

QLD COMPETITION AUTHORITY

28 JUN 2013

DATE RECEIVED



Treasury

Our Reference: TRY-04421

26 JUN 2013

Dr M Roberts
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Dr Roberts

Please find attached for your records a copy of the Ministers Direction Notice to develop a long term regulatory framework for the monitoring of South East Queensland distribution and retail water and sewerage businesses.

If you have any queries in relation to this matter please contact Ms Tania Homan, Director, Microeconomics and Structural Reform on (07) 3035 1487.

Yours sincerely


Helen Gluer
Under Treasurer

Encl.

Executive Building
100 George Street Brisbane
GPO Box 611 Brisbane
Queensland 4001 Australia
Telephone +61 7 3224 2111
Facsimile +61 7 3221 5488
Website www.treasury.qld.gov.au
ABN 90 856 020 239

QUEENSLAND COMPETITION AUTHORITY ACT 1997
SECTIONS 10(e)
MINISTERS' DIRECTION NOTICE

Referral

As the responsible Ministers, pursuant to section 10(e) of the *Queensland Competition Authority Act 1997* (the QCA Act), we direct the Queensland Competition Authority (QCA) to investigate and report on a long-term regulatory framework for the monopoly distribution and retail water and sewerage activities (the activities) of the following entities (the DRs):

- Northern SEQ Distributor-Retailer (Unitywater);
- Central SEQ Distributor-Retailer (Queensland Urban Utilities);
- Logan City Council;
- Redland City Council; and
- Gold Coast City Council;

For the purposes of the investigation and report, the Authority is directed to investigate and report on the regulatory framework which would apply from 1 July 2015, including reporting requirements, based on the following overarching regulatory objective:

'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 use of these services, having regard to service reliability, safety and security over the long term'.

For the purposes of developing and implementing such a framework, the QCA is directed to:

- a) develop a regulatory framework for the identified businesses and the QCA to operate from 1 July 2015 onwards – this must set out:
 - i. pricing principles to apply to the industry (including water, sewerage, trade-waste, recycled water services and stormwater re-use services);
 - ii. form of regulation; and
 - iii. the preferred length of the regulatory period.
- b) outline how the regulatory framework will be implemented on an ongoing basis;
- c) assist the businesses to develop a strategic approach to long term investment in the water sector; and
- d) assist with transition toward best practice stakeholder engagement.

Conduct of the QCA pursuant to this referral

1. The development of the regulatory framework should consider the following over-arching principles:
 - a) ensure the costs of implementing the regulatory regime do not exceed the benefits;
 - b) appropriate levels of customer engagement for the framework;
 - c) sufficient co-ordination with other regulatory and regulatory review processes taking into consideration things such as Netserv plans, Total Water Cycle Management Plans, environmental regulation and land use planning;
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- d) ensure that opportunities for a whole-of-sector approach to solutions for the industry are encouraged under the regulatory framework (including non-infrastructure and efficient demand side management initiatives).
 - e) taking account of the different characteristics, in particular, size of the DRs.
2. The framework should recommend treatment of the following regulatory parameters:
- a) the roll-forward of the regulatory asset base (RAB), within and across regulatory periods. A revaluation of the initial RAB (established for the purpose of the 2010-13 price monitoring period) is not to be considered;
 - b) the Weighted Average Cost of Capital (WACC);
 - c) calculating the return of capital;
 - d) assessing efficient and prudent operating and capital costs, including the process the Authority will apply in assessing prudence and efficiency;
 - e) principles to guide the treatment of capital revenues, including gifted assets and infrastructure charges; and
 - f) incentive mechanisms to support innovation and other efficiencies.
3. In developing and implementing the regulatory framework, the following supplementary regulatory objectives will be considered:
- a) the form of prices oversight applied should be proportionate with the risk of misuse of market power by the DRs to ensure that the costs of implementing the framework do not exceed the benefits;
 - b) the framework should be developed to allow for the management of potential price shocks for customers, including:
 - i. price paths within and across regulatory periods, where appropriate;
 - ii. changes in pricing policies, including tariff structures;
 - iii. the provision of subsidies and how they may be treated;
 - c) the form of prices oversight applied should seek to minimise the administrative burden on DRs, including the number of, and detail required in, information returns provided to the Authority and duplication in reporting requirements;
 - d) the Authority must develop service quality performance reporting, in consultation with the DRs and other stakeholders, based on service quality indicators of relevance to residential and non-residential customers, with the objective of informing these customers about the comparative performance of SEQ DRs.

In doing so, the QCA should ensure that the framework is not excessively onerous or costly to implement by focusing on a reasonable range of meaningful indicators in the following areas: baseline (contextual) information; water and sewerage network reliability and service (including water) quality; water consumption, recycling and reuse; customer responsiveness and service;
 - e) the treatment of aggregate annual revenue under/over-recoveries in relation to core water and sewerage services should be considered as part of the permanent price monitoring framework in a manner that balances the interests of the DRs and their customers;
 - f) the long-term framework should facilitate the DRs moving to more light-handed prices oversight over time; and
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- g) a primary focus of the long-term framework should be on assisting customer understanding of how the costs of water and sewerage services influence prices by;
- i. identifying the key drivers of existing retail price levels and annual price increases, particularly where prices increase by more than the rate of general inflation; and
 - ii. reinforcing and promoting understanding of accountabilities for retail prices and service outcomes.

Consultation

The Authority must undertake an open consultation process including all relevant parties and consider all submissions.

For this purpose, the Authority must prepare, in consultation with relevant stakeholders, and publish, a work program, which provides for the release of appropriately sequenced position papers (incorporating draft recommendations).

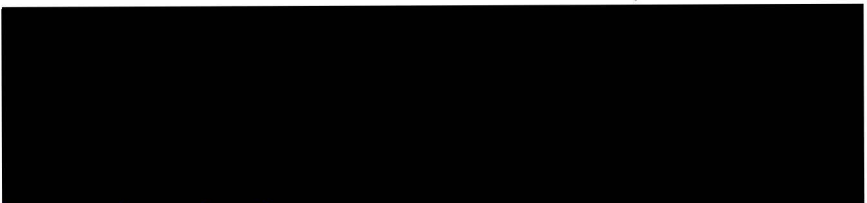
Consistent with section 34 of the QCA Act, all information papers, submissions and the Final Report must be published on the Authority's website.

Timetable

The Authority must provide to the Ministers and the Minister for Energy and Water Supply a Final Report by 30 September 2014.



TIM NICHOLLS
Treasurer and Minister for Trade



JARROD BLEIJIE
Attorney-General and Minister for Justice