



The Hon. Cameron Dick MP
Treasurer
Minister for Trade and Investment

1 William St Brisbane
GPO Box 611 Brisbane
Queensland 4001 Australia
Telephone 07 3719 7200
Email treasurer@ministerial.qld.gov.au
Website www.treasury.qld.gov.au

ABN 90 856 020 239

Our Ref: 05470-2022

10 MAR 2023

Professor Flavio Menezes
Chair
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Email: flavio.menezes@qca.org.au

Dear Professor Menezes

Please find enclosed a referral notice issued under section 23 of the *Queensland Competition Authority Act 1997*, referring the relevant monopoly business activities of Sunwater and Seqwater to the Queensland Competition Authority (the Authority) for an investigation about pricing practices in relation to irrigation prices to apply from 1 July 2025 to 30 June 2029.

I appreciate the Authority's continued involvement in ensuring irrigation prices have effective regulatory oversight.

I am advised officers from Queensland Treasury have consulted with the Authority in the preparation of this referral notice. Sunwater and Seqwater have also been advised of this investigation and have been encouraged to work closely with the Authority to ensure the reporting time frames for the review are met.

The Authority's previous irrigation price review recommended that Sunwater and Seqwater work with customers and the Government to develop a proposal on transitioning from an annuity-based approach to a regulated asset based (RAB) approach for calculating irrigators' share of asset renewal costs. This recommendation was referred to the Minister for Water, for further consideration of options, scope of work, timelines, and financial implications.

The Minister for Water has advised this work is complex and ongoing, and further work is required to ensure there are no adverse consequences for both customers and the businesses. I am advised that, while a RAB-based methodology has merit, proposals from the businesses relating to a RAB-based methodology, and any associated decisions from Government, are not expected to be available for consideration by the QCA as part of this review.

Should you have any queries regarding this matter, please contact Mr Cameron McLeod, Assistant Under Treasurer, Government-Owned Corporation Governance and Performance, Queensland Treasury, on (07) 3035 1490.

Yours sincerely



CAMERON DICK MP
Treasurer
Minister for Trade and Investment

Encl. (1)

Cc: The Honourable Glenn Butcher MP, Minister for Regional Development and Manufacturing and Minister for Water

QUEENSLAND COMPETITION AUTHORITY ACT 1997
Section 23 and Section 24
REFERRAL

Definitions and Interpretations

1. In this Referral these terms have the following meanings:

Term	Meaning
2024-25 Fixed Price(s)	Where applicable, the Part A and Part C prices and the access charges as published in Schedules 1, 3, and 5 of the <i>Sunwater Irrigation Water Pricing Direction Notice (No. 1) 2023</i> and Schedules 1 and 3 of the <i>Seqwater Irrigation Water Pricing Direction Notice (No. 1) 2023</i>
2024-25 Volumetric Price(s)	Where applicable, the Part B and Part D prices as published in Schedules 1, 3 and 5 of the <i>Sunwater Irrigation Water Pricing Direction Notice (No. 1) 2023</i> and Schedules 1 and 3 of the <i>Seqwater Irrigation Water Pricing Direction Notice (No. 1) 2023</i>
Additional Component	An amount based on \$2.54 per ML used for 2024–25 Prices, increasing by the Authority's measure of inflation each year. The additional component may differ from this amount to ensure: <ul style="list-style-type: none"> • the Fixed Prices in Schedule 2 paragraph B do not exceed the Fixed Price Target • the Volumetric Prices in Schedule 2 paragraph D do not exceed the Volumetric Price Target • the increase in the total price (Fixed Price and Volumetric Price) is no greater than this amount
Allowable Costs	The following costs are Allowable Costs: <p>(a) prudent and efficient operational, maintenance and administrative costs (for clarity, this may include an end-of-period adjustment relating to historical costs in accordance with the Authority's recommendation from its January 2020 Report). This includes allowances for working capital, tax (where applicable) and regulatory fees charged by the Authority to the Businesses to make the recommendations under this Referral up to \$3.5 million.</p> <p>(b) an appropriate allowance for prudent and efficient expenditure on renewing existing assets (for clarity, this allowance should also account for prudent and efficient renewals expenditure incurred in the previous periods) and, where applicable, improved service levels;</p> <p>(c) an appropriate allowance for prudent and efficient capital expenditure associated with augmentation of existing assets or new assets, where</p>

