Queensland Competition Authority

# Rural irrigation price review 2025–29: Seqwater

## Final report

January 2025

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# Contents

# Executive summary

We were directed by the former treasurer of Queensland to review the irrigation pricing practices of Seqwater and Sunwater, and to recommend irrigation prices to apply from 1 July 2025 to 30 June 2029. The government will consider our recommendations when it determines irrigation prices but it is not bound to accept our recommendations.

This report explains how we reached our recommendations on Seqwater's irrigation pricing practices.[1] We appreciate the valuable contribution of stakeholders throughout our review. In preparing this final report and making our recommendations, we have considered all comments and feedback stakeholders provided at workshops and in submissions.

## Seqwater's customer engagement has improved

Relative to the 2020 review, Seqwater's customer engagement has improved materially. Overall, we consider that Seqwater's engagement is generally fit-for-purpose given the relatively small size of its regulated irrigation services.

We consider that Seqwater's engagement program has informed customers and other stakeholders of key aspects of the price review process. Seqwater has also provided customers and other stakeholders with opportunities to participate and respond to its proposal.

Seqwater's annual scheme-level consultation and its engagement on proposed cost inputs in developing its proposal have led to less contention from customers on cost issues than in previous reviews. This is demonstrated by all the scheme-level customer reference groups (CRGs) generally endorsing the proposed costs in Seqwater's proposal.[2] We have taken this into account in assessing the prudency and efficiency of Seqwater's cost forecasts.

## Our position is to reduce Seqwater's proposed costs

Our position is that total allowable costs[3] for Seqwater over the price path period should be set at $38.0 million, which is $0.1 million (or 0.4%) higher than Seqwater's total revised allowable costs (including QCA fees).[4] This reflects our position on key cost drivers:

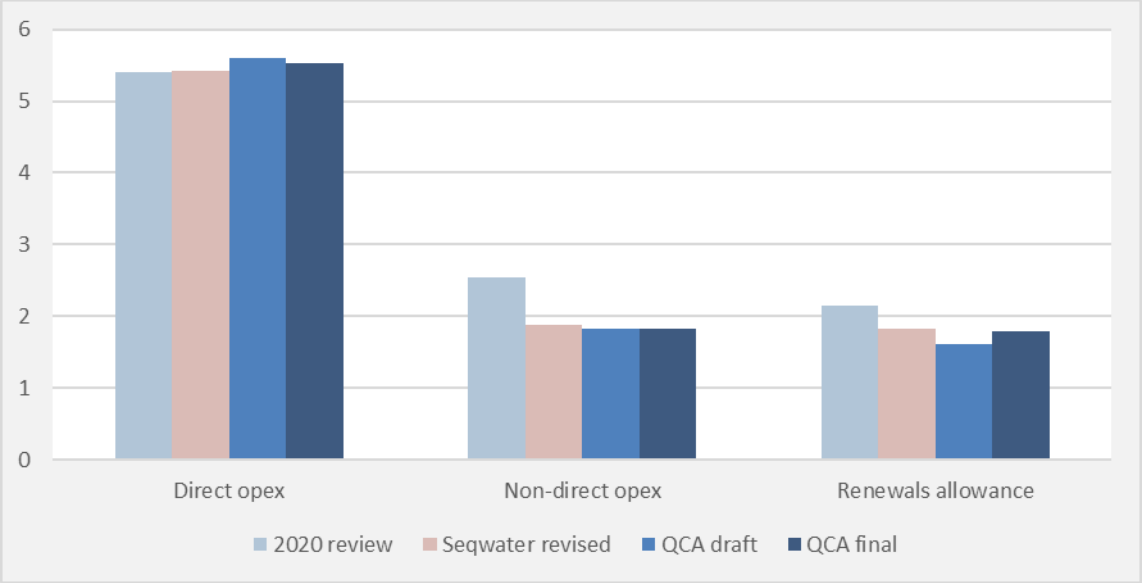
- an operating expenditure (opex) allowance over the price path period of $31.1 million, which is $0.3 million (or 0.8%) higher than Seqwater's revised opex
- a renewals allowance over the price path period of $7.4 million, which is $0.1 million (or 1.5%) lower than Seqwater's proposed allowance, reflecting:
  - actual renewals expenditure over the period 2018–19 to 2024–25 of $16.6 million, which is $0.4 million (or 2.5%) lower than Seqwater's proposal[5]
  - forecast renewals expenditure over the price path period of $6.0 million (broadly consistent with Seqwater's revised estimates)

1 A separate report on Sunwater's irrigation pricing practices is available on our website.
2 Seqwater, sub. 1, p. 7. The Logan River CRG indicated that it had some reservations about the costs of individual replacement meters and associated works (Seqwater, sub. 5, p. 8).
3 Includes costs allocated to irrigation and non-irrigation customers in regulated schemes.
4 This includes updates provided by Seqwater for insurance costs, actual 2023–24 non-metering renewals expenditure and forecast metering renewals expenditure, since its November 2023 proposal.
5 This decrease is due to the reallocation of Seqwater's claim of $0.4 million in review event adjustments from renewals expenditure, since the referral requires this adjustment to be made to the opex allowance.

– forecast renewals expenditure over the planning period from 2029–30 to 2057–58 of $47.0 million (broadly consistent with Seqwater's revised estimates).

Figure 1 compares our position on key cost categories with Seqwater's proposal and the 2020 review allowance. The key changes since our draft report are updated insurance and metering renewals costs provided by Seqwater, supported by additional information.

**Figure 1: Average annual allowable costs, by cost category ($ million, 2025–26 dollars)**




Note: 1. The 2020 review allowance has been adjusted for the difference between forecast and actual inflation. 2. These figures include costs allocated to irrigation and non-irrigation customers in regulated schemes.

Seqwater's actual opex has been within the opex allowance from the 2020 review, adjusted for the difference between our forecast of inflation and actual inflation. This has allowed us to target our review on cost categories that are higher than allowed costs, which is mainly insurance.

Given our detailed assessment of the prudency and efficiency of Seqwater's opex and capital expenditure (capex) in the 2022 bulk water review, we focused our assessment for this review on irrigation-specific expenditure that was not reviewed as part of the 2022 bulk water review.

## For each tariff group we set a price target and applied the pricing principles to reach our price recommendations

Our approach to converting total allowable costs to price targets for each tariff group is broadly consistent with the approach we applied in the 2020 review.

We reached our price recommendations by applying the pricing principles in the referral.[6] For each tariff group, we compared our price recommendations with the price target over the price path period. Overall, three of Seqwater's nine tariff groups will have prices at the price target in the first year of the price path period, with no further tariff groups reaching the price target by the end of the price path period.

## We recommend retaining the government policy review event

We recommend maintaining the review event mechanism to address uncontrollable opex risk. Of the current list of review events, we recommend retaining the government policy review event and

[6] With the exception of the Warrill Valley (high priority) tariff group.

removing the off-stream pumping, insurance and electricity review events. We also recommend clarifying the government policy review event definition and the criteria for assessing review event applications.

## Next step

We provided our final report to the government on 31 January 2025. The government will consider our recommendations before determining irrigation prices to apply from 1 July 2025.

# Recommendations

Our recommendations for this review are provided in Box 1.

## Box 1: Recommendations

### Recommendation 1: Irrigation prices

We 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 E.

### Recommendation 2: Miscellaneous prices

We 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 fixed (Part C) price target
- termination fees applicable to the 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
- Seqwater should never recover any revenue shortfall from remaining customers upon exit from the scheme by another customer.

### Recommendation 3: Managing cost risk

We recommend the following mechanisms to manage Seqwater's uncontrollable cost risk over the price path period:

- a review event mechanism for opex risk that provides for an adjustment to allowable costs if:
  - the following event occurs during the price path period:
    - an increase or decrease in costs caused by a change in government policy or regulatory requirement
  - the following criteria are met:
    - the event results in a change in total costs that is sufficiently material. An increase in total costs is sufficiently material if the additional costs could not reasonably be met by an efficient business operating within business-as-usual budget constraints, through prudent reprioritisation of expenditure
    - the costs of the event are prudent and efficient
    - an adjustment has been made to the costs of the event for any factors that offset those costs
- an end-of-period true-up for prudent and efficient renewals expenditure and non-renewals capex.

# 1 Overview

The prices that Seqwater and Sunwater charge for providing irrigation services are determined by the government. To inform its decisions, the government periodically directs us, the Queensland Competition Authority (QCA), to undertake a review of the businesses' irrigation pricing practices, and to recommend irrigation prices. In making its decision, the government considers our recommendations but is not bound by them.

This review was conducted under a referral notice (referral) issued by the former treasurer in March 2023.[7] We were directed to recommend irrigation prices for the period 1 July 2025 to 30 June 2029 (the price path period).

This report explains how we reached our recommendations on Seqwater's irrigation pricing practices. A separate report covers our review of Sunwater's irrigation pricing practices.

## 1.1 Seqwater's services

Seqwater is a government-owned statutory authority and monopoly provider of bulk water services in south-east Queensland.[8] Seqwater owns and operates a network of water supply assets, including dams, weirs, water treatment plants, manufactured water assets (the Western Corridor Recycled Water Scheme and the Gold Coast Desalination Plant) and pipelines.

Seqwater's main service is supplying treated bulk water to the retailers servicing 11 local government areas in south-east Queensland. The retailers then deliver the water to households and businesses through their distribution networks. Seqwater also supplies Toowoomba and Gympie regional councils, power stations operated by CleanCo Queensland and Stanwell Corporation, and around 1,200 irrigation customers across seven water supply schemes and two distribution systems.

The vast majority of the revenue Seqwater earns from water sales comes from supplying the distributor-retailers, with around 0.3% coming from irrigation customers.[9]

## 1.2 What we have been directed to do

We are required to review the prices that Seqwater charges for providing irrigation services in each of the water supply schemes and distribution systems specified in the referral. Irrigation services are defined as the supply of water or drainage services for irrigation of crops or pastures for commercial gain.[10]

In accordance with the referral, we must recommend prices for the core irrigation service – the storage and delivery of water to irrigation customers – that are consistent with the pricing principles in the referral.[11] The pricing principles constrain the increases required each year to reach the relevant price target, which is a price for each irrigation tariff group that recovers 'allowable costs' allocated to that tariff group. Allowable costs reflect a scheme's prudent and efficient costs but

[7] The referral (available on our website) was issued under section 23 of the *Queensland Competition Authority Act 1997*.
[8] Sunwater is the main provider of bulk water and irrigation services in regional and rural Queensland.
[9] Seqwater, *Annual report 2023–24*, August 2024, p. 43.
[10] Outside the scope of this review are prices for the irrigation services that Seqwater provides in the Central Brisbane River water supply scheme, and prices for non-irrigation services, such as the supply of water to local councils, water retailers and industrial customers.
[11] There are a few exceptions to the requirement to apply the transitional element of the pricing principles (referral, para. B(1.1)(a)).

exclude allowances for capital expenditure (capex) incurred prior to 1 July 2000 to build the existing assets and capex on dam safety upgrades.

The government subsidises customers by providing a community service obligation (CSO) payment to Seqwater to make up the difference between the revenue received from irrigation customers and the irrigation share of allowable costs, and to cover the costs of the irrigation share of dam safety upgrade capex. As Seqwater does not earn a return on pre-2000 assets, some customers may receive an additional subsidy.

We are also required to recommend other prices (such as termination fees) and to recommend appropriate price review triggers and other mechanisms to manage the risks associated with material changes in costs outside Seqwater's control.[12]

## 1.3 Our approach to the review

This is our third irrigation pricing review. The first review was completed in 2012 (for Sunwater) and 2013 (for Seqwater) and the second (combined) review was completed in January 2020.[13]

We advised Seqwater that we expected its proposal to be informed by meaningful engagement with customers and other stakeholders. We assessed Seqwater's customer engagement against the engagement principles set out in our March 2023 guidelines for pricing proposals (Chapter 2).

In this report, we provide an overview of the steps we followed to reach our price recommendations (Chapter 3), followed by the detailed step-by-step assessment (Chapters 4 to 10). We have considered the impacts of our price recommendations on irrigation customers and estimated the revenue shortfall for each tariff group with prices below the price target (Chapter 11). We also assessed and made recommendations about mechanisms to manage Seqwater's uncontrollable cost risk (Chapter 12).

In conducting our review we considered each of the matters we are required to consider in the referral and the *Queensland Competition Authority Act 1997* (QCA Act).[14] These matters are extensive, diverse and potentially conflicting – for example, the need for efficient resource allocation; the protection of consumers from abuses of monopoly power; social welfare and equity considerations; balancing the interests of the water businesses and their customers; and economic and regional development issues. We explain how we have considered each of these matters in Appendix F.

Regulatory tools are limited in their ability to achieve multiple and potentially conflicting goals or objectives. In using our judgement to weigh up and take the various matters into account, we placed greater weight on economic efficiency, because promoting efficient outcomes is consistent with the overall public interest and maximising benefits to society. Prices that reflect prudent and efficient costs signal the efficient cost of providing water services to customers, promote efficient consumption and investment decisions, and protect consumers from the use of monopoly power. However, our ability to place weight on economic efficiency or the other matters is constrained by the terms of the referral.

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12 Referral, para. B(1.1)(a)–(b).

13 See Appendix A for a summary of our price recommendations from the 2020 review and the government's decision about prices to apply in the current price path period – 1 July 2020 to 30 June 2025.

14 In accordance with sections 24(1)(b) and 26 of the QCA Act.

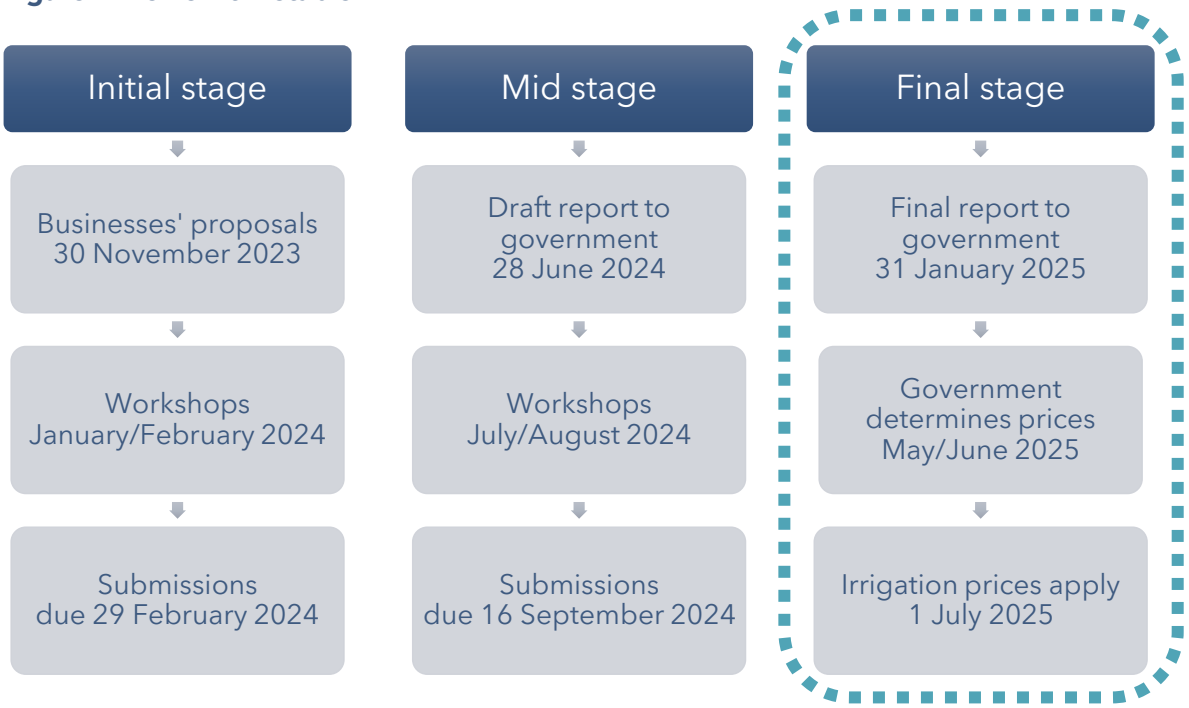
## 1.4 Consultation process

Our review formally began when the businesses submitted their proposals at the end of November 2023. We consulted with stakeholders in two stages – after the businesses submitted their proposals and after we released our draft reports. At each stage, we held stakeholder workshops and invited written submissions. Details of the two rounds of workshops we conducted and a list of the submissions we received are in Appendix B.

We appreciate the valuable contribution that stakeholders have made to our review. In preparing this final report and making our recommendations, we have considered all comments and feedback provided at workshops and in submissions.

Our review concludes with the delivery of our final report and recommendations to the government on 31 January 2025.

**Figure 2: Review timetable**



# 2 Customer engagement

The pricing proposal guidelines we published in March 2023 outlined our expectations for the water businesses in terms of engaging with their customers and other stakeholders during the development of proposals. We have assessed Seqwater's customer engagement based on the engagement principles in these guidelines.[15]

We consider that Seqwater's engagement aligned with these principles in several ways. For example, Seqwater:

- sought to understand the views of customers by using a range of approaches including scheme-level customer reference groups (CRGs), scheme-level forums and surveys (section 2.1.1)
- engaged on issues that could reasonably influence services and prices, including deliverables and service levels; actual and proposed cost inputs; and proposed price targets and prices (section 2.1.2)
- engaged on an ongoing basis since the 2020 review and early in this review process as soon as practicable after the referral was issued in March 2023 (section 2.1.3)
- developed its proposal with some consideration of feedback from customers (section 2.1.4).

A key objective of our pricing proposal guidelines was better customer engagement. Relative to the 2020 review, Seqwater's engagement has improved materially. Overall, we consider that Seqwater's engagement is generally fit-for-purpose given the relatively small size of its regulated irrigation services.

## 2.1 Assessment of Seqwater's engagement

### 2.1.1 Structure engagement to promote an understanding of customer needs

Overall, our view is that Seqwater has undertaken an engagement program that was appropriate for its customers and operating environment.

Seqwater has expanded on its engagement approach since the 2020 review in response to our recommendation from the 2020 review for it to broaden its engagement by adopting other engagement channels.[16] Measures that Seqwater has implemented include CRGs in each of its regulated schemes; annual customer surveys; regular customer newsletters; and SMS messaging.[17]

Seqwater's engagement on its proposal for this review has built on its established engagement channels since the 2020 review with a three-phase program of scheme forums and CRG meetings; a dedicated project web page that includes presentations and minutes for all meetings held; individual scheme reports; and an online feedback system.

Seqwater said that CRGs provided a formal framework for it to regularly consult on a scheme basis with a broad section of customers on issues relevant to the performance of its service delivery obligation to customers. We consider that Seqwater has effectively used scheme-level CRGs to

[15] QCA, *Rural irrigation price review 2025–29*, guidelines for pricing proposals, March 2023, p. 11.
[16] See QCA, *Rural irrigation price review 2020–24, Part C: Seqwater*, final report, January 2020, p. 79.
[17] Seqwater, sub. 1, p. 22; individual scheme reports (e.g. Seqwater, sub. 2, p. 7).

identify and understand customer preferences, and to obtain feedback from CRGs on how it should best present information to the broader customer base.

The three-phase engagement program allowed Seqwater to:

- in the initial phase, inform customers of its approach and understand key issues
- in the second phase, outline draft costs and prices and key cost drivers and receive more specific customer feedback
- in the final phase, provide responses to all customer feedback and confirm final prices.

Seqwater has generally tailored its engagement methods to align with the nature of the information being communicated. For example, Seqwater has used a range of methods to communicate information based on feedback from scheme-level CRGs, evidenced by its presentations, individual scheme reports and annual service performance reports (SPRs).

### 2.1.2 Target engagement on matters that customers value and can influence

Seqwater said that it consulted with its CRGs in designing its engagement program, which covered scheme-level service issues of importance to customers and matters that had a material impact on services provided and prices. These topics covered deliverables and service levels; actual and proposed cost inputs; and price targets and proposed prices.

Seqwater said that its annual engagement on its scheme-level SPRs discusses performance against service standards as well as updates on actual expenditure relative to forecast.[18] It explained that for this proposal, its engagement focused on explaining proposed costs, as well as other key issues of importance to customers.

Seqwater said that feedback received from customers in its engagement process identified issues of importance including:

- confirmation of existing service standards
- an understanding of proposed prices and the drivers of any increases from current prices
- price stability
- alternative approaches to fixed-cost recovery for schemes with poor reliability
- an online water accounting portal to manage customers' water allocations.[19]

We consider that Seqwater provided customers with sufficient detail on actual and proposed costs to allow scrutiny of costs, thereby helping to ensure cost proposals were prudent and efficient. In the second phase of its engagement process, Seqwater provided:

- detailed estimates of actual and proposed costs (including at the detailed activity by cost-type level) in comparison with allowed costs from the 2020 review
- key scheme-level renewals projects over the current and next price path period
- key drivers of price impacts from the 2020 review on the current proposed prices.

Seqwater also discussed concerns raised by customers and sought to address these concerns.

Seqwater was able to justify to us how its proposal met the outcomes sought by customers or, where relevant, why its proposal was not revised to address some of the outcomes sought. In the final

[18] Seqwater, sub. 1, p. 23.
[19] Seqwater, sub. 1, pp. 22–23.

phase of its engagement process, Seqwater also provided responses to all customer feedback and confirmed final costs and prices in the final phase.[20]

In response to our draft report, one stakeholder said it would be helpful to have more clarity on how allowable costs are converted into prices.[21] We consider this could be facilitated by Seqwater's engagement process.

### 2.1.3 Ensure ongoing engagement within timeframes necessary to inform decision-making

Seqwater has maintained ongoing engagement since the 2020 review and promptly initiated engagement for its proposal after the referral was issued in March 2023.

Since the 2020 review, Seqwater has continued to hold annual scheme-level customer forums to discuss SPRs (formerly known as network service plans), which cover performance against service standards, the performance of costs at the detailed activity by cost-type level (compared with allowed costs), and expenditure planning.

As noted in section 2.1.1, Seqwater has expanded its ongoing engagement process since the 2020 review. Engagement channels such as the CRGs, SPRs, annual customer forums and the annual survey all provide an effective framework of ongoing customer engagement.

### 2.1.4 Ensure engagement informs planning and decision-making

Seqwater demonstrated that its ongoing engagement had identified key customer values and priorities, which it then used to plan its engagement program for its proposal.

Seqwater said that the initial phase of its engagement provided an opportunity to hear customer feedback on issues of potential relevance to its proposal.[22] Seqwater said that in its final phase of engagement it explained how customers' feedback was ultimately reflected in the final (draft) proposals.

Seqwater's actions in response to feedback from its CRGs and broader customer base provide some evidence that its engagement influenced its proposal. For instance, Seqwater:

- developed its three-phase engagement program in consultation with its scheme-level CRGs
- reviewed specific aspects of its proposed costs raised by customers and in some cases developed revised cost estimates in response to concerns about specific renewals projects[23]
- modified its approach for estimating water usage forecasts to address the impact of historical local circumstances in response to scheme-specific concerns about these forecasts[24]
- developed a scheme-specific pricing approach for Warrill Valley water supply scheme customers in response to a preference expressed by customers for price stability[25]

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20 See, for example, Seqwater, *Logan River WSS, Customer Reference Group – Meeting Summary*, 14 November 2023.
21 G Drynan, sub. 73, p. 1.
22 Seqwater, sub. 1, p. 24.
23 For example, Seqwater removed specific renewals projects that were determined to be recreational in Mary Valley (Seqwater, sub. 6. p. 9) and Warrill Valley (Seqwater sub. 7, p. 9). Seqwater also adjusted the contingency amounts for metering renewals projects in Logan River (Seqwater sub. 5, p. 8) and Mary Valley (Seqwater sub. 6, p. 9).
24 For example, in the Central Lockyer Valley water supply scheme (Seqwater, sub. 3, p. 9) and the Mary Valley water supply scheme (Seqwater sub. 7, p. 9).
25 Seqwater, sub. 7, pp. 15–17.

- delivered a cost-effective water accounting system after customers expressed that they would like an online portal where they can manage their water allocations, enter meter reads and monitor usage and remaining balances.[26]

Seqwater said that after providing responses to issues customers raised and presenting final proposed costs and prices, each scheme-level CRG generally endorsed the final proposed costs in the proposal.[27]

## 2.2 Implications for our broader assessment

Overall, we consider that Seqwater's extensive engagement program has informed customers and other stakeholders of key aspects of the price review process. Seqwater has also provided customers and other stakeholders with opportunities to participate and respond to its proposal.

Seqwater's annual SPR consultation and its engagement on proposed cost inputs in developing its proposal have led to less contention from customers on cost issues. This is demonstrated by the general endorsement by CRGs of Seqwater's proposed costs, with only some reservations raised on the metering spend in Logan River water supply scheme (see Chapter 5 for our assessment of this cost). Seqwater customers did not raise any cost concerns in stakeholder submissions; historical metering renewals in the Central Lockyer Valley water supply scheme were raised only at the Gatton workshop in January 2024.[28] We have taken this into account in assessing the prudency and efficiency of Seqwater's cost forecasts (Chapters 4 and 5).

[26] Seqwater, sub. 1, p. 38.
[27] Seqwater, sub. 1, p. 7, sub. 2, p. 8, sub. 3, p. 10, sub. 4, p. 8, sub. 5, p. 8, sub. 6, p. 9 and sub. 7, p. 9. Despite having no objections to the proposed costs, the Logan River CRG still had reservations about the costs of individual replacement meters and associated works. However, it felt that we will look at these costs to assess their prudency and efficiency (Seqwater, *Logan River WSS, Customer Reference Group – Meeting Summary*, 14 November 2023).
[28] QCA, *Gatton workshop – issues raised (23 January 2024)*, published February 2024.

# 3 Approach to recommending prices

We are required to recommend prices in accordance with the requirements in the referral.[29] For the core irrigation service, the key requirement is that we are to recommend prices for each tariff group that transition towards a price target that would recover allowable costs, in accordance with the pricing principles in the referral.[30]

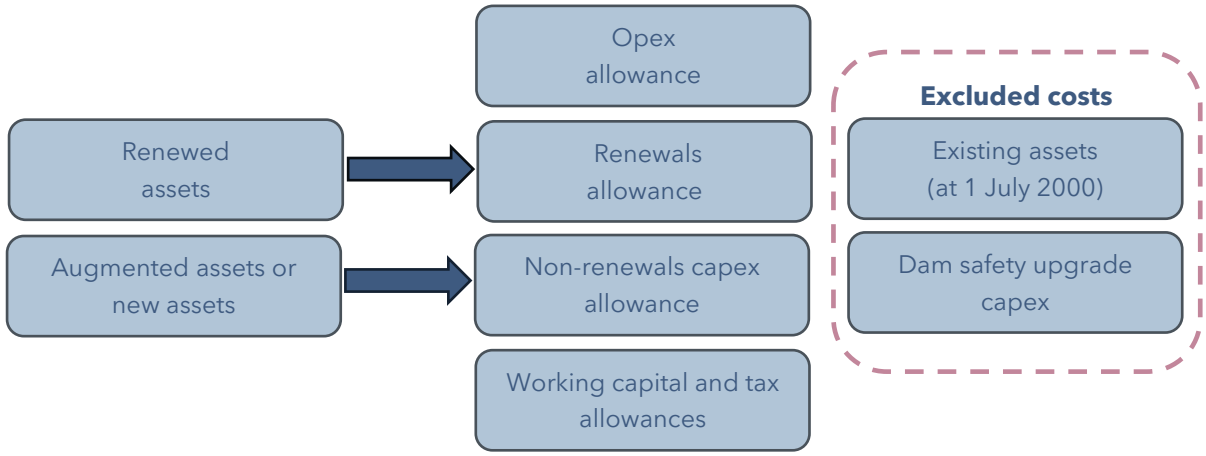
Our price recommendations were informed by our assessment of Seqwater's proposal and stakeholder submissions. We followed these steps to calculate prices:

1. Determine the prudency and efficiency of costs – to ensure that prices reflect the efficient costs of meeting regulatory obligations[31] and service levels agreed with customers.[32]
2. Establish the price target for each irrigation tariff group – by allocating costs between schemes, tariff components, customer priority groups and tariff groups.
3. Derive irrigation prices that transition towards the price target, in accordance with the pricing principles.[33]

## 3.1 Determining the prudency and efficiency of costs

We assessed the prudency and efficiency of the costs of supplying customers (irrigation, urban and industrial) in the regulated schemes (Chapters 4 to 7). Costs we assessed are those allowable under the referral. Excluded from allowable costs are allowances for capital expenditure (capex) incurred before 1 July 2000 to build the existing assets and capex on dam safety upgrades (Figure 3).

