

Information notice

Review of Seqwater's bulk water prices for 2022–2026

June 2021

SUBMISSIONS

Closing date for submissions: 13 August 2021

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 the QCA's review of Seqwater's bulk water pricing practices. The QCA will take account of all submissions received within the stated timeframes.

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

Seqwater bulk water price review 2022–26
Queensland Competition Authority
GPO Box 2257
Brisbane Q 4001

Tel (07) 3222 0555

Fax (07) 3222 0599

www.qca.org.au/submissions

Confidentiality

In the interests of transparency and to promote informed discussion and consultation, the QCA intends to make all submissions publicly available. However, if a person making a submission believes that information in the submission is confidential, that person should claim confidentiality in respect of the document (or the relevant part of the document) at the time the submission is given to the QCA and state the basis for the confidentiality claim.

The assessment of confidentiality claims will be made by the QCA in accordance with the *Queensland Competition Authority Act 1997*, including an assessment of whether disclosure of the information would damage the person's commercial activities and considerations of the public interest.

Claims for confidentiality should be clearly noted on the front page of the submission. The relevant sections of the submission should also be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two versions of the submission (i.e. a complete version and another excising confidential information) could be provided.

A confidentiality claim template is attached to this document (Appendix C). We encourage stakeholders to use this template when making confidentiality claims. The confidentiality claim template provides guidance on the type of information that would assist our assessment of claims for confidentiality.

Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at our Brisbane office, or on our website at www.qca.org.au. If you experience any difficulty gaining access to documents, please contact us on (07) 3222 0555.

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1 INTRODUCTION

The Queensland Government has directed the Queensland Competition Authority (QCA) to investigate Seqwater's bulk water pricing practices. The objective of the investigation is to recommend bulk water prices to apply from 1 July 2022 to 30 June 2026.

A referral notice to conduct the investigation was issued to the QCA under section 23 of the *Queensland Competition Authority Act 1997* (QCA Act).¹

The purpose of this information notice is to explain our general approach to the review, set out an indicative timeline, and provide information on how to make a submission.

1.1 Seqwater's bulk water supply activities

Seqwater is a government-owned statutory authority and monopoly supplier of bulk water to around three million people in south east Queensland.² Seqwater supplies treated bulk water to bulk supply points in eleven local government areas. The water is then delivered to households and businesses by the retailer or council servicing each area:

- Urban Utilities supplies the Brisbane, Ipswich, Lockyer Valley, Scenic Rim, and Somerset local government areas.
- Unitywater supplies the Moreton Bay, Sunshine Coast and Noosa local government areas.
- Logan City Council, Redland City Council and Gold Coast City Council each supply their local government area.

While Seqwater also supplies water to other customers, including to Toowoomba and Gympie regional councils, irrigation customers and power stations³, the services provided to these customers are outside the scope of our review.⁴

1.2 How Seqwater's prices are determined

Seqwater charges the retailers and councils for supplying bulk water, and the charges are passed through to households and businesses in water bills.⁵ Water bills also include charges for the other services provided by retailers, including distributing water to the customer, removing and treating sewage, providing billing services, and dealing with customer enquiries.

The government determines bulk water prices⁶, but it can ask the QCA to investigate Seqwater's pricing practices and recommend prices.⁷ This will be our third review of Seqwater's bulk water prices. We completed our first review in 2015 and our second review in 2018.⁸ The government

¹ A copy of the referral notice is provided in Appendix A.

² More information about Seqwater can be found on its [website](#).

³ Seqwater, *Annual Report 2019–20*, September 2020, p. 4.

⁴ We have previously been asked to review irrigation prices, with our most recent review completed in January 2020 (see our [website](#) for more information).

⁵ The bulk water component of a water bill must be shown separately as 'State bulk water price' (*South-East Queensland Water (Distribution and Retail) Restructuring Act 2009*, s. 99AV(4)).

⁶ Under section 360W of the *Water Act 2000* (Qld).

⁷ The government has 90 days to accept or reject our recommendations (QCA Act, s. 36(2)).

⁸ More information about these reviews is available on our [website](#).

determined bulk water prices that were consistent with our recommendations in each of those reviews.

1.3 Keeping updated on the review

For more information about our review, you can visit our [website](#) or contact us on 07 3222 0555.

To receive updates on our review, please register your details at www.qca.org.au/email-alerts.

2 SCOPE OF THE REVIEW

When we conduct our review, we will have regard to the terms of the referral and the matters we are required to consider in the QCA Act.⁹ The key aspects of our review are to:

- establish the revenue requirement, reflecting our assessment of Seqwater's prudent and efficient costs of operating under normal (non-drought) conditions and the amount of price path debt to be recovered
- assess Seqwater's demand forecasts and convert the revenue requirement into prices
- establish a 'drought allowance' that could be added to the prices that would apply under normal conditions and enable the recovery of additional costs of operating under drought conditions.

