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24 June 2014

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RE: Submission on Position Paper: SEQ Long Term Regulatory Framework - Pricing Principles

The Aurora Tower Body Corporate submits the attached submission in response to the Position Paper: SEQ Long Term Regulatory Framework – Pricing Principles.

Should you have any questions, please contact Ben Evans of Ernst Body Corporate Management Pty Ltd on (07) 3620 0600 or by email at brisbane@ebcm.com.au.

Yours faithfully

Body Corporate Manager

By ☑ Post/EMAIL:

Submission to Queensland Competition Authority on Position Paper: SEQ Long Term Regulatory Framework - Pricing Principles

This is a submission in response to the Position Paper on SEQ Long Term Regulatory Framework – Pricing Principles released by the Queensland Competition Authority (QCA) in March 2014.

Background

The Position Paper presents four general pricing principles to apply to services provided by SEQ water entities:

- To promote economic (allocative, productive and dynamic) efficiency.
- To ensure revenue adequacy – the business must have sufficient revenue to ensure the efficient delivery of water services.
- To promote the public interest –the pricing framework should accommodate concerns related to equity/fairness including those related to vulnerable customer groups.
- To be transparent, predictable, simple and cost effective to apply.

In particular, it is noted that QCA has stated that:

- most urban water suppliers distinguish between residential and non-residential or commercial water users in determining tariff structures, to reflect the different cost drivers;
- in SEQ fixed charges are typically set on a per connection basis for residential customers and cases by meter or connection size for non-residential customers;
- multi-tiered volumetric tariffs are not consistent with economic efficiency as the tiers cannot all be consistent with either short-run marginal cost or long-run marginal cost (LRMC) of service delivery. They can make revenue forecasting complex, and may have unintended equity and fairness implications, for example, on large families;
- the volumetric charge for urban water services should reflect LRMC;
- in general, a two-part tariff with the usage charge set at LRMC is considered to be superior to an inclining or declining block tariff on efficiency and equity objectives. Single volumetric charges provide clearer, more transparent marginal use signals to customers, and are less costly to administer; and
- metering and billing arrangements should support the application of cost-reflective prices.

Issue of Concern

It is noted that the Position Paper includes no consideration of efficient pricing for multi-unit residential or mixed use properties, or where water is supplied to an entity for on-selling to customers associated with a single connection to a property (caravan parks, multi-unit residential or mixed use premises.

There are many multi-unit residential and multi-use properties in Brisbane, the Gold Coast and on the Sunshine Coast. The nature of water supply to these properties varies:

- individual metering for each lot associated with a property, with bills issued by the retail entity to each lot owner. Some multi-unit residential properties and multi-use properties have individual water meters at the property boundary for each residential or multi-use lot associated with the property. These meters are maintained and read by the relevant retail water supplier with bills sent to respective lot owners by the retail entity. These customers are typical residential and/or commercial customers and are charged a standard connection fee and applicable tariff for consumption.

- a single meter for the property, with bills (based on proportional shared usage) issued by the retail entity to each lot owner. Some multi-unit residential properties and multi-use properties have a single meter at the property boundary. This meter is maintained and read by the relevant retail water supplier, with bills issued by the retail entity to individual lot owners based on a normal connection fee per property and a share of consumption charges based on the Body Corporate contribution units applicable to the Lot. That is, despite there being only one meter for multiple properties, each lot is charged a separate full connection fee

- a single meter for the property, with a single bill issued to the Body Corporate or owner of the property. Some multi-unit residential properties and multi-use properties have a single meter at the property boundary and individual water meters for each lot that are owned and maintained by the Body Corporate or property owner. The property meter is maintained and read by the relevant retail water supplier, with a single bill issued to the Body Corporate or owner of the property. Typically, the Body Corporate or owner is billed for standard connection fees for each lot associated with the property plus the total cost of volumetric usage. Generally, a single volumetric tariff (Tier 3) is applied. The Body Corporate or owner then issues bills to individual lot owners to recover the connection fee and volumetric usage costs according to the individually metered use by each lot. The individual water meters are owned, maintained and read by the Body Corporate or property owner.

This submission is intended to highlight apparent anomalies of existing tariff structures for multi-unit residential properties and multi-use properties included under the third category of customer types above, in which the Body Corporate or owner is essentially an on-seller of water.

On-selling of water should be allowed to be undertaken on a similar basis to electricity, which is an established practice in multi-unit residential properties and multi-use properties. For electricity, the Body Corporate or property owner contracts for bulk supply of electricity and on-sells to lot owners at substantial savings through bulk buying, owning and maintaining the meters for individual lots, and undertaking meter readings and issuing of bills at a lower cost than retail electricity suppliers.

In terms of cost-reflective and efficient pricing for water, there is a strong case for defined separate arrangements to apply where a retailer supplies a property via a single meter and issues a single bill to the property, irrespective of the number or type of lots associated with the property.

Case Study:

The Aurora Tower, located at 420 Queen Street, is a multi-use building with 486 residential and retail lots with water and sewerage services provided by Queensland Urban Utilities. Water is supplied to the property via two metered supply points and total annual consumption is about 60 ML.

QUU only reads the two meters for the supply points to the property and issues a single bill to the Body Corporate for water and sewerage charges. QUU bases its total water access charge on the basis of the number of lots on the property multiplied by the standard residential access charge, with total volumetric usage based on the Tier 3 tariff (although following an objection, QUU now proposed to charge at total consumption at Tier1).

The Body Corporate owns, maintains and reads individual hot and cold water meters for each apartment and recovers the volumetric cost of water according to metered actual use by individual lots. The Body Corporate recovers the cost of fixed water and sewerage access fees from each lot, plus the cost of actual usage based on the QUU volumetric charge.

The Body Corporate of the Aurora Tower is currently in dispute with QUU over its current pricing practices as it believes that:

- it is anomalous for a water retailer to base its access charge to multi-unit residential properties or multi-use properties on the number of lots within the property when it only provides a single water meter, only reads a single water meter and only issues a single bill to the property.

- it is anomalous for a water retailer to apply a single tier (Tier 3, or the now proposed Tier 1) volumetric tariff to total water usage while seeking to bill access charges on the basis of individual residential lots. If the property is considered to consist of individual residential lots, then volumetric charges should be based on the sum of the tiered allowances applicable to each residential lot.

The Body Corporate for the Aurora Tower argues that:

- as an on-seller of water it should be treated as a single customer, with an access charge to reflect the cost of its two supply points and two meters to the property at 420 Queen Street; and

- the volumetric charge applied should be consistent with charges applied to a (commercial) customer that reflect the total usage by the property.

  Currently, QUU's published schedule of tariffs and charges does not define the arrangements it has applied to the Aurora Tower.

Conclusion:

The Body Corporate of the Aurora Tower believes this matter is relevant for consideration by the QCA as part of its determination on the SEQ Long Term Regulatory Framework – Pricing Principles.