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Queensland Competition Authority Act 1997
Section 36

NOTIFICATION

1. The Decision

Pursuant to section 36 of the *Queensland Competition Authority Act 1997* (the Act) and having regard to previous water pricing determinations and the Queensland Competition Authority's (QCA) report titled *Final Report – Rural irrigation price review 2020-24* (the Report), I am required to:

- accept (with or without qualifications) or reject, the recommendations; or
- accept (with or without qualifications) some of the recommendations and reject the other recommendations; and
- notify the decision and the reasons for the decision by gazette notice (this notification).

2. Background

Bulk water supply activities undertaken by Sunwater and the Queensland Bulk Water Supply Authority (trading as Seqwater) (the Water Businesses) are declared monopoly business activities (Water Business Activities) pursuant to the Act.

On 29 October 2018, I, as the Minister administering the Act, referred Water Business Activities to the QCA for an investigation about pricing practices in relation to rural irrigation prices to apply from 1 July 2020 to 30 June 2024 under section 23(1) of the Act (the referral notice).

The QCA provided the Report to me on 31 January 2020 under section 30 of the Act. The Report made 20 recommendations in relation to rural irrigation prices.

3. Consultation with stakeholders

In undertaking its pricing investigation in respect of the Water Businesses' rural irrigation prices, I note that the QCA has:

- consulted extensively with the Water Businesses and other stakeholders throughout its investigation as described at section 1.6 of the Report;
- received and summarised submissions from stakeholders in the Report.

4. Findings on material questions of fact and evidence and material on which this decision is based

In making my decision under section 36 of the Act I have relied on evidence and materials in the Report and findings on material questions of fact made by the QCA in the Report and submissions made by stakeholders to the QCA.

5. Reasons for the decision

The Government's policy objective is that irrigation prices should balance the legitimate commercial interests of the Water Businesses with the interests of their customers, provide a signal for efficient water usage, and ensure where possible pricing outcomes are simple and transparent.

This policy objective is given effect in the referral notice to the QCA. The QCA has recommended prices consistent with the referral notice and the QCA's obligations under the QCA Act. These prices recover, or transition towards recovering, the irrigation share of the scheme's prudent and efficient operating, maintenance and administrative costs and an appropriate allowance for renewing existing assets commissioned prior to 1 July 2000.

On this basis, I accept the costing methodologies utilised by the QCA as being consistent with the government's policy objective.

I acknowledge the competing interests of stakeholders and have weighed these matters against the need for a sustainable and financially viable water industry and the public interest to be derived from such an industry.

I note that under section 36(3) of the Queensland Competition Authority Act 1997, (QCA Act) I must have regard to "water pricing determinations" before making the decision to accept or reject the QCA's recommendations. The QCA has not previously made any water pricing determinations.

In making my decisions, I have also taken into account impacts arising from current economic conditions and the coronavirus (COVID-19) pandemic.

Taking into account the findings above, and consistent with the Government's policy and my obligations under section 36 of the Act, I make the decisions described below regarding the QCA's recommendations in the Report.

6. Decision on recommendations

6.1 Recommendation 1

The QCA recommend that short-term revenue risk be addressed through the use of a two-part tariff structure that closely aligns with the Water Businesses' cost structure.

I accept recommendation 1 based on the QCA's assessment set out in section 3.2.4 of Part A of the Report.

6.2 Recommendation 2

The QCA recommend that:

- the following events be eligible for the review of associated costs to determine prudence and efficiency:
 - a material change in electricity prices
 - a material change in insurance premiums
 - a material change in off-stream pumping costs
 - a material change in costs arising from a policy change or regulatory impost
- the use of a within-period price review mechanism where:
 - there is a material reduction in costs associated with a review event
 - there is a material increase in costs associated with a review event that the water businesses can demonstrate they are unable to manage during the price path
 - period.

I accept recommendation 2 based on the QCA's assessment set out in section 3.3.4 of Part A of the Report.

