

Draft Assessment

Transition to performance monitoring – Gold Coast Water

May 2014

We wish to acknowledge the contribution of the following staff to this report:

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SUBMISSIONS

Closing date for submissions: 30 June 2014

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (QCA). Therefore submissions are invited from interested parties concerning its assessment of water retailers' transition to annual performance monitoring. The QCA will take account of all submissions received.

Submissions, comments or inquiries regarding this paper should be directed to:

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THE ROLE OF THE QCA – TASK, TIMING AND CONTACTS

The Queensland Competition Authority (QCA) is an independent statutory authority to promote competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's primary role is to ensure that monopoly businesses operating in Queensland, particularly in the provision of key infrastructure, do not abuse their market power through unfair pricing or restrictive access arrangements.

In 2012, that role was expanded to allow the QCA to be directed to investigate, and report on, any matter relating to competition, industry, productivity or best practice regulation; and review and report on existing legislation.

Task, timing and contacts

The QCA has conducted four price monitoring reviews of distribution-retail water providers in south east Queensland covering the pricing periods from July 2010 to June 2015.

On 28 June 2013, the QCA received a Ministerial Direction to investigate and develop a long-term regulatory framework (and pricing principles). The purpose of the review is to improve the regulatory framework and reduce the regulatory costs for water businesses – while providing protection to water users from monopoly power.

Key dates

Ministerial Direction	28 June 2013
Position Paper - Regulatory Framework	24 February 2014
Position Paper - Pricing Principles	28 March 2014
Position Paper - Return on Capital	30 May 2014
Submissions due on Position Papers	30 June 2014
Submissions due on Draft Assessments (transition)	30 June 2014
Final Report	30 September 2014

Contacts

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1 INTRODUCTION

1.1 Purpose

This draft assessment outlines whether Gold Coast Water should transition to light-handed long-term performance monitoring. The assessment is based on the information available to the QCA from its price monitoring investigations and the transition criteria outlined in the QCA's position paper on the *Long Term Regulatory Framework for SEQ Water Entities* (QCA 2014a).¹

Comments are sought by **30 June 2014**. All submissions will be taken into account in the QCA's Final Report, due 30 September 2014.

1.2 Background

The Ministers have directed the QCA to investigate and report on a long-term regulatory framework for the monopoly distribution and retail water and sewerage activities of the five south east Queensland (SEQ) distributor-retailers (the retailers) — Unitywater, Queensland Urban Utilities (QUU), and the Logan, Redland and Gold Coast City Councils. If accepted, the framework would apply from 1 July 2015.

The overarching regulatory objective is to protect the long term interests of the users of SEQ water and sewerage services by ensuring the prices of these services reflect prudent and efficient costs, while promoting efficient investment in and the use of these services, having regard to service reliability, safety and security over the long term.

SEQ water retailers have been subject to different forms of price monitoring since 2008. Over 2010–15 the QCA has reviewed the costs of water and sewerage services, monitored changes in prices and compared the retailers' revenues against the maximum allowable revenue (MAR). The maximum allowable revenue reflects the QCA's assessment of total prudent and efficient costs.

Allconnex Water provided services to the Gold Coast, Logan and Redland areas in 2010-12. On 1 July 2012, Allconnex Water ceased operations and its participating councils became responsible for retail water and sewerage services in their respective areas. The councils were not referred to the Authority for review for 2012-13.

The Ministers required that the form of prices oversight should minimise the administrative burden on the retailers and facilitate a move to a more light-handed framework over time.

1.3 Transition to long-term framework

In its position paper, the QCA recommended a light-handed performance monitoring framework which 'tracks' retailers' performance against:

- (a) CPI-X and certain financial information
- (b) pricing principles
- (c) desired customer engagement practices
- (d) strategic approach to long term investment

¹ The QCA's Draft Position Paper *Long Term Regulatory Framework for SEQ Water Entities* is available from the QCA website. Comments on this paper are also due by 30 June 2014.

- (e) service quality standards (including performance targets).

The QCA also recommended that depending on the outcome of the 2013-15 review, a transition to performance monitoring may be required. The length and nature of the transition may vary between retailers

1.4 Criteria

The position paper outlined the criteria for an immediate transition to long-term performance monitoring as including:

- (a) absence of public interest or equity issues that may warrant regulatory review
- (b) regulated services are clearly defined and separated from non-regulated services
- (c) evidence that market power is not being exercised
- (d) absence of imminent material changes in circumstances or major infrastructure costs
- (e) a demonstrated capacity to provide the required information accurately and on time, based on prior regulatory processes.

Performance in customer engagement, strategic planning for long term investment, service quality and application of pricing principles would also be relevant in assessing readiness.

It is also considered that water retailers may be required to provide additional information or resolve outstanding issues in the intervening period before commencement of annual performance monitoring from 1 July 2015.

Where criteria are not met

Should a retailer be considered not ready to move to annual performance monitoring, the existing arrangements should continue until outstanding elements are addressed. This would require a further detailed review - for a one-year period (2015-16). The scope of the one-year review would depend on the nature of the outstanding issues.

2 ASSESSMENT

2.1 Introduction

The QCA has assessed Gold Coast Water against the criteria using the outcomes of the 2013-15 investigation and from publicly available sources.

2.2 Assessment against core criteria

2.2.1 Public interest and equity

The criteria require that there be an absence of public interest or equity issues that may warrant regulatory review for a retailer to transition to long-term performance monitoring.

