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QLD COMPETITION AUTHORITY

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Dr Malcom Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Dr Roberts

PROPOSED QUEENSLAND COMPETITION AUTHORITY REGULATORY FRAMEWORK FOR SOUTH-EAST QUEENSLAND WATER ENTITIES

Logan City Council (Council) acknowledges the Queensland Competition Authority's (QCA's) Long Term Regulatory Framework for South East Queensland (SEQ) Water Entities and supports the move to more light handed regulation with a focus on performance outcomes. It is in this context that Council considers that in the interest of reducing the regulatory burden on local government water service providers that this regulatory framework not be applied to Logan City Council.

Logan City Council as a local government water service provider is subject to the same regulatory oversight as all other local government water service providers. To have the additional burden of the proposed regulatory framework for SEQ Water Entities Regulation seems an unnecessary regulatory and financial impost. It is unclear to Council why additional regulation is required above that applied to all other local government water service providers in the state outside SEQ.

It is recognised that the haste with which the withdrawal of Logan City Council from the Distributor/Retailer Allconnex Water occurred in 2012 did not provide sufficient time to address the legislative and regulatory adjustments required to return the Council Water Service Providers to the appropriate level of regulation. The planning and coordination requirements on Council as part of the South East Queensland Water Grid are recognised and supported. However, the economic regulatory framework to be developed for the future should recognise the difference between the Statutory Authority Distributor/Retailers as separate utilities and the local government water service providers such as Logan City Council.

An example of the inappropriateness of the SEQ regulatory model is the way that costs of the regulation are applied. Logan City Council customers paying significantly more per customer than other SEQ water customers for economic regulation, highlights the inappropriateness of current and proposed regulatory frameworks.

The proposal that Council must continue to operate within two separate regulatory environments is inappropriate. Council considers it appropriate that the State Government remove Logan City Council from the proposed regulatory framework to be applied to the Distributor Retailer Entities in SEQ and apply the same regulation to Logan as applies to all other local government water service providers across the State.

Further detailed comment supporting this position is presented in the attached table.



Should you have any queries in regards to this letter and/or Council's response to the proposed regulatory framework please contact Daryl Ross, Water Business Manager, on (07 3412 5359) or email darylross@logan.qld.gov.au.

Yours faithfully



Silvio Trinca
DEPUTY CHIEF EXECUTIVE OFFICER - ROAD & WATER INFRASTRUCTURE
(on behalf of Chris Rose, Chief Executive Officer)

Cc: Councillor Margaret de Wit, President and Director, Local Government Association of Queensland
Councillor Graham Quirk, Chairman, Council of Mayors (SEQ)
The Honourable Tim Nicholls MP, Treasurer and Minister for Trade
The Honourable Mark McArdle MP, Minister for Energy and Water Supply
The Honourable David Crisafulli MP, Minister for Local Government, Community Recovery and Resilience

Logan City Council Responses to the QCA Regulatory Framework for South-East Queensland Water Entities Draft Recommendations

QCA Draft Recommendation	LCC Response
3.1 An indirect approach to economic regulation is recommended for the longer term	<p>Logan City Council supports light-handed economic regulation, and therefore does not believe that applying the proposed regulatory framework proposed by the QCA to Logan City Council will achieve this, but rather provides another bureaucratic regulatory burden on water service providers in SEQ owned and operated by local Councils.</p> <p>Information is already provided to other bodies, such as performance indicators, can be used by QCA without a need for the distributor retailers to incur additional costs for producing new indicators such as designing new systems and processes, and labour costs in providing the new information.</p>
3.2 Where an entities' performance is unacceptable, the QCA determine price unless there is an imperative to manage short-term cost pressures. In the latter instance prices should be determined by the Minister	This approach is not considered appropriate for a local government where rates and charges are considered in a total community perspective.
3.3 A transition to indirect regulation be adopted. The length and nature of the transition may vary between entities	Logan City Council has submitted a specific response to this draft recommendation and the QCA's draft assessment of Council's ability to transition to any new regulatory regime under separate cover.
3.4 In the long-term, the entities be subject to a performance monitoring framework	<p>Generally agree.</p> <p>Performance information and data is already provided to other bodies (e.g. Bureau of Meteorology, National Water Commission, the Department of Energy & Water Supply etc.), which is readily available for use and interrogation by the QCA without a need for creating another level of unnecessary regulatory burden on SEQ water entities.</p>
3.6 Amendments will be required to the QCA Act for the purposes of draft recommendation 3.4	Consideration should also be given to any conflicts with the Local Government Act 2009.
3.20 The QCA trigger a full cost of service review in accordance with the scenarios defined in Table 9 (page 38)	We don't believe that this should apply to Logan City Council as a local government water service provider.
3.23 The criteria for an immediate transition to long-term performance monitoring include:	Logan City Council has submitted a specific response to this draft recommendation and the QCA's draft assessment of Council's ability to

