

30 March 2012

Mr E J Hall
Chief Executive
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Mr Hall

2012–13 BULK WATER GRID SERVICE CHARGES—REQUEST FOR INFORMATION

The Queensland Competition Authority (QCA) has received a Direction Notice from the Minister for Energy and Water Utilities to investigate and recommend bulk water Grid Service Charges (GSCs) for 2012–13. As such the QCA has asked Queensland Treasury Corporation (QTC) to provide:

- a forecast of the costs of debt (including administration, capital markets and competitive neutrality fees) and risk free rates for Seqwater and LinkWater for 2012–13
- a brief description of the methodology for determining the above parameters, and
- any update to the forecast costs of debt and risk free rates for 2011–12 as at 31 March 2012.

FORECAST COSTS OF DEBT FOR 2012–13

The forecast cost of debt information for Seqwater, LinkWater and LinkWater Projects is summarised in the table below. Additional details are included in Attachment A.

<i>Client</i>	<i>Asset type</i>	<i>Account</i>	<i>Total borrowing rate</i>
Seqwater	Non-drought	Weighted average	8.04%
	Drought response— completed	BWS_AQUIF	6.34%
		BWS_CAB_AQ	6.16%
		BWS_CEDAR	6.58%
		BWS_COOM	6.46%
		BWS_DESAL	6.35%
		BWS_EMAD	6.30%
		BWS_ESKP	6.46%
		BWS_EWTPU	6.30%
		BWS_HINZE	6.09%
		BWS_PRW	6.88%
		BWS_PRWIA	6.34%
		BWS_WDAR	6.12%
		BWS_WYDAM	6.09%

<i>Client</i>	<i>Asset type</i>	<i>Account</i>	<i>Total borrowing rate</i>
	Drought response—still to be completed	BWS_WYAR	6.02%*
LinkWater	Non-drought	Weighted average	7.83%
	Drought response—completed	QBWTA_EPI1 QBWTA_NIP QBWTA_NPI1 QBWTA_SRWP	6.49% 6.47% 6.43% 6.48%
LinkWater Projects	Drought response—still to be completed	SRWP_NPI2 SRWP_CEDAR	5.91%* 5.67%*

* The assets are under construction, therefore the accounts are non-debt service payment and the book rates reviewed quarterly.

The above borrowing rates represent the forecast cost of debt to be paid by the bulk water entities for 2012–13. They are inclusive of book rates, administration and capital markets fees (0.07 per cent per annum) and competitive neutrality fees (CNF) for non-drought asset accounts (currently set at 1.16 per cent per annum in accordance with the National Competition Policy).

QTC reviews the book interest rates annually (around March) and applies the reviewed rates from 1 July for the financial year. Changes in the book interest rates are determined by market interest rates when new borrowings are made and the relevant debt pool is rebalanced.

FORECAST RISK FREE RATES FOR 2012–13

QTC's estimates of the risk free rates applicable to entities that hold non-drought debt are:

- 5.92 per cent per annum for Seqwater, and
- 5.71 per cent per annum for LinkWater.

To calculate the risk free rates QTC takes the weighted average of the actual cost of debt on non-drought asset accounts and deducts all fees and charges and the average margin between QTC and Commonwealth Government bonds.

The average margin between QTC and Commonwealth Government bonds has been calculated with reference to 10 year bond rates for both securities. It has been estimated over the period from 1 July 2008 (when Seqwater and LinkWater's borrowing and refinancing transactions first occurred) to 31 December 2011 (latest available information).

UPDATE TO COSTS OF DEBT FOR 2011–12

Changes to the forecast costs of debt since 12 April 2011 are summarised in the table below. Additional details are included in Attachment B, including an updated weighted average borrowing rate for the non-drought accounts based on quarterly changes in the book values of each drought account.

<i>Client</i>	<i>Asset type</i>	<i>Account</i>	<i>Total borrowing rate</i>			
			<i>Original forecast</i>	<i>Actual Sept-11 quarter</i>	<i>Actual Dec-11 quarter</i>	<i>Actual Mar-12 quarter</i>
Seqwater	Drought response—completed	BWS_HINZE	6.20%	6.18%	6.12%	6.12%
	Drought response—still to be completed	BWS_WYAR	6.06%	6.07%	6.07%	6.03%
LinkWater Projects	Drought response—still to be completed	SRWP_NPI2	6.09%	6.06%	5.95%	5.92%
		SRWP_CEDAR	NA	6.23%	6.18%	6.17%

The changes were due to the following:

- Seqwater's BWS_HINZE was a non-debt service payment account for part of the year, and during this time its book rate was reviewed quarterly.
- LinkWater Projects opened a non-debt service payment account, SRWP_CEDAR and its book rate was reviewed quarterly, and
- Seqwater's BWS_WYAR and LinkWater Projects's SRWP_NPI2 continue to be non-debt service payment accounts and the book rates were reviewed quarterly.

