Introduction to Irrigation Water Pricing

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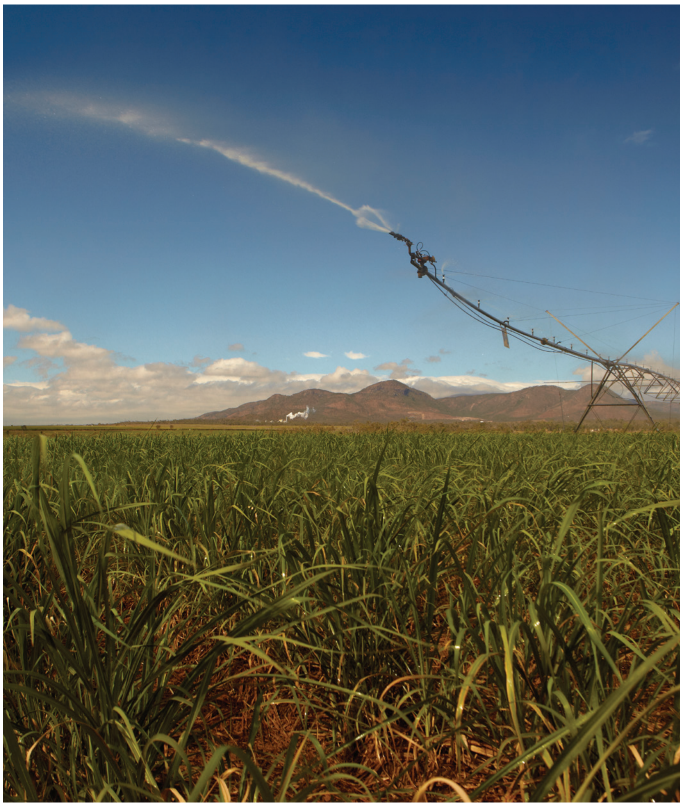
What is 'regulated pricing'?

Regulated prices are set by the Queensland Government. Queensland's independent economic regulator, the Queensland Competition Authority, assesses costs, investments, service standards and customer feedback before recommending the prices customers pay. This process means that regulated prices are fair and based on the efficient cost of delivering the service.

Why do governments regulate water prices?

Bulk water and distribution systems operate as natural monopolies. This means our customers cannot choose another bulk water provider or build an alternative bulk water delivery network. In the absence of competition, economic regulation helps ensure prices remain fair and efficient. Since 2012, the Queensland Government has applied regulated prices to eligible irrigation customers served by Sunwater.



What are the benefits of regulated pricing?

There are two major benefits to irrigators who receive regulated prices.

1. **They exclude the recovery of capital expenditure before 2000** – Regulated irrigation prices are set to recover the prudent and efficient costs of operating, maintaining, administering and renewing each scheme. They exclude some costs, such as those associated with the creation of the water supply schemes (prior to 1 July 2000).

2. **The amount prices can rise is constrained** – Government pricing rules limit how quickly prices can move from their current level to the cost reflective "target price". This limits bill shock, where target prices have risen significantly between pricing reviews.

Who is eligible for regulated pricing?

When customer sign a water supply contract with Sunwater, they nominate their intended water use. If they declare they will be using the water for irrigation, and they are in a water supply scheme subject to the price regulation process, their account will be set up with regulated pricing.

New eligibility requirements are being introduced by the Queensland Rural and Industrial Development Authority (QRIDA) from 1 July 2027. Customers will need to become certified irrigators to remain eligible for regulated pricing – see here for more details.

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How are prices regulated?

Prices are set by the Queensland Government based on recommendations made by QCA. Through a cyclical price review process, Sunwater must demonstrate that relevant costs are prudent and efficient. Pricing policies are also applied to ensure that any changes in price levels are incremental from year to year.

Irrigation Price Review

What steps are involved in a price review process?