6.3 Recommendation 3

The QCA recommend that only prudent and efficient dam safety upgrade capex that is required to meet dam safety obligations should be included in the dam safety upgrade cost category.

I accept recommendation 3 based on the QCA's assessment as set out in section 4.8.4 of Part A of the Report, specifically that only prudent and efficient dam safety upgrade capex that is required to meet dam safety obligations should be included in the dam safety upgrade cost category.

While I accept this recommendation, I do not support an allocation of dam safety upgrade capex being recovered in irrigation prices on the basis of submissions made by stakeholders that paying for any share of dam safety upgrade costs is not affordable.

6.4 Recommendation 4

The QCA recommend that dam safety upgrade capex:

- be treated as a normal cost of operation in supplying water services to users; and
- be allocated to water users unless there is a clear and justifiable basis for allocating some of the costs to other parties.

I accept recommendation 4 based on the QCA's assessment as set out in section 4.9.1 of Part A of the report. Further, allocating a share of dam safety upgrade capex to water users makes this cost transparent, consistent with the National Water Initiative.

While I accept this recommendation, I do not support an allocation of dam safety upgrade capex being recovered in irrigation prices on the basis of submissions made by stakeholders that paying for any share of dam safety upgrade costs is not affordable.

6.5 Recommendation 5

The QCA recommend that where a dam provides a formal flood mitigation service:

- that service should be recognised in the allocation of costs, including dam safety upgrade costs the costs associated with that service should not be apportioned to irrigators; and
- should instead be allocated to the beneficiaries of that service (where possible) or the broader community.

I accept recommendation 5 based on the QCA's assessment set out in section 4.9.2 of Part A of the Report.

While I accept this recommendation, I do not support an allocation of dam safety upgrade capex being recovered in irrigation prices on the basis of submissions made by stakeholders that paying for any share of dam safety upgrade costs is not affordable.

6.6 Recommendation 6

The QCA recommend that while the primary purpose of dam safety upgrades is to reduce the risks of dam failure to tolerable levels (as determined by the relevant dam safety regulators), the incidental flood moderation benefits for communities downstream of non-flood mitigation dams should be acknowledged in the allocation of dam safety upgrade capex for irrigation pricing purposes.

I accept recommendation 6 based on the QCA's assessment set out in section 4.9.3 of Part A of the Report.

While I accept this recommendation, I do not support an allocation of dam safety upgrade capex being recovered in irrigation prices on the basis of submissions made by stakeholders that paying for any share of dam safety upgrade costs is not affordable.

6.7 Recommendation 7

The QCA recommend that, for dams that do not provide a formal flood mitigation service and are within the scope of this pricing review, dam safety upgrade capex should be:

- allocated using a general allocation ratio, with dam-specific allocation ratios only used where there is sufficient evidence of a material difference between the general allocation and the appropriate allocation for a particular dam
- the general allocation ratio for dam safety upgrade capex should allocate 80 per cent of the irrigation share of these costs to irrigation water users. The remaining 20 per cent should not be included in the allowable cost base for irrigation pricing purposes.

I accept recommendation 7 based on the QCA's assessment set out in section 4.9.4 of Part A of the Report.

I acknowledge the QCA's reasons for using a general allocation ratio and the basis for the specific allocation ratio recommended by the QCA. Further, allocating a share of dam safety upgrade capex to water users makes this cost transparent, consistent with the National Water Initiative.

While I accept this recommendation, I do not support an allocation of dam safety upgrade capex being recovered in irrigation prices on the basis of submissions made by stakeholders that paying for any share of dam safety upgrade costs is not affordable.

6.8 Recommendation 8

The QCA recommend that Sunwater should work with its customers and with the Government to develop a proposal on transitioning to a RAB-based approach for consideration by the QCA prior to 30 June 2021.

I acknowledge the QCA's assessment set out in section 4.2.1 of Part B of the Report.

As identified by the QCA in this assessment, there are potential issues in moving from an annuity approach to a RAB based approach, including:

- determining Sunwater's opening RAB;
- ensuring that transitioning to a RAB-based approach does not negatively impact the financial sustainability of Sunwater;
- ensuring that customers are engaged, and potential impacts associated with transition are considered

It is my position that these issues need to be appropriately considered prior to any transition.

