

Final Report: Retail water prices – Redland Water

The Queensland Competition Authority monitors the prices, costs and revenues of five water retailers in south east Queensland, including Redland Water.

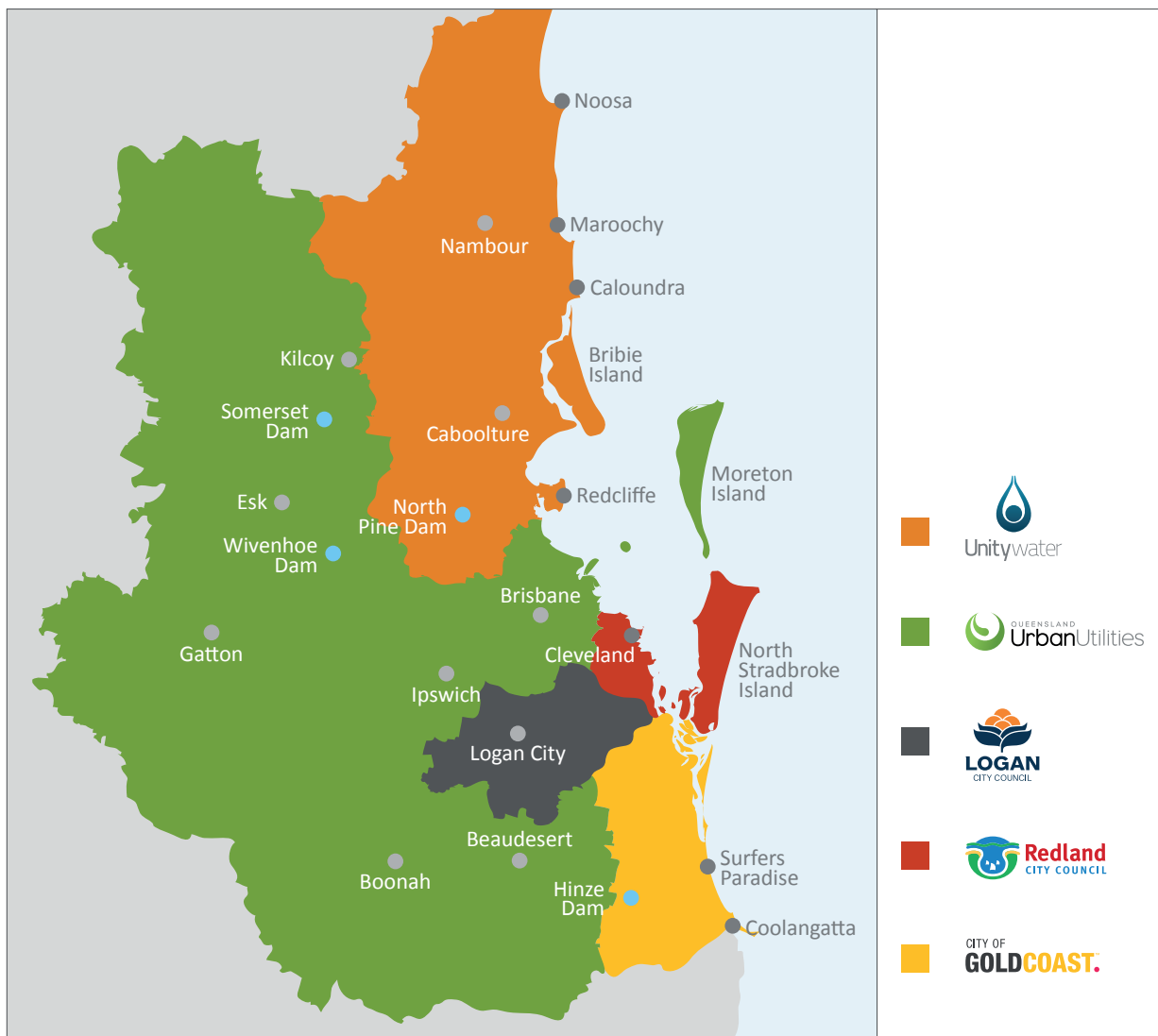
The Queensland Competition Authority (QCA) monitors retailers to ensure that these businesses are not using their monopoly power to set prices higher than is necessary.

The QCA has released its final 2013–15 price monitoring report for the five water retailers – Unitywater, Queensland Urban Utilities, Logan Water, Redland Water and Gold Coast Water.

Our overview fact sheet explains the general findings of our review. This fact sheet outlines the findings for Redland Water. There were no changes to the findings for Redland Water as a result of comments received on the QCA's Draft Report.

Redland Water provides distribution and retail water and sewerage services to the Redland City local government area. These services include distributing treated water to homes and businesses, treating and disposing of sewage and other wastewater, and issuing bills.

