

APPENDIX E

Final Assessment

Transition to annual performance monitoring – Unitywater

September 2014

We wish to acknowledge the contribution of the following staff to this report:

Geetu Anthonisz, Catherine Barker, William Copeman, Keith Hutchinson, Shannon Murphy, George Passmore and Rick Stankiewicz

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1 INTRODUCTION

1.1 Purpose

This assessment outlines whether Unitywater should transition to recommended annual performance monitoring regulatory framework. The assessment is based on the information available to the QCA from its price monitoring investigations and the transition criteria outlined in the QCA's final report on the *SEQ Retail Water Long-Term Regulatory Framework - Annual Performance Monitoring - Part B* (QCA 2014a).

The QCA invited submissions on a draft assessment, and these have been taken into account in this final assessment.

1.2 Background

The Ministers directed the QCA to investigate and report on a long-term regulatory framework for the monopoly distribution and retail water and sewerage activities of the five south east Queensland (SEQ) distributor-retailers (the retailers) — Unitywater, Queensland Urban Utilities (QUU), and the Logan, Redland and Gold Coast City Councils. If accepted, the framework would apply from 1 July 2015.

The overarching regulatory objective is to protect the long-term interests of the users of SEQ water and sewerage services by ensuring the prices of these services reflect prudent and efficient costs, while promoting efficient investment in and the use of these services, having regard to service reliability, safety and security over the long term.

SEQ water retailers have been subject to different forms of price monitoring since 2008. Over 2010–15, the QCA has reviewed the costs of water and sewerage services, and monitored changes in prices and compared the retailers' revenues to the maximum allowable revenue (MAR). The MAR reflects the QCA's assessment of prudent and efficient costs.

The Ministers required that the form of prices oversight should minimise the administrative burden on the retailers and facilitate a move to a more light-handed framework over time.

1.3 Transition to long-term framework

The QCA recommends an annual performance monitoring regulatory framework which it considers is light-handed (in terms of the costs and level of detail required) and which 'tracks' retailers' performance against:

- (a) CPI-X and certain financial information
- (b) pricing principles
- (c) desired customer engagement practices
- (d) a strategic approach to long term investment
- (e) service quality indicators.

1.4 Criteria

Criteria for immediate transition

The QCA outlined the following criteria for an immediate move to long-term performance monitoring:

- (a) an absence of public interest or equity issues that may warrant regulatory review
- (b) regulated services are clearly defined and separated from non-regulated services
- (c) evidence that market power is not being exercised
- (d) absence of imminent material changes in circumstances or major infrastructure costs
- (e) demonstrated capacity to provide the required information accurately and on time.

Performance in customer engagement, strategic planning for long-term investment, service quality and application of pricing principles should also be taken into account in assessing whether annual performance monitoring is appropriate.

2 ASSESSMENT

2.1 Introduction

The QCA has assessed Unitywater against the criteria using the outcomes of the 2013–15 investigation and from publicly available sources.

2.2 Assessment against core criteria

2.2.1 Public interest and equity

Draft assessment

The criteria require that there is an absence of public interest or equity issues that may warrant regulatory review for a retailer to transition to long-term performance monitoring.

The QCA was not aware of any public interest or equity issues that would warrant further regulatory review and prevent Unitywater from transitioning to long-term performance monitoring.

In previous reviews, the QCA has been required to assess whether Unitywater complied with a CPI cap when council rebates and subsidies were taken into account (QCA 2013 and 2012). In 2011-12 and 2012-13, Moreton Bay Regional Council provided a rebate on the fixed water and sewerage charges for the residents in its council area. The QCA concluded that Unitywater had complied with the CPI price cap in both 2011-12 and 2012-13.

In its 2013–15 review, the QCA noted that the Moreton Bay Regional Council rebate expired on 30 June 2013. Further, the State Government bulk water rebate that applied to the bulk water component of the residential bill also expired on 30 June 2013.

Unitywater also provides a haemodialysis rebate which offers customers using haemodialysis machines at home an allowance (at no charge) of 200 kilolitres per annum.

The Department of Energy and Water Supply (DEWS) is undertaking a review of the Water and Sewerage Services Code for Small Customers in South East Queensland (SEQ Customer Code) and will consider the water businesses' policies (including hardship) in relation to supporting customers.

Stakeholder submissions

Coolum Residents Association (CRA 2014) was concerned that the QCA considered there to be no public interest or equity issues that would warrant further regulatory review.

CRA noted it had made a number of submissions about unfair pricing practices for Maroochy Water Services.

Final assessment

As indicated in the QCA's (2014b) *Final Report for SEQ Price Monitoring for 2013-15*, the referenced stakeholder's public interest concerns relate to the initial RAB valuations. A review of the initial asset base (established for the purposes of 2010–13 price monitoring) is explicitly prohibited under the Ministers' Direction.

2.2.2 Regulated services are defined

Draft assessment

The criteria require that regulated services are clearly defined and separated from non-regulated services.

In previous reviews, the QCA requested retailers to list all regulated services, their tariffs and corresponding volumes and revenues. Unitywater complied with this requirement, providing the (average) tariffs, volumes and revenues from their price setting process. Further, Unitywater provided a detailed price list for its services.

The QCA also requested retailers to exclude the revenues and costs of non-regulated services, with only the regulated revenues and costs falling under review. In addition, the retailers were required to provide explanation of the basis of any allocations made to non-regulated services that would assist the QCA in its assessment of their submissions. Relevant definitions were as follows:

- (a) A non-regulated service was defined to mean a service provided by a retailer that is not required to satisfy any specified legal obligation or is provided by other service providers in a competitive market in which the business has no legal power to influence a customer's selection of the business as the service provider. For example, this could include laboratory services. Non-regulated services are not to be disaggregated between water and wastewater.
- (b) Non-regulated revenue includes interest on investments, but not interest paid by customers on overdue accounts.

In previous reviews, the delineation between regulated and non-regulated services was not specifically investigated by the QCA: non-regulated services have not been a material segment of costs and revenues. The precise boundary of regulated and non-regulated services may change over time as the nature of relevant services and markets develops.

