



Treasurer and Minister for Trade

QLD COMPETITION AUTHORITY

07 MAY 2014

DATE RECEIVED

Level 9 Executive Building
100 George St Brisbane
PO Box 611 Brisbane
Queensland 4001 Australia
Telephone 07 3719 7200
Facsimile 07 3220 6224
Email treasurer@ministerial.qld.gov.au
Website www.treasury.qld.gov.au

ABN 90 856 020 239

TRY-06471

05 MAY 2014

Dr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO BOX 2257
BRISBANE QLD 4001

Dear Dr Roberts *Malcolm*,

REVIEW OF SEQWATER BULK WATER PRICES 2015-2018

Please find enclosed a referral notice under section 23 of the *Queensland Competition Authority Act 1997* requiring the Queensland Competition Authority (the Authority) to conduct an investigation into the bulk water prices for the Queensland Bulk Water Supply Authority (Seqwater) for the period 1 July 2015 to 30 June 2018.

I am informed that officers my department have consulted with the Authority to ensure the terms of the referral strike the right balance between enabling an appropriately thorough review of Seqwater's costs while minimising the regulatory burden. I have also advised Seqwater of this investigation and encouraged them to work closely with the Authority to ensure the reporting timeframes for the review are met.

Should you have any queries regarding this matter, please contact Mr Gregory Tonks, Director, Structural Policy Unit on (07) 3035 1487.

Yours sincerely

Tim Nicholls
Treasurer and Minister for Trade

Encl.

QUEENSLAND COMPETITION AUTHORITY ACT 1997

Section 23

MINISTER'S REFERRAL NOTICE

Referral

Pursuant to section 23(1) of the *Queensland Competition Authority Act 1997* (the Act), I refer the monopoly business activity of bulk water supply by the Queensland Bulk Water Supply Authority (Seqwater) in the local government areas listed below to the Queensland Competition Authority (the Authority) for an investigation about the pricing practices relating to that activity with the objective of recommending bulk water prices ("Prices") for Seqwater in those local government areas for the period of 1 July 2015 to 30 June 2018.

Brisbane	Noosa
Gold Coast	Redland
Ipswich	Scenic Rim
Lockyer Valley	Somerset
Logan	Sunshine Coast
Moreton Bay	

(A) Pursuant to section 24 of the Act, I direct the Authority to consider and make recommendations about the following matters as part of its investigation:

1. recommend Prices for the remaining three years of the 10-year bulk water price path which are consistent with the following:
 - a) Seqwater requires sufficient revenue to recover prudent and efficient costs incurred from providing bulk water supply services, between 1 July 2008 to 30 June 2028, by 30 June 2028;
 - b) repayment of 'price path debt' by 2027-28. Price path debt is the accumulated losses arising from the bulk water price path;
 - c) bulk water costs include, but are not limited to:
 - i. prudent and efficient capital expenditure and operating expenditure, including recreation management costs;
 - ii. depreciation, using straight-line depreciation to reflect the remaining useful life of the assets;
 - iii. a rate of return on assets, reflecting a cost of debt return only (calculated consistent with (B)(2) below);
 - iv. interest on and repayment of price path debt; and
 - v. any costs detailed in Seqwater's bulk water supply agreements.
 - d) to establish the opening regulated asset base as at 1 July 2015, the QCA is to:
 - i. assess Seqwater's expected actual capital expenditure in 2013-14 and Seqwater's forecast capital expenditure for 2014-15 in line with the approach described for capital expenditure in (A)(5) below;
 - ii. roll forward the regulated asset base from 1 July 2013 to 30 June 2015 based on the findings as per (A)(1)(d)(i) above; and
 - iii. roll forward depreciation and appreciation.

