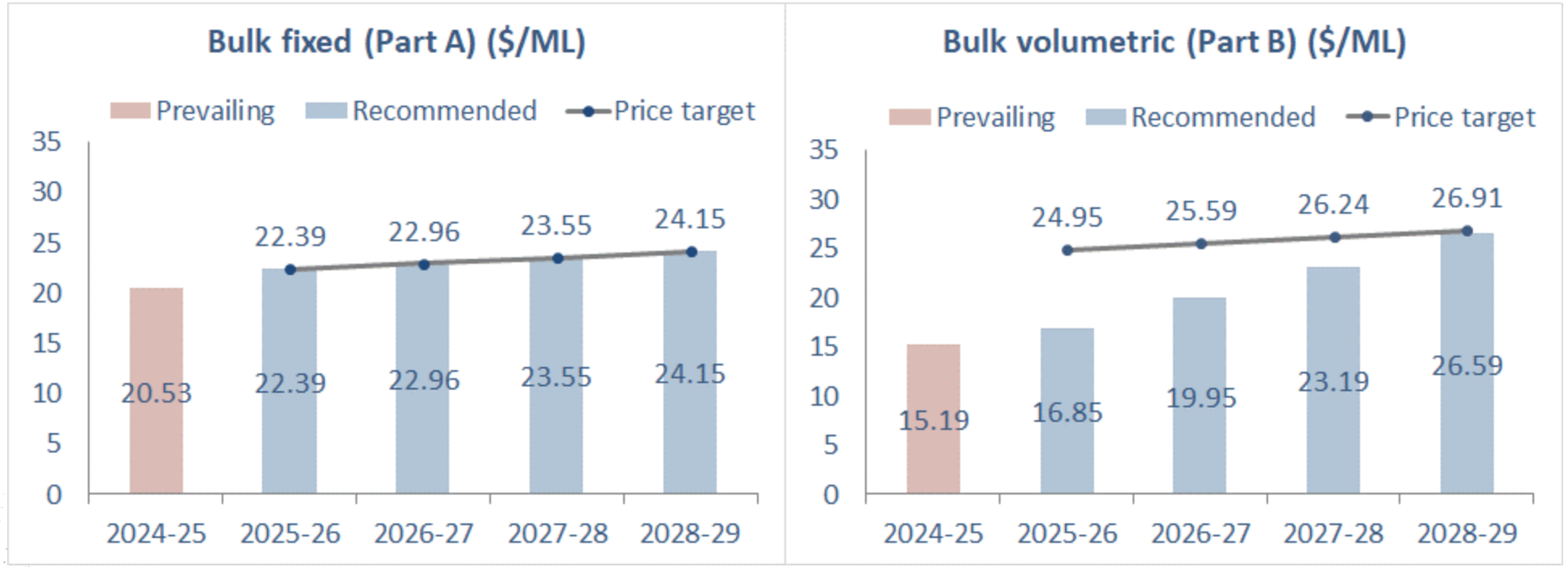
- Based on our draft price recommendations, we estimated the average change in prices for each year of the price path period from 2025–26 to 2028–29.
- Price changes for individual customers will vary if their water usage differs from the assumed scheme usage (33.0% of WAE).

Annual changes in draft irrigation prices, from 2025–26 to 2028–29 (% change)



Draft price recommendations – Logan River

Draft recommended prices – Logan River ($/ML)



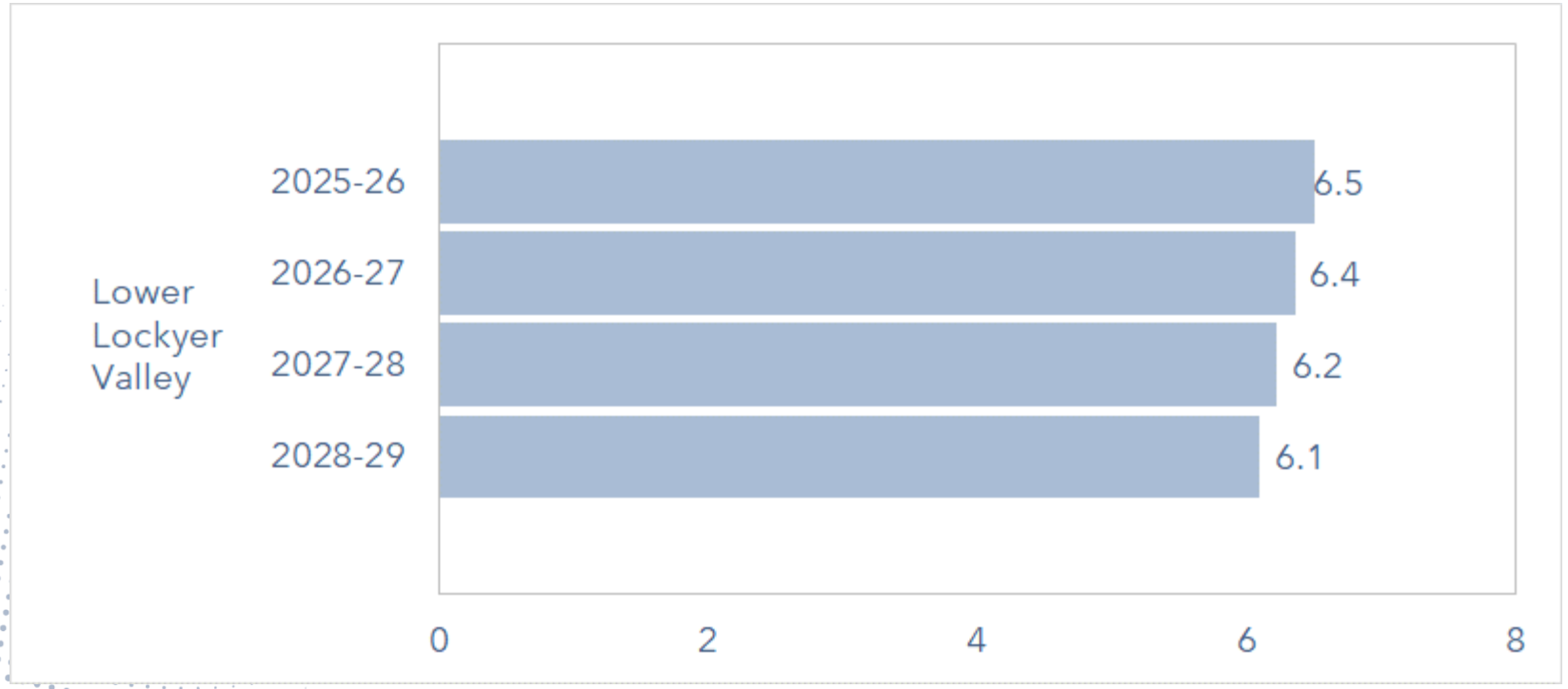
Note: The 2024-25 price is before the 15% discount that Seqwater was directed to apply.

- Recovery of allowable costs for this tariff group will increase from 91% in 2025–26 to just under 100% by 2028–29.

Draft price recommendations – Lower Lockyer Valley

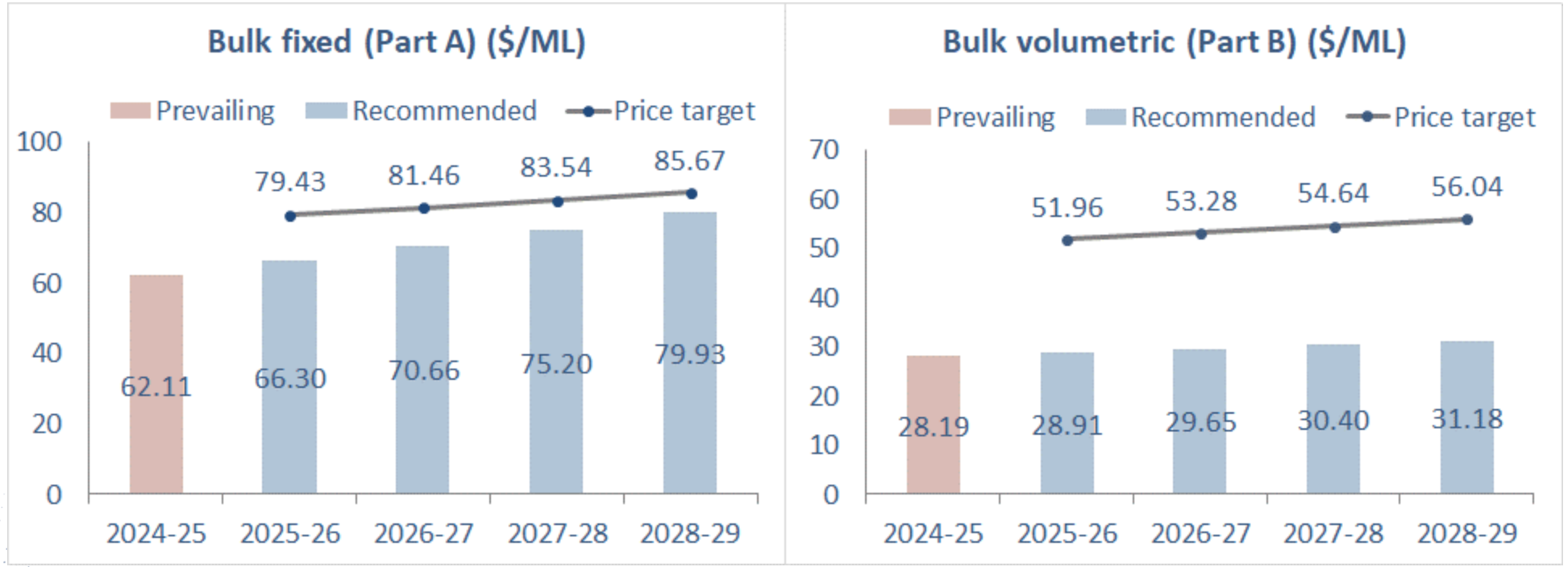
- Based on our draft price recommendations, we estimated the average change in prices for each year of the price path period from 2025–26 to 2028–29.
- Price changes for individual customers will vary if their water usage differs from the assumed scheme usage (13.2% of WAE).

Annual changes in draft irrigation prices, from 2025–26 to 2028–29 (% change)



Draft price recommendations – Lower Lockyer Valley

Draft recommended prices – Lower Lockyer Valley ($/ML)

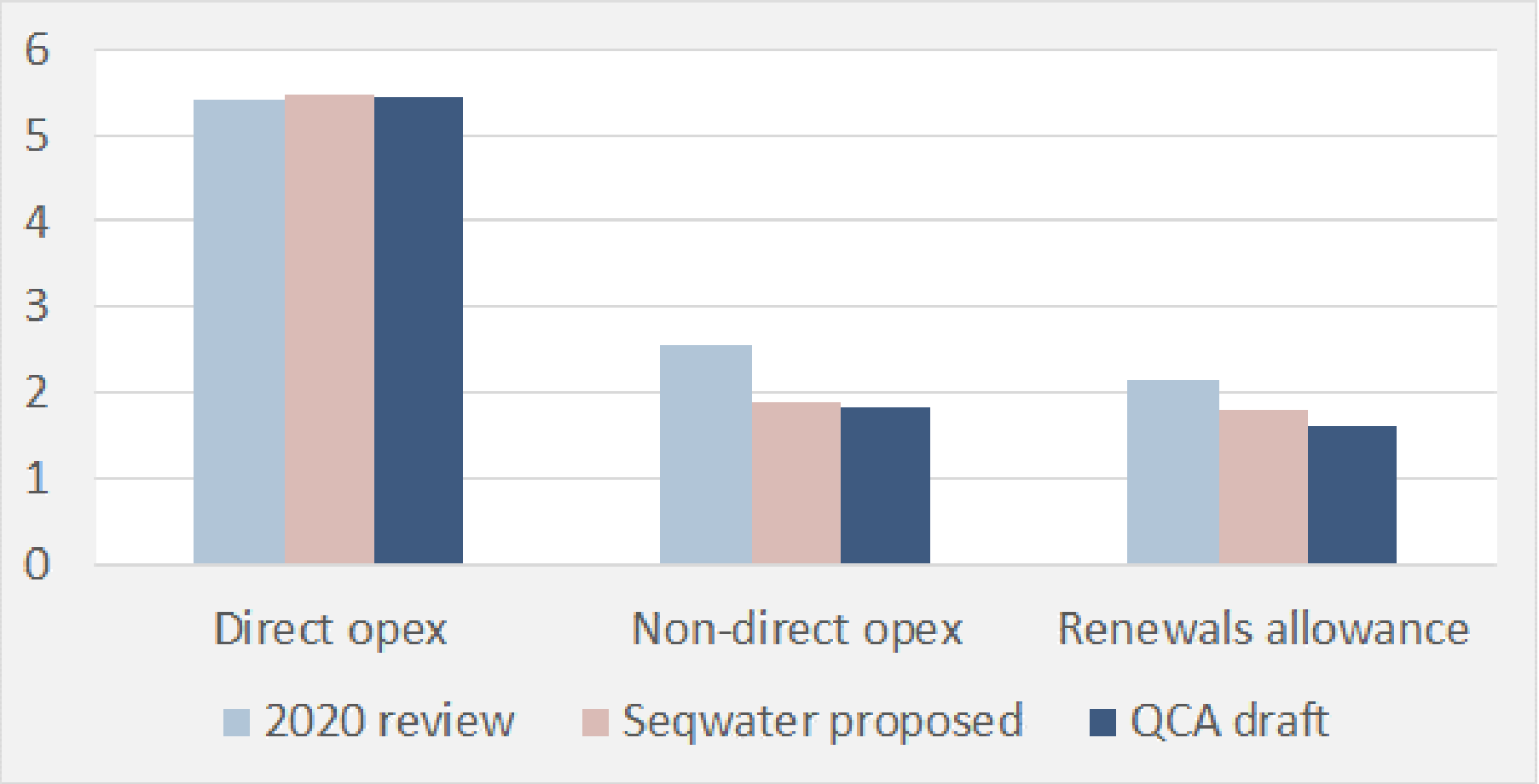


Note: The 2024-25 price is before the 15% discount that Seqwater was directed to apply.