Unitywater has identified its non-regulated services, costs, revenues and assets. For the 2012–13 review, Unitywater (2013b) listed its non-regulated services as laboratory services, private works, facilities management and other non-regulated services. For the period 1 July 2013 to 30 June 2015, Unitywater submitted information templates indicating that:

- (a) non-regulated revenues are \$10.2 million and regulated revenues are \$979.0 million
- (b) non-regulated operating costs are \$10.7 million and regulated operating costs are \$582.8 million
- (c) non-regulated assets are \$1.1 million; regulated assets are \$3,305.2 million (as at 30 June 2015).

Overall, the QCA considered that regulated services are clearly defined and sufficiently separated from non-regulated services. The revenues and costs of non-regulated services are not material enough to warrant further investigation.

However, the QCA had not reviewed whether costs have been appropriately allocated between service categories. The QCA needs to be confident that prices reflect the cost of providing services. This is an issue to be addressed in assessing retailers' compliance with pricing principles.

Final assessment

No submissions on this matter were received in response to the draft assessment. The QCA has not identified any other related issues to impede Unitywater moving to annual performance monitoring.

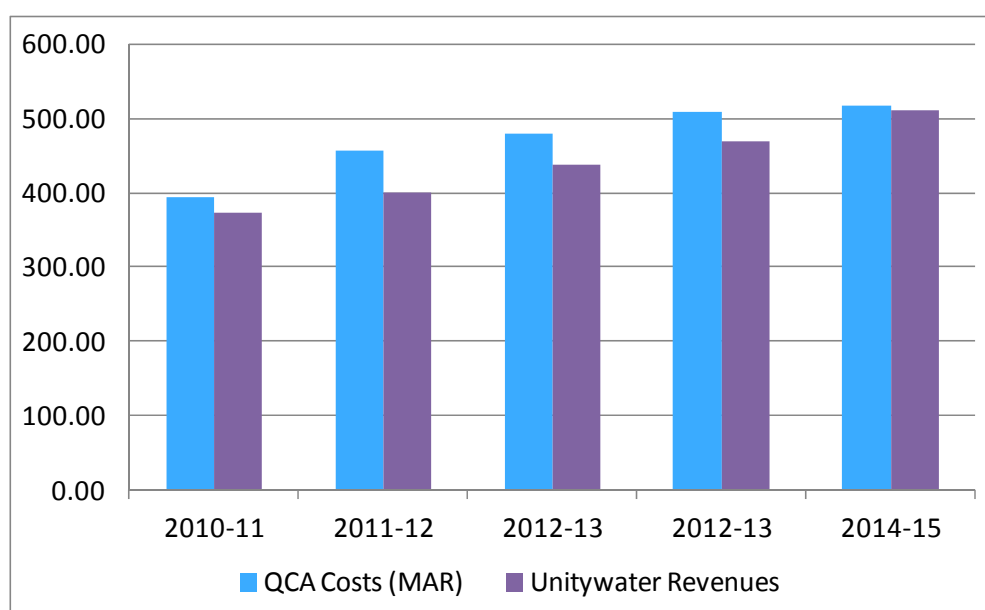
2.2.3 Market power

Draft assessment

The criteria require evidence that market power is not being exercised.

In previous reviews of costs and revenues, the QCA did not find any evidence that Unitywater was exercising its monopoly power. Unitywater's revenues have been below the aggregate MAR (2010-15) (see Figure 1 below).

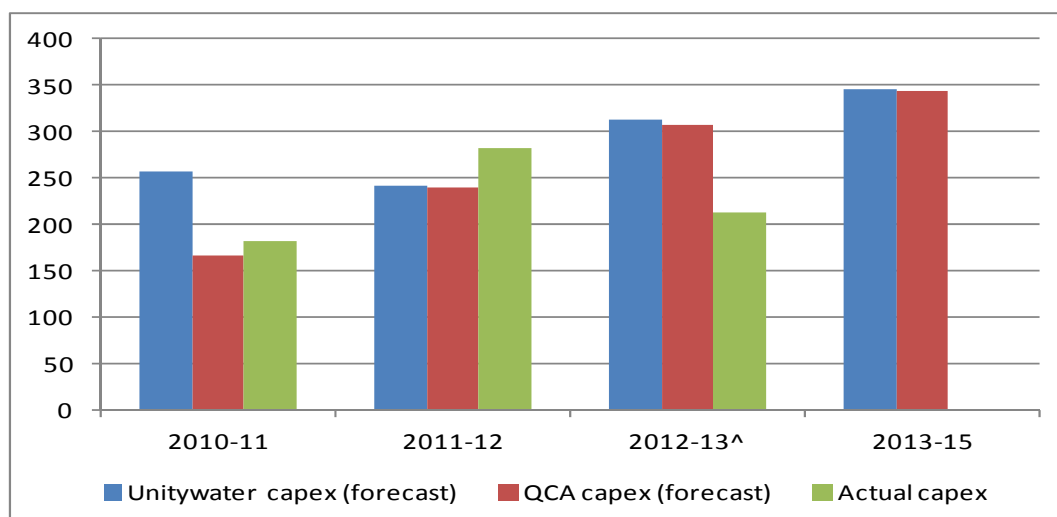
Figure 1 Forecasts of Unitywater costs (MAR) and revenues (\$m)



Source: QCA past price monitoring revenues 2010-15.

It was noted that:

- (a) Unitywater's MARs have been above the QCA MAR, with the difference in 2013-15 mainly due to Unitywater's higher weighted average cost of capital (WACC) of 7.62% compared to the QCA benchmark WACC of 6.57%. The QCA proposed to use its MAR as a basis for performance monitoring from 2015. Unitywater's revenues have been below the QCA MAR.
- (b) Capital expenditure proposals have been reviewed four times over the period 2010-2015 by two different independent groups of consultants. Over 2010-15, the sample of capital projects subject to prudence and efficiency review has averaged 33% of forecast capital expenditure (excluding contributed assets). Over 2010-15, the QCA's prudent and efficient capital expenditure was lower than Unitywater's by 35.2% (predominantly due to deferrals identified by Unitywater and the QCA (see Figure 2)). However, actual capital expenditure for 2010–13 was below the level of forecasts previously found to be prudent and efficient and therefore actual capital expenditure was used to roll forward the RAB in the 2013–15 review.

