

From: Richard Koerner [rjkoerner@iinet.net.au]
Sent: Tuesday, 10 January 2012 1:59 PM
To: Catherine Barker
Subject: Further supporting correspondence to SEQ 2011/12 Prices Monitoring Public Submission
Attachments: CEO-scr4.doc; Laverty2.pdf; CEO-scr5.doc; CEO-scr6.doc; PCuws10.doc; PCuws1.doc; PCuws4.doc; Fraser2.pdf; PCuws5.doc; PCuws6.doc; PCuws11.doc; PCuws13.doc; PCuws12.doc

Follow Up Flag: Follow up
Flag Status: Completed

This email contains an attachment that may be work related and must be filed into the DMS. If you need assistance with this please contact the Executive Officer at xo@qca.org.au.

Attn. Ms. Cath Barker

Dear Ms Barker,

I refer to electronic supporting correspondence forwarded this morning (copied below) and now attach the following:

- 7) Enclosures "H"
CEO-SCRC4.doc and Laverty2.pdf
- 8) Enclosures "J"
CEO-SCRC5.doc and CEO-SCRC6.doc
- 9) Enclosure "K"
PCuws10.doc
- 10) Enclosure "L"
PCuws1.doc
- 11) Enclosure "M"
PCuws4.doc
- 12) Enclosure "N"
Fraser2.pdf
- 13) Enclosure "O"
PCuws5.doc
- 14) Enclosure "P"
PCuws6.doc
- 15) Enclosure "Q"
PCuws11.doc
- 16) Enclosure "R"
PCuws13.doc
- 17) Enclosure "S"
PCuws12.doc

I will provide electronic copies of Submission #25 to the Productivity Commission's Urban Water Sector Inquiry tomorrow together with electronic copies of supporting correspondence enclosures T, W and X for QCA's consideration.

Kind regards,

Richard Koerner

Attn. Ms Cath Barker

Dear Ms Barker,

Please consider the attached supporting electronic correspondence provided to the Productivity Commission's Urban Water Sector Inquiry as public submission #7.

1) Public submission #7

PCuws.doc

2)Enclosure "A"

PCuws7.doc

3)Enclosure "C"

encC.pdf

4)Enclosure "E"

PCuws8.doc

5)Enclosure "F"

encF.pdf

6)Enclosure "G"

PCuws9.doc

Electronic copies of enclosures H, J, K, L, M, N, O, P, Q, R, and S will be provided by separate e-mail this afternoon.

Kind regards,

Richard Koerner

The attached PDF document may not be searchable by our Document Management System. Please contact Jason at jason.smith@gca.org.au with the Document Number so that he is able to check compatability.

Richard J. Koerner Ph.D.(Qld), M.E.Sc., B.C.E (Melb), MICE
Strategic Management / Econometric Market Analysis - ABN 26 021 850 787
31 Fauna Terrace Coolum Beach Qld. 4573

26 August 2010

“R”

The Chief Executive Officer
Queensland Competition Authority
G.P.O. 2257
Brisbane Qld.4001
Attn Ms. Cath Barker

Dear Ms. Barker,

The Queensland Competition Authority (QCA) has invited public comment regarding its prices monitoring role for water and sewerage services provided by government owned business entities providing natural monopoly services throughout South East Queensland (S.E.Qld.). It is my understanding that such entities are subject to the provisions of the National Water Initiative (NWI) agreements between the Federal Government and Queensland in 2004. It is reliance on this assumption that underpins the following submission and these comments are specific to the 2010/11 Budgeted service charges of Unitywater the retail/distribution entity now serving some 55,000 households formerly serviced by Maroochy Water Services (MWS), including Coolum Beach and surrounding communities.

