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Dear Mr Hall

Thank you for the opportunity to comment on the Queensland Competition Authority's Issues Paper dealing with an Efficiency Carryover Mechanism.

Commerce Queensland's comments are confined to broad principles.

Given that the matter relates to essential infrastructure owned by the State Government, there is a strong case that all efficiency gains should be passed on to the users, in the form of lower prices in the following regulatory period - which would happen in the absence of an efficiency carryover mechanism.

However, it is acknowledged that investment decisions could be timed to maximise the period over which the gains could be retained by the service provider, which in turn, could jeopardise the quality of the service for the regulatory period.

On that basis, there is a case for providing the service provider a share of the efficiency gains. The principle should be that the service providers' share is limited to the extent that it provides sufficient incentive for the business to operate efficiently throughout the entire regulatory period.

However, Commerce Queensland is strongly of the view that the benchmarked levels of efficiency must be secondary to, and linked with, a benchmarked quality of service.

The Issues Paper canvasses distinguishing between windfall and efficiency gains. From a commercial perspective there will be few windfall gains as defined (i.e. gains resulting from factors external to the business), particularly in the long run. Each and every factor ought to be assessed and managed according to the risk, for example interest rates and currency fluctuations.

However, I accept that not every external factor can be adequately hedged, for example abnormal storms for an electricity distributor, or exceptional drought for a water provider. Arguably this is a separate issue: something that the QCA is currently deliberating in the pricing principles for infrastructure investments made in response to extraordinary circumstances.

Yours sincerely

Paul Bidwell
 General Manager, Policy

Member of



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