	<p>applicable. Expenditure on augmentation of existing assets and new assets relates to expenditure that provides for an increase in the volume of water allocations that can be supplied by the infrastructure.</p> <p>The value of the asset base for existing rural irrigation assets (as at 1 July 2000) should not be considered when determining Allowable Costs.</p> <p>Allowable Costs detailed in (a)-(c) above include costs required to meet regulatory obligations (except dam safety upgrade capital expenditure) and deliver agreed service levels, not including costs associated with the provision of recreation facilities that are incurred by the Businesses from 1 July 2020 onwards that would not otherwise be incurred to supply water.</p> <p>For clarity, Allowable Costs include costs associated with validation and, where necessary, replacement of dual purpose (supplemented and unsupplemented) meters as required under the Water Regulation.</p>
Appropriate Prices	The prices to be determined by applying the Pricing Principles. However, in instances where Allowable Costs include an allowance for expenditure on improved service levels, an allowance for capital expenditure associated with augmentation of existing assets or new assets, or where new tariff groups or tariff components are considered, the Authority may apply paragraphs B to E of the Pricing Principles to determine prices as it considers appropriate.
Authority	The Queensland Competition Authority
Businesses	Sunwater and Seqwater
Fixed Price(s)	Where applicable, the Part A and Part C prices and the access charges.
Fixed Price Target(s)	The Fixed Price component(s) of the Price Target
Irrigation Service	The supply of water or drainage services for irrigation of crops or pastures for commercial gain (as defined in Schedule 4 of the Water Act).
January 2020 Report	The Authority's Rural irrigation price review 2020–24 final report of January 2020.
March 2022 Report	The Authority's Seqwater Bulk Water Price Review 2022-26 final report of March 2022
Minister	The Minister for Water
ML	Mega litre
Price Target	<p>Prices for each tariff group that are:</p> <ul style="list-style-type: none"> • set to recover Allowable Costs allocated to each tariff group over the Price Path Period; and • smoothed so that they increase by the Authority's measure of inflation over the Price Path Period. <p>Where new tariff groups are to be considered, the Authority is to avoid shifting costs from one customer or group of customers to another, within a WSS, in the</p>

	absence of the Businesses having significant commercial interest in the change, and in the absence of agreement from customers.
Price Path Period	1 July 2025 to 30 June 2029.
Pricing Principles	The principles in schedule 2 of the Referral.
QCA Act	<i>Queensland Competition Authority Act 1997</i>
Referral	This referral notice issued by the Treasurer to the Authority, under sections 23 and 24 of the QCA Act, for the Authority to conduct an investigation about irrigation pricing practices relating to the Specified Monopoly Business Activities.
Seqwater	Queensland Bulk Water Supply Authority (trading as Seqwater)
Sunwater	Sunwater Limited
Specified Monopoly Business Activities	The bulk water storage and water distribution undertaken by Sunwater, and the bulk water supply undertaken by Seqwater, to the extent those activities are: <ul style="list-style-type: none"> • undertaken for an Irrigation Service; and • in the WSSs and distribution systems set out in Schedule 1, excluding water services provided by Burnett Water Pty Ltd in relation to Paradise Dam and Kirar Weir.
Total 2024-25 Fixed Price(s)	The sum of the 2024-25 Fixed Price(s)
Total 2024-25 Volumetric Price(s)	The sum of the 2024-25 Volumetric Price(s)
Total Fixed Price	The sum of the Fixed Price(s)
Total Fixed Price Target	The sum of the Fixed Price Target(s)
Total Volumetric Price	The sum of the Volumetric Price(s)
Total Volumetric Price Target	The sum of the Volumetric Price Target(s)
Treasurer	Treasurer of Queensland
Volumetric Price(s)	Where applicable, the Part B and Part D prices
Volumetric Price Target(s)	The Volumetric Price component(s) of the Price Target
Water Act	<i>Water Act 2000</i>
Water Regulation	Water Regulation 2016
WSS	Water supply scheme

A Section 23 – Referral to the Authority to undertake an investigation about irrigation pricing practices

(1.1) Under section 23 of the QCA Act, I refer the Specified Monopoly Business Activities to the Authority for an investigation about pricing practices relating to those activities.

B Section 24(1)(d) – Direction to make recommendations about stated matters

(1.1) Under section 24(1)(d) of the QCA Act, I direct the Authority to make recommendations about the following stated matters:

(a) Appropriate Prices and, for relevant WSSs, other prices including drainage prices, water harvesting prices and termination fees to be

charged by the Businesses for the Price Path Period in relation to the Specified Monopoly Business Activities.

- (b) appropriate price review triggers and other mechanisms in relation to Appropriate Prices, to manage the risks associated with material changes in Allowable Costs outside the control of the Businesses.

C Section 24(1)(b) – Direction to consider stated matters

(1.1) Under section 24(1)(b) of the QCA Act, I direct the Authority to consider the following stated matters when conducting the investigation:

- (a) the fixed and variable nature of the underlying costs in relation to tariff structures.
- (b) the need to:
 - i. balance the legitimate commercial interests of the Businesses with the interests of their customers, and
 - ii. where possible, provide revenue and pricing outcomes that are both simple and transparent for customers.
- (c) Where the Authority considers that it has been demonstrated that customers have agreed to the costs and/or prices proposed by the Businesses and the Authority considers that the proposed prices are consistent with the requirements of this Referral, the Authority must have regard to these agreements in recommending appropriate prices.
- (d) Where relevant, the findings of the Authority’s March 2022 Report should be taken into account.

