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13 August 2021

Mr Charles Millstead
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001
(<https://www.qca.org.au/submissions>)

Dear Mr Charles Millstead

Submission: Seqwater Bulk water price submission 2023–26

Urban Utilities welcomes the opportunity to make a submission to the Queensland Competition Authority (“QCA”) with respect to Seqwater’s Bulk Water Price Submission 2023-26.

Bulk water is Urban Utilities largest expense which, in 2020-21, represents approximately 40% of the average water bill for customers in our service area. Given this considerable impact on our customers, we believe it is important to ensure that the bulk water costs are transparent, and that prices charged by Seqwater in delivering its services represent only its prudent and efficient costs considering trade-offs.

In its current form, we note that the submission lacks sufficient detail for Urban Utilities to understand the true impact of bulk water costs on our customers during the 2023-26 review period. Based on the information available, the cost of bulk purchases will increase by significantly more than CPI. The likely impact of drought during this period will further escalate these costs with the application of an allowance that is not detailed in the submission.

At this initial stage, Urban Utilities request the QCA consider the following key matters when determining Seqwater’s bulk water price for 2023-26:

- a. Potential magnitude of bulk water price increases
- b. Tax allowance based on total income
- c. Seqwater’s requested recommendations to the Minister
- d. Timing of annual bulk water pricing announcement and application of drought allowance
- e. Proposed demand forecast
- f. A holistic approach to assessing investment decisions across the water sector

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Potential magnitude of bulk water price increases

The Seqwater submission does not currently include content on the drought allowance, nor costs associated with the operation of Luggage Point additional trains. Urban Utilities understands these will be provided later in 2021, and as such the submission does not include indicative bulk water prices and the consequential impact of the drought allowance on bulk water price in the period 2023-26.

Based on the information provided in the submission, Urban Utilities notes the forecast MAR, including the Price Path Debt repayment, increases by around 7% per annum for 2023-26. If translated directly into bulk water prices, this could result in annual bulk water price increases that are materially larger than CPI and the 3.5% increases previously applied in recent years. Given that Urban Utilities passes bulk water prices directly on to end-use customers, this will mean material annual bill increases to those customers, before any incremental drought allowance is applied. The application of the drought allowance, whilst not yet known, will put further upward pressure on end-use customers' bills for years in which it is applied. We note that customers continue to pay for the millennium drought assets through the bulk water price.

Urban Utilities seeks further clarification on how the operational and capital expenditure efficiencies realised by Seqwater in the 2018-21 regulatory period have been incorporated in the forecast operational and capital expenditure to better understand the drivers of bulk water price increases and how Seqwater has put downward pressure on these increases.

Urban Utilities understands the State Government will not be extending the Price Path Debt payment period beyond the current termination date of 2028. Whilst bulk water price outcomes for 2023-26 are not yet known, Urban Utilities remains concerned that this, together the impact of any future drought allowance, will put further upward pressure on bulk water charges over the period 2022-23 to 2027-28.

Urban Utilities continues to advocate for the extension of the repayment of the Seqwater Price Path Debt beyond 2028 using smoothed price paths and/or transitional arrangements where appropriate. In addition, Urban Utilities reiterates its strong preference for bulk water prices to remain fully volumetric beyond the 2023-26 period.

Tax allowance based on total income

Urban Utilities notes that Seqwater has proposed that the tax allowance for the 2023-26 regulatory period be determined using "total income", inclusive of revenue received to recover the Price Path Debt. Whilst Urban Utilities understands Seqwater's assertion that this approach is commercially sound and consistent with regulatory practice, Urban Utilities is concerned this will put upward pressure on bulk water pricing.

Seqwater's requested recommendations to the Minister

Urban Utilities supports the following recommendations made by Seqwater in its submission.

Urban Utilities supports Seqwater's recommendation that the Price Direction Notice allows Seqwater to provide a discount for concealed leaks in accordance with its concealed leaks remission policy, with the

foregone revenue to be recovered via bulk water charges. This would ensure alignment with Distributor-Retailers' existing concealed leaks policies and would result in better end-use customer outcomes for those customers impacted by concealed leaks.

