
Redland City Council

Submission in response to -

Notice of Investigation: Review of Seqwater Bulk Water Prices 2015-18

Summary of the Minister's Referral Notice

The Treasurer and Minister for Trade, Tim Nicholls, has referred the 'monopoly business activity of bulk water supply by the Queensland Bulk Water Supply Authority (Seqwater)' to the Queensland Competition Authority (QCA), pursuant with s23(1) of the *Queensland Competition Authority Act 1997*. This referral is for the period 1 July 2015 to 30 June 2018 and relates to pricing of bulk water to local government areas, including Redlands.

Recommendations contained within the referral include that the QCA recommend prices for the remaining three years of Seqwater's 10 year price path, which are in line with the following (which is not an exhaustive list):

- a) Repayment of 'price path debt' by 2027-28 (which are the accumulated losses arising from the bulk water price path);
- b) Establish the opening regulated asset base as at 1 July 2015;
- c) The price path for each council area, except Redland, Sunshine Coast and Noosa, is to increase so all councils are paying the same price from 2017/18;

The most notable recommendation within the referral is that QCA are to 'recommend the price path and impact on bulk water debt of extending the price path arrangements for Redland, Sunshine Coast and Noosa by two years (Section A, subsection 2).

History of Bulk Water pricing

As per the Department of Energy and Water Supply (DEWs) website (<http://www.dews.qld.gov.au/policies-initiatives/water-sector-reform/water-pricing/bulk-water-prices>) the Queensland Government made a sizeable investment in the bulk water supply system in 2007-2012. As part of this, phased bulk water price increases were deemed necessary by the

Queensland Government, in order to cover the costs associated with this investment. Seqwater is currently selling bulk water at a loss.

The ten price path was implemented with the aim of all councils reaching a destination price point. The price increases are individual to each council, due to differing starting points between councils. This destination point has the intent of reflecting the full costs of supplying bulk water and then an increase by inflation each year after that is expected. Redlands were scheduled to reach the destination point in 2017/18 – which is \$3,217 per megalitre.

In order for Redlands to achieve the destination pricing, there are significant increases required in the bulk water price each year, with the most significant being a 31% increase in 2017/18 (see Table One).

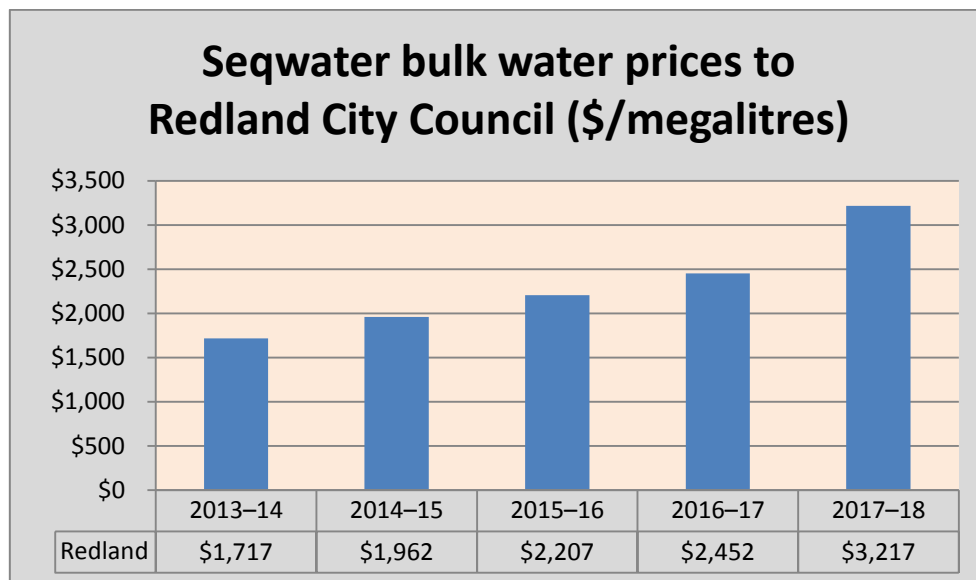


Table One: Seqwater bulk water prices to Redland City Council (\$/megalitres)

As per the DEWs website, bulk water prices for Redlands in 2012-13 were \$1,472 per megalitre, which is expected to increase to \$3,217 in 2017/18. This is a bulk water price increase of 119% over 6 years.

Impact of Bulk Water Pricing on Redlands

In the context of the SEQ water distributor-suppliers, Redland City is very small. The sheer lack of size provides many challenges for Redland Water in achieving prudent and efficient operating costs as there is no benefit afforded through economies of scale. Thus large increases in the bulk water price are made even more difficult to shield the ratepayers from.

Redland City is made up of a large population of pensioners, 14.2% of rateable properties are owned by pensioners. Such significant increases in bulk water prices hit this demographic particularly hard.

In a bid to ease the burden to the ratepayers, pensioners and otherwise, Redland City Council took the pricing initiative of smoothing the water prices over a ten year period. In simple terms, Redland City Council made an active decision to price higher in the early portion of the ten year period and lower in the outer years, when the full impact of the bulk water increases were being received. A simple representation of this can be seen in Table Two.

