

APPENDIX I

Final Assessment

Transition to annual performance monitoring – Gold Coast Water

September 2014

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

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1 INTRODUCTION

1.1 Purpose

This assessment outlines whether Gold Coast Water should transition to the recommended annual performance monitoring regulatory framework. 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 final report on the *SEQ Retail Water Long-Term Regulatory Framework - Annual Performance Monitoring - Part B* (QCA 2014a).

The QCA invited submissions on a draft assessment, and these have been taken into account in this final assessment.

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, and monitored changes in prices and compared the retailers' revenues against the maximum allowable revenue (MAR). The MAR 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 QCA 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

The QCA recommends an annual performance monitoring regulatory framework which it considers is light-handed (in terms of the costs and level of detail required) and which 'tracks' retailers' performance against:

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

1.4 Criteria

Criteria for immediate transition

The QCA outlined the following core criteria for an immediate transition to long-term performance monitoring:

- (a) an 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 should also be taken into account in assessing whether annual performance monitoring is appropriate.

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

Draft assessment

The criteria require that there is 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 was 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 offers customers using haemodialysis machines at home an allowance (at no charge) of 150 to 400 kilolitres per annum (depending on extent of dialysis). The QCA was 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 (SEQ Customer Code) and will consider the water businesses' policies (including hardship) in relation to supporting customers.

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No submissions on this matter were received in response to the draft assessment. The QCA has not identified any other related issues to impede Gold Coast Water moving to annual performance monitoring.

2.2.2 Regulated services are defined

Draft assessment

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. In addition, the retailers were 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 was not 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 and regulated revenues are \$875.4 million
- (b) non-regulated operating costs are \$2.2 million and regulated operating costs are \$503.7 million
- (c) non-regulated capital expenditure is \$0.2 million and regulated capital expenditure is \$262.9 million
- (d) non-regulated assets are \$0.1 million and regulated assets are \$2,431.2 million (as at 30 June 2015).

Overall, the QCA considered 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.

Final assessment

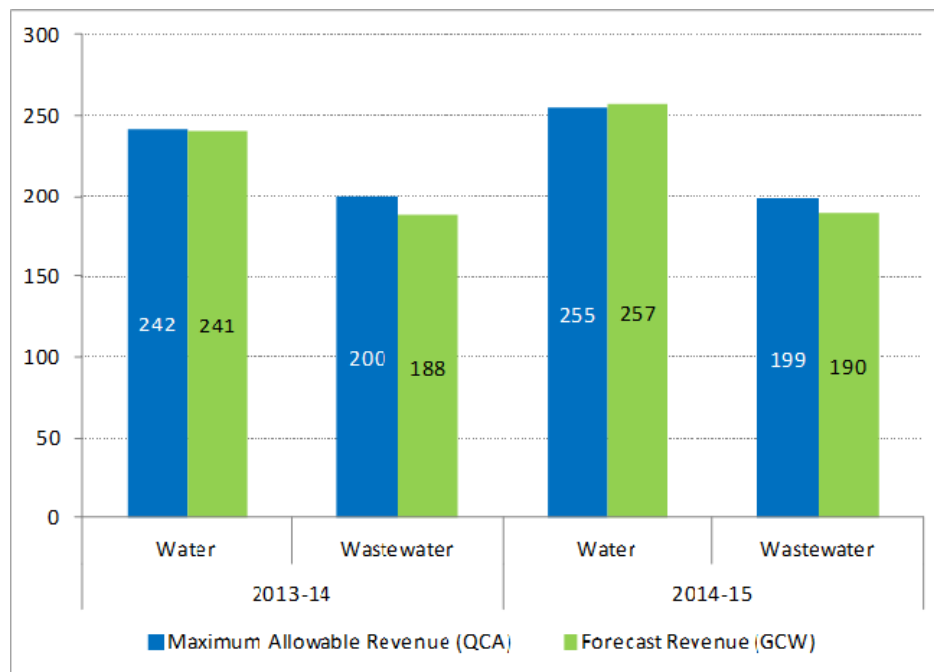
No submissions on this matter were received in response to the draft assessment. The QCA has not identified any other related issues to impede Gold Coast Water moving to annual performance monitoring.

2.2.3 Market power

Draft assessment

The criteria require evidence that market power is not being exercised.

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 was 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. The QCA proposed 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.

