

Northern SEQ Distributor-Retailer Authority
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28 January 2010

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

By email: seqwater@qca.org.au

Dear Mr Hall

South East Queensland (SEQ) Interim Price Monitoring Framework – Draft Report

Thank you for the opportunity to comment on the **remaining issues** raised in the Queensland Competition Authority's (QCA) Draft Report on the Interim Price Monitoring Framework of November 2009. The Northern SEQ Distributor-Retailer Authority (NSDRA) appreciates the opportunity to be consulted.

The issues considered critical to the NSDRA are raised below for your consideration. Some of these were previously included in our submission of 11 December 2009 to the QCA. We request that the QCA also consider this previous submission in formulating its Final Report.

We note that the QCA proposes to hold workshops in February 2010 to discuss the critical issues arising from submissions prior to finalisation of the Report and look forward to participating in these sessions.

The NSDRA acknowledges the QCA's recognition of the magnitude of the task involved in establishing the water entities and the need to adopt an evolutionary approach to implementing the interim price monitoring framework. The NSDRA supports the move towards full cost recovery and operating an efficient, customer focused business.

The NSDRA also acknowledges and supports the need to provide timely and transparent information underlying water prices to customers. Therefore the NSDRA would appreciate the opportunity to work with the QCA in developing key inputs to this process, for example, pricing principles, templates and cost allocation guidelines.

Nevertheless the NSDRA is concerned with the significant burden imposed on the business by the price monitoring framework as designed, given the following factors:

- the tight timeframe to implementation of the first submission on 1 July 2010, given the Final Report will not be delivered until end April 2010,
- the lack of clarity at this stage about a number of critical elements such as reporting templates and treatment of contributed assets,
- the fact that the businesses are still investigating the capability of existing systems to provide the disaggregated information required, and are still in the phase of defining requirements for future integrated systems,
- the uncertainty faced by the water entities with their ability to access key historical financial information, and
- the workload and cost of compliance with a complex, new regulatory regime at a time of multiple challenges facing the new distribution-retail water entities.

It is requested that the QCA consider and address this situation in developing its Final Report.

To assist the QCA in preparing the Final Report, specific responses in relation to the nature and frequency of price monitoring are provided below and utilise the QCA's numbering approach as appropriate.

Section 3.2 Objectives

In conducting a price monitoring investigation, the QCA is required to have regard to a range of factors grouped as (a) *efficiency and sustainability*, and (b) *affordability and other public interest matters*.

The NSDRA understands the matters covered within (a), and notes that in relation to (b), there are legislative obligations incumbent upon the business, for example, environmental or community service obligations as mentioned. In order to meet these obligations, the QCA will need to recognise the revenue required to allow the business to recover these obligatory costs.

Section 3.3 Characteristics of Price Monitoring

While the NSDRA accepts that price monitoring is generally less intrusive than price regulation, the QCA itself has acknowledged that "a challenging program addressing the provision of information is required in the interim price monitoring regime". This form of regulation, albeit light handed, still differs markedly from previous price monitoring of Councils' water businesses and therefore will attract an increased regulatory compliance cost which must be recovered.

Section 3.4 Interim Price Monitoring

As the Draft Report notes, the water entities will need to rely on current (Council) information systems and will face immediate challenges in establishing their businesses over the interim period.

The NSDRA recognises the need to move towards having sufficient information to explain prices on a cost reflective basis, as well as the systems which support this, by the end of the interim period. However, as described above, a number of factors need to be taken into consideration when setting the rapid pace of evolution towards this outcome.

Section 3.5 Reporting on Past, Current or Proposed Performance

As stated in the NSDRA's submission of 11 December 2009, the likelihood of consistent and reliable information being provided for years 2008/09 and 2009/10 is problematic. However, the NSDRA acknowledges the change to the Information Requirements since this submission to require the information to be provided "where available".

The NSDRA supports the recommendation to review prices when they are set, typically on 1 July of a particular year, as well as the recommendation not to commence the detailed review of past year's performance until the second year of the interim price monitoring arrangements.

Section 3.6 Attributes of Performance

The NSDRA acknowledges the link between price and service outcomes. As stated by the QCA, "in Queensland there are a diversity of agencies" involved in setting service standards, and the NSDRA agrees that a further review of standards by the QCA is not required.