Figure 2 Unitywater capital expenditure (\$m)

- (c) For the 2013-15 review, Unitywater adopted a starting RAB as at 1 July 2010 rather than at 1 July 2008 as required by the Ministers' Direction.

The QCA adopted the 1 July 2008 RAB and 2008-10 data (including capital expenditure and asset lives) from Unitywater's previous submissions. Unitywater provided revised capital expenditure data for 2010-15. The QCA allocated this data to services and asset classes in some instances, where this was not readily available from the Unitywater data.

The QCA opening RAB as at 1 July 2013 was slightly (0.4%) lower than that estimated by Unitywater. The QCA closing RAB as at 30 June 2015 was (1.4%) below that estimated by Unitywater. The QCA worked with Unitywater to seek to further reconcile differences in the RAB.¹ This was expected to result in only minor changes to the RAB. Therefore, the opening cost base as set by the QCA MAR was considered suitable as a basis for future performance monitoring.

- (d) Non-bulk operating expenditure has also been reviewed four times (by two different independent groups of consultants). Over 2010-15, the QCA's estimate of prudent and efficient non-bulk operating expenditure was lower than Unitywater's. As noted above, while differences exist, Unitywater's revenues have been below the QCA MAR.

Overall, there was no evidence to suggest that market power was being exercised.

Stakeholder submissions

CRA (2014), Unite against Unitywater (2014), and Mr RJ Koerner (2014) submitted that the QCA's conclusion is based on acceptance of rolled-forward 2008 RAB values determined by the Queensland Government. The 2008 legacy valuations were not consistent with deprival value. Ms AR West (2014) submitted that the QCA had not investigated and protected households against monopoly charges embedded in Unitywater's service charges.

¹ As part of this process, Unitywater proposed an alternate method to allow QCA to validate the RAB via reliance on Unitywater's corporate asset register that has been subject to audit by the Queensland Audit Office. Unitywater considered this would be more accurate and cost-effective than providing the data template for the QCA model.

An independent and consistent validation of the RAB using the framework set out in past price monitoring requires a data template that can be verified against supporting documents. The QAO does not apply the rules set out in the Direction for price monitoring in the conduct of its audit.

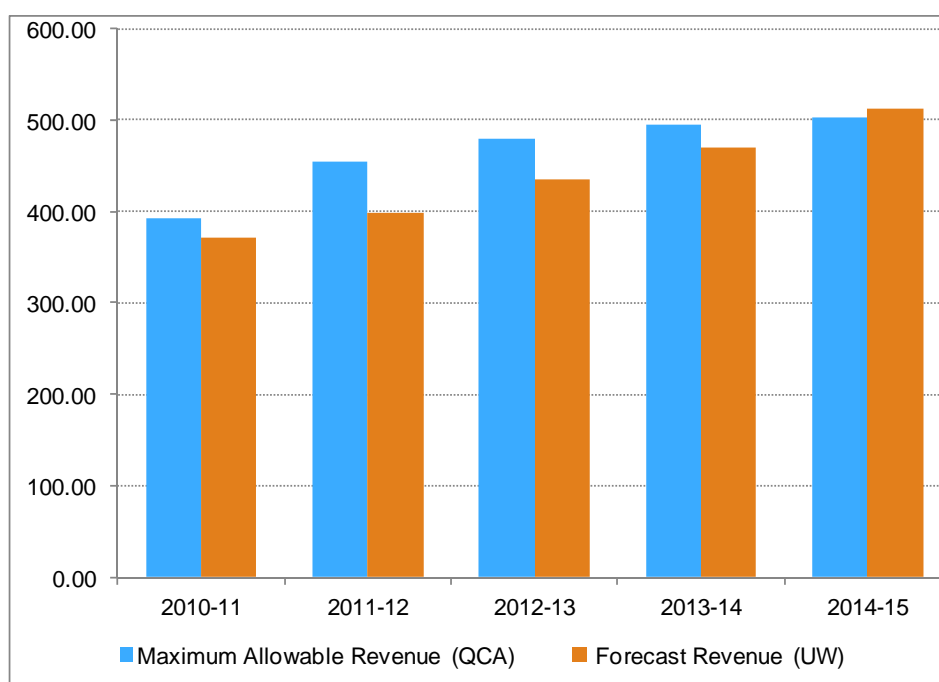
Final assessment

As indicated in the draft assessment, the QCA has worked with Unitywater to reconcile differences in the estimated RABs.

Since the publication of the *Final Report for SEQ Price Monitoring for 2013-15* (QCA 2014b) the QCA has revised the RAB for Unitywater for amended asset lives and corrected indexation for 2013–15. With these revisions Unitywater's RAB is within 0.03% of the QCA's RAB (\$1.1 million out of \$3.2 billion). Given the low materiality of the difference, it is recommended that Unitywater's RAB be used as the basis for annual performance monitoring (and as it equates with Unitywater's financial reporting).

The changes to Unitywater's RAB resulted in a lower MAR for 2013–15. This reduces the level of under-recovery in 2013–14 and results in an over-recovery of \$8 million in 2014-15. In total, Unitywater's under-recovery for the 2013–15 period would be reduced from 4.5% to 1.5%.

Figure 3 Forecasts of Unitywater costs (MAR) and revenues (\$m)



Source: QCA past price monitoring revenues 2010-15.

The forecast 2014–15 over-recovery of \$8 million, should it eventuate, would be equivalent to 1.6% of the estimated MAR.

Unitywater was invited to comment on these forecasts. Unitywater indicated that it expects 2013-14 and 2014-15 revenue to be lower than forecast due to lower demand and that it will remain well below MAR. Unitywater submitted it would still be in an under-recovery position.

Unitywater's contention would only be correct if their volumetric charges are higher than variable cost. The QCA has not reviewed the Unitywater's tariff structures and therefore cannot confirm Unitywater's contentions. Nevertheless, the over-recovery represents only about 1.6% of the estimated MAR and Unitywater remains in under-recovery over 2013-15. Therefore this should not impede Unitywater proceeding to annual performance monitoring.