- Recovery of allowable costs for this tariff group will increase from 81% in 2025–26 to 90% by 2028–29.

We propose to reduce Seqwater's proposed costs

Average annual allowable costs, by cost category ($ million, 2025–26 dollars)



Note: Our costs from the 2020 review are our recommended opex adjusted for the difference between forecast and actual inflation. Excludes review events.

Draft position on key cost drivers over the price path period:

- our draft opex allowance is 1.7% lower than Seqwater's proposal
- our draft renewals allowance is 10.6% lower than Seqwater's proposal

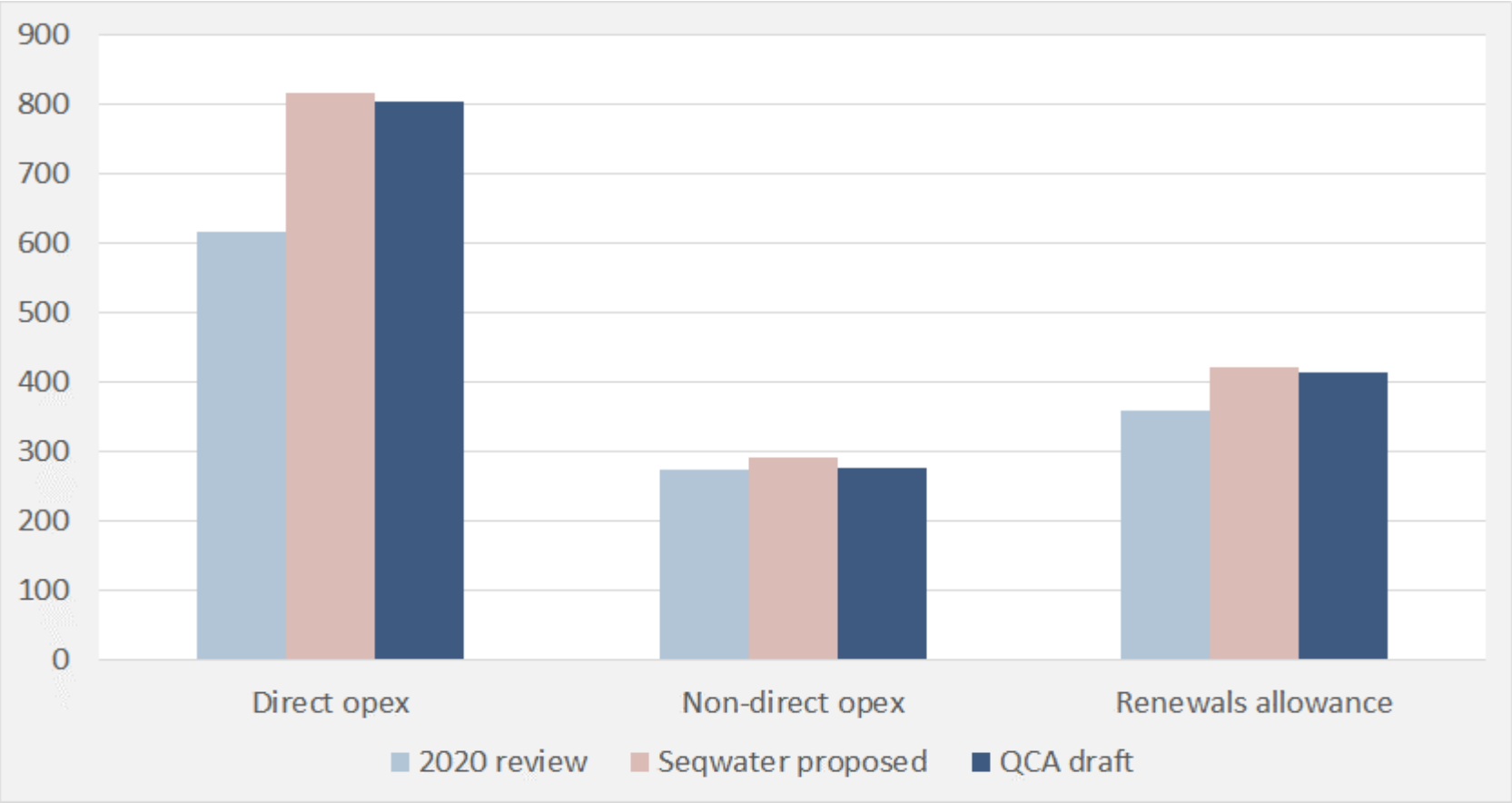
Draft costs – Central Lockyer Valley WSS

Total allowable costs, Central Lockyer Valley WSS ($'000, nominal)

Cost	2025-26	2026-27	2027-28	2028-29
Labour	146.3	151.4	155.2	159.0
Electricity	51.0	52.1	53.3	54.6
Repairs and maintenance	184.4	190.1	194.8	199.7
Other	201.1	195.3	258.6	253.4
Insurance	219.2	230.2	241.7	253.8
Non direct	275.8	282.9	290.0	297.3
Renewals annuity	414.2	420.6	427.1	433.7
Revenue offsets	(0.6)	(0.6)	(0.6)	(0.6)
Review Events	49.5	50.8	52.1	53.4
QCA fee	7.9	8.1	8.3	8.5
Total costs	**1,548.7**	**1,580.8**	**1,680.5**	**1,712.8**

Draft costs – Central Lockyer Valley WSS

Average allowable costs by cost category ($ '000, 2025-26)



Draft position on key cost drivers over the price path period:

- our draft opex allowance is 3.7% lower than Seqwater's proposal
- our draft renewals allowance is 1.8% lower than Seqwater's proposal

Note: Our costs from the 2020 review are our recommended opex adjusted for the difference between forecast and actual inflation. Excludes review events.

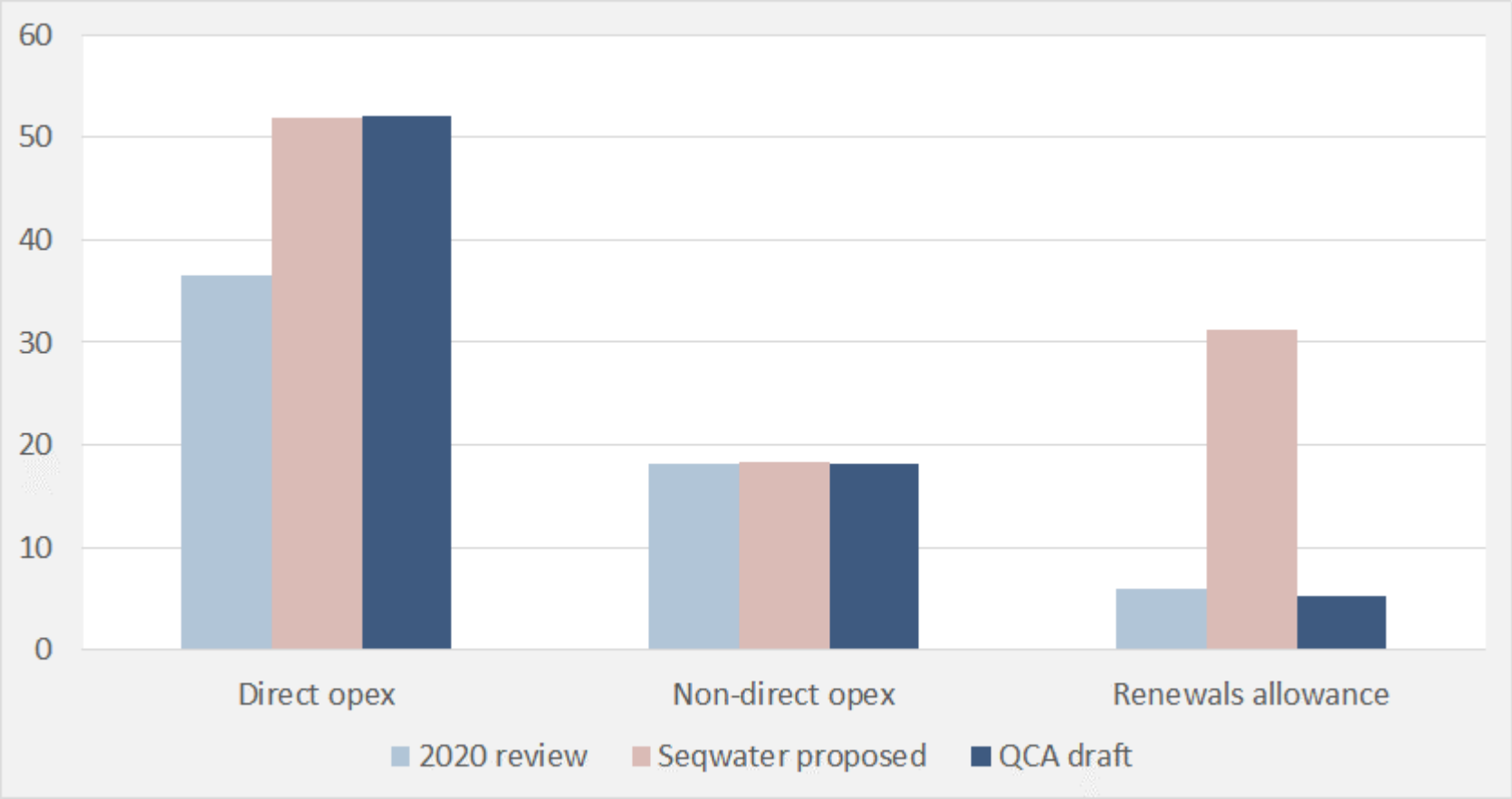
Draft costs – Morton Vale Pipeline

Total allowable costs, Morton Vale Pipeline ($'000, nominal)

Cost	2025-26	2026-27	2027-28	2028-29
Labour	19.8	20.5	21.0	21.6
Electricity	-	-	-	-
Repairs and maintenance	10.4	10.7	11.0	11.2
Other	3.9	4.0	4.1	4.2
Insurance	17.9	18.8	19.7	20.7
Non direct	18.1	18.6	19.0	19.5
Renewals annuity	5.2	6.4	7.5	8.8
Revenue offsets	(0.2)	(0.2)	(0.3)	(0.3)
QCA fee	1.9	1.9	2.0	2.0
Total costs	**76.9**	**80.6**	**84.1**	**87.7**

Draft costs – Morton Vale Pipeline

Average allowable costs by cost category ($ '000, 2025-26)



Note: Our costs from the 2020 review are our recommended opex adjusted for the difference between forecast and actual inflation.

