

Final Report: Retail water prices – an overview

The Queensland Competition Authority monitors the prices, costs and revenues of five water retailers in south east Queensland.

The Queensland Competition Authority (QCA) monitors retailers to ensure that these businesses are not using their monopoly power to set prices higher than is necessary.

The QCA has released its final 2013–15 price monitoring report for the five water retailers in south east Queensland (SEQ) – Unitywater, Queensland Urban Utilities (QUU), Logan Water, Redland Water and Gold Coast Water.

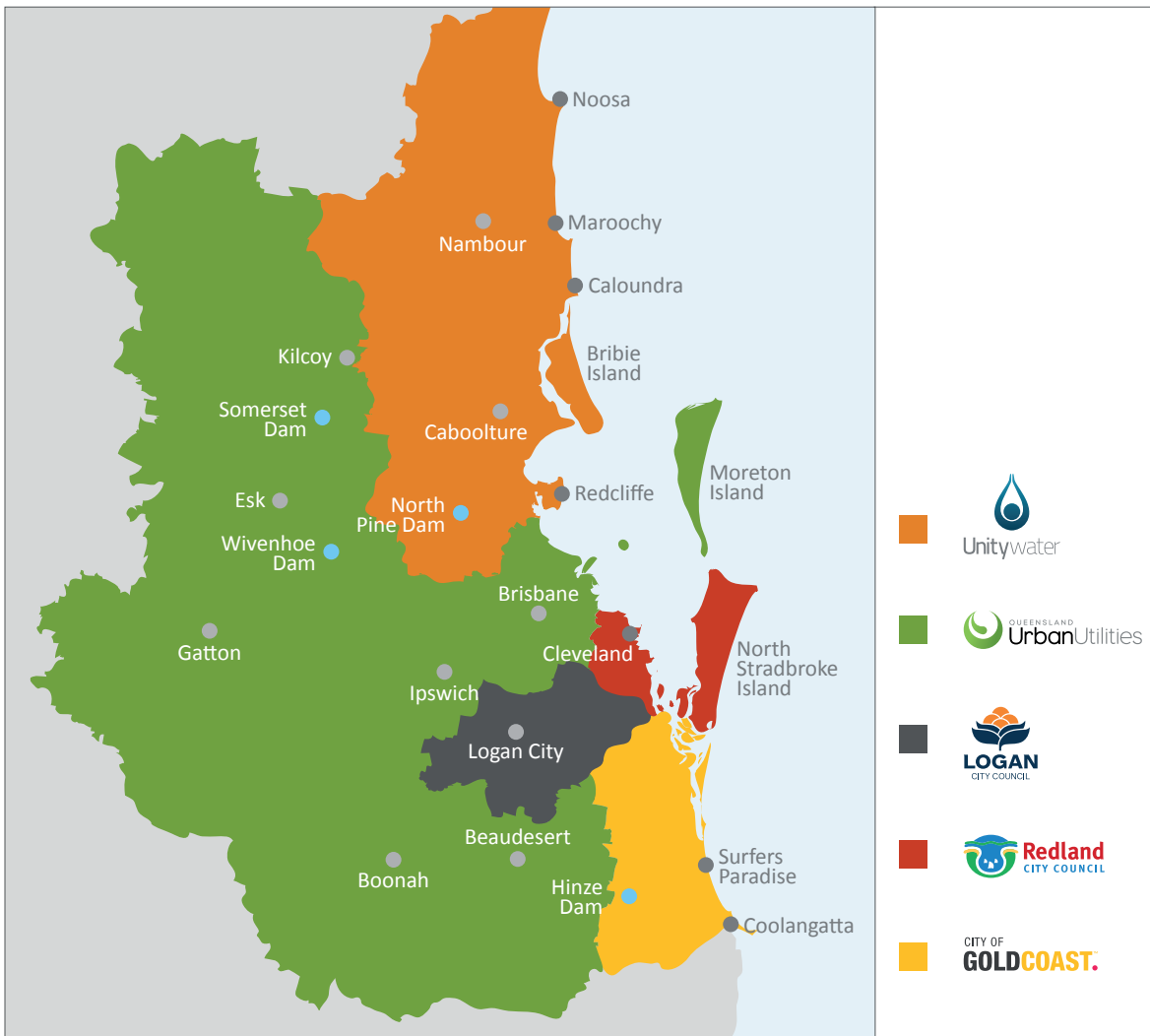
The QCA found no evidence of an exercise of monopoly power, although, for reasons outlined below, we are

unable to establish whether Redland Water is exercising its monopoly power.