**Figure 3: Allowable costs under the referral**




Note: Seqwater has not proposed any capex associated with the augmentation of existing assets or new assets, so our review has not required an assessment of the non-renewals capex allowance component.

We used the building block approach to determine prudent and efficient allowances for each component of allowable costs:

[29] QCA Act, s. 24(1)(d).
[30] There are a few exceptions to the requirement to apply the transitional element of the pricing principles (referral, para. B(1.1)(a)).
[31] Including regulatory and legislative obligations, such as those relating to water planning and dam safety, imposed by the government and other regulatory bodies.
[32] Including customer service standards.
[33] We separately calculate termination fees for the Morton Vale Pipeline and Pie Creek distribution systems.

- an operating expenditure (opex) allowance – the ongoing costs of running the business and maintaining assets, including operations, maintenance and administration costs[34]
- a renewals expenditure allowance – an appropriate allowance for the prudent and efficient costs of renewing existing assets, reflecting our assessment of prudent and efficient renewals expenditure, the opening annuity balance and an appropriate rate of return
- tax – an allowance for tax as part of total costs, which is consistent with our post-tax nominal approach to the weighted average cost of capital (WACC).[35]

Given our detailed assessment of the prudency and efficiency of Seqwater's opex and capex in the 2022 bulk water review,[36] we have focused our assessment for this review on irrigation-specific expenditure that was not reviewed as part of the 2022 bulk water review.

To determine total allowable costs, we added the components together and then deducted the revenue Seqwater earns from other sources.

## 3.2 Setting a price target for each tariff group

The next step is to convert Seqwater's total allowable costs to a price target for each tariff group (Chapters 8 and 9).

To derive allowable costs for each bulk water supply scheme and distribution system, we first made adjustments in certain schemes to ensure that costs were allocated to the appropriate beneficiaries. We then converted allowable costs at the scheme level to a price target for each tariff group by:

- allocating costs between fixed and volumetric tariff components
- allocating costs between priority groups
- allocating costs between tariff groups (where applicable) or making other scheme-specific adjustments
- converting allocated costs into a unit cost for each tariff component, using forecast volumes.

In accordance with the referral, we then determined the price target for each tariff group by smoothing the unit costs over the price path period so that the price target increases annually by forecast inflation.[37]

## 3.3 Transitioning irrigation prices to the price target

The last step to reach our price recommendations was to apply the pricing principles to establish the transitional path to the price target for each tariff group (Chapter 10).[38] If customers reach the price target during the price path period, their prices reflect the price target for the rest of the period.[39]

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34 We also make an adjustment to the opex allowance for the cost of review events that occurred in the current price path period.

35 Seqwater did not propose a working capital allowance for this review (Seqwater, sub. 1, p. 113). In the 2020 review, we did not provide Seqwater with a working capital allowance, as it receives a significant portion of revenue from customers in advance, rather than in arrears (QCA, *Rural irrigation price review 2020–24, Part C: Seqwater*, final report, January 2020, pp. 31–32).

36 QCA, *Seqwater Bulk Water Price Review 2022–26*, final report, March 2022.

37 Referral, sch. 2, para. A.

38 Unless the tariff group is an exception to the requirement to apply the transitional element of the pricing principles (referral, para. B(1.1)(a)).

39 Referral, sch. 2, para. A.

# 4 Operating expenditure

This chapter sets out our position on the prudent and efficient level of Seqwater's operating expenditure (opex) for regulated schemes over the price path period. This includes all opex for these regulated schemes, including the costs of supplying irrigation and non-irrigation customers.

Seqwater submitted a base-step-trend approach for its forecast opex. We assessed Seqwater's opex and found:

- the prudent and efficient level of baseline opex should be set at $29.2 million (section 4.2), with corresponding step changes of $1.3 million over the price path period (section 4.3)
- review event adjustments are appropriate for material changes in costs related to off-stream pumping events and regulatory events over the current price path period (section 4.5).

Consistent with the 2022 bulk water review, we consider that the continued implementation of Seqwater's efficiency program is a superior approach to applying an efficiency target (section 4.4).

Overall, our position is to set the prudent and efficient level of opex over the price path period at $31.1 million (Table 1).

**Table 1: QCA position – opex ($ million, nominal)**

| | QCA position | | | | | Seqwater revised[a] | Difference |
|---|---|---|---|---|---|---|---|
| | 2025-26 | 2026-27 | 2027-28 | 2028-29 | Total | | |
| Baseline opex | 7.0 | 7.2 | 7.4 | 7.6 | **29.2** | 29.3 | **(0.1)** |
| Step changes | 0.3 | 0.3 | 0.3 | 0.4 | **1.3** | 1.5 | **(0.2)** |
| **Total forecast** | **7.3** | **7.5** | **7.7** | **8.0** | **30.5** | **30.8** | **(0.3)** |
| Review event adjustments | 0.1 | 0.1 | 0.1 | 0.1 | **0.6** | – | **0.6** |
| **Total allowance** | **7.4** | **7.6** | **7.9** | **8.2** | **31.1** | **30.8** | **0.3** |

a Incorporates updated cost information provided by Seqwater for insurance costs.
Notes: 1. Figures in this table include opex allocated to irrigation and non-irrigation customers in regulated schemes. The step changes include QCA fees. 2. Review event adjustments were included in the renewals allowance in Seqwater's proposal. 3. Totals may not add due to rounding.
Source: Seqwater, sub. 1 and response to RFI 12 (post-draft); Seqwater pricing model 2023; QCA analysis.

We consider that our position on total opex reflects a reasonable overall allowance for Seqwater to manage its assets, prioritise expenditures and deliver bulk and distribution services. Our position on opex does not represent the amounts that Seqwater should allocate to specific operational, maintenance and administrative activities. Rather, it provides flexibility for Seqwater to redirect cost savings to new initiatives or to mitigate unexpected cost increases.

## 4.1 Our assessment approach

In assessing the prudency and efficiency of opex from 1 July 2025 to 30 June 2029, we focused on areas that are material, specifically examining the proposed base year, step changes and escalation.

We have taken the findings of our 2022 bulk water review into account, as required by the referral. In that review, we assessed the prudency and efficiency of Seqwater's proposed opex (including irrigation-related costs) for the period 1 July 2018 to 30 June 2028.

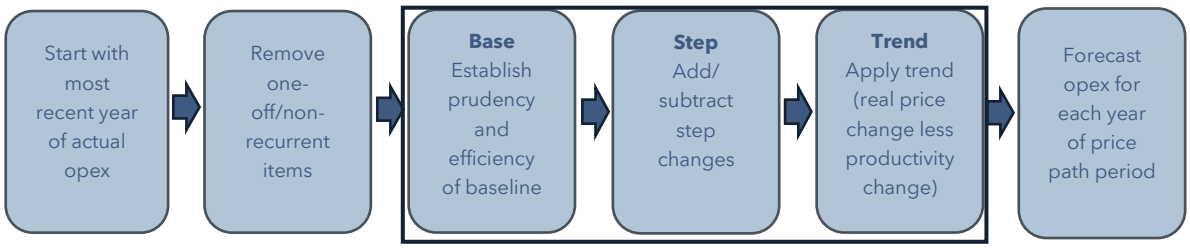
## Base-step-trend approach

Our approach to assessing Seqwater's proposed opex involves:

- determining an appropriate baseline level of prudent and efficient recurrent expenditure
- reviewing material step changes in the efficient baseline opex over the price path period
- ensuring appropriate adjustments for trend growth, including input price inflation and productivity growth over the price path period.

Our approach is illustrated in Figure 4.

**Figure 4: Base-step-trend approach**




We generally consider that the opex allowance should be set at a broad level, allowing Seqwater to manage its assets, meet its regulatory obligations, prioritise expenditures and deliver bulk and distribution services within an aggregate, business-wide allowance. This provides flexibility for the business to redirect cost savings to new initiatives or to mitigate unexpected cost increases.

### Baseline opex

We prefer to use actual (revealed) opex based on the most recently available data as a starting point to establish baseline opex.

In establishing an appropriate baseline, we first considered whether Seqwater had made appropriate adjustments for one-off or non-recurrent items in the base year, such as:

- removing expenditures that are non-recurrent in nature
- including expenditures that, while not currently being incurred, can reasonably be expected to be incurred over the course of the price path period and are recurrent in nature
- accounting for any cost savings or efficiencies expected to eventuate by the start of the price path period that are not incorporated in baseline opex.

A key step in our assessment of the prudency and efficiency of adjusted baseline opex[40] was comparing this with allowed expenditure from the 2020 review. While Seqwater's adjusted baseline opex at the total regulated scheme level is lower than the allowance from the 2020 review,[41] there are some regulated schemes with higher than allowed opex.

For these schemes, we have focused on cost categories that have a material impact on the price target at the tariff group level (particularly if this results in a material increase in the price target for

[40] We have included electricity costs within baseline opex, as these are not material and are largely fixed in Seqwater's regulated schemes.
[41] Adjusted for the difference between the forecast inflation from our 2020 review and actual inflation since 2020–21.

specific tariff groups). Within these cost categories, we have looked at drivers of the increases since the 2020 review.

### Step changes

We consider that proposed step changes should be material enough so that the costs could not reasonably be met by an efficient entity operating within business-as-usual budget constraints, through prudent prioritisation of expenditures, or otherwise be mitigated.

In assessing proposed step changes, we considered whether they satisfy at least one of these requirements:

- The change is necessary to fulfil new (or changed) binding statutory or regulatory obligations and constitutes a reasonable estimate of the efficient incremental costs of fulfilling the new (or changed) binding statutory or regulatory obligation.
- The change is reasonably required to achieve an outcome that is explicitly endorsed by customers or broadly accepted changes in community expectations in relation to corporate responsibility.
- The change represents cyclical activities that are not within annual business-as-usual budgets.

We also ensured that proposed step changes were not already included in other components of the opex allowance.

### Trend growth

We assessed Seqwater's proposed adjustments for trend growth over the price path period, including expected input price inflation (Chapter 6) and productivity improvements.

## Prudency and efficiency

We generally consider opex is prudent if it is necessary to incur that opex to:

- operate or maintain the relevant service
- meet legal or regulatory obligations[42]
- achieve an outcome that is explicitly endorsed or desired by customers (for example, agreed service levels)
- achieve broadly accepted changes in community expectations in relation to corporate responsibility (such as commitments to climate change mitigation).

We consider that opex is efficient if it represents the least-cost means, over the life of the associated assets, of providing the required level of service within the regulatory framework.

## Materiality

We formed a view on prudency and efficiency based on the overall proposal before us. We would not generally adjust opex forecasts where:

- the adjustment is not an identified error and is small and/or has only a small impact on the price target at the tariff group level
- the adjustment largely reflects a difference of opinion, rather than an identified error or invalid reasoning

[42] Including those specified in a water management protocol, resource operation plan, resource operation licence or interim resource operations licence.

- the proposal represents a genuine attempt at estimating efficient costs, and the water business has been forthcoming with supporting justification and information
- there is evidence of proper consultation and agreement with customers.

## 4.2 Baseline opex

Seqwater's adjusted baseline opex of $6.8 million[43] in 2023–24 is significantly lower than the allowance of $7.4 million[44] from the 2020 review.[45] Also, all scheme-level customer reference groups have reportedly supported their scheme-level opex.[46] Therefore, our approach to reviewing Seqwater's baseline opex focused on:

- ensuring that baseline opex has been appropriately adjusted for one-off and non-recurrent items (section 4.2.1)
- assessing cost categories that have a material impact on the price target at the tariff group level (particularly if this results in a material increase in the price target for specific tariff groups) (section 4.2.2).

### 4.2.1 Establishing baseline opex

For all cost categories other than labour costs, Seqwater proposed using actual opex for 2022–23 as the basis for determining baseline opex.[47] Seqwater used budgeted labour costs for 2023–24.

Seqwater presented its proposed baseline opex in 2023–24 dollars by escalating 2022–23 actual non-labour costs by general consumer price index (CPI) inflation for most cost categories and by the estimated actual escalation for insurance costs (see section 6.2.2).

Seqwater said that based on its review of actual 2022–23 costs, only dam safety inspections were identified as non-recurrent costs. Given that these inspections are cyclical costs that occur less frequently than annually, Seqwater proposed including them as step changes in the relevant years of the price path period.[48] We review this cost item in section 4.3.3.

Seqwater said that it used 2023–24 budgeted rather than 2022–23 actual labour costs as the poor use of work orders had resulted in the underallocation of labour to the regulated schemes.[49] We accept that 2022–23 actual total labour costs of $1.2 million (in 2023–24 dollars) are materially lower than other recent historical costs, with the average actual labour costs from 2018–19 to 2021–22 at around $1.7 million (in 2023–24 dollars). We also note that 2023–24 budgeted labour costs ($1.3 million) are only slightly higher than 2022–23 actuals, and the difference is not material at the scheme or total level. We have therefore accepted this adjustment to reflect a more typical operating year.

As discussed in Chapter 12, we recommend that the review event for off-stream pumping costs in the Central Lockyer Valley scheme should not be retained[50] and we have incorporated long-term

43 This reflects Seqwater's estimate of $6.9 million (Seqwater, sub. 1, pp. 27–28) updated for revised insurance costs provided by Seqwater.
44 Excludes dam safety inspection costs.
45 Adjusted for the difference between the forecast inflation from our 2020 review and actual inflation since 2018–19.
46 Seqwater, sub. 2, p. 8, sub. 3, p. 10, sub. 4, p. 8, sub. 5, p. 8, sub. 6, p. 9 and sub. 7, p. 8.
47 Seqwater, sub. 1, p. 27.
48 Seqwater, sub. 1, p. 27.
49 Seqwater, response to RFI 29.
50 Specifically, this review event related to pumping water into Lake Clarendon during a flow event and pumping water out of Lake Clarendon for use at a later period.

average costs in our adjusted baseline.[51] The longer time series of historic costs makes it possible to forecast these costs with greater accuracy, with the 5-year and 10-year averages around $0.05 million per year (2023–24 dollars). We have incorporated this in the adjusted baseline for electricity costs. Seqwater indicated that it agrees with the removal of off-stream pumping costs as a review event.[52]

Table 2 shows 2022–23 actuals with Seqwater's proposed adjustments, which we have accepted.

**Table 2: QCA position – baseline opex ($ million, 2023–24 dollars)**

| | 2022–23 actuals | Seqwater adjustments | Seqwater adjusted baseline | QCA adjustments | QCA adjusted baseline |
|---|---|---|---|---|---|
| Labour | 1.2 | 0.1 | **1.3** | – | **1.3** |
| Electricity | 0.1 | – | **0.1** | –[a] | **0.1** |
| Repairs and maintenance | 1.0 | – | **1.0** | – | **1.0** |
| Other | 0.5 | – | **0.5** | – | **0.5** |
| Local government rates | 0.9 | – | **0.9** | – | **0.9** |
| Dam safety inspections | 0.1 | 0.1 | **0.2** | (0.2)[b] | – |
| Insurance | 0.9 | 0.1[c] | **1.0** | – | **1.0** |
| **Total direct** | **4.7** | **0.4** | **5.1** | **(0.2)** | **4.9** |
| Operations | 1.6 | – | **1.6** | – | **1.6** |
| Non-Infrastructure | 0.1 | – | **0.1** | – | **0.1** |
| **Total non-direct** | **1.7** | – | **1.8** | – | **1.7** |
| **Total opex** | **6.5** | **0.4** | **6.8** | **(0.2)** | **6.6** |

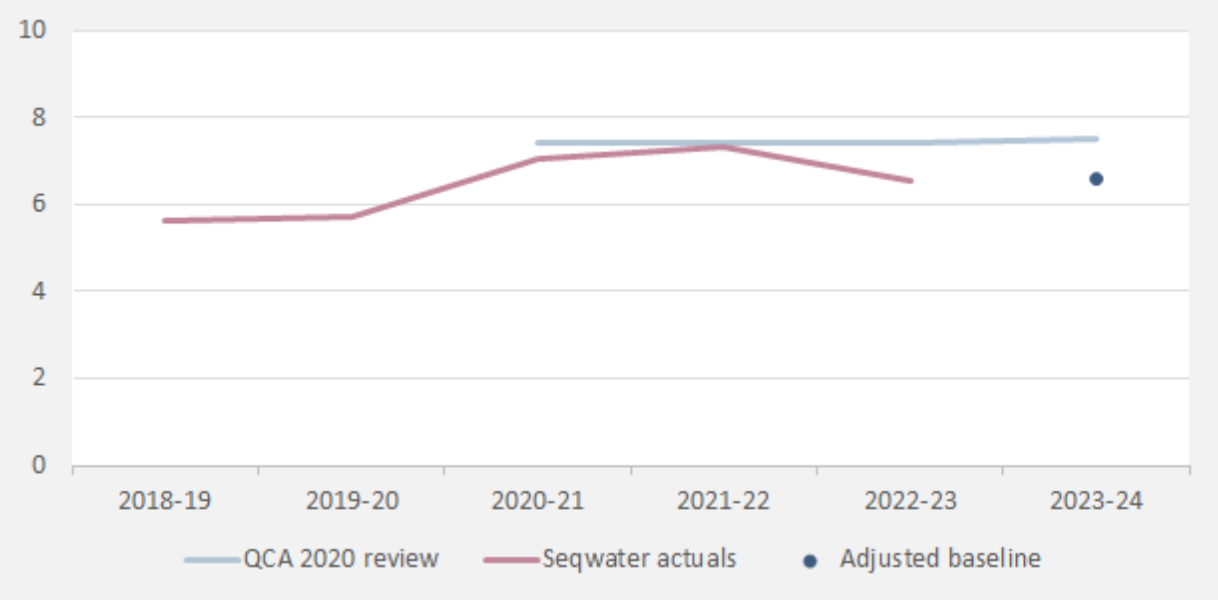
a This includes the small increase noted above for the average long-term costs for off-stream pumping costs in the Central Lockyer Valley scheme. It also includes a small reduction for Pie Creek electricity costs due to an error in the pricing model identified by Seqwater. b Dam safety inspections in all schemes are treated as a step change. c We accepted Seqwater's actual 2023–24 insurance costs, which resulted in a lower escalation from actual 2022–23 costs.
Notes: 1. Figures in this table include opex allocated to irrigation and non-irrigation customers in regulated schemes.
2. Totals may not add due to rounding.
Source: Seqwater pricing model 2023; Seqwater, response to RFIs 8, 13 and 44, QCA analysis.

### 4.2.2 Prudency and efficiency of baseline opex

Seqwater's actual opex has been within the opex allowance from the 2020 review, adjusted for the difference between our forecast of inflation and actual inflation. Figure 5 shows that Seqwater's opex was lower in 2022–23 than the previous two years of the current price path period.

[51] We have accepted Seqwater's proposed review event adjustment for the current price path period, as set out in section 4.5.
[52] Seqwater, sub. 84, p. 3.

**Figure 5: Total opex – actuals relative to QCA allowance ($ million, 2022-23 dollars)**




Notes: 1. These figures include electricity costs, as these are not material and are largely fixed in Seqwater's regulated schemes. 2. The adjusted baseline incorporates our adjustments to Seqwater's 2022–23 actuals for non-recurrent costs. 3 Opex from the 2020 review relates to allowed opex for 2020–21 to 2023–24 adjusted for the difference between our forecast of inflation and actual inflation.
Source: QCA, *Rural Irrigation Price Review 2020–24, Part C: Seqwater*, final report, January 2020; Seqwater, supporting information accompanying sub. 1.

We are encouraged by Seqwater's cost savings. By resetting the baseline opex allowance down to Seqwater's actual costs, irrigators receive the benefits of Seqwater's cost savings through lower price targets (and lower prices if they are at the price target).

We note that Seqwater's proposed lower costs are driven by lower than allowed costs in most cost categories (Table 3). The only cost category with proposed costs that are higher than allowed costs is insurance costs, which we assess further below.

**Table 3: Comparison of adjusted baseline with the 2020 review for selected cost categories ($ million, 2023–24 dollars)**

| | Adjusted baseline | 2020 review | Difference |
|---|---|---|---|
| Labour | 1.3 | 1.4 | **(0.1)** |
| Electricity | 0.1 | 0.1 | – |
| Repairs and maintenance | 1.0 | 1.2 | **(0.2)** |
| Other | 0.5 | 0.6 | **(0.1)** |
| Local government rates | 0.9 | 0.9 | – |
| Insurance | 1.0 | 0.8 | **0.2** |
| **Total direct** | **4.9** | **5.0** | **(0.1)** |
| Operations | 1.6 | 2.3 | **(0.7)** |
| Non-infrastructure | 0.1 | 0.1 | – |
| **Total non-direct** | **1.7** | **2.4** | **(0.7)** |
| **Total operating costs** | **6.6** | **7.4** | **(0.8)** |

Notes: 1. Opex from the 2020 review reflects allowed opex for 2023–24 adjusted for the difference between our forecast of inflation and actual inflation. 2. Totals may not add due to rounding.
Source: QCA, *Rural irrigation price review 2020–24, Part C: Seqwater*, final report, January 2020; Seqwater, supporting information accompanying sub. 1.

While Seqwater's adjusted baseline opex at the total regulated scheme level is lower than the allowance from the 2020 review,[53] there are some regulated schemes with higher than allowed opex. The two regulated schemes with opex that is materially higher than we allowed are the Central Lockyer Valley scheme (up 5%) and the Morton Vale Pipeline scheme (up 25%). The increase was largely driven by the increase in insurance costs.

## Insurance

Seqwater's base year insurance opex is above the escalated insurance allowance from the 2020 review. Seqwater's proposed base year insurance costs are based on the 2022–23 actual costs escalated by 19.6% to give a cost of $1.1 million.[54]

In response to a request for further information, Seqwater indicated that its insurance process:

- aligned with its risk profile and risk appetite, which transfers major financial risks to the insurance market
- includes an annual renewal process to revisit its current risk profile and appetite, which informs the setting of the required limits of cover and the level of retentions (i.e. claim deductibles/excesses)
- has considered the level of self-insurance – balancing avoiding premium costs with the value for money transfer of financial risk via insurance.[55]

Seqwater's organisation-wide insurance costs were reviewed for prudency and efficiency as part of the 2022 bulk water review. In that review, we accepted Seqwater's proposed step change reflecting

[53] Adjusted for the difference between the forecast inflation from our 2020 review and actual inflation since 2020–21.
[54] Seqwater pricing model 2023.
[55] Seqwater, response to RFI 24.

the material forecast increases in insurance premiums expected from 2021–22 onwards, based on estimates from Seqwater's insurance broker, Marsh.[56]

We consider that Seqwater has worked closely with Marsh to investigate the prudent scope of insurances and deductibles. Seqwater also conducts a competitive and rigorous process in selecting insurers as part of its insurance renewal strategy.[57] Given Seqwater's policies and procedures, and the cost drivers underlying its insurance costs since the 2020 review, we accept Seqwater's actual 2023–24 insurance costs as prudent and efficient.

We have made a modelling adjustment to ensure the correct application of asset valuations for the Central Lockyer Valley scheme, which has slightly reduced base year insurance costs allocated to regulated schemes.

## 4.3 Step changes

### 4.3.1 Water accounting system

Seqwater is implementing a new water accounting system in the 2024–25 financial year. Seqwater said this system will replace the manual system that is currently used for customer water accounting as well as the uploading of billing sheets. Seqwater said its customers have requested an online portal numerous times for their water management. Seqwater proposed an opex component of $25,000, commencing 2024–25, for the water accounting system.[58]

We note that the drivers behind the new water accounting system are legislative compliance obligations and service improvements requested by customers. Seqwater said the costs of the system are not currently covered via its opex, and the solution that the partnership with WaterStart provides represents a low-cost solution.[59]

We accept the step change cost of $25,000 in 2024–25. We note that the use of a new system should provide a small amount of labour savings, with the removal of manual processes. Given the small opex of the system and the challenges in estimating the labour savings, we have not adjusted the proposed opex.

The capital cost component of the water accounting system is covered in Chapter 5.

### 4.3.2 Groundwater management: Central Lockyer Valley

Seqwater included costs associated with the management of groundwater bores in the Central Lockyer Valley scheme. Seqwater indicated that as part of an amendment to the Moreton water plan, it has become responsible for monitoring and reporting on the groundwater conditions in the Central Lockyer Valley scheme. Seqwater submitted a base year cost of $92,000 for 2023–24.[60]

As the management and monitoring of the groundwater bores is a new compliance obligation for Seqwater, we have accepted Seqwater's proposed step change for this expenditure.

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56 QCA, *Seqwater Bulk Water Price Review 2022–26*, final report, March 2022, pp. 23, 27.
57 Seqwater, response to RFI 17.
58 Seqwater, sub. 1, p. 28.
59 Seqwater, response to RFI 23.
60 Seqwater, sub. 1, p. 29.

Seqwater has also included other new costs of $28,000 to cover the telemetry associated with the customer flow meters. These costs are a new compliance cost, and we have accepted and treated them as a step change as opposed to a base cost.

### 4.3.3 Dam safety inspections

Seqwater included dam safety inspections as a proposed step change. The dam safety program comprises five-yearly regulatory dam safety inspections as well as dam safety deformation surveys. As the five-yearly dam safety inspections are not an annual cost, Seqwater has separately treated them as a step change in the year the inspection is planned. Seqwater has proposed a total cost of $0.6 million (in 2023–24 dollars) over the price path period for the dam safety program.

As dam safety inspections are a compliance obligation for Seqwater, we have accepted Seqwater's proposed step change for this expenditure. We have adjusted for errors within Seqwater's submitted pricing model, reducing the total cost of the step change to $0.5 million (in 2023–24 dollars).

### 4.3.4 Regulatory fee

Some stakeholders did not support the recovery of our regulatory fees through irrigation prices and considered they should be excluded.[61] In addition, some stakeholders suggested a longer period between pricing reviews to give the businesses greater certainty on pricing and reduce regulatory costs paid for pricing reviews, which in effect would contribute to lower prices for all stakeholders.[62]

We note that there are trade-offs between longer price path periods (e.g. more certainty) and shorter price path periods (e.g. reduced risk) and that it is currently a matter for the government as to how best to address these trade-offs.

QFF also stated that should the regulatory fees continue, then the cost should be recovered across all water access entitlements (WAEs) and not just irrigation WAEs.[63]

The apportionment of regulatory costs will generally have regard to fairly allocating the costs to the beneficiaries of the regulatory service and to the terms of the referral. Where costs cannot be linked to a particular service or user, they would generally be allocated using a fair and reasonable cost allocation methodology. In this context, we consider irrigation water access entitlements (WAEs) to be an appropriate allocator.

We note that the referral limits our review to pricing for irrigation customers in Seqwater's regulated schemes. As we are undertaking this review in accordance with the requirements in the referral, including the gradual transition to a price target that excludes a return on pre-2000 assets and dam safety upgrade capex, we consider that irrigation customers are the key beneficiaries of the regulatory service and should be allocated the associated costs.

This allowance can only recover regulatory fees charged by us up to a cap of $3.5 million. This amount, charged in 2023–24 and 2024–25, has been smoothed over the price path period. Seqwater's share of the regulatory fee within the $3.5 million cap ($0.15 million) has been projected across the price path period in present-value-neutral terms using our estimated weighted average cost of capital (WACC).

