

23 April 2010

Mr E. J. Hall  
Chief Executive Officer  
Queensland Competition Authority  
GPO Box 2257  
Brisbane WLD 4127

Dear Mr Hall

## **Allconnex Water submission - Capital Contributions**

Further to Keith Hutchinson's email dated 19 April 2010 and attached *Capital Contributions – Draft for Discussion (April 2010)*, Allconnex wishes to provide comment in relation to the Queensland Competition Authority's (the Authority) draft recommendations on the treatment of capital contributions within the Regulated Asset Base (RAB).

The Authority's (draft) recommendations indicate that it has discretion to determine the treatment of contributed assets and capital contributions in establishing Maximum Allowable Revenue (MAR), both during the transition period from 1 July 2008 and from 1 July 2010. Allconnex notes that the Authority's (draft) position is that MAR should be calculated from 1 July 2008 with reference to an asset off-set approach, rather than a revenue off-set approach, unless it can be demonstrated that a revenue-offset approach has been used to set prices during the transition period.

Allconnex also notes previous correspondence from the Minister for Natural Resources, Mines and Energy, and Minister for Trade, which outlines a RAB value for Southern SEQ Distribution-retail Authority of \$3,557 million at 1 July 2008, and a roll-forward formula which *includes* capital expenditure. The Minister's letter makes no reference to excluding developer-funded capital from the RAB roll-forward.

Gold Coast, Logan and Redland Councils have, for the transition period, operated under an assumption that capital contributions could be treated as a revenue off-set, or the so-called 'gross' approach. Data provided to Allconnex by its participating Councils indicates that aggregate utility revenue over this period does not exceed MAR under a gross RAB roll-forward approach.

Should the RAB roll-forward value at 1 July 2010 not include capital contributions for the two-year transition period, then Allconnex's participating Council owners may be disadvantaged. Allconnex Water, on behalf of the shareholding Councils, would forego revenue of approximately \$140m, being the difference between the 1 July 2010 RAB under the alternative roll-forward approach.

Allconnex Water is currently considering its position on the treatment of capital contributions within its RAB for the period post-1 July 2010. To assist in this consideration, Allconnex is seeking confirmation that the Authority will allow, if required, an appropriate revenue glide path to transition significant price increases. This would allow for an NPV-neutral recovery of the business' MAR over an appropriate glide-path period.

If an asset off-set approach is to be adopted from 1 July 2010, there is potential for near-term MAR to be higher than under the revenue off-set approach (since capital contributions are not deducted from the revenue requirement), and therefore a longer revenue glide path may be required.

To allow Allconnex's Board to consider and respond to these matters, I would be grateful if you could please respond no later than Monday 3<sup>rd</sup> May, as the Board is meeting to finalise pricing arrangements for 2010/11 on 6<sup>th</sup> May.

Please contact Megan Armstrong, Project Manager, Finance on 07 3412 4260 should you require further information.

Yours faithfully



Kim Wood  
Chief Executive Officer  
Allconnex Water