2.1 Establishing the revenue requirement

Under the referral, we have been asked to recommend prices that would provide Seqwater with sufficient revenue to recover the prudent and efficient costs of providing bulk water supply services under normal (non-drought) conditions and to repay price path debt by 2027–28.

Assessing Seqwater's proposed costs

In accordance with the referral, the costs that are relevant to our review are those associated with providing bulk water supply services, including catchment management, and the costs of providing activities related to recreation management and flood mitigation. We have been asked to only include costs that are prudent and efficient.

We will assess Seqwater's proposed operating and capital expenditure and expect that Seqwater will include detailed information on its proposed costs in its submission.

We have been asked to adopt specific approaches to estimate some of the cost components, including the methodology for forecasting inflation and the approach to determining the 'cost of debt' component of the rate of return.

To ensure that Seqwater does not recover its costs twice, we have also been asked to remove the costs of supplying declared irrigation services. In addition, the revenue Seqwater receives from other sources, including water sales to power stations and councils outside south east Queensland, is not to be included in revenue allowances.

Establishing the price path debt balance

Price path debt is the under-recovery that has accumulated from the difference between the costs of supplying bulk water and the revenue earned from selling bulk water.

Price path debt has accumulated because prices have not fully recovered costs for several years. This is due to a government policy decision to moderate the customer impacts of recovering the costs associated with significant investments made to increase water supply during the

⁹ See Appendix B.

millennium drought.¹⁰ Under the referral, we have been asked to recommend prices that continue a pathway to repay price path debt by 2028.

The price path debt also operates as a true-up mechanism to capture some differences between forecast and actual costs and revenue over the previous regulatory period. To establish the opening price path debt on 1 July 2022, we have been asked to make an end-of-period adjustment to the debt balance as of 1 July 2017.¹¹ The adjustment should be made to reflect (among other things) the prudent and efficient costs arising from review events¹², and differences between forecast and actual revenue.¹³

2.2 Converting the revenue requirement into prices

Under the referral, we have been asked to recommend a single common price for all customers and to smooth price changes over the regulatory period. We have also been asked to recommend prices that are fully volumetric, which means that customers would pay a price for each kilolitre of water consumed, and no fixed charge.¹⁴ This is consistent with Seqwater's current pricing arrangements.

To convert the revenue requirement into a price per kilolitre, we require a forecast of water demand. We have been asked to assess the appropriateness of Seqwater's demand forecasts, but to ensure any adjusted forecast remains within the range published in Seqwater's water security program.¹⁵

2.3 Determining a drought allowance

Under the referral, we have been asked to recommend a 'drought allowance' that could be added to the prices that would apply under normal conditions. The drought allowance is to remain constant in real terms for the duration of the regulatory period. The allowance is to provide for Seqwater to recover the additional prudent and efficient costs of operating under drought conditions¹⁶, including the costs of mobilising the desalination and recycled water plants.

¹⁰ These investments included the Gold Coast Desalination Plant, the Western Corridor Recycled Water Scheme, and major pipelines to connect water sources and transport water around the region (Seqwater, *Water for life, South East Queensland's Water Security Program 2016–2046*, version 2, March 2017, p. 19).

¹¹ As of 1 July 2017, the price path debt balance was approximately \$2.4 billion. See QCA, *Seqwater bulk water price review 2018–21*, [final report](#), March 2018, p. 73.

¹² Review events are defined events that are largely outside of Seqwater's control and that cause an increase or decrease in revenue or costs. They include changes in law or government policy and drought response. See QCA, *Seqwater bulk water price review 2018–21*, [final report](#), March 2018, pp. 80–81; QCA, *SEQ Bulk Water Price Path 2015–18*, [final report](#), March 2015, pp. 91–94.

¹³ Due to differences between forecast demand and actual demand.

¹⁴ However, customers may pay a fixed charge to recover the costs of the other services provided by their retailer.

¹⁵ Seqwater released the latest version of the water security program in March 2017. See Seqwater, *Water for life, South East Queensland's Water Security Program 2016–2046*, version 2, March 2017.

¹⁶ Under the referral, drought operating conditions are defined as operating at or below the 'drought response' trigger specified in the water security program, which is when the key bulk water storage levels drop to 60 per cent (see Seqwater, *Water for life, South East Queensland's Water Security Program 2016–2046*, version 2, March 2017, p. 10).