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61 Queensland Farmers' Federation (QFF), sub. 83, p. 6.
62 G Drynan, sub. 73, p. 1; QFF, sub. 59, p. 4.
63 QFF, sub. 59, p. 4.

## 4.4 Efficiency target

In the 2022 bulk water review, we did not apply an efficiency target to Seqwater's forecast opex as Seqwater had commenced a credible efficiency program setting out a pathway to reveal efficient costs over the price path period, including an ongoing process to identify and implement 'spend-to-save' initiatives.[64] We considered this approach to be superior to imposing an ongoing efficiency target to controllable opex.

Seqwater said that this efficiency program was now underway, and it is currently progressing the rollout of spend-to-save energy projects committed to as part of the 2022 bulk water review.[65] Seqwater said that it is also continuing to refine its broader efficiency program, including the processes of identifying and implementing efficiency opportunities across the business.

We note in section 4.2 that Seqwater's actual costs and forecast costs for this review are within the opex allowance in real terms[66] from the 2020 review. Consistent with the 2022 bulk water review, we consider that the continued implementation of Seqwater's efficiency program is a superior approach to applying an efficiency target without a credible efficiency plan.

## 4.5 Review events

In accordance with the referral, we are to make an end-of-period adjustment to the opex allowance to reflect any increase or decrease in costs caused by the occurrence of a review event in the current price path period.[67]

Seqwater proposed to recover an increase in costs arising from two review events – an off-stream pumping cost review event and a policy change review event.[68] We have accepted Seqwater's proposal to recover:

- for the off-stream pumping cost review event, an additional $154,597 of electricity costs incurred in 2021–22 to supply the Central Lockyer Valley water supply scheme. The additional costs were incurred to pump water to the Lake Clarendon off-stream storage site during flow events and to pump the water out for later usage
- for the policy change review event, an additional $271,788 incurred in 2021–22 to supply the Cedar Pocket water supply scheme. The additional costs were incurred to meet a new requirement to engage an external engineer to undertake the 20-year inspection of the Cedar Pocket Dam. Previously, the inspections could be undertaken in-house. The new requirement was introduced in an update to the Dam Safety Management Guideline released in October 2020.[69]

Seqwater proposed to recover the costs over 30 years through each scheme's renewals annuity allowance.[70] However, the referral requires an adjustment to the opex allowance, so we have adjusted forecast opex for the relevant schemes to enable the costs to be recovered over the price path period.

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64 QCA, *Seqwater Bulk Water Price Review 2022–26*, final report, March 2022, p. 30.
65 Seqwater, sub. 1, p. 31.
66 That is, after adjusting for the differences between our forecast and actual inflation since the 2020 review.
67 Referral, para. B(1.1)(a); QCA, *Rural irrigation price review 2020–24, Part A: Overview*, final report, January 2020, p. 43.
68 Seqwater, sub. 1, pp. 61–62.
69 Department of Natural Resources, Mines and Energy, *Dam Safety Management Guideline*, version 2, Queensland Government, October 2020, pp. xii, 40, 50. The latest version of the guideline (version 3.1) was issued in August 2024.
70 Seqwater, sub. 1, p. 61.

# 5 Renewals expenditure

This chapter sets out our position on the prudent and efficient level of expenditure on renewing Seqwater's existing assets in regulated schemes, for the purpose of determining an appropriate allowance for renewals expenditure over the price path period. This includes metering renewals expenditure (allocated only to medium priority customers) and non-metering renewals expenditure (allocated to irrigation and non-irrigation customers) in regulated schemes.

We have considered the findings from the 2022 bulk water review, as required by the referral. In that review, we assessed Seqwater's asset planning and governance frameworks as well as the prudency and efficiency of Seqwater's capital expenditure (capex) from 1 July 2017 to 30 June 2028. Taking into account the findings of the 2022 bulk water review, we consider Seqwater's governance and procedures are appropriate.

We have adjusted the historical renewals program (section 5.2) and forecast renewals program (section 5.3) for the prudent and efficient level of metering renewal costs.

Our position on the prudent and efficient level of renewals expenditure is in Table 4.

**Table 4: QCA position – renewals expenditure ($ million, nominal)**

| | 2018-19 to 2024-25 | 2025-26 to 2028-29 | 2029-30 to 2057-58 |
|---|---|---|---|
| Seqwater proposed | 16.6 | 6.2 | 46.9 |
| **Seqwater revised[a]** | **17.0** | **6.0** | **47.0** |
| QCA adjustments[b] | (0.4) | – | – |
| **QCA position** | **16.6** | **6.0** | **47.0** |

a Seqwater provided actuals for 2023–24 and updates to its forecast metering renewals expenditure since our draft report. b Our adjustments reflect differences between our position and Seqwater's revised estimates. The adjustment in 2021–22 is the reallocation of review event adjustments to the opex allowance (see section 4.5). Other adjustments reflect differences between our updated inflation forecast and those proposed by Seqwater (see Chapter 6).
Notes: 1. Figures in this table relate to metering renewals expenditure (allocated only to medium priority customers) and non-metering renewals expenditure (allocated to all customers) in regulated schemes. 2. Totals may not add due to rounding.
Source: Seqwater, sub. 1, sub. 84 and response to RFI 14 (post-draft); QCA analysis.

## 5.1 Our assessment approach

Given our detailed assessment of the prudency and efficiency of Seqwater's renewals expenditure in the 2022 bulk water review, we have focused our assessment for this review on irrigation-specific expenditure that was not reviewed as part of the 2022 bulk water review.

For historical renewals expenditure, we have reviewed programs where outturn expenditure has been materially higher than the 2020 review allowance. For forecast renewals expenditure, we have reviewed a sample of material projects to test their prudency and efficiency.

In reviewing renewals expenditure, we have focused on projects and programs with a material impact on the price target at the tariff-group level.

We note in Chapter 2 that the scheme-level customer reference groups (CRGs) generally endorsed Seqwater's proposed costs, raising only some reservations on the metering spend in the Logan River water supply scheme. Concerns with metering renewals expenditure were also raised at the

Gatton workshop in January 2024.[71] Given the materiality of metering renewals expenditure on the price target at the tariff group level, we engaged AtkinsRéalis to assist in assessing the prudency and efficiency of the metering renewals program for schemes with material metering renewals expenditure.

Seqwater submitted revised renewal expenditure figures for metering costs in some schemes in response to our draft report.[72]

## 5.2 Historical renewals expenditure

Seqwater said that it had overspent our allowance from the 2020 review (Table 5).[73]

**Table 5: Seqwater's actual renewals, 2018–19 to 2024–25 ($ million, nominal)**

| | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25[a] | Total |
|---|---|---|---|---|---|---|---|---|
| QCA 2020 review | 2.9 | 2.3 | 2.0 | 1.3 | 0.8 | 0.5 | 1.1 | **10.9** |
| Seqwater actual/budget | 2.0 | 3.4 | 3.7 | 2.0 | 2.8 | 1.5 | 1.6 | **17.0** |
| **Difference** | **(1.0)** | **1.1** | **1.7** | **0.6** | **2.1** | **1.1** | **0.5** | **6.1** |

a Seqwater provided actuals for 2023–24 and updates to its forecast metering renewals expenditure for 2024–25 since our draft report.
Notes: 1. The 2020 review incorporated actual renewals expenditure up to and including 2017–18. We are therefore required to examine actual renewals from 2018–19 onwards to allow the annuity balance to be rolled forward from 1 July 2018 to 30 June 2025. 2. Totals may not add due to rounding.
Source: Seqwater, supporting information accompanying sub. 1, sub. 84 and response to RFI 14 (post-draft); QCA, *Rural irrigation price review 2020–24, Part C: Seqwater*, final report, January 2020; QCA analysis.

The overspend was largely driven by metering renewal expenditure, which increased by $4.2 million (or 94%) relative to the 2020 review allowance. Non-metering renewals increased by $1.9 million (or 29%) relative to the 2020 review allowance.

During the period, Seqwater also spent $0.6 million in capex for the design, development and implementation of a water accounting system.[74]

Given the material overspend in the metering renewal program, we reviewed projects in this program for prudency and efficiency (section 5.2.1).[75] We also assessed the prudency and efficiency of the water accounting system included in the non-metering renewals program (section 5.2.2).

Table 6 shows our position for the prudent and efficient level of historical renewals.

71 QCA, *Gatton workshop – issues raised (23 January 2024)*, published February 2024.
72 Seqwater, sub. 84, p. 14.
73 Seqwater, sub. 1, p. 38 and sub. 84, p. 14.
74 Seqwater, sub. 1, p. 38.
75 We note also that metering renewals expenditure comprises $8.6 million of the total $16.6 million program. In addition, metering renewals expenditure is allocated 100% to medium priority (mainly irrigation customers), while only a portion of non-metering renewals expenditure is allocated to medium priority using the headworks utilisation factor (for bulk schemes) or water access entitlements (WAEs) (for distribution systems).

**Table 6: QCA position – renewals expenditure for 2018–19 to 2024–25 ($ million, nominal)**

| | 2018-19 | 2019-20 | 2020-21 | 2021-22[a] | 2022-23 | 2023-24 | 2024-25 | Total |
|---|---|---|---|---|---|---|---|---|
| **Seqwater actual/budget** | **2.0** | **3.4** | **3.7** | **2.0** | **2.8** | **1.5** | **1.6** | **17.0** |
| QCA adjustments | – | – | – | (0.4) | – | – | – | **(0.4)** |
| **QCA position[b]** | **2.0** | **3.4** | **3.7** | **1.5** | **2.8** | **1.5** | **1.6** | **16.6** |

a Our adjustment for 2021–22 is the removal of review events (as we have recovered these through opex – see section 4.5). b Seqwater provided actuals for 2023–24 and updates to its forecast metering renewals expenditure for 2024–25 since our draft report.
Note: Totals may not add due to rounding.
Source: Seqwater, supporting information accompanying sub. 1; sub. 84 and response to RFI 14 (post-draft); QCA analysis.

### 5.2.1 Metering renewal program

Central Lockyer Valley, Logan River, Mary Valley and Warrill Valley incurred $8.2 million of the $8.6 million in total metering expenditure from 2018–19 to 2024–25, compared to the metering expenditure allowance for these schemes of $3.4 million over this period.

In general, AtkinsRéalis found the metering renewal program to be prudent as it is driven by the need for legislative compliance with the National Measurement Institute (NMI) Standard NMI M10.[76] In order to achieve compliance with this standard, Seqwater needs to install and validate pattern meters on a five-yearly basis.[77] Further, Schedule 11 of the Water Regulation 2016 stipulates a due date by which meters that do not meet specified validation requirements must be replaced.

AtkinsRéalis considered that Seqwater's general approach to the delivery of metering renewals projects, including project management, engineering, piping and installation is appropriate and in line with standard industry practice.[78] However, while AtkinsRéalis found that Seqwater's choice of preferred supplier, Krohne, was in accordance with Seqwater's procurement procedures, AtkinsRéalis stated that Seqwater had not provided sufficient information to support the contention that Krohne meters are the only meters compliant with the NMI M10 standard.[79] AtkinsRéalis maintained its view after reviewing Seqwater's response to the draft report, noting that the meters listed in the NMI M10 are not exhaustive and that the recent additions to the list demonstrates that the Krohne meter is not necessarily the most efficient selection for future meter installations.[80] However, AtkinsRéalis noted that for the historical Krohne meter selections, there were a lack of options available to Seqwater. The other meter options that were considered either were not capable of providing future telemetry or had experienced some earlier failures.[81]

We also consider that the overall unit cost is broadly similar to unit metering costs for Sunwater's regulated schemes.[82]

As Seqwater's historical metering renewals program has an appropriate driver and an appropriate historical meter choice, and as we have not identified any inefficiency in cost, we have assessed the program as prudent and efficient (Table 7).

76 AtkinsRéalis, *Expenditure review for rural irrigation pricing 2025–29*, Seqwater meter renewals expenditure review, supplementary report, June 2024, p. 10 (AtkinsRéalis, Seqwater supplementary report, June 2024).
77 AtkinsRéalis, Seqwater supplementary report, June 2024, p. 10.
78 AtkinsRéalis, Seqwater supplementary report, June 2024, p. 11.
79 AtkinsRéalis, Seqwater supplementary report, June 2024, p. 11.
80 AtkinsRéalis, *Rural irrigation pricing review 2025–29*, update to the supplementary report on Seqwater's meter program, January 2025, p. 4 (AtkinsRéalis, Seqwater updated supplementary report, January 2025).
81 AtkinsRéalis, Seqwater updated supplementary report, January 2025, p. 4.
82 AtkinsRéalis, S*eqwater updated supplementary report*, January 2025, pp. 8–9.

**Table 7: QCA position – metering renewals expenditure for 2018–19 to 2024–25 ($ million, nominal)**

| | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | 2023-24 | 2024-25 | Total |
|---|---|---|---|---|---|---|---|---|
| Seqwater proposal | 1.0 | 2.3 | 1.8 | 0.5 | 1.6 | 0.4 | 1.2 | **8.6** |
| QCA adjustments | – | – | – | – | – | – | – | – |
| **QCA position** | **1.0** | **2.3** | **1.8** | **0.5** | **1.6** | **0.4** | **1.2** | **8.6** |

Note: Totals may not add due to rounding.
Source: Seqwater, sub. 1, sub. 84 and response to RFI 14 (post-draft); QCA analysis.

### 5.2.2 Water accounting system

Late in the 2020 review, Seqwater provided a business case for a customer billing and water accounting system with proposed capex of $0.7 million. Given the late stage of the submission, we excluded these costs as we were unable to undertake a detailed assessment of the efficiency of the costs.[83]

Seqwater submitted net capex of $0.6 million[84] for the design, development and implementation of a water accounting system over 2021–22 to 2023–24.[85] Seqwater said that it delivered the water accounting system in response to customers expressing on numerous occasions (through the engagement program) that they would like an online portal where they can manage their water allocations, enter meter reads and monitor usage and remaining balances.[86]

Seqwater also said that the costs are lower than other water accounting systems through the use of a pilot partnership with WaterStart.[87] Seqwater proposed allocating these build costs in the annuity balance of each regulated scheme based on customer numbers.

We reviewed information from Seqwater on the business case and the procurement of the water accounting system.[88] We accept that the costs of the water accounting system are both prudent and efficient. We also note that there is broad customer acceptance for the new water accounting system, with all the scheme-level CRGs endorsing the proposed costs in Seqwater's proposal.[89] Seqwater has developed the water accounting system in pilot partnership with WaterStart, which resulted in a lower cost to irrigators.

We have reviewed and accepted the costs of the water accounting system, with a total of $0.5 million allocated to regulated schemes after removing the share allocated to the out-of-scope Central Brisbane River scheme.[90]

We note that Seqwater's proposed treatment of these system build costs is inconsistent with its classification and allocation of other non-infrastructure costs, which are normally treated as indirect costs and allocated across the business using direct opex. We also would not generally allocate costs such as this system (which is primarily service-related rather than asset-related) between high priority and medium priority customers in bulk schemes using the headworks utilisation factor.[91]

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83 QCA, *Rural irrigation price review 2020–24, Part C: Seqwater*, final report, January 2020, p. 19.
84 This includes the reduction in the total cost of $0.7 million by $0.1 million sourced from a WaterStart innovation grant. See Seqwater, *Logan River WSS, Customer Reference Group – Meeting Summary*, 12 September 2023, p. 2.
85 Seqwater, sub. 1, p. 38.
86 Seqwater, sub. 1, p. 38.
87 Seqwater, sub. 1, p. 38.
88 Seqwater, response to RFI 23.
89 Seqwater, sub. 1, p. 7.
90 Seqwater, response to RFI 27.
91 This results in only around half of the proposed $0.5 million being allocated to irrigation tariff groups.

However, given the broad customer acceptance of Seqwater's approach to recovering this cost, and also considering the immateriality of this cost, we have accepted Seqwater's proposed treatment.

### 5.2.3 Review events

Seqwater proposed to recover an increase in costs arising from two review events – an off-stream pumping cost review event and a policy change review event – within the relevant scheme's renewals annuity allowance.[92] However, the referral requires an adjustment to the opex allowance, so we have adjusted forecast opex for each scheme to enable the costs to be recovered over the price path period (see section 4.5).

## 5.3 Forecast renewals expenditure

Our position is that the prudent and efficient level of forecast renewals expenditure is $53.0 million (Table 8).

**Table 8: QCA position – forecast renewals ($ million, nominal)**

| | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–58 | Total |
|---|---|---|---|---|---|---|
| Seqwater proposed | 0.8 | 1.9 | 1.7 | 1.9 | 46.9 | **53.1** |
| **Seqwater revised** | **0.7** | **1.6** | **1.7** | **1.9** | **47.0** | **53.0** |
| QCA adjustments[a] | – | – | – | – | – | – |
| **QCA position** | **0.7** | **1.6** | **1.7** | **1.9** | **47.0** | **53.0** |

a Our adjustments reflect differences between our updated inflation forecast and those initially proposed by Seqwater (see Chapter 6).
Note: Totals may not add due to rounding.
Source: Seqwater, sub. 1 and sub. 84; QCA analysis.

We have accepted the metering and non-metering renewals program as prudent and efficient (section 5.3.1, 5.3.2 and 5.3.3).

### 5.3.1 Metering renewals expenditure

In response to our draft report, Seqwater submitted a revised forecast metering renewal program, for the price path period and beyond, of $3.5 million (Table 9). Seqwater also provided additional reasoning and documentation in support of its revised forecast program.

92 Seqwater, sub. 1, pp. 61–62.

**Table 9: Seqwater's forecast metering renewal program by scheme ($ million, nominal)**

| Scheme | Seqwater proposed | Seqwater revised |
|---|---|---|
| Morton Vale Pipeline | 0.7 | 0.4 |
| Logan River | 0.1 | 0.1 |
| Lower Lockyer Valley | 2.1 | 2.2 |
| Mary Valley | 0.5 | 0.5 |
| Warrill Valley | 0.2 | 0.2 |
| **Total** | **3.7** | **3.5** |

Note: 1. Seqwater did not forecast any metering renewals expenditure beyond 2029–30. 2. Totals may not add due to rounding.
Source: Seqwater, sub. 1 and sub. 84; Seqwater, response to RFI 39.

With the assistance of AtkinsRéalis, we assessed the program for prudency and efficiency. This assessment also covered projected expenditure over 2023–24 and 2024–25 in Logan River ($1.1 million).

AtkinsRéalis assessed Seqwater's forecast metering renewals program to be prudent given it is driven by legislative requirements.[93] AtkinsRéalis assessed the forecast number of meters to be replaced to be reasonable in all schemes based on the additional reasoning and documentation provided by Seqwater in response to the draft report.[94] However, AtkinsRéalis did not consider the proposed unit costs to be reasonable, noting that:

- the unit costs for Logan River were based on recent historical data, but the low number of meters replaced made these unreliable to apply to future meter installations
- the unit costs for other schemes appeared to be assumed values, with no justification or validation provided.[95]

AtkinsRéalis maintained its approach of applying historical unit replacement costs,[96] revised to include recent Logan outturn costs and to remove schemes with unusually low unit costs. However, given the lack of materiality of AtkinsRéalis's revised adjustments at the price target level and our concerns with using business-wide historical unit costs, we have accepted Seqwater's revised costs.

AtkinsRéalis also recommended excluding the proposed metering renewals expenditure for the Warrill Valley scheme given the relatively low expenditure and the lack of supporting documentation.[97] However, we have not applied this recommended adjustment due to its lack of materiality at the price target level.[98]

In response to our draft report, Seqwater reallocated a small number of meters in its forecast program from Mary Valley to Cedar Pocket and Pie Creek.[99] AtkinsRéalis accepted the number of meters but recommended an adjustment to the unit costs. We have not applied this recommended adjustment to Cedar Pocket and Pie Creek due to the lack of materiality at the price target level.

We have accepted Seqwater's revised metering renewals expenditure (Table 10).

93 AtkinsRéalis, Seqwater supplementary report, June 2024, p. 10.
94 AtkinsRéalis, Seqwater updated supplementary report, January 2025, p. 6.
95 AtkinsRéalis, Seqwater updated supplementary report, January 2025, pp. 6–7.
96 AtkinsRéalis, Seqwater updated supplementary report, January 2025, p. 7.
97 AtkinsRéalis, Seqwater supplementary report, June 2024, pp. 39–40.
98 AtkinsRéalis, Seqwater updated supplementary report, January 2025, p. 7.
99 Seqwater, sub. 84, p. 13.

**Table 10: QCA position – forecast metering renewals ($ million, nominal)**

| | 2025–26 | 2026–27 | 2027–28 | 2028–29 | 2029–30 to 2032–33 | Total |
|---|---|---|---|---|---|---|
| Seqwater proposed | 0.7 | 0.8 | 0.2 | 0.2 | 1.8 | **3.7** |
| **Seqwater revised** | **0.7** | **0.6** | **0.2** | **0.2** | **1.9** | **3.5** |
| QCA adjustments[a] | – | – | – | – | – | **-** |
| **QCA position** | **0.7** | **0.6** | **0.2** | **0.2** | **1.9** | **3.5** |

a Our adjustments reflect differences between our position and Seqwater's revised estimates.
Note: Totals may not add due to rounding.
Source: Seqwater, sub. 1 and sub. 84; QCA analysis.

### 5.3.2 Non-metering renewals expenditure over the price path period

For the period 2022–23 to 2027–28, we have accepted Seqwater's proposed capex allowance as a reasonable estimate of prudent and efficient capex as part of the 2022 bulk water review.[100] The referral for this review requires us to take these findings into account.

We have accepted Seqwater's proposed non-metering renewals over the price path period.

### 5.3.3 Non-metering renewals expenditure beyond the price path period

For this review, Seqwater has changed its approach to forecasting long-term renewals beyond the price path period. In previous reviews, Seqwater developed these forecasts using an asset renewals model that was based on asset age renewal.[101] However, Seqwater said that this model has not been updated significantly since it was developed in 2014, and its integrated asset management plans only develop asset renewals for the next 10 years ahead.[102]

In the absence of a modelling approach, Seqwater has proposed applying an asset-specific percentage of the written-down value of assets to estimate an annual renewals forecast for the remaining years in the 30-year planning period (i.e. 2033–34 to 2057–58).[103]

Seqwater said that while there is no industry-specific guidance for a bulk water supply business, it had taken the level of complexity and the maintained state of assets into account in determining the annual asset-specific renewal rate.[104]

We have assessed the impact of this new approach by comparing the renewals expenditure profile from the 2020 review with the current review, from 2029–30 until 2053–54 (Table 11).

100 QCA, *Seqwater Bulk Water Price Review 2022–26*, final report, March 2022, p. 54.
101 Seqwater, response to RFI 7.
102 Seqwater, response to RFI 7.
103 Seqwater, response to RFI 12.
104 Seqwater, response to RFI 7.

**Table 11: Seqwater proposed expenditure – non-metering renewals ($ million, 2023–24 dollars)**

| | 2029–30 to 2038–39 | 2039–40 to 2048–49 | 2049–50 to 2053–54 | Total |
|---|---|---|---|---|
| 2020 review | 3.8 | 23.2 | 23.1 | **50.0** |
| Current review | 6.9 | 9.9 | 5.0 | **21.8** |
| **Difference** | **3.2** | **(13.3)** | **(18.1)** | **(28.2)** |

Notes: 1. Our calculation of the renewals annuity allowance in the 2020 review only required renewals expenditure until 2053–54, so we have limited our comparison up to this year. 2. We have adjusted the 2020 review figures for the difference between our forecast and actual inflation from 2018–19.
Source: Seqwater, sub. 1; QCA, *Rural irrigation price review 2020–24, Part C: Seqwater*, final report, January 2020; QCA analysis.

We note that the 2020 review included forecasts of large lumpy renewals in 2044–45 (for Mary Valley) and 2050–51 (for Lower Lockyer Valley), whereas the asset-specific renewal rate results in a smoother renewals profile in these years.

When the 2020 review renewals profile is adjusted for the lumpy expenditure forecast for these years, this results in a similar profile as the new approach (Table 12).

**Table 12: Seqwater's proposed expenditure – renewals excluding lumpy capex years (non-metering only) ($ million, 2023–24 dollars)**

| | 2029–30 to 2038–39 | 2039–40 to 2048–49 | 2049–50 to 2053–54 | Total |
|---|---|---|---|---|
| 2020 review | 3.8 | 10.4 | 7.3 | **21.4** |
| Current review | 6.9 | 9.9 | 5.0 | **21.8** |
| **Difference** | **3.2** | **(0.4)** | **(2.3)** | **0.4** |

Notes: 1. Our calculation of the renewals annuity allowance in the 2020 review only required renewals expenditure until 2053–54, so we have limited our comparison up to this year. 2. We have adjusted the 2020 review figures for the difference between our forecast and actual inflation from 2018–19.
Source: Seqwater, sub. 1; QCA, *Rural irrigation price review 2020–24, Part C: Seqwater*, final report, January 2020; QCA analysis.

The new forecasting approach used by Seqwater means that large capex projects will only come into the annuity profile when they are 10 years out. This should result in a more accurate forecast of the project costs over this period; but it also means that large and distant future renewals will be excluded from price targets.

We note that the new approach results in a similar renewals expenditure profile over the planning period. Further, we consider it is appropriate to exclude large and distant forecasts from price targets (given the uncertainty associated with the expenditure estimates) and to adjust the renewals annuity balance as more accurate forecasts become available.

For these reasons, and given Seqwater's non-metering renewals expenditure was endorsed by CRGs, we have accepted the renewals expenditure proposed by Seqwater.

# 6 Inflation and the rate of return

We have reviewed the appropriateness of Seqwater's approaches to estimating forecast inflation and setting the weighted average cost of capital (WACC), taking into account the extent of consistency of Seqwater's approach with our established methodologies. In accordance with the referral,[105] we are required to consider the findings from the 2022 bulk water review[106] where relevant.

## 6.1 Estimating annual forecast inflation

Seqwater proposed to forecast inflation using a broadly similar approach as our 2021 inflation forecasting position paper (the 2021 inflation report).[107]

Seqwater's proposal used short-term Reserve Bank of Australia (RBA) forecasts of consumer price index (CPI) inflation for 2023–24 and 2024–25, and then derived annual forecasts using a linear glide path from a forecast of 3.0% in 2025–26 to a rules–based anchor–point forecast of 2.5% in 2028–29.[108] Seqwater used the midpoint of the RBA's target range (2.5%) as the forecast for 2029–30 onwards.

While Seqwater's proposal is consistent with our approach, we have updated Seqwater's annual forecast CPI inflation for 2024–25 and 2025–26 using the latest RBA data.[109] Consistent with the approach in our 2021 inflation report,[110] we have applied a linear glide path from the first year ahead (2025–26) and referred to the December 2026 ending forecast in the second year ahead (2026–27) when determining the anchor point of 2.5% in 2029–30.

Table 13 compares the inflation forecasts in Seqwater's proposal with our updated forecasts.

**Table 13: QCA position – CPI inflation forecasts (%)**

| | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 |
|---|---|---|---|---|---|
| Seqwater proposal | 3.00 | 3.00 | 2.83 | 2.67 | 2.50 |
| QCA position | 2.50 | 3.10 | 2.95 | 2.80 | 2.65 |

Source: Seqwater, sub. 1, pp. 30–31; RBA, *Statement on Monetary Policy*, November 2024, p. 55; QCA analysis.

## 6.2 Applying forecast inflation

Seqwater's proposal applies forecast inflation in the following calculations:

- Indexing the annuity in calculating prices under the existing renewals annuity approach.
- Escalating baseline opex and step changes over the price path period with input–specific inflation measure.

[105] Referral, para. C(1.1)(d).
[106] QCA, *Seqwater Bulk Water Price review 2022–26*, final report, March 2022.
[107] QCA, *Inflation forecasting*, final position paper, October 2021.
[108] We note that based on Seqwater's forecasts at the time, the rules-based anchor point forecast should have been 2.75%, consistent with our approach in the 2021 inflation report. However, based on the current annual CPI forecasts, a 2.5% rules-based anchor-point forecast is appropriate.
[109] RBA, *Statement on Monetary Policy*, November 2024, p. 55.
[110] QCA, *Inflation forecasting*, final position paper, October 2021, p. 41.

