

ABN: 89791717472

29 February 2012

Mr John Hall
Chief Executive Officer
Queensland Competition Authority
Email: seqwater@gca.org.au
Brisbane QLD 4001

Dear Mr Hall *John,*

Draft Report South-East Queensland Interim Price Monitoring for 2011-12

Thank you for the opportunity to respond to the Queensland Competition Authority's¹ Draft Report entitled "South-East Queensland Interim Price Monitoring for 2011-12 Part A Overview; Part B Detailed Assessment" including related appendices and reports.

Unitywater welcomes the Authority's draft findings that Unitywater:

- appropriately applied the CPI price cap;
- has not exercised monopoly power in 2011-12; and
- water reticulation and sewage transport and treatment services revenue forecast of \$398.4 million was below the Authority's estimate of \$455.3 million.

Unitywater welcomes the Authority's and Sinclair Knight Merz's constructive comments and findings in relation to the sample of capital and operating expenditure subject to detailed review.

The comments and discussions have identified ideas and future opportunities. Unitywater can take these matters into consideration, as the organisation gains operational experience and more reliable data from new systems such as the asset management system; geographic information system and the customer service and billing system. Unitywater accepts the Authority's adjustments to the capital projects it reviewed.

Unitywater has achieved a great deal in its first twenty months of operations, and acknowledges the challenges and opportunities ahead to align and optimise processes, systems, and planning at a regional level.

Unitywater remains committed to pursuing partnerships, collaboration and innovation to provide affordable water reticulation, sewage transport and treatment services to customers at the required service levels for safety, quality, security and reliability of supply and to meet fire fighting service standards.

¹ Referred to as "the Authority" in this letter for enhanced readability.



Unitywater

Unitywater has provided some additional comment in Attachment 1 and would welcome any further opportunity to assist the Authority progress its Final Report expected 31 March 2012. Any queries relating to this matter can be directed to Unitywater's Manager of Regulatory Affairs, Damian Platts, on (07) 5431 8235.

Yours sincerely



Jonathan P. G. Black
Chief Executive Officer

Attachment 1 - Unitywater comments in relation to Queensland Competition Authority Part B Draft Report SEQ Interim Price Monitoring for 2011-12

Attachment 1

Unitywater comments in relation to: Queensland Competition Authority Part B Draft Report SEQ Interim Price Monitoring for 2011-12

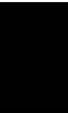
Section reference	Matter	Unitywater comment
Section 3.13 Comparing Revenues with MARs pages 343-345	MATS Scheme ² :	<p>Unitywater appreciates the Authority's in-principle support of a NPV neutral glide path, and for highlighting the challenges associated with glide paths to avoid significant price rises or unnecessary movement in prices.</p> <p>Unitywater is satisfied with the Authority's qualified in-principle support and will continue to carry forward under-recoveries. Unitywater believes the Authority's concerns regarding price step changes and glide paths can be addressed in a number of ways and looks forward to working with the Authority and a broader range of stakeholders to consider and explore those options cooperatively through future documents, decisions and submissions such as the:</p> <ul style="list-style-type: none"> • Sunshine Coast and Moreton Bay Regional Councils' Price Mitigation Plans for the period 2013-18; • Authority's regulatory price monitoring decision for 2012-13; • Authority's regulatory price monitoring decision for 2013-16; and • Authority's regulatory price monitoring decision for 2016-21.
Section 3.5 Demand pages 232-251	Demand forecasts:	<p>Unitywater notes the Authority's comments on demand forecasts, in particular relating to price elasticity, data sources, consistency of long-term and short-term forecasts and daily per person usage targets. Determining price elasticity is difficult in Unitywater's case as one council area faces uncertainty regarding a future subsidy, while permanent conservation measures were introduced relatively recently in the other region. The future impact of increasing bulk water costs is also unknown.</p> <p>Unitywater agrees that at the South East Queensland level OESR is a strong indicator of growth but at the regional and local level other information should also be taken into account. Unitywater is supportive of SKM's comments regarding the capital program of work being planned for fire standards of service and not necessarily demand due to population growth, although this is a contributing factor:</p>

² Maximum Allowable Revenue Adjustment Transition Scheme (MATS Scheme).



