

4 August 2011

26 Spindrift Avenue
Coolum Beach
Qld. 4573

The Chief Executive Officer
Queensland Competition Authority (QCA)
G.P.O. 2257
Brisbane Qld.4001
Attn Ms. Cath Barker

Dear Sir/Madam,

Please consider the following public comments regarding the ongoing 2011/12 SEQ prices monitoring role for water and sewerage services provided by Queensland Government owned business entities throughout South East Queensland (SEQ).

I believe service charges incorporated into the Unitywater 2011/12 Budget will cause over-recovery of legitimate costs and exceed statutory revenue ceiling levels because no effective prices oversight can be performed under the Terms of Reference issued by the Ministers QCA for an independent assessment.

Correspondence from the Minister for Water Utilities dated 15 March and 12 May and the Queensland Water Commission (QWC) dated 10 June and 22 July are provided for consideration. It is stated that KPMG applied a discounted cash-flow methodology to determine non-current asset valuations for SEQ bulk water assets purchased from S.E.Qld. Councils as at 30 June 2008. The letters dated 15 March and 10 June are misleading as sole use of this methodology is at variance with COAG agreements and the National Water Initiative's (NWI's) Principles for the Recovery of Capital Expenditures.

KPMG's sole use of a market based methodology has resulted in inflated valuations of June 2008 Initial Regulatory Assets throughout SEQ. Consequently capital recovery charges developed by the Queensland Water Commission (QWC), and endorsed by the former Minister for Natural Resources and the current and former Ministers QCA, are also inflated and will result in revenue recovery that is in excess of the maximum allowable permitted under NWI agreements.

QCA's terms of reference require provision of transparent information to customers about the costs and other factors underlying annual increases in water and wastewater prices for 2011/12 and 2012/13. However the QCA is not authorised by the Ministers QCA to perform independent investigation of 2009/10 and prior year determinations including the July 2008 Initial Regulatory Asset Base that has established the foundation upon which these increases are based.

Terms of Reference given for 2011/12 SEQ price monitoring prevents the QCA from protecting households from monopoly pricing abuse by water and sewerage service providers owned by the Queensland Government.

Yours sincerely,

Amy-Rose West (Ms.)

Enc: Letters from Minister Water Utilities dated 15 March and 12 May 2011
Letters from QWC dated 10 June and 22 July 2011

Cc: Productivity Commission's Urban Water Sector Inquiry



Queensland
Government

Hon Stephen Robertson MP
Member for Stretton

Ref MO/11/17
CTS 00742/11
ME/11/0022

Minister for Energy and
Water Utilities

15 MAR 2011

Ms Amy-Rose West
26 Spindrift Avenue
COOLUM BEACH QLD 4573

Dear Ms West

Thank you for your letter dated 27 December 2010 regarding Unitywater's responsibility for setting retail water and sewerage services and the Queensland Competition Authority's (QCA) price monitoring role.

It appears there is some confusion regarding the information contained in a number of letters sent out to members and former members of the Coolum Beach Residents Association. The purpose of this letter is to directly respond to your concerns regarding the perceived inconsistencies in this information.

Firstly, let me clarify Unitywater is not owned by the Queensland Government as stated in your letter. The distributor-retailer Unitywater is wholly owned by the Moreton Bay and Sunshine Coast Regional Councils.

The retail water and wastewater prices paid by Coolum residents are currently calculated by Unitywater. The Unitywater's prices are made up of a number of costs, including:

- a return on capital (or assets owned by Unitywater)
- depreciation (of Unitywater's assets)
- operating costs (which include the cost of bulk water).

The return on capital is calculated on Unitywater's Regulated Asset Base (RAB). The RAB reflects the value of the distribution, retail water and wastewater assets previously owned by the Moreton Bay and Sunshine Coast Regional Councils.

An independent valuation of the total water and wastewater assets owned by local councils in South East Queensland (SEQ) was conducted by consultants KPMG in 2007. The RAB for Unitywater reflects KPMG's market valuation of water and wastewater distribution and retail assets previously owned by the councils in Unitywater's service area. As the bulk water assets previously owned by councils were transferred to the State in July 2008, the distributor-retailers were provided with the residual valuation of the distribution and retail assets (reflecting the total value of water and wastewater assets less the value of the bulk assets) by the State.

Unitywater's return on capital does not cover the cost of bulk water. The letter received from Unitywater correctly states bulk water charges are an operating expense for its business.

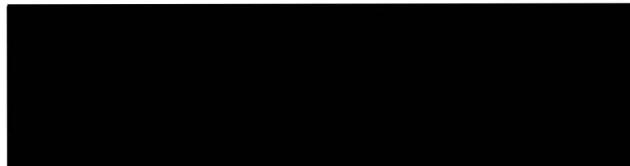
The QCA has been directed by the Honourable Premier and the Honourable Treasurer to conduct a price monitoring investigation of the water and wastewater activities undertaken by the three distributor-retailers in SEQ for the period 1 July 2010 to 30 June 2013. The QCA also had a price monitoring role for the period 1 July 2009 to 30 June 2010. The QCA was requested to investigate the pricing practices of the 10 SEQ local government authorities' water supply activities. Further information on the QCA's role, including the Ministers' Direction Notices, can be found on the QCA's website at <www.qca.org.au>.

