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5 March 2010

Mr Rick Stankiewicz
Queensland Competition Authority
Level 19
12 Creek Street
GPO Box 2257
BRISBANE QLD 4001

Dear Sir,

Issues in respect of the Interim Price Monitoring Framework

Thank you for meeting with Queensland Urban Utilities (QUU) staff on 4 March 2010 to discuss some matters related to the interim price monitoring framework. We have outlined below the matters we discussed.

Roll Forward of Regulatory Asset Base (RAB)

The RAB roll forward formula in the Ministerial Direction requires that capital expenditure be added to the opening RAB value. In defining capital expenditure we interpret section (e)(iii) as incorporating all capital expenditure being actual cash outlays by the business plus the value of contributed and gifted assets. That is, the capital expenditure referred to is gross and not net of developer cash contributions and gifted assets.

We believe using this gross value of capital expenditure is correct as it is consistent with the approach to pricing already applied in the 2008/09 and 2009/10 financial years. This approach has been to set utility charges so that target revenue is determined using the gross asset base to calculate the maximum allowable revenue (MAR) then netting off the value of developer cash contributions and gifted assets. By applying this methodology, which is based on the Authority's preference outlined in the Statement of Regulatory Pricing Principles for the Water Sector, the revenue forgone effectively pays for the developer funded assets.

QUU is of the view that the application of any other methodology for these roll forward years would adversely impact shareholding Councils and their Ratepayers.

This issue has not been raised previously as it is our view that the capital expenditure is gross and there has been no documentation to cause us to believe otherwise.

Quantifying the value of capital expenditure

For a number of projects a small portion of actual expenditure is expensed rather than capitalised. This expenditure relates to preliminary feasibility studies, rolling programs for relining small pipe segments, meters in the case of Brisbane and other specific project expenditure not deemed to be capital for accounting purposes. We acknowledge that as this expensed project expenditure is included in the operating costs component of MAR, the appropriate treatment would be to not also include the expenditure in the RAB.

Level of Disaggregation

Queensland Urban Utilities is in the process of establishing the financial systems which will operate from 1 July 2010. We acknowledge your desire to maintain the existing separation of data by former Council area however we are also mindful of the challenge the level of disaggregation required will bring. We ask that consideration be given to allowing the entities to assess the level of disaggregation in the smaller service areas.

Separation of data by this category may also not necessarily be the most desirable segmentation given the asset base of the new entity. For example the three regional Council areas which are part of Queensland Urban Utilities whilst representing significant geographical areas have relatively small areas serviced by water and sewerage.

Separation of data based on a more appropriate segmentation of the asset base may be desirable to meet future business and regulatory objectives.

This issue requires further consideration.

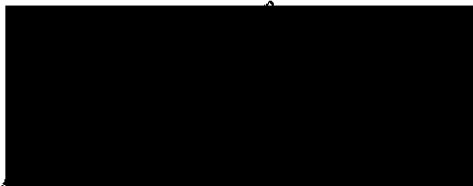
Regulated Asset Base Register

We support maintaining the RAB register at the asset class level.

This would involve allocating capital expenditure to the asset classes and for each year, this would be initially based on capital planning forecast values.

Assets retired prior to being fully depreciated will remain in the RAB and be depreciated over their remaining life. This method is administratively simpler than identifying the assets and recovering the remaining depreciation in the year following retirement. This method is also balanced by assets that remain in use after expiration of their nominal lives.

Yours sincerely,



NOEL K FAULKNER
Chief Executive Officer
Queensland Urban Utilities