

# Queensland Competition Authority

Draft Assessment

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## Transition to performance monitoring – Logan Water

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May 2014

We wish to acknowledge the contribution of the following staff to this report:

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## SUBMISSIONS

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Closing date for submissions: 30 June 2014

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 its assessment of water retailers' transition to annual performance monitoring. The QCA will take account of all submissions received.

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

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### Confidentiality

In the interests of transparency and to promote informed discussion, the QCA would prefer submissions to be made publicly available wherever this is reasonable. However, if a person making a submission does not want that submission to be public, that person should claim confidentiality in respect of the document (or any part of the document). Claims for confidentiality should be clearly noted on the front page of the submission and the relevant sections of the submission should be marked as confidential, so that the remainder of the document can be made publicly available. It would also be appreciated if two copies of each version of these submissions (i.e. the complete version and another excising confidential information) could be provided. Where it is unclear why a submission has been marked 'confidential', the status of the submission will be discussed with the person making the submission.

While the QCA will endeavour to identify and protect material claimed as confidential as well as exempt information and information disclosure of which would be contrary to the public interest (within the meaning of the *Right to Information Act 2009* (RTI)), it cannot guarantee that submissions will not be made publicly available.

### Public access to submissions

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

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## THE ROLE OF THE QCA – TASK, TIMING AND CONTACTS

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The Queensland Competition Authority (QCA) is an independent statutory authority to promote competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's primary role is to ensure that monopoly businesses operating in Queensland, particularly in the provision of key infrastructure, do not abuse their market power through unfair pricing or restrictive access arrangements.

In 2012, that role was expanded to allow the QCA to be directed to investigate, and report on, any matter relating to competition, industry, productivity or best practice regulation; and review and report on existing legislation.

### Task, timing and contacts

The QCA has conducted four price monitoring reviews of distribution-retail water providers in south east Queensland covering the pricing periods from July 2010 to June 2015.

On 28 June 2013, the QCA received a Ministerial Direction to investigate and develop a long-term regulatory framework (and pricing principles). The purpose of the review is to improve the regulatory framework and reduce the regulatory costs for water businesses – while providing protection to water users from monopoly power.

### Key dates

Ministerial Direction	28 June 2013
Position Paper - Regulatory Framework	24 February 2014
Position Paper - Pricing Principles	28 March 2014
Position Paper - Return on Capital	30 May 2014
Submissions due on Position Papers	30 June 2014
Submissions due on Draft Assessments (transition)	30 June 2014
Final Report	30 September 2014

### Contacts

Enquiries and registrations of interest regarding this project should be directed to:

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# 1 INTRODUCTION

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## 1.1 Purpose

This draft assessment outlines whether Logan Water should transition to light-handed long-term performance monitoring. The assessment is based on the information available to the QCA from its price monitoring investigations and the transition criteria outlined in the QCA's position paper on the *Long Term Regulatory Framework for SEQ Water Entities* (QCA 2014a).<sup>1</sup>

Comments are sought by **30 June 2014**. All submissions will be taken into account in the QCA's Final Report, due 30 September 2014.

## 1.2 Background

The Ministers have directed the QCA to investigate and report on a long-term regulatory framework for the monopoly distribution and retail water and sewerage activities of the five south east Queensland (SEQ) distributor-retailers (the retailers) — Unitywater, Queensland Urban Utilities (QUU), and the Logan, Redland and Gold Coast City Councils. If accepted, the framework would apply from 1 July 2015.

The overarching regulatory objective is to protect the long term interests of the users of SEQ water and sewerage services by ensuring the prices of these services reflect prudent and efficient costs, while promoting efficient investment in and the use of these services, having regard to service reliability, safety and security over the long term.

SEQ water retailers have been subject to different forms of price monitoring since 2008. Over 2010–13 the QCA annually reviewed the costs of water and sewerage services, monitored changes in prices and compared the retailers' revenues against the maximum allowable revenue (MAR). The maximum allowable revenue reflects the QCA's assessment of the activities' total prudent and efficient costs.

The Ministers required that the form of prices oversight should minimise the administrative burden on the retailers and facilitate a move to a more light-handed framework over time.

## 1.3 Transition to long-term framework

In its position paper, the QCA recommended a light-handed performance monitoring framework which 'tracks' retailers' performance against:

- (a) CPI-X and certain financial information
- (b) pricing principles
- (c) desired customer engagement practices
- (d) strategic approach to long term investment
- (e) service quality standards (including performance targets).

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<sup>1</sup> The QCA's Draft Position Paper *Long Term Regulatory Framework for SEQ Water Entities* is available from the QCA website. Comments on this paper are also due by 30 June 2014.

The QCA also recommended that depending on the outcome of the 2013-15 review, a transition to performance monitoring may be required. The length and nature of the transition may vary between retailers.

## 1.4 Criteria

The position paper outlined the criteria for an immediate transition to long-term performance monitoring as including:

- (a) absence of public interest or equity issues that may warrant regulatory review
- (b) regulated services are clearly defined and separated from non-regulated services
- (c) evidence that market power is not being exercised
- (d) absence of imminent material changes in circumstances or major infrastructure costs
- (e) demonstrated capacity to provide the required information accurately and on time, based on prior regulatory processes.

Performance in customer engagement, strategic planning for long term investment, service quality and application of pricing principles would also be relevant in assessing readiness.