On this basis, I reject recommendation 8 as further detailed consideration on this matter is required. I have referred this recommendation to the Minister for Natural Resources, Mines and Energy for further consideration of options, scope of work, timelines and financial implications.

6.9 Recommendation 9

The QCA recommend that:

- prudent and efficient bulk costs associated with necessary distribution loss WAEs should be recovered from distribution system customers;
- the bulk holding (fixed) costs of distribution loss WAEs not required to service distribution system customers should be borne by Sunwater; and
- Sunwater should review its distribution loss WAEs and develop a strategy for their future treatment before the next price review.

I accept recommendation 9 based on the QCA's assessment set out in section 6.2.4 of Part B of the Report.

6.10 Recommendation 10

The QCA recommend that prices for irrigation customers for each water supply scheme and distribution system should be set according to the prices set out in Appendix A. This includes pricing options for certain tariff groups.

The prices recommended by the QCA reflect the outcomes of an independent and thorough price investigation which considered customer impacts as part of the process. In making my decision, however, I have taken into account:

- (a) the impacts arising from drought, current broader economic conditions and the coronavirus (COVID-19) outbreak on irrigators' businesses and the ability of these businesses to withstand an increase to rural irrigation prices at this time; and
- (b) stakeholder submissions that paying for any share of dam safety upgrade costs is not affordable.

In light of these concerns, I consider that:

- for 2020-21:
 - prices should remain at 2019-20 levels or be set at 2020-21 QCA-recommended prices, whichever is lower; and
 - the pricing option that includes the alternative tariff groups recommended by the QCA should be adopted, with pricing for the alternative tariff groups of St George, Three Moon Creek and Dawson Valley set at the lower of the 2019 20 prices for the original tariff groups, and
- for 2021-22 onwards irrigation prices will be determined by a future government decision prior to 1 July 2021, however I consider that these prices should continue to exclude the recovery of dam safety upgrade costs.

On this basis, I reject Recommendation 10.

Recommendation 11

The QCA recommend that:

- termination fees should be calculated as up to 11 times (including GST) the relevant cost-reflective fixed price
- Sunwater should have the discretion to apply a lower multiple to the relevant cost reflective fixed tariff or waive the termination fee
- Sunwater should never recover any revenue shortfall from remaining customers upon exit from the scheme by another customer

I accept recommendation 11 based on the QCA's assessment set out in section 8.1.4 of Part B of the Report.

6.11 Recommendation 12

The QCA recommend that:

- current drainage charges for the Burdekin-Haughton distribution scheme should be increased each year by its measure of inflation
- drainage costs associated with the Mareeba-Dimbulah distribution system should continue to be recovered from the fixed (Part C) price.

I accept recommendation 12 based on the QCA's assessment set out in section 8.2.4 of Part B of the Report.

6.12 Recommendation 13

The QCA recommend that current drainage diversion charges should be increased each year by its measure of inflation.

I accept recommendation 13 based on the QCA's assessment set out in section 8.3.3 of Part B of the Report.

6.13 Recommendation 14

The QCA recommend that distribution system water harvesting charges should comprise any applicable DNRME water harvesting charges, its recommended volumetric (Part D) price, and a Sunwater lease fee if relevant.

I accept recommendation 14 based on the QCA's assessment set out in section 8.4.3 of Part B of the Report.

6.14 Recommendation 15

The QCA recommend that Sunwater improve its engagement with customers by:

- engaging with them on an ongoing basis, to keep a strong focus on what is important to customers over the course of the price path period and to provide a better understanding of customer requirements prior to the next price review
- drawing a clearer link for customers between proposed expenditure and both prices and service level outcomes for customers
- engaging with its customers prior to the next price review to develop a pricing proposal that incorporates its proposed prices for all of its tariff groups with irrigation customers.

