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Ray Rapinette
Director, Corporate Services
Queensland Competition Authority
Level 27
145 Ann Street
Brisbane QLD 4000
Dear Mr Rapinette

Fee Framework 2018 Review

Thank you for the opportunity to provide comments on the Queensland Competition Authority's (QCA's) proposed Fee Framework. SunWater is broadly supportive of the draft changes, as outlined in your letter on 29 October 2018, and the methodology described. However, we believe more can be done to improve simplicity and transparency for all stakeholders and this submission contains some suggestions on how this could be achieved.

Ultimately, it will be irrigation customers who bear the costs of the QCA's irrigation price review. We believe it is in the interests of our customers and the QCA's other stakeholders for there to be:

1. greater specificity about the cost allocation methodology employed by the QCA to determine whether its costs (comprising staff and other costs) are funded from the QCA Levy or the State Government grant; and
2. in the case of water, how those expenses are allocated to our irrigation customers.

We believe that these concerns could be relatively easily addressed by a QCA cost allocation manual.

1. Reasonable costs[1]

It is unclear from the Fee Framework how the QCA determines which costs can be reasonably attributed to the services or functions paid for under the QCA Levy; which are funded by the State Government grant (referred to in this submission as 'operational expenditure'); and which are corporate overheads. SunWater believes that:

- it is reasonable for regulated entities and their customers to meet the costs incurred during the period the QCA is undertaking the service or function;
- regulated entities and their customers are entitled to a clear and transparent account of the costs the QCA attributes to each QCA Levy service or function;
- costs incurred before or after the service or functions undertaken should be excluded from the QCA Levy and treated as operational expenditure; and

[1] In this submission, 'costs' includes both QCA staffing and other costs, such as consultants.

- the QCA's corporate overheads should be allocated across the cost base of both the QCA Levy and operational analysts.[2]

As noted in the Fee Framework, the QCA administers and discharges its responsibilities by ensuring compliance with the *Queensland Competition Authority Act 1997* (the Act) and other relevant legislation. The QCA's services and functions are detailed in the Act and the services and functions for which fees are payable are included in Schedule 1 of the *Queensland Competition Authority Regulation 2007* (the Regulation).[3]

The services and functions outlined in Schedule 1 vary in complexity and scope, but all have three things in common: a head of power, a beginning and an end (the period in between being the period of the QCA's jurisdiction). We consider that these fundamental attributes should determine which costs can be funded via the QCA Levy. Based on our interpretation of the Act and the Regulation, we believe that the QCA is required to, as far as reasonably possible, only attribute costs to services or functions in Schedule 1 incurred during the period of the QCA's jurisdiction (ie the referral period).

SunWater believes that if the QCA incurs costs outside of that period, for example in providing informal guidance to the State Government in the lead up to a referral notice being issued, then these costs should not be considered to form part of the reasonable cost of providing the service, as the service itself has not yet commenced.

To address our concerns, SunWater seeks the following outcomes:

- an assurance from the QCA that only expenditure incurred between the commencement date and completion of a service or function under Schedule 1 are paid for under the QCA Levy;
- a commitment from the QCA that future QCA Levy notices will identify the service or function from Schedule 1 being undertaken, and the period for which the fee applies; and
- a commitment from the QCA to disclose the share of its total costs funded by the QCA Levy (by regulated entity) and operational expenditure (funded from the State Government grant), and what portion of each was made up of corporate overheads.

2. Cost allocation

The Fee Framework states that, "*The apportionment of the costs of any regulation of government owned water businesses will be determined having regard to fairly allocating the costs to the beneficiaries of the regulatory service, and having regard to the terms of any specific direction notice issued by the Treasurer.*

The apportionment of shared costs or fees will generally be based on water volume or other relevant measure. For example, shared regulatory costs or fees relating to any regulation for the supply of water to irrigation customers will be based on water entitlements (mega litres) held by irrigation customers of each water business."[4]

We note that in the *Statement of Regulatory Pricing Principles (2013),* the QCA considered that cost-reflective pricing (ie user-pays) is consistent with the proposition that it is fair for any given user of a service, or individual/entity that causes costs to be incurred, to pay for the costs directly associated with their use or action.[5]

SunWater proposes that the same principle should apply to customers of regulated entities, who ultimately pay for the services and functions provided by the QCA. We acknowledge that the QCA allocates its service and function resources and costs between regulated entities (subject to our comments above regarding reasonable expenditure), but we consider that in the case of the recently

[2] A portion of QCA corporate overheads are included in QCA Levy calculations, based on, "…the estimated analyst staff costs for performing a service or function compared to the QCA's total analyst staff costs for the year." (QCA 2018, *Fee Framework*, p.2)
[3] QCA 2018, *Draft Fee Framework*, p.1
[4] QCA 2018*, Draft Fee Framework*, p.4
[5] QCA 2013, *Statement of Regulatory Pricing Principles*, August, p.21

commenced irrigation price review, further disaggregation of resources and costs is required, as outlined in our submission.[6]

While some aspects of the irrigation price review can reasonably be apportioned across all irrigation customers, the referral notice identifies issues that apply to a limited number of schemes (ie dam safety), and we anticipate that issues affecting individual schemes will also emerge. It is not cost-reflective or fair that customers who raise few or no concerns or whose prices are relatively simple to investigate should pay the same share of the QCA Levy as those requesting or requiring a more in-depth investigation.

To address our concerns, we suggest the QCA should:

- account directly for each hour spent addressing issues which can be directly attributed to a specific service contract;
- for expenditure on areas of the review that affect multiple service contracts but not all, allocate costs using a fixed percentage; and
- for expenditure on issues affecting all service contracts, allocate costs via a common allocator, potentially based on the share of total expenditure.

We anticipate the disaggregation of resources and costs would be included in SunWater's QCA Levy notice.

We believe this approach will deliver a simpler and more transparent apportionment of costs for regulated entities and their customers.

Please contact Lisa Welsh, General Manager Customer Strategy, on (07) 3120 0140 or lisa.welsh@sunwater.com.au, should you wish to discuss any aspect of our submission.

Yours sincerely

CN Hollows

Nicole Hollows
Chief Executive Officer

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[6] SunWater 2018, *SunWater: Irrigation Price Review Submission 1 July 2020 to 30 June 2024*, p.25