



Office of the Minister for Energy and Water Supply

Ref: EWS/001282
CTS 07894/12 / ME/12/0287

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24 July 2012

Dr Richard Koerner
31 Fauna Terrace
Coolum Beach Qld 4573

Dear Dr Koerner

I refer to your letter of 2 May 2012 to the Honourable David Crisafulli MP, Minister for Local Government, about the water and sewerage charges levied by Unitywater. Your correspondence has been referred to me for direct reply.

Thank you for bringing your concerns to the attention of the Queensland Government. The rising cost of living for Queensland families is a major concern of the Government. The Government developed a Four Point Water Plan aimed at reducing the cost of water in South East Queensland (SEQ). This involves:

- amalgamation of the four bulk water entities into one entity;
- handing back control of water distribution and retailing to councils;
- writing-off non-performing water grid assets to reduce price rises; and
- adopting a 40-year price path to repay the water grid debt over the economic life of the assets.

To give effect to the commitment of reducing the cost of water in SEQ, the Government has commenced a review of SEQ's bulk water prices and opportunities for household savings.

Annual price increases from council-owned water businesses such as Unitywater, are currently capped at the level of the Consumer Price Index. This means annual increases in distributor-retailers' water and sewerage charges cannot exceed 1.3% for 2012-13. In addition, Unitywater recently announced it had decided to impose a freeze on its current residential water and sewerage charges for 2012-13 to minimise price increases to customers.

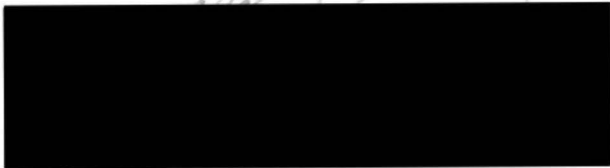
I note the issues you raised in your submissions to the Queensland Competition Authority (QCA) on its SEQ Interim Price Monitoring Report for 2011-12 regarding the valuation of Unitywater's assets.

There are two generally accepted approaches for calculating the capital charge: the annuity approach; and the Regulated Asset Base (RAB), or building blocks approach. The Queensland Government has adopted the RAB approach, which is consistent with the requirements of the National Water Initiative (NWI) Pricing Principles.

An independent valuation of the total water and wastewater assets owned by local councils in SEQ was conducted by KPMG in 2007. KPMG's valuation of the assets transferred to the bulk water providers (the 'legacy' assets) was conducted using a discounted cash flow analysis or net present value analysis. KPMG confirmed in its December 2007 report that the valuation approach is consistent with the Council of Australian Governments (COAG) water reform agreement which underpins the COAG Pricing Principles and the NWI Pricing Principles.

Thank you for your interest in this matter.

Yours sincerely



Mark McArdle MP
Minister for Energy and Water Supply