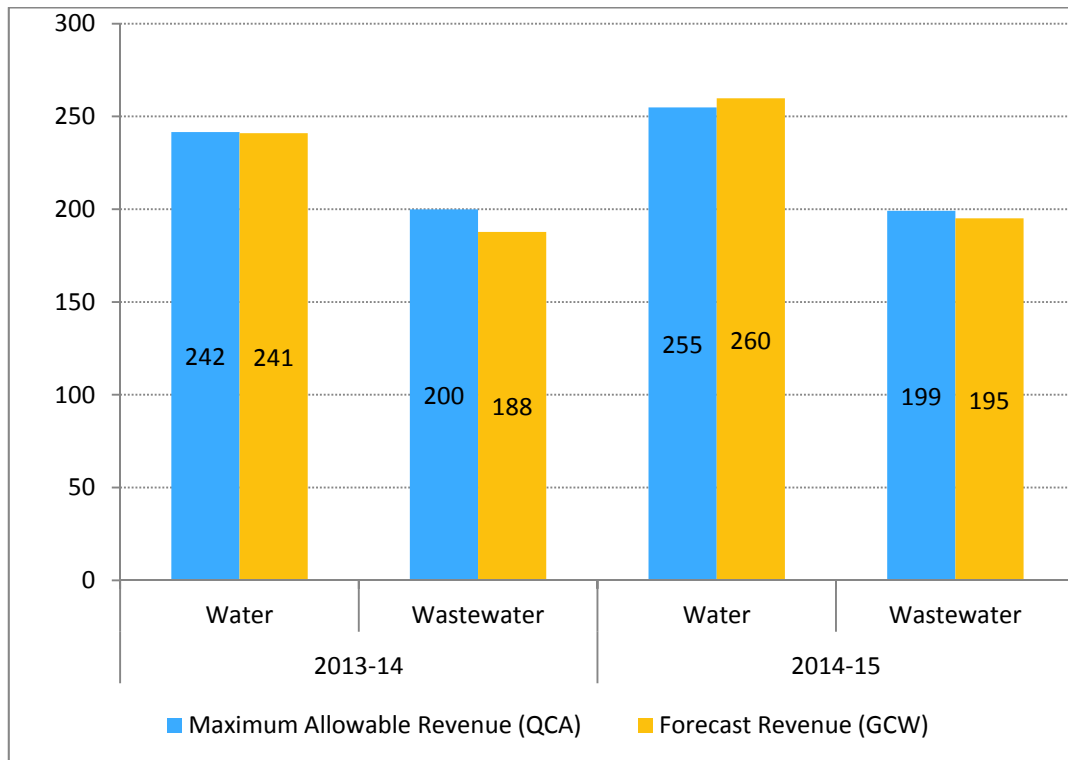
Overall, there was no evidence to suggest that market power was being exercised.

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The QCA has updated the 2014-15 revenue estimates based on the announced 2014-15 prices. Compared to the QCA's previous revenue forecasts Gold Coast Water revenue increased from \$446.7 million to \$454.8 million.

Assuming no change in MAR, this would result in an over-recovery of \$0.9 million. Over the two year 2013-15 period, Gold Coast Water's under-recovery would be reduced from 2.2% to 1.2%.

Figure 2 Forecasts for Gold Coast Water costs (MAR) and revenues (\$m)



In response, Gold Coast Water advised that demand had also increased and as a result so would MAR. Gold Coast Water indicated that the MAR for 2014-15 is forecast to be \$9 million higher due to increased bulk water purchases compared to the amount used in QCA's forecast for 2014-15.

As the increase in prices only results in a reduction in under-recovery (from 2.2% to 1.2%), in the absence of all the cost implications of the Gold Coast Water's 2014-15 demand increase, this should not impede Gold Coast Water proceeding to annual performance monitoring.

There is no change to QCA's draft assessment; that is, market power is not being exercised.

2.2.4 Imminent change in circumstances

Draft assessment

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 was not aware of any imminent material changes in circumstances or major infrastructure costs that would impede Gold Coast Water's transition to annual performance monitoring.

Final assessment

No submissions on this matter were received in response to the draft assessment. The QCA has not identified any other related issues to impede Gold Coast Water moving to annual performance monitoring.

2.2.5 Information provision

Draft assessment

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 considered there is demonstrated capacity to provide information accurately and on time.

Final assessment

No submissions on this matter were received in response to the draft assessment. The QCA has not identified any other related issues to impede Gold Coast Water moving to annual performance monitoring.

2.2.6 Summary of assessment against core criteria

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

2.3 Assessment against other criteria

2.3.1 Introduction

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 sought to identify whether there is any information on these criteria that would delay or impede transition by assessing the retailers' performance to date and predisposition to further improvement. To assist retailers 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 recommendations

- 5.1 Each retailer, in consultation with its customers, develop a strategy for customer engagement based on best practice principles.**
- 5.2 Customer engagement:**
- (a) promote understanding of customers' 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 include a customer consultation committee.**

Draft assessment

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 2013a).

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 considered that GCCC's customer engagement processes incorporated many of the desired attributes of effective customer engagement.

Accordingly, the QCA considered performance should not impede Gold Coast Water moving to annual performance monitoring.