I submit charges incorporated in the Unitywater 2010/11 Budget are improper as no effective prices oversight was performed by the Board of Unitywater prior to adoption of that Budget. Had comprehensive prices oversight been performed it would have been discovered that improper manipulation of the written down replacement value (WDRV) of non-current distribution assets of Maroochy Water Services (MWS) is recorded in the financial reporting period just prior to its amalgamation into Sunshine Coast Water (SCW). In the reporting period 2007/March 2008 MWS assets were revalued as follows (millions):

	WDRV as of 6/07	WDRV as of 3/08	Revaluation	Revaluation as % of 6/07 WDRV
Water assets	\$215.8	\$305.1	\$135.9	63%
Sewerage assets	\$373.4	\$550.2	\$249.2	66.7%

Source: Maroochy Council Annual Report 2007/March08

In the 2005/06 and 06/07 financial reports of Maroochy Council, MWS non-current asset revaluations in excess of 20% and 8% of opening WDRVs are also recorded. The QCA's "Statement of Regulatory Pricing Principles for the Water Sector" (December 2000 pages 33-37) spells out the legitimate methodology to adjust WDRVs to reflect anticipated changes over the regulatory period. Were this methodology being correctly followed one would have expected a roll forward revaluation of less than 9% in the 07/March'08 period, rather than actual revaluations in excess of 60%. Clearly revaluations of the magnitude indicated above are not the result of roll forward adjustments. Inflated asset valuations improperly provided by Maroochy Council, and incorporated into Sunshine Coast Water non-current asset valuations have resulted in inflated regulatory asset valuations causing improper recovery of capital expenditures and return on regulatory assets in the 2010/11 Budget of Unitywater.

Correspondence from the Treasurer (Ref: QTO-09535) dated 26 July 2010 states that KPMG applied a discounted cash-flow methodology to determine non-current asset valuations for SEQ bulk water assets purchased from S.E.Qld. councils as at 30 June 2008. Use of this methodology is at variance with Principle 3 (17) of the NWI's Principles for the Recovery of Capital Expenditures that mandates use of the Optimised Deprival Value approach described on page 33 of QCA's "Statement of Regulatory Pricing Principles for the Water Sector" cited above. It has resulted in inflated valuations of all bulk water non-current assets throughout S.E. Qld.. Consequently capital recovery charges developed by the Queensland Water Commission, now endorsed by the Minister Natural Resources, are inflated and at variance with the methodologies mandated in NWI agreements. This same correspondence also states that the Minister Natural Resources has determined that distribution asset valuations based on the cash-flow methodology used by KPMG would form the regulatory asset base (RAB) for pricing purposes. Such determination is in direct breach of NWI's Principles for the Recovery of Capital Expenditures Principle 3 (17), and Principle 6 (23).

It is noted that the QCA's terms of reference require provision of transparent information to customers about the costs and other factors underlying annual increases in water and wastewater prices etc. for 2010/11, 2011/12 and 2012/13. However the QCA is being prevented from performing an investigation of prior year determinations that established the foundation upon which these increases are based. Given the examples of non-compliance with NWI Pricing Principles cited above, one can have no confidence that the pricing principles contained in the Water Market Rules established under the Water Act (2000), or subsequent policies and regulations comply with the Principles set out in the NWI Regulatory Pricing Agreement.

Yours sincerely,

R.J.Koerner
Enc: Letter Qld. Treasurer to R.J.Koerner dated 26 July 2010

E-mail exchange with QCA
Rec'd 8 October 2010
Richard

“S”

Thought I would send you an email to follow up on some outstanding queries and to reply to your phone message earlier this week. I should prefix my remarks below by advising that your comments will be addressed by the Authority after consideration as part of its Report. I am only an employee of the Authority and therefore until formally considered by the Authority my comments have no real standing. We are also resource constrained from addressing submissions and queries as they arise. The Authority's draft reports and reports are the appropriate medium for considered responses.

Nevertheless, I acknowledge that you have consistently raised a series of concerns which I will try to provide you with some prior advice on this occasion – without prejudice to the Authority's ultimate stand on the issues identified.

In brief, you have:

- (a) asked whether the Authority can investigate the initial regulatory asset values for the retail/distribution entities as advised by the Minister. In particular, whether the Authority will be investigating the retail/distribution asset values for compliance with NWI principles;
- (b) identified concerns with prior council valuations of water businesses including their written down values.
- (c) identified concerns with the valuation of bulk assets owned by Seqwater.