The QCA is not aware of any public interest or equity issues that would warrant regulatory review and prevent Gold Coast Water from transitioning to long-term performance monitoring.

Gold Coast Water provides a haemodialysis rebate which provides customers using haemodialysis machines at home with an allowance (at no charge) of 150 to 400 kilolitres per annum (depending on extent of dialysis). The QCA is not aware of any likely changes to these arrangements.

The Department of Energy and Water Supply (DEWS) is undertaking a review of the Water and Sewerage Services Code for Small Customers in South East Queensland and will consider the water businesses' current policies (including hardship) in relation to supporting customers

2.2.2 Regulated services are defined

The criteria require that regulated services be clearly defined and separated from non-regulated services.

In the 2013-15 price monitoring review, the QCA requested retailers to list all regulated services, their tariffs and corresponding volumes and revenues. Gold Coast Water complied with this requirement, providing the tariffs, volumes and revenues from their price setting process. Further, Gold Coast Water provided a detailed price list for its services.

The QCA also requested retailers to exclude the revenues and costs of non-regulated services, with only the regulated revenues and costs falling under review. The retailers were also required to provide explanation of the basis of any allocations made to non-regulated services that would assist the QCA in its assessment of their submissions. Relevant definitions were as follows:

- (a) a non-regulated service was defined to mean a service provided by a retailer that is not required to satisfy any specified legal obligation or is provided by other service providers in a competitive market in which the business has no legal power to influence a customer's selection of the business as the service provider. For example, this could include laboratory services. Non-regulated services are not to be disaggregated between water and wastewater.
- (b) non-regulated revenue includes interest on investments, but not interest paid by customers on overdue accounts

In the 2013-15 review, the delineation between regulated and non-regulated services has not been specifically investigated by the QCA: non-regulated services have not been a material

segment of costs and revenues. The precise boundary of regulated and non-regulated services may change over time as the nature of relevant services and markets develops.

For the 2013-15 review Gold Coast Water submitted that for the period 1 July 2013 to 30 June 2015:

- (a) non-regulated revenues are \$5.5 million, regulated revenues are \$875.4 million
- (b) non-regulated operating costs are \$2.2 million, regulated operating costs are \$503.7 million
- (c) non-regulated capital expenditure is \$0.2 million, regulated capital expenditure is \$262.9 million
- (d) non-regulated assets are \$0.1 million, regulated assets are \$2,431.2 million (as at 30 June 2015).

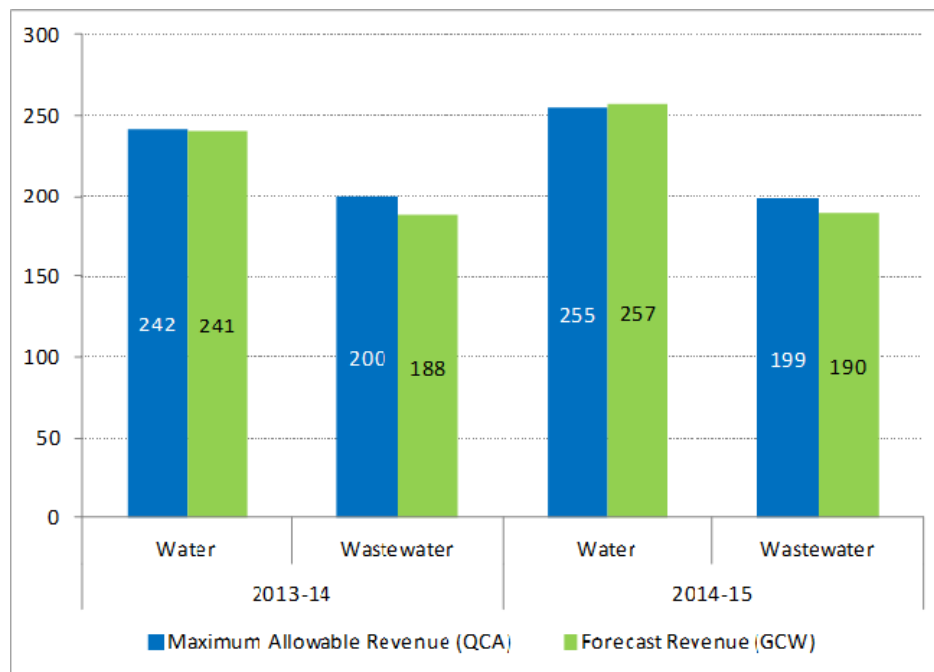
Overall, the QCA considers that regulated services are clearly defined and sufficiently separated from non-regulated services. The revenues and costs of non-regulated services are not material enough to warrant further investigation.

However, the QCA has not reviewed whether costs have been appropriately allocated between service categories. The QCA needs to be confident that prices reflect the cost of providing services. This is an issue to be addressed in assessing retailers' compliance with pricing principles.

2.2.3 Market power

The criteria require evidence that market power is not being exercised, that is, the opening cost base is efficient and further cost increases comply with the CPI-X mechanism (with above referenced qualifications) and service quality is in line with expectations.

In the 2013-15 review of costs and revenues, the QCA did not find any evidence that Gold Coast Water was exercising its monopoly power. Gold Coast Water revenues have been below the MAR (2013-15) or not materially over the aggregate MAR (2013-15) (see Figure 1 below).