3 INFORMATION GATHERING

We expect that Seqwater will provide detailed information to support its proposal, which is due by 30 June 2021. We may also require additional information from Seqwater or other stakeholders to inform our assessment.

3.1 Information requests

An important part of our review will be assessing the prudence and efficiency of Seqwater's proposed costs (see section 2). This will involve assessing information provided in Seqwater's submission, and sourcing further information from Seqwater if required.

Where we identify the need for additional information, we will generally seek to informally request the information from Seqwater or other stakeholders, and explain why we require it. We will seek to minimise the burden imposed by these requests, by providing adequate notice of the date we require the information.

It is important that stakeholders provide us with the requested information on time, to give us sufficient time to assess the information and meet the review deadlines in the referral.

3.2 Formal requests under the QCA Act

While our preference is to gather relevant information through an informal process, there may be instances where we decide to issue a formal notice to request information, in accordance with section 185 of the QCA Act.

If we issue a notice under section 185, the person must comply with the notice. This may include producing a document or providing a statement setting out the required information.

4 NEXT STEPS

Based on the timing in the referral, we have developed an indicative timetable for the review. The next step will be to receive Seqwater's submission, which is due by 30 June 2021. We will publish the submission on our website as soon as possible after it is received.

Public involvement is an important part of our review process, and we invite all stakeholders, including members of the community, to participate in our review. Stakeholders are invited to make an initial submission by **13 August 2021**. There will be another opportunity to make a submission after we release our draft report later this year.

Table 1 Indicative timetable

<i>Step</i>	<i>Date</i>
Referral notice issued	16 June 2021
Notice of investigation and guidance paper published	18 June 2021
Seqwater's submission due	By 30 June 2021
Initial submissions from stakeholders due	13 August 2021
Draft report provided to the government	By 30 November 2021
Draft report published	Early December 2021
Submissions on the draft report due	31 January 2022
Final report provided to the government	By 31 March 2022
Final report published	Early April 2022
Government expected to determine prices	May/June 2022
New prices expected to take effect	1 July 2022

APPENDIX A: REFERRAL NOTICE

Note: The referral notice was issued by the Treasurer and Minister for Investment on 16 June 2021.

QUEENSLAND COMPETITION AUTHORITY ACT 1997

SECTION 23

MINISTER'S REFERRAL NOTICE

Referral

Pursuant to section 23(1) of the *Queensland Competition Authority Act 1997* (the Act), I refer the monopoly business activity of bulk water supply by the Queensland Bulk Water Supply Authority (Seqwater) in the local government areas listed below to the Queensland Competition Authority (the Authority) for an investigation about the pricing practices relating to that activity with the objective of recommending the State bulk water prices (Prices) for Seqwater in the following local government areas for the period of 1 July 2022 to 30 June 2026 (the Regulatory Period).

Brisbane	Logan	Scenic Rim
Gold Coast	Moreton Bay	Somerset
Ipswich	Noosa	Sunshine Coast
Lockyer Valley	Redland	

(A) Pursuant to section 24 of the Act, I direct the Authority to consider and make recommendations about the following matters as part of its investigation:

- 1) Recommend Prices for the Regulatory Period that allow Seqwater sufficient revenue to recover the prudent and efficient costs of providing bulk water supply services (defined as per (C)(4)) and repay Price Path Debt (as per (C)(11) and (C)(14)) by 2027-28 under normal operating conditions as per (C)(2).
- 2) Prices are to be consistent with the following:
 - (a) bulk water costs include, but are not limited to:
 - i. prudent and efficient capital expenditure and operating expenditure as per (C)(5);
 - ii. a return on assets (including working capital) using a rate of return as per (C)(10);
 - iii. an allowance for tax (where applicable);
 - iv. interest on Price Path Debt as per (C)(13);
 - v. depreciation calculated as per (C)(8);
 - vi. any costs detailed in Seqwater's bulk water supply agreements; and
 - vii. additional prudent and efficient operating and capital costs arising from Review Events (defined as per (C)(14))
 - (b) the regulated asset base (RAB) is to be established as per (C)(6) and subject to the opening RAB dictated by (C)(7);
 - (c) repayment of Price Path Debt by 2027-28;
 - (d) prices as per (C)(1);
 - (e) forecast demand as per (C)(2)-(C)(3); and
 - (f) the inflation forecasting methodology as per (C)(9).
- 3) Price Path Debt is to be calculated as per (C)(11)-(C)(13);
- 4) A Drought Allowance is to be calculated as per (C)(15)-(C)(17); and
- 5) The other matters as per (C)(18)-(C)(19).