It is also considered that water retailers may be required to provide additional information or resolve outstanding issues in the intervening period before commencement of annual performance monitoring from 1 July 2015.

### Where criteria are not met

Should a retailer be considered not ready to move to annual performance monitoring, the existing arrangements should continue until outstanding elements are addressed. This would require a further detailed review - for a one-year period (2015-16). The scope of the one-year review would depend on the nature of the outstanding issues.

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## 2 ASSESSMENT

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### 2.1 Introduction

The QCA has assessed Logan Water against the criteria using the outcomes of the 2013-15 investigation and information from publicly available sources.

### 2.2 Assessment against core criteria

#### 2.2.1 Public interest and equity

The criteria require that there be an absence of public interest or equity issues that may warrant regulatory review for a retailer to transition to long-term performance monitoring.

The QCA is not aware of any public interest or equity issues that would warrant regulatory review and prevent Logan Water from transitioning to long-term performance monitoring.

Logan Water provides a haemodialysis rebate which provides customers using haemodialysis machines at home with an allowance (at no charge) of 80 kilolitres per annum (although a case can be made for the provision of an additional volume).

The QCA is not aware of any changes to these arrangements.

The Department of Energy and Water Supply (DEWS) is undertaking a review of the Water and Sewerage Services Code for Small Customers in South East Queensland and will consider the water businesses' current policies (including hardship) in relation to supporting customers.

#### 2.2.2 Regulated services are defined

The criteria require that regulated services be clearly defined and separated from non-regulated services.

In the 2013-15 price monitoring review, the QCA requested retailers to list all regulated services, their tariffs and corresponding volumes and revenues. Logan Water complied with this requirement, providing the tariffs, volumes and revenues from its price setting process. Further, Logan Water provided a detailed price list for its services.

The QCA also requested retailers to exclude the revenues and costs of non-regulated services, with only the regulated revenues and costs falling under review. The retailers were also required to provide explanation of the basis of any allocations made to non-regulated services that would assist the QCA in its assessment of their submissions. Relevant definitions were as follows:

- (a) a non-regulated service was defined to mean a service provided by a retailer that is not required to satisfy any specified legal obligation or is provided by other service providers in a competitive market in which the business has no legal power to influence a customer's selection of the business as the service provider. For example, this could include laboratory services. Non-regulated services are not to be disaggregated between water and wastewater.
- (b) non-regulated revenue includes interest on investments, but not interest paid by customers on overdue accounts

In the 2013-15 review, the delineation between regulated and non-regulated services has not been specifically investigated by the QCA: non-regulated services have not been a material



segment of costs and revenues. The precise boundary of regulated and non-regulated services may change over time as the nature of relevant services and markets develops.

In its 2013-15 submission Logan Water (2013) submitted information on non-regulated services, costs, and revenues but not assets. Logan Water submitted that for the period 1 July 2013 to 30 June 2015:

- (a) non-regulated revenues are \$2.3 million, regulated revenues are \$371.8 million
- (b) non-regulated operating costs are \$3.2 million, regulated operating costs are \$214.2 million.

Overall, the QCA considers that regulated services are clearly defined and sufficiently separated from non-regulated services. The revenues and costs of non-regulated services are not material enough to warrant further investigation.

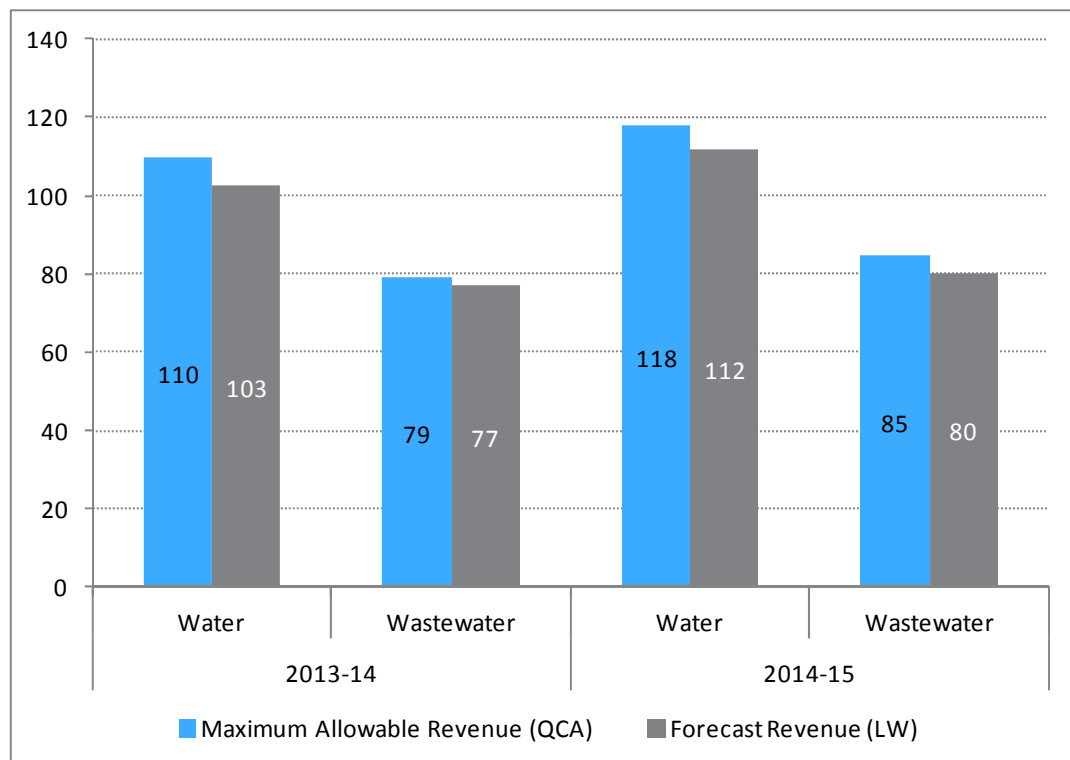
However, the QCA has not reviewed whether costs have been appropriately allocated between service categories. The QCA needs to be confident that prices reflect the cost of providing services. This is an issue to be addressed in assessing retailers' compliance with pricing principles.

