Queensland Competition Authority

Information sheet

Rural irrigation price review 2025–29: draft report
Lower Mary water supply scheme

July 2024

We have been directed by the Treasurer of Queensland to recommend irrigation prices to apply from 1 July 2025 to 30 June 2029. This includes prices for irrigation customers in the Lower Mary water supply scheme (WSS) and distribution system.

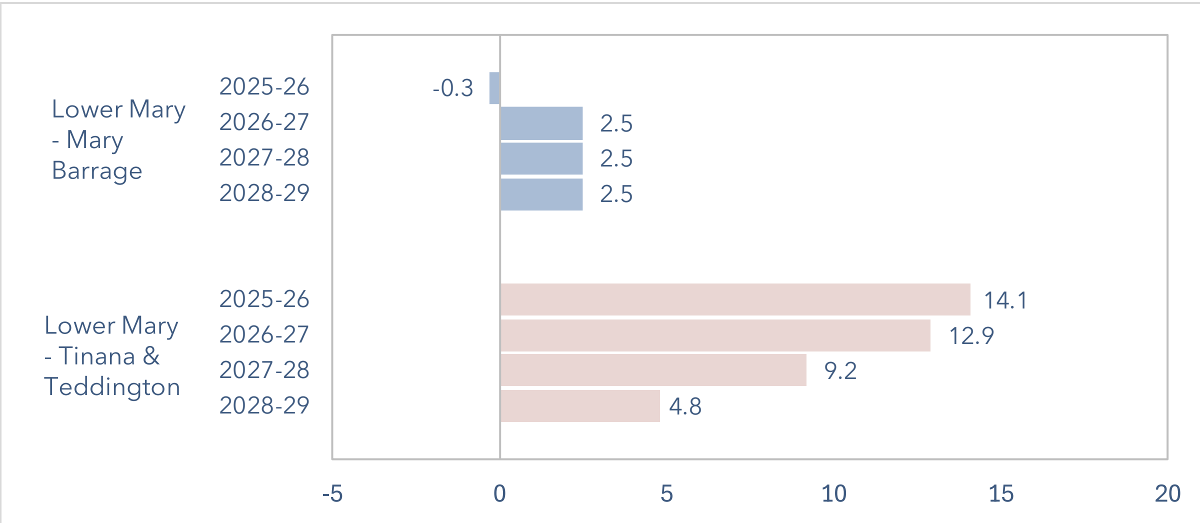
After extensive consultation with customers and other stakeholders, we have published a draft report for Sunwater's schemes on our website.[1]

Draft price recommendations

We applied the government's pricing principles to reach our draft price recommendations.[2] The pricing principles constrain the increases required each year to reach the relevant price target. The price target reflects a scheme's prudent and efficient costs but exclude allowances for capital expenditure (capex) incurred before 1 July 2000 and capex on dam safety upgrades.

Based on our draft price recommendations, we estimated the average change in prices for each year of the price path period from 2025–26 to 2028–29 (Figures 1 and 2). Price changes for individual customers will vary if their water usage differs from the assumed scheme usage.

Figure 1: Annual changes in draft irrigation prices for bulk only customers, from 2025-26 to 2028-29 (% change)