In response, I understand that:

In relation to (a), under the Premier and Treasurer's referral for the price monitoring of retail/distribution entities, the Authority is required to adopt the initial asset values as advised by the Minister for Natural Resources, Mines and Energy and Minister for Trade. The direction is available from the Authority's website. That is, the initial assets values are a “given” in the remit to the Authority. The Authority does not have the power to investigate matters outside its remit.

The Authority's Draft Report is due to be released for comment in early 2011.

In relation to (b), prior council valuations of water businesses are not being investigated by the Authority as part of retail/distribution price monitoring. The Authority can only investigate under Part 3 of the QCA Act where issues are referred to it from the Government. The current referral relates to the monopoly business activities of the retail/distribution entities. The Queensland Audit Office audits and reports on compliance with the financial reporting requirements of councils.

In relation to (c), the Authority has a role in relation to grid service charges under the Market Rules, which prescribe the regulatory asset base as advised by the State Government. In recommending grid service charges to be paid by the Water Grid Manager to Seqwater, I understand the Authority is required to accept the regulatory asset base provided by the Government, but can review new capex for reasonableness.

Regards

Cath Barker
Queensland Competition Authority

Sent 6 October 2010
Attn. Ms. Cath Barker,

Correspondence from the Treasurer dated 26 July (Ref: QTO-09535) reveals that the methodology used by KPMG in 2007 for valuation of bulk water assets in S.E.Qld does not fully comply with requirements of NWI Pricing Principles and the QCA's "Statement of Regulatory Pricing Principles for the Water Sector". Financial statements contained in SEQwater's 2009/10 Annual Report reveal significant revaluations of Dams and Weirs booked that year have likely resulted in improper inflation of asset valuations now being adopted as basis for the capital recovery component of 2010/11 bulk water charges throughout S.E.Qld.

Please consider this information with my public submission dated 26 August and e-mail dated 7 September.

Kind regards,

Richard Koerner

----- Original Message -----

Subject: Further background correspondence to public submission dated 26 August
Date: Tue, 07 Sep 2010 13:42:51 +1000
From: Richard Koerner <rjkoerner@inet.net.au>
To: seqwater@qca.org.au

Attn. Ms Cath Barker,
Dear Ms Barker,

I refer to my submission dated 26 August, and an e-mail dated 27 August providing details of the following clarification request sent to the Treasurer's Principal Advisor:

Attn. Ms. Sharon Humphreys
Principal Advisor to the Treasurer
Dear Ms. Humphreys,

Further to the e-mail of 2 August and correspondence to the Treasurer dated 30 July and 10 June, and to the Under-Treasurer dated 24 May 2010, I now refer to correspondence from the Ministers QCA dated 25 September 2004 (Ref: TRO-06280) and 16 June 2005 (Ref: TRO-10952) to the Coolum Beach Progress and Ratepayers Association (CBP&RA).

Regulatory asset valuations provided in correspondence dated 25 September 2004 are purported to be based on the approach outlined in the QCA's Statement of Regulatory Pricing Principles for the Water Sector (December 2003). Did Treasury perform independent analysis of regulatory asset financial data provided by Maroochy Council that appears relied upon by the Ministers in arriving at their decision not to refer the CBP&RA prices oversight to QCA in June 2005?

Correspondence from CBP&RA dated 6 October 2004 expressed concerns regarding a substantial 30 June 2003 revaluation of Maroochy Water Services regulatory assets. The Ministers letter of 16 June 2005 states that Treasury advised that this revaluation was consistent with accepted regulatory methodology. Was the accepted regulatory methodology that of the Optimised Deprival Value approach cited in the QCA's Statement of Regulatory Pricing Principles for the Water Sector page 33?

Your provision of clarification on these matters would be appreciated.

Yours sincerely, etc."