### 2.2.3 Market power

The criteria require evidence that market power is not being exercised, that is, the opening cost base is efficient and further cost increases comply with the CPI-X mechanism (with above referenced qualifications) and service quality is in line with expectations.

In the 2013-15 review, the QCA did not find any evidence that Logan Water was exercising its monopoly power (QCA 2014b). Logan Water revenues have been below the QCA's estimated MAR (2013-15) (see Figure 1 below).

**Figure 1 Forecasts of Logan Water Costs (MAR) and Revenues (\$m)**



Source: QCA 2014.

It is noted that:

- (a) the QCA's estimates of total prudent and efficient costs (the MAR) was below Logan Water's estimate of total costs by 5.1% in 2013-14 and 6.1% in 2014-15. This was largely due to significantly lower estimates of Logan Water's tax liability (\$21.6 million). However, while differences exist, the QCA proposes to use its MAR as a basis for performance monitoring from 2015. Logan Water's revenues have been below the QCA MAR
- (b) Logan Water's capital expenditure proposal was reviewed by an independent consultant in the 2013-2015 review. Over 2013-15, the sample of capital projects subject to prudence and efficiency review was 25.9% of forecast capital expenditure (excluding contributed assets). Over 2013-15, the QCA's prudent and efficient capital expenditure was lower than estimated by Logan Water by 8.1%
- (c) the QCA starting regulated asset base (RAB) for 2013-15 is higher than Logan Water's for both water and sewerage assets. The difference arises due to the use of the QCA RAB as at 1 July 2010 and the use of actual data for 2010-12 from the most recent Allconnex Annual Report. The QCA closing RAB as at 30 June 2015 was (1.87%) above that estimated by Logan Water
- (d) non-bulk operating expenditure was also reviewed by an independent consultant in the 2013-15 review. The QCA's estimate of prudent and efficient non-bulk operating expenditure was lower than Logan Water by 18.2% and 18.7% in 2013-14 and 2014-15 respectively due largely to a difference in the allowance for tax (-\$21.6 million) (QCA 2014b).

Although the QCA found material reductions in capital and operating costs, Logan Water's revenue remained below the QCA's estimated MAR. Overall, there is no evidence to suggest that market power is being exercised.

#### 2.2.4 Imminent change in circumstances

The criteria require that there is an absence of imminent material changes in circumstances or major infrastructure costs.

Logan Water's cost information requested for the 2013-15 review did not provide information on post 2015 costs. Bulk water prices until 2017-18 are publicly available on the DEWS website.

The QCA is not aware of any imminent material changes in circumstances or major infrastructure costs that would impede Logan Water's transition to the long-term framework.

#### 2.2.5 Information provision

The criteria require that there is demonstrated capacity to provide information accurately and on time.

To date, Logan Water has provided all submissions to price monitoring accurately and on time. Logan Water has responded to further requests for information in a reasonable timeframe.

The QCA considers there is demonstrated capacity to provide information accurately and on time.

#### 2.2.6 Summary of assessment against core criteria

On the basis of the above assessment, Logan Water meets the core criteria for moving to the light-handed performance monitoring framework.

## 2.3 Assessment against other criteria

### 2.3.1 Introduction

The position paper noted that performance in customer engagement, strategic planning for long term investment, service quality and pricing principles are relevant to the assessment. Only a partial assessment can be made in relation to many of these criteria, as some were not monitored in the past and complete information is not readily available.

The QCA has sought to identify whether there is any information on these criteria that would delay or impede transition by assessing the entities' performance to date and predisposition to further improvement. To assist entities improve their performance, areas of potential improvement that would be expected to be addressed in subsequent annual performance monitoring are identified.

### 2.3.2 Customer engagement

#### Excerpt of draft recommendations in position paper

- 5.1 Each SEQ entity, in consultation with its customers, develop a strategy for customer engagement based on best practice principles.**
- 5.2 Customer engagement should:**
  - (a) promote understanding of customer's needs and be representative and responsive of customer views**
  - (b) be relevant, evidence based, open and transparent, timely, collaborative, and cost-effective.**
- 5.3 The customer engagement strategy should include a customer consultation committee.**
- 5.4 SEQ entities submit by 31 October 2015 an initial statement of their customer engagement strategy.**
- 5.5 The QCA will assess these customer engagement strategies and provide, where appropriate, advice to entities on possible improvements to ensure best practice.**

Logan Water does not have a customer engagement framework specifically for water. Logan City Council (LCC) may discuss water issues as part of its general customer engagement if needed. Logan Water does not have a customer consultation committee.

LCC has a customer charter and standards of service, with the latter defining targets for compliance, unplanned interruptions, customer complaints, and response times. In the 2013-15 review, the QCA noted that LCC is developing a Customer Service Excellence Plan which is expected to go to Council for approval in June 2014.