Figure 1 Forecasts of Gold Coast Water Costs (MAR) and Revenues (\$m)

Source: QCA past price monitoring revenues 2010-15.

It is noted that:

- (a) the difference between the Gold Coast Water's and the QCA's estimates of total prudent and efficient costs (the MAR) was small. However, while differences exist, the QCA proposes to use its MAR as a basis for performance monitoring from 2015. Gold Coast Water's revenues have been below the QCA MAR
- (b) Gold Coast Water's capital expenditure proposal was reviewed by independent consultants. The sample of capital projects subject to prudency and efficiency review was 44% of forecast capital expenditure (excluding contributed assets). Over 2013-15, the QCA's prudent and efficient capital expenditure was lower than Gold Coast Water by 0.3%
- (c) for the 2013-15 review, Gold Coast Water used a starting regulated asset base (RAB) value as at 1 July 2010 consistent with the final Allconnex RAB as at 1 July 2010 as advised by the QCA.

The QCA opening RAB as at 1 July 2013 was higher than Gold Coast Water's for water assets and lower for sewerage assets. Overall, the QCA's RAB was lower than Gold Coast Water's due to the QCA's use of lower capital expenditure for 2010-11 and 2011-12 from Allconnex's Annual Report. The QCA closing RAB as at 30 June 2015 was also slightly below (1.6%) that estimated by Gold Coast Water. Gold Coast Water accepted the QCA's approach to rolling forward the 1 July 2010 RAB.

- (d) non-bulk operating expenditure was also reviewed by an independent consultant in the 2013-15 review. The QCA's estimate of prudent and efficient non-bulk operating expenditure was higher than Gold Coast Water's, due to the QCA's higher electricity and tax estimates (QCA 2014b). As noted above, while differences exist, Gold Coast Water's revenues have been below the QCA MAR.

Overall, there is no evidence to suggest that market power is being exercised.

2.2.4 Imminent change in circumstances

The criteria require that there is an absence of imminent material changes in circumstances or major infrastructure costs.

Gold Coast Water's cost information requested for the 2013-15 review did not provide information on post-2015 costs. Bulk water prices until 2017-18 are publicly available on the DEWS website.

The QCA is not aware of any imminent material changes in circumstances or major infrastructure costs that would impede Gold Coast Water's transition to the long-term framework.

2.2.5 Information provision

The criteria require that there is demonstrated capacity to provide information accurately and on time.

To date, Gold Coast Water has provided all submissions to price monitoring accurately and on time. Gold Coast Water has responded to further requests for information in a reasonable timeframe.

The QCA considers there is demonstrated capacity to provide information accurately and on time.

2.2.6 Summary of assessment against core criteria

On the basis of the above assessment, Gold Coast Water meets the core criteria for moving to the light-handed performance monitoring framework.

2.3 Assessment against other criteria

2.3.1 Introduction

The position paper noted that performance in customer engagement, strategic planning for long term investment, service quality and pricing principles are relevant to the assessment. Only a partial assessment can be made in relation to some of these criteria, as these were not monitored in the past and complete information is not readily available.

The QCA has sought to identify whether there is any information on these criteria that would delay or impede transition by assessing the entities' performance to date and predisposition to further improvement. To assist entities improve their performance, areas of potential improvement that would be expected to be addressed in subsequent annual performance monitoring are identified.

2.3.2 Customer engagement

Excerpt of draft recommendations in position paper

- 5.1 Each SEQ entity, in consultation with its customers, develop a strategy for customer engagement based on best practice principles.**
- 5.2 Customer engagement should:**
 - (a) promote understanding of customer's needs and be representative and responsive of customer views**
 - (b) be relevant, evidence based, open and transparent, timely, collaborative, and cost-effective.**
- 5.3 The customer engagement strategy should include a customer consultation committee.**
- 5.4 SEQ entities submit by 31 October 2015 an initial statement of their customer engagement strategy.**
- 5.5 The QCA will assess these customer engagement strategies and provide, where appropriate, advice to entities on possible improvements to ensure best practice**

In 2013, Gold Coast Water conducted a Residential Customer Survey stating that "the community's views will help guide important decisions for the future. These decisions will relate to infrastructure planning, future community engagement programs, tariff design and pricing" (GCCC 2013).

The survey collected opinions on a range of issues including:

- (a) general water use and water efficiency
- (b) water and sewerage tariff structure
- (c) leakage on private property.

Gold Coast City Council (GCCC) maintains an online community reference group comprised of local residents who have been randomly selected to represent the Gold Coast community across qualifiers such as age, sex and geographic location (GCCC 2014a).

In its 2013-15 review, the QCA noted that retailers should explain the reasons for the change in each part of the bill as well as the overall change.

The QCA considers that based on available GCCC's customer engagement processes incorporate many of the desired attributes of effective customer engagement.

Accordingly, current performance should not impede Gold Coast Water moving to light-handed annual performance monitoring.

Gold Coast Water will be required to provide more information on customer engagement practices as part of annual performance monitoring.