- e) To establish the opening price path debt as at 1 July 2015, the QCA is to:
 - i. roll forward the price path debt from 1 July 2013 to 30 June 2014 based on the assessment of Seqwater's operating expenditure for 2013-14 and the assessment of Seqwater's actual capital expenditure for 2013-14 as per (A)(1)(d)(i) above; and
 - ii. roll forward the price path debt determined in (A)(1)(e)(i) above from 1 July 2014 to 30 June 2015 based on the findings from the assessment of forecast capital expenditure for 2014-15 as per (A)(1)(d)(i) above and the assessment of operating expenditure as per (A)(5) below.
 - f) the Price for each council area, except for Redland, Sunshine Coast and Noosa, is to increase so that all councils pay the same Price from 2017-18 (the 'common price');
 - g) the Price for Noosa is to be the same as the price for Sunshine Coast for consistency following the de-amalgamation;
 - h) the Price for each council area is to be increased annually to achieve the 'common price' as follows:
 - i. for councils yet to reach the common price, other than Redland, Sunshine Coast and Noosa, Prices must increase by the same dollar per megalitre each year (the 'common price increase');
 - ii. where the common price increase is higher than necessary for a specific council area to reach the common price, then the increase required for the council area to reach the common price should be applied;
 - iii. once a council area reaches the common price, its price should only increase each year by inflation.
 - i) Prices are to remain constant in real terms once the common price has been reached until 2027-28;
 - j) Prices are to be volumetric only.
2. recommend the price path and impact on bulk water debt of extending the price path arrangements for Redland, Sunshine Coast and Noosa by two years;
 3. recommend mid-price path review triggers and other mechanisms to manage cost and volume risks outside the control of Seqwater in order to provide Seqwater with cost recovery certainty;
 4. recommend an appropriate approach for reviews of expenditure for the period following 1 July 2015, including rules and procedures for determining the price path debt and cost recovery position throughout the price path, and providing Seqwater with cost recovery certainty;
 5. to assess operating expenditure ('opex') and capital expenditure ('capex'), the Authority must adopt the following approach:
 - a) assess the existence of robust policies and procedures having regard to good industry practice, as well as compliance, using a sample of no more than ten capex projects and each of the following broad opex headings: employee expenses (including contractors); electricity; other materials and services; corporate overheads;
 - b) assess the robustness of the capex and opex program planning and delivery processes and procedures in an overall sense and identify any areas for improvement;

- c) form a view on the prudence and efficiency of capex and opex, with the focus on cost areas which are material to price changes rather than matters which are likely to have a minor and inconsequential impact;
- d) have regard to the strategic and operational plans approved by the responsible Ministers under the *South East Queensland Water (Restructuring) Act 2007*; and
- e) capex must be reviewed in light of demand forecasts under (B)(6) below.

(B) In conducting its investigation and making the recommendations, the Authority is to accept the following matters:

1. the regulated asset base as at 30 June 2013 is to be as advised by the Minister for Energy and Water Supply and is not to be optimised;
2. the rate of return to be used for the Prices is the long term cost of debt as advised by the Queensland Treasury Corporation;
3. bulk water costs are to be offset by: revenue from (a) sale of water to power stations and (b) Toowoomba Regional Council as advised by Seqwater;
4. any other revenues from Seqwater's bulk water supply agreements, other than those associated with the Prices, are to be offset from bulk water costs;
5. costs associated with Seqwater's declared irrigation services are to be excluded. Costs from 1 July 2013 are to be as recommended in the Authority's report "Final Report - Seqwater Irrigation Price Review - 2013-17 - July 2012";
6. Seqwater's demand forecasts provided this demand forecast includes a long term residential demand of 185 litres per person per day (L/p/d) and a non-residential demand of 91 L/p/d (not including demand from power stations and Toowoomba Regional Council). The timing of reaching the long term demand forecasts is to be accepted as advised by Seqwater. Power stations' demand and demand from Toowoomba Regional Council is also to be accepted as advised by Seqwater; and
7. the price path debt as at 1 July 2013 is to be as advised by the Minister for Energy and Water Supply.

(C) Timing

Pursuant to section 24 of the Act, I direct the Authority to provide:

- i. a Draft Report to me and the Minister for Energy and Water Supply, by 30 November 2014; and
- ii. a Final Report by 31 March 2015.



TIM NICHOLLS
Treasurer and Minister for Trade

05 MAY 2014