Urban Utilities supports the prudent discount framework proposed by Seqwater and the request that future prudent discounts be approved by the Minister if they meet the recommended criteria. This would provide Distributor-Retailers and end-use customers with greater clarity and certainty on the criteria for future prudent bulk water price discounts. This is of relevance because higher bulk water price increases, if approved, will likely heighten the risk of prudent discounts being sought in the future. Urban Utilities would support a sector-wide approach for application of a broader discount framework to customers that meet agreed social value criteria together with Local and State Government objectives.

Urban Utilities supports Seqwater's recommendation that the end of period revenue true-up adjustment be made to the Price Path Debt at the end of the 2023-26 regulatory period. Whilst Urban Utilities recognises it is not possible to know the impact on the Price Path Debt at the end of the 2023-26 regulator period at this time, this recommendation will provide a greater degree of certainty in the future when bulk water prices beyond 2025-26 are being determined.

Timing of annual bulk water pricing announcement and application of Drought Allowance

The timing of both the annual bulk water price announcements and the application of the drought allowance is important for end use customers and Distributor-Retailers. Whilst Urban Utilities appreciates the annual approval of bulk water prices is at the discretion of the Treasurer and Minister for Investment, Urban Utilities would be supportive of QCA publishing indicative annual bulk water prices for the 2023-26 regulatory period, and for all price announcements to be made as early as possible in the financial year.

This approach is consistent with other regulated utilities and provides a degree of certainty for end-users and for Distributor-Retailers to update, test and deploy billing system changes in readiness for 1 July each year.

Urban Utilities notes that details on the drought allowance will be provided by Seqwater later in 2021. Whilst there is a degree of certainty from the Minister's Referral Notice that the drought allowance will not change in real terms during the 2023-26 period, it is not clear when Distributor-Retailers and end-users will be notified that the drought allowance will be applied (or removed) from the upcoming bulk water price change.

The application of the drought allowance represents an additional complexity for Distributor-Retailers. This is because bills will need to be changed to accommodate the drought allowance in any years when it is applied, and this takes longer to implement than a typical annual bulk water price change. Urban Utilities therefore requests that Seqwater's next submission outline how and when the decision to apply the drought allowance will be made to Distributor-Retailers and end-users. The strong preference is for the announcement of the application of the drought allowance to be made no later than 1 April each year.

Proposed demand forecast

Recognising the importance of the proposed demand forecast for optimising Seqwater's forward planning and subsequent prices, Urban Utilities considers there to be merit in bringing forward the publication of the proposed demand forecast earlier than the currently anticipated March 2022 timeframe.

A holistic approach to assessing investment decisions across the water sector

Urban Utilities seeks to identify a more comprehensive and integrated approach to assessing investment decisions that considers broader objectives including but not limited to social, economic, environmental and community benefit outcomes, together with optimising outcomes across the water sector to maximise benefits for customers, communities and the environment.

Nationwide, there is general acknowledgement in the water sector that the disconnect between jurisdictional planning responsibilities results in lost opportunities to fully integrate the urban water cycle and achieve the full suite of water security, public health, environmental and urban amenity outcomes that our communities seek. In uniting the sector through collaborative projects such as *Water for SEQ*, Seqwater and other Distributor-Retailers in our region are seeking to shape future strategic and operational decisions for the SEQ region with a whole-of-system, multidisciplinary approach that aims to optimise the entire urban water cycle across the delivery of water, wastewater and recycled water services.

Central to this work is transparency of the cost drivers for water and sewerage services, derivation of an integrated set of measures of success and an "all options on the table" approach to addressing the affordability and liveability challenges that the water sector will face into the future. Through this work the QCA can expect to see an aligned approach to delivering a price path that our communities will deem to be a true representation of value for the services on which they depend.

We look forward to reviewing the QCA's draft report in December 2021 and providing submissions where appropriate. Should you have any queries in relation to our initial submission please contact John Sorbello, Pricing Manager on 07 38556184 or john.sorbello@urbanutilities.com.au.

Yours sincerely



Ruth Coulson
Chief Financial Officer