2.3.3 Strategic planning for long term investment

Excerpt of draft recommendations in position paper

- 6.1 The council water businesses be subject to the same legislative and regulatory planning requirements as the DRs.**
- 6.2 Entities should provide evidence of board/council approval and Ministerial endorsement of their relevant Water Netserv Plans to the QCA.**
- 6.3 Entities annually report to QCA on their annual capital works plans or annual performance plans.**
- 6.4 Annual updates to Water Netserv Plans also be submitted.**
- 6.5 SEQ entities provide to the QCA annually, details of their compliance with the asset management standard they have implemented and report on progress in addressing areas of improvement to achieve good industry practice.**
- 6.6 Should a cost of service review be triggered, the QCA assess entities asset management practices against PAS-55.**
- 6.7 Entities report on the project evaluation practices used for significant capex projects.**
- 6.8 Entities submit details of project evaluation, including options analysis and risk analysis, for up to the 6 largest capex items, where required as part of a request for further information.**

As noted above, in the 2013-15 price monitoring review, the QCA made adjustments to two of Gold Coast Water's capital expenditure projects, based on its consultant SKM's advice following its detailed review of six sampled projects. The overall reduction of \$0.24 million was made to the sampled expenditure of \$40.19 million (total capital expenditure for 2013-15 is \$91.43million), due to identified minor inefficiencies in two projects.

SKM also reviewed Gold Coast Water's policies and procedures for capital expenditure, including in its Water Netserv Plan for consistency with the SEQ Regional Plan. A summary of SKM's findings are provided in Table 1.

Table 1 Capital expenditure policies and procedures

<i>Criteria</i>	<i>Findings</i>
Standardised approach to cost estimating	Gold Coast Water's applied cost estimating approaches for capital projects which were consistent with good industry practice.
Gateway review	Gold Coast Water's gated review processes were consistent with good industry practice.
Detailed analysis of options for major projects	Gold Coast Water has processes in place which provide for detailed analysis of options for major projects.
Commissioned capital expenditure from 1 July 2010 in the RAB	Gold Coast Water adopted the forecast capital expenditure data for 2010-12 in Allconnex's most recent data template to the QCA. The QCA used data from the Allconnex Annual Report for July 2011 - September 2012 to populate capital expenditure on an as-commissioned basis from 2010-12. Gold Coast Water provided capital expenditure data for 2012-13.
Compliance	Gold Coast Water did not meet the legislative compliance requirement but is undertaking a compliance project which will meet the requirements of AS3806-2006 Compliance Programs.
Considers regional perspective	<p>Gold Coast Water participates in the SEQ Water Service Provider Partnership, SEQ Operations Committee, and SEQ Strategy and Planning Committee.</p> <p>Gold Coast Water's capital expenditure documents included provisions to address regional requirements at key decision points.</p> <p>While Gold Coast Water is committed to participating in regional initiatives, the QCA considers that the realisation of benefits due to a regional perspective should be captured and reported, to demonstrate regional efficiencies are being pursued and achieved.</p>
Asset management system	<p>SKM reviewed Gold Coast Water's asset management system and concluded that it was not in keeping with good industry practice and was not robust. SKM stated this may lead to inefficiencies in expenditure and implementation and, potentially, service standards non-compliance.</p> <p>Gold Coast Water indicated that, through the implementation of continuous improvement activities over the next few iterations of the Water Supply, Sewerage, and Recycled Water Asset Management Plans (updated annually), it will progress its asset management planning practices from this 'core'/compliant level to leaders within the industry. As part of this process, Gold Coast Water will strive to achieve alignment with the ISO 55000 asset management standards</p> <p>Gold Coast Water identified two initiatives to improve its capital expenditure processes:</p> <ul style="list-style-type: none"> (a) engaging CH2MHILL to review its capital planning and delivery framework. (b) implementing MS Project Server as a new Project Management Information System (roll-out to Gold Coast Water was expected in February 2014).
Procurement	Procurement in Gold Coast Water is conducted in accordance with legislative requirements of the respective local governments

Source: SKM (2014) and QCA (2014b).

Overall, while SKM found that there are some shortcomings Gold Coast Water was generally aware of, and plans to address, these issues.

However, given that capex savings identified by SKM were not substantial (0.6% of sample), the shortcomings are not considered material enough to prevent Gold Coast Water moving to annual performance monitoring.

The QCA proposes to seek evidence that the issues raised by SKM (Table 1) are being progressed as part of future performance monitoring

2.3.4 Service quality

The position aperc recommended 38 service quality indicators to be used as a basis for initial service quality reporting: 8 on baseline information, 13 on water and sewerage reliability and service, 4 on water quality, 5 on water consumption, recycling and reuse, 4 on customer responsiveness and service, and 4 on the environment.

These indicators were released after the price monitoring reviews from 2010-15 were finalised. Therefore, the price monitoring reviews to date have not investigated Gold Coast Water's service quality against these principles and have not requested relevant information to do so.

However, a preliminary assessment can be made based on information that is publicly available.

Gold Coast Water's water and wastewater customer services, charter and standards outline its commitments, responsibilities and standards for water and sewerage services (Gold Coast City Council 2012). Based on these, Gold Coast Water has 23 customer service standards indicators and has identified 25 key performance criteria for reporting purposes, as shown in Table 2.

