

# Position Paper: Pricing principles for south east Queensland water retailers

**The Queensland Competition Authority has released draft pricing principles to apply to water, sewerage, trade waste, recycled water and stormwater re-use services in south east Queensland.**

The Queensland government has asked the Queensland Competition Authority (QCA) to recommend a long-term regulatory framework for the water distribution and retail businesses in south east Queensland – Unitywater, Queensland Urban Utilities, Logan Water, Redland Water and Gold Coast Water (see below). These businesses provide services in ten local government areas.

In February 2014, we released a Position Paper setting out its views on the regulatory framework. The pricing principles will be an important part of the framework.

**Efficient prices**

We recommend that retailers’ prices for water, sewerage, trade waste, recycled water and stormwater re-use should reflect the least cost of supplying the service.

Such cost reflective prices are important for providing clear price signals to customers, allowing them to make informed choices about consumption.

The QCA recommends that prices should reflect capital costs expected into the future (the long run marginal costs) but may, during droughts, reflect increasing operating costs (short run marginal costs).

Prices should also be ‘fair’.

The same price should apply for the same service, with variations only justified by cost differences or to provide support for vulnerable customer groups.

Finally, prices should be transparent and simple for customers to understand.

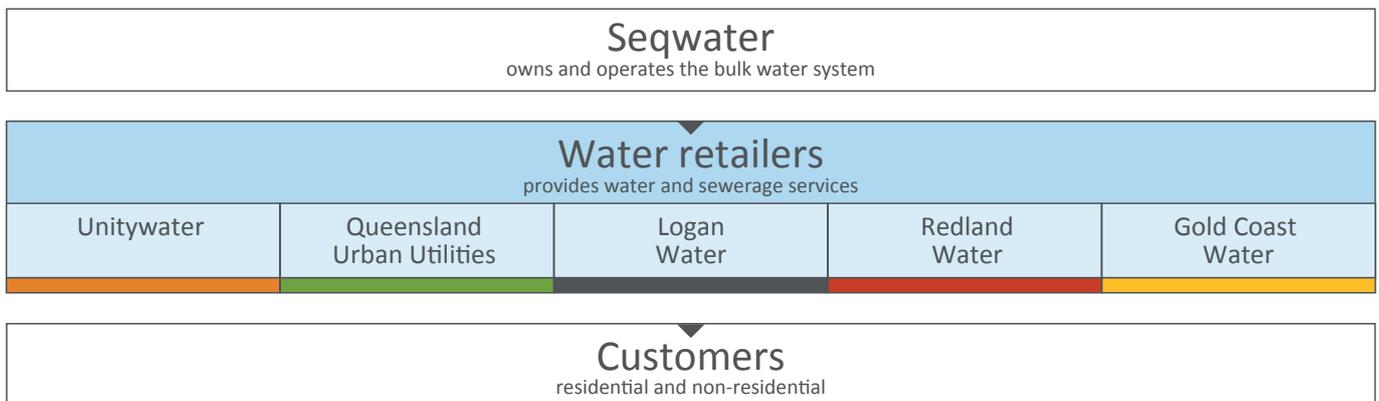
**Urban water**

We recommend that urban water charges take the form of a two-part tariff with the volumetric charge based on the long run marginal cost.

Some water retailers have tiered volumetric charges which apply higher charges for higher water use. These ‘inclining block tariffs’ are unlikely to be cost reflective and may disadvantage some customers. Unless there is strong customer support for them, we propose that water retailers phase these charge structures out over time and replace them with flat volumetric charges.

In general, we recommend prices can be differentiated according to location, peak periods or by service quality standard where practical and cost effective. Such prices should reflect actual cost differentials.

**Water and sewerage services in south east Queensland**



# Position Paper: Pricing principles for south east Queensland water retailers

## Sewerage services

Sewerage services include the collection, conveyance and treatment of wastewater and the disposal of the end products of the process.

For residential customers, we suggest that a single fixed charge per customer or connection is usually the best approach. Variable charges based on discharge factors should only be applied if there is a close causal relationship with costs.

For non-residential customers, we prefer a fixed charge that reflects the impact of the customer on the system. The water connection size is a reasonable proxy.

Volumetric sewerage charges for non-residential customers are more likely to be closely related to water usage and a discharge factors is more likely to be relevant. Such customers should be able to negotiate a variation in the discharge factor to take account of individual circumstances.

## Trade waste

We support retailers' current trade waste pricing practices which vary the charges according to load, risk factors, and (where cost effective) by location.

## Recycled water and stormwater reuse

Water from recycling and stormwater re-use schemes typically costs more than normal potable supplies. However, such schemes can be efficient and cost-effective if other costs (e.g. new infrastructure) are avoided. In these cases, prices may need to be set below the full cost of the service to ensure the available supply of water is sold to willing customers.

Remaining costs could be met through general water and sewerage charges because of the benefit of the scheme to the wider community.

### More information

For more information on pricing principles visit our website: [www.qca.org.au/water](http://www.qca.org.au/water)