In addition, the debt accounts for WaterSecure and Queensland Water Infrastructure were transferred to Seqwater, but the total borrowing rate of each account remains unchanged.


UPDATE TO RISK FREE RATES FOR 2011–12

The estimated risk free rate provided on 12 April 2011 was based on the existing asset book values as of 22 March 2011, forecast book rates and the average margin between QTC and Commonwealth Government bonds over the period from 1 July 2008 (Seqwater and LinkWater's borrowing and refinancing transactions first occurred) to 31 December 2010.

QTC has been asked to provide an update to our previous estimated risk free rate. We have calculated an updated rate based on current asset book values, the current book rates and the average margin between QTC and Commonwealth Government bonds over the period from 1 July 2008 (when Seqwater and LinkWater's borrowing and refinancing transactions first occurred) to 31 December 2011. The updated rates are in the table below.

<i>Client</i>	<i>Risk free rate</i>	
	<i>Original estimate</i>	<i>Updated estimate</i>
Seqwater	5.96%	5.86%
LinkWater	5.95%	5.89%

Sincerely


Philip Noble
Chief Executive

cc Ms Helen Gluer
Under Treasurer
Queensland Treasury
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Ms Karen Waldman
Executive Director
Queensland Water Commission
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ATTACHMENT A

Forecast costs of debt for 2012-13

	Seqwater Accounts	Description	Book Value		Admin and Capital		Total
			at 20 February 2012	Book Rate	Markets Fees	CNF	Borrowing Rate
Non-Drought Assets	BWS_FLOU_S2	Fluoridation Stage 2	13,562,556.84	6.04%	0.07%	1.16%	7.27%
	BWS_POJU08	Post 1 July 08	610,427,405.80	7.32%	0.07%	1.16%	8.55%
	BWS_PRJU08	Pre 1 July 08	535,003,897.86	6.50%	0.07%	1.16%	7.73%
	BWS_SEQWAT	SEQWater	197,621,083.43	6.09%	0.07%	1.16%	7.32%
	Total			1,356,614,943.93			Weight Average
Drought Response - Completed	BWS_AQUIF	Brisbane Aquifer Project	54,279,085.96	6.27%	0.07%	N/A	6.34%
	BWS_CAB_AQ	Caboilture Aquifer Project	43,671,966.07	6.09%	0.07%	N/A	6.16%
	BWS_CEDAR	Cedar Grove/Bromelton Off-Stream storage	72,822,876.44	6.51%	0.07%	N/A	6.58%
	BWS_COOM	Coominya Pipeline Off-Stream Storage	6,659,882.38	6.39%	0.07%	N/A	6.46%
	BWS_DESAL	Tugun Infrastructure Assets	588,244,995.47	6.28%	0.07%	N/A	6.35%
	BWS_EMAD	Ewan Maddock Advanced Water Treatment Plant	46,202,042.80	6.23%	0.07%	N/A	6.30%
	BWS_ESKP	Esk Pipeline Off-Stream Storage	6,587,579.29	6.39%	0.07%	N/A	6.46%
	BWS_EWTPU	Enoggera Water Treatment Plant Upgrade	11,911,685.94	6.23%	0.07%	N/A	6.30%
	BWS_HINZE	Hinze Dam Raising	450,167,409.52	6.02%	0.07%	N/A	6.09%
	BWS_PRW	PRW Loan	372,534,998.87	6.81%	0.07%	N/A	6.88%
	BWS_PRWIA	PRW Infrastructure Assets	1,606,161,908.46	6.27%	0.07%	N/A	6.34%
	BWS_WDAR	Wyralong Dam Access Road	47,068,532.24	6.05%	0.07%	N/A	6.12%
	BWS_WYDAM	Wyralong Dam	329,545,949.94	6.02%	0.07%	N/A	6.09%
Total			3,635,858,913.38			Weight Average	6.35%
Drought Response - Still to be completed	BWS_WYAR	Wyralong Dam Water Treatment Plant	10,376,167.62	5.95%	0.07%	N/A	6.02%
Total			10,376,167.62			Weight Average	6.02%
							See note below
	LinkWater Accounts	Description	Book Value		Admin and Capital		Total
			at 22 March 2012	Book Rate	Markets Fees	CNF	Borrowing Rate
Non-Drought Assets	BWT_POJU08	Post 1 July 2008	502,781,590.62	6.60%	0.07%	1.16%	7.83%
	QBWTA_MBR	Moreton Bay Regional Council	12,240,732.08	6.25%	0.07%	1.16%	7.48%
	Total		515,022,322.70			Weight Average	7.83%
Drought Response - Completed	QBWTA_EPI1	EPI1	41,209,160.01	6.42%	0.07%	N/A	6.49%
	QBWTA_NIP	NIP	190,669,337.77	6.40%	0.07%	N/A	6.47%
	QBWTA_NP1	NP1	176,316,692.55	6.36%	0.07%	N/A	6.43%
	QBWTA_SRWP	SRWP	870,530,795.39	6.41%	0.07%	N/A	6.48%
	Total		1,278,725,985.72			Weight Average	6.48%
	LinkWater Projects Accounts	Description	Book Value		Admin and Capital		Total
			at 22 March 2012	Book Rate	Markets Fees	CNF	Borrowing Rate
Drought Response - Still to be completed	SRWP_NP12	NP12	490,694,255.58	5.84%	0.07%	N/A	5.91%
	SRWP_CEDAR	Cedar	3,492,264.25	5.60%	0.07%	N/A	5.67%
	Total		494,186,519.83			Weight Average	5.91%
							See note below
							See note below

