FACT SHEET

Seqwater Irrigation Prices for 2013-17: Morton Vale Pipeline

In 2012, the previous State Government directed the Queensland Competition Authority (QCA) to recommend irrigation water prices for the Morton Vale Pipeline tariff group 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.

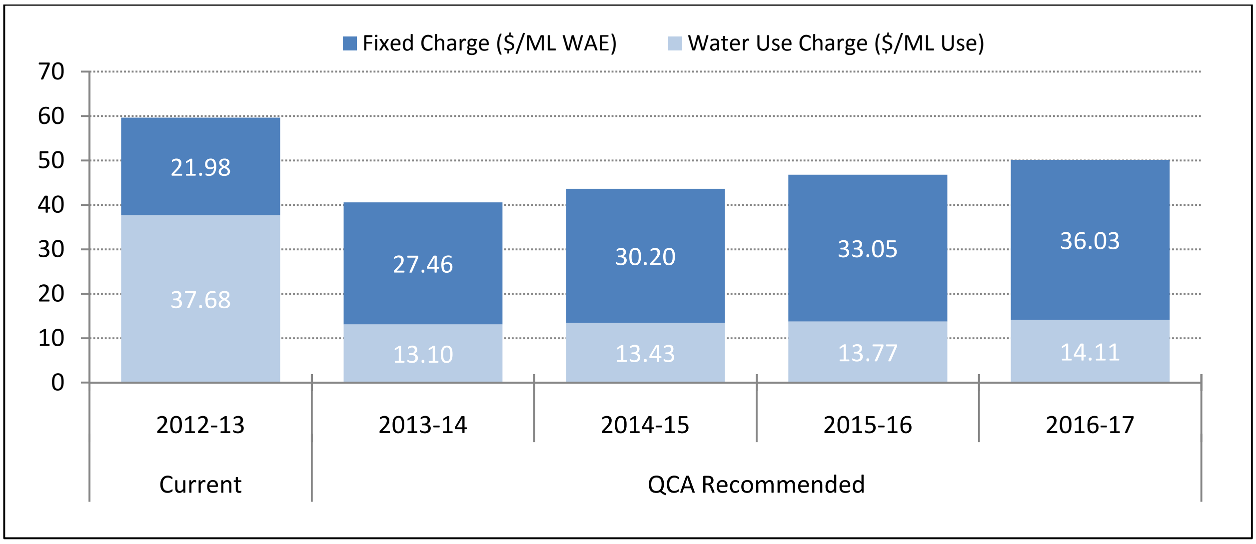
After extensive consultation with irrigators, the QCA has released its Final Report. For this tariff group, the QCA recommends gradual price increases over the four-year price path. However, in this tariff group, prices will not cover costs by the end of the pricing period.

Prices

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

Variable costs (e.g. a portion of labour costs) are recovered through volumetric charges. In the Morton Vale tariff group, the recommended 2013-14 cost-reflective volumetric charge is lower than in 2012-13. To maintain revenues, the balance not recouped by the volumetric charge is recovered by the fixed charge, which is higher than in 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, Bundled – Morton Vale Pipeline ($/ML)

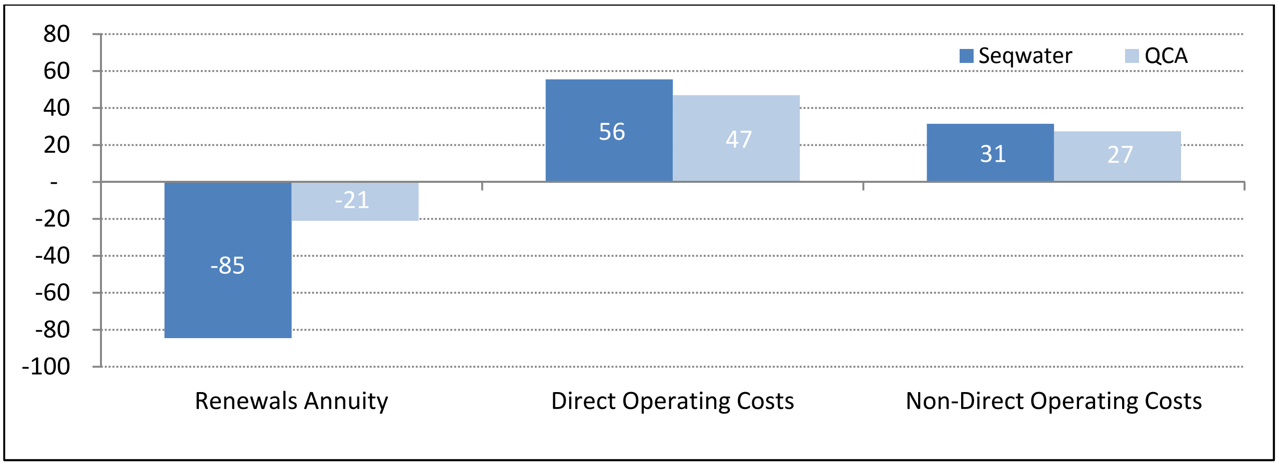


Note: Prices shown are bundled prices (that is, including the Central Lockyer Valley bulk charge). Adding the fixed and volumetric charges can be misleading in terms of price impact, as volumetric charges only apply where water is used. Consequently, an irrigator's unique water-use profile will determine the change to individual irrigation water bills from year-to-year. An indicative water-bill analysis appears in Table 1 below.

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 Morton Vale distribution system.

Figure 2: Total Distribution System Costs (2013-14 $'000)



Note: The figure excludes the portion of Central Lockyer WSS costs attributed to Morton Vale irrigators of $167,000 in 2013-14. Seqwater costs are based on November 2012 submitted renewals and operating (direct and non-direct) costs. Revenue offsets are excluded.

The QCA estimates a cost-reflective irrigation revenue requirement for the Morton Vale Pipeline distribution system (including bulk charges from Central Lockyer) of $198,000. Current revenue (including bulk charges) of $91,000 represents cost recovery of 46%. 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 scheme's distribution loss entitlements be reviewed by the Government before 30 June 2015. The QCA assumed half of these were not needed, thereby reducing the cost to irrigators.

Higher fixed charges should encourage water trading between irrigators, 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%	22%	49%
25%	-5%	14%
50%	-19%	-4%
75%	-28%	-16%
100%	-34%	-24%

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