- Smoothing unit costs to derive price targets and prices over the price path period for each tariff group.

We have assessed Seqwater's proposed inflation measure for each of these purposes.

### 6.2.1 Renewals expenditure allowance

We have accepted Seqwater's proposed inflation measures for the renewals expenditure allowance under the annuity approach, subject to updating them for the latest annual CPI inflation forecast data (Table 14).

**Table 14: QCA position – inflation measure (%)**

| Use | Basis for inflation factor | Seqwater proposal | QCA position |
|---|---|---|---|
| **Renewals expenditure allowance** | | | |
| Annuity approach | Geometric mean of the annual CPI inflation forecasts over a 10-year period for consistency with the 2021 inflation report | 2.60 | 2.65 |

Source: Seqwater pricing model 2023; QCA analysis.

### 6.2.2 Escalation of opex

Seqwater presented its proposed baseline opex in 2023–24 dollars by escalating 2022–23 non-labour costs by the following factors:

- For insurance costs, the escalation factor was based on the estimated increase in actuals for 2023–24, which were expected to be 19.6% higher than for 2022–23.[111]
- For local government rates, costs were escalated by 2.5%.[112]
- For all other cost categories, costs were escalated by the RBA's forecast CPI inflation of 3.5%.[113]

For cost categories other than insurance costs, we have escalated to 2023–24 using the actual CPI inflation of 3.81%.[114]

#### Employee and contract labour expenses

Seqwater's proposed approach to employee and contract labour expenses uses:

- the Queensland Treasury wage price index (WPI) forecast of 2.75% applied for 2024–25
- a 10-year historical average of the Australian Bureau of Statistics (ABS) WPI for Queensland of 2.36% applied in years 2025–26 to 2028–29.[115]

Seqwater's approach is generally consistent with our approach in the 2022 bulk water review and the 2021 inflation report. However, Seqwater used the exact rates from the 2022 bulk water review to escalate employee and contract labour expenses instead of using current estimates.

[111] This was revised downwards to 16.5% by Seqwater based on actual 2023–24 insurance costs (Seqwater, response to RFI 8).
[112] In response to our query on this escalation rate, Seqwater clarified that this cost category should have also increased by the RBA's forecast CPI inflation, consistent with cost categories other than insurance (Seqwater, response to RFI 9).
[113] Seqwater pricing model 2023, unpublished; RBA, *Statement on Monetary Policy*, August 2023, p. 66.
[114] Australian Bureau of Statistics, *Consumer Price Index, Australia*, September Quarter 2024, 'Tables 1 and 2, CPI: All Groups, Index Numbers and Percentage Changes', accessed 16 January 2025
[115] Seqwater, sub. 1, p. 31; Seqwater pricing model 2023.

Consequently, we have updated the escalation forecasts using the latest State Budget WPI forecasts from 2024–25 to 2027–28.[116]

We have also updated our assessment of the long-term historical Queensland WPI with the inclusion of recent actuals, resulting in a rate of 2.49% for the remaining period, consistent with our stated approach in the 2021 inflation report (Table 15).

**Table 15: QCA position – labour cost escalation rates (%)**

| | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
|---|---|---|---|---|---|
| Seqwater proposal | 2.75 | 2.36 | 2.36 | 2.36 | 2.36 |
| QCA position | 3.75 | 3.50 | 3.25 | 3.00 | 2.49 |

Source: Seqwater, sub. 1, p. 31; Seqwater pricing model 2023; Queensland Government, *Budget Strategy and Outlook – State Budget 2024–25*, June 2024; ABS, *Wage Price Index, Australia*, 'All WPI Series: original (financial year index numbers for year ended June quarter)', 2024, accessed 16 January 2025; QCA analysis.

## Repair and maintenance

Seqwater has proposed a 56:44 weighting of employee expenses and annual CPI inflation for escalating repair and maintenance costs, consistent with the approach we accepted in the 2020 review. We reviewed Seqwater's current repair and maintenance costs and determined that 56% remains a reasonable estimate for the proportion of employee and contract labour expenses in these costs. However, we have updated the figures to reflect the escalation rates for employee and contract labour expenses, as well as annual CPI inflation forecasts discussed above (Table 16).

**Table 16: QCA position – repair and maintenance cost escalation rates (%)**

| | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
|---|---|---|---|---|---|
| Seqwater proposal | 2.86 | 2.64 | 2.57 | 2.49 | 2.42 |
| QCA position | 3.20 | 3.32 | 3.12 | 2.91 | 2.56 |

Source: Seqwater, sub. 1, p. 31; Seqwater pricing model 2023; QCA analysis.

## Electricity

Seqwater proposed to escalate electricity by averaging its long-term contracted rates, consistent with the approach we accepted in the 2022 bulk water review. Seqwater's proposed escalation rate for electricity costs is marginally lower than our inflation forecast over the price path period. We find this reasonable and therefore we have accepted the proposed approach (Table 17).

**Table 17: QCA position – electricity escalation rates (%)**

| | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
|---|---|---|---|---|---|
| Seqwater proposal | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 |
| QCA position | Accepted with no adjustment | | | | |

Source: Seqwater, sub. 1, p. 31; QCA analysis.

[116] Queensland Government, *Budget Strategy and Outlook – State Budget 2024–25*, June 2024, p. 4.

### Other materials and services

Seqwater proposed to escalate other materials and services using annual CPI inflation forecasts, consistent with our approach in the 2022 bulk water review and the 2021 inflation report. We have accepted the approach; however, we have updated the forecasts of annual CPI inflation to the latest data (Table 13).

### Insurance

Seqwater's proposed approach to forecasting insurance involves applying global projections provided by Marsh, its broker, and Seqwater-specific insights from its direct account manager at Marsh for the period of 2024–25 to 2028–29, leading to a forecast of a 5% increase in premiums.[117]

Since Seqwater made its proposal, we have been provided with the actual insurance cost escalation of 16.50% for 2023–24[118] and –0.8% for 2024–25,[119] which we have accepted.

Marsh's latest global market insurance index update[120] indicates a further slowdown in the rate of premium growth. Specifically, the changes in Pacific property insurance premium rates have dropped to –6% in the third quarter of 2023–24 from 2% in the third quarter of 2022–23 (the time of Seqwater's proposal), while Pacific casualty rate changes have dropped to zero from 5% in the third quarter of 2022–23.

However, considering the Seqwater-specific insights provided by Seqwater's direct account manager at Marsh, we find it reasonable to apply the proposed 5% premium increase for the remaining years of the price path (Table 18). Additionally, Seqwater has chosen to bear the risk of higher insurance forecasts, as it did not request a review event adjustment for insurance costs exceeding the allowed insurance costs in the current price path period and has not proposed a review event for insurance costs in the price path period.

**Table 18: QCA position – insurance escalation rates (%)**

| | 2023-24 | 2024-25 | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
|---|---|---|---|---|---|---|
| Seqwater proposed | 19.60 | 5.00 | 5.00 | 5.00 | 5.00 | 5.00 |
| **Seqwater revised** | **16.50** | **(0.81)** | **5.00** | **5.00** | **5.00** | **5.00** |
| **QCA position** | **16.50** | **(0.81)** | **5.00** | **5.00** | **5.00** | **5.00** |

Source: Seqwater, sub. 1, p. 31; Seqwater, response to RFIs 8, 17 and 24; Seqwater, response to RFI 12 (post-draft); QCA analysis.

## 6.2.3 Smoothing unit costs

Seqwater has proposed using a geometric mean of the annual CPI inflation forecasts over the four-year price path period to smooth unit costs, consistent with the 2021 inflation report.

We have accepted this measure; however, we have updated the annual CPI inflation forecasts with the latest data (Table 13).

[117] Seqwater, response to RFIs 8, 17 and 24.
[118] Seqwater, response to RFI 8.
[119] Seqwater, response to RFI 12 (post-draft).
[120] Marsh, *Global Insurance Market Index Q3 2024*, Marsh website, accessed 28 November 2024.

## 6.3 Weighted average cost of capital

The WACC, or rate of return, is an estimate of the rate of return on investment that compensates the benchmark efficient firm for the regulatory and commercial risks associated with providing access to the service. For this review, the WACC is used in the building block methodology as an input to assess total costs. Seqwater proposed a post-tax nominal WACC of 6.53% (Table 19).[121]

**Table 19: Seqwater's proposed WACC parameters**

| Parameter | Seqwater proposal |
|---|---|
| Risk-free rate | 4.09% |
| Market risk premium | 6.5% |
| Equity beta | 0.755 |
| **Cost of equity** | **9.00%** |
| Credit rating | BBB |
| Debt raising costs | 0.1% |
| **Cost of debt** | **4.89%** |
| Capital structure | 60% debt |
| Gamma | 0.484 |
| **Nominal post-tax WACC** | **6.53%** |

Note: The risk-free rate and cost of debt in this table relate to Seqwater's initial proposal and were only placeholder values. These parameters have been updated to reflect more recent data.
Source: Seqwater sub. 1, pp. 43–44.

### 6.3.1 General assessment approach

In assessing Seqwater's proposed WACC, we have considered the overarching commercial and regulatory risks Seqwater faces. Subsequently we have reviewed Seqwater's key WACC parameters against the methods presented in our report on approaches to determining reasonable rates of returns (our rate of return review).[122] We also conducted a normalisation exercise, comparing Seqwater's WACC proposal against other regulatory decisions for other relevant businesses.

Queensland Farmers' Federation (QFF) raised concerns about the calculation of the WACC and the differences between the actual and projected figures. It considered that the WACC should genuinely reflect the cost of capital paid when borrowing from the Queensland Government.[123]

When setting prices (or rates of return on the assets used to provide the service), we need to consider, among other factors, the efficient use of resources and investment over time. These considerations are informed by an assessment of what would occur in an effectively competitive market. The rate of return depends on the riskiness of the business activity, not on whether the business is owned privately or by the government – ownership does not matter. In this context, setting a rate of return that is too low would not be consistent with the principle of competitive neutrality.

We benchmark the regulated business against other businesses with similar risks to determine a reasonable rate of return. The potential for a regulated entity to achieve an actual return that is higher or lower than the rate of return we set will depend on the entity being able to outperform or

[121] Seqwater, sub. 1, p. 45.
[122] QCA, *Rate of return review*, final report, version 4, September 2024.
[123] QFF, sub. 83, p. 6.

underperform relative to the benchmark. However, we do not consider that historical performance is directly relevant in setting the benchmark rate of return for Seqwater.

Our view is that Seqwater's proposed WACC, when updated for more recent data for the risk-free rate and cost of debt, is reasonable and provides a return on investment commensurate with the regulatory and commercial risks involved.

### 6.3.2 Analysis of WACC parameters

#### Beta

Seqwater proposed an equity beta of 0.755. Seqwater said that is the same as the allowed equity beta in the 2020 review and is consistent with the equity beta applied in the 2022 bulk water review.[124]

As part of the 2020 review, we considered that an equity beta of 0.755 was reasonable. Furthermore, we note that Seqwater's systematic risk profile has not markedly changed since the last review, given the lack of growth options available to Seqwater, and its relatively stable customer base.

As a cross-check, we have investigated the asset betas of relevant international regulated energy and water businesses. This sample of businesses had a median asset beta of 0.38 and an average asset beta of 0.39. Assuming a 60% level of gearing, this equates to an equity beta of approximately 0.8 using the Myers-Brealey formula to re-lever.

Based on the above information, we find Seqwater's proposed beta is reasonable.

#### Risk-free rate

Seqwater indicated to us that its preference was for the risk-free rate to be calculated using the latest possible 60 business days.[125]As flagged in our draft report, we have used an averaging period ending in November 2024 as this represents the latest possible averaging period before we finalised our report. Therefore, we have used the 60 business days to the end of November 2024 to calculate the risk-free rate.

Taking the average yield of 10-year Australian government bonds over the 60-business day period to November 30, we have estimated a risk-free rate of 4.31%.

#### Market risk premium

Seqwater submitted a market risk premium (MRP) of 6.5% based on our estimate of the MRP in the 2022 bulk water review, which incorporated the findings of our rate of return review. Seqwater also noted this this proposed value was the same as our estimate for the 2020 review.[126]

As set out in the 2024 rate of return report, we consider that it is reasonable to estimate the MRP using the Ibbotson approach. Under this approach, our estimate of the MRP, updated to include data from 2024, is 6.3%.

[124] Seqwater, sub. 1, p. 44.
[125] Seqwater, response to RFI 45.
[126] Seqwater, sub. 1, p. 44.

### Credit rating

Seqwater proposed a credit rating of BBB.[127] Our view is that Seqwater's risk profile has not changed materially since the 2020 review, when we assigned Seqwater a BBB credit rating. As such, we consider that a BBB credit rating should continue to be used.

### Cost of debt

Seqwater has proposed a cost of debt estimated using a 10-year trailing average and a benchmark term of debt of 10 years.[128]

As flagged in our draft report, we have used data up to November 2024 to estimate Seqwater's cost of debt as this reflects the latest possible information before we finalised our report. As this is the first time a trailing average cost of debt has applied to Seqwater, we consider it reasonable to calculate the trailing average cost of debt using 10 yearly cost of debt estimates that each use a 12-month averaging period to November of the respective year. In this fashion, Seqwater's trailing average cost of debt involves using data stretching from December 2014 to November 2024.

Our estimate of Seqwater's BBB trailing average cost of debt over this period is 4.97%. Our trailing average cost of debt estimate reflects an update to our rate of return review report made in September 2024 to correct our method for extrapolating the cost of debt to a 10-year term.[129]

While a mechanism does not exist within this review to allow for annual updates of the cost of debt during the price path period, a true-up of the trailing average cost of debt could be incorporated as part of the ex post review at the next irrigation price review.

### Gearing

Seqwater proposed a gearing level of 60% debt. Seqwater noted that this was the value that applied in the 2020 review.[130]

Our view is that gearing set at 60% debt is appropriate. We consider that target levels of gearing are unlikely to change much over time, and Seqwater's proposed gearing is in line with other potentially similar water businesses.

### Gamma

Seqwater proposed a gamma of 0.484.[131] This is consistent with our estimate of gamma in our rate of return review.

## 6.3.3 Normalisation and top-down assessment

The objective of performing a WACC normalisation task against regulatory decisions for other potentially comparable businesses is to get a sense of the reasonableness of the WACC proposal from an overall perspective.

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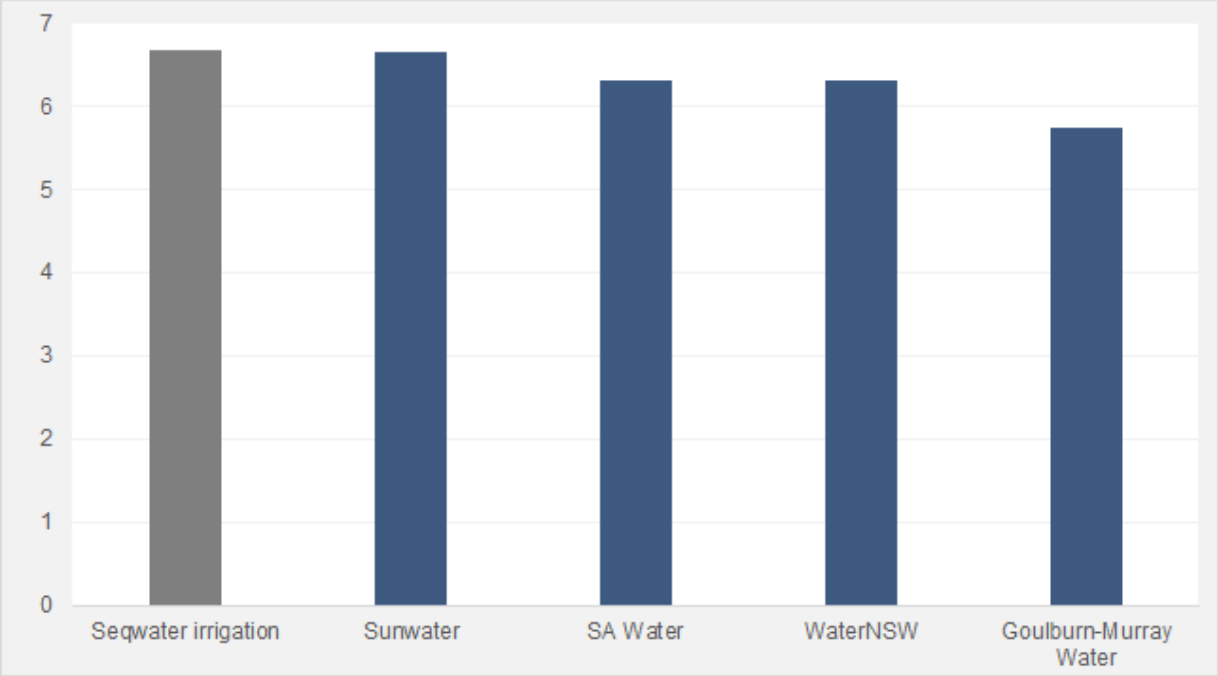
[127] Whilst Seqwater did not explicitly propose a BBB credit rating, its cost of debt calculations have assumed the use of a BBB credit rating.
[128] Seqwater, sub. 1, p. 44.
[129] More information on this update is available in our rate of return review report. See QCA, *Rate of return review*, final report, version 4, September 2024.
[130] Seqwater, sub. 1, p. 44.
[131] Seqwater, sub. 1, p. 44.

To perform the normalisation, we have used a March 2024 averaging period to compare regulatory rates of return. It is important to note that as the task of the normalisation process is to generate an estimate of what the regulator would have determined the rate of return to be at the same point in time, various assumptions are required. As such, the outcomes of this exercise are not determinative and should be treated with some level of caution.

As can be observed in Figure 6, Seqwater's proposed WACC sits at the top end of the range of comparable businesses. Each of the businesses that we have compared have some degree of business operations devoted to irrigation customers. However, SA Water also services a large residential customer base, and for that reason we might expect it would face a lower level of risk than Seqwater. While the Seqwater WACC sits at the top end of the range, we consider this is consistent with our assessment of relative risk – the result is not unreasonable.

**Figure 6: Normalised WACC comparisons for selected Australian regulated businesses (%)**




Source: Sunwater, sub. 9; Seqwater, sub. 1; ESCOSA, *SA Water Regulatory Determination 2024*, final determination: statement of reasons, June 2024, pp. 319–330; ESC, *Goulburn-Murray Water final decision*, 2024 Water Price Review, June 2024, pp. 25–27; IPART, *WACC calculator*, spreadsheet, August 2024.

### 6.3.4 Overall considerations

Seqwater's proposed WACC largely reflects estimates that are in line with those produced using the methods set out in our rate of return review. Although Seqwater has proposed a slightly higher MRP than our own estimate, we consider the difference to have an immaterial impact on the overall rate of return. Furthermore, while Seqwater's proposed WACC sits towards the top end of WACCs as part of the normalisation exercise, we do not consider this is unreasonable given our assessment of relative risk, nor does it require us to make a top-down adjustment to Seqwater's proposed WACC.

Although we have updated the estimates of time-varying parameters (risk-free rate and cost of debt), we consider that Seqwater's proposed WACC is likely to be reasonable and provides a return on investment commensurate with the regulatory and commercial risks involved. As part of this report, we have adopted a WACC of 6.67%.[132]

[132] The change to Seqwater's proposed WACC reflects the updating of the risk-free rate and cost of debt parameters.

# 7 Total allowable costs

In this chapter, we set out our position on the total allowable costs for the regulated schemes. To determine total allowable costs, we add together the opex allowance, renewals expenditure allowance and tax allowance, and then deduct revenue from other sources.

## 7.1 Total allowable costs

We used the building block approach to determine prudent and efficient allowances for each component of allowable costs:

- an opex allowance – the ongoing costs of running the business and maintaining assets, including operations, maintenance and administration costs and an end-of-period adjustment for the cost of review events that occurred in the current price path period (Chapter 4)
- a renewals expenditure allowance – an appropriate allowance for the prudent and efficient costs of renewing existing assets (section 7.2.1), reflecting our assessment of prudent and efficient renewals expenditure (Chapter 5), the opening annuity balance (section 7.2.2) and an appropriate rate of return (section 6.3)
- tax – an allowance for tax as part of total costs, which is consistent with our post-tax nominal approach to the weighted average cost of capital (WACC) (section 7.3).

To determine total allowable costs, we added the components together and then deducted the revenue Seqwater earns from other sources (section 7.4).

Based on our position on each of these components, our position on total allowable costs is provided in Table 20.

**Table 20: QCA position – total allowable costs ($ million, nominal)**

| Cost component | QCA position | | | | | Seqwater revised | Difference |
|---|---|---|---|---|---|---|---|
| | 2025-26 | 2026-27 | 2027-28 | 2028-29 | Total | | |
| Opex[a] | 7.4 | 7.6 | 7.9 | 8.2 | **31.1** | 30.8 | **0.3** |
| Renewals allowance | 1.8 | 1.8 | 1.9 | 1.9 | **7.4** | 7.5 | **(0.1)** |
| Tax allowance | – | – | – | – | – | – | **-** |
| Revenue offset | (0.1) | (0.1) | (0.1) | (0.1) | **(0.5)** | (0.5) | **-** |
| **Total allowable costs** | **9.1** | **9.3** | **9.6** | **10.0** | **38.0** | **37.8** | **0.1** |

a Includes QCA fee and review event adjustments.
Notes: 1. Figures in this table relate to costs allocated to irrigation and non-irrigation customers in regulated schemes.
2. Totals may not add due to rounding.
Source: Seqwater, sub. 1 and sub. 84; QCA analysis.

## 7.2 Renewals allowance

Consistent with previous price path periods, Seqwater proposed a rolling annual annuity approach to recover prudent and efficient expenditure on the renewing existing assets.

### 7.2.1 Appropriate approach to recovering renewals expenditure

In previous irrigation price reviews, we used a renewals annuity approach to derive an appropriate allowance for prudent and efficient expenditure on renewing existing assets.

In the 2020 review, we recommended that the water businesses work with customers and the government to develop a proposal on transitioning to a regulatory asset base (RAB) approach for funding the irrigators' share of asset renewal costs.[133] Seqwater noted that in the letter accompanying the referral for this review, it was stated that this remains subject to ongoing consideration, with proposals from the water businesses relating to a RAB-based methodology not expected to be available for consideration by us as part of this review.[134]

Seqwater said that it has continued to apply the renewals annuity approach to recover its renewals expenditure for this review.[135] Seqwater said that in engaging with customers in developing its proposal, none of Seqwater's customers raised any concerns regarding the current annuity approach or indicated any interest in moving to a RAB-based approach.[136]

In the 2020 review, we noted that a growing number of larger rural water businesses have transitioned to a RAB-based approach. We noted that one of the reasons for the transition was the uncertainty associated with costs and demand.[137] Seqwater noted the difficulty in forecasting long-term renewals due to the absence of a robust approach to estimating renewals expenditure forecasts beyond the next 10 years.

We consider that the RAB approach would generally be more efficient, lead to an improved allocation of costs to different customer cohorts over time and lead to improved transparency (as explained in this review's report on Sunwater).[138] However, we also note that there would be transitional impacts that would need to be managed.

The former treasurer's letter accompanying the referral for this review noted that the (then) minister for water advised that the associated work on options and financial implications was complex and ongoing, with further work required to ensure there were no adverse consequences for both customers and the businesses.[139]

While we understand the difficulties of exploring a RAB approach for this review process, we consider that this option should be considered for future reviews by Seqwater.

### 7.2.2 Opening annuity balance as at 1 July 2025

The 2020 review incorporated actual renewals expenditure up to and including 2017–18. Therefore, we have rolled forward the annuity balance from 1 July 2018 by incorporating prudent and efficient renewals expenditure from 2018–19 onwards.

Seqwater maintains separate annuity accounts for:

- metering renewals expenditure – which is fully allocated to medium priority customers
- non-metering renewals – which is allocated to medium priority customers using the headworks utilisation factor for bulk schemes and WAEs for distribution systems.

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133 QCA, *Rural Irrigation Price Review 2020–24, Part C: Seqwater*, final report, January 2020, p. 25.
134 Seqwater, sub. 1, p. 18.
135 Seqwater, sub. 1, p. 41.
136 Seqwater, sub. 1, p. 41.
137 QCA, *Rural irrigation price review 2020–24, Part C: Seqwater*, final report, January 2020, pp. 21–22.
138 QCA, *Rural irrigation price review 2025–29: Sunwater*, final report, January 2025, section 7.2.
139 C Dick (Treasurer and Minister for Trade and Investment), covering letter to the referral notice to the QCA, 10 March 2023.

Our calculation of the opening annuity balance for the price path period for non-metering renewals expenditure is set out in Table 21.

**Table 21: QCA position – calculation of opening annuity balance, non-metering renewals expenditure ($ million, nominal)**

| | 2018–19 | 2019–20 | 2020–21 | 2021–22 | 2022–23 | 2023–24 | 2024–25 |
|---|---|---|---|---|---|---|---|
| **Opening annuity** | **(5.9)** | **(6.4)** | **(7.0)** | **(8.0)** | **(7.7)** | **(7.6)** | **(7.5)** |
| Plus: annuity revenue | 0.9 | 0.9 | 1.3 | 1.6 | 1.7 | 1.7 | 1.7 |
| Plus: other revenue | – | – | – | – | – | – | – |
| Less: renewals costs | 1.0 | 1.1 | 1.9 | 1.0 | 1.3 | 1.2 | 0.5 |
| Plus: interest | (0.4) | (0.4) | (0.3) | (0.3) | (0.3) | (0.3) | (0.3) |
| **Closing annuity** | **(6.4)** | **(7.0)** | **(8.0)** | **(7.7)** | **(7.6)** | **(7.5)** | **(6.5)** |

Notes: 1. This is the annuity account for non-metering renewals recoverable from irrigation and non-irrigation customers in regulated schemes. 2. Totals may not add due to rounding.
Source: Seqwater pricing model 2023 and response to RFI 14 (post-draft); QCA analysis.

Our calculation of the opening annuity balance for the price path period for metering renewals expenditure is set out in Table 22.

**Table 22: QCA position – calculation of opening annuity balance, metering renewals expenditure ($ million, nominal)**

| | 2018–19 | 2019–20 | 2020–21 | 2021–22 | 2022–23 | 2023–24 | 2024–25 |
|---|---|---|---|---|---|---|---|
| **Opening annuity** | **(1.1)** | **(1.9)** | **(3.9)** | **(5.3)** | **(5.6)** | **(5.9)** | **(5.0)** |
| Plus: annuity revenue | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Plus: other revenue[a] | – | – | 0.4 | 0.2 | 1.4 | 1.3 | – |
| Less: renewals costs | 1.0 | 2.3 | 1.8 | 0.5 | 1.6 | 0.4 | 1.2 |
| Plus: interest | (0.1) | (0.1) | (0.2) | (0.2) | (0.2) | (0.3) | (0.2) |
| **Closing annuity** | **(1.9)** | **(3.9)** | **(5.3)** | **(5.6)** | **(5.9)** | **(5.0)** | **(6.1)** |

a This includes government funding of $2.5 million for the modernisation program in the Central Lockyer Valley scheme.
Notes: 1. This is the annuity account for metering renewals recoverable from medium priority (including irrigation) customers in regulated schemes. 2. Totals may not add due to rounding.
Source: Seqwater pricing model 2023; Seqwater, sub. 3, p. 17 and sub. 84, p. 14 and response to RFI 14 (post-draft); QCA analysis.

Seqwater said that its approach to rolling forward the annuity balance was consistent with the 2020 review and our March 2023 guidelines for pricing proposals.[140]

Our calculation updated Seqwater's proposed opening annuity balances for 2025–26 by rolling the annuity balance forward over the period 2018–19 to 2024–25. The roll-forward occurs each year by adjusting each year's opening balance to:

- add the renewals annuity allowance from the 2020 review
- subtract prudent and efficient renewals costs (see Chapter 5)
- adjust for interest from 2020–21 onwards using the allowed post-tax nominal WACC of 4.37% from the 2020 review.