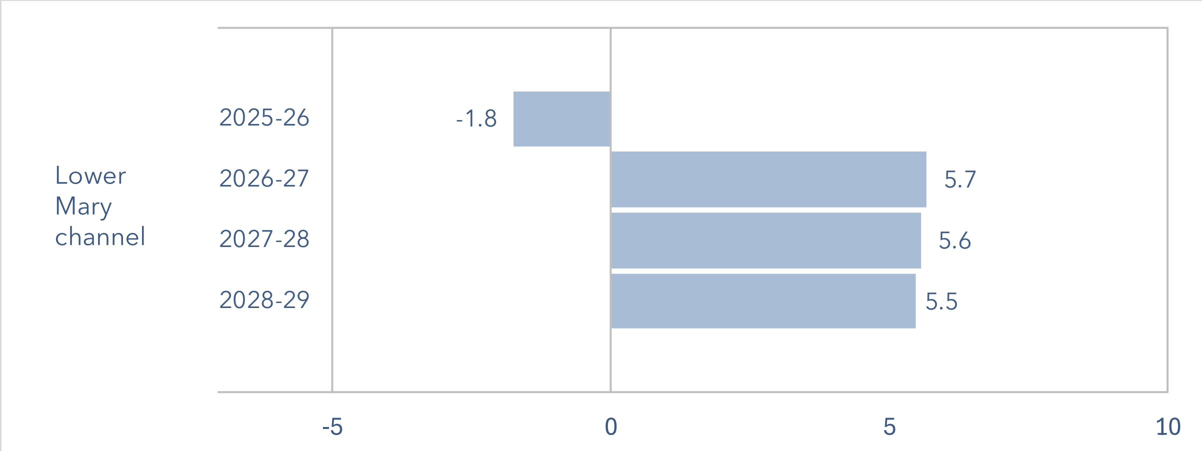


Note: The analysis is based on the total price per megalitre of the water access entitlement (WAE) for each tariff group, which is derived as the total fixed price plus the total volumetric price multiplied by the assumed scheme usage as a percentage of the WAE (25.8% of WAE for these tariff groups).

[1] A separate draft report covers Seqwater's schemes.

[2] We used the renewals annuity approach to calculate our draft recommended prices (Appendix F of our draft report), but we have also published prices under Sunwater's proposed regulatory asset base approach (Appendix H of our draft report).

Figure 2: Annual changes in draft irrigation prices for distribution system customers, from 2025–26 to 2028–29 (% change)



Note: The analysis is based on the total price per megalitre of the water access entitlement (WAE) for this tariff group, which is derived as the total fixed price plus the total volumetric price multiplied by the assumed scheme usage as a percentage of the WAE (29.8% of WAE for this tariff group).

More information about price impacts is provided in Chapter 11 of the draft report.

In Figures 3 to 5, we compare our draft price recommendations with:

- the prevailing 2024–25 prices (before the 15% discount that Sunwater was directed to apply to irrigation prices)
- the draft price targets for each year of the price path period.

Figure 3: Draft recommended prices – Lower Mary – Mary Barrage ($/ML)

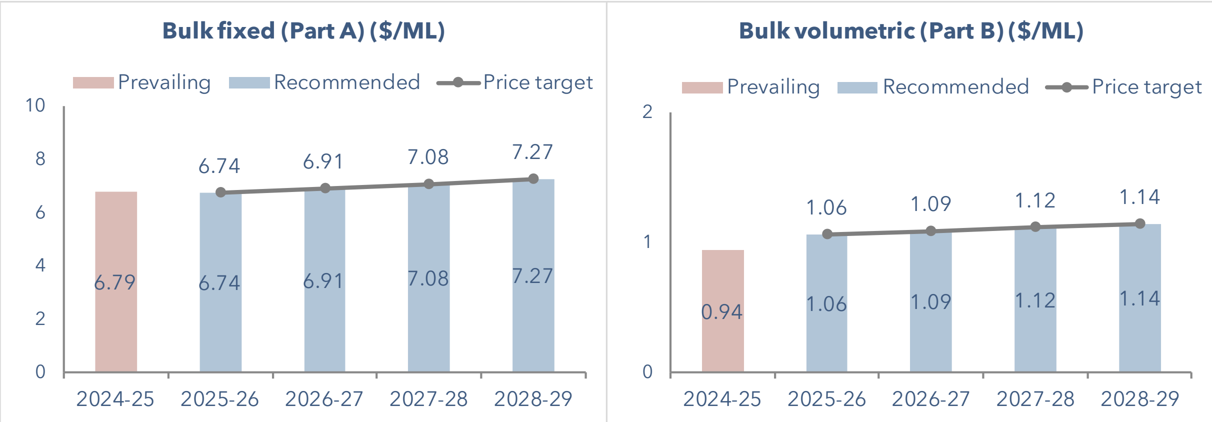


Figure 4: Draft recommended prices – Lower Mary – Tinana & Teddington ($/ML)