QCA Draft Recommendation	LCC Response
<ul style="list-style-type: none"> a) Absence of public interest or equity issues that may warrant regulatory review b) Regulated services are clearly defined and separated for non-regulated services c) Evidence that market power is not being exercised, that is, the opening cost base is efficient and further cost increases comply with the CPI-X mechanism AND service quality is in line with expectations d) Absence of imminent material changes in circumstances or major infrastructure costs e) Demonstrated capacity to provide information accurately and on time 	<p>transition to any new regulatory regime under separate cover.</p> <p>However, Logan City Council does not consider that this approach should apply to local government water service providers.</p>
<p>4.5 For rolling-forward the RAB CPI be adopted</p>	<p>Agree on the basis that any actual CPI measures should be clearly defined and communicated</p>
<p>4.13 Operating costs are efficient where they represent the least cost over the life of the assets</p>	<p>When undertaking benchmarking of operating costs, the very high cost of bulk water in SEQ compared to other entities other than South East Queensland entities must be taken into account when carrying out comparisons. It should be noted that other interstate entities which Council has been compared with, as outlined in the SKM price monitoring report, are not subject to the same bulk water supply arrangements and have their own source of water supply.</p>
<p>4.16 Each year, entities submit to the QCA details of prices (and components of prices) and changes from the preceding year</p>	<p>This approach is not really considered appropriate for a local government water service provider.</p>
<p>4.17 If changes in prices (or the components of prices) exceed CPI-X, further supporting information including the reason for the difference be submitted in the entities' initial submission</p>	<p>We don't consider this appropriate for a local government water service provider.</p>
<p>5.3 The customer engagement strategy should include a customer consultation committee</p>	<p>Council believes that through its many existing customer engagement forums, as well as the fact that 12 elected community members serve as community advocates provides effective customer engagement.</p>
<p>6.1 The council water businesses be subject to the same legislative and regulatory planning requirements as the DRs</p>	<p>There are significant differences in the requirements for the DR's and the council operated water businesses. There are fundamentally different governance, management and regulatory processes. There appears to be no foundation for this statement.</p>

QCA Draft Recommendation	LCC Response
<p>6.2 Entities should provide evidence of board/council approval and Ministerial endorsement of their relevant Water Netserv Plans to the QCA</p>	<p>Current legislation and regulation surrounding the requirement to develop a Water Netserv Plan is not prescriptive. As it stands, there is only a legislative requirement to have Part A of the Water Netserv plan endorsed by the board/council and be submitted for Ministerial endorsement. Currently, Part B of the Water Netserv Plan is to act as an internal planning document. The current arrangements allow for an open interpretation of the planning requirements for Part B of the Water Netserv Plan and will result in a varied level of plan content and development between the SEQ water entities.</p> <p>The Position Paper also highlights that in light of the preferred "light handed regulatory framework" approach, that the current requirement for endorsement of the Water Netserv Plan is adequate to ensure sufficient regional coordination. This relies on the statutory process to prepare and adopt a Water Netserv Plan including consultation with adjacent water entities and endorsement by the local government and Minister (i.e. that the water planning's growth assumptions are consistent with the Council's planning scheme and the SEQ Regional Plan).</p>
<p>6.3 Entities annually report to QCA on their annual capital works plans or annual performance plans</p>	<p>Agree, that it is appropriate to provide this information on an annual basis.</p>
<p>6.4 Annual updates to Water Netserv Plans also be submitted</p>	<p>Current legislation does not prescribe an annual review of Netserv, that only a significant 5 year review of the Water Netserv Plan takes place.</p>
<p>7.1 The service quality performance reporting framework incorporate indicators that are:</p> <ul style="list-style-type: none"> a) Relevant and meaningful to stakeholders b) Linked to controllable costs c) Suitable for relative performance assessment within, and across, entities over time d) Cost effective – the costs of collecting and reporting indicators should be justifiable relative to benefits e) Measurable – clearly defined, quantifiable, reliable and verifiable 	<p>The suite of performance indicators should largely be provided from the National Performance Reporting indicators which are a set of audited water business indicators which provide a comprehensive measure of performance of water entities. Additional indicators will result in additional costs incurred by the entities in producing this information.</p>

QCA Draft Recommendation	LCC Response
<p>7.8 Entities should consult with customers to determine scope for a Guaranteed Service Level (GSL) scheme for high value indicators</p>	<p>There are already significant 'levels of service' schemes in place by water entities, particularly those operated by local governments. A combination of Customer Service Standards, Annual Performance Plans and Desired Levels of Service already exist which provide our customers a commitment of the levels of service we will provide to meet expectations (e.g. duration of unplanned interruptions, water quality, response to customer enquiries and complaints etc.).</p> <p>Council does not consider that Guaranteed Service Levels achieve any real benefits for the customer or the Council and will only contribute to increased administration costs.</p>