Table 2 Gold Coast Water Key Performance Criteria

KPI No.	Gold Coast Water Key Performance Criteria	Reporting Period	Target
A14	Sewerage mains breaks and chokes (per 100km sewer main)	Monthly	< 25 per 100km of sewer main
A8	Water main breaks (per 100 km of water main)	Monthly	< 15 per 100km of water main
A9	Infrastructure leakage index (ILI)	Quarterly	< 1.5
C13	Total water and sewerage complaints (per 1000 properties)	Monthly	< 15 per 1000 properties
E5	Number of sewage treatment plants compliant at all times (No)	Monthly	All
E7	Compliance with environmental regulator - sewerage (yes/no)	Monthly	Yes
F13	Combined operating cost - water and sewerage	Monthly	+/- 10% of Forecast for Month
F16	Total capital expenditure for water and sewerage (\$000s)	Monthly	+/- 10% of Forecast for Month
F20	Dividend (\$000s)	Quarterly	+/- 10% of Forecast for Quarter
F22	Net debt to equity (%)	Quarterly	+/- 10% of Forecast for Quarter
F24	Net profit after tax (\$000s)	Quarterly	+/- 10% of Forecast for Quarter
F3	Total income for utility (\$000)	Accrual	+/- 10% of Forecast for Month
GCW1	<i>Total planned maintenance expenditure for water</i>	Monthly	+/- 10% of Forecast for Month
GCW2	<i>Total unplanned maintenance expenditure for water</i>	Monthly	+/- 10% of Forecast for Month
GCW3	<i>Total planned maintenance expenditure for sewage</i>	Monthly	+/- 10% of Forecast for Month
GCW4	<i>Total unplanned maintenance expenditure for sewage</i>	Monthly	+/- 10% of Forecast for Month
GCW5	<i>EWOQ complaints resolved within 20 business days</i>	Monthly	100%
GCW6	<i>Number of Lost Time Injuries (LTIs)</i>	Monthly	<10
GCW7	<i>% of calls answered by an operator within 50 seconds (%)</i>	Monthly	80%
H2	Number of zones where microbiological compliance was achieved (e.g. 23 of 24)	Monthly	All
H3	% of population where microbiological compliance was achieved	Monthly	100%
H4	Number of zones where chemical compliance was achieved (e.g. 23 of 24)	Monthly	All
W11	Total urban water supplied (ML)	Quarterly	+/- 10% of Forecast for Month
W18	Total sewage collected (ML)	Monthly	+/- 10% of Forecast for Month
W7	Total sourced water (ML)	Monthly	+/- 10% of Forecast for Month

Source: Gold Coast Water 2013b.

While some of the Gold Coast Water's customer service standards and reporting criteria overlap with some of those identified by the QCA for performance reporting, some of the precise indicators and measures differ. Gold Coast Water customer service standards and reporting criteria represent 14 of the QCA's list of recommended indicators.

Therefore, 24 additional indicators are recommended by the QCA. Many of these are captured in the National Water Commission (NWC) performance reporting process, in which Gold Coast Water participates. In 2012-13, Gold Coast Water was among the best performers in key network reliability and service indicators compared to other utilities in the 100,000+ connections category, although it did not report against all indicators (NWC 2014). Its performance in responding to customers' complaints was below average.

There is therefore evidence that Gold Coast Water is monitoring and publicly reporting on its service quality.

The QCA has not previously monitored service quality performance and Gold Coast Water has not been required to report against all of the QCA's indicators.

Having regard to Gold Coast Water's commitment to service quality performance monitoring, the QCA considers that the identified shortcomings should not impede Gold Coast Water moving to light handed annual performance monitoring.

However, the QCA proposes that Gold Coast Water will be required to report against the full range of indicators as part of the light-handed framework. Gold Coast Water should also participate in national performance reporting of all key network reliability and customer service indicators.

2.3.5 Pricing principles

The QCA position paper *SEQ Long Term Regulatory Framework - Pricing Principles* (QCA 2014c) recommended pricing principles to apply to urban water, sewerage, trade waste, recycled water and stormwater reuse.

These principles were released after the price monitoring reviews from 2013-15 were finalised. Therefore, the price monitoring reviews to date have not investigated Gold Coast Water's prices against these principles and have not requested relevant information to do so.

The QCA has not previously reviewed Gold Cost Water's pricing practices and there is insufficient available information in many instances to allow a detailed assessment (see Table 3).

Pricing is important both to ensure customers are aware of the implications of their consumption and to allow Gold Cost Water's to manage its risks.

Nevertheless, previous detailed price monitoring has not required adherence to the proposed pricing principles. It would therefore seem inappropriate to impede Gold Coast Water from moving to more light handed performance monitoring.

The QCA notes that for all retailers this is considered a priority issue for attention.

Table 3 General pricing objectives and principles

		Draft Recommendations - Gold Coast Water Assessment
Pricing objectives	1.1	That pricing of urban water, sewerage, trade waste, recycled water and stormwater re-use services provided by SEQ entities: (a) promotes economic efficiency (b) ensures revenue adequacy (c) takes account of the public interest (including fairness and equity) (d) is transparent, predictable, simple and cost-effective to apply. <i>Comment: Insufficient information for assessment. Past price monitoring has adopted annual water and sewerage cost/revenue comparisons.</i>
Pricing Principles	1.2	Entities initially establish that the pricing principles are being applied and subsequently advise of any departures, the reasons for the departure and provide relevant supporting analysis. <i>Comment: Insufficient information for assessment. Past price monitoring has adopted annual water and sewerage cost/revenue comparisons.</i>
	1.3	Pricing reflects marginal cost, together with a two part tariff where necessary to achieve revenue adequacy. <i>Comment: Insufficient information for assessment. Gold Coast Water applies a two-part tariff for water charges. Residential and non-residential customers pay the same volumetric tariff for treated water.</i>
	1.4	Prices be set between incremental (marginal) cost and stand-alone cost. <i>Comment: Insufficient information for assessment.</i>
	1.5	Prices reflect the long run marginal cost (LRMC) of providing a particular service. <i>Comment: Insufficient information for assessment.</i>
	1.6	Prices reflecting short run marginal cost (SRMC) be considered when SRMC for a particular period significantly exceeds the LRMC (estimated for a longer period) for a particular service. This is sometimes referred to as scarcity charging. <i>Comment: Gold Coast Water not charge based on scarcity. Bulk water prices are set by the Queensland Government (not Gold Coast Water) and do not vary with supply constraints.</i>
	1.7	LRMC be estimated on the basis of the perturbation or AIC method. <i>Comment: Insufficient information for assessment.</i>