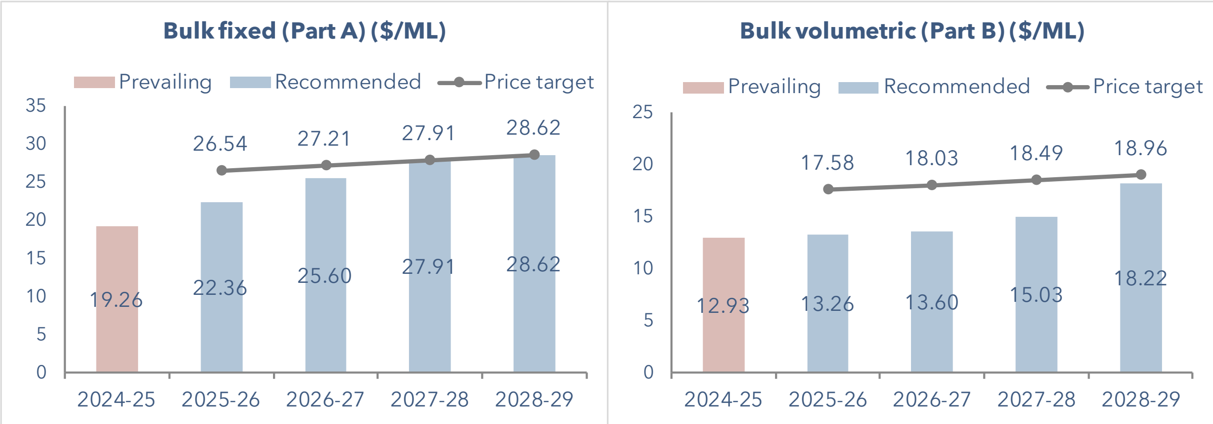
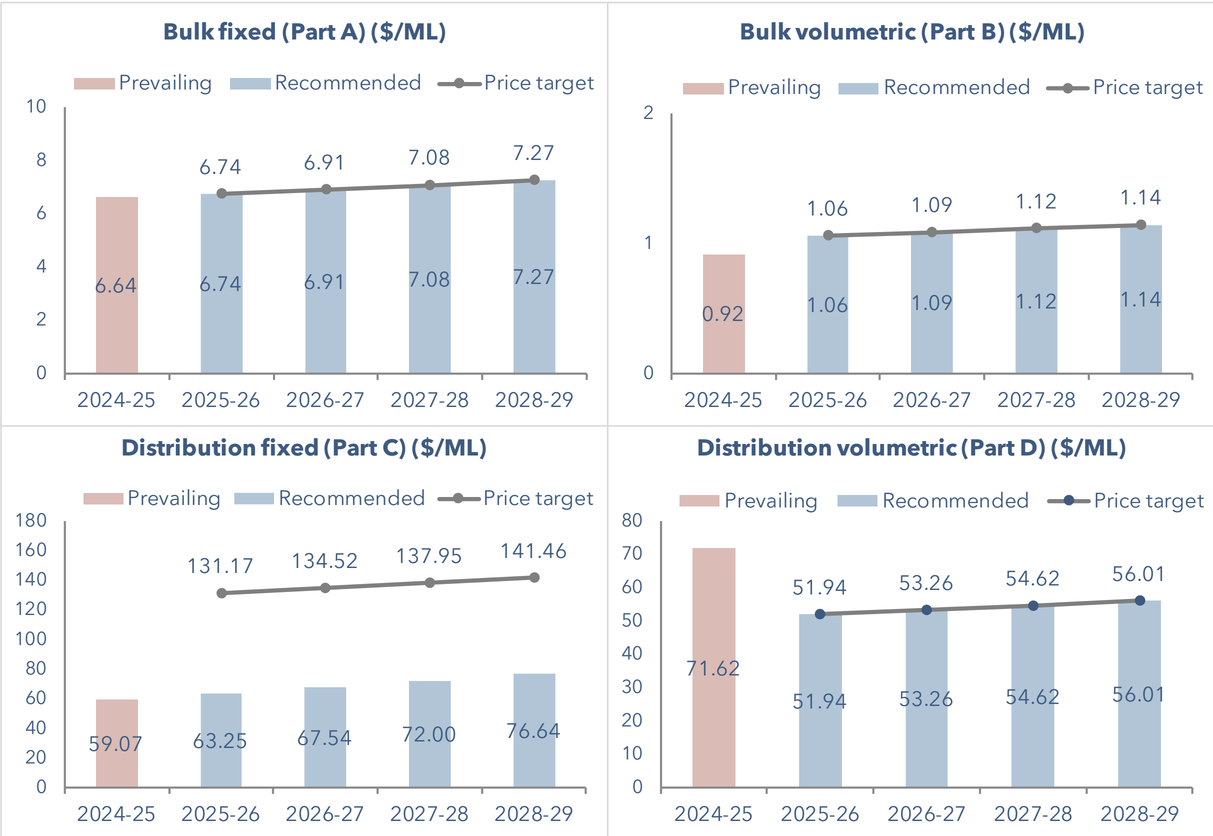