It would appear that clarification regarding correspondence TRO-06280 and TRO-10952 cited above will not be provided. Failure of the Treasurer to respond suggests a possibility that the flawed approach taken by KPMG for regulatory asset determination throughout S.E. Qld. in 2007 has followed from efforts of senior management from Maroochy Council and Treasury to obstruct independent investigation by QCA of the May 2003 CBP&RA prices oversight complaint against Maroochy Water Services (MWS). Attached for your information are electronic copies of TRO-06280 from the Ministers QCA to the CBP&RA, a letter from the Treasurer explaining a 16 November 2007 (TRO-10952) decision by the Ministers QCA not to refer the May 2003 CBP&RA complaint to QCA for independent investigation, and corrected calculation of returns on MWS regulatory assets dated 12 April 2006 prepared for CBP&RA by the former treasurer.

Maladministration complaints relating to the MWS failure to perform effective prices oversight against Sunshine Coast Regional Council, Maroochy Council, and Treasury were lodged with the Queensland Ombudsman in 2007 (#2007/12525) by CBP&RA, and in 2009 (#2009/01549) by the former treasurer. I have been informed by the Queensland Ombudsman that Qld. Treasury advised the Ministers QCA to refer complaint #2007/12525 against MWS for QCA investigation in December 2006, but that the Ministers declined to follow this advice.

It should also be noted that clarification relating to terms of reference given to KPMG by the Government in 2007 to perform financial due diligence relating to purchase of SEQ councils' bulk water assets has not been provided.

Kind regards,

Richard Koerner
Former treasurer CBP&RA

E-mail exchange with Treasurer
Sent 7 October 2010
Attn. Ms. Sharon Humphreys
Principal Advisor to Treasurer

“Q”

Dear Ms. Humphreys,

I refer to the attached e-mail dated 18 August and note there has been no response to clarification requests relating to cited correspondence TRO-06280 and TRO-10952.

Attached is correspondence now alerting the Treasurer that inflated asset valuations of bulk water infrastructure are carried over to SEQwater regulatory asset determinations.

In order for QCA to perform its statutory prices oversight role, the Ministers QCA terms of reference for 2010/11 and later years price monitoring must surely permit independent assessment of regulatory asset determinations made by SEQwater 2007/08, 2008/09 and 2009/10 as well as the schedule of bulk water charges developed by QWC.

Also attached for your information is a copy of NWI Pricing Principles.

Yours sincerely,

Richard Koerner

----- Original Message -----

Subject: Ministers QCA correspondence dated 25 September 2004 and 16 June 2005
Date: Wed, 18 Aug 2010 08:21:39 +1000
From: Richard Koerner <rjkoerner@inet.net.au>
To: treasurer@ministerial.qld.gov.au

Attn. Ms. Sharon Humphreys
Principal Advisor

Dear Ms. Humphreys,

Further to the e-mail of 2 August and correspondence to the Treasurer dated 30 July and 10 June, and to the Under-Treasurer dated 24 May 2010, I now refer to correspondence from the Ministers QCA dated 25 September 2004 (Ref: TRO-06280) and 16 June 2005 (Ref: TRO-10952) to the Coolum Beach Progress and Ratepayers Association (CBP&RA).

Regulatory asset valuations provided in correspondence dated 25 September 2004 are purported to be based on the approach outlined in the QCA's Statement of Regulatory Pricing Principles for the Water Sector (December 2003). Did Treasury perform independent analysis of regulatory asset financial data provided by Maroochy Council that appears relied upon by the Ministers in arriving at their decision not to refer the CBP&RA prices oversight to QCA in June 2005?

Correspondence from CBP&RA dated 6 October 2004 expressed concerns regarding a substantial 30 June 2003 revaluation of Maroochy Water Services regulatory assets. The Ministers letter of 16 June 2005 states that Treasury advised that this revaluation was consistent with accepted regulatory methodology. Was the accepted regulatory methodology that of the Optimised Deprival Value approach cited in the QCA's Statement of Regulatory Pricing Principles for the Water Sector page 33?

Your provision of clarification on these matters would be appreciated.

