

sunwater



Irrigation Price Path

1 July 2025 to 30 June 2029

Upper Burnett Water Supply Scheme

10 May 2023

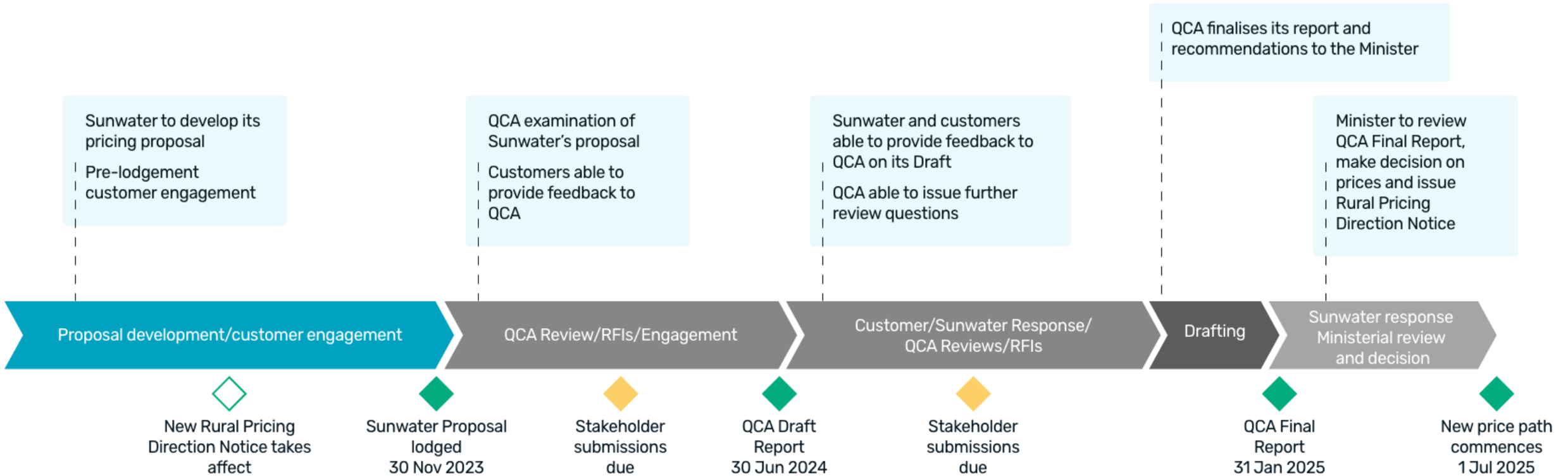
Agenda

Agenda items

Welcome Acknowledgement of Country	Darren Large	10 mins
Overview of the price path process	Matt Pearce	10 mins
What to expect from Sunwater	Keelie O'Sullivan	10 mins
Scheme level overview: current prices	Matt Pearce	30 mins
Questions	All	30 mins

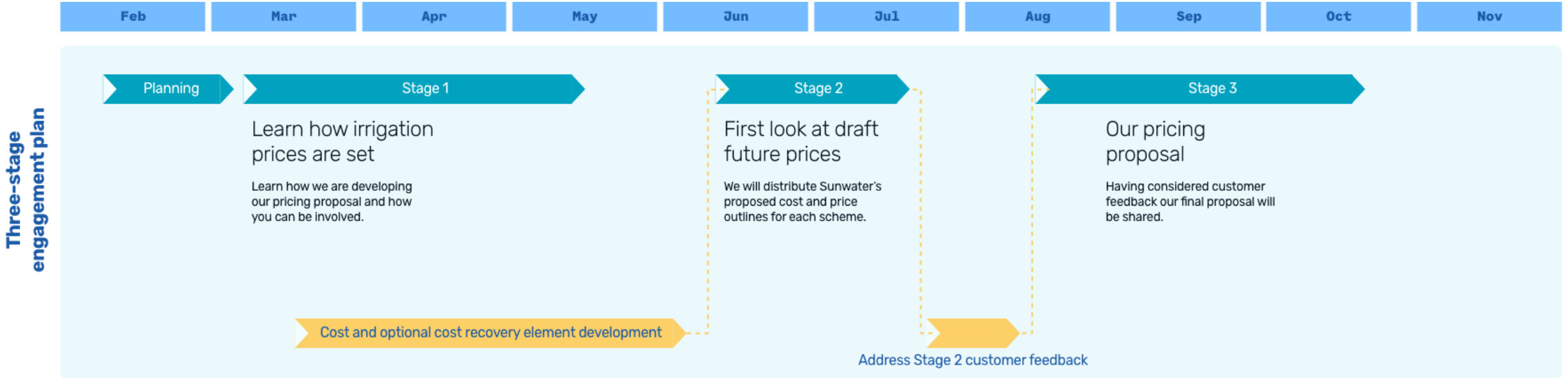
Overview of the price path process

Overview of the price path process



What to expect from Sunwater

What to expect from Sunwater



Scheme Level Overview

Overview of the price setting process

Step 1

Allocate revenue by charge type (Variable or fixed)

