

7 September 2017

Mr Charles Millstead
Chief Executive Order
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Millstead

Submission: 2018 Bulk Water Price Review

Queensland Urban Utilities (“QUU”) welcomes the opportunity to make a submission to the bulk water price review of Seqwater for 2018/19 to 2020/21.

Water is an essential service and QUU understands that utility costs are important to customers. I acknowledge Seqwater for reducing its forecast total costs over the next 10 years. The savings already delivered in total variable costs combined with reductions in capitalised expenditure will benefit customers.

Having undertaken our own analysis, I understand that Seqwater has already made savings from a reduction in their service contracts and in repairs and maintenance costs. In this regard, I welcome further insight on the specific operational cost savings as QUU is always examining opportunities for continuous improvement and identifying areas where it can make savings to the benefit of its water customers and the broader community.

I note that Seqwater’s submission only details its broad expenditure plans for the regulatory period and it remains unclear as to how prices will be determined. Accordingly, the following comments provided are limited by the uncertainty around the price outcomes and associated customer impacts.

I offer the following key points regarding Seqwater’s proposal, with more details provided in the attachment:

1. **Electricity procurement** – There is an assumption of a significant price escalation in Seqwater’s electricity costs, which would appear to be influenced by its procurement strategy and the volatility in the electricity wholesale market. I would anticipate this being an area for further consideration by the Queensland Competition Authority (“QCA”).
2. **Turbidity and Dirty Water** – QUU considers that the appropriate contingency¹ for dirty water events should be based on the long term average costs for these events.

¹ SEQ Water Submission, Part B, page 26

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3. **Treatment of Drought Costs** – To manage the cost impacts of expenditure related to preparations for potential drought conditions, QUU is of the view that such costs ought to be reviewed, and any true-up, concluded at the end of the regulatory period.
4. **Murrumba Downs** – QUU refers to the Murrumba Downs AWTP² and notes the lack of explanation as to why the contract and the costs have been extended to 2020.
5. **Cost of price path debt** – QUU is of the view that a “true up” at the end of the regulatory period for the interest on the price path debt would be inappropriate as the debt composition is a commercial decision for Seqwater.

I welcome the opportunity to continue to engage with the QCA during this review. Should you wish to discuss the issues raised in this submission, please do not hesitate to contact James Benjamin, Manager Economic Regulation and Pricing, on 07 3855 6161.

Yours sincerely



LOUISE DUDLEY
Chief Executive Officer
Queensland Urban Utilities

² Ibid, page 25

Attachment 1

Electricity Costs

Seqwater's proposal assumes significant price escalation in its electricity costs, which would appear to be influenced by its procurement strategy and the volatility in the electricity wholesale market. We would anticipate this being an area for further consideration by the QCA. In particular, QUU notes that the escalation factor for electricity was based on re-contracting electricity supply every 3 months. QUU considers that contracting for electricity over the length of the regulatory period would have been more appropriate and consistent with broader industry practice.

QUU also notes that with regard to the escalation factors for electricity, Seqwater uses an escalation that is sourced from an Australian Energy Market Operator ("AEMO") consultancy in 2016. QUU notes that these escalation factors have since been updated for AEMO and the underlining trend in electricity escalators is declining. In QUU's view the use of the most recent information concerning electricity prices would be appropriate in forecasting costs.

Turbidity and Dirty Water

QUU refers to SEQ Water's inclusion of a contingency to cover for the impacts of dirty water events³. QUU considers that the appropriate contingency should be supported by analysis based on the long term average for the costs of these events.

Treatment of Drought Costs

QUU suggests that any costs incurred in preparing for possible drought conditions, while a potential pass through condition, the uncertainty of its timing and quantum will present challenges for water retailers with respect to managing customer price impacts during the regulatory period. To manage these price impacts, we are of the view that such costs ought to be reviewed, and any true-up, concluded at the end of the regulatory period.

Cost of Debt on Price Path Debt should be excluded

QUU understands that cost of debt will be applied to the price path debt over a 10 year period. QUU suggests that changes to the duration and/or composition of the Water Grid Manger funding portfolio (which is the price path debt) will cause the cost of debt to change. As such, we are of the view that a true up at the end of the regulatory period for interest on price path debt would be inappropriate as the debt composition is a commercial decision for Seqwater.

Murrumba Downs

QUU refers to the Murrumba Downs AWTP⁴ and notes further explanation is needed on why the charge (\$4M per annum) is being applied beyond the current contract term. In addition, QUU queries whether the capital charges were already recovered within the term of the existing contract.

³ SEQ Water Submission, Part B, page 26

⁴ Ibid, page 25