Table 4 Application of pricing principles

Chapter	Topic	No	Draft Recommendation - Gold Coast Water Assessment
Urban Water	Demand forecasting	2.1	Long term forecasts used for capital planning be based on SEQ Water Strategy forecasts. <i>Comment: Within its netserv plan Gold Coast Water provided information on its long-term demand forecasts for capital planning. Further, Gold Coast Water's capital planning reflects the SEQ Design and Construction Code.</i>
		2.2	Short term demand forecasts be based on estimated water use per customer/connection and population forecasts (number of connections) and take account of any bounce-back effect as well as local circumstances. <i>Comment: Gold Coast Water has applied this principle in setting water prices, as noted in 2013-15 price monitoring report.</i>
		2.3	Demand forecasting practices and alternative models (including demand elasticities) be reviewed by a working group including the entities, QCA and other relevant parties. <i>Comment: Gold Coast Water has participated in a past working group on demand.</i>
	Volumetric charges	2.4	The volumetric charge for urban water services should reflect LRMC. <i>Comment: Insufficient information for assessment. Past price monitoring has adopted annual water and sewerage cost/revenue comparisons.</i>
		2.5	Where prices exceed average costs, short-term over-recovery of revenues be addressed by ex-post rebates with adjustments made to the fixed charge. <i>Comment: Insufficient information for assessment. Past price monitoring has adopted annual water and sewerage cost/revenue comparisons.</i>
	Fixed charges	2.6	Fixed charges be set to recover the MAR not covered by the volumetric charge. <i>Comment: Insufficient information for assessment. Single residential fixed charge for water. Non-residential fixed charges depend on connection size and in some instances connection size plus an estimate of volume. Charges range from 20mm @ \$91.62 to 300mm (and >45,315 kL consumption3) @ \$20,613.00</i>
		2.7	Charges not encourage customers to bypass or disconnect from the network. <i>Comment: No information to indicate customers are seeking to bypass or disconnect from Gold Coast Water network. Past price monitoring has not investigated cost allocation, including to customer types.</i>
	Inclining and declining block tariffs	2.8	Inclining and declining block tariffs not be introduced, and where they are in place be phased out over time to a single volumetric charge. <i>Comment: Gold Coast Water does not apply inclining block tariffs and charges a single volumetric tariff.</i>
	Location-based or nodal pricing	2.9	Location-based charges for urban water services be applied where the location cost differences are material and where it is practical and cost effective. <i>Comment: Gold Coast Water does not apply location based charges.</i>

Chapter	Topic	No	Draft Recommendation - Gold Coast Water Assessment
	Peak period and seasonal charges	2.10	Time of day or seasonal charges be considered for urban water services where there are identified economic efficiency benefits and where practical and cost effective. <i>Comment: Gold Coast Water has no time of day or seasonal charges.</i>
	Self-selecting tariffs	2.11	Self-selecting tariff options be considered where there is sufficient information for customers to make choices, provided they do not result in cross-subsidies or introduce unmanageable revenue risks for the entity. <i>Comment: Gold Coast Water does not offer self-selecting tariff options.</i>
	Service quality differentials and interruptible tariffs	2.12	Price/service quality tariff options are supported, where material cost differentials are associated with different levels of service. <i>Comment: Gold Coast Water has no price/service quality based tariffs.</i>
	Metering and billing arrangements	2.13	Individual metering of flats and units be adopted where economic and practical. <i>Comment: As of 1 Jan 2008 all new unit/apartment complexes are required to be fitted with individual meters per dwelling. For existing complexes, Gold Coast Water takes instructions from the owner of the complex or body corporate as to the method of billing (either individual invoices or a single invoice to the owner or body corporate). If individual invoices are chosen, the owner or body corporate also advises of an appropriate apportionment.</i>
		2.14	Where water is separately metered, and where practical, tenants be billed the fixed and variable charges for water and sewerage. <i>Comment: Landlords are entitled to pass the volumetric proportion of a bill to a tenant provided the premises are individually metered and meet water efficiency standards.</i>
		2.15	Customers with unmetered connections be charged a deemed amount for usage, reflecting average use for similar property types. <i>Comment: Gold Coast Water does have any unmetered connections and subsequently does have a specific tariff for unmetered connections.</i>
		2.16	Customers with unmetered connections be given the option of paying for meter installation. <i>Comment: Gold Coast Water does not have any unmetered connections.</i>
		2.17	For vacant land where water and services are available for connection, the water access charge that applies to connected properties (the relevant domestic or commercial charge) be applied. <i>Comment: Gold Coast Water charges vacant land the same water and sewerage access charge that applies to connected properties.</i>