I accept recommendation 15 based on the QCA's assessment set out in section 10.4 of Part B of the Report.

6.15 Recommendation 16

The QCA recommend that Seqwater should work with its customers and with the Government to develop a proposal on transitioning to a RAB-based approach for consideration by the QCA prior to 30 June 2021.

I acknowledge the QCA's assessment set out in section 4.2.1 of Part B of the Report.

As identified by the QCA in this assessment, there are potential issues in moving from an annuity approach to a RAB based approach, including:

- determining Seqwater's opening RAB;
- ensuring that transitioning to a RAB-based approach does not negatively impact the financial sustainability of Sunwater;
- ensuring that customers are engaged, and potential impacts associated with transition are considered

It is my position that these issues need to be appropriately considered prior to any transition.

On this basis, I reject recommendation 16 as further detailed consideration on this matter is required. I have referred this recommendation to the Minister for Natural Resources, Mines and Energy for further consideration of options scope of work, timelines and financial implications.

6.16 Recommendation 17

The QCA recommend that:

- prudent and efficient bulk costs associated with necessary distribution loss WAEs should be recovered from distribution system customers
- the bulk holding (fixed) costs of distribution loss WAEs not required to service distribution system customers should be borne by Seqwater

- Seqwater should review its distribution loss WAEs and develop a strategy for their future treatment prior to the next price review.

I accept recommendation 17 based on the QCA's assessment set out in section 6.2.4 of Part C of the Report.

6.17 Recommendation 18

The QCA recommend that:

- prices for irrigation customers for each water supply scheme and distribution system should be set according to the prices set out in Tables 41 and 42 of the Report; and
- prices for the Central Lockyer Valley WSS should be updated to take into account the Water Plan (Moreton) (Supply Scheme Arrangements) Amendment Plan 2019 as soon as practicable after the associated planning documents are finalised.

The prices recommended by the QCA reflect the outcomes of an independent and thorough price investigation which considered customer impacts as part of the process. In making my decision, however, I have taken into account:

- (a) the impacts arising from drought, current broader economic conditions and the coronavirus (COVID-19) outbreak on irrigators' businesses and the ability of these businesses to withstand an increase to rural irrigation prices at this time; and
- (b) stakeholder submissions that paying for any share of dam safety upgrade costs is not affordable.

In light of these concerns, I consider that:

- for 2020-21 prices should remain at 2019-20 levels or be set at 2020-21 QCA-recommended prices, whichever is lower;
- for 2021-22 onwards, irrigation prices will be determined by a future government decision prior to 1 July 2021, however I consider that these prices should continue to exclude the recovery of dam safety upgrade costs.

On this basis, I reject Recommendation 18.

For the Central Lockyer Water Supply Scheme, I note that the responsible Ministers for Seqwater will consider implementation of this recommendation.

6.18 Recommendation 19

The QCA recommend that:

- termination fees applicable to customers in the Morton Vale Pipeline distribution system should be calculated as up to 11 times (including GST) the cost-reflective fixed (Part C) price;
- termination fees applicable to Pie Creek distribution system should be calculated as up to 11 times (including GST) the recommended fixed (Part C) price;
- Seqwater should have the discretion to apply a lower multiple to the relevant fixed price or waive the termination fee; and
- Seqwater should never recover any revenue shortfall from remaining customers upon exit of the scheme by another customer.

I accept recommendation 19 based on the QCA's assessment set out in section 8.1.4 of Part C of the Report.

6.19 Recommendation 20

The QCA recommend that Seqwater should improve its engagement with customers by:

- engaging with them on an ongoing basis, to keep a strong focus on what is important to customers over the course of the price path period and to provide a better understanding of customer requirements prior to the next price review; and
- drawing a clearer link between proposed expenditure and both prices and service level outcomes for customers.

I accept recommendation 20 based on the QCA's assessment set out in section 10.4 of Part C of the Report.

HON. JACKIE TRAD MP

DEPUTY PREMIER

Treasurer

Minister for Aboriginal and Torres Strait Islander Partnerships

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