The QCA considers that based on available information Logan Water's activities incorporate many of the desired attributes of effective customer engagement.

Accordingly, current performance should not impede Logan Water moving to light-handed annual performance monitoring.

Logan Water will be required to provide more information on customer engagement practices as part of annual performance monitoring.

### 2.3.3 Strategic planning for long term investment

#### Excerpt of draft recommendations in position paper

- 6.1 The council water businesses be subject to the same legislative and regulatory planning requirements as the DRs.**
- 6.2 Entities should provide evidence of board/council approval and Ministerial endorsement of their relevant Water Netserv Plans to the QCA.**
- 6.3 Entities annually report to QCA on their annual capital works plans or annual performance plans.**
- 6.4 Annual updates to Water Netserv Plans also be submitted.**
- 6.5 SEQ entities provide to the QCA annually, details of their compliance with the asset management standard they have implemented and report on progress in addressing areas of improvement to achieve good industry practice.**
- 6.6 Should a cost of service review be triggered, the QCA assess entities asset management practices against PAS-55.**
- 6.7 Entities report on the project evaluation practices used for significant capex projects.**
- 6.8 Entities submit details of project evaluation, including options analysis and risk analysis, for up to the six largest capex items, where required as part of a request for further information.**

In the 2013-15 price monitoring review, the QCA made adjustments to three of Logan Water's capital expenditure projects, based on its consultant SKM's advice following their detailed review of six sampled projects. However, the overall reduction of \$14.87 million was mostly due to two projects being deferred until after the conclusion of the 2013-15 period.

SKM also reviewed Logan Water's policies and procedures for capital expenditure, including in its Water Netserv Plan as endorsed by the Planning Minister for consistency with the SEQ Regional Plan. A summary of SKM's findings are provided in Table 1.

**Table 1 Capital expenditure policies and procedures**

<i>Criteria</i>	<i>Findings</i>
Standardised approach to cost estimating	Logan Water applied cost estimating approaches for capital projects which were consistent with good industry practice.
Gateway review	Logan Water's gateway processes were consistent with good industry practice.
Detailed analysis of options for major projects	Logan Water has processes in place which provide for detailed analysis of options for major projects.
Commissioned capital expenditure from 1 July 2010 in the RAB	Logan Water did not report capital expenditure for 2010-12. Logan Water did report on capital expenditure for 2012-13 as part of its 2013-15 submission (Logan Water 2013). The QCA adopted data from the Allconnex Annual Report for July 2011 - September 2012 to populate capital expenditure on an as-commissioned basis from 2010-12.
Compliance	Logan Water's capital expenditure policies and procedures met the compliance requirement and were robust.
Considers regional perspective	<p>Logan Water participates in the SEQ Water Service Provider Partnership, SEQ Operations Committee, and SEQ Strategy and Planning Committee.</p> <p>Logan Water's capital expenditure documents included provisions to address regional requirements at key decision points.</p> <p>While Logan Water is committed to participating in regional initiatives, the QCA considers that the realisation of benefits due to a regional perspective should be captured and reported, to demonstrate regional efficiencies are being pursued and achieved.</p>
Asset management system	<p>SKM identified a range of issues with Logan Water's asset management system. For example, asset management training was not included in the asset management documentation and requirements for (i) implementation of asset management plans, (ii) performance assessment and improvement, and (iii) management review, were partially addressed. Accordingly, SKM concluded that Logan Water's asset management system was not in keeping with good industry practice and was not robust.</p> <p>SKM also reported, however, that Logan Water's Asset and Services Management Plan outlines a number (14) of tasks to improve asset management in the water business. Logan Water advised that the improvement program is being progressively implemented; consultants have been engaged to assist Logan Water with a number of the tasks.</p>
Procurement	Logan Water's procurement is conducted in accordance with legislative requirements of the respective local governments.

Source: SKM (2014) and QCA (2014b).

SKM found that Logan Water's asset management systems were not always consistent with good industry practice but Logan Water was generally aware of, and plans to address, these issues.

The QCA concludes that, based on available information, there are no material shortcomings in Logan Water's performance in its planning for long term investment that would impede its moving to light-handed annual performance monitoring.

The QCA proposes to seek evidence that the issues raised by SKM (Table 1) are being progressed as part of future performance monitoring.

### 2.3.4 Service quality

The position paper recommended 38 service quality indicators to be used as a basis for initial service quality reporting: 8 on baseline information, 13 on water and sewerage reliability and service, 4 on water quality, 5 on water consumption, recycling and reuse, 4 on customer responsiveness and service, and 4 on the environment.

These indicators were released after the price monitoring reviews from 2010-15 were finalised. Therefore, the price monitoring reviews to date have not investigated Logan Water's service quality against these principles and have not requested relevant information to do so.

However, a preliminary assessment can be made based on information that is publicly available.

Logan Water's water and wastewater customer charter and service standards outline its commitments, responsibilities and standards for water and sewerage services. Based on these, Logan Water has identified eight performance criteria with 21 key measures in relation to service quality, as shown in Table 2. It is noted that Logan Water's annual performance reporting includes financial management and other indicators that are not related to service quality standards.