The starting point for our assessment is the opening annuity balances for 2018–19. We have reviewed Seqwater's 2018–19 opening annuity balances and confirmed that they reconcile with the

[140] Seqwater, sub. 1, p. 42.

2018–19 opening annuity balances for all schemes except for the Mary Valley water supply scheme. The opening balance in this scheme is different due to lower than previously estimated expenditure in 2017–18. We have accepted the opening balances proposed by Seqwater.

Our assessed annuity revenue allowance for 2024–25 was the 2023–24 allowance, increased by our forecast of inflation from the 2020 review (2.24%), in line with the increase in the price targets used by the government to set prices in 2024–25. We note that although Seqwater's submission indicated that the renewals allowance was increased by 2.24%, its pricing model suggests that Seqwater increased the allowance by 3%.

### 7.2.3 Our position on the renewals allowance

Our position on the renewals allowance calculated using a renewals annuity approach is set out in Table 23. Scheme-level information is in Appendix C.

**Table 23: QCA position – renewals allowance ($ million, nominal)**

| | 2025–26 | 2026–27 | 2027–28 | 2028–29 | Total |
|---|---|---|---|---|---|
| Seqwater revised | 1.8 | 1.9 | 1.9 | 1.9 | **7.5** |
| QCA adjustments | (0.0) | (0.0) | (0.0) | (0.0) | **(0.1)** |
| **QCA position** | **1.8** | **1.8** | **1.9** | **1.9** | **7.4** |

Notes: 1. Figures in this table relate to the renewals allowance recoverable from irrigation and non-irrigation customers in regulated schemes. 2. Totals may not add due to rounding.
Source: Seqwater, sub. 1, pp. 45–46 and sub. 84, p. 14; QCA analysis.

Consistent with the 2020 review, we calculated the renewals allowance using a rolling annuity approach with a 30-year planning period.

Ideally, a renewals annuity approach would be based on a planning period of longer than 30 years. However, such a long timeframe would make it difficult to accurately forecast expenditure, and this would be exacerbated over longer periods.

In indexing the annuity, we have used our estimate of inflation of 2.65%, which is derived by taking the 10-year geometric average of our consumer price index (CPI) inflation forecasts (see section 6.2.1).

## 7.3 Tax allowance

Seqwater said that consistent with the approach applied in the 2020 review, it was not proposing a tax allowance for irrigation services.[141]

In the 2020 review, we accepted Seqwater's proposal to not include a tax allowance.[142] We consider that a zero tax allowance remains appropriate due to accumulating negative annuity balances (and therefore tax losses) over the current price path period from 1 July 2020 to 30 June 2025.

[141] Seqwater, sub. 1, p. 47.
[142] See QCA, *Rural Irrigation Price Review 2020–24, Part C: Seqwater*, final report, January 2020, pp. 32–33.

## 7.4 Revenue offsets

Consistent with previous reviews, Seqwater has identified relatively small amounts of revenue from other sources that have been deducted as a revenue offset in the relevant schemes.[143] The total amount of these offsets for all schemes is around $0.1 million in each year of the price path period.

We have accepted Seqwater's proposed revenue offsets. These revenue offsets are deducted from total costs and are shared between irrigation and other customers.

[143] Seqwater, sub. 1, pp. 47–48.

# 8 Forecast volumes

This chapter explains our views on the water access entitlements (WAEs) and forecast usage for each tariff group. Both are inputs into the calculation of price targets and prices. In particular:

- WAEs are used in allocating some fixed costs between medium and high priority tariff groups in each scheme
- WAEs are used as the denominator in deriving fixed (Part A and Part C) price targets
- forecast usage is used as the denominator in deriving volumetric (Part B and Part D) price targets.

We have accepted the WAEs and forecast usage methodology proposed by Seqwater.

## 8.1 Water access entitlements

Most WAEs held by irrigators are medium priority WAEs, although there are low volumes of high priority irrigation WAEs in some schemes. Forecast WAEs are used in calculating prices and in allocating some fixed costs[144] between medium and high priority WAE customers in each scheme.

Seqwater said that its forecast WAEs were based on the latest available information on ownership of water allocations in each of its schemes. Seqwater did not propose any adjustments to its scheme-level WAEs, indicating that its approach was consistent with the approach used in the 2020 review.[145]

We have reconciled Seqwater's proposed WAE forecasts at the scheme level with our forecasts in the 2020 review and with information published on Seqwater's website.

Since the 2020 review, changes in the WAEs have occurred for the Central Lockyer Valley and Mary Valley water supply schemes (Table 24).

**Table 24: Schemes with changes in forecast medium priority WAEs since the 2020 review (ML)**

| Scheme | QCA 2020 review | Seqwater proposal |
|---|---|---|
| Central Lockyer Valley | 16,357 | 18,218 |
| Mary Valley | 21,899 | 21,672 |

Note: Figures in this table include WAE holdings of distribution system customers in these schemes.
Source: Seqwater, sub. 1, p. 49.

The prices derived in the 2020 review for the Central Lockyer Valley water supply scheme were based on the priority groups and volumes of water allocations in the interim resource operations licence (IROL) in place at the time of the final report in January 2020. The final water entitlement notice[146] (which set out the volumes of water allocations being converted), water management protocol, operations manual and resource operations licence (ROL) were released in March 2020.

[144] Except for asset-related headworks (bulk) costs, which are generally allocated between medium and high priority WAE customers using the headworks utilisation factor.
[145] Seqwater, sub. 1, p. 49.
[146] Department of Natural Resources, Mines and Energy, *Water Entitlement Notice*, Central Lockyer Valley Water Supply Scheme, Water Plan (Moreton) (Supply Scheme Arrangements) Amendment Plan 2019, Queensland Government, March 2020.

The proposed Mary Valley WAEs do not include Seqwater's holdings of the distribution losses that was determined in the 2020 review.[147] As explained in section 9.1, these distribution losses are now assigned to irrigation customers.

Seqwater said it permanently sold 200 megalitres (ML) of its own high priority WAEs in the Warrill Valley water supply scheme to irrigation customers in March 2022.[148] This requires the creation of a new high priority irrigation tariff group in this scheme (see section 9.4.1).

## 8.2 Usage

To establish a meaningful water use denominator to derive volumetric price targets, we consider that the approach to estimating the assumed level of water use should be representative of normally occurring conditions, consistent with our approach to estimating baseline-year costs.

Seqwater submitted that the forecast water usage should be based on the following principles:

- simplicity and transparency
- regulatory certainty and predictability
- price stability
- reflect the most accurate and reliable data available.[149]

Seqwater submitted that based on these principles, the forecast water usage should generally be based on a simple average of 20 years of data (2003–04 to 2022–23).[150] Seqwater said that adjustments to data should only be made where it can be demonstrated that this is necessary to produce a forecast that is more representative of normal operating conditions.

Seqwater has proposed adjustments to forecast usage volumes in the following schemes:

- Central Lockyer Valley – Seqwater proposed to add 10% to the 20-year average usage to adjust for faulty meters. Seqwater acknowledged that meters were faulty and the impact on usage measurement was uncertain. However, it proposed to absorb some of the risk associated with faulty meters by increasing forecast usage.[151]
- Mary Valley – Seqwater proposed to remove the years 2007–08 to 2011–12 from the calculation of the 20-year average on the basis that the Traveston Dam buy-back scheme likely impacted usage over this period.[152]

We note for each of these proposed adjustments, Seqwater was acting to address scheme-specific concerns from customer reference groups (CRGs) about the usage forecasts.[153]

In response to our draft report, a stakeholder indicated that water usage figures in the Logan River scheme based on the previous 20 years may not be appropriate.[154] They said that high priority usage seems high and needs to consider the likelihood of this water being sourced from the water grid, reducing extractions from the Logan River; they also said that exports to the grid should be included.[155] We note that Seqwater considered alternatives to the 20-year annual water usage in the

147 QCA, *Rural irrigation price review 2020–24, Part C: Seqwater*, final report, January 2020, p. 43.
148 Seqwater, sub. 1, p. 58.
149 Seqwater, sub. 1, p. 51.
150 Seqwater, sub. 1, pp. 51–52.
151 Seqwater, sub. 1, p. 51.
152 Seqwater sub. 1, p. 51.
153 Seqwater, sub. 3, p. 9 and sub. 6, p. 9.
154 G Drynan, sub. 73, p. 1.
155 G Drynan, sub. 73, p. 1.

Logan River scheme in response to feedback from customers and concluded that there were no historical issues in this scheme that would warrant adjustments.[156]

We accept Seqwater's proposed water usage forecast methodology.[157] We consider that the continued use of a 20-year average to derive forecast usage is reasonable as it covers a reasonably large number of observations to include a range of conditions that would impact water usage. We consider that a simple averaging approach results in revenue and pricing outcomes that are both simple and transparent to customers.

We also consider that both scheme-specific adjustments to the general 20-year average are reasonable in developing a forecast representative of normally occurring conditions, with Seqwater acting to address concerns raised by stakeholders and taking on risk without inefficiently shifting costs to other parties.

## 8.3 Summary of forecasts

We have accepted Seqwater's proposed WAEs and usage forecasts for each scheme, which are presented in Table 25. The usage volumes are also compared in the table with those applied to derive prices in the 2020 review.

**Table 25: QCA position – WAEs and usage forecasts by scheme**

| Scheme | Service | WAEs (ML)[a] | Usage forecasts (ML) | |
|---|---|---|---|---|
| | | | QCA position[b] | 2020 review |
| Cedar Pocket | Bulk | 495 | 294 | 298 |
| Central Lockyer Valley | Bulk | 18,402 | 6,072 | 6,213 |
| Morton Vale Pipeline | Distribution | 5,051 | 645 | 790 |
| Logan River | Bulk | 60,411 | 6,990 | 7,473 |
| Lower Lockyer Valley | Bulk | 11,120 | 1,538 | 2,274 |
| Mary Valley | Bulk | 32,106 | 13,298 | 10,491 |
| Pie Creek | Distribution | 835 | 207 | 212 |
| Warrill Valley | Bulk | 26,120 | 6,989 | 8,126 |

a Includes WAEs held and usage by medium and high priority customers, including all distribution losses. For Central Lockyer Valley, the usage figures also include low priority groundwater. b Usage forecasts are generally derived using the 20-year average from 2004–05 to 2023–24, except for Central Lockyer Valley and Mary Valley schemes.
Source: Seqwater, sub. 1, p. 43; Seqwater pricing model, November 2023; Seqwater, response to RFI 13 (post-draft).

156 Seqwater, sub. 5, p. 5.
157 For Logan River, Mary Valley and Warrill Valley the high priority 20-year average used in the pricing model by Seqwater was the same figures from the 2020 review – that is, a 20-year average from 1999–00 to 2018–19. We have updated the medium and high priority water usage figures to be a 20-year average for the years 2004–05 to 2023–24.

# 9 Price targets

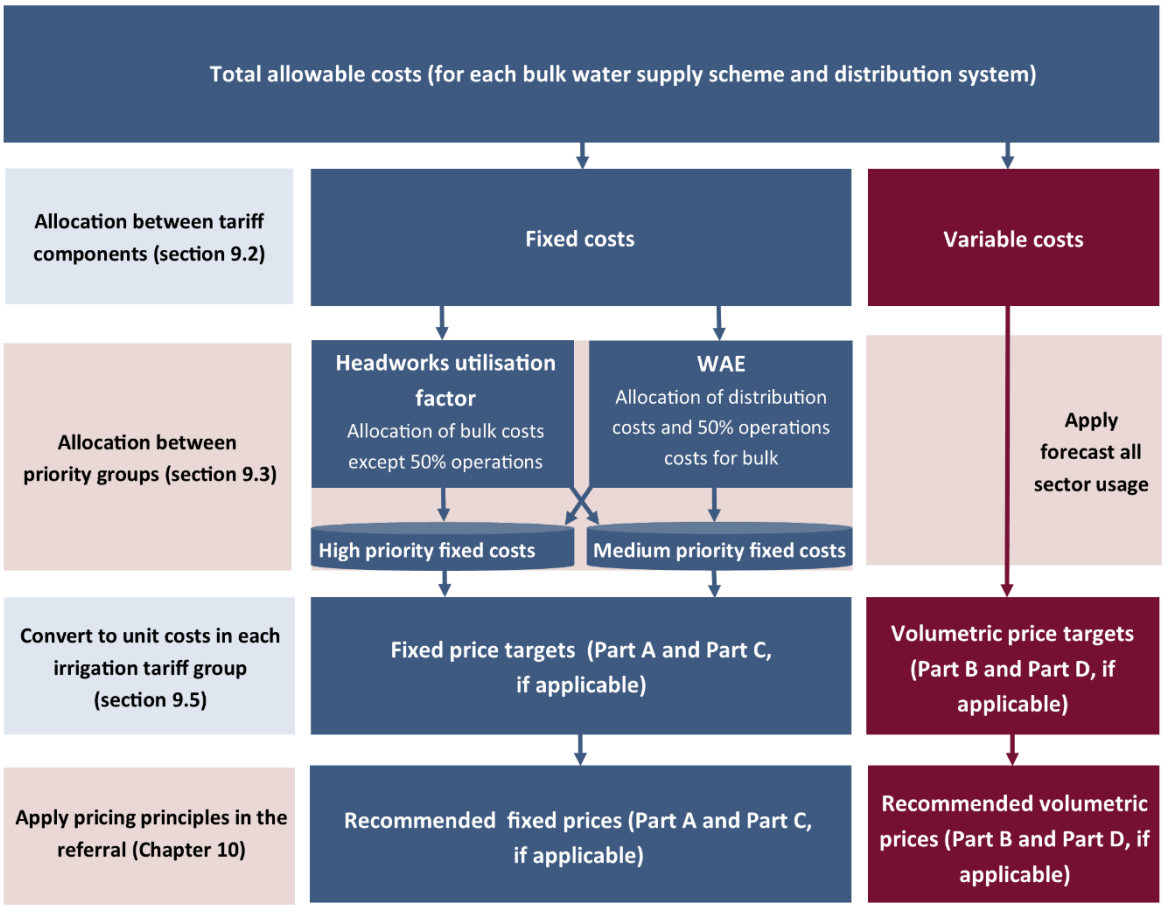
This chapter explains how we have converted total allowable costs to price targets for each tariff group over the price path period.

To derive allowable costs for each bulk water supply scheme and distribution system, we first made some adjustments in certain schemes to ensure that costs were allocated to the appropriate beneficiaries (section 9.1). We then converted allowable costs at the scheme level to a price target for each tariff group by:

1. allocating costs between the fixed and volumetric tariff components (section 9.2)
2. allocating costs between priority groups (that is, high priority and medium priority customer groups) (section 9. 3)
3. allocating costs between tariff groups (where applicable), or making other scheme-specific adjustments (section 9.4)
4. converting allocated costs into a unit cost for each tariff component (for example, a cost per megalitre (ML) of water usage); then smoothing these unit costs over the price path period to derive the price target for each tariff group (section 9.5).

We then applied the pricing principles in the referral to establish the transitional path to the price target for each tariff group and derive recommended prices (Chapter 10). Our general approach to deriving recommended prices is shown in Figure 7.

**Figure 7: QCA general approach to deriving recommended irrigation prices**



## 9.1 Total allowable costs at the scheme level

Seqwater's total allowable costs are shown in Chapter 7. To derive allowable costs at the scheme level, we have adjusted for distribution loss transfers.

Other scheme-specific adjustments are considered in section 9.4.

### 9.1.1 Distribution loss transfers

Seqwater owns distribution loss WAEs in its distribution systems (Pie Creek and Morton Vale Pipeline) and some bulk water supply schemes (Lower Lockyer Valley and Warrill Valley) to account for distribution losses that may occur through pipe leakage, evaporation, storage seepage, overflows and drainage for maintenance. Distribution loss holdings ensure that Seqwater's customers continue to receive a reliable supply of water. These WAEs were granted to Seqwater under the *Water Act 2000* (Qld).

These holdings are relatively small and include:

- Pie Creek high priority (60 ML) and medium priority (426 ML)
- Morton Vale Pipeline high priority (185 ML)
- Lower Lockyer Valley medium priority (1,500 ML)
- Warrill Valley medium priority (3,714 ML).[158]

Losses associated with the Lower Lockyer Valley and Warrill Valley water supply schemes are not genuine distribution losses, as they are losses associated with bulk assets, which relate to losses from channels and pipelines within a bulk tariff group.

Our approach in the 2020 review was that distribution system customers should only be allocated the costs associated with the level of distribution loss WAEs required to meet actual losses. This approach reflected the fact that distribution customers are unable to control the level of distribution loss WAEs and that Seqwater, as the owner of these WAEs, is responsible for managing them within its distribution systems. We calculated the efficient level of distribution loss WAEs as the maximum distribution loss WAEs required over a period of time, after adjusting for usage.[159] That review found excess distribution loss holdings in both Pie Creek and Morton Vale Pipeline distribution systems.[160] We also said that Seqwater should review its distribution loss WAEs and develop a strategy for their future treatment prior to this review.

Seqwater explained the steps that would be required to apply to the relevant government agency to change the purpose of distribution loss WAEs, including investing in scheme efficiencies, establishing actual distribution losses required and installing additional flow monitoring to provide evidence of actual distribution losses. Seqwater considered that given its small holdings of distribution loss WAEs, the costs of undertaking these tasks would likely be greater than any subsequent benefits from successfully changing the classification of distribution loss WAEs. Seqwater said this was also the view of its customers.[161]

We acknowledge that Seqwater has investigated this issue and engaged with its customers. Our focus in this review is on the Morton Vale Pipeline and Pie Creek schemes, as these were the schemes we identified as holding excess distribution loss WAEs in the 2020 review, and we are not

[158] Seqwater, sub. 1, p. 58 and sub. 6, p. 4.
[159] When announced allocations are less than 100%, the water to provide for losses is lower than the distribution loss WAEs. As water available to customers is also reduced, usage within the system will decrease. As a result, we adjusted the actual distribution loss data to account for the level of distribution system usage.
[160] QCA, *Rural irrigation price review 2020–24, Part C: Seqwater*, final report, January 2020, pp. 40–43.
[161] Seqwater, sub. 1, p. 58.

aware of any changes since then. Both schemes have very low levels of distribution losses. We also recognise that customers in both schemes considered it was not feasible to investigate further given the immateriality of the distribution loss WAE holdings and have endorsed Seqwater's proposal.

Given Seqwater has demonstrated that it is unlikely to be cost-effective to change the classification of the potentially low level of excess distribution losses, and given Seqwater's approach is supported by customers, we have allocated all distribution losses in these schemes to customers.

## 9.2 Allocation of costs between tariff components

Costs must be allocated between fixed and volumetric tariff components. Our approach to the allocation of costs between tariff components is to take account of the underlying nature of the cost structure – that is, whether costs are fixed or variable with usage. This is consistent with the requirement in the referral for us to consider the fixed and variable nature of the underlying costs in relation to tariff structures.[162]

The allocation of costs between fixed and volumetric components may also vary between schemes.

Seqwater has proposed an approach to allocating costs between fixed and volumetric tariff components for this price path period that is consistent with the approach from the 2020 review. Seqwater said it proposed this approach to maintain a stable and predictable regime, and it also considered customer support for maintaining the QCA's allocation approach. Nevertheless, Seqwater noted that it remained concerned that this cost allocation approach overstates the proportion of costs that genuinely vary with changes in water deliveries and that it will continue to monitor this over the price path period.[163]

### Electricity pumping costs

Electricity costs are most relevant to distribution systems, due to the cost of pumping water. In the 2020 review, we assigned base-year electricity costs between fixed and variable costs to reflect the fixed and variable nature of the underlying costs. As a result, electricity was considered a variable cost, as it largely varies with usage. Seqwater has not proposed any change to this allocation approach for this review, and stakeholders have not raised any issues on this matter.

We consider that given the underlying variable nature of electricity costs, it is appropriate to continue to allocate 100% of electricity costs to the volumetric tariff component. Base-year electricity costs for the Pie Creek distribution system are shown in Table 26.

**Table 26: Base-year electricity costs for Pie Creek distribution system, 2022–23**

| Tariff group | Variable cost ($/ML) | Usage forecast (ML) | Total variable cost ($'000) | Total fixed cost ($'000) | Total base year cost ($'000) |
|---|---|---|---|---|---|
| Pie Creek | 66.71 | 207 | 13.8 | 0.8 | 14.6 |

Note: We corrected Seqwater's submitted fixed cost for a modelling error.
Source: Seqwater pricing model 2023; QCA analysis.

### Other costs

The 2020 review adopted a 20% allocation of direct operations and maintenance costs to the volumetric tariff component. This reflected our view that this was a simple and transparent approach

[162] Referral, para. C(1.1)(a).
[163] Seqwater, sub. 1, p. 55.

that broadly reflected the underlying fixed and variable nature of the costs of operating Seqwater's regulated schemes.

For this review, Seqwater has not proposed any change to the allocation of other costs (direct operations and maintenance) adopted in the 2020 review. Although Seqwater had concerns that this approach overstates the extent of variable costs, it proposed to continue with it to maintain stability and predictability in the pricing regime.

We consider that the approach of allocating 20% of direct operations and maintenance costs to the volumetric tariff component remains appropriate. Seqwater has not advised of any significant change to its operational and maintenance practices since the 2020 review that would warrant a change in this cost allocation approach and has not provided any new information on the underlying nature of these costs. Stakeholders have not raised this issue or proposed any alternative approach. We have therefore retained the same cost allocation approach as adopted in the 2020 review for direct operations and maintenance costs.

**Summary**

Our position on cost allocations for Seqwater is summarised in Table 27.

**Table 27: QCA position – allocation of costs to the volumetric tariff component (%)**

| Activity | Seqwater's proposal | QCA position |
|---|---|---|
| Direct operations and maintenance[a] | 20 | 20 |
| Electricity pumping costs | Pie Creek only | Pie Creek only |
| All other costs | – | – |

a Excludes electricity costs.

## 9.3 Allocation of costs between priority groups

Seqwater's customers hold entitlements that are defined in terms of the reliability or priority group of the entitlement – for example, medium or high priority WAEs. High priority WAE holders have greater reliability and can access their nominal volume more often than holders of medium priority WAEs. They also tend to be allocated a larger share of their WAEs when water supplies are low. Customers holding medium priority entitlements often do not get any water until high priority WAE holders have received 100% of their nominal volume. It is necessary to account for these different levels of service in our cost allocation approach.

Seqwater has proposed to allocate asset-related fixed costs in bulk schemes between priority groups using the headworks utilisation factor (HUF) for certain schemes (Logan River, Mary Valley and Warrill Valley schemes).[164] This is the same methodology that Seqwater proposed in the 2013 and 2020 reviews and that we accepted. Given this, Seqwater reviewed[165] and updated the HUFs for the Logan River, Mary Valley and Warrill Valley water supply schemes (Table 28).

[164] These schemes have material quantities of medium and high priority WAEs. Cedar Pocket and Lower Lockyer Valley schemes have only medium priority WAEs, while Central Lockyer Valley scheme has only material quantities of medium priority WAEs (99.1% of WAEs).

[165] Seqwater engaged Badu Advisory to review and update the HUFs for the relevant schemes (Seqwater, sub. 8).

**Table 28: Seqwater's proposed headworks utilisation factors**

| Scheme | 2020 review (%) | Seqwater proposal (%) | Reason |
|---|---|---|---|
| Logan River | 2 | 1 | Reduction in medium priority HUF is attributable to increased high priority water allocations included in the water sharing rules and supply by the scheme |
| Mary Valley | 11 | 11 | No change to rules or data inputs since 2020 |
| Warrill Valley | 10 | 9 | Reduction in medium priority HUF is attributable to inclusion of a new cut–off rule plus a change to the high priority reserve term in the water sharing rules |

Source: Seqwater, sub. 1, p. 55.

For Central Lockyer Valley, Seqwater proposed that 99.1% of fixed costs be allocated to medium priority WAEs derived as the percentage of high and medium priority nominal WAEs (up from 98.9% in the 2020 review).[166] For the Cedar Pocket and Lower Lockyer Valley water supply schemes and the two distribution systems (Morton Vale Pipeline and Pie Creek), Seqwater has proposed that 100% of fixed costs are allocated to medium priority customers using nominal WAEs.[167]

We consider that it is the storage capacity required to deliver water that drives costs for each priority group, and therefore it is an appropriate basis for cost allocation between priority groups. This approach shows that storage-related infrastructure costs are higher for high priority WAEs than for medium priority WAEs. The HUF methodology estimates the relative share of storage assets in each water supply scheme required to supply medium and high priority WAEs. We consider that the allocation of asset-related fixed costs between priority groups in bulk schemes with material quantities of medium and high priority WAEs using the HUF is an appropriate approach, as it reflects the underlying cost drivers for different priority WAEs. This is the same approach we adopted in the 2020 review, and we consider it remains appropriate for this review.

Our approach to allocating fixed costs between medium and high priority WAEs is as follows:

- For bulk water supply schemes where there are different priority groups (Logan River, Warrill Valley, Mary Valley water supply schemes), 50% of fixed operations costs are allocated by nominal WAEs, with the remaining cost allocated using the HUF in Table 29 below.
- For Central Lockyer Valley (which has a very small volume of high priority water), all fixed costs are allocated using nominal WAEs.
- For Cedar Pocket and Lower Lockyer Valley water supply schemes, all fixed costs are allocated to medium priority WAEs.
- For distribution systems (Morton Vale Pipeline and Pie Creek), all fixed costs are allocated using nominal WAEs.

We have reviewed the updated HUFs proposed by Seqwater and consider they have been derived appropriately, using the HUF methodology that we adopted in the 2013 and 2020 reviews.

Table 29 shows our position on cost allocation compared to the 2020 review.

[166] Seqwater (sub. 1, p. 54) noted that the high priority water within the Central Lockyer Valley scheme relates to the distribution loss allocation of 185 ML; hence, the HUF for high priority water within the Central Lockyer Valley scheme is very small.
[167] Seqwater, sub. 1, p. 55.

**Table 29: QCA position – allocation of fixed asset related costs to medium priority (%)**

| Water supply scheme | 2020 review | QCA position |
|---|---|---|
| Central Lockyer Valley | 98.9 | 99.1 |
| Logan River | 2 | 1 |
| Warrill Valley | 10 | 9 |
| Mary Valley | 11 | 11 |
| Cedar Pocket | 100 | 100 |
| Lower Lockyer Valley | 100 | 100 |

Source: QCA, *Rural irrigation price review 2020–24, Part C: Seqwater*, final report, January 2020; QCA analysis.

## 9.4 Allocation of costs between tariff groups

Costs may need to be further allocated to tariff groups to reflect other cost differences within a scheme or priority group. However, most of Seqwater's bulk water supply schemes have only a single tariff group. For the two distribution systems – Morton Vale Pipeline (part of the Central Lockyer Valley water supply scheme) and Pie Creek (part of the Mary Valley water supply scheme) – there is a single tariff group applicable to each distribution system. Given this, scheme allowable costs do not need to be adjusted to allocate costs between tariff groups within a scheme.

However, Seqwater has proposed a different pricing approach for the Warrill Valley water supply scheme. Also, the referral specifies a particular pricing approach for the Central Lockyer Valley water supply scheme. These scheme-specific matters are addressed below.