Section reference	Matter	Unitywater comment
		<p><i>SKM considered that caution should be exercised in any change of the infrastructure design criteria to reflect short term changes in demand peak consumption is a function of human behavioural responses to extreme weather it would not be prudent to use current spare capacity as a long term solution, as the consumption habits of a population may change faster than the ability to augment trunk infrastructure ... the critical design criteria for water reticulation works is usually fire fighting flows, and not average consumption per day ... variances in short term demand can be accommodated in changes in timing of works.</i>³</p> <p>Unitywater notes the Authority's suggestions to develop more specific short- term forecasts for trade waste and recycled water, and connections and volumetric consumption for potable water, recycled water and trade waste. Unitywater is examining these issues, however developing these capabilities, in particular metered volumetric trade waste, remains some years away.</p> <p>Unitywater will continue to document, revise and improve its demand forecasts, as the business gains operational experience and as knowledge of behavioural patterns become clearer under revised restriction and permanent conservation measures.</p>
<p>Section 3.10 Operating Expenditure Page 338</p>	<p>Efficiency targets:</p>	<p>Unitywater submits that the Authority's assumption of 2% efficiency targets on non-bulk operating costs, does not take into consideration the start up and developing capability of Unitywater as the business transitions from council- provided Service Level Agreements to stand alone capability. Unitywater continues to hold a view that efficiency targets should only commence when the business has stand alone capability, at which point it is reasonable to assume efficiencies that also allow for approved adjustments to any base year or future agreed scope changes to estimates.</p>

³ Queensland Competition Authority, Draft Report SDEQ Interim Price Monitoring for 2011-12 Part B – Detailed Assessment pg 250



Section reference	Matter	Unitywater comment
Section 3.10 Operating Expenditure Page 338	Base year:	<p>Unitywater is of the view that neither of its operating years reflect a representative year of operating expenditure capable of being used as a base year for regulatory purposes. Unitywater submits that the Authority may not have fully considered that as a start up business, Unitywater has new capabilities to establish, embed and retain. The resources transitioned from local councils comprised primarily field-based and planning staff. There were many critical functions (such as retail, corporate and regulatory) that were not previously provided through councils' shared services and represent scope changes to the 2010-11 expenditure.</p> <p>The Authority did permit the capitalisation of establishment costs into the RAB, however those costs did not provide for the total costs necessary to operate and maintain the business. Unitywater is developing capability, within an emerging regulatory and operational environment. As a result, Unitywater continues to identify functions and roles where specialist skills are required. Unitywater expects that this will continue as the business progresses to maturity over the interim price monitoring period to June 2013 and possibly throughout the first three-year regulatory control period 2013 to 2016.</p>
Section 3.10 Operating Expenditure Pages: 318; 319; 322; and 331	Availability of relevant skills:	<p>Unitywater submits that competencies required in order to operate Unitywater's business are in most cases not readily available. Unitywater increasingly has to train its workforce, and that on certification those same employees are highly sought after by other public and private sectors such as mining. Over the next several years Unitywater's commitment to training field and planning staff, will continue in order to ensure Unitywater's Infrastructure Services Division retains sufficiently skilled workforce to replace natural attrition and retirements from an aging workforce.</p>
Section 3.10 Operating Expenditure Pages: 326-331	Corporate cost benchmarks:	<p>Unitywater recognises the benefits of benchmarking to guide assessments of cost reasonableness. Unitywater notes SKM's use of high level water and sewerage service observations of opex spend per customer per kilometre of pipeline; and for corporate costs the use of Council on the Cost and Quality of Government Guidelines(CCQG). Unitywater submits that at this point in time, even direct cost comparisons between the South East Queensland distributor-retailers is problematic due to differing levels of reliance on council-provided services, customer densities, service standards and work travel practices.</p>



