

11 December 2009

Queensland Competition Authority
GPO Box 2257
BRISBANE Qld 4001

Submission to the Queensland Competition Authority - Draft Report – SEQ Interim Price Monitoring Framework - Information Requirements for 2010/11

This submission is the Queensland Urban Utilities (QUU) response to the Queensland Competition Authority (the Authority) Draft Report – SEQ Interim Price Monitoring Framework - Information Requirements for 2010/11 (Draft Report). A separate response will also be submitted regarding the final regulatory arrangements in January 2010 in accordance with you submission timetable.

In opening this submission, we wish to acknowledge the Authority's adoption of a consultative approach in developing the interim price monitoring arrangements. We also appreciate the tight timeframes imposed impact all parties in developing the interim regulatory framework and as such we have not had all the time we would wish to consider fully the matters in the Draft Report. In particular we have not had an opportunity to consult with our interim board to gain their view of the information requirements or our comments.

We would like to stress that we have made comments in the spirit of the tight timeframes and the interim nature of the framework. As you are aware, we are in the initial stages of the transition process and will be better able to make a more considered response in the second quarter of 2010, when we have received much of the information we currently require. Further issues may be raised when we have had an opportunity to consult our interim board.

As we are operating under an interim board arrangement we would like the Authority to acknowledge our need to consult with the final board regarding these matters when the board is established in May 2010. We request that you allow for a second consultation period to permit us to facilitate this process.

Our submission is structured with initial comments and views on the broad direction of the information request, followed by comments or edits to the detailed information

requirements as presented in Appendix E of the Draft Report. As requested, for ease of responding these are shown using "mark-ups" on the attached copy of Appendix E.

General Comments

The following general comments are provided in response to the Draft Report.

1. Information availability

The development of prices for 2010/11 will be based on relevant information provided by the five Councils that form QUU. It should be noted that there is no ready mechanism by which complete information can be sourced from Councils if they elect not to comply with our information requests. Where the information supplied permits, a reasonably rigorous assessment will be undertaken by QUU in order to ensure the budgets and forecasts represent likely outcomes for 2010/11 and subsequent years.

However, QUU wishes to point out that it can only rely on the information that is provided to it. In addition, the provision of historical data is dependent on that information being made available to QUU. QUU has no authority to correct, amend or represent the information that precedes the transfer of the water businesses (under the Transfer Scheme) to the entity on 1 July 2010. Further, no obligation is placed on Participating Councils by the Authority in the Draft Report to provide the information to QUU or the Authority.

Similarly we are unable to provide statutory accounts for the pre-existing water businesses at 30 June 2010.

Please also note that 2008/09 financial accounts for merged councils cover 15½ months from the 15 March 2008 to 30 June 2009. Similarly asset registers only exist for these councils at 14 March 2008 and 30 June 2009.

2. Efficiency and Prudency of the Capital Program

The transition of the water businesses has been undertaken by the Participating Councils with a commitment to maintain business as usual. In particular, the water businesses have continued to progress their capital programs. Accordingly capital expenditure commitments, of various forms, have been made. Upon transitioning the water businesses these commitments will be transferred to QUU.

QUU would prefer that business continuity and transitioning aspects of the business is taken into account in the review of the initial price monitoring period.

Further in this regard, the information provided in regards to demonstrate capital efficacy for the first interim assessment will be limited to the information provided by the Participating Councils similarly to the financial information as discussed in note 1. Once again there is no requirement on Councils to provide this information should they elect not to do so.

3. Directors responsibility statement

QUU is unable to make a statement that the information submission, which is largely based on historical information, is "*true and fair*". Instead we believe that we could provide a statement that the information submission is "*fairly presented based on information made available to QUU*". Participating Councils remain responsible for historical information.

In addition for future years QUU is also unfamiliar with the use of "true and fair" in context with forecast information. The "fair representation" concept used in the Director's Responsibility Statements for electricity distribution regulatory submissions would be more acceptable.

