

Date: 25 February 2014
Contact: Andre Kersting
Location: Nerang
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Your reference:
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COPY

CITY OF
GOLDCOAST.

Mr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Mr Roberts

South East Queensland Price Monitoring for 2013-15 Gold Coast Water – Draft Report

The Council of the City of Gold Coast (Council) appreciates the opportunity to respond to the Queensland Competition Authority's (QCA) Draft Report on *South East Queensland Price Monitoring 2013-15* (the Draft Report).

Council welcomes the QCA conclusion that "there is no evidence of an exercise of monopoly power". The report provides a number of recommendations with which Council concurs and will work towards implementing to achieve good industry practice. In particular, the recommendation that future pricing decisions consider the balance of revenues earned from water and sewerage services to avoid over-recoveries in either service will be further explored in conjunction with the Pricing Principles review currently being undertaken by the QCA.

Council would like to take this opportunity to address a number of issues raised within the QCA's Draft Report, as outlined in the attached submission.

Thank you for the opportunity to provide a response. Should you wish to discuss these issues further please do not hesitate to contact Mr Andre Kersting, Coordinator Pricing & Regulation on (07) 5582 9006 or Mrs Marilyn Hildebrandt, Acting Manager Commercial Performance on (07) 5582 8422.

Yours faithfully



Paul Heaton
Director
For the Chief Executive Officer
Council of the City of Gold Coast

City of Gold Coast Submission re:

SEQ Price Monitoring for 2013-15 Part B – Gold Coast Water

QCA Report Item 2.4: Other Bills

QCA recommends GCW consult with QCOSS and other stakeholders on a range of issues associated with billing and hardship. GCW has initiated a range of engagements to understand customer needs and is currently undertaking a residential customer survey to understand customer attitudes toward water and sewerage tariff structures, as part of its tariff review. QCOSS has a representative on the Project Reference Group which provides a peer review to the tariff project.

In addition, GCW has engaged with QCOSS on issues regarding hardship and billing and will continue to do so as part of its stakeholder engagement strategies.

As part of the long term regulatory framework review GCW suggests QCA coordinate with DEWS which is currently reviewing the SEQ Customer Service Code, to ensure clear direction for industry on matters associated with hardship and billing.

QCA Report Section 3: Demand

GCW is working towards a more sophisticated approach to demand forecasting involving a number of initiatives including the development of demand modelling. GCW accepts QCA's conclusions regarding its demand forecasts but has concerns with QCA's blanket approach to demand forecasting for SEQ which fails to consider local conditions.

GCW acknowledges that each entity has unique characteristics that drive demand. This can include varying approaches to demand management, climate variations across the region, age of infrastructure, customer profiles etc.

As part of the current work being undertaken on the *Long Term Regulatory Framework*, GCW suggests QCA consider local conditions specific to water entities consistent with the approach taken by regulators in other jurisdictions.

The Victorian Essential Services Commission considers a range of influences on demand, including:

- supply (including environmental conditions, inflows, restrictions and the effects of recent and upcoming supply augmentations)
- population and demographic changes
- general and local conditions, and prospects for economic development.¹

¹ Essential Services Commission 2013, Price Review 2013: Greater Metropolitan Water Businesses — Draft Decision, Volume I, April, page 142

City of Gold Coast Submission re:

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QCA Report Section 4: Capital Costs

Regulatory Asset Base (RAB)

GCW accepts the methodology proposed by QCA utilising capital expenditure in the *Allconnex Annual Report for July 2011 – September 2012* to ensure a common approach to the roll forward of the RAB between the three Councils (Logan, Redland and Gold Coast) for 2010-11 and 2011-12.

For the purposes of future regulatory reviews, GCW strongly urges QCA provide formal advice of opening RAB values for 1 July 2012 by product and asset class.

Policies and Procedures: Gateway Review

With regard to SKM's findings regarding the project management methodology, GCW reiterates its previous advice in response to SKM's draft report that the Director of GCW is the ultimate individual with single point accountability for all decisions made under delegated authority or recommendations made to Council from, or on behalf of, GCW.

The Director has chosen to convene both the Business Review Committee (BRC) and the Project Reference Group (PRG) to provide him with appropriate and relevant advice from staff at senior levels across all disciplines within the Directorate to assist him to make the best-informed decisions possible for the required business outcomes.

GCW considers this to be good practice as it ensure an holistic and well-informed approach to decision-making for the Directorate. It is also understood that GCW's Project Reference Group (PRG) plays a similar role to an Asset Management Committee, which is common practice for water utilities around Australia.

QCA Report Section 5: Operating Costs

Benchmarking

GCW submits that in order to provide a comparison with other SEQ entities' operating expenditure against other Australian water authorities, it is essential that bulk water costs are excluded. Benchmarking of operating expenditure should only focus on expenditure that is within the control of a water entity. GCW is unsure whether bulk water charges paid by SEQ water entities has been taken into consideration in the conclusions contained within the QCA report.

City of Gold Coast Submission re:

SEQ Price Monitoring for 2013-15 Part B – Gold Coast Water

Cost of Corporate Services

GCW accepts QCA's position regarding the SAP system cost increase being offset by efficiency gains through business process improvements, however questions the timing of efficiency realisation.

In line with the fundamental economic regulatory principle of allowing a return 'on' or 'of' investment to be realised only once an asset is fully commissioned, GCW suggests the same fundamental principle should be applied in terms of the \$1.3 million (m) efficiency offset to corporate costs.

Consistent with this approach GCW contends that an efficiency offset should only be assumed following the commissioning date of the new system. GCW proposes that the \$1.3m efficiency offset assumed for 2013-14 be removed as the new SAP system is not due for commissioning until May 2014.

It is prudent to assume efficiency gains will not be fully realised on the day of commissioning, given the nature of the project. To account for the lag effect, GCW proposes that 50 per cent (or \$650k) be offset as an efficiency gain for 2014-15.