In response to stakeholder concerns about the RAB values, a review of the initial asset base (established for the purposes of 2010–13 price monitoring) is explicitly prohibited under the

Ministers' Direction. In response to Ms AR West, the QCA has found that Unitywater under-recovered against its MAR over the 2013-15 price monitoring period.

2.2.4 Imminent change in circumstances

Draft assessment

The criteria require that there is an absence of imminent material changes in circumstances or major infrastructure costs.

Unitywater's cost information requested for the 2013–15 review did not provide information on post-2015 costs. Bulk water prices until 2017–18 are publicly available on the DEWS website.

The QCA was not aware of any imminent material changes in circumstances or major infrastructure costs that would impede Unitywater's transition to the long-term framework.

Final assessment

No submissions on this matter were received in response to the draft assessment. The QCA has not identified any other related issues to impede Unitywater moving to annual performance monitoring.

2.2.5 Information provision

Draft assessment

The criteria require that there is demonstrated capacity to provide information accurately and on time.

In general, Unitywater has provided its submissions to price monitoring accurately and on time. Unitywater has responded to further requests for information in a reasonable timeframe.

Issues arose in the 2013–15 review in relation to the information required to roll forward the 1 July 2008 RAB, as noted above. The QCA worked with Unitywater to reconcile differences in the RAB. The differences are not considered material.

The QCA considered that, on balance, Unitywater had demonstrated it has the capacity to provide information accurately and on time.

Final assessment

No submissions on this matter were received in response to the draft assessment. The QCA has not identified any other related issues to impede Unitywater moving to annual performance monitoring.

2.2.6 Summary of assessment against core criteria

Draft assessment

On the basis of the above assessment, Unitywater met the core criteria for immediately moving to the light-handed annual performance monitoring framework.

Issues relating to the RAB roll-forward remained to be resolved.

Stakeholder submissions

CRA (2014) opposed immediate transition for Unitywater as there are equity issues that warrant regulatory review due to the restrictive terms of reference issued by the Queensland Government and failure by the QCA to exercise its responsibilities in past SEQ price monitoring.

CRA submitted that QCA findings of a lack of evidence of market power are flawed due to the restrictive terms of reference.

Final assessment

In response to CRA's concerns it is noted that:

- (a) according to the QCA's assessments Unitywater's revenues were within efficient costs over the 2013-15 period
- (b) the QCA does not determine its terms of reference – the prohibition on reviewing the initial asset base was set by government.

On the basis of available data, Unitywater is not exercising market power – over the period 2013–15 Unitywater's revenues in aggregate remain below the QCA's estimates of efficient costs.

2.3 Assessment against other criteria

2.3.1 Introduction

Performance in customer engagement, strategic planning for long-term investment, service quality and pricing principles are relevant to the assessment. Only a partial assessment can be made in relation to many of these criteria, as some were not monitored in the past and complete information is not readily available.

The QCA sought to identify whether there is any information on these criteria that would delay or impede transition by assessing the retailers' performance to date and predisposition to further improvement. To assist retailers improve their performance, areas of potential improvement that would be expected to be addressed in subsequent annual performance monitoring are identified.

2.3.2 Customer engagement

Excerpt of recommendations

- 5.1 Each retailer, in consultation with its customers, develop a strategy for customer engagement based on best practice principles.**
- 5.2 Customer engagement:**
 - (a) promote understanding of customers' needs and be representative and responsive of customer views**
 - (b) be relevant, evidence based, open and transparent, timely, collaborative, and cost-effective.**
- 5.3 The customer engagement strategy include a customer consultation committee.**

Draft assessment

In its submission to the 2013-15 review Unitywater stated that it is committed to keeping customers and stakeholders informed, including through:

- (a) its community advisory group, which consists of nine members representing community and the business sectors and meets quarterly to provide feedback to Unitywater on customer, community and business needs
- (b) regular briefings to community organisations and other groups on relevant topics

- (c) customers research forums which gauge the effectiveness of communications and gain feedback on planned initiatives
- (d) online material and printed material mailed with customer accounts
- (e) its obligations under the customer charter to inform customers of planned interruptions
- (f) its use of Facebook and YouTube as complementary means of communicating with targeted customers.

In its 2013-15 review, the QCA noted that retailers should explain the reasons for the change in each part of the bill as well as the overall change.

Unitywater has a community advisory group in place and undertakes regulator briefings to the community organisations, customer research and other activities envisaged for a customer consultation committee. The QCA considered that based on available information Unitywater's activities incorporate many of the desired attributes of effective customer engagement.

Accordingly, the QCA concluded that performance should not impede Unitywater moving to annual performance monitoring.

Unitywater would be required to provide more information on customer engagement practices as part of annual performance monitoring.

Final assessment

No submissions on this matter were received in response to the draft assessment. The QCA has not identified any other related issues to impede Unitywater moving to annual performance monitoring.

2.3.3 Strategic planning for long term investment

Excerpt of recommendations

- 6.1 The legislative and regulatory planning requirements for council water businesses be reviewed with a view to reducing any duplication of the requirements applied to the DRs.**
- 6.2 Retailers provide evidence of board/council approval and Ministerial endorsement of their relevant Water Netserv Plans to the QCA.**
- 6.3 Retailers annually report to the QCA on their annual capital works plans or annual performance plans.**
- 6.4 Part A Water Netserv Plans and any updates for minor and major amendments be submitted.**
- 6.5 Retailers annually report to the QCA details of their compliance with the asset management standard they have implemented and progress in addressing areas of improvement to achieve good industry practice.**
- 6.6 Should a cost of service review be triggered, the QCA assess retailers' asset management practices against PAS-55.**
- 6.7 Retailers annually report to the QCA details of the project evaluation practices used for significant capex projects.**
- 6.8 Retailers submit details of project evaluation, including options analysis and risk analysis, for up to the 6 largest capex items, where required as part of a request for further information.**

Draft assessment

In the 2013–15 price monitoring review, the QCA made adjustments to one of Unitywater's capital expenditure projects, based on its consultant SKM's (2014) advice following their detailed review of six sampled projects. A reduction of \$0.52 million was made to the sampled expenditure of \$61.5 million (total capital expenditure for 2013–15 is \$344.8 million).