Yours sincerely,

Richard Koerner



QTO-00946

Office of the
Treasurer of Queensland

- 4 FEB 2008

Mr Richard Koerner
rjkoerner@aapt.net.au

Dear Mr Koerner

Thank you for your email of 3 January 2008 requesting clarification of the Treasurer's letter of 16 November 2007 to the Coolum Residents Association. Specifically, you have asked whether or not the updated internal review of the Maroochy Water Services (MWS) financial performance was completed in early 2007.

In June 2005, the Premier and Treasury Department wrote to Maroochy Shire Council recommending an optimisation study be conducted to determine whether MWS's assets contained excess capacity, and a review by the council of its pricing practices, in light of risks that MWS's rate of return will increase over time.

In May 2006, the council wrote to the Treasurer advising it had accepted the recommendation to undertake an optimisation study and foreshadowed the study would be completed by December 2006. However, in December 2006, citing anticipated reforms to water arrangements in the South East Queensland and limited organisational capacity/resources, the council advised Treasury it had decided to not prepare the optimisation study.

Treasury was unable to proceed with the review of the MWS at that time, so the internal Treasury review did not occur. Subsequently, consideration was given to referring the matter to the Queensland Competition Authority. However, it was decided that given the substantial reform program in the South East Queensland water sector, these issues would be considered as part of the broader reform program for water in South East Queensland.

If you have any further queries in relation to this matter, please contact Ms Tania Homan, Acting Director, Economics and Intergovernmental Relations on (07) 3224 2806 or tania.homan@treasury.qld.gov.au.

Yours sincerely



 Michael Dart
Senior Advisor

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31 Fauna Terrace Coolum Beach Qld. 4573

“P”

13 October 2010

The Queensland Treasurer
Mr. Andrew Fraser M.P.
GPO Box 611
Brisbane Qld. 4001

Dear Hon. Treasurer,

I refer to my correspondence dated 10 June and to the Under Treasurer dated 24 May pointing out that manipulation of non-current assets of Maroochy Water Services had taken place in the 2007/ March'08 Annual Report of Sunshine Coast Regional Council. I refer also to correspondence dated 6 October pointing out that valuations of SEQwater's non-current assets were improperly determined and are inflated.

Annual Reports for Linkwater and Watersecure suggest non-current asset valuations used for capital recovery charges in 2009/10 were also inflated due to use of the same inappropriate methodology used for determination, that is in breach of Queensland Competition Authority (QCA) Regulatory Pricing Principles. Correspondence received from the CEO of Unitywater dated 23 August confirms that flawed Regulatory Asset Base (RAB) determinations by Sunshine Coast Regional Council in 2008/09 were accepted by the Minister for Natural Resources and used to determine capital recovery charges on reticulation and distribution assets in its 2010/11 Budget. Consequently households in Coolum Beach and elsewhere on the Sunshine Coast serviced by Unitywater are being subjected to monopoly pricing abuse both from the pass through of excessive capital recovery charges embedded in the QWC prices recommendations for bulk water provision, and excessive capital recovery charges on the RAB used by Unitywater for retail assets.

Investigation of bulk water charges is necessary to prevent households throughout SouthEast Queensland being subjected to monopoly pricing abuse resulting from the Queensland Government's failure to embrace NWI water reforms. I request timely referral of the 2010/11 Budgeted service charges of Unitywater, together with the 2009/10 and 2010/11 bulk water charges of SEQwater, Linkwater and Watersecure, to the QCA for independent monopoly pricing oversight investigation under part 3 of the Queensland Competition Authority Act.

Yours sincerely,

R. J. Koerner
Former External Director
Maroochy Water Services Advisory Board

Cc. The Under Treasurer Mr. G. Bradley

Richard J. Koerner Ph.D.(Qld), M.E.Sc., B.C.E (Melb), MICE
Strategic Management / Econometric Market Analysis - ABN 26 021 850 787
31 Fauna Terrace Coolum Beach Qld. 4573

“O”

30 July 2010

The Queensland Treasurer
GPO Box 611
Brisbane Qld. 4001

Attn. Ms. Sharon Humphreys
Principal Advisor

Dear Ms. Humphreys,

Thank you for the response dated 26 July (Ref. QTO-09535) on behalf of the Queensland Treasurer.