**Table 2 Logan Water Key Performance Criteria**

Performance criteria	Measure	Target 13-14
Safety	LTIFR (Lost time injury frequency rate)	<10
Financial sustainability	EBIT (excluding capital adjustments) against budget Total Opex	Within + or -5% of estimated budget Within + or -10% of estimated budget
Drinking Water Quality Management	# of water quality complaints per 1000 properties % compliance with drinking water quality aesthetic parameters (based on National Health and Medical Research Council - NHMRC - guidelines) % compliance with drinking water quality health related guidelines (based on NHMRC guidelines) % compliance with NHMRC microbiological guidelines	<7 90% 98% 98%
Environmental Management	Compliance with Department of Environment and Heritage Protection (DEHP) licences (# of Infringement notices received) Notifiable wastewater overflows reported to DEHP per 100KM main Compliance testing (% of wastewater analysis results within sample limits ) <sup>1</sup> % notification of major incidents to DEHP (within 24 hours)	0 <1 90% 100%
Leakage Management	Real losses (System water loss) (litres per service connection per day)	<95
Network Operations and Maintenance Management	Number of wastewater reticulation main breaks and chokes per 100 km of main  No of connections experiencing unplanned interruptions per 1000 properties Average duration of water supply unplanned interruptions (time for restoration) Water main breaks (# per 100 km of main)	<16  <100 <3.5 hours <20
	Number of property connection wastewater breaks and chokes per 1000 properties	<3
Network Operations and Maintenance Management (continued)	Average sewerage interruption  Number of dry weather overflows per 1000 properties Number of wastewater odour complaints per 1000 properties	<5 hours  <5 <3
Program Delivery	% of capital program delivered to budget  % planning program delivered to budget	80%  +/- 10%

Source: Logan City Council 2013.

While some of the Logan Water's measures overlap with some of those identified by the QCA for performance reporting, some of the precise indicators and measures differ. Logan Water's existing measures represent 10 of the QCA's list of 38 recommended indicators.

Therefore, 28 additional indicators are recommended by the QCA. Many of these are captured in the National Water Commission (NWC) performance reporting process, in which Logan Water participates. In 2012-13, Logan Water's performance in key water and sewerage network reliability and customer service indicators compared favourably to water utilities in the 100,000+ connections category, although Logan Water has not reported against all indicators (NWC 2014).

There is therefore some evidence that Logan Water is monitoring and publicly reporting on its service quality.

The QCA has not previously monitored service quality performance and Logan Water has not been required to report against all of the QCA's indicators.

Having regard to Logan Water's commitment to service quality performance monitoring, the QCA considers that the identified shortcomings should not impede Logan Water moving to light-handed annual performance monitoring.

However, the QCA proposes that Logan Water will be required to report against the full range of indicators as part of the light handed framework. Logan Water should also participate in national performance reporting of all key network reliability and customer service indicators.

### 2.3.5 Pricing principles

The QCA position paper SEQ Long Term Regulatory Framework - Pricing Principles (QCA 2014c) recommended pricing principles to apply to urban water, sewerage, trade waste, recycled water and stormwater reuse.

These principles were released after the price monitoring reviews from 2013-15 were finalised. Therefore, the price monitoring reviews to date have not investigated Logan Water's prices against these principles and have not requested relevant information to do so.

The QCA has not previously reviewed Logan Water's pricing practices and there is insufficient available information in many instances to allow a detailed assessment (see Table 3).

Pricing is important both to ensure customers are aware of the implications of their consumption and to allow Logan Water to manage its risks.

Nevertheless, previous detailed price monitoring has not required adherence to the proposed pricing principles. It would therefore seem inappropriate to impede Logan Water from moving to more light handed performance monitoring.

The QCA notes that for all retailers this is considered a priority issue for attention.



**Table 3 General pricing objectives and principles**

		<i>Draft Recommendations - Logan Water Assessment</i>
Pricing objectives	1.1	<p>That pricing of urban water, sewerage, trade waste, recycled water and stormwater re-use services provided by SEQ entities:</p> <p>(a) promotes economic efficiency</p> <p>(b) ensures revenue adequacy</p> <p>(c) takes account of the public interest (including fairness and equity)</p> <p>(d) is transparent, predictable, simple and cost-effective to apply.</p> <p><i>Comment: Insufficient information for assessment. Past price monitoring has adopted annual water and sewerage cost/revenue comparisons. Prices generally based on legacy council pricing with some harmonisation and generic price increases.</i></p>
Pricing Principles	1.2	<p>Entities initially establish that the pricing principles are being applied and subsequently advise of any departures, the reasons for the departure and provide relevant supporting analysis.</p> <p><i>Comment: Insufficient information for assessment. Past price monitoring has adopted annual water and sewerage cost/revenue comparisons.</i></p>
	1.3	<p>Pricing reflects marginal cost, together with a two part tariff where necessary to achieve revenue adequacy.</p> <p><i>Comment: Insufficient information for assessment. Logan Water has a two-part tariff.</i></p>
	1.4	<p>Prices be set between incremental (marginal) cost and stand-alone cost.</p> <p><i>Comment: Insufficient information for assessment.</i></p>
	1.5	<p>Prices reflect the long run marginal cost (LRMC) of providing a particular service.</p> <p><i>Comment: Insufficient information for assessment.</i></p>
	1.6	<p>Prices reflecting short run marginal cost (SRMC) be considered when SRMC for a particular period significantly exceeds the LRMC (estimated for a longer period) for a particular service. This is sometimes referred to as scarcity charging.</p> <p><i>Comment: Insufficient information for assessment. Bulk water prices are set by the Queensland Government (not Logan Water) and do not vary with supply constraints.</i></p>
	1.7	<p>LRMC be estimated on the basis of the perturbation or AIC method.</p> <p><i>Comment: Insufficient information for assessment.</i></p>