SKM (2014) also reviewed Unitywater's policies and procedures for capital expenditure, including its Water Netserv Plan for consistency with the SEQ Regional Plan. A summary of SKM's findings is provided in Table 1.

Table 1 Capital expenditure policies and procedures

<i>Criteria</i>	<i>Findings</i>
Standardised approach to cost estimating	Unitywater's cost estimating processes were not consistent with good industry practice, due to a capital works cost estimating tool not being mandatory for use.
Gateway review	Unitywater's gateway process included five review points/gates.
Detailed analysis of options for major projects	Unitywater had processes in place which provide for detailed analysis of options for major projects.
Commissioned capital expenditure from 1 July 2010 in the RAB	Unitywater used models to translate capital expenditure as-incurred to as-commissioned expenditure. Commissioned values were reflected in the data templates used to roll forward each entity's RAB from 1 July 2010.
Compliance	Unitywater's capital expenditure policies and procedures met the compliance requirement and were robust.
Considers regional perspective	<p>Unitywater's Water Netserv Plan Part B and Capital Works Planning Manual did not include provisions to address regional requirements at key decision points.</p> <p>Unitywater participates in the SEQ Water Service Provider Partnership, SEQ Operations Committee, and SEQ Strategy and Planning Committee. Within its service area, Unitywater takes a whole of region approach to invest in capital projects in Moreton Bay and the Sunshine Coast. Unitywater actively supports investment in alternative nutrient or pollutant reduction initiatives to achieve lower cost environmental benefits in preference to continual focus on STP licences.</p> <p>The QCA considered that the realisation of benefits due to a regional perspective should be captured and reported, to demonstrate regional efficiencies are being pursued and achieved.</p>
Asset management system	<p>Unitywater's asset management system was not consistent with good industry practice and was not robust.</p> <p>Unitywater has not yet fully implemented its Consolidated Asset Management System (CAMS) which will allow it, amongst other things, to:</p> <ul style="list-style-type: none"> (a) more efficiently assess the condition of its properties (b) prioritise maintenance and (c) better manage its fleet of heavy and light vehicles and plant and equipment. <p>Unitywater participated in the IWA/WSAA 2012 Asset Management Performance Improvement Project.²</p>
Procurement	Unitywater's Procurement and Disposals Policy incorporated good industry practices for the procurement of goods and services and was robust

Source: SKM (2014).

Overall, while Unitywater has a Netserv Plan, and demonstrated good practice in options analysis and procurement procedures, there were some shortcomings in cost estimating processes, requirements relating to regional planning and asset management practices.

However, given that capex savings identified by SKM were not substantial (0.8% of sample), the shortcomings were not considered material enough to prevent Unitywater moving to annual performance monitoring.

The QCA proposed to seek evidence that the issues raised by SKM (Table 1) are being progressed as part of future performance monitoring.

² IWA (International Water Association); WSAA (Water Services Association of Australia).

Final assessment

No submissions on this matter were received in response to the draft assessment. The QCA has not identified any other related issues to impede Unitywater moving to annual performance monitoring.

2.3.4 Service quality

Draft assessment

The regulatory framework position paper recommended 38 service quality indicators to be used as a basis for initial service quality reporting: 8 on baseline information, 13 on water and sewerage reliability and service, 4 on water quality, 5 on water consumption, recycling and reuse, 4 on customer responsiveness and service, and 4 on the environment.

These indicators were released after the price monitoring reviews from 2010-15 were finalised. Therefore, the price monitoring reviews to date have not investigated Unitywater's service quality against these principles and have not requested relevant information to do so.

However, a preliminary assessment was made based on information that is publicly available.

The Unitywater Customer Service Charter outlines its commitments, responsibilities and standards for water and sewerage services. Unitywater identified 11 quantitative performance indicators in relation to service quality. Other qualitative standards also apply.

Unitywater annually reports on its performance against eight parameters as shown in Table 2.

Table 2 Unitywater's reported performance

WATER		
Parameter	Target	Achieved
Australian Drinking Water Guidelines compliance	>98%	99.9%
Drinking water quality complaints per 1000 connected properties/year	<10	0.05
Unplanned water supply interruptions per 100 km/year	<10	3
Water main breaks and leaks per 100 km/year	<25	6.5
SEWERAGE		
Parameter	Target	Achieved
Odour complaints per 1000 connected sewerage properties	<65	20
Sewage treatment plant compliance	98%*	97.4%
Dry weather sewage overflows per 100 km of mains/year	<2.2	1.7
Sewer main breaks and chokes per 100 km/year	<40	18.8

Source: Unitywater 2013d.

While some of the Unitywater's service standards overlap with those identified by the QCA for performance reporting, some of the precise indicators and measures differ. Unitywater reports on six of the QCA's 38 recommended indicators.

Therefore, 32 additional indicators were recommended by the QCA. Many (23) of these were already required under the National Water Commission (NWC) performance reporting process.

Unitywater provided information for NWC performance reporting since Unitywater's inception in 2010–11. However, in its 2012-13 national performance reporting, Unitywater did not report on key network reliability and customer service indicators (NWC 2014).

There was therefore evidence that Unitywater has set and is monitoring and publicly reporting on its service quality. Unitywater has substantially met the performance targets for its own nominated indicators.

The QCA has not previously monitored service quality performance and Unitywater has not been required to report against all of the QCA's indicators.

Having regard to Unitywater's commitment to service quality performance monitoring, the QCA considered that the identified shortcomings should not impede Unitywater moving to annual performance monitoring.

However, the QCA proposed that Unitywater would be required to report against the full range of indicators as part of annual performance monitoring. Unitywater should also participate in national performance reporting of key network reliability and customer service indicators.

Final assessment

Since the draft assessment, the QCA revised the recommended service quality indicator list in line with DEWS (2014) and taking account of submissions from stakeholders.

Unitywater's reported indicators include five recommended by the QCA in its revised list.

No submissions on this matter were received in response to the draft assessment. The QCA considers that Unitywater's commitment to service quality performance monitoring supports a transition to annual performance monitoring.

2.3.5 Pricing principles

Draft assessment

The QCA's position paper *SEQ Long Term Regulatory Framework - Pricing Principles* (QCA 2014c) recommended pricing principles to apply to urban water, sewerage, trade waste, recycled water and stormwater reuse.