Figure 5: Draft recommended prices – Lower Mary channel ($/ML)



For the Mary Barrage tariff group, our draft prices cover allowable costs over each year of the price path period. However, our draft prices for the other tariff groups will not cover allowable costs by the end of the price path period. Recovery of allowable costs for the:

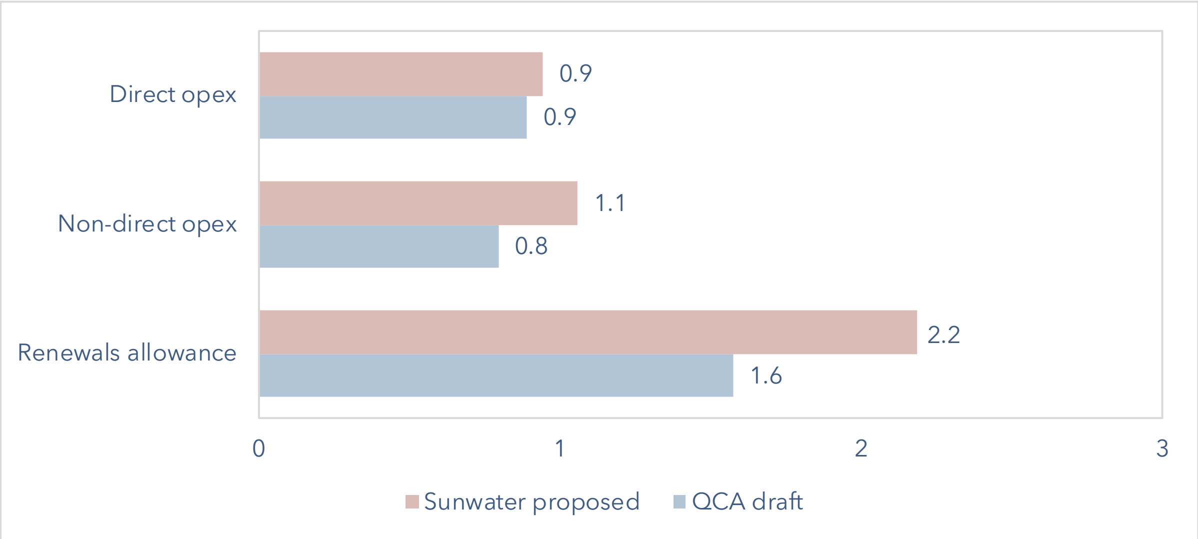
- Tinana & Teddington tariff group will increase from 83% in 2025–26 to 99% by 2028–29
- Lower Mary channel tariff group will increase from 56% in 2025–26 to 61% by 2028–29.

We propose a reduction in Sunwater's proposed costs

Our draft position is that total allowable costs for Sunwater over the price path period should be set at $419.4 million, which is $66.3 million (or 13.6%) lower than the total (annuity-based) allowable costs proposed by Sunwater in its November 2023 pricing proposal.