These five water retailers are responsible for the distribution and retail of water and sewerage services in SEQ's ten local government areas. These services include distributing treated water to homes and businesses, treating and disposing of sewage and other wastewater, and issuing bills.

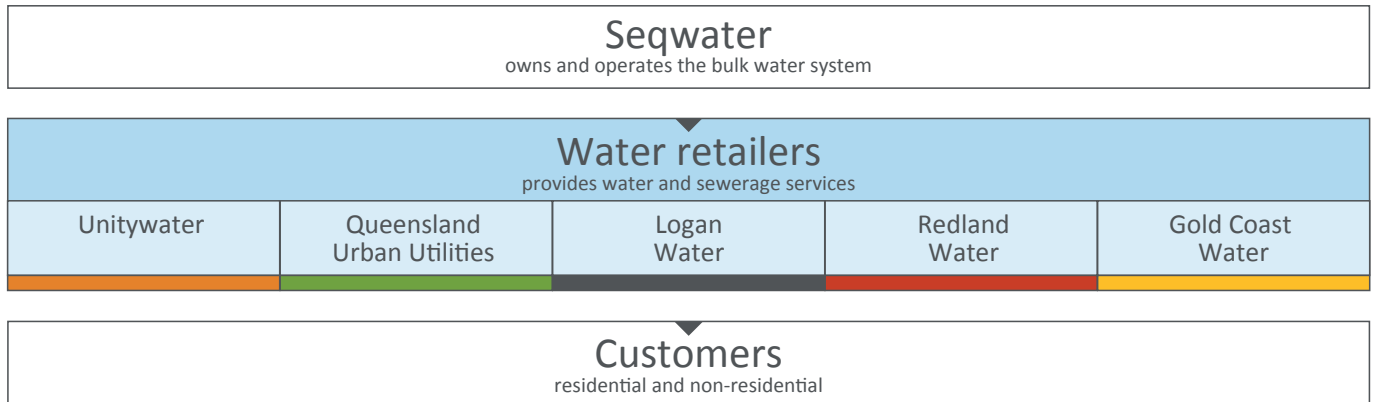
This fact sheet provides an overview of our findings. More detailed fact sheets are available for each of the five water retailers. Submissions made in response to the Draft Report were taken into account and are available on our website qca.org.au/water

Five water retailers of Seqwater



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Water and sewerage services in south east Queensland



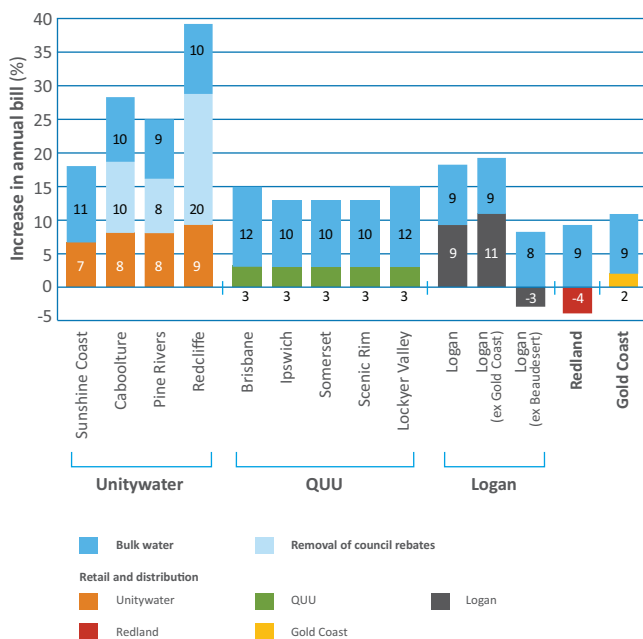
Residential Bills

In 2013–14, the total water and sewerage bill for residents in SEQ will increase by between 5% and 39%.