Draft position on key cost drivers over the price path period:

- our draft opex allowance is 0.5% lower than Seqwater's proposal
- our draft renewals allowance is 79.1% lower than Seqwater's proposal

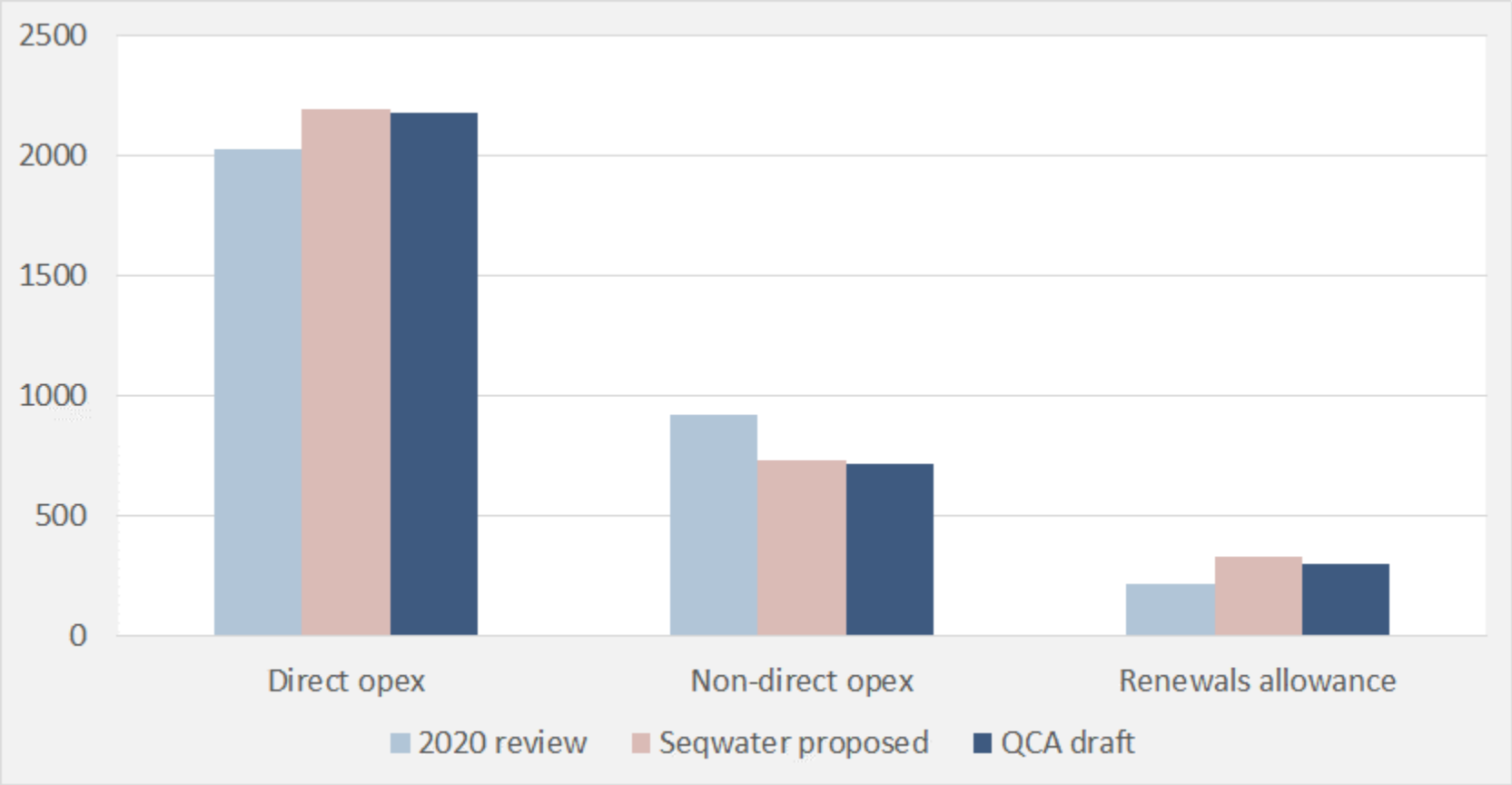
Draft costs – Logan River WSS

Total allowable costs, Logan River ($'000, nominal)

Cost	2025-26	2026-27	2027-28	2028-29
Labour	326.4	337.9	346.3	354.9
Electricity	11.3	11.6	11.8	12.1
Repairs and maintenance	357.0	368.1	377.3	386.7
Other	957.7	950.1	960.2	1,046.7
Insurance	526.7	553.0	580.7	609.7
Non direct	719.8	738.2	756.9	775.9
Renewals annuity	303.1	305.5	307.8	310.2
Revenue offsets	(41.5)	(42.5)	(43.6)	(44.7)
QCA fee	6.8	7.0	7.1	7.3
Total costs	**3,167.3**	**3,228.8**	**3,304.6**	**3,458.8**

Draft costs – Logan River WSS

Average allowable costs by cost category ($ '000, 2025-26)



Draft position on key cost drivers over the price path period:

- our draft opex allowance is 1.0% lower than Seqwater's proposal
- our draft renewals allowance is 8.7% lower than Seqwater's proposal

Note: Our costs from the 2020 review are our recommended opex adjusted for the difference between forecast and actual inflation.

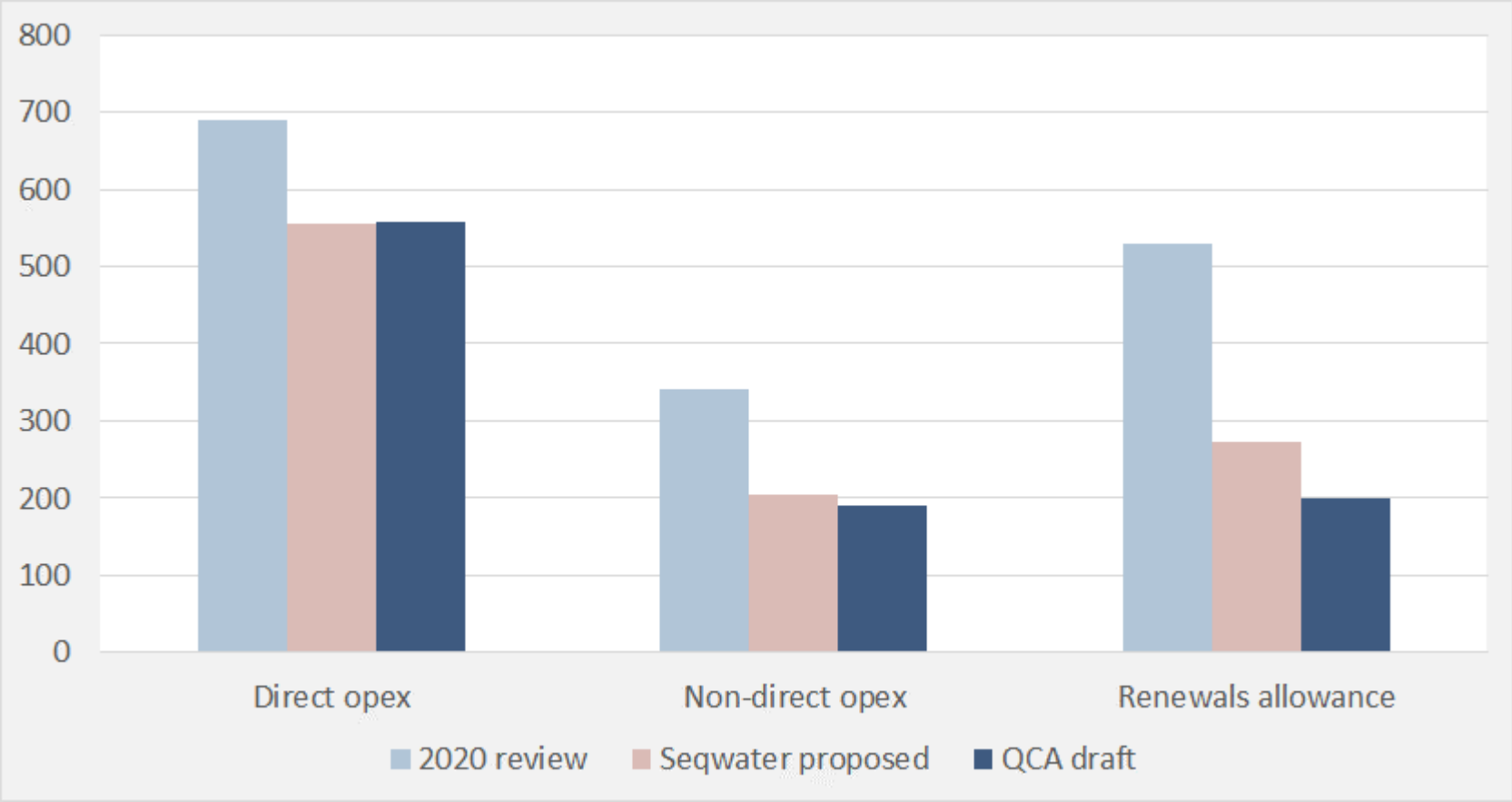
Draft costs – Lower Lockyer Valley WSS

Total allowable costs, Lower Lockyer Valley ($'000, nominal)

Cost	2025-26	2026-27	2027-28	2028-29
Labour	196.5	203.4	208.5	213.7
Electricity	12.0	12.3	12.6	12.9
Repairs and maintenance	112.5	116.0	118.9	121.9
Other	142.8	141.9	150.2	197.3
Insurance	94.9	99.6	104.6	109.8
Non direct	191.3	196.2	201.2	206.2
Renewals annuity	199.3	206.1	213.1	220.3
Revenue offsets	(11.7)	(12.0)	(12.3)	(12.6)
QCA fee	6.0	6.1	6.3	6.5
Total costs	**943.6**	**969.6**	**1,003.0**	**1,075.9**

Draft costs – Lower Lockyer Valley WSS

Average allowable costs by cost category ($ '000, 2025-26)



Note: Our costs from the 2020 review are our recommended opex adjusted for the difference between forecast and actual inflation.

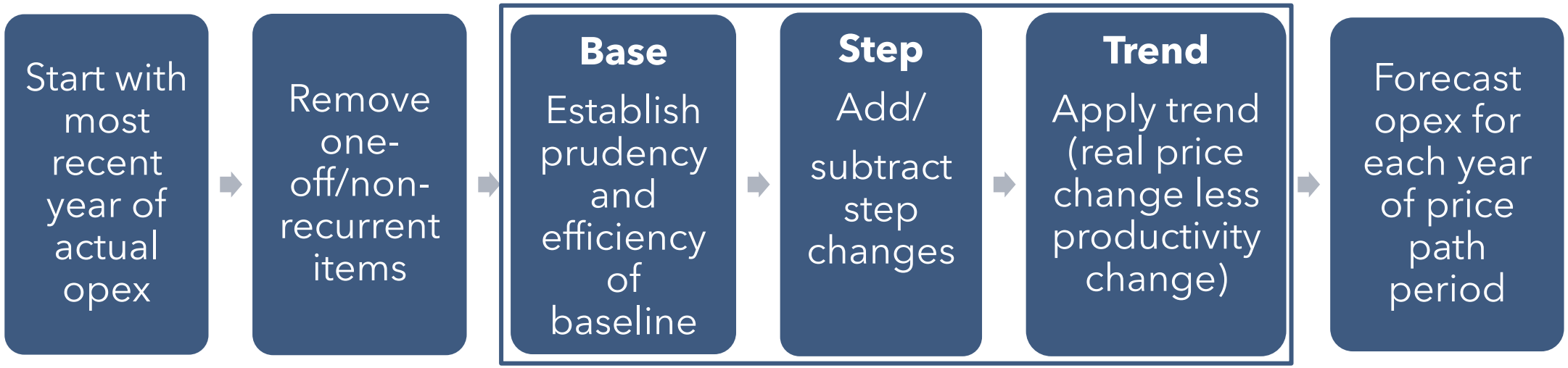
Draft position on key cost drivers over the price path period:

- our draft opex allowance is 1.2% lower than Seqwater's proposal
- our draft renewals allowance is 26.3% lower than Seqwater's proposal

Assessment approach – Seqwater's proposed costs

- Overall, we consider that Seqwater's extensive engagement program (both on an ongoing basis and for this review) has informed customers and other stakeholders of key aspects of the price review process.
- This is demonstrated by the general endorsement of Seqwater's proposed costs by CRGs, with only some reservations raised on the metering spend in Logan River water supply scheme.
- Seqwater customers did not raise any cost concerns in stakeholder submissions; historical metering renewals in Central Lockyer water supply scheme were raised only at the Gatton workshop in January 2024.
- We have taken this into account in assessing the prudency and efficiency of Seqwater's cost forecasts. In assessing the prudency and efficiency of opex from 1 July 2025 to 30 June 2029, we focused on areas that are material, specifically examining the proposed base year, step changes and escalation.
- We have taken our findings in relation to the 2022 bulk water review into account, as required by the referral. In that review, we assessed the prudency and efficiency of Seqwater's proposed opex (including irrigation-related costs) for the period 1 July 2018 to 30 June 2028.