Includes operating expenditure, annuity contribution and revenue offset revenue building blocks.

Fixed (Part A/C)

- ✓ **All schemes**
- ✓ 80 percent of operations and maintenance direct costs
- ✓ all other costs (including electricity)
Large electricity using schemes
- ✓ Varies according to scheme

Variable (Part B / D)

- ✓ **All schemes**
- ✓ 20 percent of operations and maintenance direct costs
Large electricity using schemes
- ✓ Varies according to scheme

Step 2

Allocate fixed revenue to priority group allocation buckets

Allocation factors are relatively static, only changing when scheme operating parameters change, such as when entitlements are converted from one priority to another.

Fixed (Part A/C)

- ✓ **Bucket 1**
Allocation by entitlement percentage
- ✓ 50 percent of operations (direct and indirect) and revenue offsets
- ✓ **Bucket 2**
Allocation by headworks utilization factor
- ✓ All other categories

Step 3

Allocate fixed revenue to priority group

Apply the fixed revenue allocators to set the revenue requirement by Part A / Part C priority. For distribution schemes, revenue associated with customer loss entitlements are added here.

Fixed (Part A/C)

- ✓ **Bucket 1**
Allocation by entitlement percentage
- ✓ Costs x percentage = priority group revenue
- ✓ **Bucket 2**
Allocation by headworks utilization factor
- ✓ Costs x percentage = priority group revenue

Step 4

Calculate cost reflective prices

Cost reflective prices are set first using a assigned revenue and volumes to produce \$/ML prices.

Part A/C High Priority (\$/ML)
= High priority costs (\$) / gross entitlements (ML WAE)

Part A/C Medium Priority (\$/ML)
= Medium priority costs (\$) / gross entitlements (ML WAE)

Part B / D (\$/ML)
= Variable costs (\$) / [Entitlements (net of losses) ML WAE x usage % (ML / ML WAE)]

Step 5

Calculating recommended prices

Cost reflective prices are then smoothed across the four-year price path period to set target prices. Recommended prices are set with reference to current prices, target prices and the price path principles.

Upper Burnett Supply Scheme

Scheme Overview



28,550 ML in entitlements,
with an average annual usage
of 16,196 ML



141 irrigation customers

Major assets



Wuruma Dam



Claude Wharton Weir /
Jones Weir / John Goleby Weir &
Kirar Weir

Key operations and maintenance activities



Infrastructure refurbishment e.g. hydraulic systems



Corrective maintenance mainly due to ageing assets



Comprehensive inspection of dams and weirs



Gauging station equipment replacements

Pricing tariffs



Two tariff groups - Regulated section of the Nogo/Burnett River and John Goleby Weir - each with fixed (Part A) and variable (Part B) charges.



No risk or other forms of entitlements or usage

Upper Burnett Water Supply Scheme

Entitlements overview

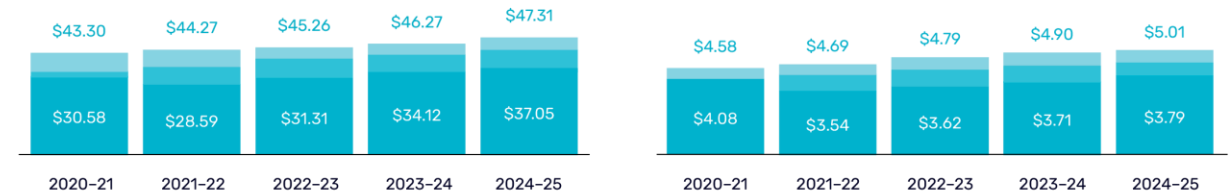
Entitlements		Customer losses	Irrigation
High	1,530 ML	0 ML	0 ML
Medium	27,020 ML	0 ML	26,591 ML
Total	28,550 ML	0 ML	26,591 ML