As outlined above, the QCA has a current investigatory role with respect to retail water prices in SEQ. On 9 February 2011 the QCA released the *Draft Report - SEQ Interim Price Monitoring*. The draft report is available at <www.qca.org.au/water/2010SEQretail-price/>. Consultation on the draft report closes on 28 February 2011 and a final report will be published by 31 March 2011.

It should also be noted that the *Queensland Competition Authority Act 1997* (QCA Act) was recently amended to provide for the QCA to determine prices for water and wastewater services provided by the distributor-retailers (Part 13 of the QCA Act) from 1 July 2013. This means the QCA will set water and wastewater prices in SEQ from 1 July 2013. Also, attached for your information is a Queensland Water Commission fact sheet in relation to water prices in your area.

I trust this letter has clarified any confusion with respect to the QCA's price monitoring role. Should you have any further enquiries, please do not hesitate to contact Ms Tracie-Lee Waldock, Acting Director, Grid and Bulk Water Supply, Water Reform of the Queensland Water Commission on telephone 3247 3031.

Yours sincerely

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STEPHEN ROBERTSON MP

Att



Hon Stephen Robertson MP
Member for Stretton



**Queensland
Government**

Ref MO/11/986
CTS 06047/11
ME/11/0220

**Minister for Energy and
Water Utilities**

12 MAY 2011

Ms Amy-Rose West
26 Spindrift Avenue
COOLUM BEACH QLD 4573

Dear Ms West

Thank you for your letter dated 4 April 2011 regarding water pricing.

Following on from my previous correspondence dated 15 March 2011, it appears that there is some confusion regarding the information contained in a number of letters sent out to members and former members of the Coolum Beach Residents Association. The purpose of this letter is respond to further concerns you are having regarding the information provided to you.

As you rightly point out, Unitywater is owned by two local councils, the Moreton Bay Regional Council and the Sunshine Coast Regional Council. However, councils are not subsidiaries of the Queensland Government. Local government is a separate level of government established to look after the particular needs of a city or local community. Local government authorities are completely independent from the Queensland Government.

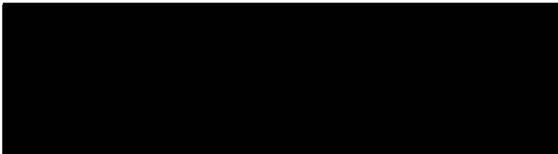
I wish to clarify that the Board of Directors for Unitywater was appointed by the Moreton Bay and Sunshine Coast Regional Councils, as required by section 33 of the *South-East Queensland Water (Distribution and Retail Restructuring) Act 2009*.

I have included a link to KPMG's December 2007 report which sets out the methodology for the valuation of South East Queensland's Bulk Water Assets. As you will see from the report, KPMG notes that the Council of Australian Government's water reform agreement states that 'the deprival value methodology should be used for asset valuation unless a specific circumstance justifies another method.'

Further information on the calculation of the methodology employed by KPMG to value council's assets is available at:
[<www.treasury.qld.gov.au/office/knowledge/docs/kpmg-valuation-of-seq-councils/index.shtml>](http://www.treasury.qld.gov.au/office/knowledge/docs/kpmg-valuation-of-seq-councils/index.shtml).

Should you have any further enquiries, please do not hesitate to contact Ms Gayle Leaver, Acting General Manager, Water Reform of the Queensland Water Commission on telephone 3405 3550.

Yours sincerely



STEPHEN ROBERTSON MP

Our ref: ME/11/0341

10 JUN 2011

Ms Amy-Rose West
26 Spindrift Avenue
Coolum Beach QLD 4573
Email: amy_rose.west@lizzy.com.au

Dear Ms West

Thank you for your email of 5 June 2011 concerning the Queensland Government's determination of the regulatory asset base (RAB) for Seqwater.

As previously advised, KPMG confirmed in its December 2007 report that the approach for valuing assets transferred to Seqwater was consistent with the Council of Australian Governments (COAG) water reform agreement which underpins the COAG Pricing Principles and the National Water Initiative (NWI) Pricing Principles.

Unfortunately, the Queensland Water Commission is unable to comment on the Annual Report of the Queensland Bulk Water Supply Authority (Seqwater). If you are seeking further information on this, I suggest you contact Seqwater directly on 3035 5500.

I trust this information is of assistance.

Yours sincerely

[Redacted]
Ms Gayle Leaver
Acting Chief Executive Officer

Our ref: ME/11/0370

Securing our water, together.

22 JUL 2011

Ms Amy-Rose West
26 Spindrift Avenue
Coolum Beach QLD 4573

Dear Ms West

Thank you for your letter of 17 June 2011 concerning the valuation of legacy assets used by the Queensland Government for bulk water pricing.

As previously advised, KPMG's valuation of the assets transferred from councils to the State owned bulk entities (the 'legacy' assets) was conducted using a discounted cash flow analysis (DCF) or NPV analysis, and not a Depreciated Optimised Replacement Cost (DORC) methodology.

The Queensland Water Commission notes that you made a submission to the Queensland Competition Authority (QCA) on its South East Queensland Interim Price Monitoring Report for 2010-11. As you correctly point out, the QCA has not conducted an assessment of the legacy asset values.

However, KPMG confirmed in its December 2007 report that the approach for valuing legacy assets was consistent with the Council of Australian Governments (COAG) water reform agreement which underpins the COAG Pricing Principles and the National Water Initiative (NWI) Pricing Principles.

I trust this information is of assistance.

Yours sincerely



Karen Waldman
Chief Executive Officer