### 9.4.1 Warrill Valley water supply scheme

#### Retaining an over-recovery of revenue

Seqwater submitted that customers in the Warrill Valley water supply scheme expressed a preference for a constant (or relatively stable) price over time. Seqwater said that customers in this scheme are willing for Seqwater to be able to over-recover revenue to keep prices constant – as opposed to decreasing in line with the price targets – with a view to allowing Seqwater to 'bank' that additional revenue to apply to any future cost increases. Seqwater acknowledged that this approach is not consistent with the pricing principles in the referral; however, it considered it was appropriate because it is in response to a clear preference of scheme customers and because:

- other than allowing Seqwater to retain any over-recovered revenue from fixed prices, the overall approach complies with the pricing principles and the terms of the referral
- over-recovery of revenue was permitted under the previous pricing principles
- Seqwater must demonstrate that any over-recovery of revenue is only applied to reduce the revenue required to compensate it for future increases in allowable costs in this scheme
- it will not impact any customers outside of the Warrill Valley water supply scheme.[168]

We acknowledge that Seqwater's proposal is in response to feedback from its customers in this scheme seeking to achieve stable prices over time.[169] We have not received any submissions from stakeholders on this matter. This is the same approach Seqwater adopted for the current price path period, whereby additional revenue earned (from the actual price exceeding the cost-reflective

[168] Seqwater, sub. 1, pp. 56–57.
[169] Seqwater (sub. 7, p. 8) said this proposal was made at the request of the customer reference group for this scheme.

price) is accrued within the scheme's metering annuity to stabilise prices. While we did not recommend that pricing approach in the 2020 review, we said that our recommendation did not prevent Seqwater from returning the surplus revenue above the cost target to schemes.[170]

For this review, the pricing principles in the referral specify that prices for all tariff groups are to transition from the 2024–25 fixed and volumetric prices towards the respective price targets. Once the total fixed price meets the total fixed price target for a tariff group, the fixed price target applies for that tariff group for the remainder of the price path period, with the same process then applying for volumetric prices.[171]

We consider that the pricing principles provide clear direction on this matter and differ from those that applied in the 2020 review. Applying the current pricing principles in the Warrill Valley scheme means that Seqwater would be unable to accrue additional revenue due to the actual price exceeding the price target for a period of time (and to allow that additional revenue to be returned to the scheme). Seqwater's proposal, while it has some merit in terms of stabilising prices and responding to customer preferences, is precluded by the terms of the referral. We note that the 2024–25 fixed price is below the 2025–26 fixed price target, so in the context of this review there will not need to be a reduction in the fixed price under the pricing principles.

## High priority prices

In March 2022, Seqwater sold 200 ML of its own high priority WAEs, split into smaller parcels, to existing irrigation customers. As the Warrill Valley water supply scheme previously did not include high priority WAEs, a high priority WAE price target is now required.

Seqwater's proposed Part A and Part B price targets for these high priority WAEs in the Warrill Valley scheme have been derived as follows:

- The total allowable costs to be recovered by Part A and Part B (high priority) prices were determined by deducting the fixed and variable irrigation share of total costs from the fixed and variable overall total costs for this scheme.
- The Part A (high priority) price target was derived by dividing the Part A (high priority) total allowable costs by forecast high priority WAEs.
- The Part B (high priority) price target was derived by dividing the Part B (high priority) total allowable costs by forecast high priority water usage.

As water is taken from a single meter – and it is therefore not possible to determine whether high priority or medium priority water has been taken – Seqwater has proposed to set the Part B (high priority) tariff equal to the proposed Part B (medium priority) price for the Warrill Valley scheme.[172]

We consider Seqwater's proposed approach to establishing this new tariff is reasonable. Calculating the Part A component based on the volume of WAEs and the Part B component based on usage is consistent with the pricing approach adopted for other Seqwater schemes and tariff groups. This proposal also does not involve any cost shifting between customers or groups of customers within the scheme, and so is consistent with the terms of the referral.[173]

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170 QCA, *Rural irrigation price review 2020–24, Part C: Seqwater*, final report, January 2020, p. 29.
171 Referral, sch. 2, paras A and C.
172 Seqwater, sub. 1, pp. 58–59.
173 In defining the price target, the referral states that where new tariff groups are to be considered, we are to avoid shifting costs from one customer or group of customers to another, within a scheme, in the absence of the businesses having significant commercial interest in the change, and in the absence of agreement from customers (referral, section 1, definition of 'Price Target').

### 9.4.2 Central Lockyer Valley water supply scheme

The pricing principles in the referral include a requirement that for the Central Lockyer Valley scheme, the costs of Seqwater providing the low priority groundwater product are not to be recovered in prices.[174]

We have accepted Seqwater's proposed approach and usage forecasts for this scheme. Seqwater's proposed volumetric price target (Part B) for this scheme was derived by dividing the estimate of total scheme variable costs by the total scheme usage forecast inclusive of usage of the low priority groundwater product. Given the volumetric price target is only applicable for medium priority customers, Seqwater will not recover the variable costs of it supplying the low priority groundwater product. While the WAE estimate for this scheme excludes WAEs of the low priority groundwater product, this implicitly assumes that there are no (or immaterial) fixed costs attributable to Seqwater supplying the low priority groundwater product. No stakeholders have commented on this matter.

## 9.5 Deriving the price target

The final step in deriving the price target for each tariff group is for the allocated costs to be converted into a unit cost for each of the tariff components (i.e. fixed and variable cost per megalitre) using the volume forecasts from Chapter 8. These unit costs are then smoothed over the price path period using our measure of inflation to derive the price target for each tariff group.

The fixed (Part A and C) prices are based on WAEs in each tariff group. The volumetric (Part B) price reflects the average water use for the scheme as a whole, based on the average 20-year water use (see Chapter 8).

The price targets (based on a renewals annuity approach) for each tariff group are provided in Appendix D.

[174] Referral, sch. 2, para. G.

# 10 Price recommendations

The last step to reach our price recommendations is to apply the pricing principles in the referral to establish the transitional path to the price target for each tariff group. The pricing principles specify the rules for transitioning prices to the price targets, although there are exceptions to the strict application of the transitional element of the pricing principles in special cases.

Where customers reach the price target during the price path period, their prices reflect the price target for the rest of the period.

We are directed under the referral to recommend appropriate prices and, for relevant water supply schemes, other prices including drainage prices, water harvesting prices and termination fees to be charged by Seqwater for the price path period.[175] This chapter sets out our approach to recommending:

- irrigation prices (section 10.1)
- miscellaneous prices, relating to the termination fees charged by Seqwater (section 10.2).

## 10.1 Irrigation prices

### Recommendation 1: Irrigation prices

We 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 E.

The pricing principles in the referral are broadly the same as the principles for the 2020 review, although there are two main differences:

- Different approach to transitioning fixed prices that are above the associated fixed component of the price target – if the total fixed price or any of the individual fixed prices are above the associated fixed price component of the price target, the relevant fixed prices are to be reduced to the associated fixed price component of the price target in the first year of the price path period. In the 2020 review, fixed prices were generally to be maintained in nominal terms throughout the period until the price target was reached.[176]
- Prescriptive approach to transitioning volumetric prices that are below the associated volumetric component of the price target – if the total volumetric price is below the total volumetric component of the price target, the volumetric prices are to be increased each year by a maximum of inflation plus $2.54/ML (2024–25 dollars, increasing annually by inflation). While this is consistent with our approach in the 2020 review, for that review we had flexibility to decide on an appropriate transitional approach.

The referral also provides for special cases, where we may apply the transitional element of the pricing principles as we consider appropriate. These cases include where:

- allowable costs include an allowance for expenditure on improved service levels

[175] Referral, para. B(1.1)(a).
[176] Except for the fixed bulk (Part A) price for distribution system customers.

- allowable costs include an allowance for capex associated with the augmentation of existing assets or new assets
- new tariff groups or new tariff components are considered.[177]

Seqwater has proposed a new tariff group for Warrill Valley high priority WAEs (section 10.1.1).

In all cases, where the fixed or volumetric price for a tariff group reaches the corresponding component of the price target during the price path period, the corresponding component of the price target applies for the remainder of the period.

Having applied the pricing principles as explained above, our recommendation is that prices for irrigation customers for each water supply scheme and distribution system should be set according to the prices set out in Appendix E.

### 10.1.1 Warrill Valley high priority prices

Seqwater sold 200 ML of its own high priority WAEs in March 2022 to existing irrigation customers in the Warrill Valley scheme. As the scheme previously did not include high priority WAEs, Seqwater proposed to establish a high priority price target for these WAEs.

We accepted Seqwater's proposed approach to establishing this new tariff as reasonable (see section 9.4.1). We consider that it is appropriate for the new Warrill Valley high priority tariff group to transition immediately to the price target as it is a new tariff group created for a higher priority product (reflecting a higher level of service) and because customers in the scheme have chosen to purchase these higher priority WAEs.

Seqwater said it had set the volumetric (Part B) price for this high priority tariff group equal to that of the medium priority tariff group,[178] since it was not possible to distinguish whether water taken is high or medium priority.[179] This approach, however, resulted in the proposed volumetric (Part B) price for the high priority tariff group being below its price target, increasing only by inflation and therefore not transtioning to the price target. Given that we are required to apply the pricing principles to transition recommended prices to the price targets, and consistent with our view that the high priority tariff group should transition immediately to the price target, we adjusted the allocation of costs between the fixed and volumetric tariff components of the price target for this tariff group to ensure that the high and medium priority volumetric price targets are aligned.

## 10.2 Miscellaneous prices

The referral directs us to make recommendations about other prices, including drainage prices, water harvesting prices and termination fees.[180] Seqwater has proposed a price for termination fees for the Morton Vale Pipeline and Pie Creek schemes. It does not provide drainage, drainage diversion or water harvesting services in any of its regulated schemes.

[177] Referral, para. B(1.1)(a) and section 1, definition of 'Appropriate Prices'.
[178] While, in general, the volumetric price target is the same for medium and high priority customers, Seqwater proposed a higher volumetric price target for high priority customers in this scheme.
[179] Seqwater, sub. 1, pp. 59, 65.
[180] Referral, para. B(1.1)(a).

## Recommendation 2: Miscellaneous prices

We 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 fixed (Part C) price target
- termination fees applicable to the 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
- Seqwater should never recover any revenue shortfall from remaining customers upon exit from the scheme by another customer.

### 10.2.1 Termination fees

Termination fees apply when distribution system WAEs are permanently transferred to a different section of the scheme.

The purpose of termination fees is to allow Seqwater to recover its fixed costs associated with permanently transferred WAEs and to protect remaining customers from any price increases as a result of the permanent transfer of WAEs.

Seqwater has proposed to continue with the current arrangements for termination fees for the price path period. In line with this approach, Seqwater proposed that:

- for the Morton Vale Pipeline scheme, the termination fee should be 11 times the cost-reflective Part C price
- for the Pie Creek scheme, the termination fee should be 11 times the recommended Part C price.

Under this approach, the government provides a community service obligation (CSO) payment for terminations in Pie Creek.[181]

In the 2020 review, we recommended that the termination fee should be a multiple of 11 times (including GST) the relevant fixed cost-reflective price for the Morton Vale Pipeline scheme and 11 times (including GST) the recommended (not cost-reflective) fixed price for the Pie Creek scheme. The multiple to be applied was based on ACCC guidelines for the Murray-Darling Basin (MDB) initially issued in 2011, and subsequently updated in 2020.[182] The ACCC considered that the imposition of a termination fee ensures a contribution from exiting irrigators for the ongoing fixed costs of operating the infrastructure, thereby providing some revenue certainty for infrastructure operators and some protection against future price increases for remaining customers.[183]

We consider that the approach to calculating termination fees proposed by Seqwater is appropriate. It is consistent with our recommended approach in the 2020 review and reflects the

[181] Seqwater, sub. 1, p. 65.
[182] QCA, *Rural irrigation price review 2020–24, Part C: Seqwater*, final report, January 2020, pp. 69–72. The ACCC completed a review of the water charge rules for the MDB in 2016. Following this review, termination fees rules are contained in Part 10 of the Water Charge Rules 2010. ACCC, *Review of the Water Charge Rules*, final advice, September 2016, p. 271.
[183] The ACCC also considered that the maximum termination fee should only include fixed infrastructure charges imposed per unit of water delivery right held. ACCC, *Review of the Water Charge Rules*, final advice September 2016, pp. 14, 263.

current ACCC guidelines on the appropriate multiple to apply in calculating termination fees. Stakeholders have not commented on this issue.

We therefore recommend that for the Morton Vale Pipeline scheme, the termination fee should be calculated as up to 11 times (including GST) the fixed (Part C) price target.[184] This should be calculated using 5,051 ML of WAEs, as this was the agreed volume at the establishment of the scheme.

For the Pie Creek scheme, we consider that the termination fee should continue to be calculated as up to 11 times (including GST) the recommended Part C price (not the price target). We recommended this approach in the 2020 review because basing the multiple on the cost-reflective price would result in a disproportionately high termination fee for Pie Creek compared to other schemes. We also noted that this may have implications for any CSO payment from the government to offset the cost impact on remaining users. Seqwater has not proposed any change to the termination fee arrangements, and stakeholders have not commented on this matter. In these circumstances, we consider it is appropriate to continue to apply the existing approach to calculating termination fees for the Pie Creek scheme.

Our position is that a lower multiple could be applied at Seqwater's discretion. Also, any revenue shortfall in termination fees should not be recovered from remaining customers. We consider that this appropriately balances the interests of the terminating customer, remaining customers and Seqwater.

Table 30 sets out the maximum termination fees for each tariff group.

**Table 30: QCA recommendation – maximum termination fees for each tariff group ($/ML WAE, nominal)**

| Tariff group | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
|---|---|---|---|---|
| Morton Vale Pipeline | 204.98 | 210.86 | 216.92 | 223.14 |
| Pie Creek | 653.84 | 702.13 | 752.62 | 805.64 |

Note: Fees are inclusive of GST.
Source: QCA analysis.

[184] The ACCC recommended that termination fees be based on actual fixed prices, reflecting the fact that most operators in the MDB have historically set fixed prices below fixed costs. The ACCC considered that by setting the termination fee based on actual fixed prices, operators would have an incentive to move towards cost-reflective prices. However, Seqwater does not have the discretion to alter its tariff structure or set prices to cost-reflective levels.

# 11 Impact of recommended prices

This chapter discusses the impacts of our price recommendations on irrigation customers and estimates the revenue shortfall for each tariff group with recommended prices that are below the price target. More detailed information at the scheme and tariff group level is provided in scheme information sheets, which are available on our website.[185]

## 11.1 Annual price increases by tariff group

Based on our price recommendations, price increases would vary over the price path period for each tariff group and between tariff groups, although one tariff group (Mary Valley) would see a price decrease in the first year because its current (2024–25) price is above the price target in 2025–26 (Figure 8). Our analysis is based on the total price per megalitre of water access entitlement (WAE) for each tariff group. This is derived as the total fixed price plus the total volumetric price multiplied by the assumed scheme usage percentage of WAE (see Chapter 8). As a result, the price increases for individual customers will vary if their water usage differs from the assumed scheme usage.

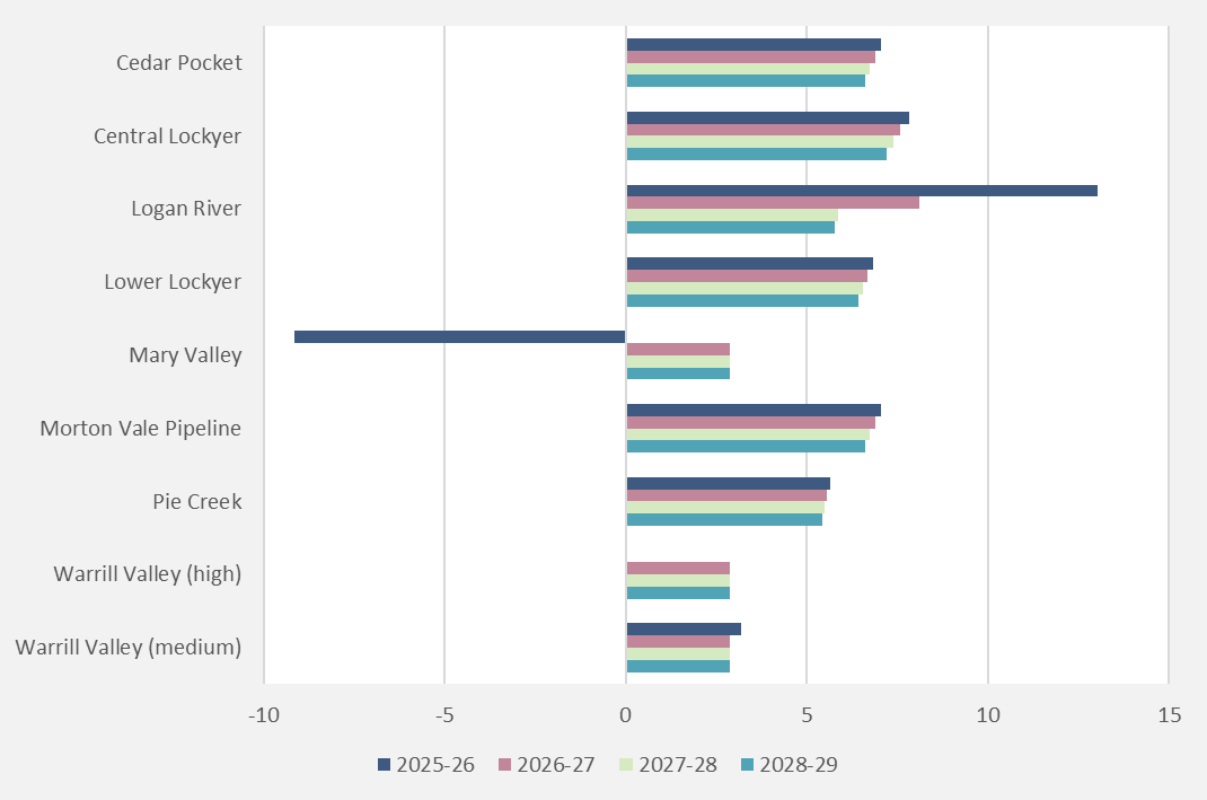
In 2025–26, a key driver of the difference in price changes between tariff groups is whether the fixed and volumetric components of the 2024–25 price are above or below the corresponding tariff components of the 2025–26 price target. Any components that are above will immediately reduce to the price target, and any components that are below will increase by no more than inflation plus $2.54/ML (2024–25 dollars, increasing by inflation) towards the price target.

In addition to this driver, price changes in 2025–26 and price increases for the remainder of the price path period will depend on:

- whether the tariff group is transitioning to the price target or is at the price target – all else being equal, tariff groups that are transitioning to the price target would generally face larger price increases (i.e. increases above forecast inflation) than customers that have reached the price target (who would face increases by forecast inflation only)
- the relative level of the price in the previous year – if a tariff group is transitioning to the price target, an increase of inflation plus $2.54/ML (2024–25 dollars, increasing annually by inflation) applied to a relatively low price would result in a larger percentage increase than if it were applied to a relatively high price.

[185] QCA website, *Irrigation price investigation 2025–29*, 2025.

**Figure 8: Changes in irrigation prices, bulk and distribution tariff groups (nominal, % change)**




Notes: 1. The base year price is the 2024–25 irrigation price before the 15% discount that Seqwater was directed to apply to irrigation prices. 2. Since Warrill Valley (high priority) is a new tariff group, there is no price change in 2025–26.

## 11.2 Annual revenue shortfall by tariff group

The government provides a community service obligation (CSO) payment to Seqwater when prices are below the price target. Overall, three of Seqwater's nine tariff groups will have prices at the price target in the first year of the price path period, with no further tariff groups reaching the price target by the end of the price path period.

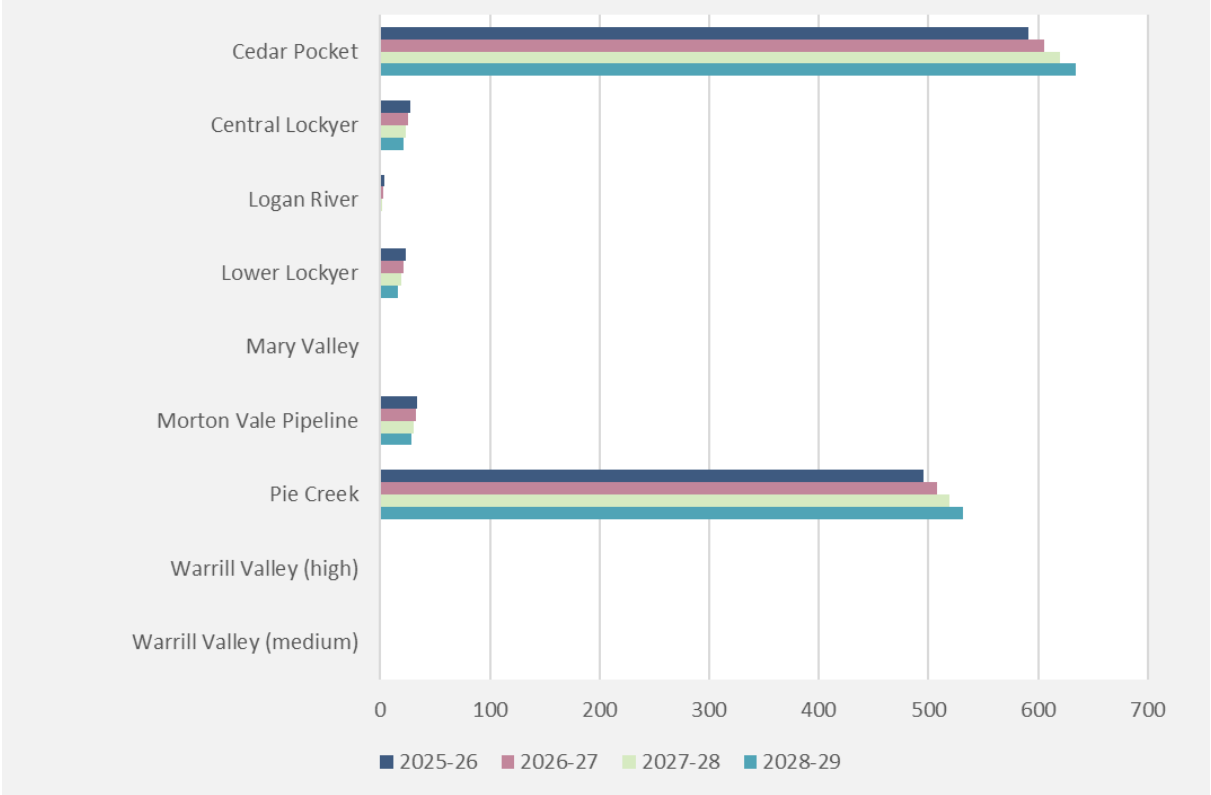
Based on the recommended prices and price targets, we estimated the revenue shortfall per megalitre of WAE for each tariff group over the price path period (Figure 9).[186] The estimated revenue shortfall:

- is highest for those tariff groups that are the furthest from the price target
- decreases over the period as prices move closer to the price target or reach the price target (in which case the shortfall become zero), except for the Cedar Pocket water supply scheme and the Pie Creek distribution system, where the shortfall increases.[187]

[186] The estimated shortfall does not cover the allowances for a return on (and of) dam safety upgrade capex and assets built before 1 July 2000, because these allowances are excluded from the costs that are allowed to be recovered through the price target.

[187] The estimated shortfall increases for these two schemes because the annual increases in the price targets (which are significantly higher than recommended prices in these two schemes) are greater in dollars per megalitre terms than the annual increases in recommended prices.

**Figure 9: Estimated revenue shortfall, bulk and distribution tariff groups ($/ML, nominal)**




Note: The annual revenue shortfall per megalitre of WAE for each tariff group is calculated as the difference between the recommended price and price target, with the volumetric price component multiplied by the assumed scheme usage for volumetric prices.

## 11.3 Stakeholders' concerns about affordability

We acknowledge the concerns raised by several stakeholders about the affordability of irrigation prices and the broader impact on business viability and regional development.[188]

In determining irrigation prices, the government has said that it is seeking to strike a balance between cost recovery, customer impacts, and simple and transparent pricing.[189] Previous government statements also suggest that its irrigation pricing policy and pricing decisions have been informed by considerations of affordability, capacity to pay and minimisation of price shocks.[190]

We were directed to recommend prices that are consistent with the pricing principles in the referral.[191] The pricing principles set out how prices should transition to the price target and how the price target should increase over the price path period. The benefits to customers of prices set according to the pricing principles include:

[188] Canegrowers Mackay, sub. 45, pp. 1–3; QFF, sub. 59, pp. 5–7 and sub. 83, pp. 1–3; Queensland Cane Agriculture and Renewables Limited (QCAR), Australian Cane Farmers Association Limited (ACFA) and AgForce Cane Board Limited (ACL) joint submission, sub. 58, pp. 5–7, Attachment 1 and sub. 82, pp. 2–3; BRIA Irrigators, sub. 42, p. 6 and sub. 67, p. 3; Central Highlands Cotton Growers and Irrigators Association (CHCGIA), sub. 47, p. 2 and sub. 71, p. 2; Nogoa-Mackenzie IAC, sub. 57, p. 1; Barker Barambah IAC, sub. 40, p. 1; B Nicholson, sub. 56, p. 3; Canegrowers, sub. 68, pp. 1–2; Pioneer Valley Water Co-operative, sub. 80, p. 2.

[189] Queensland Government, *Seqwater and Sunwater irrigation pricing*, Business Queensland website, accessed 21 January 2025.

[190] Queensland Government, *Gazette: Extraordinary*, vol. 384, no. 5, 5 May 2020, pp. 25–30; A Lynham (Minister for Natural Resources, Mines and Energy), *Price freeze offers further relief for farmers*, media statement, Queensland Government, 5 May 2020; Queensland Government, submission to the Productivity Commission [sub. 45], *National Water Reform (2018) inquiry – issues paper*, 21 April 2017, p. 7.

[191] There are a few exceptions to the requirement to apply the transitional element of the pricing principles.

- protection from large cost increases, because of the cap on annual price increases
- for many customers (in six of Seqwater's nine tariff groups), prices that are below the price target for the entire price path period
- for customers at the price target, prices that are generally below the full costs of supplying irrigation services.[192]

In addition, while the government considers our price recommendations, it is not bound to accept them. For the current price path period, the government set prices that were lower than the prices we recommended in our 2020 review (see Appendix A). The government decided to provide additional price relief, including price discounts, given concerns about the ability of irrigation customers to withstand price increases due to the impacts of the covid-19 pandemic, drought and broader economic conditions.[193] Several stakeholders considered that the 15% price discount should be maintained,[194] although one stakeholder preferred direct support to discounted prices.[195]

We have limited scope to directly consider or address affordability concerns, given the bounds within which we are to provide our price recommendations. In addition, delivering support through lower prices is generally an inefficient and ineffective way of improving affordability, because the support cannot be targeted to those that most need it, consumption and investment decisions may be distorted, and the costs to the broader community may be higher than necessary.

However, our price recommendations may indirectly affect affordability because we ensure that only prudent and efficient costs are recovered through the price target. When setting the price target, we also have some scope to consider accommodating customer preferences to mitigate price impacts, such as accepting lower service standards to reduce costs, or changing the proportion of costs allocated to each of the tariff components. However, those preferences would need to be considered alongside other relevant matters, such as:

- impacts on economic efficiency – for example, whether there is any inefficient cost shifting to other customers or distortions to price signals
- impacts on the revenue shortfall – whether there would be an increase in the revenue shortfall (i.e. the difference between the revenue recovered from irrigation prices and the revenue that would be recovered if the price target was charged), which may occur because of the way the pricing principles operate.

Stakeholders in some schemes were concerned about the impact of poor scheme reliability on the ability of customers to pay fixed charges when there is little or no water available.[196] The Lockyer Water Users Forum said that assets may be stranded without an alternative pricing policy for underperforming assets.[197] When announced allocations are low, customers will pay more for each megalitre of water they take. In the draft report, we said that a possible option for schemes with lower reliability was to increase the allocation of costs to the volumetric charge when setting the price target. However, we did not receive any feedback from stakeholders that they were interested in pursuing this option. The suggestion by the Lockyer Water Users Forum that we recommend

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[192] The price target recovers allowable costs, which exclude certain costs, such as a return on and of both the initial investment in existing assets (as at 1 July 2000) and dam safety upgrade capex.