Chapter	Topic	No	Draft Recommendation - Gold Coast Water Assessment
		2.18	<p>Concessions and rebates:</p> <ul style="list-style-type: none"> (a) reflect a consistent approach between the entities (b) be set to apply to either the fixed charge or as a total direct adjustment to the gross invoice amount (c) be capped so as not to subsidise discretionary use (d) be transparent with acknowledgement of the source of, and purpose for, particular concessions/rebates. <p><i>Comment: Gold Coast Water implements Qld Government Pension subsidy under which pensioners can receive a subsidy of up \$120 (maximum) each year off the cost of water access and usage charges. The pensioner subsidy is applied as a direct adjustment to the total bill.</i></p> <p><i>Gold Coast Water also provides a haemodialysis rebate which provides customers using haemodialysis machines at home with an allowance (at no charge) of 150 to 400 kilolitres per annum (depending on extent of dialysis).</i></p>
		2.19	<p>Concessions associated with excess water use caused by leaks, be determined by the entities in consultation with customers.</p> <p><i>Comment: Gold Coast Water has a concealed leak policy that is publicly available.</i></p>
		2.20	<p>Hardship arrangements be consistent with legislative or operating requirements and avoid cross-subsidies where practical.</p> <p><i>Comment: Gold Coast Water has a financial hardship policy, as noted in 2013-15 price monitoring. DEWS is undertaking a review of the SEQ Customer Code² and will consider the water businesses' policies (including hardship) in relation to supporting customers.</i></p>
		2.21	<p>Meter-reading and billing be undertaken at least quarterly.</p> <p><i>Comment: Gold Coast Water applies 6-monthly billing cycle, but will adopt quarterly billing from 1 July 2014.</i></p>
	Tradeable water entitlements	2.22	<p>Tradeable urban water entitlements be considered only where the efficiency gains are sufficient to justify the administration and transactions costs.</p> <p><i>Comment: No tradeable urban water entitlements.</i></p>
Sewerage	Demand forecasting	3.1	<p>Demand for sewerage services be based on forecast growth in connections, linked to population growth.</p> <p><i>Comment : Gold Coast Water has applied this principle in setting sewerage prices, as noted in past price monitoring reports.</i></p>
	Efficient pricing	3.2	<p>For residential customers:</p> <ul style="list-style-type: none"> (a) sewerage charges generally be based on a single part tariff with a fixed charge per customer or connection (b) volumetric charges (based on discharge factors) be applied where the LRM is significant and should be based on discharge or return factors linked to the LRM of providing the water volumes. <p><i>Comment: Gold Coast Water applies a single part sewerage tariff with a fixed charge per connection for residential customers.</i></p>

² Water and Sewerage Services Code for Small Customers in South East Queensland.

Chapter	Topic	No	Draft Recommendation - Gold Coast Water Assessment
		3.3	<p>For non-residential customers:</p> <p>(a) fixed sewerage charges be based on the impact of the customer on the system. In the absence of direct metering, water connection size is considered a reasonable proxy</p> <p>(b) if appropriate, volumetric charges be applied based on relevant discharge factors established by customer type. Customers should be able to negotiate a variation in the discharge factor.</p> <p><i>Comment: Non-residential customers of Gold Coast Water pay the same fixed charge as residential customers. Non-residential customers also pay a usage charge based on their water consumption adjusted according to a set of assumptions made about the proportion of water use that is discharged to the sewer system.</i></p>
		3.4	<p>Nodal pricing for sewerage services be applied where cost effective.</p> <p><i>Comment: Gold Coast Water does not apply nodal pricing for sewerage services.</i></p>
Trade Waste	Demand forecasting	4.1	<p>Where the customer base changes in line with growth, trend information be used to provide reasonable forecasts of demand for trade waste services.</p> <p><i>Comment: Insufficient information for assessment.</i></p>
		4.2	<p>Entities consult with large customers to monitor any step changes in demand for trade waste services.</p> <p><i>Comment: Insufficient information for assessment.</i></p>
	Efficient pricing	4.3	<p>Trade waste prices be based on the impactor pays principle.</p> <p><i>Comment: Insufficient information for assessment.</i></p>
		4.4	<p>Charges be based on the LRMC of transport, treatment and disposal of trade waste, with variable charges based on volume and contaminant load.</p> <p><i>Comment: Insufficient information for assessment. Gold Coast Water charges are based on four customer categories based on risk and the load placed on the wastewater system. Volumetric and contaminant load charges apply.</i></p>
		4.5	<p>Specific charges for the management of trade waste services (inspection and monitoring) be applied on a cost reflective basis.</p> <p><i>Comment: Insufficient information for assessment. Gold Coast City Council is the only entity not to levy an annual fixed charge and application fee.</i></p>
		4.6	<p>Charges be differentiated according to customer type and risk factors, and by location (as part of risk assessments) if considered cost effective.</p> <p><i>Comment: Gold Coast Water charges are based on four customer categories based on risk and the load placed on the wastewater system. Volumetric and contaminant load charges apply.</i></p>
	Compliance	4.7	<p>Consistent with regulations, entities to apply penalty charges for non-compliance and recover costs associated with breaches.</p> <p><i>Comment: Gold Coast Water relies on penalty units outlined in the Water Supply (Safety and Reliability) Act 2008.</i></p>