Operating expenditure – assessment approach



- Our approach involved:
  - determining an appropriate baseline level of prudent and efficient recurrent expenditure
  - reviewing material step changes in the efficient baseline
  - ensuring appropriate adjustments for trend growth

Operating expenditure – adjusted baseline

Comparison of adjusted baseline with the 2020 review ($ million, 2023-24 dollars)

	Adjusted baseline	2020 review	Difference
Labour	1.3	1.4	(0.1)
Electricity	0.1	0.1	-
Repairs and maintenance	1.0	1.2	(0.2)
Other	0.5	0.6	(0.1)
Local government rates	0.9	0.9	-
Insurance	1.0	0.8	0.2
Total direct	**4.9**	**5.0**	**(0.1)**
Operations	1.6	2.3	(0.7)
Non-Infrastructure	0.1	0.1	-
Total non-direct	**1.7**	**2.4**	**(0.7)**
Total operating costs	**6.6**	**7.4**	**(0.8)**

Note: Our costs from the 2020 review are our recommended opex adjusted for the difference between forecast and actual inflation.

Seqwater's actual opex has been within the recommended opex allowance from the 2020 review, adjusted for the difference between our forecast of inflation and actual inflation.

We note that Seqwater's proposed lower costs are driven by lower than recommended costs in most cost categories.

The only cost category with proposed costs that are higher than our recommended costs is insurance costs, which we assessed further.

Renewals expenditure – assessment approach

- Given our detailed assessment of the prudency and efficiency of Seqwater's renewals expenditure in the 2022 bulk water review, we focused our assessment for this review on irrigation-specific expenditure that was not reviewed as part of the 2022 review.
- Scheme-level customer reference groups (CRGs) generally endorsed Seqwater's proposed costs, with only some reservations raised on the metering spend in Logan River water supply scheme.
- Concerns with metering renewals expenditure were also raised at the Gatton workshop in January 2024.
- Given the materiality of metering renewals expenditure on the price target at the tariff group level, we engaged AtkinsRéalis to assist in assessing the prudency and efficiency of the metering renewals program for schemes with material metering renewals expenditure.

Renewals expenditure

QCA draft position for historical renewals ($ million, nominal)

	2018-19	2019-20	2020-21	2021-22[b]	2022-23	2023-24[c]	2024-25[c]	Total[d]
Seqwater proposed	2.0	3.4	3.7	2.0	2.8	0.9	1.8	16.6
QCA adjustments	–	–	–	(0.4)	–	(0.2)	(0.7)	(1.3)
QCA draft position[c]	**2.0**	**3.4**	**3.7**	**1.5**	**2.8**	**0.8**	**1.1**	**15.3**

a Figures in this table relate to renewals allocated to irrigation and non-irrigation customers in regulated schemes. b Our adjustment for 2021–22 is the removal of review events (as we have recovered these through opex – see section 4.5). c Our assessment for 2023–24 (projected) and 2024-25 (forecast) is discussed as part of the assessment of the future metering renewals (section 5.3). d Totals may not sum due to rounding.
Source: Seqwater, supporting information accompanying sub. 1; QCA analysis.

QCA draft position for forecast renewals ($ million, nominal)

	2025-26	2026-27	2027-28	2028-29	2029-58	Total
Seqwater proposal	0.8	1.9	1.7	1.9	46.9	**53.1**
QCA adjustments	(0.4)	(0.5)	(0.1)	(0.2)	(1.7)	**(2.9)**
QCA draft position	**0.3**	**1.3**	**1.6**	**1.7**	**45.2**	**50.2**

Notes: Figures in this table relate to renewals allocated to irrigation and non-irrigation customers in regulated schemes. Totals may not sum due to rounding.
Source: Seqwater, sub. 1; QCA analysis.

Renewals expenditure – QCA draft assessment

- We have accepted the:
  - non-metering renewals costs
  - the capital costs of the new water accounting system
- Our renewals adjustment in 2021-22 is the removal of two review events (Cedar Pocket and Central Lockyer) from the renewals. We have accepted the costs of these review events, but they have been treated as opex.
- All other adjustments made by the QCA are related to metering. We have adjusted the metering costs in the following schemes:
  - Morton Vale Pipeline
  - Logan River
  - Lower Lockyer
  - Mary Valley

Historical metering renewals expenditure – Central Lockyer Valley

- AtkinsRéalis proposed no adjustment to the historical metering expenditure in Central Lockyer Valley.
- We accepted this recommendation. We also confirmed that the Commonwealth funding support for metering project was included in the metering annuity account.
- Seqwater undertook the replacement of meters mainly to comply with regulatory requirements.
- Per the information provided by Seqwater, the delivery of the project was completed in accordance with Seqwater's procedures and processes, and in line with the non-urban water meter standards.
- We consider that the approach to delivery of the replacement meter and costs included to be in line with our expectation.

Forecast metering renewals expenditure – Morton Vale Pipeline

- Seqwater proposed $0.6m (real 2023-24) in metering costs for FY27.
- We accepted $0.1m (real 2023-24) metering costs for the time period.
- We consider the project is prudent given the legislative driver for the project.
- Noted that Seqwater did not provide requested information such as the number of meters to be replaced or robust supporting documentation.
- In the absence of details such as the number of meters to be replaced or robust supporting documentation, we have accepted the AtkinsRéalis assumed replacement rate and average installation cost per meter.

Forecast metering renewals expenditure – Logan River

- Seqwater proposed $1.2m (real 2023-24) in metering costs for FY24-FY27.
- We accepted $0.6m (real 2023-24) metering costs for the time period.
- We consider the number of meters to be installed is appropriate given the detailed business case for the project.
- However, we have applied Seqwater's historical average replacement cost per meter given the lack of information to support the step change increase in unit costs proposed by Seqwater.

Forecast metering renewals expenditure – Lower Lockyer Valley

- Seqwater proposed $1.8m (real 2023-24) in metering costs for FY28-FY30
- We accepted $0.3m (real 2023-24) metering costs for the time period.
- We consider the project is prudent given the legislative driver for the project.
- Noted that Seqwater did not provide requested information such as the number of meters to be replaced or a business case.
- However, in the absence of details such as the number of meters to be replaced or robust supporting documentation, we have accepted the AtkinsRéalis assumed replacement rate and average installation cost per meter.

Approach to recovering renewals expenditure

- Seqwater proposed a renewals annuity approach
- Our draft price recommendations reflect the renewals annuity approach
- While we understand the difficulties of exploring a RAB approach for this review process, we consider that this option should be considered for future reviews by Seqwater.

Allocating costs to tariff groups

We adjusted allowable costs to reach a price target for each tariff group

- We adjusted for distribution losses to ensure costs allocated to appropriate beneficiaries
  - 2020 review
    - distribution customers should only be allocated costs of distribution loss WAEs required for actual losses
    - excess distribution loss WAEs in Pie Creek and Morton Vale Pipeline schemes; Seqwater to review
  - this review – allocated all distribution losses in these schemes to customers
    - not cost-effective to change classification given low level of loss WAEs; customer support for Seqwater approach
- We allocated costs between WAE priority groups
  - bulk WSS with different priority groups (Central Lockyer Valley, Logan River, Warrill Valley, Mary Valley), 50% fixed costs allocated by nominal WAEs, with remaining cost allocated using updated HUFs
  - Cedar Pocket and Lower Lockyer Valley, all fixed costs allocated to medium priority WAEs
  - Morton Vale Pipeline and Pie Creek, all fixed costs allocated using nominal WAEs

Mechanisms to address cost risk

- We were directed to recommend mechanisms to manage material changes in allowable costs outside Seqwater's control.
- In relation to opex risk, our draft recommendation is to:
  - maintain the review event mechanism
  - retain the government policy review event, but not the other review events (off-stream pumping, electricity and insurance costs)
  - clarify the definition and the criteria for assessing review event applications.
- In relation to renewals and other capex risk, our draft recommendation is to maintain the current approach of undertaking an end-of-period true-up for prudent and efficient costs.

Next steps

- Submissions are due by **16 September 2024**.
- Information about how to make a submission is available on our website: www.qca.org.au/submissions.
- All submissions received by the due date will be considered in preparing our final report.
- The final report is due to the government by 31 January 2025 and will be published in early February 2025.

Queensland Competition Authority

Questions?

