

From: [Richard Koerner](#)
To: [Catherine Barker](#)
Subject: Budgetary oversight of Unitywater in 2012/13 SEQ prices monitoring investigation
Date: Thursday, 27 June 2013 1:01:05 PM
Attachments: [Unitywater4.pdf](#)
[Unitywater1.pdf](#)
[Unitywater1.doc](#)
[Unitywater3_0001.pdf](#)

This email contains an attachment that may be work related and must be filed into the DMS. If you need assistance with this please contact the Executive Officer at xo@qca.org.au.

The Chief Executive Officer
Queensland Competition Authority
Attn. Ms Catherine Barker

Dear Ms Barker,

Please consider this submission as supplementary to correspondence of 27 September 2012 with attachments, and refer to communications of 24 and 25 July together with the extracts from Maroochy Advisory Board papers describing budget prices oversight obligations of the joint owners of Unitywater and the Minister for Local Government under the Local Government Act.

At a public meeting held at Arana Hills Community Centre on the weekend of 17 July, the CEO's response to the question posed regarding consistency with regulatory pricing principles* was that QCA (the Authority) would provide all required prices oversight for the 2010/11 Budget. Acceptance of the Minister's regulatory asset determinations by the Unitywater Board (the Board) asserted in correspondence dated 23 August suggests failure to perform that statutory prices oversight obligation in approving the 2010/11 Budget.

Attached for the Authority's consideration is a correspondence exchange between the Secretary Ratepayers Action Group MBRC and the CEO Unitywater. The response dated 12 August 2012 is inconsistent with information provided in the CEO's verbal response at the public meeting of 18 July, and in the communication dated 23 August.

Unitywater's Annual Report for 2011/12 (see note 2(b) page 51) asserts that derivation of fair market value for non-current assets is based on present value of cash flows (NPV) rather than the lesser of DORC and NPV. Had the Board effectively performed its statutory prices oversight obligations for the 2012/13 Budget, it would have found that advice elicited from KPMG in 2007 was inappropriate for a regulated natural monopoly commercial entity.

Also included for consideration is a benchmarking comparison of service charges before and after Unitywater was first established. What is of interest are the dramatic increases in Pine Rivers, Caboolture and Redcliffe charges from 2009/10 to 2010/11 even after a 50% rebate. The magnitude of such increases suggests that MBRC non-current regulatory assets were revalued on the basis of NPV of inflated future cash flows rather than the lesser of DORC and NPV in 2010/11. Rollover of inflated regulatory asset determinations from both MBRC and SCRC accepted by the Board in 2010/11 exacerbates the potential for Unitywater's 2012/13 Budgeted revenues to exceed maximum allowable revenue (MAR).

Determination of the appropriate component of return on non-current regulatory assets is a major element of service charges and MAR for Unitywater. Independent confirmation by the Authority that such charges are being correctly determined is necessary to assure that consumers in the service area of Unitywater are not being subjected to predatory pricing in the 2012/13 Budget. Please consider the attached forensic documentation in addition to supporting forensic documentary submissions to the 2010/11 SEQ Prices Monitoring Investigation and provide independent assurance of the correct determination of regulatory assets and MAR by Unitywater when developing the Final Report for the 2012/13 SEQ Prices Monitoring Investigation.

Kind regards,

Richard Koerner

* Statement of Regulatory Pricing Principles for the Water Sector (December 2000) pp. 32-35.

Water and sewerage bills in Sunshine Coast – the facts

Water and sewerage bills have two parts

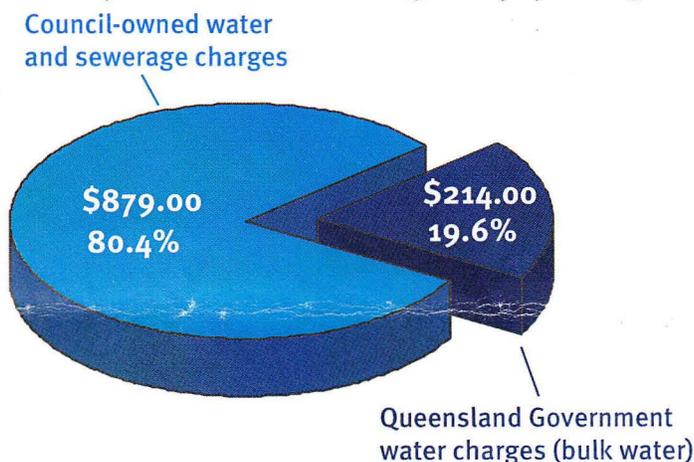
Charges imposed by Council-owned Unitywater include:

- Water consumption charges – based on the amount of water used
- Fixed water access charges – for connection to the water network.
- Fixed sewerage charges – for connection to the sewerage network.

Queensland Government water charges (bulk water)

Queensland Government charges are limited to the cost of wholesale treated drinking water delivered to Unitywater.