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

Final assessment

In its recent 2014-15 price announcements, Gold Coast Water does not provide details of its overall charges or customer bill impacts in any single document, making it difficult for customers to interpret the new charges. While this does not impede Gold Coast Water's proceeding to annual performance monitoring, the issues should be addressed in future pricing announcements.

2.3.3 Strategic planning for long term investment

Excerpt of recommendations

- 6.1 The legislative and regulatory planning requirements for council water businesses be reviewed with a view to reducing any duplication of the requirements applied to the DRs.**
- 6.2 Retailers provide evidence of board/council approval and Ministerial endorsement of their relevant Water Netserv Plans to the QCA.**
- 6.3 Retailers annually report to QCA on their annual capital works plans or annual performance plans.**
- 6.4 Part A Water Netserv Plans and any updates for minor and major amendments be submitted.**
- 6.5 Retailers annually report to the QCA, details of their compliance with the asset management standard they have implemented and progress in addressing areas of improvement to achieve good industry practice.**
- 6.6 Should a cost of service review be triggered, the QCA assess retailers' asset management practices against PAS-55.**
- 6.7 Retailers annually report to the QCA details of the project evaluation practices used for significant capex projects.**
- 6.8 Retailers 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.**

Draft assessment

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 (2014) 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 \$91.43 million), due to identified minor inefficiencies in two projects.

SKM (2014) 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 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.

Criteria	Findings
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 considered 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 were not considered material enough to prevent Gold Coast Water moving to annual performance monitoring.

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

Final assessment

No submissions on this matter were received in response to the draft assessment. The QCA has not identified any other related issues to impede Gold Coast Water moving to annual performance monitoring.

2.3.4 Service quality

Draft assessment

The regulatory framework position paper 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 was 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 (GCCC 2012). Based on these, Gold Coast Water had 23 customer service standards indicators and had 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 annual performance reporting, some of the precise indicators and measures differ. Gold Coast Water customer service standards and reporting criteria represented 14 of the QCA's list of recommended indicators.

Therefore, 24 additional indicators were recommended by the QCA. Many of these were 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 was therefore evidence that Gold Coast Water was 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 considered that the identified shortcomings should not impede Gold Coast Water moving to annual performance monitoring.

However, the QCA proposed that Gold Coast Water would be required to report against the full range of indicators as part of the annual performance monitoring framework. Gold Coast Water should also participate in national performance reporting of all key network reliability and customer service indicators.

Final assessment

Since the draft assessment, the QCA revised the recommended service quality indicator list in line with DEWS (2014) and taking account of submissions from stakeholders.

Gold Coast Water's reported indicators include five recommended by the QCA in its revised list.

No submissions on this matter were received in response to the draft assessment. The QCA considers that Gold Coast Water's commitment to service quality performance monitoring supports a transition to annual performance monitoring.

2.3.5 Pricing principles

Draft assessment

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 Coast Water's pricing practices and there was insufficient available information in many instances to allow a detailed assessment (see Table 3 which includes the slightly revised final report recommendations).

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

Nevertheless, previous detailed price monitoring has not required adherence to the proposed pricing principles. It was therefore considered inappropriate to impede Gold Coast Water from moving to annual performance monitoring.

The QCA noted that for all retailers pricing principles were considered a priority issue for attention.

Table 3 General pricing objectives and principles

		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 retailers should: <ul style="list-style-type: none"> (a) promote economic efficiency (b) ensure revenue adequacy (c) take account of the public interest (including fairness and equity) (d) be 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	Retailers seek to apply the pricing principles or advise of any departure, 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	Prices reflect 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 LRMC of providing a particular service. <i>Comment: Insufficient information for assessment.</i>
	1.6	Prices reflect SRMC when SRMC for a particular period significantly exceeds the LRMC for a particular service. This is sometimes referred to as scarcity charging. <i>Comment: Gold Coast Water does 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

<i>Chapter</i>	<i>Topic</i>	<i>No</i>	<i>Recommendations - Gold Coast Water assessment</i>
Urban water	Demand forecasting	2.1	Long-term forecasts used for capital planning be based on projected regional average urban demand as published in the SEQ water security program. <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 retailers, 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 reflect LRM. <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 for urban water services 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 consumption) @ \$20,613.00.</i>
		2.7	Charges not encourage customers to by-pass or disconnect from the network. <i>Comment: No information to indicate customers are seeking to by-pass 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 already 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 or nodal charges for urban water services be applied where there are significant differences in costs between locations or between nodes.