Chapter	Topic	No	Draft Recommendation - Gold Coast Water Assessment
Recycled Water	Efficient pricing	5.1	The revenue requirement for recycled water services be based on the total additional cost of recycling less avoided costs and less developer contributions. <i>Comment: Insufficient information for assessment.</i>
		5.2	Direct and avoidable costs be allocated between relevant parties on a beneficiary pays basis. <i>Comment : Insufficient information for assessment</i>
		5.3	Recycled water volumetric prices be based on LRMC for the established recycled water scheme where possible, based on marginal operating costs less marginal avoided costs. Where the volumetric charge is then higher than the potable water volumetric charge, it may be necessary to reflect demand sensitivities to ensure demand clears supply. <i>Comment: In 2013-14, Gold Coast Water provides Class A water for both residential and non-residential use associated with the Pimpama Coomera Waterfutures Master Plan at 1.71/kl, at approximately half the bulk water price.</i>
		5.4	If still required to ensure revenue adequacy, fixed charges in a two-part tariff should be set to recover remaining revenues, also subject to willingness to pay. <i>Comment: See above, no fixed charges apply for recycled water.</i>
		5.5	If the revenue requirement is still not achievable, unrecovered amounts should be allocated to potable and sewerage charges in proportion to avoided cost allocations. <i>Comment: Insufficient information for assessment.</i>
		5.6	Charges to be periodically reviewed, as customer acceptance increases. <i>Comment: Insufficient information for assessment.</i>
		Sewer mining	5.7
Stormwater Reuse		6.1	Stormwater reuse pricing be subject to the same pricing principles as recycled water. <i>Comment: Gold Coast Water does not provide stormwater re-use services.</i>
Stormwater drainage		6.2	Rate-based charges continue to be used for recovery of stormwater drainage costs. <i>Comment: Stormwater drainage charges are incorporated in Gold Coast City Council general rates.</i>
		6.3	Charges pertaining to stormwater drainage are to be transparently identified on customer bills. <i>Comment: Insufficient information for assessment.</i>
Industry-wide issues	Externality pricing	7.1	The inclusion of externality prices be supported where material impacts can be valued accurately and cost effectively. <i>Comment: Insufficient information for assessment.</i>

Chapter	Topic	No	Draft Recommendation - Gold Coast Water Assessment
		7.2	Prices incorporating estimates of externalities avoid duplication with other mechanisms and be transparent. <i>Comment: Insufficient information for assessment.</i>
		7.3	Licences and market mechanisms (where practical) be considered by Government where the benefits are considered to justify the costs. <i>Comment: Insufficient information for assessment.</i>
	Third party access	7.4	Third party access prices be based on the cost of service methodology, and take account of relevant joint or common costs. Any departure from this methodology (such as applying the retail minus methodology) is to be justified. <i>Comment: Insufficient information for assessment.</i>
		7.5	Where retail prices are averaged across user groups (postage stamp tariffs) an adjustment apply to ensure that access prices do not result in increased costs of service delivery for remaining customers. <i>Comment: Insufficient information for assessment.</i>
	Cost allocation	7.6	Common costs be allocated to services and customers on the basis of a causal relationship between the costs incurred and the water, sewerage, recycled water or other service performed. <i>Comment: Insufficient information for assessment.</i>
		7.7	If a causal relationship cannot be established between costs incurred and the relevant service, a reasonable cost allocator needs to be established. <i>Comment: Insufficient information for assessment.</i>
	Price paths	7.8	Price paths be applied where there are substantial price increases, having regard to customers' ability to pay and the impacts on the service provider's financial viability. <i>Comment: Gold Coast Water has not published a future price path. Insufficient information for assessment.</i>
		7.9	Price paths be set on a revenue neutral basis. <i>Comment: Gold Coast Water has not published a future price path. Insufficient information for assessment.</i>

Source: QCA 2013c.

2.4 Conclusions

On the basis of its assessment against core criteria (see Table 5), the QCA considers that Gold Coast Water should immediately transition to long-term annual performance monitoring as from 1 July 2015.

It is also noted that apart from the application of proposed pricing principles (where a detailed assessment has yet to be undertaken), Gold Coast Water has showed a commitment to and performed well against other elements of the proposed performance monitoring framework.

Potential areas of improvement in non-core criteria are also identified in Table 5.

Table 5 Summary of draft assessment - Gold Coast Water

<i>Criteria</i>	<i>Achieved?</i>
Core criteria	
Absence of public interest or equity issues that may warrant regulatory review	Yes
Regulated services are clearly defined and separated from non-regulated services	Yes
No evidence of an exercise of market power and opening cost based is efficient	Yes
Absence of material changes in circumstances or major infrastructure costs	Yes
Demonstrated capacity to provide information accurately and on time	Yes
Other criteria	
Performance in customer engagement	Existing customer engagement practices are consistent with many desired features. Gold Coast Water is well placed to build on existing practice to achieve best practice.
Strategic approach to long term investment	Broadly addressing many desired elements. Areas of improvement have been identified including the asset management system.
Service quality	Gold Coast Water is committed to monitoring and is reporting on 14 of the QCA's 38 measures.
Pricing principles	Insufficient information for full assessment. Prices generally based on legacy pricing with generic price increases. This is considered a priority area for consideration in future performance monitoring.

Submissions on this assessment are due **30 June 2014**. All submissions will be taken into account in the QCA's Final Report, due 30 September 2014.

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