These principles were released after the price monitoring reviews from 2010-15 were finalised. Therefore, the price monitoring reviews to date have not investigated Unitywater's prices against these principles and have not requested relevant information to do so.

The QCA has not previously reviewed Unitywater's pricing practices and there was insufficient available information in many instances to allow a detailed assessment (see Table 3, which includes the slightly revised final report recommendations).

Pricing is important both to ensure customers are aware of the implications of their consumption and to allow Unitywater to manage its risks.

Nevertheless, previous detailed price monitoring has not required adherence to the proposed pricing principles. It was therefore considered inappropriate to impede Unitywater from moving to annual performance monitoring.

The QCA noted that for all retailers pricing principles were considered a priority issue for attention.

Table 3 General pricing objectives and principles

		Recommendations - Unitywater assessment
Pricing objectives	1.1	That pricing of urban water, sewerage, trade waste, recycled water and stormwater re-use services provided by retailers should: <ul style="list-style-type: none"> (a) promote economic efficiency (b) ensure revenue adequacy (c) take account of the public interest (including fairness and equity) (d) be transparent, predictable, simple and cost-effective to apply. <i>Comment: Insufficient information for assessment. Past price monitoring has adopted annual water and sewerage cost/revenue comparisons.</i>
Pricing principles	1.2	Retailers seek to apply the pricing principles or advise of any departures, the reasons for the departure and provide relevant supporting analysis. <i>Comment: Insufficient information for assessment. Past price monitoring has adopted annual water and sewerage cost/revenue comparisons.</i>
	1.3	Prices reflect marginal cost, together with a two-part tariff where necessary to achieve revenue adequacy. <i>Comment: Insufficient information for assessment. Prices generally based on legacy council pricing with some harmonisation and changes in tariff structure designed to allow customers more control over bills. Unitywater (2013b) has a two-block inclining block tariff (IBT) for residential customers of Moreton Bay and Sunshine Coast regions for 2013-14. A three-tier IBT previously applied in 2012-13 in the Moreton Bay region.</i>
	1.4	Prices be set between incremental (marginal) cost and stand-alone cost. <i>Comment: Insufficient information for assessment.</i>
	1.5	Prices reflect the LRMC of providing a particular service. <i>Comment: Insufficient information for assessment.</i>
	1.6	Prices reflect SRMC when SRMC for a particular period significantly exceeds the LRMC for a particular service. This is sometimes referred to as scarcity charging. <i>Comment: Unitywater does not charge based on scarcity. Bulk water prices are set by the Queensland Government (not Unitywater) and do not vary with supply constraints.</i>
	1.7	LRMC be estimated on the basis of the perturbation or AIC method. <i>Comment: Insufficient information for assessment.</i>

Table 4 Application of pricing principles

Chapter	Topic	No	Recommendation - Unitywater assessment
Urban water	Demand forecasting	2.1	Long-term forecasts used for capital planning be based on projected regional average urban demand as published in the SEQ water security program. <i>Comment: In the 2013-15 review, Unitywater provided information on its long-term demand for capital planning: it uses 230 l/p/d for low and medium density development and 200 l/p/d for high density development. Further, Unitywater's capital planning reflects the SEQ Design and Construction Code.</i>
		2.2	Short-term demand forecasts be based on estimated water use per customer/connection and population forecasts (number of connections) and take account of any bounce-back effect as well as local circumstances. <i>Comment: Unitywater has applied this principle in setting water prices, as noted in past price monitoring reports.</i>

Chapter	Topic	No	Recommendation - Unitywater assessment
		2.3	<p>Demand forecasting practices and alternative models (including demand elasticities) be reviewed by a working group including the retailers, QCA and other relevant parties.</p> <p><i>Comment: Unitywater made this suggestion to past price monitoring reviews.</i></p>
	Volumetric charges	2.4	<p>The volumetric charge for urban water services reflect LRMC.</p> <p><i>Comment: Unitywater introduced changes in tariff structure in 2013-14 designed to allow customers more control over bills. Unitywater (2013b) has a two-block IBT for residential customers of Moreton Bay and Sunshine Coast regions for 2013-14.</i></p> <p><i>The QCA requested but was not provided with Unitywater's fixed and variable costs underpinning its changes to tariff structure in 2013-14.</i></p>
		2.5	<p>Where prices exceed average costs, short-term over-recovery of revenues be addressed by ex-post rebates with adjustments made to the fixed charge.</p> <p><i>Comment: Insufficient information for assessment. Past price monitoring has adopted annual water and sewerage cost/revenue comparisons.</i></p>
	Fixed charges	2.6	<p>Fixed charges for urban water services recover the MAR not covered by the volumetric charge.</p> <p><i>Comment: Insufficient information for assessment.</i></p>
		2.7	<p>Charges not encourage customers to by-pass or disconnect from the network.</p> <p><i>Comment: No information to indicate customers are seeking to by-pass or disconnect from Unitywater's network. Past price monitoring has not investigated cost allocation, including to customer types.</i></p>
	Inclining and declining block tariffs	2.8	<p>Inclining and declining block tariffs not be introduced, and where already in place be phased out over time to a single volumetric charge.</p> <p><i>Comment: In 2013-14, Unitywater reduced the number of tiers in Moreton Bay from three to two for standalone residential dwellings. Multi-dwelling residential and non-residential customers still have a three tier inclining block tariff (this is intended to transition to two tiers).</i></p>
	Location-based or nodal pricing	2.9	<p>Location-based or nodal charges for urban water services be applied where there are significant differences in costs between locations or between nodes.</p> <p><i>Comment: Unitywater has two location-based pricing areas, based on previous council boundaries.</i></p>
	Peak period and seasonal charges	2.10	<p>The QCA notes that peak-period or seasonal charges for water are not in use in Australia. Responses from retailers show little interest in introducing such charges. The QCA recommends that retailers only consider peak period or seasonal charges where clear net benefits are likely.</p> <p><i>Comment: Unitywater has no peak-period or seasonal charges.</i></p>
	Self-selecting tariffs	2.11	<p>Self-selecting tariff options be considered where there is sufficient information for customers to make choices, provided they do not result in cross-subsidies or introduce unmanageable revenue risks for the retailer.</p> <p><i>Comment: Unitywater does not offer self-selecting tariff options.</i></p>