1. **Minister sends a referral notice to QCA** – The Government defines the scope of the QCA review, directs it to provide recommendations on particular issues, provides guidance on matters it must consider, and sets out the pricing principles that must be applied when calculating recommended prices.
2. **QCA issues a guidance paper to Sunwater & stakeholders** – This provides guidance on QCA expectations for the pricing proposal, its approach to assessing proposals and the information it requires to undertake the assessment.
3. **Sunwater prepares a pricing proposal** – Sunwater submits a detailed pricing proposal to QCA that demonstrates the prudent and efficient costs required to deliver defined levels of service, and translates these into prices.
4. **QCA issues draft report** – This report goes to the Government, Sunwater and stakeholders. It is an initial assessment of Sunwater's proposal.
5. **Sunwater responds to QCA's draft report** – Based on customer feedback on the draft proposal and information from the draft QCA report, Sunwater can refine the proposal before finalising.
6. **QCA issues final report to Government** – This is QCA's recommendation on prices.
7. **Government issues pricing directions notice to Sunwater** – Prices are set for the period under review, which is generally four years.

1. Minister sends referral notice to QCA
2. QCA issues guidance paper
3. Sunwater prepares pricing proposal
4. QCA reviews proposal, issues draft report
5. Sunwater responds to QCA draft report
6. QCA publishes final report
7. Government issues pricing directon notice

Service elements

Sunwater stores, transports and delivers water through a network of dams, weirs, channels, pipelines, pump stations and other water infrastructure. The price you pay for water helps cover the costs of operating, maintaining and renewing these assets, as well as the support services needed to provide a safe, reliable and compliant water supply. We capture the costs considered in the irrigation price review under the following service elements.

Asset renewal

The rehabilitation, refurbishment, overhaul or replacement of an existing asset, or a significant component of an asset. Undertaken to restore service potential, capability and performance, and extend the useful life of the asset.

Preventative maintenance

Planned maintenance activities to preserve asset condition, reliability, functionality and performance. Undertaken to prevent or reduce the likelihood and impact of faults, failures or excessive deterioration.

Corrective maintenance

Maintenance activities following the identification of a fault, defect, damage or performance shortfall. Undertaken to restore an asset to its required operating condition, functionality or performance.

Operations

Labour, materials, plant, equipment and facilities associated with operating assets that store, transport and deliver water services to our customers.

Electricity

The electricity required to operate and support water supply infrastructure, enabling the storage, movement, monitoring and delivery of water to our customers.

Insurance

A program of policies that cover loss or damage to Sunwater assets and third-party claims e.g. for financial loss, property damage or personal injury.

Support services

Services and functions required to operate a modern, safe, compliant and regulated business. These are managed regionally or centrally and support all water supply schemes, but cannot be directly linked to a specific asset or service.

These are split into three components:

Centralised support services

safety, technical, regulatory and similar services delivered centrally that support work across the state

Corporate support services

organisation-wide functions largely undertaken from Brisbane that support the business as a whole

Local support services

functions undertaken at a local level with costs disbursed across schemes within a region.

Price calculation

Calculating irrigation water prices involves multiple steps and is done at an individual service contract level.

INPUT

1 Allowable costs

1 Sunwater starts with the 'allowable costs' in each scheme, as outlined in the Minister's referral notice.

2 Forecast each cost category

2 A forecast is completed for each service element, also known as a 'cost category'. Asset renewal costs must be forecast for a 30-year period. All other costs are forecast for the price review period, which is generally four years.

3 Covert to revenue allowances

3 Forecasts are then translated into revenue allowances for the price path period. A 'revenue allowance' is the amount of revenue Sunwater needs to recover to cover the cost of the service elements.

4 Split by fixed and variable

4 Revenue allowances are shared between fixed and variable components.

5 Split by priority level

5 Fixed revenue allowances are then shared again based on water priority level (high priority water gets a higher percentage of cost than medium priority water).

6 Target price

6 Once costs have been shared, Sunwater produces a set of 'target prices' that reflect cost recovery.

7 Applying pricing principals

7 Sunwater then applies the pricing principles outlined in the Minister's referral notice, which limit year-on-year price increases.

OUTPUT

8 = Customer price

8 The output is a set of 'customer prices' for each service contract. Customer prices are either the same as or less than target prices – they cannot be higher.

A 'Community Service Obligation' payment is later provided to Sunwater to cover the gap between the customer price and the target price to ensure Sunwater recovers its costs.