

QUEENSLAND COMPETITION AUTHORITY ACT 1997
Section 10 (e)
MINISTERS' DIRECTION NOTICE

Direction

As the Premier and the Treasurer of Queensland, pursuant to section 10(e) of the *Queensland Competition Authority Act 1997* (the QCA Act), we direct the Queensland Competition Authority (the Authority) to investigate and report on a recommended price monitoring framework to apply to the SEQ water and waste water distribution and retail activities (the Activities) from July 2010 to no later than 30 June 2013. The Authority is directed to:

1. develop and propose a form of interim price monitoring arrangement, consistent with Part 3 of the QCA Act, including the information requirements, nature and frequency of reporting;
2. recommend the process and criteria it proposes to apply to assess capital expenditure for inclusion in the regulated asset base from 1 July 2010;
3. recommend a commencement date for the final regulatory arrangements for each Activity, being no earlier than 1 July 2012 and no later than 1 July 2013; and
4. provide a report on the above matters.

Objectives and Matters to be Accepted

The interim arrangement is intended to apply from 1 July 2010 and the final regulatory arrangement is intended to apply from no later than 1 July 2013.

The interim arrangement price monitoring investigations must:

- (a) provide timely and transparent information to customers about the costs and other factors underlying the annual increase in water prices, including distinguishing the bulk and distribution/retail components;
- (b) recognise the Government's policy that the prices charged by the SEQ Water Grid Manager for bulk water storage, treatment and delivery are to be passed through to customers in full;
- (c) consider the availability of information from the Activities and the emerging capability of the Activities to provide information;
- (d) monitor each Activity's water and waste water revenues having regard to the maximum allowable revenue over the interim period, based on the total costs of carrying on the Activity including each of the following:
 - (i) the operational costs incurred in carrying on the activity;
 - (ii) depreciation; and
 - (iii) return on capital employed.

(e) provide a process and criteria for recommending the roll-forward of the regulated asset base using the following principles:

(i) Council distribution/retail asset valuations, establishing the initial regulated asset base as at 1 July 2008 are to be as advised by the Minister for Natural Resources, Mines and Energy and Minister for Trade;

(ii) the opening regulated asset base for each subsequent year must be rolled forward annually in accordance with the following formula:

$$RAB_t = (RAB_{t-1} + \text{Capital Expenditure}_t - \text{Regulatory Depreciation}_t - \text{Disposal}_t + \text{Indexation}_t)$$

where $t =$ the year under consideration;

(iii) to assess Capital Expenditure in (ii) above, the Authority must assess actual and prudent capital expenditure (including for information technology systems). The Authority must accept as prudent:

- actual capital expenditure, excluding establishment costs, for water and waste water as included in Council financial accounts for the period 1 July 2008 to 30 June 2010; and
- contributed, donated and gifted assets; and
- allowable establishment costs for inclusion in the regulated asset base as advised by the Minister for Natural Resources, Mines and Energy and Minister for Trade.

(iv) to assess Regulatory Depreciation in (ii) above, the Authority must take into account for the period 1 July 2008 to 30 June 2010 the apportionment of Council distribution/retail valuations in (i) above to individual assets and evidence that regulatory depreciation on the physical assets has been calculated using existing useful lives attaching to the individual assets; and

(v) to assess the Indexation in (ii) above, the Authority must take into account the latest available Australian Bureau of Statistics Consumer Price Index (all groups, Brisbane), however, for the period 1 July 2009 to 30 June 2010, the 2009-10 Queensland State Budget inflation forecast may be used.

Consultation

The Authority must undertake an open consultation process with all parties considered relevant to the review and consider submissions within the timetable for the review and reports. All reports and submissions must be made publicly available.

Timing

The Authority must provide the following to the Ministers and the Minister for Natural Resources, Mines and Energy and Minister for Trade:

- a) a Final Report identifying the information requirements for the Activities for 2010-11 by 31 December 2009;
- b) a Draft Report by 31 January 2010; and
- c) a Final Report by 30 April 2010.

Other issues

We may, by written notice, given to the Authority, withdraw or amend this Direction at any time prior to receiving the Final Report.

The Authority may use Division 2, Part 6 of the QCA Act to conduct the review.

ANNA BLIGH
Premier
Minister for the Arts

ANDREW FRASER
Treasurer
Minister for Employment
and Economic Development