[193] Queensland Government, *Gazette: Extraordinary*, vol. 384, no. 5, 5 May 2020, p. 28; A Lynham (Minister for Natural Resources, Mines and Energy), *Price freeze offers further relief for farmers*, media statement, Queensland Government, 5 May 2020.

[194] QFF, sub. 83, p. 3; Canegrowers, sub. 68, p. 2; QCAR, ACFA and ACL joint submission, sub. 82, p. 1; Pioneer Valley Water Co-operative, sub. 80, p. 2; CHCGIA, sub. 71, p. 2.

[195] Jovalan Farms, sub. 77, p. 1.

[196] Lockyer Water Users Forum, sub. 52, pp. 1–3 and sub. 78, pp. 1–2; QFF, sub. 83, p. 4; QCA, *Murgon workshop – issues raised (12 February 2024)*, published February 2024; QCA, *Gatton workshop – issues raised (23 January 2024)*, published February 2024; QCA, *Gatton workshop – issues raised (30 July 2024)*, published August 2024.

[197] Lockyer Water Users Forum, sub. 52, pp. 1–3 and sub. 78, pp. 1–2.

waiving fixed charges when no water is available or when a region is under a drought declaration[198] would be inconsistent with the pricing principles.

At the Gatton workshop in July 2024, it was suggested that poor reliability in the Lockyer Valley schemes could be improved with more government investment.[199] Government decisions about investing to improve water security are not within the scope of this review, which is limited to assessing the pricing practices of the water businesses, in accordance with the requirements in the referral. However, we note that an assessment of water security options for the agricultural sector in the Lockyer Valley is underway.[200]

Other support measures may be available to customers who require additional financial assistance. For instance:

- Seqwater can offer payment arrangements, such as payment extensions or instalment plans to smooth payments over a longer period.[201]
- The Farm Management Deposit Scheme aims to help primary producers to deal with fluctuations in cashflow by setting aside pre-tax income that can be drawn on in future years when it is needed.[202]
- The Queensland Rural and Industry Development Authority delivers government financial assistance programs to primary producers, such as loans, grants and rebates. This includes drought and disaster assistance programs, loans to improve business sustainability, and support to producers facing financial difficulties.[203]

It is a matter for the government to decide whether to further subsidise irrigation prices or to provide additional external support to address affordability concerns or meet other policy objectives.

198 Lockyer Water Users Forum, sub. 52, pp. 1–3 and sub. 78, pp. 1–2.
199 QCA, *Gatton workshop – issues raised (30 July 2024)*, published August 2024.
200 Department of Local Government, Water and Volunteers (DLGWV), *Regional Water Assessment Program*, South East Queensland, DLGWV website, accessed 16 January 2025; Australian Government, Queensland Government and Council of Mayors (SEQ), *South East Queensland City Deal, Implementation Plan*, July 2023, p. 33.
201 Seqwater, *Fees and charges schedule: 1 July 2024 to 30 June 2025*, n.d., p. 2.
202 Australian Government, *Farm Management Deposits*, Department of Agriculture, Fisheries and Forestry (DAFF) website, 2024, accessed 6 January 2025; Australian Government, *Farm management deposits*, Australian Taxation Office (ATO) website, accessed 6 January 2025.
203 See the Queensland Rural and Industry Development Authority website.

# 12 Managing cost risk

In this chapter, we explain our recommendations on appropriate price review triggers and other mechanisms to manage the risks associated with material changes in allowable costs outside Seqwater's control.[204]

In relation to opex risk, we recommend maintaining the review event mechanism. Of the current list of review events, we recommend maintaining the government policy review event and removing the off-stream pumping, insurance and electricity review events. We also recommend clarifying the definition of the government policy review event and the criteria for assessing review event applications.

In relation to renewals expenditure and non-renewals capex risk, we recommend maintaining the current approach of undertaking an ex post true-up, subject to an assessment of those costs for prudency and efficiency.

### Recommendation 3: Managing cost risk

We recommend the following mechanisms to manage Seqwater's uncontrollable cost risk over the price path period:

- a review event mechanism for opex risk that provides for an adjustment to allowable costs if:
  - the following event occurs during the price path period:
    - an increase or decrease in costs caused by a change in government policy or regulatory requirement
  - the following criteria are met:
    - the event results in a change in total costs that is sufficiently material. An increase in total costs is sufficiently material if the additional costs could not reasonably be met by an efficient business operating within business-as-usual budget constraints, through prudent reprioritisation of expenditure
    - the costs of the event are prudent and efficient
    - an adjustment has been made to the costs of the event for any factors that offset those costs
- an end-of-period true-up for prudent and efficient renewals expenditure and non-renewals capex.

## 12.1 Opex risk

We generally expect Seqwater to operate within its overall opex allowance and to manage variations in opex over the price path period. However, we acknowledge that events may occur

[204] Referral, para. B(1.1)(b).

during the period that are outside Seqwater's control, and those events may have a material impact on Seqwater's costs that it is unable to manage within its overall allowance.

In the 2020 review, we recommended addressing uncontrollable opex risk through a review event mechanism.[205] The government accepted our recommendation.[206] Under the review event mechanism, an adjustment is made to Seqwater's opex allowance to reflect a material change in costs caused by the occurrence of specified review events, if the change in costs is prudent and efficient. Our assessment of review event costs in the current price path period is provided in section 4.5.

We consider that the review event mechanism should continue to apply because it provides a reasonable balance between:

- allocating most opex risk to the business, including responsibility for managing variations in costs and re-prioritising expenditure within the opex allowance, to incentivise the business to efficiently manage risk and pursue efficiency gains
- allocating opex risk associated with a limited number of review events to customers and the government (if customers are paying transitional prices), to provide a reasonable opportunity for the business to recover its efficiently incurred costs and maintain an appropriate level of service.

Seqwater initially proposed to retain the off-stream pumping review event for the Central Lockyer Valley scheme,[207] but accepted our draft recommendation that it should be removed.[208] Seqwater did not propose any other review events.

We assessed whether each of the review events we recommended in the 2020 review should be retained. We have not identified other risks that would justify the inclusion of additional review events.

### 12.1.1 Off-stream pumping review event

Electricity costs in the Central Lockyer Valley scheme can vary significantly over the period, mainly driven by the need to pump water to the Lake Clarendon off-stream storage site during high flow events and then to pump the water out for later usage.

In the 2020 review, we found that it was difficult to predict high flow events. As a result, we did not provide an allowance for off-stream pumping costs and instead treated these costs as a review event. However, we now have a longer time series of electricity costs for the scheme, which shows that costs were around $0.15 million for one year in each of the last two price path periods (with the other years below $0.05 million per year). It also shows that the 5-year and 10-year cost averages were around $0.5 million per year (in 2023–24 dollars).

This longer time series of historic electricity costs makes it possible to forecast electricity costs for the Central Lockyer Valley scheme with greater accuracy. We based our cost forecast on the long-term average of electricity costs (see Chapter 4). By providing an upfront allowance for off-stream pumping costs, we expect Seqwater to manage cost variations over the period within its overall opex allowance.

Our recommendation is that the review event should not be retained.

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[205] QCA, *Rural irrigation price review 2020–24, Part A: Overview*, final report, January 2020, p. 43.
[206] Referral, para. B(1.1)(a); Queensland Government, *Gazette: Extraordinary*, vol. 384, no. 5, 5 May 2020, p. 26.
[207] Seqwater, sub. 3, p. 13.
[208] Seqwater, sub. 84, p. 3.

### 12.1.2 Insurance review event

The review event would allow a true-up for the difference between actual insurance premiums and forecast insurance premiums included in Seqwater's opex allowance, if the change in premiums is material. Unlike Sunwater, Seqwater did not propose to retain this review event.

Seqwater has some control over insurance premiums, although premiums are also affected by external risk factors that are outside Seqwater's control, and we acknowledge the difficulty of forecasting premiums in the current environment. However, we have accepted Seqwater's proposed escalation rate for insurance premiums, which is higher than Sunwater's (see Chapter 4), and Seqwater has demonstrated its ability to manage insurance cost variations in the current price path period, without requiring a review event adjustment. Taking these factors into account, we consider that it is appropriate for Seqwater to manage insurance cost risk.

Our recommendation is that the review event should not be retained.

### 12.1.3 Other review events

In relation to other review events that apply in the current period, our recommendation is that:

- the electricity review event should not be retained – Seqwater's electricity costs are relatively minor, and variations in electricity costs should be manageable by Seqwater within its overall opex allowance
- the policy change/regulatory impost review event should be retained – Seqwater has limited control over the events occurring and the resultant cost impact. However, we consider the definition should be clarified to capture changes in regulatory requirements, rather than being limited to regulatory imposts.

### 12.1.4 Assessing review event applications

We recommend clarifying the criteria that would apply to the assessment of review event applications. We consider that an adjustment to allowable costs should only be made if the definition of a specified event is met and the following criteria are satisfied:

- The event results in a change in total costs that is sufficiently material that it could not reasonably be met by an efficient business operating within business-as-usual budget constraints, through prudent reprioritisation of expenditure.
- The costs of the event are prudent and efficient.
- An adjustment has been made to the cost of the event for any factors that offset those costs.

### 12.1.5 Timing of review event assessments

If a review event occurs during the price path period, an adjustment to reflect the change in costs could either be made during the period or at the end of the period. However, we could not undertake a mid-period review unless we were directed to do so by the government.

A within-period review could introduce price volatility and may be inconsistent with the pricing principles, which define how prices are to change over the price path period.[209] An end-of-period adjustment may therefore be more appropriate.

[209] QFF (sub. 59, pp. 4–5) was opposed to within-period reviews.

However, Seqwater could approach the government to propose a mid-period review, if it considered that it was unable to manage cost increases until the next price path period. Proposals could be considered on a case-by-case basis, and it would be open to the government to obtain our advice to inform the assessment.

## 12.2 Renewals expenditure risk

When we determine the allowance for renewals expenditure for the price path period, we are required to adjust the allowance to reflect prudent and efficient renewals expenditure incurred in previous periods (see Chapter 5).[210]

Allocating renewals expenditure risk to Seqwater may encourage it to become more efficient. It would also balance incentives for efficient opex with incentives for efficient renewals expenditure to avoid inefficient substitution between opex and renewals expenditure.

However, it is more difficult to forecast renewals expenditure accurately than to forecast recurrent opex because Seqwater's renewals expenditure is generally lumpy and non-recurrent. Further, allocating renewals expenditure risk to Seqwater may encourage the inefficient deferral of spending to future periods, or a reduction in spending that would otherwise be efficient, which may adversely affect service provision.

It can be difficult to distinguish between underspending due to genuine improvements in efficiency and underspending due to the inefficient deferral of expenditure. The risk of forecasting error could also require larger contingencies to be built into cost forecasts, which may result in price targets that are higher than necessary.

In the 2022 bulk water review, we considered there were opportunities to improve the assessment and incentive frameworks for capex, such as considering the potential role of ex post assessments and capital efficiency sharing mechanisms.[211] There are costs and benefits of allocating renewals risk to Seqwater. However, given that the supply of irrigation services is integrated with the supply of bulk water services and that irrigation makes up a small part of Seqwater's overall business, any consideration of changes to the allocation of risk or the role of ex post assessments should be driven by a broader review of Seqwater's bulk water services, rather than being undertaken in isolation.

Our recommendation is to maintain the current approach of adjusting forecast renewals expenditure and non-renewals capex for actual costs, subject to an ex post assessment for prudency and efficiency.

[210] Referral, para. B(1.1)(a).
[211] QCA, *Seqwater Bulk Water Price Review 2022–26*, final report, March 2022, p. 53.

# Appendix A: Irrigation prices in the current price path period

The government considers our recommendations when making decisions about the irrigation prices that the businesses can charge.

In this appendix, we provide an overview of our price recommendations from the 2020 review, the government's consideration of those recommendations and its subsequent decision about the prices to apply in the current price path period.

## A.1 Price recommendations from our 2020 review

Our 2020 review recommended prices for the period 1 July 2020 to 30 June 2024.[212] In accordance with the pricing principles specified in the referral for that review, we recommended that the fixed and volumetric components of a customer's prevailing price transition towards a price that recovers allowable costs (the price target) in the following way:

- fixed prices – annual increases of inflation plus $2.38 per megalitre of water access entitlement (2020–21 dollars, increasing annually by inflation) where the prevailing total fixed price was below the associated component of the price target;[213] no change in the total fixed price where the prevailing total fixed price was above the associated component of the price target[214]
- volumetric prices – annual increases by no more than inflation plus $2.38 per megalitre (2020–21 dollars, increasing annually by inflation) where the prevailing volumetric price was below the associated component of the price target, and move straight to the price target where the prevailing volumetric price was above the associated component of the price target.[215]

The government did not accept our price recommendations (except for our recommendations on miscellaneous prices), but it did set prices that were based on our recommendations, as discussed below.[216] We made other recommendations that were accepted, including recommendations on apportioning dam safety upgrade capex, addressing risks and improving customer engagement.

## A.2 Prices in the current price path period

The government determined prices for each year of the current price path period that were lower than the prices we recommended:[217]

- For 2020–21, prices were maintained at 2019–20 levels,[218] as part of a broader package of measures to support businesses through the covid-19 pandemic. The government also said

[212] QCA, *Irrigation price investigation 2020–24*, final report, January 2020.
[213] The required increase was applied firstly to the bulk fixed price (Part A).
[214] For distribution systems, the prevailing bulk fixed price (Part A) was reduced to the associated component of the price target where the prevailing bulk fixed price was above the associated component of the price target.
[215] In accordance with the pricing principles, once a fixed or volumetric price reached the associated component of the price target, we recommended that the relevant component of the price target applies.
[216] Queensland Government, *Gazette: Extraordinary*, vol. 384, no. 5, 5 May 2020, pp. 25–30.
[217] Note that we were not directed to recommend prices for the last year of the period (i.e. 2024–25).
[218] Unless the fixed or volumetric price we recommended for 2020–21 was lower, in which case customers were to pay the lower price.

its decision had been informed by the impacts of drought and broader economic conditions on the ability of customers to withstand price increases.[219]

- From 2021–22 to 2024–25, prices in each year generally reflect the prices we recommended for the previous year.[220] Sunwater and Seqwater were then directed to apply a 15% discount to those prices. Customers growing horticulture crops (such as fruit, vegetables, nuts and turf) received an additional 35% discount (giving a total discount of 50%) until the end of 2023–24.[221] The decision to discount prices was described by the government as an important measure to support Queensland's economic recovery from the covid-19 pandemic.[222]

Reflecting customer affordability concerns, the government also decided to subsidise dam safety upgrade capex, instead of including those costs in the price target.[223]

[219] Queensland Government, *Gazette: Extraordinary*, vol. 384, no. 5, 5 May 2020, p. 28; A Lynham (Minister for Natural Resources, Mines and Energy), *Price freeze offers further relief for farmers*, media statement, Queensland Government, 5 May 2020.

[220] Unless the recommended 2023–24 fixed price was higher than the associated component of the price target, in which case the 2023–24 fixed price (before discount) was to reflect the associated component of the price target. In these cases, the 2024–25 fixed price was derived by applying inflation to the 2023–24 fixed price.

[221] The additional 35% discount was to be paid to eligible customers as a rebate (Queensland Rural and Industry Development Authority (QRIDA), *Horticulture Irrigation Pricing Rebate Scheme*, QRIDA website, 2024, Queensland Government, accessed 16 January 2025).

[222] Queensland Government, *Progress report on 2020 government election commitments*, September 2021, pp. 123–124; G Butcher (Minister for Regional Development and Manufacturing and Minister for Water), *Next steps to slashing irrigation prices unveiled*, media statement, Queensland Government, 13 May 2021.

[223] Queensland Government, *Gazette: Extraordinary*, vol. 384, no. 5, 5 May 2020, pp. 25–30.

# Appendix B: Stakeholder consultation

This appendix lists the submissions we received during our review (section B.1) and provides details of the two rounds of workshops we conducted (section B.2).

## B.1 List of submissions

The submission we received are listed below. They are numbered for reference purposes only – the numbers are used in the footnotes in the report. The submissions are available on our website.

| Stakeholder | Submission number | Type of submission | Date |
|---|---|---|---|
| Seqwater | 1 | Seqwater proposal | November 2023 |
| | 2 | Appendix A – Cedar Pocket WSS | November 2023 |
| | 3 | Appendix B – Central Lockyer Valley incl Morton Vale Pipeline WSS | November 2023 |
| | 4 | Appendix C – Lower Lockyer Valley WSS | November 2023 |
| | 5 | Appendix D – Logan River WSS | November 2023 |
| | 6 | Appendix E – Mary Valley WSS | November 2023 |
| | 7 | Appendix F – Warrill Valley WSS | November 2023 |
| | 8 | Appendix G – Badu – HUF Report | November 2023 |
| Sunwater | 9 | Sunwater proposal | November 2023 |
| | 10 | Appendix A – Proposed and recommended prices under an annuity methodology | November 2023 |
| | 11 | Appendix B – Customer engagement report | November 2023 |
| | 12 | Appendix C – Cost escalation paper | November 2023 |
| | 13 | Appendix D – Demand report | November 2023 |
| | 14 | Appendix E – Headworks utilisation factor technical paper | November 2023 |
| | 15 | Appendix F – Electricity costs technical paper | November 2023 |
| | 16 | Appendix G – Strategic asset management plan | November 2023 |
| | 17 | Appendix H – Weighted average cost of capital review | November 2023 |
| | 18 | Scheme summary – Barker Barambah WSS | November 2023 |

| Stakeholder | Submission number | Type of submission | Date |
|---|---|---|---|
| | 19 | Scheme summary – Bowen Broken Rivers WSS | November 2023 |
| | 20 | Scheme summary – Boyne River and Tarong WSS | November 2023 |
| | 21 | Scheme summary – Bundaberg WSS | November 2023 |
| | 22 | Scheme summary – Burdekin-Haughton | November 2023 |
| | 23 | Scheme summary – Callide Valley WSS | November 2023 |
| | 24 | Scheme summary – Chinchilla Weir WSS | November 2023 |
| | 25 | Scheme summary – Cunnamulla WSS | November 2023 |
| | 26 | Scheme summary – Dawson WSS | November 2023 |
| | 27 | Scheme summary – Eton WSS | November 2023 |
| | 28 | Scheme summary – Lower Fitzroy WSS | November 2023 |
| | 29 | Scheme summary – Lower Mary WSS | November 2023 |
| | 30 | Scheme summary – Macintyre Brook WSS | November 2023 |
| | 31 | Scheme summary – Maranoa WSS | November 2023 |
| | 32 | Scheme summary – Mareeba-Dimbulah WSS | November 2023 |
| | 33 | Scheme summary – Nogoa Mackenzie WSS | November 2023 |
| | 34 | Scheme summary – Pioneer River WSS | November 2023 |
| | 35 | Scheme summary – Proserpine River WSS | November 2023 |
| | 36 | Scheme summary – St George WSS | November 2023 |
| | 37 | Scheme summary – Three Moon Creek WSS | November 2023 |
| | 38 | Scheme summary – Upper Burnett WSS | November 2023 |
| | 39 | Scheme summary – Upper Condamine WSS | November 2023 |
| | 63 | Brief supplementary submission in response to stakeholder submissions to the QCA | May 2024 |
| Barker Barambah IAC | 40 | Submission on Sunwater's proposal | February 2024 |
| Bundaberg Regional Irrigators Group (BRIG) | 41 | Submission on Sunwater's proposal | February 2024 |

| Stakeholder | Submission number | Type of submission | Date |
|---|---|---|---|
| Burdekin River Irrigation Area (BRIA) Irrigators Limited | 42 | Submission on Sunwater's proposal | February 2024 |
| Canegrowers | 43 | Submission on Sunwater's proposal | February 2024 |
| Canegrowers Burdekin | 44 | Submission on Sunwater's proposal | February 2024 |
| Canegrowers Mackay | 45 | Submission on Sunwater's proposal | February 2024 |
| Central Downs Irrigators | 46 | Submission on Sunwater's proposal | February 2024 |
| Central Highlands Cotton Growers and Irrigators Association (CHCGIA) | 47 | Submission on Sunwater's proposal | February 2024 |
| Cotton Australia | 48 | Submission on Sunwater's proposal | February 2024 |
| Eton Irrigation Cooperative Ltd (EICL) | 49 | Submission on Sunwater's proposal | February 2024 |
| Fairbairn Irrigation Network | 50 | Submission on Sunwater's proposal | February 2024 |
| Giru Benefited Area Committee | 51 | Submission on Sunwater's proposal | February 2024 |
| Lockyer Water Users Forum | 52 | Submission on Seqwater's proposal | February 2024 |
| Lower Burdekin Riparian Growers | 53 | Submission on Sunwater's proposal | February 2024 |
| Lower Burdekin Water | 54 | Submission on Sunwater's proposal | February 2024 |
| Mallawa Irrigation | 55 | Submission on Sunwater's proposal | February 2024 |
| Nicholson, B | 56 | Submission on Sunwater's proposal | February 2024 |
| Nogoa-Mackenzie IAC | 57 | Submission on Sunwater's proposal | February 2024 |
| Queensland Cane Agriculture and Renewables (QCAR) et al.[224] | 58 | Submission on Sunwater's proposal | February 2024 |
| Queensland Farmers' Federation (QFF) | 59 | Submission on Sunwater's and Seqwater's proposal | February 2024 |
| Sippel, D and S | 60 | Submission on Sunwater's proposal | February 2024 |
| Theodore Water | 61 | Submission on Sunwater's proposal | February 2024 |
| Wilmar Sugar Australia | 62 | Submission on Sunwater's proposal | February 2024 |
| A. Pierotti & Sons | 64 | Submission on Sunwater draft report | September 2024 |

[224] Joint submission by QCAR, Australian Cane Farmers Association Limited (ACFA) and AgForce Cane Board Limited (ACL).

| Stakeholder | Submission number | Type of submission | Date |
|---|---|---|---|
| Bryant Agriculture | 65 | Submission on Sunwater draft report | September 2024 |
| Bundaberg Regional Irrigators Group (BRIG) | 66 | Submission on Sunwater draft report | September 2024 |
| Burdekin River Irrigation Area (BRIA) Irrigators Limited | 67 | Submission on Sunwater draft report | September 2024 |
| Canegrowers | 68 | Submission on Sunwater draft report | September 2024 |
| Canegrowers Burdekin | 69 | Submission on Sunwater draft report | September 2024 |
| Central Downs Irrigators | 70 | Submission on Sunwater draft report | September 2024 |
| Central Highlands Cotton Growers and Irrigators Association (CHCGIA) | 71 | Submission on Sunwater draft report | September 2024 |
| Cotton Australia | 72 | Submission on Sunwater draft report | September 2024 |
| Drynan, G | 73 | Submission on Seqwater draft report | September 2024 |
| Eton Irrigation Cooperative Ltd (EICL) | 74 | Submission on Sunwater draft report | September 2024 |
| Giru Benefited Area Committee | 75 | Submission on Sunwater draft report | September 2024 |
| Hutchinson Ag | 76 | Submission on Sunwater draft report | September 2024 |
| Jovalan Farms | 77 | Submission on Sunwater draft report | September 2024 |
| Lockyer Water Users Forum | 78 | Submission on Seqwater draft report | September 2024 |
| Mallawa Irrigation | 79 | Submission on Sunwater draft report | September 2024 |
| Pioneer Valley Water Co-operative Limited | 80 | Submission on Sunwater draft report | September 2024 |
| qldwater | 81 | Submission on Sunwater draft report | September 2024 |
| Queensland Cane Agriculture and Renewables (QCAR) et al.[225] | 82 | Submission on Sunwater draft report | September 2024 |
| Queensland Farmers' Federation (QFF) | 83 | Submission on Sunwater and Seqwater draft reports | September 2024 |
| Seqwater | 84 | Submission on Seqwater draft report | September 2024 |
| Sunwater | 85 | Submission on Sunwater draft report | September 2024 |
| The Polagri Trust | 86 | Submission on Sunwater draft report | September 2024 |

[225] Joint submission by QCAR, ACFA and ACL.

| Stakeholder | Submission number | Type of submission | Date |
|---|---|---|---|
| Theodore Water | 87 | Submission on Sunwater draft report | September 2024 |
| Tranquility | 88 | Submission on Sunwater draft report | August 2024 |
| Turfgrass Townsville Pty Ltd | 89 | Submission on Sunwater draft report | September 2024 |
| Wessell, A | 90 | Submission on Sunwater draft report | September 2024 |

## B.2 Stakeholder workshops

We held two rounds of stakeholder workshops – the first round in January/February 2024 and the second round in July/August 2024. The workshop presentations and summaries of the issues raised at each workshop are available on our website.

### First round – January/February 2024

The first round of workshops was held after the businesses submitted their proposals. We held ten in-person workshops and one online workshop, with a total of 115 attendees.

| Date | Location | Schemes covered | Number of attendees[a] |
|---|---|---|---|
| 23 January | Gatton | Central Lockyer Valley, Lower Lockyer Valley (Seqwater) | 4 |
| 25 January | Pittsworth | Upper Condamine, Chinchilla Weir, Dawson Valley (Sunwater) | 5 |
| 31 January | Mareeba | Mareeba-Dimbulah (Sunwater) | 4 |
| 6 February | Bundaberg | Bundaberg (Sunwater) | 8 |
| 7 February | Monto | Upper Burnett, Three Moon Creek (Sunwater) | 5 |
| 8 February | Emerald | Nogoa-Mackenzie (Sunwater) | 13 |
| 9 February | Mackay | Pioneer River, Proserpine River, Eton (Sunwater) | 12 |
| 12 February | Murgon | Barker-Barambah, Upper Burnett (Sunwater) | 6 |
| 13 February | Online | All Sunwater schemes | 15 |
| 14 February | Clare | Burdekin-Haughton (Sunwater) | 16 |
| 14 February | Giru | Burdekin-Haughton (Sunwater) | 27 |
| **Total** | | | **115** |

a Excluding QCA, and Sunwater and Seqwater staff.

### Second round – July/August 2024

The second round of workshops was held after we released the draft report. We held ten in-person workshops and one online workshop, with a total of 99 attendees.

| Date | Location | Schemes covered | Number of attendees[a] |
|---|---|---|---|
| 26 July | Murgon | Barker-Barambah, Boyne River and Tarong (Sunwater) | 2 |
| 30 July | Gatton | Central Lockyer Valley, Lower Lockyer Valley, Logan River (Seqwater) | 8 |
| 1 August | Giru | Burdekin-Haughton (Sunwater) | 12 |
| 1 August | Clare | Burdekin-Haughton (Sunwater) | 22 |
| 2 August | Mackay | Pioneer River, Eton (Sunwater) | 9 |
| 16 August | Pittsworth | Upper Condamine, Macintyre Brook, Chinchilla Weir (Sunwater) | 4 |
| 19 August | Online | All Sunwater schemes | 6 |
| 20 August | Bundaberg | Bundaberg (Sunwater) | 8 |
| 21 August | Monto | Three Moon Creek (Sunwater) | 11 |
| 21 August | Moura | Dawson Valley (Sunwater) | 7 |
| 22 August | Emerald | Nogoa-Mackenzie (Sunwater) | 10 |
| **Total** | | | **99** |

a Excluding QCA staff.

# Appendix C: Costs by scheme

## Cedar Pocket WSS

**Table 31: Total allowable costs, Cedar Pocket WSS ($'000, nominal)**

| Cost | 2025–26 | 2026–27 | 2027–28 | 2028–29 |
|---|---|---|---|---|
| Labour | 87.9 | 90.7 | 93.5 | 95.8 |
| Electricity | 0.4 | 0.4 | 0.5 | 0.5 |
| Repairs and maintenance | 13.7 | 14.1 | 14.5 | 14.9 |
| Other | 98.9 | 58.7 | 57.5 | 61.9 |
| Insurance | 13.3 | 13.9 | 14.6 | 15.4 |
| Non-direct | 61.0 | 62.7 | 64.5 | 66.2 |
| Renewals annuity | (4.7) | (4.7) | (4.7) | (4.7) |
| Revenue offsets | (1.4) | (1.4) | (1.5) | (1.5) |
| Review events | 86.9 | 89.4 | 92.0 | 94.6 |
| QCA fee | 0.3 | 0.3 | 0.3 | 0.3 |
| **Total allowable costs** | **356.3** | **324.2** | **331.2** | **343.3** |

Notes: 1. Total allowable costs include costs allocated to irrigation and non-irrigation customers. 2. Totals may not add due to rounding.
Source: QCA analysis.

