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Strategic Management / Econometric Market Analysis - ABN 26 021 850 787
31 Fauna Terrace Coolum Beach Qld. 4573

27 January 2015

Dr. Malcolm Roberts
Chairman
Queensland Competition Authority (QCA)
G.P.O. 2257
Brisbane Qld.4001

Re: Review of SEQwater bulk water charges 2015-18 draft report QCA-
Documents.FID42947

Dear Dr. Roberts,

QCA (the Authority) has invited public submissions regarding this prices monitoring inquiry into a significant cost of living expense for all households in South East Queensland (SEQ).

Summary

Draft report FID42947 fails to provide independent assurance to Coolum Beach consumers that the bulk water charges being passed through by Unitywater are legitimate under NWI Pricing Principles of COAG water reform agreements with the Federal Government as reflected in QCA's "Statement of Regulatory Pricing Principles for the Water Sector".

Discussion

It is noted that QCA's "Statement of Regulatory Pricing Principles" (August 2013) cites "Statement of Regulatory Pricing Principles for the Water Sector" (December 2000) without amendments to revise or exclude Section 6.2 Regulatory Asset Base determinations (see pps. 33-36).

Correspondence from The Office of the Minister Energy and Water Supply dated 24 July 2012 makes reference in its final paragraph to KPMG's valuation of legacy assets in 2007. In the interests of protecting Coolum Beach households from possible monopoly pricing abuse in ongoing bulk water charges please independently confirm that this valuation approach is consistent with NWI Pricing Principles and that KPMG's 2007 legacy asset determinations are legitimate.

Please now refer to the Treasurer's cover letter Ref. TRY-06471 dated 5 May 2014 and the accompanying referral notice:

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- Section A 1 (c) (i) requires QCA to investigate bulk water costs to include prudent and efficient capital expenditure;
- Section A 1 (d) (ii) requires QCA to roll forward the regulated asset base (RAB) from 1 July 2013 to 30 June 2015 etc. ;
- Section B (1) requires QCA's acceptance of RAB defined by the Minister Energy and Water and forbids independent assessment necessary to ensure that this valuation is optimized according to Section 6.2 of the Authority's "Statement of Regulatory Pricing Principles for the Water Sector";
- Section B (6) requires QCA's acceptance of SEQwater's demand forecasts without independent assessment; and
- Section B (7) requires QCA's acceptance of price path debt as at July 2013.

By accepting such inquiry terms of reference cited above, QCA is failing to execute its primary regulatory mandate to independently investigate and protect consumers from possible monopoly pricing abuse by commercial entities controlled by the Queensland Government.

Please note from correspondence dated 25 March 2013 enclosed with the public submission of 10 October 2014, QCA has responsibility for independently monitoring regulatory asset determinations and permissible MAR calculations by monopoly service providers such as SEQwater and Unitywater.

Yours sincerely,


R.J. Koerner

Enc. Letter from Office of the Minister Energy and Water dated 24 July 2012.

Cc. CEO the Authority.
Mr. Bob Baldwin MP Federal Parliamentary Secretary - Urban Water



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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