Pricing breakdown Medium priority (MP)

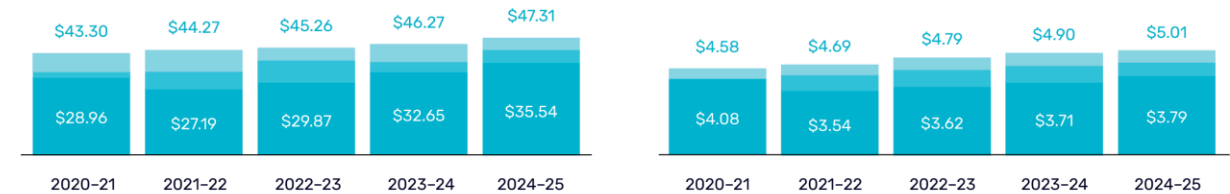
Part A

Part B

Upper Burnett - Regulated Section of the Nogo/Burnett River



Upper Burnett - John Goleby Weir



Legend

- Price charged
- Price discount
- Transition discount
- \$XX.XX Cost reflective price

*This is a breakdown of current prices.

*A negative (or below the line) segment reflects the amount paid by customers that was above the lower bound cost reflective price.

Price setting process (2023-24 price example)

Step 1

Allocate revenue by charge type

		Variable	Fixed	WAE Priority %	HUF %
Revenue offsets	-1.4		100% -1.4	High 5.4%	High 36.0%
Operations - D	309.6	20% 61.91	80% 247.7	50% -0.7	50% -0.71
Operations - I	332.6		100% 332.6	50% 123.8	50% 123.83
Operations - IGEM	80.3			50% 166.3	50% 166.29
Maintenance - D	88.1	20% 17.63	80% 70.5		100% 80.35
Maintenance - I	106.9				100% 106.87
Insurance	143.1				100% 143.06
Electricity	5.97	0.00% 0.00			100% 5.97
Annuity	802.3				100% 802.34
	1,867.47	79.54		289.4	1498.52

Key inputs	WAE	WAE%	Usage	HUF
High priority	1,530	5.4%		36.0%
Medium priority	27,020	94.6%		64.0%
Total	28,550		56.7%	
Customer losses	0			
Sub-scheme splits	0			

Step 2

Allocate fixed revenue to priority group allocation buckets

Distribution losses
Calculated in bulk scheme and picked up in distribution system

High priority	x	0.00	=	0.00
Medium priority	x	0.00%	=	0.00
Variable	x	0.00%	=	0.00

Step 3

Allocate revenue to priority group

	Revenue requirement by priority group	Losses	Revenue requirement after losses conversion	Entitlements	Usage %
Part A - HP	$5.4\% \times 289.4 + 36.0\% \times 1,498.52 = 555.0$	- 0.00	= 555.0	$1,000 / 1,530.00$	= \$362.73
Part A - MP	$94.6\% \times 289.4 + 64.0\% \times 1,498.52 = 1,232.95$	- 0.00	= 1,232.95	$1,000 / 27,020.00$	= \$45.63
Part B	79.54	- 0.00	= 79.54	$1,000 / [28,550.00 \times 56.7\%]$	= \$4.91

Step 4

Calculate cost reflective prices

Step 5

(worked example)

Price setting process

Water Supply Scheme (generic) worked example using 2020-21 to 2023-24 QCA recommended costs

Step 5a

Calculate smoothed target prices

Cost reflective prices are then smoothed across the four-year price path period to set target prices

Add QCA Fee			Target prices Unsmoothed				Target prices Smoothed			
			2020/21	2021/22	2022/23	2023/24	2020/21	2021/22	2022/23	2023/24
Part A HP	\$50.71/ML + \$0.47/ML = \$51.19/ML		\$45.93	\$48.18	\$50.07	\$51.19	\$47.19	\$48.25	\$49.33	\$50.44
Part A MP	\$21.73/ML + \$0.47/ML = \$22.21/ML		\$19.99	\$20.92	\$21.72	\$22.21	\$20.50	\$20.96	\$21.42	\$21.90
Part B	\$4.02/ML + \$0.00/ML = \$4.02/ML		\$3.75	\$3.83	\$3.92	\$4.02	\$3.75	\$3.84	\$3.92	\$4.01

Steps 1 through 4 apply to each year of the forecast pricing period

Smoothed revenues (or prices) are set with a defined rate of escalation (e.g. the expected inflation rate) from Year 1 to Year 4. They are calculated on the basis that the present value (PV) of smoothed revenues (or revenues arising from smoothed prices) is equivalent to the PV of the building blocks revenues.