**Table 4 Application of pricing principles**

<i>Chapter</i>	<i>Topic</i>	<i>No</i>	<i>Draft Recommendation - Logan Water Assessment</i>
Urban Water	Demand forecasting	2.1	Long term forecasts used for capital planning be based on SEQ Water Strategy forecasts. <i>Comment: Logan Water uses projected population and estimated consumption. Capital planning employs the parameters in the SEQ Design and Construction Code.</i>
		2.2	Short term demand forecasts be based on estimated water use per customer/connection and population forecasts (number of connections) and take account of any bounce-back effect as well as local circumstances. <i>Comment: Logan Water has broadly applied this principle in setting water prices, as noted in 2013-15 price monitoring report.</i>
		2.3	Demand forecasting practices and alternative models (including demand elasticities) be reviewed by a working group including the entities, QCA and other relevant parties. <i>Comment: Insufficient information for assessment.</i>
	Volumetric charges	2.4	The volumetric charge for urban water services should reflect LRMC. <i>Comment: Insufficient information for assessment. Past price monitoring has adopted annual water and sewerage cost/revenue comparisons.</i>
		2.5	Where prices exceed average costs, short-term over-recovery of revenues be addressed by ex-post rebates with adjustments made to the fixed charge. <i>Comment: Insufficient information for assessment. Past price monitoring has adopted annual water and sewerage cost/revenue comparisons.</i>
	Fixed charges	2.6	Fixed charges be set to recover the maximum allowable revenue (MAR) not covered by the volumetric charge. <i>Comment: Insufficient information for assessment. Fixed water charges vary by meter size for residential and non-residential connections.</i>
		2.7	Charges not encourage customers to bypass or disconnect from the network. <i>Comment: No information to indicate customers are seeking to bypass or disconnect from Logan Water's network. Past price monitoring has not investigated cost allocation, including to customer types.</i>
	Inclining and declining block tariffs	2.8	Inclining and declining block tariffs not be introduced, and where they are in place be phased out over time to a single volumetric charge. <i>Comment: Logan Water does not apply inclining block tariffs and charges the same volumetric tariff to residential and non-residential customers.</i>
	Location-based or nodal pricing	2.9	Location-based charges for urban water services be applied where the location cost differences are material and where it is practical and cost effective. <i>Comment: Logan Water has harmonised prices across previous council areas and does not apply nodal pricing.</i>

<b>Chapter</b>	<b>Topic</b>	<b>No</b>	<b>Draft Recommendation - Logan Water Assessment</b>
	Peak period and seasonal charges	2.10	Time of day or seasonal charges be considered for urban water services where there are identified economic efficiency benefits and where practical and cost effective. <i>Comment: Logan Water has no time of day or seasonal charges.</i>
	Self-selecting tariffs	2.11	Self-selecting tariff options be considered where there is sufficient information for customers to make choices, provided they do not result in cross-subsidies or introduce unmanageable revenue risks for the entity. <i>Comment: Logan Water does not offer self-selecting tariff options.</i>
	Service quality differentials and interruptible tariffs	2.12	Price/service quality tariff options are supported, where material cost differentials are associated with different levels of service. <i>Comment: Logan Water does not have any service quality differentials and interruptible tariffs.</i>
	Metering and billing arrangements	2.13	Individual metering of flats and units be adopted where economic and practical. <i>Comment: As of 1 Jan 2008 all new unit/apartment complexes are required to be fitted with individual meters per dwelling.</i> <i>For existing complexes, water consumption charges are based on the lot entitlement, which is determined at the time the plan is registered.</i>
		2.14	Where water is separately metered, and where practical, tenants be billed the fixed and variable charges for water and sewerage. <i>Comment: Landlords are entitled to pass the volumetric proportion of a bill to a tenant provided the premises are individually metered and meet water efficiency standards.</i>
		2.15	Customers with unmetered connections be charged a deemed amount for usage, reflecting average use for similar property types. <i>Comment: Insufficient information for assessment. No published tariff for unmetered connections.</i>
		2.16	Customers with unmetered connections be given the option of paying for meter installation. <i>Comment: Insufficient information for assessment. No published tariff for unmetered connections.</i>
		2.17	For vacant land where water and services are available for connection, the water access charge that applies to connected properties (the relevant domestic or commercial charge) be applied. <i>Comment: Logan Water charges vacant land the base connection water access charge and a slightly lower sewerage access charge than applies to connected properties.</i>

