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Charles Millstead  
Chief Executive Officer  
Queensland Competition Authority  
GPO Box 2257  
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Dear Mr Millstead

Sunwater Limited (Sunwater) welcomes the opportunity to provide feedback to the Queensland Competition Authority (QCA) on its inflation forecasting draft position paper.

We note the inherent challenges in forecasting inflation and generally support the QCA's draft positions. This submission focuses on two aspects of the inflation forecasting methodology—cost escalators and the rules-based anchor point.

#### Different cost escalators

Sunwater supports the use of different cost escalators, such as input-specific and location-specific escalators, where the underlying cost drivers are materially different to the Consumer Price Index (CPI). This approach reduces the complexity in price modelling by minimising the number of escalators being applied, while also allowing for flexibility to use different escalators for costs like labour and insurance which are not typically correlated to CPI.

#### Rules-based anchor point approach

While Sunwater supports a linear glide path to estimate expected inflation after year two, the rules-based anchor point approach proposed by the QCA is, in our view, too prescriptive and may not be suitable in all circumstances. For example, if the short-term inflation forecast is 4.5 per cent, an anchor point higher than 2.75 per cent may be more appropriate. We note the QCA's inflation forecasting methodology is not binding and we would expect the QCA to re-assess the anchor point and/or methodology at the time of the price review should this situation arise.

Thank you once again for the opportunity to contribute to this process. If you would like to discuss any element of this submission, please contact Rachel Collins, A/Regulatory and Pricing Lead.

Yours sincerely



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