Only some of the change is due to the retailers, from a fall of 4% in Redland to an increase of 11% in Logan (ex Gold Coast). The remainder is due to bulk water charges and the expiry of State and local government rebates.

To help customers understand changing prices, water retailers should explain the reasons for the change in each part of the bill as well as the overall change.

Change in Residential Bills in 2013–14



Note: Chart shows drivers of change in residential bill from 2012–13, based on 200 kilolitres of water use per year. Source: SEQ water retailers.

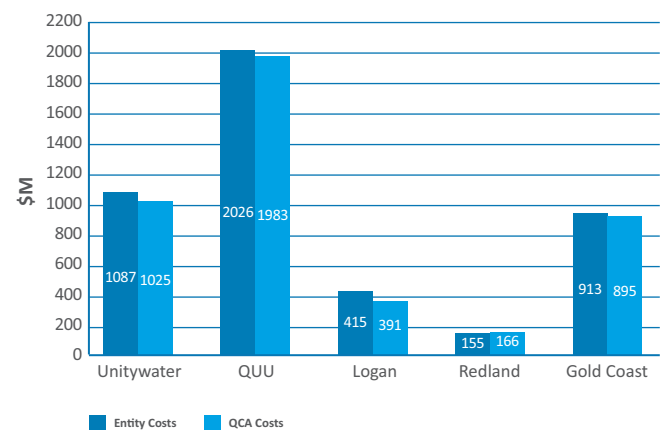
Costs

Part of our role is to establish whether the retailers’ 2013–15 operating and capital costs are required (prudent) and as low as possible (efficient). Our estimates of prudent and efficient costs then determine the maximum allowable revenue (MAR) for the business. The MAR is a key test for monopoly pricing. If a business’s revenue significantly exceeds the MAR for a sustained period, the business may be using its monopoly power to obtain unjustified returns.

Costs – Findings

The QCA believes that the retailers’ costs could be \$134 million lower across 2013–15, due to a range of factors including lower demand forecasts and as some capital projects are due to be completed after 2013–15.

Costs for 2013–15 – Retailer vs QCA calculations (\$m)



Note: QCA’s estimate of QUU’s costs increased by \$2m (to \$1983m) following consideration of submissions on the QCA Draft Report.

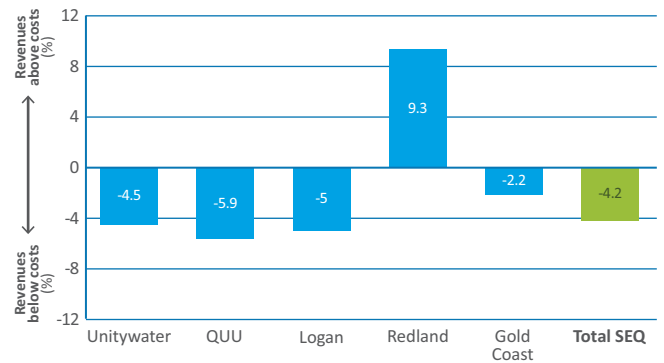
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Revenues – Findings

Unitywater’s, QUU’s, Logan Water’s and Gold Coast Water’s revenues are below the QCA’s estimate of prudent and efficient costs in 2013–15. For these retailers, we therefore found no evidence of an exercise of monopoly power. This finding reassures customers that these retailers are not using their market power to recover more revenue than required to sustain their business.

Redland Water’s revenues for 2013–15, however, are above our estimate of costs. This results from Redland Water’s smoothing of prices over ten years. We have concerns with the ten-year model and Redland Water’s approach to pricing. Redland Water has advised that it will take the QCA’s concerns into account in setting 2014–15 prices.

Over and under-recovery of costs for 2013–15



Note: QUU under-recovery increased by 0.1% (to 5.9%) following consideration of submissions on the QCA Draft Report.

More information

For more information on water and sewerage prices in your region visit our website: www.qca.org.au/water