Step 1

Convert four years of revenue requirement (inclusive of QCA fees) into \$2019-20
 = NPV(4.37%, (946.8; 990.9; 1,028.5; 1,051.6)) = 3,529.7 (\$ thousands) [nominal WACC]

Step 2

Convert the denominator (WAE ML) into present value terms
 = NPV(2.09%, (47,357; 47,357; 47,357; 47,357)) = 179,948.98 (ML WAE) [real WACC]

Step 3

Divide step 1 result by step 2 result and multiply by 1,000
 = 20.047 (\$/ML WAE) – the Year 0 price (in 2019-20 dollars)

Step 4

Compound Year 0 price by forecast inflation (2.24%) for each year of the price path

Year 0	Year 1	Year 2	Year 3	Year 4
2019/20	2020/21	2021/22	2022/23	2023/24
\$20.47	$\times (1+2.24\%)^1$	$\times (1+2.24\%)^2$	$\times (1+2.24\%)^3$	$\times (1+2.24\%)^4$
	= \$20.50	= \$20.96	= \$21.42	= \$21.90

Price setting process

Water Supply Scheme (generic) worked example using 2020-21 to 2023-24 QCA recommended costs

Step 5b

Calculate recommended prices

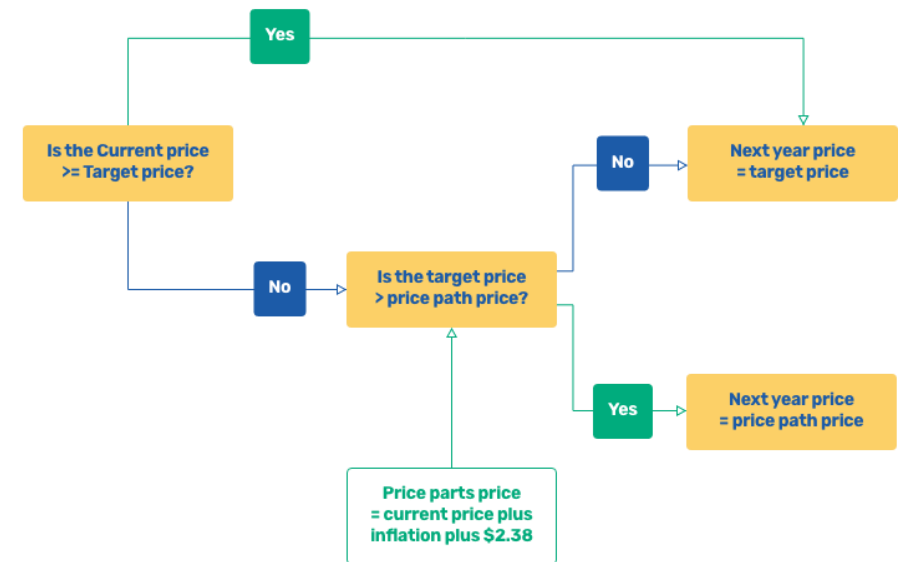
Customer prices are then set with reference to current prices, target prices and the pricing principles

Target prices Smoothed					Transition path prices				
	2020/21	2.24%	2.24%	2.24%	Actual	Price path			
	2020/21	2021/22	2022/23	2023/24	2020/21	2020/21	2021/22	2022/23	2023/24
Part A HP	\$47.19	\$48.25	\$49.33	\$50.44	Not set	Not set	Not set	Not set	Not set
Part A MP	\$20.50	\$20.96	\$21.42	\$21.90	\$14.89	\$20.50	\$20.96	\$21.42	\$21.90
Part B	\$3.75	\$3.84	\$3.92	\$4.01	\$3.13	\$3.75	\$3.84	\$3.92	\$4.01

Smoothed revenues (or prices) are set with a defined rate of escalation (e.g. the expected inflation rate) from Year 1 to Year 4. They are calculated on the basis that the present value (PV) of smoothed revenues (or revenues arising from smoothed prices) is equivalent to the PV of the building blocks revenues.

Recommended prices are set using target (smoothed) prices and applying the price path principles outlined in the referral notice.

Note the flowchart shown reflects the current (as at 21 March 2023) rural pricing direction notice where prices above lower bound immediately transition to lower bound.





Thank you.

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