Level 27, 145 Ann Street,
Brisbane Q 4000

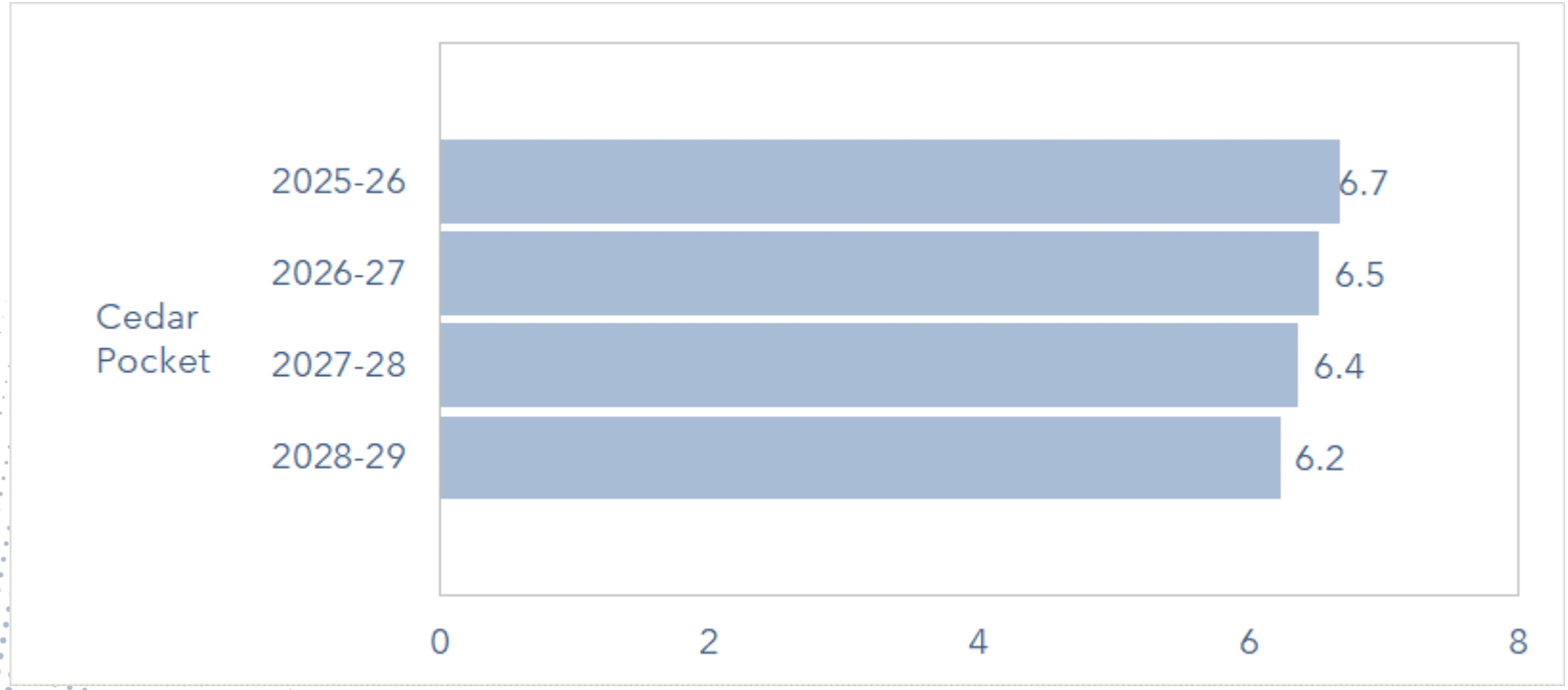
GPO Box 2257,
Brisbane Q 4001

T | (07) 3222 0555
W | www.qca.org.au

Draft price recommendations – Cedar Pocket

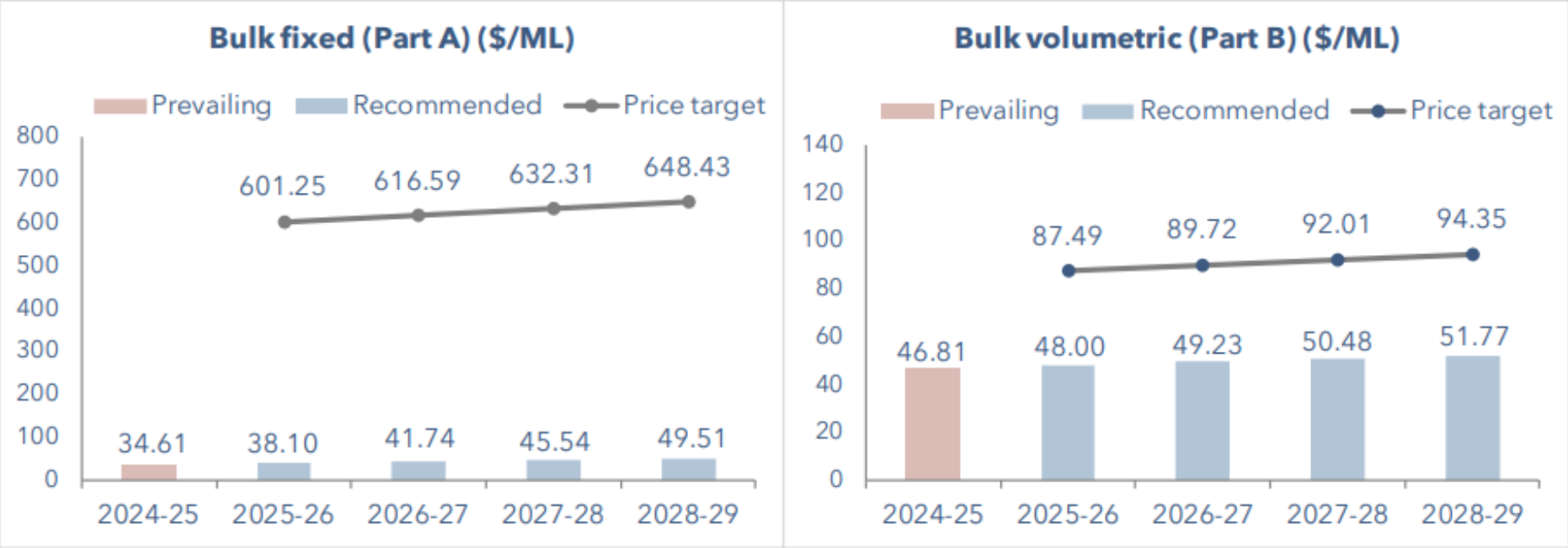
- Based on our draft price recommendations, we estimated the average change in prices for each year of the price path period from 2025–26 to 2028–29.
- Price changes for individual customers will vary if their water usage differs from the assumed scheme usage (60.8% of WAE).

Annual changes in draft irrigation prices, from 2025–26 to 2028–29 (% change)



Draft price recommendations – Cedar Pocket

Draft recommended prices – Cedar Pocket ($/ML)



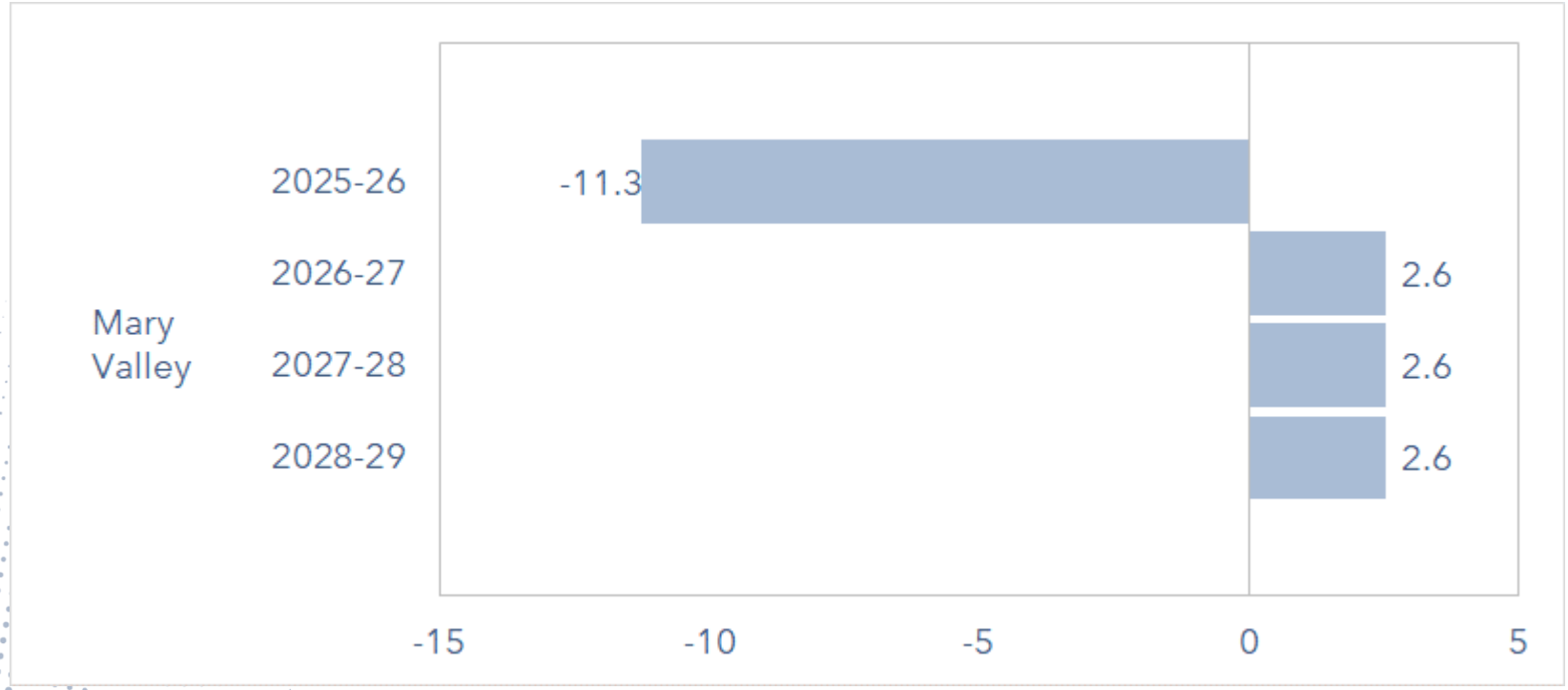
Note: The 2024-25 price is before the 15% discount that Seqwater was directed to apply.

- Recovery of allowable costs for this tariff group will increase from 10% in 2025–26 to 11% by 2028–29.

Draft price recommendations – Mary Valley

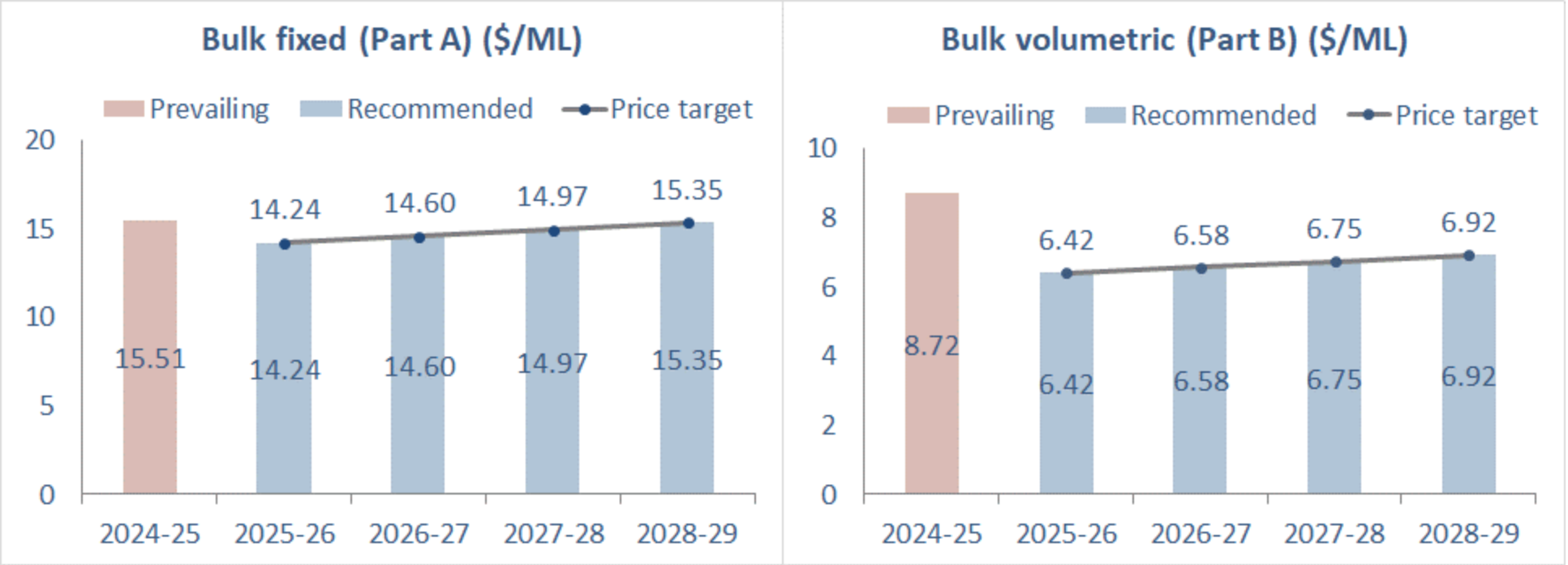
- Based on our draft price recommendations, we estimated the average change in prices for each year of the price path period from 2025–26 to 2028–29.
- Price changes for individual customers will vary if their water usage differs from the assumed scheme usage (35.8% of WAE).

Annual changes in draft irrigation prices, from 2025–26 to 2028–29 (% change)



Draft price recommendations – Mary Valley

Draft recommended prices – Mary Valley ($/ML)



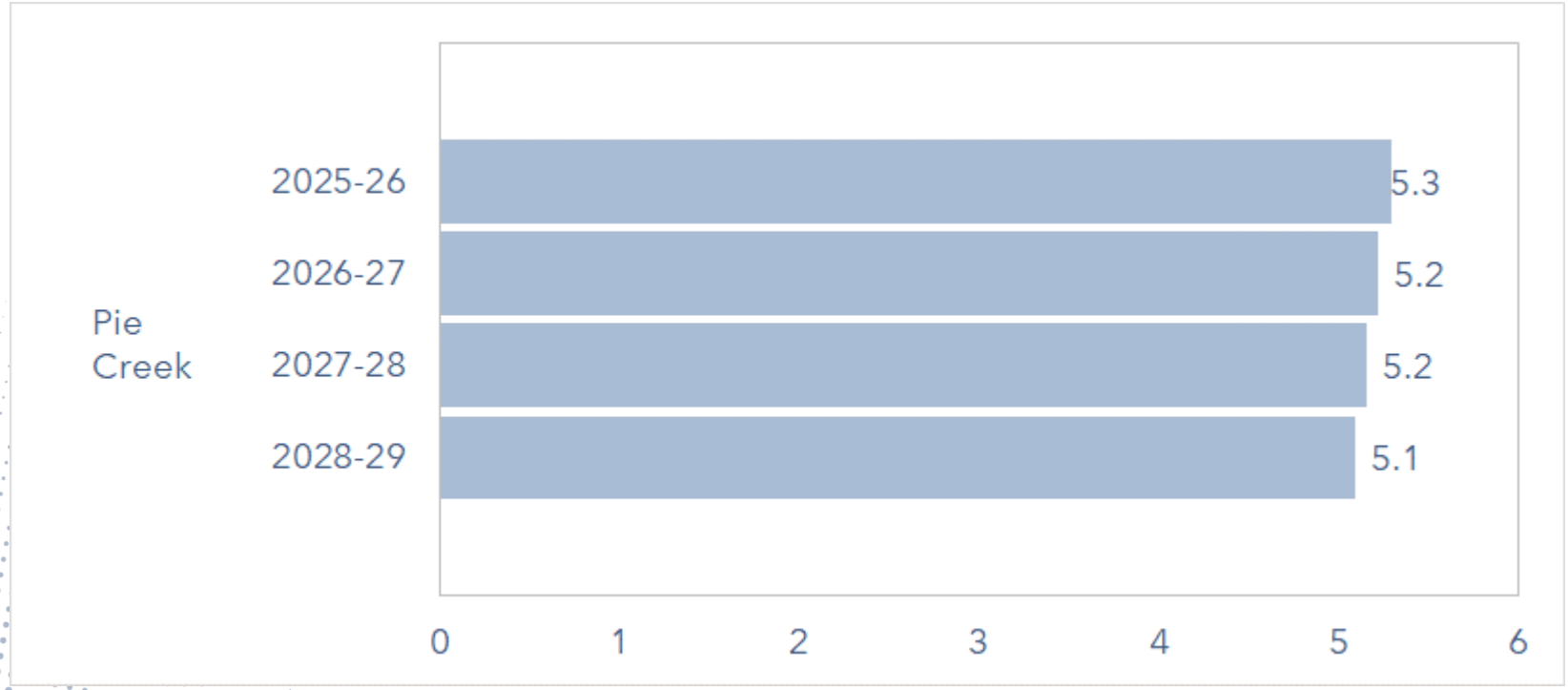
Note: The 2024-25 price is before the 15% discount that Seqwater was directed to apply.