Five water retailers



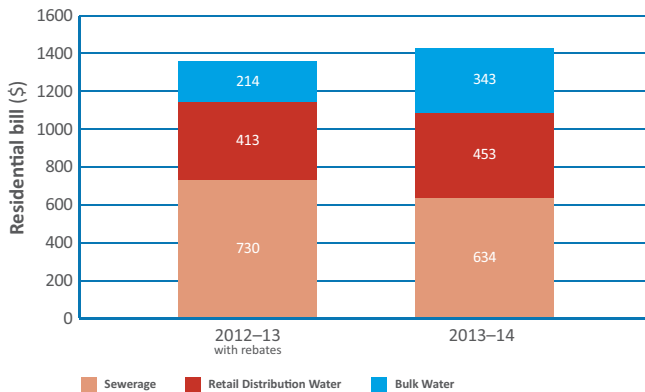
Retail water prices – Redland Water

Residential Bills

The QCA found that residential bills for 2013–14 for a household using 200 kilolitres of water a year will increase by 5.3% in Redland City. This is the net effect of a fall of 4.2% in the retail and distribution component and an increase of 9.5% in the bulk water component (due to an increase in bulk water charges and the expiry of the bulk water rebate to residential customers).

The increase in residential bills differs from the \$8 decrease published by Redland Water in June 2013: the June figures did not include the impact of the expired rebate. To help customers understand changing prices, water retailers should explain the reasons for the change in each part of the bill as well as the overall change.

Redland Water’s residential bill increases in 2013–14



Costs

Part of our role is to establish whether Redland Water’s costs are both required (prudent) and as low as possible (efficient). Our estimates of prudent and efficient costs determine the maximum allowable revenue (MAR).

The MAR is a key test for monopoly pricing. If a business’s revenue significantly exceeds the MAR for a sustained period, the business may be using its monopoly power to obtain unjustified returns.

Costs – findings

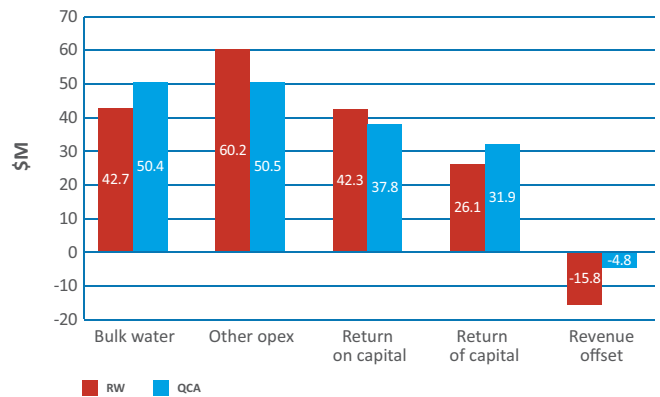
The QCA found that Redland Water had under-estimated bulk water and some capital costs. At the same time, the QCA also identified savings in Redland Water’s operating costs.

Overall, the QCA has estimated that Redland Water’s costs of supplying water and sewerage could be 6.8% (\$11m) higher for 2013–15.

More information

For more information on water and sewerage prices in your region visit our website: www.qca.org.au/water

Redland Water’s costs for 2013–15 – Redland Water and QCA calculations

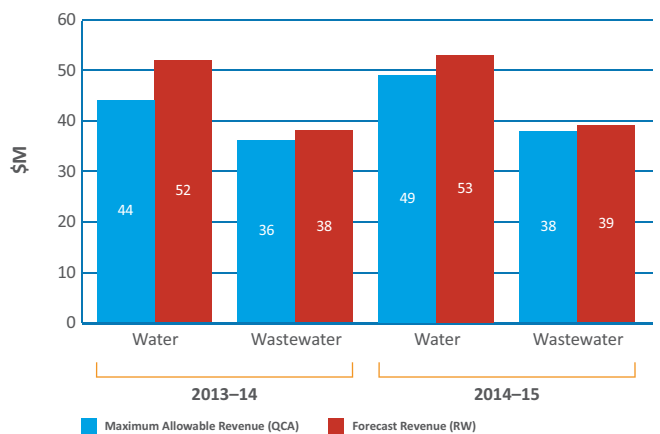


Revenues – findings

Redland Water’s revenues are above prudent and efficient costs. Redland Water’s revenues are 12.4% above the QCA MAR in 2013–14 and 6.4% above in 2014–15.

This results from Redland Water’s approach to smoothing prices over 10 years, with an initial over-recovery of costs returned to users by under-recovery in later years.

Redland Water’s revenues for 2013–15 – Redland Water and QCA calculations



The QCA supports the principle of price smoothing. However, the QCA has concerns with the 10–year model applied by Redland Water and the approach to pricing.

In view of these concerns, the QCA cannot establish whether there is an exercise of monopoly power by Redland Water. Setting 2014–15 prices provides an opportunity for Redland Water to address these concerns and demonstrate that there is no exercise of monopoly power. Redland Water has advised it will take the QCA’s concerns into account in setting 2014–15 prices.