Chapter	Topic	No	Recommendations - Gold Coast Water assessment
			<i>Comment: Gold Coast Water does not apply location based charges.</i>
	Peak period and seasonal charges	2.10	<p>The QCA notes that peak-period or seasonal charges for water are not in use in Australia. Responses from retailers show little interest in introducing such charges. The QCA recommends that retailers only consider peak period or seasonal charges where clear net benefits are likely.</p> <p><i>Comment: Gold Coast Water has no peak-period or seasonal charges.</i></p>
	Self-selecting tariffs	2.11	<p>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 retailer.</p> <p><i>Comment: Gold Coast Water does not offer self-selecting tariff options.</i></p>
	Service quality differentials and interruptible tariffs	2.12	<p>Price/service quality tariff options be adopted, where material cost differentials are associated with different levels of service.</p> <p><i>Comment: Gold Coast Water has no price/service quality based tariffs.</i></p>
	Metering and billing arrangements	2.13	<p>Individual metering of flats and units be adopted where economic and practical.</p> <p><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></p>
		2.14	<p>Where water is separately metered, subject to legislative constraints, tenants be billed the fixed and variable charges for water and sewerage.</p> <p><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></p>
		2.15	<p>Customers with unmetered connections be charged a deemed amount for usage, reflecting average use for similar property types.</p> <p><i>Comment: Gold Coast Water does not have any unmetered connections and subsequently does have a specific tariff for unmetered connections.</i></p>
		2.16	<p>Customers with unmetered connections be given the option of paying for meter installation.</p> <p><i>Comment: Gold Coast Water does not have any unmetered connections.</i></p>
		2.17	<p>For vacant and non-connected properties where water and sewerage services are available for connection, the water and sewerage access charges that apply to connected properties (the relevant domestic or commercial charge) be applied.</p> <p><i>Comment: Gold Coast Water charges vacant land the same water and sewerage access charge that applies to connected properties.</i></p>

Chapter	Topic	No	Recommendations - Gold Coast Water assessment
		2.18	<p>Concessions and rebates:</p> <ul style="list-style-type: none"> (a) reflect a consistent approach between the retailers (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 retailers 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 and 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 Code 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 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 be based on a single part tariff with a fixed charge per customer or connection (b) volumetric charges be applied where these can be effectively measured (including by discharge or return factors). <p><i>Comment: Gold Coast Water applies a single part sewerage tariff with a fixed charge per connection for residential customers.</i></p>

Chapter	Topic	No	Recommendations - 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 be accepted</p> <p>(b) volumetric charges be applied where these can be effectively measured (including by discharge or return factors).</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>Location-based or nodal pricing for sewerage services be applied where there are significant differences in costs between nodes.</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>Retailers 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 Water is the only retailer 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, retailers apply penalty charges for non-compliance and recover the efficient 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	Recommendations - 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	Where there are costs associated with recycling that cannot be recovered from recycled water customers, 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, less marginal avoided costs. If necessary, recycled water volumetric charges be set lower than LRMC to ensure demand clears supply (where the recycled water volumetric charge is higher than the potable water volumetric charge). <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	Where volumetric charges do not ensure revenue adequacy, fixed charges in a two-part tariff be set to recover remaining revenues, 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 (that is, where fixed and volumetric charges exceed willingness to pay), unrecovered amounts be allocated to potable and sewerage charges in proportion to avoided cost allocations. <i>Comment: Insufficient information for assessment.</i>
		5.6	The approach and charges be periodically reviewed, as customer acceptance increases. <i>Comment: Insufficient information for assessment.</i>
		Sewer mining	5.7
Stormwater	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 for stormwater drainage 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	Recommendations - 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 be applied 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) access prices be adjusted (where required) to ensure costs are not increased for remaining customers. <i>Comment: Insufficient information for assessment.</i>
	Price paths	7.6	Price paths be implemented 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>
		7.7	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.

Final assessment

No submissions on this matter were received in response to the draft assessment. The QCA has not identified any other related issues to impede Gold Coast Water moving to annual performance monitoring.

2.4 Conclusions

Draft assessment

On the basis of its assessment against core criteria (see Table 5), the QCA considered that Gold Coast Water should immediately move to 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 recommended annual performance monitoring framework.

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

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	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.

Final assessment

The QCA's final assessment takes account of changes in the recommended framework.

Based on updated information, Gold Coast Water is slightly over-recovering in 2014-15.

It is noted that Gold Coast Water's 2014-15 pricing document and media release were potentially not easy for customers to interpret.

In 2014-15 Gold Coast Water reports against five of the QCA's revised service quality indicator list.

It is recommended that Gold Coast Water should move to annual performance monitoring.

Recommendation

I.1 Gold Coast Water move to annual performance monitoring.

REFERENCES

- Department of Energy and Water Supply (DEWS) 2014, *Key performance indicators for Queensland urban water service providers*, Definitions Guide, Version 1.1. June.
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- QCA 2014c, *SEQ Long Term Regulatory Framework - Pricing Principles*, Draft Position Paper, March.
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