The NSDRA recommends that where standards of service are approved by an agency (noting that this could be by Council), and therefore these standards of service are required to be delivered by the business, these standards are adopted for the purposes of interim price monitoring. As a result, the revenue required to deliver these standards of service needs to be recovered by the business.

In relation to the QCA's recommendations related to pricing, the NSDRA supports the view that the interim price monitoring framework focus on revenues and a review of pricing policies, rather than specific tariff levels and structures. The NSDRA agrees that a review of prices should not occur "in the early years of price monitoring" and only be considered once appropriate pricing principles have been established and suitable information systems developed.

It should also be noted that for the NSDRA there will be a minimalist approach taken in 2010/11, in other words, price rises will be based on existing approaches until there is time to work through the harmonisation from historical Council regimes from the year 2011/12.

Sufficient lead time will also be necessary following the development of pricing principles and agreement between state and local government, the QCA and the water entities, of the objectives and risks of tariff reform. The NSDRA looks forward to working collaboratively with all parties in this area in the future.

Section 3.7 Reporting on Monopoly Power

The NSDRA supports working with the QCA to understand factors underpinning any material variance from the Maximum Allowable Revenue (MAR). It should be noted that the business is equally interested in factors driving circumstances where the recovery of revenue falls short of the MAR. As an example, the circumstance where a water entity may find itself subject to the introduction of new legislative requirements, and hence costs, thereby not achieving its required revenue is a case in point.

Section 3.8 Degree of Disaggregation

As the QCA notes, current information held by the water entities is likely to be highly aggregated. The NSDRA supports an evolutionary approach to disaggregation with information systems in place by the end of the interim period which allow for timely and transparent reporting to customers. The NSDRA supports the QCA's philosophy of not "setting in stone" the level of disaggregation from 2011/12, but rather prefers to work with the QCA to agree on the level achievable. The NSDRA supports this philosophy as an underpinning principle to be considered by the QCA when preparing the Final Report.

Section 3.9 Consequences of Price Monitoring

As stated in Section 3.7 above, the QCA appears to only consider an over recovery of revenues and the necessity to implement a threat to a perceived abuse of monopoly power. An under recovery of revenue as a result of an external trigger is of equal concern to the business, and presumably to the regulator, in that it may make achievement of service standards difficult.

In addition, consideration by the QCA of providing the business with incentives, as distinct from threats, may be of benefit.

Section 3.10 Frequency of Reporting

The NSDRA supports reporting annually under price monitoring, with prices published on websites by 1 July each year, and price monitoring reports provided to Ministers by 31 December each year.

Section 3.11 Commencement Date for Final Regulatory Arrangement

The NSDRA supports the QCA's recommendation that, given the significant challenges involved in establishing integrated water entities, the final regulatory arrangements should commence on 1 July 2013. The NSDRA suggests that the QCA consider the progress in implementing the price monitoring framework when determining the final form of regulatory arrangement to apply from 1 July 2013, and consult the businesses early in this decision making process.

Section 4 Detailed Information Requirements

A number of comments on this section were provided in the NSDRA's submission to the QCA of 11 December 2009. In addition the following comments are provided:

Water and Wastewater Business Plans

- The extent and depth of information sought is generally associated with full price regulation. The ability to provide meaningful information will depend on the development of the entities' Water and Wastewater Business Plans and the linkage of forward capital programs with accurate demand forecasts. As the QCA acknowledges, a number of agencies are considering their information requirements which may impact on the form and development of entities' Asset Management and Business Plans.

Appropriate treatment of contributed, donated and gifted assets and capital contributions

- In your email dated 14 January 2010, the QCA advises that you have commenced work on this subject and that you will be seeking our views on your position before the Final Report is given to Ministers by 30 April 2010. We look forward to working with the QCA to develop an appropriate position based on the information available to the business.

Indexation, Depreciation, Return on Capital

- In preparing recommendations related to the approach for the above, other jurisdictional regulators and businesses have the time to seek expert independent advice. The NSDRA has not had the opportunity to do this and therefore requests the opportunity to provide further comment on these areas at suitable submission times in the future.

Thank you for the opportunity to engage in this extremely important process. Please do not hesitate to contact me on 07 5433 4101, if you have any queries. Also from 1 February 2010, the NSDRA will transition to its trading name Unitywater.

Yours sincerely



Jonathan (Jon) PC Black
Chief Executive Officer
Northern SEQ Distributor-Retailer Authority