Section reference	Matter	Unitywater comment
n/a	Future Reviews:	Unitywater looks forward to working with the Authority to review 2012-13 and beyond proposed capital expenditure to address growth, compliance, replacement and improvements in the water network, sewerage network and sewage treatment plants. Unitywater notes that meeting growth in population and connections has a major impact in reconfiguration of sewage treatment plants to meet revised licence conditions on discharge. Unitywater through its governance arrangements ensures all projects receive a thorough assessment and consideration of alternatives or opportunities for prudent deferral.
Section 3.8 Rolling Forward the RAB Pages 315-317	Authority amendments to depreciation and indexation:	Unitywater notes the Authority amended depreciation and indexation in the Regulatory Asset Base (RAB). Unitywater is not currently in a position to finalise its RAB for the 2010-11 year. The actual capex data for 2010-11 will be provided as part of Unitywater's 2012-13 Price Monitoring Submission, expected to be provided to the Authority by 31 August 2012, and at that time the under or over recovery will be able to be finalised for the MATS scheme.
Section 3.4 Prices and Revenues Pages 227 and 231	Sunshine Coast Regional Council submission:	Unitywater is of the view that the comments provided by Sunshine Coast Regional Council should be explored and resolved through tripartite agreement between the two participant councils and Unitywater in the framing of the councils' 2013-2018 Price Mitigation Plans and if necessary, by revisiting the Participation Agreement.
Section 3.7 Capital Expenditure Pages 312-315	Contributed assets and capital contributions:	<p>Unitywater water welcomes the Authority's comments regarding the difficulties in forecasting contributed assets and capital contributions. This is an area of great challenge and Unitywater suggests as a first step, a workshop be held to progress a single SEQ methodology to forecast contributed assets and capital contributions. More sophisticated work is required to identify leading indicators of development and contributed assets and capital contributions.</p> <p>As discussed with the Authority, the 2010-11 actual capital contributions were higher than anticipated and that will reduce the level of under-recovery. The actual results for 2010-11 will be provided as part of the 2012-13 Price Monitoring Submission and templates to be submitted to the Authority in August 2012.</p>

Section reference	Matter	Unitywater comment
Section 3.7 Capital Expenditure Page 261-264; 312	Water Sector Regulatory Test (Wet Test):	<p>Unitywater appreciates the Authority's encouragement to take a regional perspective⁴ and to explore collaborative and cost effective solutions for maximising water quality improvement and achieving healthy waterways⁵. Unitywater is participating in a work group with the Department of Environment and Resource Management on nutrient offsets.</p> <p>Unitywater believes it is important for the Authority to establish a Wet Test to encourage whole-of-region and sector-wide customer outcomes, irrespective of geographical, political or corporate boundaries. This has the potential to provide regulatory certainty and encourage investment in diffuse pollution abatement, such as permitting the inclusion of expenditure incurred in planting trees into an asset base as a method to reduce turbidity and nutrient run-off from agriculture. Unitywater is prepared to assist the Authority in any way to progress this important micro-economic reform and to consult with stakeholders.</p>
Section 3.6 The Initial Regulatory Asset Base Page 252	Customer submissions:	<p>Unitywater understands the submissions by Mr Koerner and Ms West, and the Ministerial Direction requiring the Authority to accept the RAB valuation as at 1 July 2008. Unitywater considers the matter is finalised and in the interests of influencing future capital expenditure programs, Unitywater would welcome working with interested stakeholders to progress micro-economic reform initiatives to reduce future capital expenditure such as through development of a Wet Test and nutrient offsets.</p>

⁴ Ibid pg 312

⁵ Ibid pg 264