<b>Chapter</b>	<b>Topic</b>	<b>No</b>	<b>Draft Recommendation - Logan Water Assessment</b>
		2.18	<p>Concessions and rebates:</p> <p>(a) reflect a consistent approach between the entities</p> <p>(b) be set to apply to either the fixed charge or as a total direct adjustment to the gross invoice amount</p> <p>(c) be capped so as not to subsidise discretionary use</p> <p>(d) be transparent with acknowledgement of the source of, and purpose for, particular concessions/rebates.-</p> <p><i>Comment: Logan Water implements Qld Government Pension subsidy under which pensioners can receive a subsidy of up to \$120 (maximum) each year off the cost of water access and usage charges. The pensioner subsidy is applied as a direct adjustment to the total bill.</i></p> <p><i>Logan Water provides a haemodialysis rebate which provides customers using haemodialysis machines at home with an allowance (at no charge) of 80 kilolitres per annum (although a case can be made for the provision of an additional volume).</i></p>
		2.19	<p>Concessions associated with excess water use caused by leaks, be determined by the entities in consultation with customers.</p> <p><i>Comment: Logan Water has a concealed leak policy which provides remissions up to 50% of the consumption<sup>2</sup> charge where property owners have provided evidence of the existence of such a concealed leak.</i></p>
		2.20	<p>Hardship arrangements be consistent with legislative or operating requirements and avoid cross-subsidies where practical.</p> <p><i>Comment: Logan Water's customers services charter states that customers that cannot pay their bills should contact council as soon as possible to discuss payment options,<sup>3</sup> as noted in 2013-15 price monitoring. DEWS is undertaking a review of the SEQ Customer Code and will consider the water businesses' policies (including hardship) in relation to supporting customers.</i></p>
		2.21	<p>Meter-reading and billing be undertaken at least quarterly.</p> <p><i>Comment: Logan Water applies quarterly billing.</i></p>
	Tradeable water entitlements	2.22	<p>Tradeable urban water entitlements be considered only where the efficiency gains are sufficient to justify the administration and transactions costs.</p> <p><i>Comment: No tradeable urban water entitlements.</i></p>
Sewerage	Demand forecasting	3.1	<p>Demand for sewerage services be based on forecast growth in connections, linked to population growth.</p> <p><i>Comment: Logan Water has broadly applied this principle in setting sewerage prices, as noted in past price monitoring reports.</i></p>

<sup>2</sup> <http://www.logan.qld.gov.au/environment-water-and-waste/water/home-users/water-leaks-or-faults>

<sup>3</sup> [http://www.logan.qld.gov.au/\\_\\_data/assets/pdf\\_file/0005/98060/Water-and-Wastewater-Customer-Charter.pdf](http://www.logan.qld.gov.au/__data/assets/pdf_file/0005/98060/Water-and-Wastewater-Customer-Charter.pdf)

<b>Chapter</b>	<b>Topic</b>	<b>No</b>	<b>Draft Recommendation - Logan Water Assessment</b>
	Efficient pricing	3.2	<p>For residential customers:</p> <p>(a) sewerage charges generally be based on a single part tariff with a fixed charge per customer or connection</p> <p>(b) volumetric charges (based on discharge factors) be applied where the LPMC is significant and should be based on discharge or return factors linked to the LPMC of providing the water volumes.</p> <p><i>Comment: Logan Water applies a single part sewerage tariff with a fixed charge per connection for single self contained dwellings. Multiple residential dwellings are charged fixed charge per pedestal/urinal.</i></p>
		3.3	<p>For non-residential customers:</p> <p>(a) fixed sewerage charges be based on the impact of the customer on the system. In the absence of direct metering, water connection size is considered a reasonable proxy</p> <p>(b) if appropriate, volumetric charges be applied based on relevant discharge factors established by customer type. Customers should be able to negotiate a variation in the discharge factor.</p> <p><i>Comment: Non-residential customers of Logan Water pay the same fixed charge as residential customers with an additional (smaller) charge per additional pedestal/urinal.</i></p>
		3.4	<p>Nodal pricing for sewerage services be applied where cost effective.</p> <p><i>Comment: Logan water does not apply nodal price to sewerage services.</i></p>
Trade Waste	Demand forecasting	4.1	<p>Where the customer base changes in line with growth, trend information be used to provide reasonable forecasts of demand for trade waste services.</p> <p><i>Comment: Insufficient information for assessment.</i></p>
		4.2	<p>Entities consult with large customers to monitor any step changes in demand for trade waste services.</p> <p><i>Comment: Insufficient information for assessment.</i></p>
	Efficient pricing	4.3	<p>Trade waste prices be based on the impactor pays principle.</p> <p><i>Comment: Insufficient information for assessment.</i></p>
		4.4	<p>Charges be based on the LPMC of transport, treatment and disposal of trade waste, with variable charges based on volume and contaminant load.</p> <p><i>Comment: Logan Water charges based on three customer categories based on their assumed strength and volume of trade waste. There is a fixed base charge plus a volumetric charge based on contaminant load for some categories of customer.</i></p>
		4.5	<p>Specific charges for the management of trade waste services (inspection and monitoring) be applied on a cost reflective basis.</p> <p><i>Comment: Insufficient information for assessment.</i></p>
		4.6	<p>Charges be differentiated according to customer type and risk factors, and by location (as part of risk assessments) if considered cost effective.</p> <p><i>Comment: Logan Water charges based on three customer categories based on their assumed strength and volume of trade waste. There is a fixed base charge plus a volumetric charge based on contaminant load for some categories of customer.</i></p>