Where your water and sewerage bill payment goes



Based on an average Sunshine Coast water and sewerage bill of \$1,093.00

Council	Change in your bill from 2009/10 to 2010/11 financial years										Components of total bill in 2010/11		
	Comparison with other areas										Council-owned water and sewerage charge	Queensland Government bulk water charge	Council-owned businesses share of total bill
	-\$100	-\$50	\$0	\$50	\$100	\$150	\$200	\$250	\$300	\$350			
Somerset (Esk)											\$867	\$417	68%
Somerset (Kilcoy)											\$719	\$417	63%
Lockyer Valley											\$834	\$342	71%
Redland											\$1,090	\$186	85%
Scenic Rim											\$1,007	\$363	73%
Sunshine Coast											\$879	\$214	80%
Brisbane											\$754	\$303	71%
Ipswich											\$1,033	\$291	78%
Moreton (Pine Rivers)											\$968*	\$330	75%
Moreton (Caboolture)											\$940*	\$330	74%
Logan											\$962	\$369	72%
Gold Coast											\$1,047	\$337	76%
Moreton (Redcliffe)											\$840*	\$330	72%

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Figures based on a three person household using 180 litres per person per day, equivalent to 200 kilolitres per year.

*Water and sewerage charge after Moreton Bay Regional Council rebate of 50% applied.

What has the Queensland Government done to ease the cost of water?

The Government has reduced the price impact of the SEQ Water Grid by:

- Increasing the pensioner water rebate to \$100
- Selling water to the council owned water businesses at a loss of \$407 million this year
- Not making a profit on the \$7 billion investment in the water grid.

How the Government is reducing the costs of operating the water grid

Water supply in South East Queensland is now secure. This is because the water grid is complete, the community continues to save record amounts of water and the dams are full.

Costs are being reduced by:

- Operating the desalination plant in standby mode until dams fall to 60%
- Taking half the Western Corridor Recycled Water Scheme off-line, and keeping the other half running to supply water to power stations and industry. Purified Recycled Water will not be added to dams until they reach 40%
- Merging state water authorities – Water Secure and SEQ Water.

Putting downward pressure on future prices

In 2008 the Government announced a 10 year price path for bulk water prices.

This has now been revised down in light of operational savings and continued world-class water conservation by SEQ households.

This will mean for the average household* in 2011–12, the state bulk water price will increase by \$5 less than previously announced and water prices will now be lower than predicted every year.

*An average household consists of three people using 180Litres/ person/day, equivalent to 200 kilolitres per year.

In 2008, as part of securing water supplies in SEQ, the Queensland Government paid Sunshine Coast Regional Council \$86,444,647 for the acquisition of their bulk water assets.

Mr Richard J Koerner


23 August 2010

Dear Mr Koerner

I refer to your email of 10 August to Mr West of this office.

Unitywater set prices for 2010/11 on the basis of not recovering greater than the Maximum Allowable Revenue (MAR) requirement under full cost pricing principles.

As you will be aware MAR consists of operating expenses (including the pass through of bulk water charges), a return of capital component (i.e. depreciation) and a return on capital component.

The latter two components of the MAR were calculated using the Regulatory Asset Base (RAB) determined by, and assigned to, Unitywater by the Queensland Government.

The Queensland Government has directed the Queensland Competition Authority to accept the RAB assigned to Unitywater for the purposes of evaluating the appropriateness of Unitywater's price setting during the Interim Price Monitoring period (including for 2010/11).

Consequently, Unitywater has adopted this assigned RAB in setting prices for its customers.

Yours sincerely



Jon Black
Chief Executive Officer

CC: Peter Scott, CFO

Question for CEO Unitywater posed at Arana Hills public meeting:

"Have all water a sewerage service charges incorporated into the 2010/11 Budget of UnityWater been subjected to independent and comprehensive prices oversight to ensure full compliance with the Queensland Competition Authority's "Statement of Regulatory Pricing Principles for the Water Sector (December 2000)?"

Richard Koerner





Unitywater

Ratepayers Action Group
Moreton Bay Association Inc.
Attn: Sondra Adams

[REDACTED]

12 August 2010

Dear Sondra

Thank you for your letter of 30 July. I appreciate your thanks for my attendance at your organisation's rallies, and was more than happy to come and talk to the communities in this area about who Unitywater is, how we have been established, and what some of our operational challenges are.

Your question was 'Did you (Unitywater) perform your precise oversight obligation prior to bringing down your 2010/11 budget?'

Unitywater's 2010/11 budget was developed by by our Chief Financial Officer and was thoroughly reviewed by the Board with respect to our regulatory guidelines prior to its adoption.

I trust this answers your question, however please contact me again if you require further information.

Yours sincerely

[REDACTED]

Jon Black
Chief Executive Officer

posted

on Letterhead

30 July 2010.

Unitywater C.E.O. John Black
PO Box 953
Caboolture Qld. 4510.

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Dear Mr. Black,

On behalf of our association I thank you for attending every protest meeting that our association has held and responding to every question put to you by concerned and often angry ratepayers. Your attendance was vital and most appreciated.

Thank you for giving such a detailed answer to the question I put at the meeting at Kallangur. ie. Has Unitywater performed its precise obligations to ensure all service charges in the budget comply with the Qld. Competition Authorities statement of regulatory pricing etc ?

As I understood it the simplified answer was Yes.. and the report from Unitywater is due to the Queensland Competition Authority late August.. that there has been a background of thirty years accounting.

There is such passionate interest in what Unitywater is doing , perhaps you could clarify one point by answering this question.

Did you (Unitywater) perform your precise oversight obligation prior to bringing down your 2010/11 budget?

Once again thank you for your attendance and answering all the questions in such a knowledgeable and gentlemanly way.

Yours faithfully,


Sondra Adams
Secretary.