- Recovery of allowable costs for this tariff group is 100%.

Draft price recommendations – Pie Creek

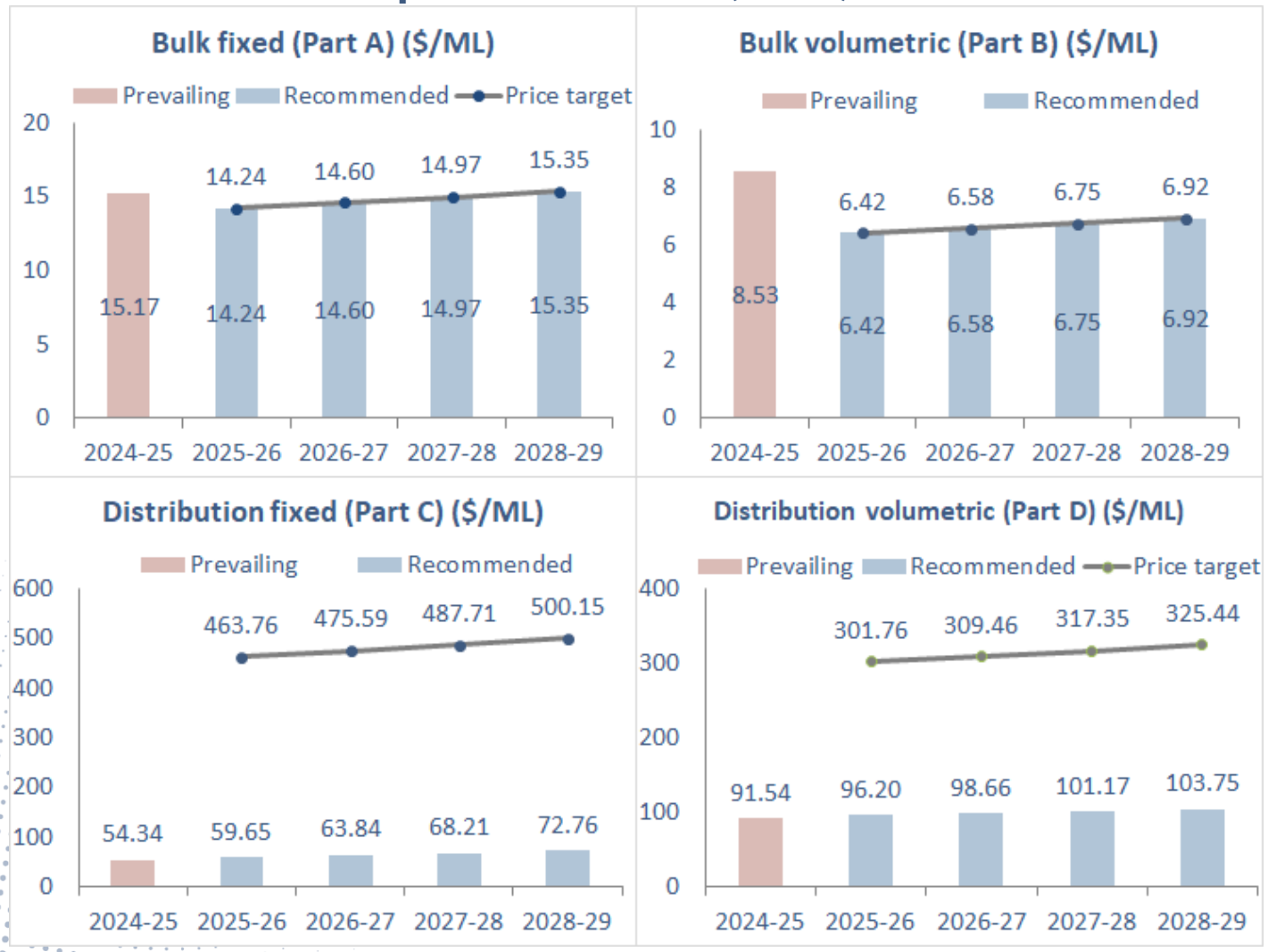
- Based on our draft price recommendations, we estimated the average change in prices for each year of the price path period from 2025–26 to 2028–29.
- Price changes for individual customers will vary if their water usage differs from the assumed scheme usage (25.3% of WAE).

Annual changes in draft irrigation prices, from 2025–26 to 2028–29 (% change)



Draft price recommendations – Pie Creek

Draft recommended prices – Pie Creek ($/ML)



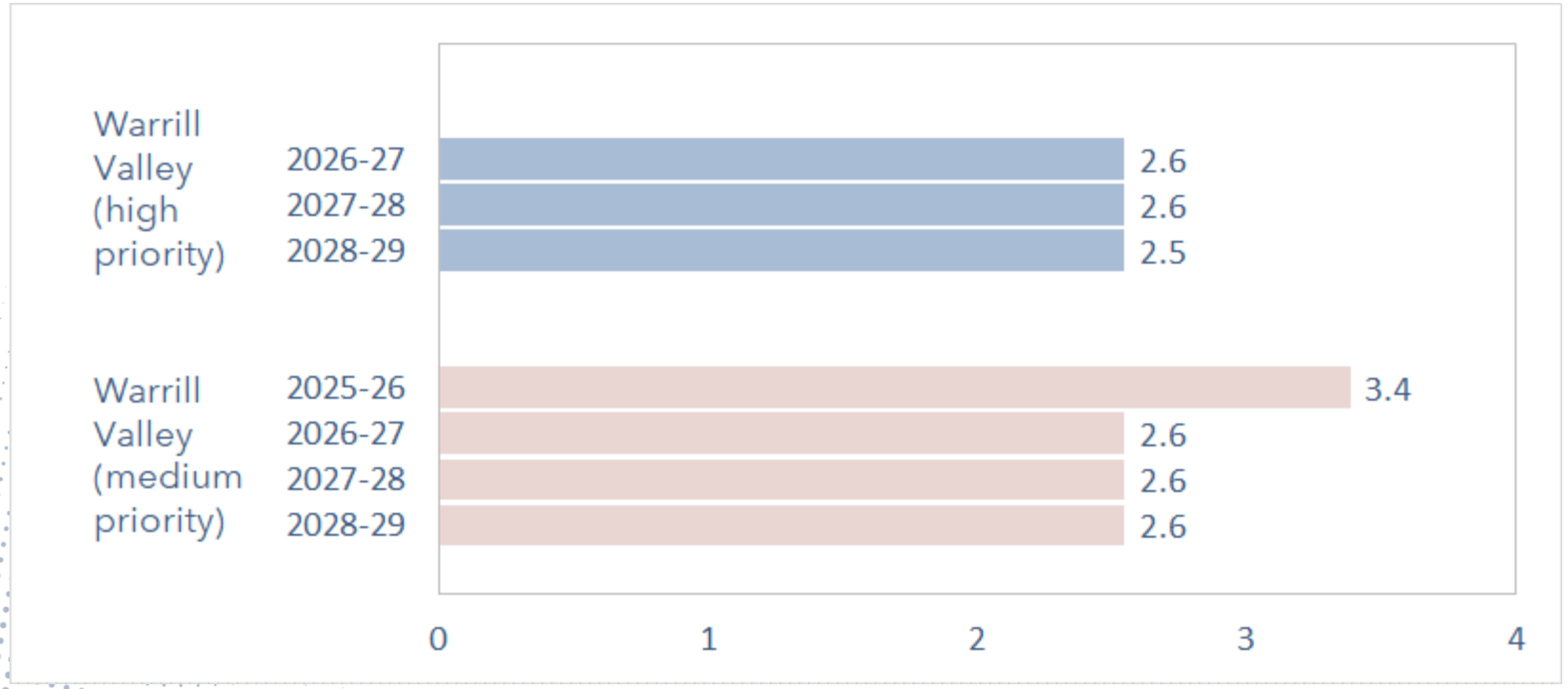
Note: The 2024-25 price is before the 15% discount that Seqwater was directed to apply.

Recovery of allowable costs for this tariff group will increase from 18% in 2025–26 to 19% by 2028–29.

Draft price recommendations – Warrill Valley

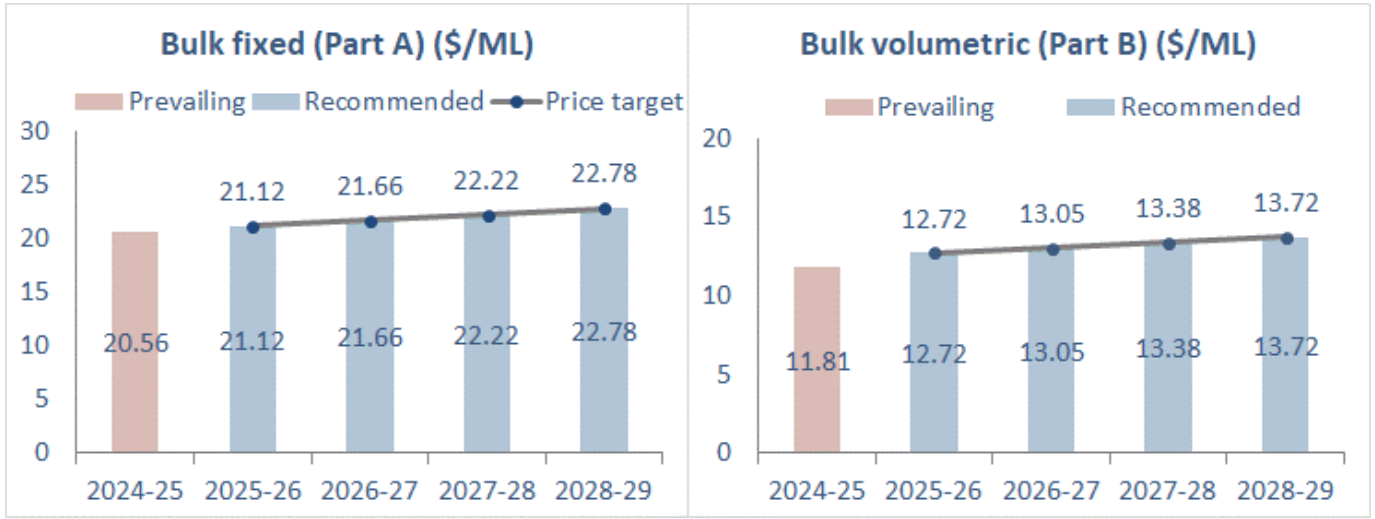
- Based on our draft price recommendations, we estimated the average change in prices for each year of the price path period from 2025–26 to 2028–29.
- Price changes for individual customers will vary if their water usage differs from the assumed scheme usage (25.9% of WAE).

