

Our ref: A4549173

Charles Millstead  
Chief Executive Officer  
Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

14 September 2017

Dear Mr Millstead

**Submission: South East Queensland bulk water price review 2018-21**

Thank you for the opportunity to put forward a submission in relation to Seqwater Bulk Water Prices for 2018-21.

Unitywater welcomes the approach to provide transparency of Seqwater's plans to ensure bulk water is delivered in an efficient and low cost way, while ensuring water security and water quality is not compromised.

Unitywater's view is that it is appropriate for Unitywater customers to pay for expenditure where it can be clearly demonstrated that Unitywater customers will derive a benefit from that investment. As required by legislation, any changes to bulk water charges will be passed on directly to Unitywater customers.

Bulk water is Unitywater's largest expense which in 2017-18 represents 54% of the average customer's water bill in the Sunshine Coast and Noosa region and 51% in the Moreton Bay region respectively.

Over the last five years (2013-14 to 2017-18) the bulk water component of the bill has increased by 16% in the Moreton Bay region compared to the Unitywater component which has increased by 1% over the same period. In the Sunshine Coast the bulk water component has increased by 41% compared to 6% for Unitywater's component.

Similarly from 2011-12 to 2016-17 Unitywater's annual operating expenditure increased by \$81M of which \$79M related to purchases of bulk water and \$2M to increases in Unitywater's costs.

Given, both price and cost increases Unitywater requests the QCA consider the following key matters when determining the bulk water price:

- a. The financial impact on customers
- b. The robustness of demand forecasts and its impact on the size of the capital program
- c. Capital Program Optimization and capacity to deliver

More specific detail on these items are contained below.

### **The financial impact on customers**

Water and sewerage customers do not differentiate between Unitywater and Seqwater therefore it is critical that consideration is given to the end use customer when setting bulk water prices.

Customer feedback has been a focus for many years at Unitywater in forming our water and sewerage services pricing strategy. This feedback has shown that our customers are highly sensitive to any cost increases, in-fact price drives 66% of our customers' perception of "value for money" and the higher the price increase the lower the value our customers see they are receiving from Unitywater.

Recent media attention to Seqwater pricing resulted in Unitywater's core customer metrics dropping by 10%. As a result, Unitywater lost three years' worth of gains in customer sentiment and business reputation due to an issue out of our control.

Unitywater has a clear strategic goal to reduce the total cost to serve our customers which focuses on minimising price increases for our water and sewerage services. Through a focus on continuous improvement and operational excellence the 'Unitywater' component of the average customer bill across both regions was frozen during 2015-16, 2016-17 and 2017-18.

Over this same time period, the Seqwater bulk water price increased by 5.0% in Moreton Bay region, and 24.6% in the Sunshine Coast region.

From a customer perspective, Unitywater questions the equity and transparency of charging water customers, through the bulk water charge, for items such as catchment and recreation management, flood mitigation and dam safety which in many cases is investment brought about by urban planning decisions outside of the Unitywater catchment.

While such costs should be recovered from the community the question is why should those costs be recovered through the bulk water charge? If so, we should be transparent on how much of the bulk water charge is for these purposes i.e.; recreational use, flood protection etc.

### **The robustness of demand forecasts and its impact on the size of the capital program**

Forecasting future demand for potable water is a fundamental building block of Seqwater's supply provision and thus pricing strategy. Evidence set out in Seqwater's 2017 submission, demonstrates the impact of an inaccurate, regional demand forecast based on a single figure for the entire region, even over a period as short as the past three years.

Page 25 of Seqwater's Part A submission shows that the 2015 demand forecast was based on a regional average daily demand of 185 L/p/d by 2018. However, regional demand is currently at 169 L/p/d, some 6% lower than forecast. An over stated demand forecast raises concerns for the level of capital investment over the next ten years.

Unitywater has a concern that using a single average day consumption value as representative of the whole of South East Queensland does not reflect important sub regional differences.

Assessing the supply-demand balance at a regional level has the potential to overlook important sub regional treatment plant and grid constraints, which means that there is not a uniform availability of supply and potential underinvestment within a region

Unitywater request that QCA examine the sub-regional supply-demand balance, not only on average daily demand but also for peak day and peak week demand to ensure security and reliability of supply at a local level.

#### **Capital Program Optimization and capacity to deliver**

Seqwater's 2017 submission outlines the proposed capital expenditure for the next ten years (Figure 11 Page 49 of Seqwater's Submission Part A). Unitywater would like to raise the following:

- a. Outcomes reported from the previous period (2015-18) show that Seqwater has not achieved the proposed capital expenditure, under spending by \$50M (identified in the Seqwater submission as the savings target assigned by QCA) and a further \$67M (identified in the Seqwater submission as improved planning). However, it is unclear whether the associated projects were delivered or deferred.
- b. The expenditure forecast for 2021 proposes a doubling of expenditure over the previous year. Based on current performance Unitywater has a concern for Seqwater's ability to plan, achieve and prudently manage that increase and thus achieve an efficient outcome.
- c. The capital profile as proposed in Figure 11 may not be achievable and could represent a movement (slippage) of capital projects from inside the period to be considered for price setting to years just outside the period.

Unitywater recommends that QCA examine the proposed capital program to determine the robustness of the estimates within both the three and five year periods. Experiences of capital programs proposed by regulated water industries in other jurisdictions have shown that, despite using investment decision gateway processes, there are multiple opportunities to optimise the profile of expenditure, achieve savings through procurement strategies and manage delivery.

Unitywater also requests that Seqwater's capacity to deliver is considered to ensure that forecast capital spend is not reflected in pricing and then not delivered in the period thereby resulting in customers paying for infrastructure that is not delivered.



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### Working together

Unitywater will continue to advocate for and support a model where Distributor Retailers and Seqwater work together to reduce overall customer bills. To do this, clear and transparent planning processes must exist between all South East Queensland retailers, and Seqwater.

An example of this approach is reflected in principles that were agreed in the recent collaboration between Unitywater and Seqwater to allow the decommissioning of the Seqwater Petrie Water Treatment Plant. This collaboration project will result in an overall better community outcome.

A joint focus on bulk water metering location and accuracy and system leakage is another example to be considered in the 'end to end' water supply chain.

### Water Quality and Water Security

The availability of compliant water quality and water security are non-negotiables for Unitywater. The prudence and adequacy of demand forecasting and planned capital programs are major drivers of ensuring the adequacy of these non-negotiables. Unitywater has been consulted and is pleased to be working with Seqwater to improve these forecasts and modelling exercises.

Should you require any further information please contact Danny Power, Manager Corporate Performance on (07) 5431 8783.

Yours sincerely

George Theo  
Chief Executive Officer