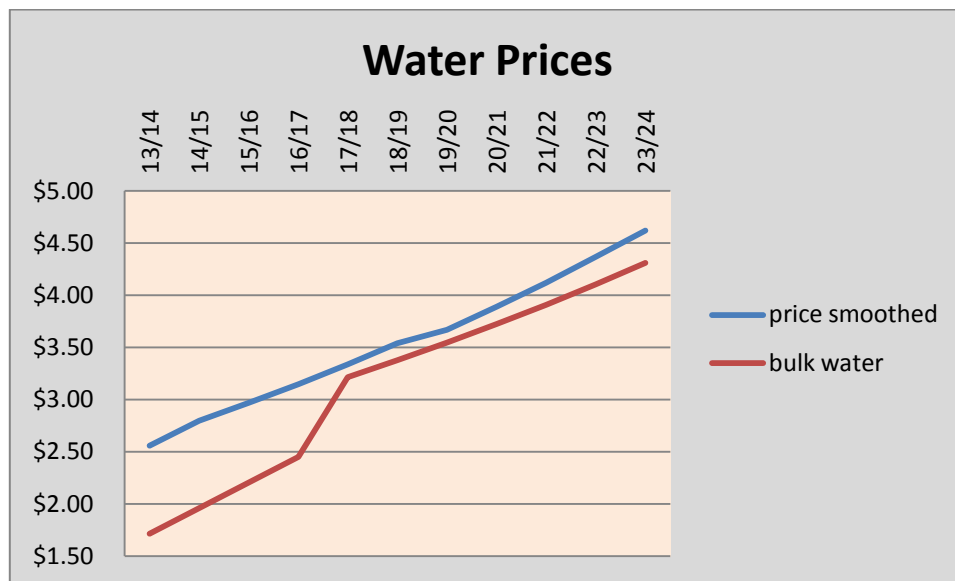


Table Two: Ratepayer water prices vs. bulk water prices

This stance has unfortunately put Redlands in the position where the QCA were unable to determine in the 2013/14 price monitoring review whether monopolistic pricing powers have been exercised by Redland City Council. Table Three pictorially demonstrates over the ten year period what happens to revenues above MAR, in which the over-recovery in the early years can be seen to net out to zero at the end of the ten year price path.

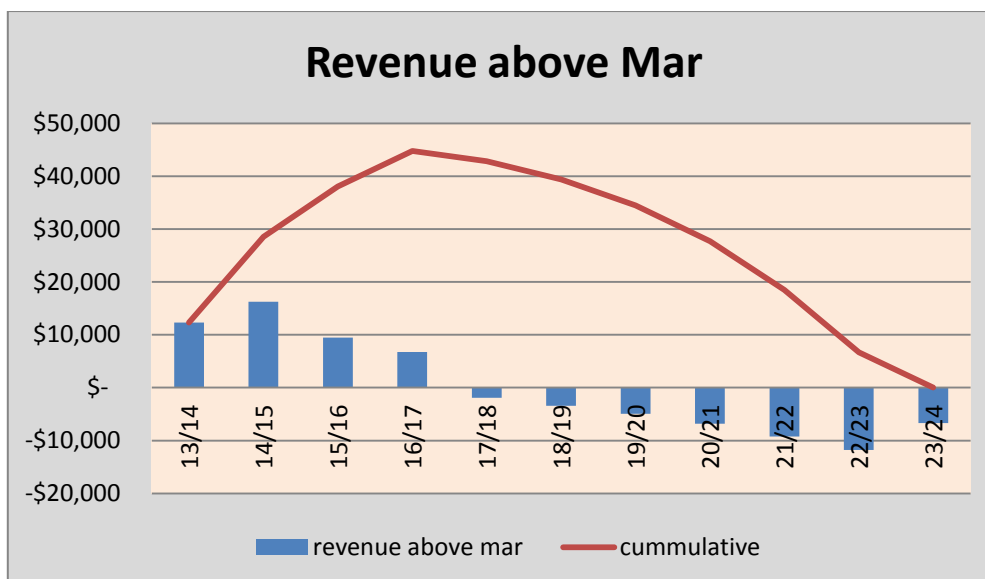


Table Three: Revenue above MAR

Bearing in mind that no contrary information was available at the time the 2014/15 price adoption by Council, the same strategy has been maintained and continued for this period. Therefore, Redland City Council is aware that it is unlikely that the QCA will offer an unqualified opinion in relation to whether price monopolistic power is being exercised in the 2014/2015 price monitoring review.

In order to address this issue and provide transparency, Redland City Council have created two constrained cash reserves – one for water and another for wastewater – to capture the over- and under-recovery of revenue against MAR. It is hoped that this will assist the QCA in accepting that price monopolistic power isn't being exercised in any way.

Further complications exist for Redland City Council in relation to pricing, with transition to the QCA's proposed light handed regulatory framework being unlikely until this is resolved.

Should the QCA review and amend the 10 year price path for Seqwater to smooth out the expected 31% increase scheduled for 2017/18 there is a likely impact on the current pricing strategy adopted by Redland City Council. The expected outcome of smoothing out the 31% increase would be that Redland City Council would no longer be in a position where easing the pain and pass-through costs to the ratepayer was necessary in such a capacity. This would in turn achieve many positive outcomes for the ratepayer, Redland City Council and QCA.

Conclusion

It is the position of Redland City Council that a review of the Seqwater bulk prices for the 2015-18 financial years has the potential to be hugely beneficial for the ratepayers, pensioners and otherwise, within the City. The benefit will certainly arise from the QCA reviewing the expected 31% increase in bulk water costs to Redlands in the 2017/18 years and smooth these out over a much longer period.

It would certainly not be unreasonable to expect a review of this type to assist in easing the pain felt to the hip pocket and allow Redland City Council to take a more sedate pricing tact in the coming years, which is more in line with the QCA's recommendations.