Annual changes in draft irrigation prices, from 2025–26 to 2028–29 (% change)

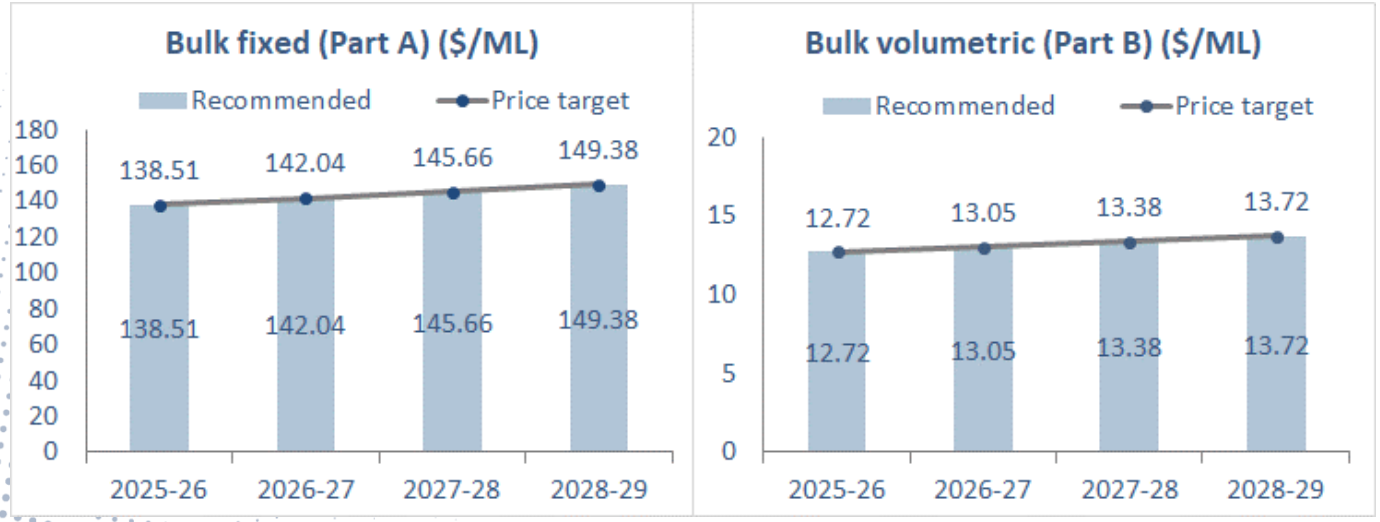


Draft price recommendations – Warrill Valley

Draft recommended prices – Warrill Valley, medium priority ($/ML)



Draft recommended prices – Warrill Valley, high priority ($/ML)



Note: The 2024-25 price is before the 15% discount that Seqwater was directed to apply.

Recovery of allowable costs is 100% for both tariff groups.

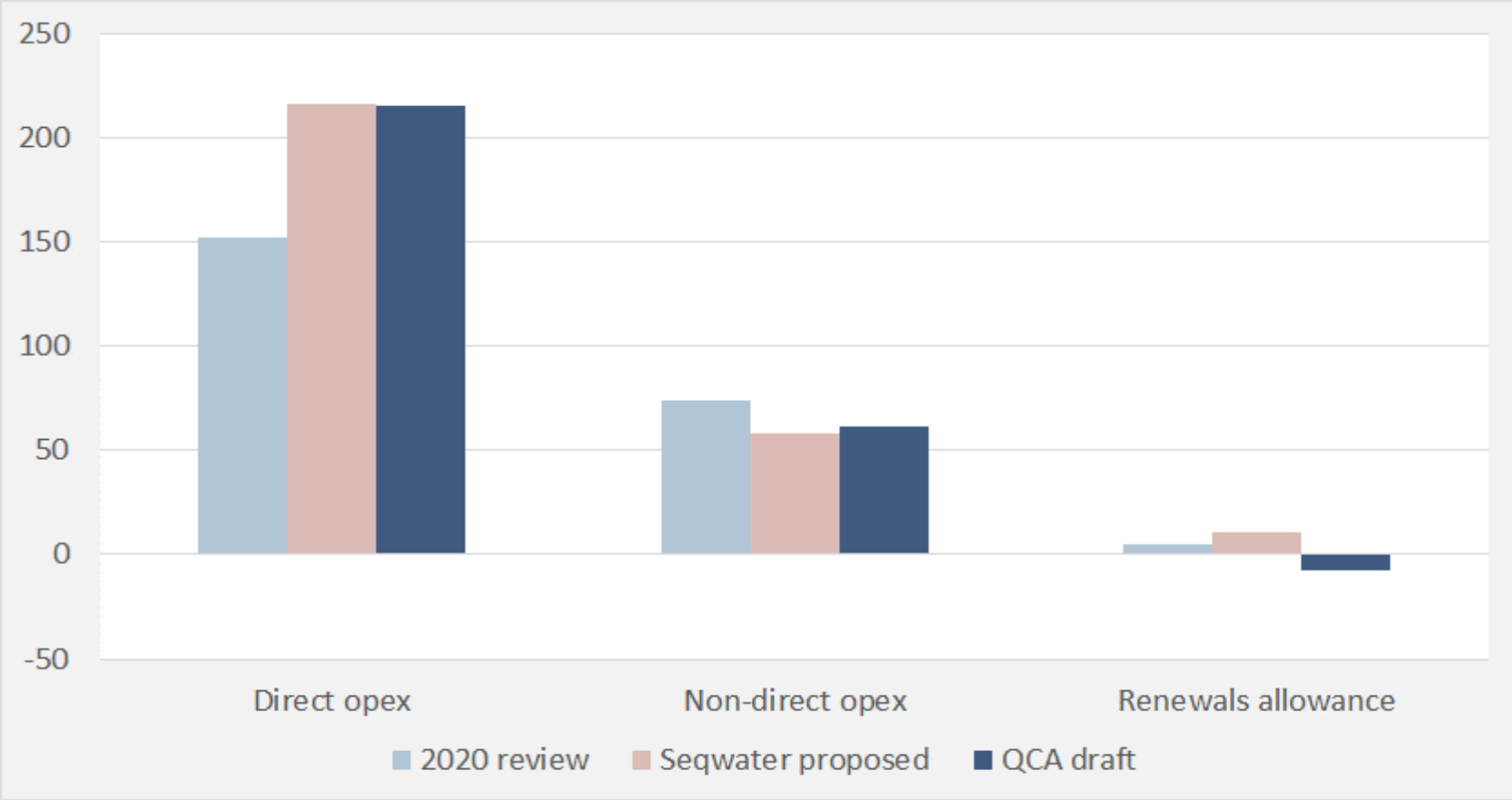
Draft costs – Cedar Pocket WSS

Total allowable costs, Cedar Pocket WSS ($'000, nominal)

Cost	2025-26	2026-27	2027-28	2028-29
Labour	87.7	90.7	93.0	95.3
Electricity	0.4	0.4	0.5	0.5
Repairs and maintenance	13.7	14.1	14.5	14.8
Other	99.0	58.5	57.2	61.5
Insurance	14.0	14.7	15.5	16.3
Non direct	61.0	62.6	64.2	65.8
Renewals annuity	(7.7)	(7.7)	(7.8)	(7.8)
Revenue offsets	(1.4)	(1.4)	(1.5)	(1.5)
Review Events	87.1	89.3	91.6	93.9
QCA fee	0.3	0.3	0.3	0.3
Total costs	**354.2**	**321.6**	**327.4**	**339.0**

Draft costs – Cedar Pocket WSS

Average allowable costs by cost category ($ '000, 2025-26)



Draft position on key cost drivers over the price path period:

- our draft opex allowance is 1.8% higher than Seqwater's proposal
- our draft renewals allowance is 174% lower than Seqwater's proposal

Note: Our costs from the 2020 review are our recommended opex adjusted for the difference between forecast and actual inflation. Excludes review events.

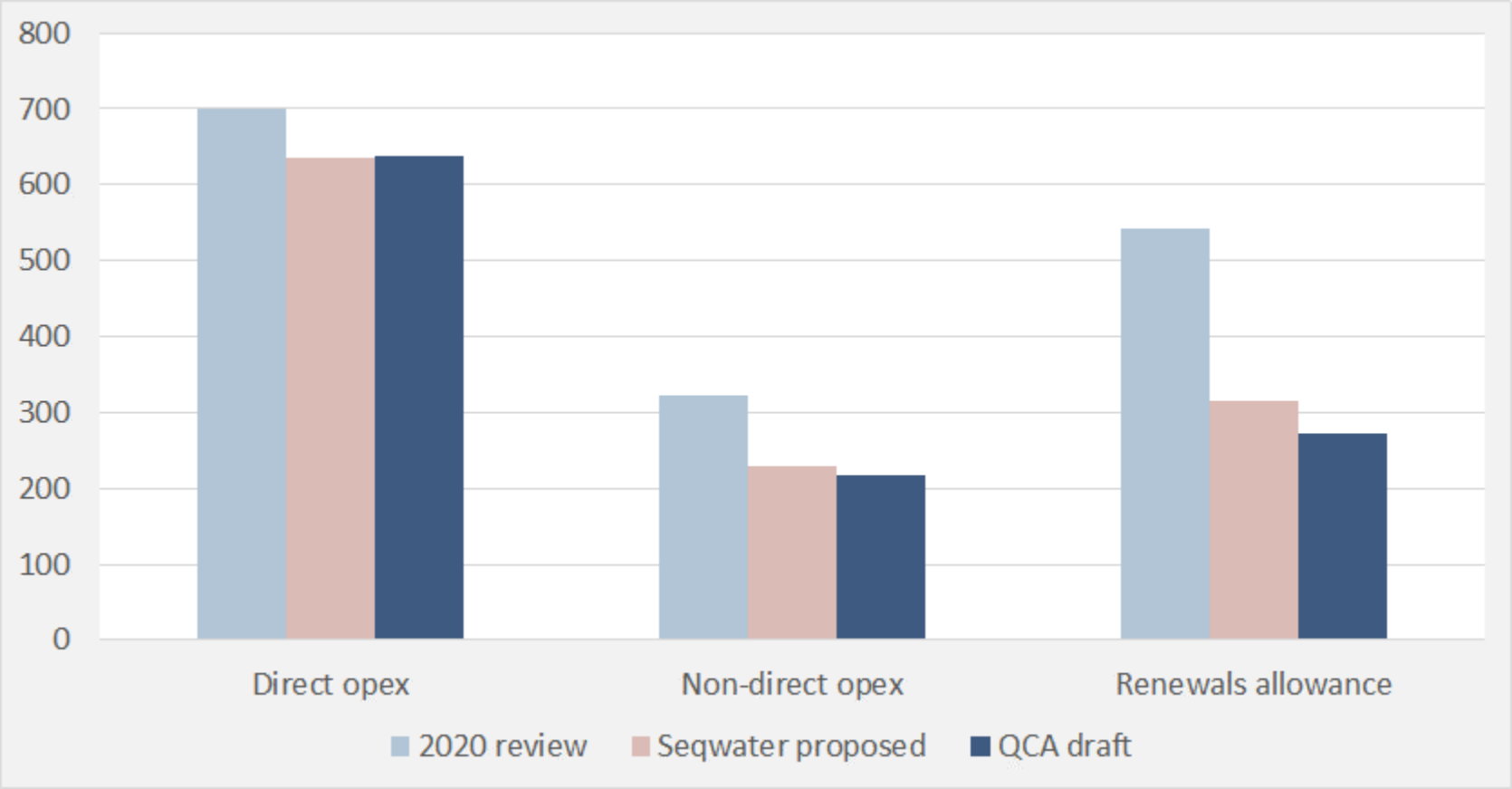
Draft costs – Mary Valley WSS

Total allowable costs, Mary Valley ($'000, nominal)

Cost	2025-26	2026-27	2027-28	2028-29
Labour	270.6	280.1	287.1	294.2
Electricity	16.4	16.7	17.1	17.5
Repairs and maintenance	81.9	84.4	86.5	88.7
Other	101.6	99.4	154.0	104.5
Insurance	167.4	175.7	184.5	193.7
Non direct	216.7	222.3	227.9	233.6
Renewals annuity	271.4	277.3	283.4	289.6
Revenue offsets	(14.9)	(15.3)	(15.7)	(16.1)
QCA fee	8.8	9.0	9.3	9.5
Total costs	**1,119.8**	**1,149.7**	**1,234.1**	**1,215.2**

Draft costs – Mary Valley WSS

Average allowable costs by cost category ($ '000, 2025-26)



Draft position on key cost drivers over the price path period:

- our draft opex allowance is 1.5% lower than Seqwater's proposal
- our draft renewals allowance is 13.5% lower than Seqwater's proposal

Note: Our costs from the 2020 review are our recommended opex adjusted for the difference between forecast and actual inflation.