4. Disaggregation of information

Revenue, costs and assets information is readily available at the geographic and activity levels for most but not all of QUU's Participating Councils. However the disaggregation at the service level is only readily available for revenues and a few very specific direct costs that would generally not be material. Disaggregation of asset and costs at this level would only be done for the purpose of the price monitoring information requirement. This could be achieved through an allocation of the activity level based on some metric but the only common metric available is revenue. Such an allocation may then not support a review for pricing/revenue purposes.

An alternate additional level of disaggregation available for the wastewater activity is the separation of collection and treatment costs and asset values. A separation of recycled water is also available for revenue, costs and specific recycled water assets.

Non-regulated services are not separated into the water and wastewater activities. Operational transactions are generally separated between regulated and non regulated activities, allowing for the separation of revenues, costs and assets associated with non-regulated services.

5. Service standards

The draft information requirement refers to service standards as approved by *other agencies*. The water businesses currently operate within the individual councils and adhere to directions of those councils. These directions often place higher levels of service on the water businesses than would be imposed by agencies. Examples of these are taste, colour and odour of water and odour management of sewage systems.

Participating Council's would like to see these levels of service maintained. QUU would like to be assured that the regulatory framework recognises the Participating Councils as setters of service standards in conjunction or in addition to State and Commonwealth agencies.

6. Capital revenues

The information requirement includes the phrase "*and detail of related assets*" for capital revenues for 1 July 2008 to 30 June 2010 and for the 1 July 2010 to 30 June 2013 (Appendix E, section 5.7.1 (c) and (d)).

The asset details relating to capital revenues are not currently maintained. Undertaking this exercise for past revenues would entail reviewing each individual development application received which is in the order of 7,000 to 8,000 per annum for QUU.

However, we challenge the appropriateness of these asset details for the purpose for price monitoring as it is the annual capital revenue allowance in the Maximum Allowable Revenue calculation that is pertinent. Whilst asset values influence the unit rates for developer charges, revenues are a factor of development applications progressed. In the short term, capital revenues are influenced by economic activity, Council incentives, and anticipated price changes.

The information used for forecasting capital revenues would be available for reviewing as with other costs and revenues.

7. Disaggregation of initial regulatory asset base

The information requirement in section 5.5.1 prescribes the allocation of initial regulatory asset base (RAB) on the basis of the written down asset values as at June 2008. Whilst this method aligns with the allocation method used in determining the bulk business value, this method was adopted by Treasury for expediency reasons rather than as being the only allocation method.

Alternate methods include using a discounted cash flow for each activity or using the revenues that were used to generate the back-solved RAB used for the original valuations. QUU would prefer that the information request cater for alternate methods to be used providing that any such method is sound, practical and verifiable.

8. Retail and distribution costs

The reduced obligation to disaggregate information across retail and distribution activities is acknowledged. However it is noted that some elements of the retail and distribution split remains in the disaggregation of operating costs and assets. This retention causes the category group for operating to be a mixture of activity and expense nature.

Based on the assumption that all of the disaggregation groups are mutually exclusive within each category, there is the possibility of confusion as expenses may fit into one or more groups. An approach to limit the confusion would be to include an activity split within the operating cost category groups. A suggested format is included in marked up version of Appendix E as section 5.11.1.

9. Related Party Transactions

We note that the definition of related parties refers to other entities that would be subject to the control of QUU and therefore the related party provisions are probably intended to cover transactions with potential subsidiary entities. To this extent QUU accepts the provisions as drafted.

However, if the intention of the provisions is to cover transactions by QUU with the Participating Councils, then it is not likely that the requirements of section 5.13.1 (d) and (e) can be met in regards to the transitional service agreements that will be put in place to a) provide ongoing support services to Central by the participating Councils and b) to cover the Participating Councils for their ongoing Workforce Framework obligations.

Attachment: marked up copy of Appendix E

Yours sincerely,



Noel K Faulkner
Chief Executive Officer
Queensland Urban Utilities