For the Lower Mary WSS, we propose to reduce Sunwater's proposed costs by 22% over the price path period (Figure 6).

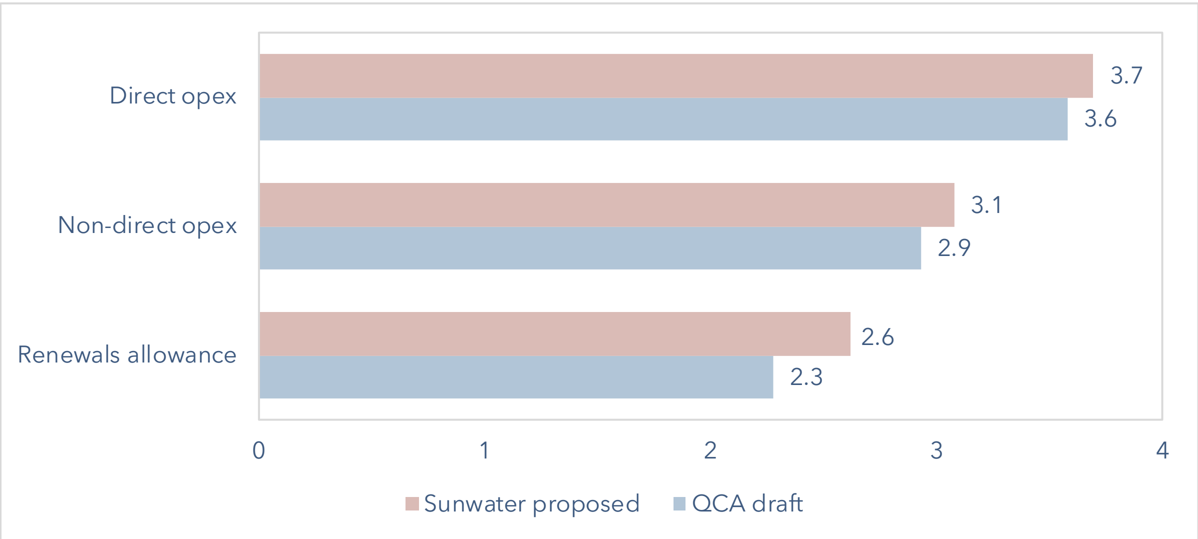
Figure 6: QCA draft position – total costs over the price path period, Lower Mary WSS ($ million)



Note: Revenue offsets are not included in these figures. Non-direct opex includes QCA fees.

For the Lower Mary distribution system, we propose to reduce Sunwater's proposed costs by 6% over the price path period (Figure 7).

Figure 7: QCA draft position – total costs over the price path period, Lower Mary distribution ($ million)



Note: Revenue offsets are not included in these figures. Non-direct opex includes QCA fees.

More information about our assessment of Sunwater's proposed operating expenditure and renewals expenditure is provided in Chapters 4 and 5 of our draft report.

Approach to recovering renewals expenditure

We assessed Sunwater's proposed regulatory asset base (RAB) approach for recovering renewals expenditure against the existing renewals annuity approach.

While we support an appropriately designed RAB approach, we do not consider that a RAB approach should be adopted alongside Sunwater's current capitalisation policy because of the impact on price target variability. See Chapter 7 of our draft report for further information.

We reached our draft price recommendations using a renewals annuity approach, but we also calculated draft prices under Sunwater's proposed RAB approach (see Appendix G of our draft report).

Next steps

Our draft recommendations are indicative and will be subject to further consideration before we provide our final report.

We appreciate the valuable contribution that stakeholders have made to our review so far. We welcome further feedback and comments on our draft report, which will assist us with the finalisation of our recommendations to the government.

We will hold workshops on our draft report in July and August 2024. Information about the workshops is available on our website.

Stakeholders are invited to provide written submissions on our draft report by **16 September 2024**. We will consider all submissions received by the due date in preparing our final report, which is due to the government by 31 January 2025.