## Central Lockyer Valley WSS

**Table 32: Total allowable costs, Central Lockyer Valley WSS ($'000, nominal)**

| Cost | 2025–26 | 2026–27 | 2027–28 | 2028–29 |
|---|---|---|---|---|
| Labour | 146.6 | 151.4 | 155.9 | 159.8 |
| Electricity | 51.0 | 52.1 | 53.3 | 54.6 |
| Repairs and maintenance | 184.5 | 190.2 | 195.8 | 200.8 |
| Other | 200.7 | 195.6 | 259.8 | 254.9 |
| Insurance | 207.1 | 217.5 | 228.3 | 239.8 |
| Non-direct | 275.3 | 283.4 | 291.3 | 299.1 |
| Renewals annuity | 400.6 | 407.2 | 414.0 | 421.0 |
| Revenue offsets | (0.6) | (0.6) | (0.6) | (0.6) |
| Review events | 49.5 | 50.9 | 52.3 | 53.8 |
| QCA fee | 7.8 | 8.1 | 8.3 | 8.5 |
| **Total allowable costs** | **1,522.5** | **1,555.8** | **1,658.5** | **1,691.6** |

Notes: 1. Total allowable costs include costs allocated to irrigation and non-irrigation customers. 2. Totals may not add due to rounding.
Source: QCA analysis.

## Morton Vale Pipeline distribution system

**Table 33: Total allowable costs, Morton Vale Pipeline ($'000, nominal)**

| Cost | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
|---|---|---|---|---|
| Labour | 19.9 | 20.5 | 21.1 | 21.7 |
| Electricity | – | – | – | – |
| Repairs and maintenance | 10.4 | 10.7 | 11.0 | 11.3 |
| Other | 3.9 | 4.0 | 4.1 | 4.2 |
| Insurance | 16.9 | 17.8 | 18.6 | 19.6 |
| Non-direct | 18.1 | 18.6 | 19.1 | 19.6 |
| Renewals annuity | 18.2 | 19.4 | 20.7 | 22.0 |
| Revenue offsets | (0.2) | (0.2) | (0.3) | (0.3) |
| QCA fee | 1.9 | 1.9 | 2.0 | 2.0 |
| **Total allowable costs** | **88.9** | **92.6** | **96.4** | **100.1** |

Notes: 1. Total allowable costs include costs allocated to irrigation and non-irrigation customers. 2. Totals may not add due to rounding.
Source: QCA analysis.

## Logan River WSS

**Table 34: Total allowable costs, Logan River WSS ($'000, nominal)**

| Cost | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
|---|---|---|---|---|
| Labour | 327.2 | 337.9 | 348.0 | 356.7 |
| Electricity | 11.3 | 11.6 | 11.8 | 12.1 |
| Repairs and maintenance | 357.3 | 368.4 | 379.1 | 388.9 |
| Other | 958.1 | 954.1 | 966.8 | 1,055.3 |
| Insurance | 497.5 | 522.4 | 548.5 | 576.0 |
| Non-direct | 719.1 | 740.3 | 761.1 | 781.2 |
| Renewals annuity | 348.0 | 351.0 | 354.1 | 357.2 |
| Revenue offsets | (41.4) | (42.6) | (43.8) | (45.0) |
| QCA fee | 6.8 | 7.0 | 7.2 | 7.4 |
| **Total allowable costs** | **3,183.9** | **3,250.0** | **3,332.8** | **3,489.7** |

Notes: 1. Total allowable costs include costs allocated to irrigation and non-irrigation customers. 2. Totals may not add due to rounding.
Source: QCA analysis.

## Lower Lockyer Valley WSS

**Table 35: Total allowable costs, Lower Lockyer Valley WSS ($'000, nominal)**

| Cost | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
|---|---|---|---|---|
| Labour | 197.0 | 203.4 | 209.5 | 214.7 |
| Electricity | 12.0 | 12.3 | 12.6 | 12.9 |
| Repairs and maintenance | 112.6 | 116.1 | 119.5 | 122.6 |
| Other | 142.7 | 142.3 | 151.1 | 198.7 |
| Insurance | 89.6 | 94.1 | 98.8 | 103.8 |
| Non-direct | 191.0 | 196.6 | 202.1 | 207.5 |
| Renewals annuity | 288.4 | 296.0 | 303.8 | 311.9 |
| Revenue offsets | (11.7) | (12.0) | (12.4) | (12.7) |
| QCA fee | 6.0 | 6.1 | 6.3 | 6.5 |
| **Total allowable costs** | **1,027.7** | **1,055.0** | **1,091.4** | **1,165.8** |

Notes: 1. Total allowable costs include costs allocated to irrigation and non-irrigation customers. 2. Totals may not add due to rounding.
Source: QCA analysis.

## Mary Valley WSS

**Table 36: Total allowable costs, Mary Valley WSS ($'000, nominal)**

| Cost | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
|---|---|---|---|---|
| Labour | 271.3 | 280.1 | 288.5 | 295.7 |
| Electricity | 16.4 | 16.7 | 17.1 | 17.5 |
| Repairs and maintenance | 81.9 | 84.5 | 87.0 | 89.2 |
| Other | 101.6 | 99.7 | 154.8 | 105.2 |
| Insurance | 158.1 | 166.0 | 174.3 | 183.0 |
| Non-direct | 216.4 | 222.7 | 229.0 | 235.0 |
| Renewals annuity | 279.1 | 285.3 | 291.7 | 298.2 |
| Revenue offsets | (14.9) | (15.3) | (15.8) | (16.2) |
| QCA fee | 8.8 | 9.0 | 9.3 | 9.6 |
| **Total allowable costs** | **1,118.6** | **1,148.8** | **1,235.8** | **1,217.2** |

Notes: 1. Total allowable costs include costs allocated to irrigation and non-irrigation customers. 2. Totals may not add due to rounding.
Source: QCA analysis.

## Pie Creek distribution system

**Table 37: Total allowable costs, Pie Creek distribution system ($'000, nominal)**

| Cost | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
|---|---|---|---|---|
| Labour | 81.4 | 84.1 | 86.6 | 88.8 |
| Electricity | 15.0 | 15.3 | 15.7 | 16.0 |
| Repairs and maintenance | 104.7 | 108.0 | 111.1 | 114.0 |
| Other | 64.4 | 66.3 | 68.2 | 70.0 |
| Insurance | 15.4 | 16.2 | 17.0 | 17.8 |
| Non-direct | 94.3 | 97.1 | 99.8 | 102.5 |
| Renewals annuity | 100.6 | 101.4 | 102.3 | 103.1 |
| Revenue offsets | (1.0) | (1.0) | (1.0) | (1.0) |
| QCA fee | 0.4 | 0.4 | 0.5 | 0.5 |
| **Total allowable costs** | **475.3** | **487.8** | **500.1** | **511.6** |

Notes: 1. Total allowable costs include costs allocated to irrigation and non-irrigation customers. 2. Totals may not add due to rounding.
Source: QCA analysis.

## Warrill Valley WSS

**Table 38: Total allowable costs, Warrill Valley WSS ($'000, nominal)**

| Cost | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
|---|---|---|---|---|
| Labour | 281.5 | 290.7 | 299.4 | 306.9 |
| Electricity | 5.7 | 5.8 | 5.9 | 6.1 |
| Repairs and maintenance | 157.9 | 162.9 | 167.6 | 171.9 |
| Other | 212.3 | 270.2 | 224.7 | 236.7 |
| Insurance | 69.5 | 73.0 | 76.7 | 80.5 |
| Non-direct | 253.7 | 261.2 | 268.5 | 275.6 |
| Renewals annuity | 364.2 | 371.7 | 379.3 | 387.2 |
| Revenue offsets | (41.7) | (42.9) | (44.1) | (45.3) |
| QCA fee | 10.8 | 11.1 | 11.4 | 11.7 |
| **Total allowable costs** | **1,314.0** | **1,403.7** | **1,389.5** | **1,431.3** |

Notes: 1. Total allowable costs include costs allocated to irrigation and non-irrigation customers. 2. Totals may not add due to rounding.
Source: QCA analysis.

# Appendix D: Price targets

## D.1 Bulk water supply schemes

Table 39 below shows the 2024–25 price and price targets over the price path period for Seqwater's bulk schemes.

**Table 39: Price targets – bulk schemes ($/ML, nominal)**

| Tariff group | Price | 2024–25 price | Price targets | | | |
|---|---|---|---|---|---|---|
| | | | 2025–26 | 2026–27 | 2027–28 | 2028–29 |
| Cedar Pocket | Part A | 34.61 | 604.56 | 621.91 | 639.76 | 658.12 |
| | Part B | 46.81 | 89.44 | 92.00 | 94.64 | 97.36 |
| Central Lockyer Valley | Part A | 48.88 | 78.16 | 80.40 | 82.71 | 85.08 |
| | Part B | 11.77 | 17.16 | 17.65 | 18.16 | 18.68 |
| Logan River | Part A | 20.53 | 24.63 | 25.34 | 26.06 | 26.81 |
| | Part B | 15.19 | 24.50 | 25.20 | 25.92 | 26.67 |
| Lower Lockyer Valley | Part A | 62.11 | 86.55 | 89.03 | 91.59 | 94.21 |
| | Part B | 28.19 | 49.41 | 50.83 | 52.29 | 53.79 |
| Mary Valley | Part A | 15.51 | 14.68 | 15.10 | 15.54 | 15.98 |
| | Part B | 8.72 | 6.32 | 6.50 | 6.68 | 6.87 |
| Warrill Valley (medium priority) | Part A | 20.56 | 21.12 | 21.73 | 22.35 | 23.00 |
| | Part B | 11.81 | 12.52 | 12.88 | 13.25 | 13.63 |
| Warrill Valley (high priority)[a] | Part A | n.a. | 137.27 | 141.21 | 145.26 | 149.43 |
| | Part B | n.a. | 12.52 | 12.88 | 13.25 | 13.63 |

a This is a new tariff group as there was no government determined price for 2024–25.
Source: QCA analysis.

## D.2 Distribution systems

Table 40 below shows the 2024–25 price and price targets over the price path period for Seqwater's distribution systems.

**Table 40: Price targets – distribution systems ($/ML, nominal)**

| Tariff group | Price | 2024–25 price | Price targets | | | |
|---|---|---|---|---|---|---|
| | | | 2025–26 | 2026–27 | 2027–28 | 2028–29 |
| Morton Vale Pipeline | Part A | 48.88 | 78.16 | 80.40 | 82.71 | 85.08 |
| | Part B | 8.57 | 17.16 | 17.65 | 18.16 | 18.68 |
| | Part C | 11.29 | 18.63 | 19.17 | 19.72 | 20.29 |
| | Part D | 8.03 | 11.53 | 11.86 | 12.20 | 12.55 |
| | **Fixed** | **60.17** | **96.79** | **99.57** | **102.43** | **105.37** |
| | **Volumetric** | **16.60** | **28.69** | **29.51** | **30.36** | **31.23** |
| Pie Creek | Part A | 15.17 | 14.68 | 15.10 | 15.54 | 15.98 |
| | Part B | 8.53 | 6.32 | 6.50 | 6.68 | 6.87 |
| | Part C | 54.34 | 503.57 | 518.02 | 532.88 | 548.18 |
| | Part D | 91.54 | 305.61 | 314.38 | 323.41 | 332.69 |
| | **Fixed** | **69.51** | **518.25** | **533.12** | **548.42** | **564.16** |
| | **Volumetric** | **100.07** | **311.93** | **320.88** | **330.09** | **339.56** |

Source: QCA analysis.

# Appendix E: Recommended prices

## E.1 Bulk water supply schemes

Table 41 below shows the 2024–25 price and recommended prices over the price path period for Seqwater's bulk schemes.

**Table 41: Recommended prices – bulk schemes ($/ML, nominal)**

| Tariff group | Price | 2024–25 price | Recommended prices | | | |
|---|---|---|---|---|---|---|
| | | | 2025–26 | 2026–27 | 2027–28 | 2028–29 |
| Cedar Pocket | Part A | 34.61 | 38.22 | 42.00 | 45.97 | 50.14 |
| | Part B | 46.81 | 48.15 | 49.54 | 50.96 | 52.42 |
| Central Lockyer Valley | Part A | 48.88 | 52.90 | 57.10 | 61.51 | 66.12 |
| | Part B | 11.77 | 12.11 | 12.46 | 12.81 | 13.18 |
| Logan River | Part A | 20.53 | 23.73 | 25.34 | 26.06 | 26.81 |
| | Part B | 15.19 | 15.63 | 17.84 | 21.12 | 24.57 |
| Lower Lockyer Valley | Part A | 62.11 | 66.51 | 71.10 | 75.91 | 80.93 |
| | Part B | 28.19 | 29.00 | 29.83 | 30.69 | 31.57 |
| Mary Valley | Part A | 15.51 | 14.68 | 15.10 | 15.54 | 15.98 |
| | Part B | 8.72 | 6.32 | 6.50 | 6.68 | 6.87 |
| Warrill Valley (medium priority) | Part A | 20.56 | 21.12 | 21.73 | 22.35 | 23.00 |
| | Part B | 11.81 | 12.52 | 12.88 | 13.25 | 13.63 |
| Warrill Valley (high priority)[a] | Part A | n.a. | 137.27 | 141.21 | 145.26 | 149.43 |
| | Part B | n.a. | 12.52 | 12.88 | 13.25 | 13.63 |

a This is a new tariff group as there was no government-determined price for 2024–25.
Source: QCA analysis.

## E.2 Distribution systems

Table 42 below shows the 2024–25 price and recommended prices over the price path period for Seqwater's distribution systems.

**Table 42: Recommended prices – distribution systems ($/ML, nominal)**

| Tariff group | Price | 2024-25 price | Recommended prices | | | |
|---|---|---|---|---|---|---|
| | | | 2025-26 | 2026-27 | 2027-28 | 2028-29 |
| Morton Vale Pipeline | Part A | 48.88 | 52.90 | 57.10 | 61.51 | 66.12 |
| | Part B | 8.57 | 8.82 | 9.07 | 9.33 | 9.60 |
| | Part C | 11.29 | 11.61 | 11.95 | 12.29 | 12.64 |
| | Part D | 8.03 | 8.26 | 8.50 | 8.74 | 8.99 |
| | **Fixed** | **60.17** | **64.51** | **69.05** | **73.80** | **78.76** |
| | **Volumetric** | **16.60** | **17.08** | **17.57** | **18.07** | **18.59** |
| Pie Creek | Part A | 15.17 | 14.68 | 15.10 | 15.54 | 15.98 |
| | Part B | 8.53 | 6.32 | 6.50 | 6.68 | 6.87 |
| | Part C | 54.34 | 59.44 | 63.83 | 68.42 | 73.24 |
| | Part D | 91.54 | 96.62 | 99.40 | 102.26 | 105.19 |
| | **Fixed** | **69.51** | **74.12** | **78.93** | **83.96** | **89.22** |
| | **Volumetric** | **100.07** | **102.94** | **105.90** | **108.94** | **112.06** |

Source: QCA analysis.

# Appendix F: Matters we considered

In Table 43, we explain how we have considered each of the matters we are required to consider in:

- section 26 of the QCA Act
- the referral (paragraph C), in accordance with section 24(1)(b) of the QCA Act.[226]

**Table 43: Matters we considered in conducting our review**

| Relevant matter | QCA consideration |
|---|---|
| **Economic efficiency matters** | |
| The need for efficient resource allocation (QCA Act, s. 26(1)(a)) | The price targets reflect our assessment of the prudent and efficient allowable costs of supplying irrigation services for each tariff group (Chapter 9). If prices are set according to the price target, this would generally promote efficient consumption and investment decisions by customers and efficient investment by Seqwater. It may also promote the efficient trading of water access entitlements (WAEs).<br>However, the efficiency benefits may not be realised because our price recommendations reflect the application of the pricing principles in the referral (Chapter 10), which means that many customers would pay prices that are below cost-reflective levels. As the under-recovered costs are to be covered by a community service obligation (CSO) payment to Seqwater, this may impose redistribution and efficiency costs on the broader economy. |
| The need to promote competition (QCA Act, s. 26(1)(b)) | Competition would be promoted if prices were set according to the price targets (Chapter 9), because there would be an incentive for customers to trade WAEs to their highest value use.<br>In addition, consistent with competitive neutrality principles, Seqwater should not have a competitive advantage over private sector firms because it is government-owned. In accordance with these principles, we determined costs that reflect the tax obligations and rate of return of a benchmark efficient firm operating in the private sector (Chapters 6 and 7). |
| The cost of providing the goods or services in an efficient way, having regard to relevant interstate and international benchmarks (QCA Act, s. 26(1)(d)(i)) | We assessed Seqwater's proposed costs for prudency and efficiency. We had regard to benchmarking, where we considered this to be appropriate (Chapters 4 and 5). We also considered normalised weighted average cost of capital (WACC) outcomes (Chapter 6). |
| The standard of the goods or services, including quality, reliability and safety (QCA Act, s. 26(1)(d)(iii)) | In assessing the prudency and efficiency of costs, we considered Seqwater's operating environment, regulatory obligations and agreements with customers about service quality (Chapters 4 and 5). |

[226] We may also consider other matters (QCA Act, s. 26(3)).

| | |
|---|---|
| The appropriate rate of return on assets (QCA Act, s. 26(1)(e)) | We determined an appropriate rate of return by estimating the WACC, which is the rate of return on investment that compensates the benchmark efficient firm for the regulatory and commercial risks associated with providing the service (Chapter 6). |
| Considerations of demand management (QCA Act, s. 26(1)(h)) | Higher volumetric prices provide a financial incentive for customers to reduce consumption. In determining the price target for each tariff group, we aimed to broadly align the tariff structure with the cost structure by allocating fixed costs to the fixed tariff components and variable costs to the volumetric tariff components (Chapter 9). However, the application of the pricing principles may mean the volumetric prices we recommended are lower than the corresponding volumetric components of the price target (Chapter 10). |
| The need for pricing practices not to discourage socially desirable investment or innovation by government agencies and persons carrying on non-government business activities (QCA Act, s. 26(1)(j)) | The price targets reflect our assessment of the prudent and efficient allowable costs of supplying irrigation services for each tariff group (Chapter 9). If prices are set according to the price target, this would promote efficient investment by Seqwater. However, inefficient investment may be promoted because our price recommendations reflect the application of the pricing principles (Chapter 10). |
| The fixed and variable nature of the underlying costs in relation to tariff structures (QCA Act, s. 24(1)(b); referral, para. C(1.1)(a)) | In determining the price target for each tariff group, we aimed to broadly align the tariff structure with the cost structure by allocating fixed costs to the fixed tariff components and variable costs to the volumetric tariff components (Chapter 9).<br>The application of the pricing principles may mean the fixed and volumetric prices we recommended are lower than the corresponding fixed and volumetric components of the price target (Chapter 10). The government provides a CSO payment to Seqwater when prices are below the price target. |
| **Business/industry-specific matters** | |
| The actual cost of providing the goods or services (QCA Act, s. 26(1)(d)(ii)) | Our assessment of the prudency and efficiency of costs was informed by information on actual costs provided by Seqwater (Chapters 4 and 5). |
| The effect of inflation (QCA Act, s. 26(1)(f)) | Inflation is an input to the calculations of forecast opex, the renewals allowance, the price targets and recommended prices. Our approach to estimating inflation is explained in Chapter 6. |
| Legislation and government policies relating to occupational health and safety and industrial relations (QCA Act, s. 26(1)(l)) | We expect the opex allowance we determined would provide Seqwater with sufficient revenue to satisfy obligations relating to occupational health and safety and industrial relations (Chapters 4 and 5). |
| Any directions given by the government to the government agency by which the monopoly business activity is carried on (QCA Act, s. 26(1)(n)) | Where relevant to our assessment, we considered directions that are given by the government to Seqwater. |

| | |
|---|---|
| Where relevant, the findings of the QCA's review of Seqwater's bulk water prices for the 2022–26 period (QCA Act, s. 24(1)(b); referral, para. C(1.1)(d)). | Our assessment of the prudency and efficiency of allowable costs considered the findings of the 2022 bulk water review (see Chapters 4 and 5). |
| **Customer/social impact matters** | |
| The protection of consumers from abuses of monopoly power (QCA Act, s. 26(1)(c)) | The price targets reflect our assessment of the prudent and efficient allowable costs of supplying irrigation services for each tariff group (Chapter 9). This would prevent Seqwater from earning excessive profits due to its monopoly position.<br>Irrigation customers are further protected from the exercise of monopoly power because our price recommendations reflect the application of the pricing principles, which means that many customers would pay prices below the price target (Chapters 10 and 11). |
| Social welfare and equity considerations including community service obligations, the availability of goods and services to consumers and the social impact of pricing practices (QCA Act, s. 26(1)(i)) | In accordance with the referral, our price recommendations are consistent with the pricing principles, which constrain annual price increases, whether customers are transitioning to the price target or at the price target. Many customers would pay prices below the price target (Chapters 9 and 10).<br>The price targets are no higher than necessary to enable Seqwater to recover the prudent and efficient allowable costs of supplying irrigation services over time. The recommended prices, combined with CSO payments to make up the revenue shortfall, would provide Seqwater with sufficient revenue to continue to invest in providing irrigation services, which would benefit irrigation customers and regional communities.<br>In Chapter 11, we considered the impacts of our price recommendations on irrigation customers and estimated the revenue shortfall for each tariff group. We also discussed stakeholder concerns about the affordability of irrigation prices, and the broader impacts on business viability and regional development. |
| Economic and regional development issues, including employment and investment growth (QCA Act, s. 26(1)(m)) | |
| Customer agreements on costs and/or prices proposed by the businesses, where consistent with the requirements in the referral (QCA Act, s. 24(1)(b); referral, para. C(1.1)(c)) | Our assessment of the prudency and efficiency of allowable costs considered Seqwater's submission that each scheme-level customer reference group generally endorsed the proposed costs in its proposal (Chapters 4 and 5).[227]<br>In response to customers preferences in the Warrill Valley water supply scheme, Seqwater proposed a pricing approach that deviates from the pricing principles. While we considered that the proposal has some merit in terms of stabilising prices and responding to customer preferences, it is precluded by the terms of the referral (Chapter 9). |
| The need to, where possible, provide revenue and pricing outcomes that are both simple | In accordance with the referral, our price recommendations are consistent with the pricing principles, which constrain annual price |

[227] Seqwater, sub. 1, p. 7.

| | |
|---|---|
| and transparent for customers (QCA Act, s. 24(1)(b); referral, para. C(1.1)(b)(ii)) | increases, whether customers are transitioning to the price target or at the price target (Chapters 9 and 10).<br>Prices in all schemes reflect a simple fixed and volumetric tariff structure, which is well understood by customers (Chapter 9).<br>We provide information to help customers understand the potential impacts of our price recommendations (Chapters 10 and 11, and the scheme information sheets available on our website). |
| **Environmental obligations** | |
| The impact on the environment of prices charged by the government agency or other person carrying on the monopoly business activity (QCA Act, s. 26(1)(g)). | Higher volumetric prices provide a financial incentive for customers to reduce consumption. We provided an allowance for Seqwater to recover the prudent and efficient costs of meeting regulatory and legislative requirements, including those related to environmental obligations. For example, we provided an allowance for Seqwater to recover costs that are necessary to meet its obligations under the water planning framework, which includes environmental management rules in the resource operations licence and environmental flow objectives in water plans (Chapters 4 and 5). |
| Legislation and government policies relating to ecologically sustainable development (QCA Act, s. 26(1)(k)). | |
| **Other matters** | |
| The need to balance the legitimate commercial interests of the businesses with the interests of their customers (QCA Act, s. 24(1)(b); referral, para. C(1.1)(b)(i)). | Consistent with Seqwater's legitimate commercial interests, we expect that Seqwater would recover sufficient revenue to recover its prudent and efficient allowable costs and an allowance for dam safety upgrade capex through a combination of irrigation prices and CSO payments (Chapters 4 to 7). We also recommended mechanisms to manage the risks associated with material changes in allowable costs that are outside Seqwater's control (Chapter 12). However, in accordance with the terms of the referral, we did not provide Seqwater with a return on pre-2000 assets.<br>Consistent with the interests of customers, recommended prices are capped at the price target, which reflects the prudent and efficient allowable costs of supplying irrigation services for each tariff group. However, the price target would not recover the full costs of supply for all tariff groups because it excludes a return on pre-2000 assets and dam safety upgrade capex (Chapter 9). Many customers would benefit from prices that are below the price target over the price path period, and all customers would be protected from large cost increases, because of the cap on annual price increases (Chapters 10 and 11). |
| Water pricing determinations (QCA Act, s. 26(2)). | Not applicable, as there are no water pricing determinations in effect.[a] |

a Water pricing determinations are pricing determinations for private sector water supply activities that have been declared under Part 5A of the QCA Act. No activities have been declared under Part 5A.

# Glossary

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|---|---|
| 2013 review | the QCA's review of irrigation prices charged by Seqwater for the period 1 July 2013 to 30 June 2017, which was completed in April 2013 |
| 2020 review | the QCA's review of irrigation prices charged by Seqwater and Sunwater for the period 1 July 2020 to 30 June 2024, which was completed in January 2020 |
| 2021 inflation report | the QCA's 2021 inflation forecasting position paper |
| 2022 bulk water review | the QCA's review of south-east Queensland bulk water prices for the period 1 July 2022 to 30 June 2026, which was completed in March 2022 |
| ABS | Australian Bureau of Statistics |
| ACCC | Australian Competition and Consumer Commission |
| ACFA | Australian Cane Farmers Association Limited |
| ACL | AgForce Cane Board Limited |
| ATO | Australian Taxation Office |
| BRIA Irrigators | Burdekin River Irrigation Area Irrigators Limited |
| capex | capital expenditure |
| CHCGIA | Central Highlands Cotton Growers and Irrigators Association |
| CPI | consumer price index |
| CRG | customer reference group |
| CSO | community service obligation |
| current price path period | the period 1 July 2020 to 30 June 2025 |
| DAFF | Department of Agriculture, Fisheries and Forestry |
| DLGWV | Department of Local Government, Water and Volunteers |
| ESC | Essential Services Commission |
| ESCOSA | Essential Services Commission of South Australia |
| GST | goods and services tax |
| HUF | headworks utilisation factor |
| IAC | irrigator advisory committee |
| IPART | Independent Pricing and Regulatory Tribunal |
| IROL | interim resource operations licence |
| MDB | Murray-Darling Basin |
| ML | megalitre |

| | |
|---|---|
| MRP | market risk premium |
| NMI | National Measurement Institute |
| opex | operating expenditure |
| price path period | the period 1 July 2025 to 30 June 2029 |
| QCA | Queensland Competition Authority |
| QCAR | Queensland Cane Agriculture and Renewables Limited |
| QCA Act | *Queensland Competition Authority Act 1997* |
| QFF | Queensland Farmers' Federation |
| QRIDA | Queensland Rural and Industry Development Authority |
| RAB | regulatory asset base |
| rate of return review | the QCA's report on approaches to determining reasonable rates of return |
| RBA | Reserve Bank of Australia |
| referral | the referral notice for the QCA to conduct this review, which was issued by the former treasurer in March 2023 under section 23 of the QCA Act. |
| regulated schemes | the water supply schemes listed in schedule 1 of the referral |
| RFI | request for information |
| ROL | resource operations licence |
| SEQ | south-east Queensland |
| SPR | scheme performance report |
| WACC | weighted average cost of capital |
| WAE | water access entitlement |
| WPI | wage price index |
| WSS | water supply scheme |

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