Note: The assets are under construction, therefore the accounts are non-debt service payment and the book rates are reviewed at each quarter.

ATTACHMENT B

Updated costs of debt for 2011-12

Client	Asset type	Account	Description	Original Forecast				Actual September 2011 Quarter				Actual December 2011 Quarter				Actual March 2012 Quarter			
				Book Rate	Admin and Capital Markets Fees	CNF	Total Borrowing Rate	Book Rate	Admin and Capital Markets Fees	CNF	Total Borrowing Rate	Book Rate	Admin and Capital Markets Fees	CNF	Total Borrowing Rate	Book Rate	Admin and Capital Markets Fees	CNF	Total Borrowing Rate
Seqwater	Non-Drought Assets	BWS_FLOU_S2	Fluoridation Stage 2	6.10%	0.07%	1.16%	7.33%	6.10%	0.07%	1.16%	7.33%	6.10%	0.07%	1.16%	7.33%	6.10%	0.07%	1.16%	7.33%
		BWS_POJU08	Post 1 July 08	7.01%	0.07%	1.16%	8.24%	7.01%	0.07%	1.16%	8.24%	7.01%	0.07%	1.16%	8.24%	7.01%	0.07%	1.16%	8.24%
		BWS_PRJU08	Pre 1 July 08	6.66%	0.07%	1.16%	7.89%	6.66%	0.07%	1.16%	7.89%	6.66%	0.07%	1.16%	7.89%	6.66%	0.07%	1.16%	7.89%
		BWS_SEQWAT	SEQWater	6.14%	0.07%	1.16%	7.37%	6.14%	0.07%	1.16%	7.37%	6.14%	0.07%	1.16%	7.37%	6.14%	0.07%	1.16%	7.37%
	Weighted average borrowing rate				6.01%				7.97%				7.97%						
	Drought Response - Completed	BWS_AQUIF	Brisbane Aquifer Project	6.37%	0.07%	NA	6.44%	6.37%	0.07%	NA	6.44%	6.37%	0.07%	NA	6.44%	6.37%	0.07%	NA	6.44%
		BWS_CAB_AQ	Cabootture Aquifer Project	6.14%	0.07%	NA	6.21%	6.14%	0.07%	NA	6.21%	6.14%	0.07%	NA	6.21%	6.14%	0.07%	NA	6.21%
		BWS_CEDAR	Cedar Grove/Biomelton Off-Stream storage	6.66%	0.07%	NA	6.73%	6.66%	0.07%	NA	6.73%	6.66%	0.07%	NA	6.73%	6.66%	0.07%	NA	6.73%
		BWS_COOM	Coominya Pipeline Off-Stream Storage	6.51%	0.07%	NA	6.58%	6.51%	0.07%	NA	6.58%	6.51%	0.07%	NA	6.58%	6.51%	0.07%	NA	6.58%
		BWS_DESAL (QMWA_DESAL)	Tugun Infrastructure Assets	6.45%	0.07%	NA	6.52%	6.45%	0.07%	NA	6.52%	6.45%	0.07%	NA	6.52%	6.45%	0.07%	NA	6.52%
		BWS_EMAD	Ewan Maddock Advanced Water Treatment Plant	6.31%	0.07%	NA	6.38%	6.31%	0.07%	NA	6.38%	6.31%	0.07%	NA	6.38%	6.31%	0.07%	NA	6.38%
		BWS_ESKP	Esk Pipeline Off-Stream Storage	6.51%	0.07%	NA	6.58%	6.51%	0.07%	NA	6.58%	6.51%	0.07%	NA	6.58%	6.51%	0.07%	NA	6.58%
		BWS_EWTPU	Enoggera Water Treatment Plant Upgrade	6.31%	0.07%	NA	6.38%	6.31%	0.07%	NA	6.38%	6.31%	0.07%	NA	6.38%	6.31%	0.07%	NA	6.38%