D Consultation

(1.1) The Authority must undertake an open consultation process with relevant parties, as required by section 25 of the QCA Act, and consider submissions within the timetable for the delivery of the final report to the Treasurer detailed in paragraph E. Subject to the Authority’s obligations in relation to confidential information, all reports and submissions should be made publicly available, including on the Authority's website.

E Timing

- (1.1) The notice given and published by the Authority under section 25 of the QCA Act on receipt of this Referral, should require submissions on proposed prices and associated costs (and supporting information) for each tariff group to be made to the Authority by the Businesses by no later than 30 November 2023.
- (1.2) The Authority must report the results of its investigation to the Minister and me by providing:
 - (a) a draft report by no later than 30 June 2024; and
 - (b) a final report and recommendations by no later than 31 January 2025.

F Other matters

(1.3) For the avoidance of doubt, nothing in this Referral prevents the Businesses from negotiating full commercial prices to supply water other than for the Specified Monopoly Business Activities.

(1.1) The Authority may exercise all the powers under Part 6 of the QCA Act in undertaking the investigation under this Referral.

A handwritten signature in blue ink, appearing to read 'Cameron Dick', with a long horizontal flourish extending to the right.

HON. CAMERON DICK MP
Treasurer

Minister for Trade and Investment

Schedule 1

WSSs operated by Sunwater

Barker Barambah
Bowen Broken Rivers
Boyne River and Tarong
Bundaberg
Burdekin-Haughton
Callide Valley
Chinchilla Weir
Cunnamulla
Dawson Valley
Eton
Lower Mary
Lower Fitzroy
Macintyre Brook
Maranoa River
Mareeba-Dimbulah
Nogoa-Mackenzie
Pioneer River
Proserpine River
St George
Three Moon Creek
Upper Burnett
Upper Condamine

Distribution Systems operated by Sunwater

Bundaberg
Burdekin-Haughton
Lower Mary
Mareeba-Dimbulah

WSSs operated by Seqwater

Cedar Pocket
Central Lockyer Valley
Logan River
Lower Lockyer Valley
Mary Valley
Warrill Valley

Distribution Systems operated by Seqwater

Morton Vale Pipeline
Pie Creek

Schedule 2

Pricing Principles

- A. Prices for all tariff groups are to transition from the 2024-25 Fixed Price(s) and the 2024-25 Volumetric Price(s) towards the Price Target. Once the Fixed Price(s) meets the Fixed Price Target(s) for a tariff group, the Fixed Price Target(s) is to apply for that tariff group for the remainder of the Price Path Period. Once the Volumetric Price(s) meets the Volumetric Price Target(s) for a tariff group, the Volumetric Price Target(s) is to apply for that tariff group for the remainder of the Price Path Period.
- B. If the Total 2024–25 Fixed Price for a tariff group is below the Total Fixed Price Target for 2025–26 for that tariff group:
- i. the Total 2024–25 Fixed Price should increase each year by the Authority's measure of inflation plus an Additional Component
 - ii. if any of the 2024–25 Fixed Prices are above the Fixed Price Targets in 2025-26, the Fixed Price should immediately adjust to the Fixed Price Target
 - iii. where more than one of the 2024–25 Fixed Prices for a tariff group are below the Fixed Price Targets for 2025–26 for that tariff group, an Additional Component should be applied in the following order: (1) access charge (where applicable); (2) Part A; and (3) Part C (where applicable) until the Fixed Price Targets for that tariff group are reached.
- C. If the Total 2024–25 Fixed Price(s) for a tariff group is above the Total Fixed Price Target(s) for 2025–26 for that tariff group, the Fixed Price(s) should immediately adjust to the Fixed Price Target(s).
- D. If the Total 2024–25 Volumetric Price for a tariff group is below the Total Volumetric Price Target for 2025–26 for that tariff group:
- i. the Total 2024–25 Volumetric Price should increase each year by the Authority's measure of inflation until the Total Fixed Price for that tariff group reaches the Total Fixed Price Target, after which the Total Volumetric Price should increase each year by the Authority's measure of inflation plus an Additional Component
 - ii. if any of the 2024–25 Volumetric Prices are above the Volumetric Price Targets in 2025–26, the Volumetric Price should immediately adjust to the Volumetric Price Target
 - iii. where any of the 2024–25 Volumetric Prices for a tariff group are below the Volumetric Price Targets for 2025–26, an Additional Component should be applied in the following order: (1) Part B; and (2) Part D (where applicable) until the Volumetric Price Targets are reached.
- E. If the Total 2024–25 Volumetric Price(s) for a tariff group is above the Total Volumetric Price Target(s) for 2025–26 for that tariff group, the Volumetric Price(s) should immediately adjust to the Volumetric Price Target(s).

- F. For the Burdekin-Haughton WSS, the costs of Sunwater supplying 185,000 ML to Lower Burdekin Water are not to be recovered from the prices applying to the remaining water entitlements.
- G. For the Central Lockyer Valley WSS, the costs of Seqwater supplying the low priority groundwater product are not to be recovered in prices.