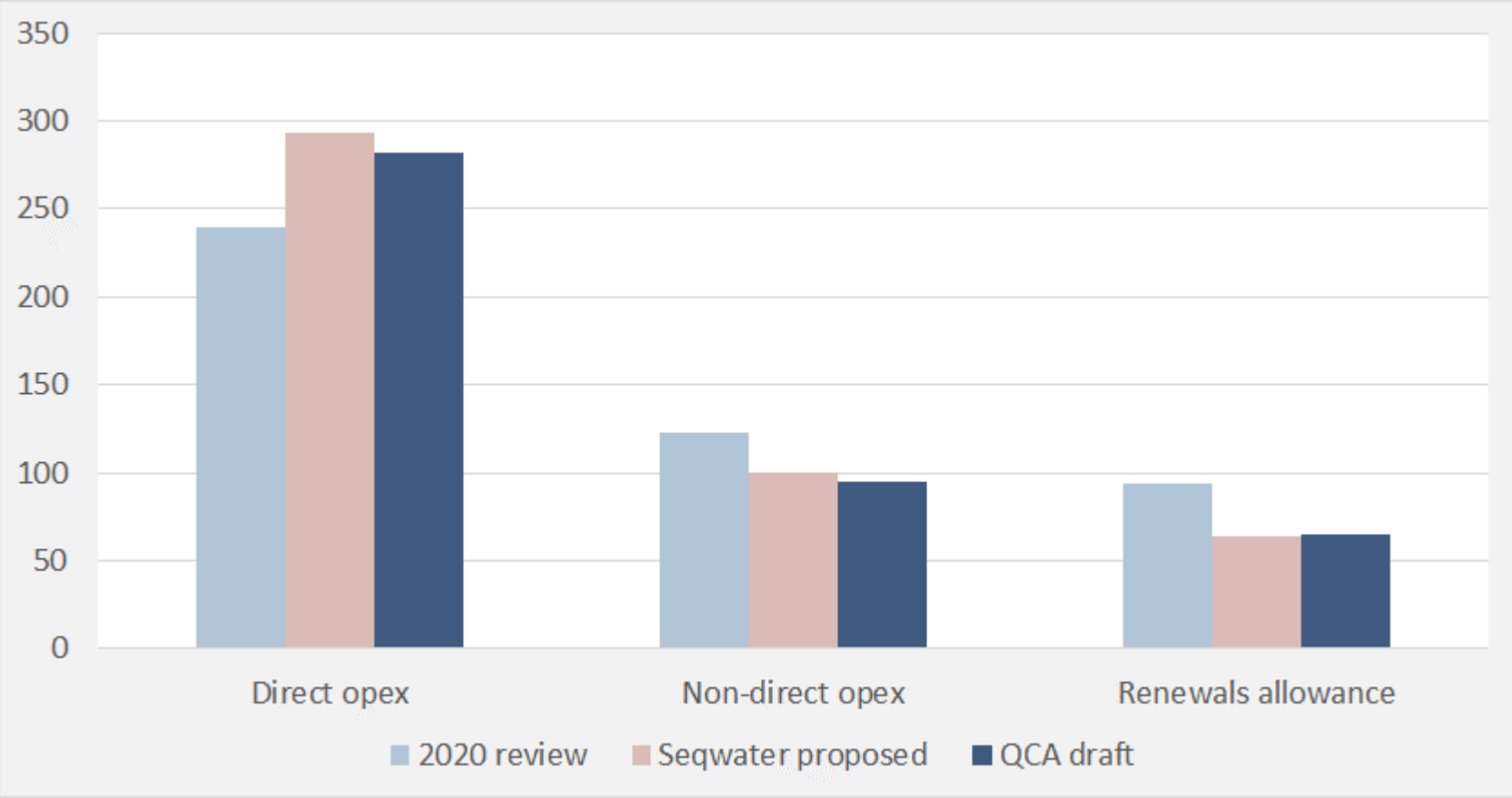
Draft costs – Pie Creek

Total allowable costs, Pie Creek ($'000, nominal)

Cost	2025-26	2026-27	2027-28	2028-29
Labour	81.2	84.1	86.2	88.3
Electricity	15.2	15.6	16.0	16.3
Repairs and maintenance	104.6	107.9	110.6	113.3
Other	64.5	66.2	67.9	69.6
Insurance	16.3	17.1	18.0	18.9
Non direct	94.6	97.0	99.5	102.0
Renewals annuity	64.6	65.1	65.6	66.0
Revenue offsets	(1.0)	(1.0)	(1.0)	(1.0)
QCA fee	0.4	0.4	0.4	0.5
Total costs	**440.6**	**452.4**	**463.0**	**473.8**

Draft costs – Pie Creek

Average allowable costs by cost category ($ '000, 2025-26)



Note: Our costs from the 2020 review are our recommended opex adjusted for the difference between forecast and actual inflation.

Draft position on key cost drivers over the price path period:

- our draft opex allowance is 4.1% lower than Seqwater's proposal
- our draft renewals allowance is 0.3% higher than Seqwater's proposal

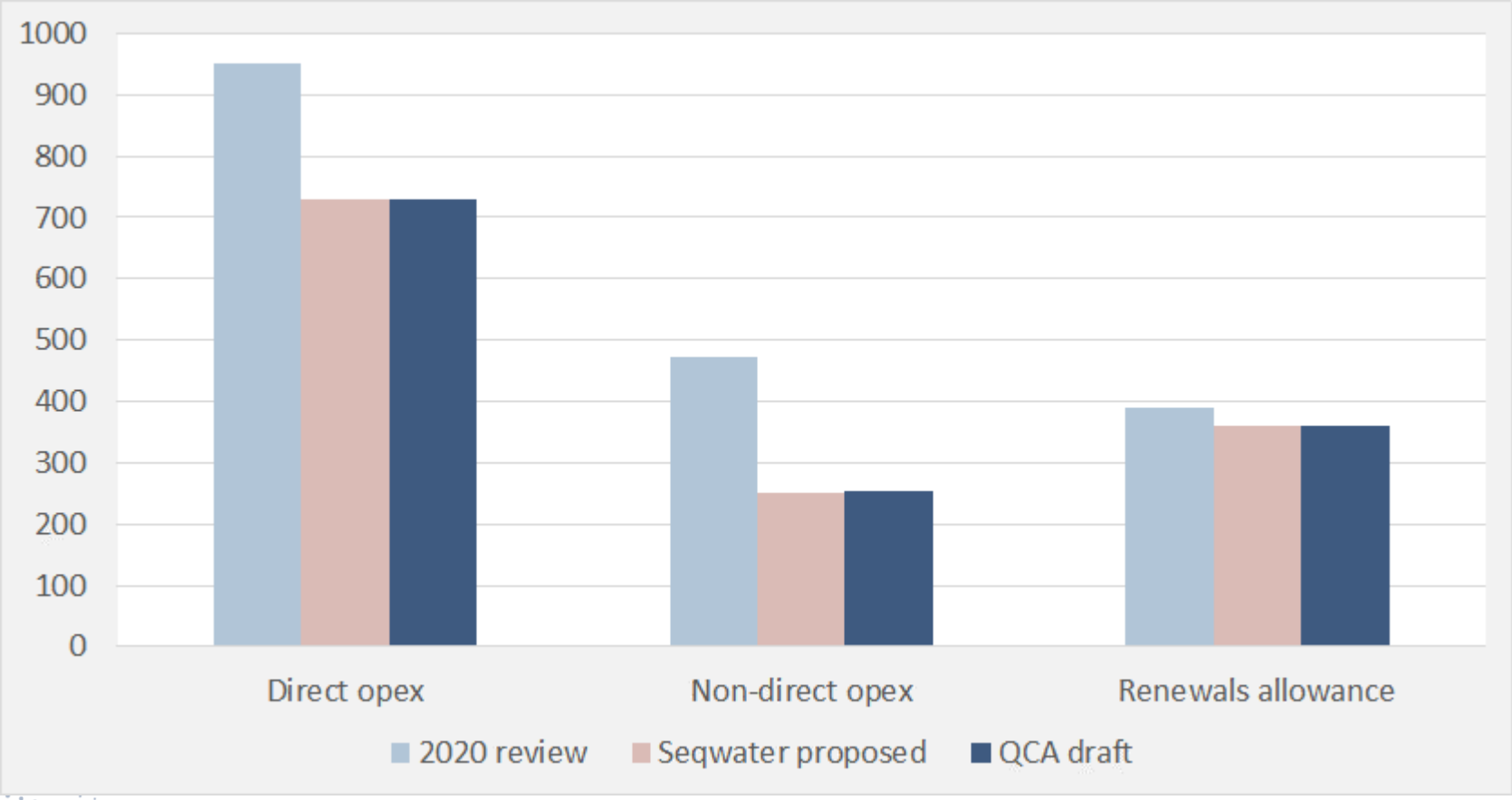
Draft costs – Warrill Valley WSS

Total allowable costs, Warrill Valley ($'000, nominal)

Cost	2025-26	2026-27	2027-28	2028-29
Labour	280.9	290.7	297.9	305.4
Electricity	5.7	5.8	5.9	6.1
Repairs and maintenance	157.8	162.7	166.8	171.0
Other	212.3	269.4	223.3	234.9
Insurance	73.6	77.3	81.2	85.2
Non direct	254.1	260.6	267.2	273.9
Renewals annuity	361.3	368.4	375.7	383.2
Revenue offsets	(41.7)	(42.8)	(43.9)	(45.0)
QCA fee	10.8	11.1	11.3	11.6
Total costs	**1,314.7**	**1,403.1**	**1,385.5**	**1,426.2**

Draft costs – Warrill Valley WSS

Average allowable costs by cost category ($ '000, 2025-26)



Draft position on key cost drivers over the price path period:

- our draft opex allowance is 0.6% higher than Seqwater's proposal
- our draft renewals allowance is 0.6% higher than Seqwater's proposal

Note: Our costs from the 2020 review are our recommended opex adjusted for the difference between forecast and actual inflation.

Forecast metering renewals expenditure – Mary Valley

- Seqwater proposed $1.4m (real 2023-24) in metering costs for FY23-FY26
- We accepted $0.6 m (real 2023-24) metering costs for the time period.
- We consider the number of meters to be installed is appropriate given the detailed business case for the project.
- However, we have applied Seqwater's historical average replacement cost per meter given the lack of information to support the step change increase in unit costs proposed by Seqwater.

Forecast metering renewals expenditure – Warrill Valley

- Seqwater proposed $0.2m (real 2023-24) in metering costs for FY26-FY28
- We accepted these costs.
- AtkinsRéalis recommended excluding the proposed metering renewals expenditure for the Warrill Valley scheme given the relatively low expenditure and the lack of supporting documentation.
- We have not applied this recommended adjustment due to its lack of materiality at the price target level.

Scheme specific issues: Warrill Valley

Retaining an over-recovery of revenue

- Seqwater proposed to retain over-recovery of revenue, to be applied against any future cost increases
  - Seqwater noted customer support for this proposal to ensure price stability

- However, referral requires that, once fixed and variable price components meet price targets for a tariff group, the price target is to apply for the rest of the price path period

- 2024-25 fixed price below our draft 2025-26 fixed price target, so no need for a reduction in the fixed price under the pricing principles

Scheme specific issues: Warrill Valley

High priority prices

- New high priority WAE price required due to Seqwater sale of 200 ML of high priority WAEs to existing customers
- We accepted Seqwater's proposed approach to establish new tariff
  - Total allowable costs – deducted fixed and variable irrigation share of total costs from fixed and variable overall total scheme costs
  - Part A (high priority) price target – divided Part A (high priority) total allowable costs by forecast high priority WAEs
  - Part B (high priority) price target – divided Part B (high priority) total allowable costs by forecast high priority water usage
- We recommended this high priority tariff group transition immediately to the price target
  - new product reflects a high level of service which customers willing to purchase
  - Seqwater proposed to set volumetric (Part B) price for this tariff group below its proposed volumetric price target for high priority WAEs given it is unable to differentiate whether water taken is high or medium priority
  - we have applied the pricing principles and have instead adjusted allocation of costs between fixed and volumetric tariff components to ensure high and medium priority price targets are aligned