(B) Timing

- 1) Pursuant to section 24 of the Act, I direct the Authority to provide to the Minister for Water and me:
 - (a) a Draft Report by 30 November 2021, following on a submission being made by Seqwater by 30 June 2021; and
 - (b) a Final Report by 31 March 2022.

A handwritten signature in blue ink, appearing to read 'Cameron Dick', with a long horizontal stroke extending to the right.

HON. CAMERON DICK MP

Treasurer and Minister for Investment

(C) DefinitionsPrice structure

- 1) The Authority is to recommend Prices that:
 - (a) are volumetric only with a single common price to apply for all SEQ council areas;
 - (b) are consistent with smoothing price changes over the Regulatory Period; and
 - (c) remain constant in real terms beyond the Regulatory Period until 2027-28.

Normal operating conditions and Forecast demand

- 2) For the purpose of recommending Prices, forecast demand is to be as provided by Seqwater for normal operating conditions and must be within the range (low-high) published in the SEQ Water Security Program.
- 3) The Authority can make adjustments to the normal operating conditions forecast demand to ensure it is appropriate for regulatory pricing purposes as long as any Authority adjusted forecast remains within the range (low-high) published in the SEQ Water Security Program.

Capital and Operating Expenditure

- 4) Capital and operating expenditure includes activities related to the provision of bulk water supply services (including catchment management) as well as activities related to recreation management and flood mitigation costs.
- 5) To assess capital and operating expenditure from 1 July 2022 to 30 June 2028, the Authority must:
 - (a) form a view on the prudence and efficiency of capital and operating expenditure, with the focus on cost areas which are material rather than matters which are likely to have a minor and inconsequential impact in total;
 - (b) to the extent that it is not practicable to form a view on the prudence and/or efficiency of aspects of capital expenditure (for example, because a project is not expected to be commissioned until later in the price path period), adopt an appropriate assessment approach; and
 - (c) have regard to the strategic and operational plans approved by the responsible Ministers under the South East Queensland Water (Restructuring) Act 2007.

RAB

- 6) The opening RAB as at 1 July 2017 is not to be optimised and the Authority is to accept the remaining lives as used by the Authority in the 2018-21 review.
- 7) To establish the opening RAB as at 1 July 2022, the Authority is to:
 - (a) assess actual capital expenditure from 1 July 2017 to 30 June 2022 (to the extent actual capital expenditure information is available) for prudence and efficiency. The review should focus on items that would have a material impact rather than matters which are likely to have a minor and inconsequential impact in total. Any findings of the Authority against the prudence and efficiency of projects sampled should not be extrapolated to un-sampled projects.

- (b) roll forward the RAB from 1 July 2017 to 30 June 2022, using actual capital expenditure, and forecast capital expenditure where actual expenditure is not available, adjusted for any findings as per (C)(7)(a); and
 - (c) adjust for depreciation and actual inflation over the period.
- 8) Depreciation is to be calculated using the straight-line method, reflecting the remaining useful life of the assets.

Forecast inflation

- 9) The forecast rate of inflation must be determined by the Authority using the 40-day average of the forward inflation rate for that year implied by traded zero-coupon Australian inflation swaps.

Rate of Return

- 10) In regard to the rate of return the Authority uses to recommend Prices, the following is to apply:
- (a) for assets (including working capital), a benchmark weighted average cost of capital (WACC) return, using a cost of equity as determined by the Authority for the equity component, and Seqwater's cost of debt as advised by Queensland Treasury Corporation (QTC) for the debt component; and
 - (b) if the cost of equity calculation determined by the Authority is lower than Seqwater's cost of debt, the rate of return applying to assets should be Seqwater's cost of debt as advised by QTC.

Price Path Debt

- 11) Price Path Debt is the accumulated under-recovery arising from the bulk water price path.
- 12) To establish the opening Price Path Debt as at 1 July 2022, the Authority is to make an end of period adjustment to the Price Path Debt as at 1 July 2017 based on:
- (a) an updated assessment of Maximum Allowable Revenue from 1 July 2017 to 30 June 2022 adjusting for the updated capital costs based on rolling forward the RAB as per item (C)(7);
 - (b) updating the rate of return and interest costs for the relevant actual cost of debt as advised by QTC;
 - (c) any prudent and efficient costs arising from Review Events as per (C)(14);
 - (d) any foregone revenue as a result of pricing amendments or decisions;
 - (e) Seqwater's actual revenue from 1 July 2017 to 30 June 2021 and forecast revenue for 1 July 2021 to 30 June 2022; and
 - (f) actual demand-related variable costs from 1 July 2017 to 30 June 2021 and forecast demand-related variable costs for 1 July 2021 to 30 June 2022.
- 13) Interest on Price Path Debt from 1 July 2022 is to be calculated by applying Seqwater's cost of debt as advised by QTC.