		BWS_HINZE	Hinze Dam Raising	6.13%	0.07%	NA	6.20%	6.11%	0.07%	NA	6.18%	6.05%	0.07%	NA	6.12%	6.05%	0.07%	NA	6.12%
		BWS_PRW (QMWA_WCRW)	PRW Loan	6.45%	0.07%	NA	6.52%	6.45%	0.07%	NA	6.52%	6.45%	0.07%	NA	6.52%	6.45%	0.07%	NA	6.52%
BWS_PRWIA (QMWA_WCRWIA)		PRW Infrastructure Assets	6.45%	0.07%	NA	6.52%	6.45%	0.07%	NA	6.52%	6.45%	0.07%	NA	6.52%	6.45%	0.07%	NA	6.52%	
BWS_WDAR (QWI_CEDARG)	Wyaralong Dam Access Road	6.08%	0.07%	NA	6.15%	6.08%	0.07%	NA	6.15%	6.08%	0.07%	NA	6.15%	6.08%	0.07%	NA	6.15%		
BWS_WYDAM (QWI_WYARALO)	Wyaralong Dam	6.06%	0.07%	NA	6.13%	6.06%	0.07%	NA	6.13%	6.06%	0.07%	NA	6.13%	6.06%	0.07%	NA	6.13%		
Drought Response - Still to be completed	BWS_WYAR	Wyaralong Dam Water Treatment Plant	5.99%	0.07%	NA	6.06%	6.00%	0.07%	NA	6.07%	6.00%	0.07%	NA	6.07%	5.96%	0.07%	NA	6.03%	
LinkWater	Non-Drought Assets	BWT_POJU08	Post 1 July 2008	6.78%	0.07%	1.16%	8.01%	6.78%	0.07%	1.16%	8.01%	6.78%	0.07%	1.16%	8.01%	6.78%	0.07%	1.16%	8.01%
		QBWTA_MBR	Moreton Bay Regional Council	6.34%	0.07%	1.16%	7.57%	6.34%	0.07%	1.16%	7.57%	6.34%	0.07%	1.16%	7.57%	6.34%	0.07%	1.16%	7.57%
	Weighted average borrowing rate				8.00%				8.00%				8.00%						
Drought Response - Completed	QBWTA_EPI1	EPI1	6.55%	0.07%	NA	6.62%	6.55%	0.07%	NA	6.62%	6.55%	0.07%	NA	6.62%	6.55%	0.07%	NA	6.62%	
	QBWTA_NIP	NIP	6.52%	0.07%	NA	6.59%	6.52%	0.07%	NA	6.59%	6.52%	0.07%	NA	6.59%	6.52%	0.07%	NA	6.59%	
	QBWTA_NPI1	NPI1	6.50%	0.07%	NA	6.57%	6.50%	0.07%	NA	6.57%	6.50%	0.07%	NA	6.57%	6.50%	0.07%	NA	6.57%	
	QBWTA_SRWP	SRWP	6.55%	0.07%	NA	6.62%	6.55%	0.07%	NA	6.62%	6.55%	0.07%	NA	6.62%	6.55%	0.07%	NA	6.62%	
LinkWater Projects	Drought Response - Still to be completed	SRWP_NPI2	NPI2	6.02%	0.07%	NA	6.09%	5.98%	0.07%	NA	6.06%	5.88%	0.07%	NA	5.95%	5.85%	0.07%	NA	5.92%
		SRWP_CEDAR	Cedar	NA	NA	NA	NA	6.16%	0.07%	NA	6.23%	6.11%	0.07%	NA	6.18%	6.10%	0.07%	NA	6.17%

Note 1: The account was a non-debt service payment for part of the year, during this time its book rate was reviewed at each quarter.
 Note 2: The assets are under construction, therefore the accounts are non-debt service payment and the book rates are reviewed at each quarter.
 Note 3: New account and see Note 2 above

Note 1

Note 2

Note 2

Note 3