<b>Chapter</b>	<b>Topic</b>	<b>No</b>	<b>Draft Recommendation - Logan Water Assessment</b>
	Compliance	4.7	Consistent with regulations, entities to apply penalty charges for non-compliance and recover costs associated with breaches. <i>Comment: Logan Water relies on penalty units outlined in the Water Supply (Safety and Reliability) Act 2008.</i>
Recycled Water	Efficient pricing	5.1	The revenue requirement for recycled water services be based on the total additional cost of recycling less avoided costs and less developer contributions. <i>Comment: Insufficient information for assessment.</i>
		5.2	Direct and avoidable costs be allocated between relevant parties on a beneficiary pays basis. <i>Comment: Insufficient information for assessment.</i>
		5.3	Recycled water volumetric prices be based on LRMC for the established recycled water scheme where possible, based on marginal operating costs less marginal avoided costs. Where the volumetric charge is then higher than the potable water volumetric charge, it may be necessary to reflect demand sensitivities to ensure demand clears supply. <i>Comment: Insufficient information for assessment. Logan Water charges \$1.12/kl for the sale of recycled water, this is below the bulk water charge of \$2.628/kl. A \$55 charge is also levied for a water tag - Beenleigh.</i>
		5.4	If still required to ensure revenue adequacy, fixed charges in a two-part tariff should be set to recover remaining revenues, also subject to willingness to pay. <i>Comment: Insufficient information for assessment.</i>
		5.5	If the revenue requirement is still not achievable, unrecovered amounts should be allocated to potable and sewerage charges in proportion to avoided cost allocations. <i>Comment: Insufficient information for assessment.</i>
		5.6	Charges to be periodically reviewed, as customer acceptance increases. <i>Comment: Insufficient information for assessment.</i>
	Sewer mining	5.7	Charges for sewer mining be set on a case-by-case basis to reflect relevant direct costs, a share of sewerage system common costs, service costs for any returns, less avoided costs. <i>Comment: No sewer mining takes place in Logan.</i>
Stormwater Reuse		6.1	Stormwater reuse pricing be subject to the same pricing principles as recycled water. <i>Comment: Logan Water does not provide stormwater re-use services.</i>
Stormwater drainage		6.2	Rate-based charges continue to be used for recovery of stormwater drainage costs. <i>Comment: Stormwater drainage charges are incorporated in Logan City Council general rates.</i>
		6.3	Charges pertaining to stormwater drainage are to be transparently identified on customer bills. <i>Comment: Insufficient information for assessment.</i>

<b>Chapter</b>	<b>Topic</b>	<b>No</b>	<b>Draft Recommendation - Logan Water Assessment</b>
Industry-wide issues	Externality pricing	7.1	The inclusion of externality prices be supported where material impacts can be valued accurately and cost effectively. <i>Comment: Insufficient information for assessment.</i>
		7.2	Prices incorporating estimates of externalities avoid duplication with other mechanisms and be transparent. <i>Comment: Insufficient information for assessment.</i>
		7.3	Licences and market mechanisms (where practical) be considered by Government where the benefits are considered to justify the costs. <i>Comment: Insufficient information for assessment.</i>
	Third party access	7.4	Third party access prices be based on the cost of service methodology, and take account of relevant joint or common costs. Any departure from this methodology (such as applying the retail minus methodology) is to be justified. <i>Comment: Insufficient information for assessment.</i>
		7.5	Where retail prices are averaged across user groups (postage stamp tariffs) an adjustment apply to ensure that access prices do not result in increased costs of service delivery for remaining customers. <i>Comment: Insufficient information for assessment.</i>
	Cost allocation	7.6	Common costs be allocated to services and customers on the basis of a causal relationship between the costs incurred and the water, sewerage, recycled water or other service performed. <i>Comment: Insufficient information for assessment. Cost allocation not yet reviewed.</i>
		7.7	If a causal relationship cannot be established between costs incurred and the relevant service, a reasonable cost allocator needs to be established. <i>Comment: Insufficient information for assessment.</i>
	Price paths	7.8	Price paths be applied where there are substantial price increases, having regard to customers' ability to pay and the impacts on the service provider's financial viability. <i>Comment: Logan Water has not published a future price path.</i>
		7.9	Price paths be set on a revenue neutral basis. <i>Comment: Logan Water has not published a future price path.</i>

Source: QCA 2014c.

## 2.4 Conclusions

On the basis of its assessment against core criteria (see Table 5), the QCA considers Logan Water should transition to long-term annual performance monitoring as from 1 July 2015.

It is also noted that apart from the application of proposed pricing principles (where a detailed assessment has yet to be undertaken), Logan Water has showed a commitment to and performed well against other elements of the proposed performance monitoring framework.

Potential areas of improvement with respect to non-core criteria are identified in Table 5.

**Table 5 Summary of draft assessment - Logan Water**

<i>Criteria</i>	<i>Achieved?</i>
Core criteria	
Absence of public interest or equity issues that may warrant regulatory review	Yes
Regulated services are clearly defined and separated from non-regulated services	Yes
No evidence of an exercise of market power and opening cost based is efficient	Yes
Absence of material changes in circumstances or major infrastructure costs	Yes
Demonstrated capacity to provide information accurately and on time	Yes
Other criteria	
Performance in customer engagement	Existing customer engagement practices are consistent with many desired features. Logan Water is well placed to build on these to achieve best practice.
Strategic approach to long term investment	Broadly addressing many desired elements. Logan Water's asset management systems were not always consistent with good industry practice.
Service quality	Logan Water has committed to and is reporting on a limited number (10) of the QCA's 38 measures.
Pricing principles	Insufficient information for full assessment. Prices generally based on legacy council pricing with some harmonisation and generic price increases. This is considered a priority area for consideration in future performance monitoring.

Submissions on this assessment are due **30 June 2014**. All submissions will be taken into account in the QCA's Final Report, due 30 September 2014.



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