Review Events

- 14) Review Events are defined in accordance with the Authority's recommendations from the previous price review, as set out in its March 2018 report; with the Authority also to consider and make a recommendation on the appropriateness of future review events.

Drought Allowance

- 15) The Authority is to recommend a Drought Allowance that could be applied during the Regulatory Period, that is in addition to Prices under normal operating conditions as per (C)(1), and expected to provide Seqwater with total revenue sufficient to recover prudent and efficient costs associated with Drought operating conditions.
- 16) Drought operating conditions refers to a situation where Seqwater is operating at or below the 'Drought Response' trigger per the published SEQ Water Security Program for the length of the Regulatory Period.
- 17) The Drought Allowance is to:
- (a) include the incremental costs expected to be incurred during drought operating conditions including, but not limited to, costs associated with water conservation measures, and mobilisation of the Gold Coast Desalination Plant and the Western Corridor Recycled Water Scheme, with a focus on cost areas which are material rather than cost areas which are likely to have a minor and inconsequential impact in total;
 - (b) account for reduced forecast demand during drought operating conditions, noting that the Authority can make adjustments to the drought operating conditions forecast demand to ensure it is appropriate for regulatory pricing purposes as long as any Authority adjusted forecast remains at or above target demand consistent with medium level water restrictions as published in the Water Security Program (not including demand from power stations and Toowoomba Regional Council); and
 - (c) remain constant in real terms for the duration of the Regulatory Period.

Other Matters

- 18) Bulk water costs are to be offset by the below revenue streams, as advised from Seqwater:
- (a) revenue from the sale of water to power stations;
 - (b) revenue from other water sales;
 - (c) revenue from any other source, except revenue related to the hydroelectric power stations; and
 - (d) revenue as a result of pricing amendments or decisions.
- 19) Costs and revenues associated with Seqwater's declared irrigation services are to be excluded. The costs related to irrigation services are to be calculated consistent with the cost allocation approach adopted by the Authority in its review of Seqwater's irrigation price paths for 2020-24.

APPENDIX B: MATTERS IN SECTION 26 OF THE QCA ACT

Section 26 Matters to be considered by the QCA for investigation

- (1) In conducting an investigation under this division [Division 3, Part 3], the [QCA] must have regard to the following matters—
 - (a) the need for efficient resource allocation;
 - (b) the need to promote competition;
 - (c) the protection of consumers from abuses of monopoly power;
 - (d) in relation to the goods or services to which the monopoly business activity relates—
 - (i) the cost of providing the goods or services in an efficient way, having regard to relevant interstate and international benchmarks; and
 - (ii) the actual cost of providing the goods or services; and
 - (iii) the standard of the goods or services, including quality, reliability and safety;
 - (e) the appropriate rate of return on assets;
 - (f) the effect of inflation;
 - (g) the impact on the environment of prices charged by the government agency or other person carrying on the monopoly business activity;
 - (h) considerations of demand management;
 - (i) social welfare and equity considerations including community service obligations, the availability of goods and services to consumers and the social impact of pricing practices;
 - (j) the need for pricing practices not to discourage socially desirable investment or innovation by government agencies and persons carrying on non-government business activities;
 - (k) legislation and government policies relating to ecologically sustainable development;
 - (l) legislation and government policies relating to occupational health and safety and industrial relations;
 - (m) economic and regional development issues, including employment and investment growth;
 - (n) if the monopoly business activity is a government business activity—any directions given by the government to the government agency by which the monopoly business activity is carried on.
- (2) If the investigation relates to a monopoly business activity involving the supply of water, the [QCA] must have regard to water pricing determinations.
- (3) Subsections (1) and (2) do not limit the matters to which the [QCA] may have regard in conducting an investigation.

APPENDIX C: CONFIDENTIALITY CLAIM TEMPLATE

Name of claimant: _____

Document associated with the claim: _____

<i>Page(s) and paragraph(s)</i>	<i>Category of confidentiality</i>	<i>Basis for claim</i>	<i>Information as to why disclosure is not in the public interest</i>
Outline the relevant pages and paragraphs associated with your claim.	Outline which category of confidentiality is associated with your claim: <ul style="list-style-type: none"> (a) Market-sensitive cost inputs (b) Market or strategic knowledge (c) Intellectual property (d) Personal information (e) Other. 	Provide an explanation as to why the information falls within the selected confidentiality category and why the information is likely to damage your (or another party's) commercial activities if disclosed.	Provide any supporting information as to why it is not in the public interest to disclose the relevant information.