

Position Paper: Performance monitoring of SEQ water retailers

In response to a Direction from the Treasurer, the Queensland Competition Authority has proposed a new regulatory framework for monitoring water retailers in south east Queensland, to apply from 1 July 2015.

The Queensland Competition Authority (QCA) monitors water retailers to ensure that these monopoly businesses are not using their market power to set prices higher than is necessary. The QCA has released its Position Paper on a new regulatory framework for monitoring the performance of Unitywater, Queensland Urban Utilities (QUU), Logan Water, Redland Water and Gold Coast Water (see table below).

The south east Queensland (SEQ) water retailers are responsible for the distribution and retail of water and sewerage services in the ten local government areas.

These services include distributing treated water to homes and businesses, treating and disposing of sewage and other wastewater, and issuing bills.

Recommended approach to regulation

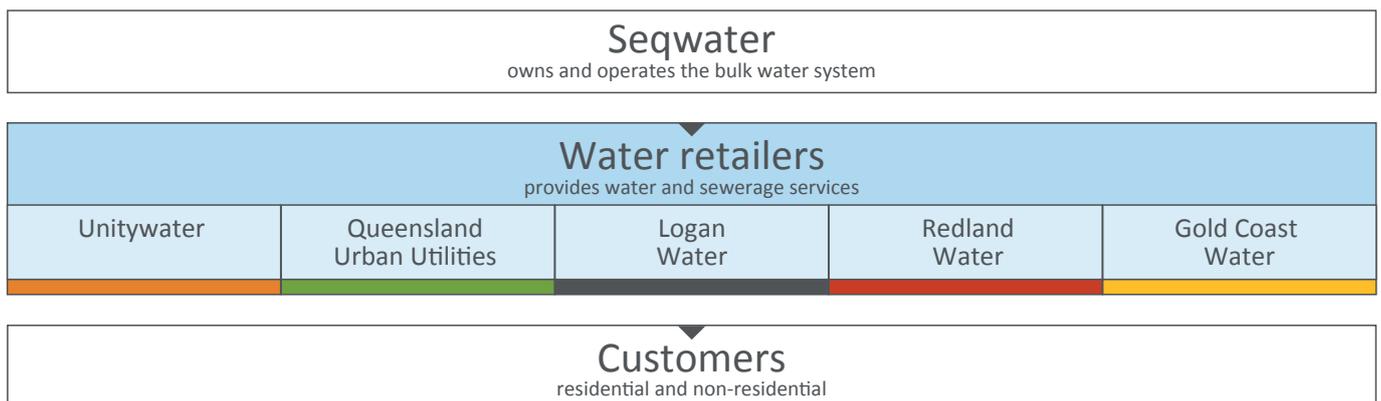
We recommend light-handed monitoring of the performance of water retailers. The QCA proposes to assess whether customers are getting value for money by monitoring prices, service quality, investment strategies and customer engagement.

Annual changes in water and sewerage prices will be measured against prices in the broader economy (CPI), with an additional adjustment (X) for the productivity gains that we expect water retailers to achieve. This 'CPI – X' framework provides a simple measure of whether price rises are reasonable.

Incentives for performance

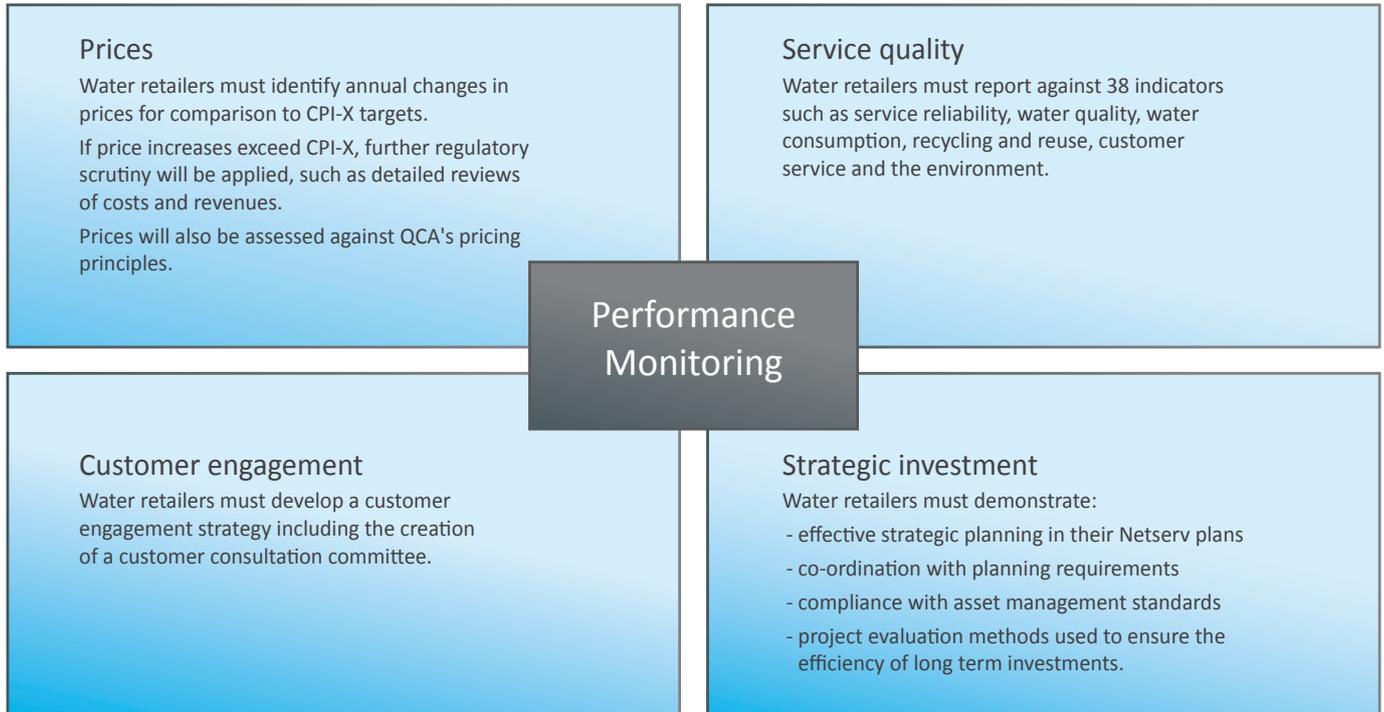
Where a water retailer's performance is unacceptable, the QCA proposes to determine prices. Such intervention would take place where a water retailer is exerting monopoly power through, for example, excessive prices, inefficient costs or reduced service standards (see diagram overleaf).

Water and sewerage services in south east Queensland



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Recommended approach to regulation



Comparison to price monitoring

Water retailers have been subject to 'price monitoring' over the 2010–15 five-year period.

Compared with price monitoring, the QCA recommends a broader range of performance measures such as customer engagement practices, strategic investment (regulatory co-ordination and asset planning) and service quality.

At the same time, our recommended framework does not require costly annual reviews of capital or operating expenditure.

The QCA believes that this will provide better protection to customers while reducing the burden of regulation on water retailers that perform well, and reducing the cost of regulation to consumers.

Transition

Water retailers can transition to the performance monitoring framework when they have demonstrated readiness. This includes the absence of the exercise of market power and a prudent and efficient cost base.

Water retailers that meet the criteria could be subject to performance monitoring from 1 July 2015.

More information

Visit www.qca.org.au/Water for more information.