Chapter	Topic	No	Recommendation - Unitywater assessment
	Service quality differentials and interruptible tariffs	2.12	Price/service quality tariff options be adopted, where material cost differentials are associated with different levels of service. <i>Comment: Unitywater does not offer tariffs differentiated by service quality.</i>
	Metering and billing arrangements	2.13	Individual metering of flats and units be adopted where economic and practical. <i>Comment: As of 1 Jan 2008 all new unit/apartment complexes are required to be fitted with individual meters per dwelling. For existing complexes with shared meters, individual water usage is charged according to the property share percentage of the total water usage by all residents. This reflects an apportionment based on the original plans submitted for approval by the builder. Therefore, those flats and units with more bedrooms/bathrooms are allocated a greater proportion of water and wastewater charges.</i>
		2.14	Where water is separately metered, subject to legislative constraints, tenants be billed the fixed and variable charges for water and sewerage. <i>Comment: Landlords are entitled to pass the volumetric proportion of a bill to a tenant provided the premises are individually metered and meet water efficiency standards.</i>
		2.15	Customers with unmetered connections be charged a deemed amount for usage, reflecting average use for similar property types. <i>Comment: Insufficient information for assessment.</i>
		2.16	Customers with unmetered connections be given the option of paying for meter installation. <i>Comment: A Unitywater fact sheet on sub-metering notes that if the owners of an existing development decide to proceed with the installation of a sub-meter, a body corporate resolution is required and the installation is at the cost of the property owner or body corporate (Unitywater 2014a).</i>
		2.17	For vacant and non-connected properties where water and sewerage services are available for connection, the water and sewerage access charges that apply to connected properties (the relevant domestic or commercial charge) be applied. <i>Comment: Unitywater charges vacant land the same water and sewerage access charge that applies to residential connected properties.</i>
		2.18	Concessions and rebates: (a) reflect a consistent approach between the retailers (b) be set to apply to either the fixed charge or as a total direct adjustment to the gross invoice amount (c) be capped so as not to subsidise discretionary use (d) be transparent with acknowledgement of the source of, and purpose for, particular concessions/rebates. <i>Comment: The Moreton Bay Regional Council rebate expired 30 June 2013.</i> <i>Unitywater provides a haemodialysis rebate which provides customers using haemodialysis machines at home with an allowance (at no charge) of 200 kilolitres per annum.</i>
		2.19	Concessions associated with excess water use caused by leaks, be determined by the retailers in consultation with customers.

Chapter	Topic	No	Recommendation - Unitywater assessment
			<i>Comment: Unitywater has a concealed leak policy that is publicly available (Unitywater 2014b).</i>
		2.20	Hardship arrangements be consistent with legislative and operating requirements and avoid cross-subsidies where practical. <i>Comment: Unitywater has a financial hardship policy, as noted in 2013-15 price monitoring. DEWS is undertaking a review of the SEQ Customer Code and will consider the water businesses' policies (including hardship) in relation to supporting customers.</i>
		2.21	Meter-reading and billing be undertaken at least quarterly. <i>Comment: Unitywater applies quarterly billing.</i>
	Tradeable water entitlements	2.22	Tradeable urban water entitlements be considered where the efficiency gains are sufficient to justify the administration and transactions costs. <i>Comment: No tradeable urban water entitlements.</i>
Sewerage	Demand forecasting	3.1	Demand for sewerage services be based on forecast growth in connections, linked to population growth. <i>Comment: Unitywater has applied this principle in setting sewerage prices, as noted in past price monitoring reports.</i>
	Efficient pricing	3.2	For residential customers: (a) sewerage charges be based on a single part tariff with a fixed charge per customer or connection (b) volumetric charges be applied where these can be effectively measured (including by discharge or return factors). <i>Comment: Unitywater introduced two-part tariffs for residential sewage service customers in 2013-14 consisting of a fixed access charge and a discharge factor based volumetric charge. The information provided by Unitywater to explain the introduction of the discharge factor focussed on allowing customers more control over bills and did not refer to LRMC or cost-reflectivity.</i>
		3.3	For non-residential customers: (a) fixed sewerage charges be based on the impact of the customer on the system. In the absence of direct metering, water connection size be accepted (b) volumetric charges be applied where these can be effectively measured (including by discharge or return factors). <i>Comment: Unitywater applies a fixed access charge to non-residential sewage customers. Unitywater has indicated that the pricing structure for non-residential customers will be reformed in 2014-15.</i>
		3.4	Location-based or nodal pricing for sewerage services be applied where there are significant differences in costs between nodes. <i>Comment: Unitywater has two location-based pricing areas, based on previous council boundaries.</i>
Trade waste	Demand forecasting	4.1	Where the customer base changes in line with growth, trend information be used to provide reasonable forecasts of demand for trade waste services. <i>Comment: Insufficient information for assessment.</i>
		4.2	Retailers consult with large customers to monitor any step changes in demand for trade waste services. <i>Comment: Insufficient information for assessment.</i>

Chapter	Topic	No	Recommendation - Unitywater assessment
	Efficient pricing	4.3	Trade waste prices be based on the impactor pays principle. <i>Comment: Insufficient information for assessment.</i>
		4.4	Charges be based on the LRMC of transport, treatment and disposal of trade waste, with variable charges based on volume and contaminant load. <i>Comment: Insufficient information for assessment. Unitywater's trade waste charges are based on three categories of customers, with permit fees, volume charges (assumed or metered depending on category) and strength charges (assumed or measured depending on category).</i>
		4.5	Specific charges for the management of trade waste services (inspection and monitoring) be applied on a cost reflective basis. <i>Comment: Insufficient information for assessment.</i>
		4.6	Charges be differentiated according to customer type and risk factors, and by location (as part of risk assessments) if considered cost effective. <i>Comment: Unitywater's trade waste charges are based on three categories of customers, with permit fees, volume charges (assumed or metered depending on category) and strength charges (assumed or measured depending on category).</i>
	Compliance	4.7	Consistent with regulations, retailers apply penalty charges for non-compliance and recover the efficient costs associated with breaches. <i>Comment: Unitywater relies exclusively on applying the penalty units outlined in the Water Supply (Safety and Reliability) Act 2008.</i>
Recycled water	Efficient pricing	5.1	The revenue requirement for recycled water services be based on the total additional cost of recycling less avoided costs and less developer contributions. <i>Comment: Insufficient information for assessment.</i>
		5.2	Where there are costs associated with recycling that cannot be recovered from recycled water customers, direct and avoidable costs be allocated between relevant parties on a beneficiary pays basis. <i>Comment: Insufficient information for assessment.</i>
		5.3	Recycled water volumetric prices be based on LRMC for the established recycled water scheme where possible, less marginal avoided costs. If necessary, recycled water volumetric charges be set lower than LRMC to ensure demand clears supply (where the recycled water volumetric charge is higher than the potable water volumetric charge). <i>Comment: In 2013-14, Unitywater provides Class A water (\$1.30/kl) and B Water (\$0.65/kl) through its reticulation system, both are below the bulk water price.</i>
		5.4	Where volumetric charges do not ensure revenue adequacy, fixed charges in a two-part tariff be set to recover remaining revenues, subject to willingness to pay. <i>Comment: See above, no fixed charges apply for recycled water.</i>
		5.5	If the revenue requirement is still not achievable (that is, where fixed and volumetric charges exceed willingness to pay), unrecovered amounts be allocated to potable and sewerage charges in proportion to avoided cost allocations.

Chapter	Topic	No	Recommendation - Unitywater assessment
			<i>Comment: Insufficient information for assessment.</i>
		5.6	The approach and charges be periodically reviewed, as customer acceptance increases. <i>Comment: Insufficient information for assessment.</i>
	Sewer mining	5.7	Charges for sewer mining be set on a case-by-case basis to reflect relevant direct costs, a share of sewerage system common costs, service costs for any returns, less avoided/avoidable costs. <i>Comment: There is no sewer mining undertaken within Unitywater's sewer network.</i>
Stormwater	Stormwater Reuse	6.1	Stormwater reuse pricing be subject to the same pricing principles as recycled water. <i>Comment: Unitywater does not provide stormwater re-use services.</i>
	Stormwater drainage	6.2	Rate-based charges continue to be used for recovery of stormwater drainage costs. <i>Comment: Rate-based charges are used for recovery of stormwater drainage costs. Unitywater does not provide stormwater drainage services.</i>
		6.3	Charges for stormwater drainage be transparently identified on customer bills. <i>Comment: Not relevant to Unitywater.</i>
Industry-wide issues	Externality pricing	7.1	The inclusion of externality prices be supported where material impacts can be valued accurately and cost effectively. <i>Comment: Insufficient information for assessment.</i>
		7.2	Prices incorporating estimates of externalities avoid duplication with other mechanisms and be transparent. <i>Comment: Insufficient information for assessment.</i>
		7.3	Licences and market mechanisms be applied where the benefits are considered to justify the costs. <i>Comment: Insufficient information for assessment.</i>
	Third party access	7.4	Third party access prices be based on the cost of service methodology, and take account of relevant joint or common costs. Any departure from this methodology (such as applying the retail minus methodology) is to be justified. <i>Comment: Insufficient information for assessment.</i>
		7.5	Where retail prices are averaged across user groups (postage stamp tariffs) access prices be adjusted (where required) to ensure costs are not increased for remaining customers. <i>Comment: Insufficient information for assessment.</i>
	Price paths	7.6	Price paths be implemented where there are substantial price increases, having regard to customers' ability to pay and the impacts on the service provider's financial viability. <i>Comment: Unitywater has not published a future price path. Insufficient information for assessment.</i>
		7.7	Price paths be set on a revenue neutral basis. <i>Comment: Unitywater has not published a future price path. The QCA is publishing a separate paper on under and over-recovery mechanisms.</i>

Source: QCA 2014c.

Final assessment

No submissions on this matter were received in response to the draft assessment. The QCA has not identified any other related issues to impede Unitywater moving to annual performance monitoring.

2.4 Conclusions

Draft assessment

On the basis of its assessment against the criteria (see Table 5), the QCA considered that Unitywater should immediately transition to long-term annual performance monitoring as from 1 July 2015.

It was also noted that apart from the application of recommended pricing principles (where a detailed assessment has yet to be undertaken), Unitywater showed a commitment to, and performed well against, other elements of the annual performance monitoring framework.

Potential areas of improvement with respect to the non-core criteria are identified below.

Table 5 Summary of draft assessment - Unitywater

<i>Criteria</i>	<i>Achieved?</i>
Core Criteria	
Absence of public interest or equity issues that may warrant regulatory review	Yes
Regulated services are clearly defined and separated from non-regulated services	Yes
No evidence of an exercise of market power	Yes
Absence of material changes in circumstances or major infrastructure costs	Yes
Demonstrated capacity to provide information accurately and on time	Yes – notwithstanding some issues in 2013-15 review in relation to the 1 July 2008 RAB roll forward
Other criteria	
Performance in customer engagement	Existing customer engagement practices are consistent with many desired features. Unitywater is well placed to build on these to achieve best practice.
Strategic approach to long term investment	Broadly addressing many desired elements. Areas of improvement have been identified including the capture and reporting of benefits due to a regional perspective and implementation of the Consolidated Asset Management System.
Service quality	Unitywater has committed to and is reporting on a limited number (6) of the QCA's recommended measures.
Pricing principles	Insufficient information for full assessment. Prices generally based on legacy council pricing. This is considered a priority area for consideration in future performance monitoring.

Submissions on the draft assessment

Unitywater (2014c) noted that it had met the proposed transition criteria.

Final assessment

The QCA's final assessment takes account of changes in the recommended framework.

Compared to the draft assessment:

- (a) The issues relating to the discrepancies between Unitywater's and the QCA's estimates of RAB are essentially resolved. The actual RAB defined by Unitywater will be adopted for roll-forward.
- (b) Unitywater reports against five of the 20 service quality indicators now recommended by the QCA.

It is recommended that Unitywater move to annual performance monitoring.

Recommendation

E.1 Unitywater move to annual performance monitoring.

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