I refer to my correspondence addressed to the Treasurer dated 10 June and to the Under-Treasurer dated 24 May pointing out that manipulation of non-current assets of Maroochy Water Services had taken place in the 2007/ March'08 financial statements of the Sunshine Coast Regional Council. The correspondence to the Treasurer also requested independent prices oversight investigations of the bulk water charge projections of the Queensland Water Commission (QWC) now endorsed by the Government, and the 2010/11 Budgeted service charges of Unitywater.

Past terms of reference given to the Queensland Competition Authority (QCA) by the Ministers QCA have prevented their investigation of regulatory asset base determinations for government monopoly business activities (GMBAs) providing water and sewerage services that were formerly subsidiaries of South East Queensland councils. It is particularly troubling to now learn that the Minister for Natural Resources has determined regulatory asset bases for the newly created distributor-retailers that are based solely on a flawed discounted cash-flow methodology apparently used by KPMG in the 2007 study commissioned by the Government.

I refer to page 33 of the QCA's "Statement of Regulatory Pricing Principles for the Water Sector (December 2000)". It can be noted that the Deprival Value Approach (ODVA), endorsed by COAG under the National Competition Policy agreements relating to water reform, requires consideration of both depreciated optimised replacement cost as well as economic value. The final paragraph on page 1 of the Treasurer's letter (Ref. QTO-09535) suggests that KPMG have used a net present value (NPV) approach based on projected after tax cash flows discounted at an appropriate rate of return for GMBAs to determine distribution valuations that have now been endorsed by the Minister for Natural Resources for regulatory pricing purposes. Use of such an approach is clearly inconsistent with the ODVA methodology cited above and inappropriate for commercial entities that are natural monopoly service providers. Did the terms of reference given to KPMG by the Government require sole use of NPV methodology?

In answers to questions posed at recent public meetings relating to budgeted charges, Unitywater's CEO has stated that prices oversight was not performed prior to adoption of the 2010/11 Budget, but that the QCA would perform such oversight at a later date. This is most troubling in that prices oversight of budgeted service charges is the statutory obligation of Unitywater as a GMBA. Given the Minister for Natural Resources's determination of regulatory asset bases discussed above, it suggests that inflated asset valuations of Maroochy Water Services are being used in the determination of regulatory base for the water and sewerage infrastructure now on the books of Unitywater and in the calculation of permissible returns on such assets. Is this the case?

I again request a comprehensive prices oversight investigation of the bulk water price projections determined by the Minister Natural Resources, making available the studies performed by KPMG in 2007 and any other relevant material to facilitate QCA's investigation. Independent investigation of bulk water charges is necessary to ensure that households throughout South East Queensland are not suffering improper monopoly pricing abuse resulting from failure to embrace water reforms.

Yours sincerely,

R. J. Koerner
Former External Director
Maroochy Water Services Advisory Board

Richard J. Koerner Ph.D.(Qld), M.E.Sc., B.C.E (Melb), MICE
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31 Fauna Terrace Coolum Beach Qld. 4573

“M”

10 June 2010

The Queensland Treasurer
The Hon. Andrew Fraser M.P.
GPO Box 611
Brisbane Qld. 4001

Re: Continuing prices oversight maladministration

Dear Hon.Treasurer,

I refer to correspondence dated 4 February 2008 from the Treasurer's Office relating to ongoing concerns regarding the Queensland Government's failure to embrace National Competition Policy (NCP) related water reforms.

The Ministers Queensland Competition Authority (QCA) terms of reference for price monitoring of retail entities such as Unitywater specifically precludes an independent investigation of bulk water prices. You should also be aware that improper manipulation of the written down replacement value (WDRV) of non-current assets of Maroochy Water Services (MWS) is recorded in the financial reporting period just prior to its amalgamation into Sunshine Coast Water (SCW). In the reporting period 2007/March 2008 MWS assets were revalued as follows (millions):

	WDRV as of 6/07	WDRV as of 3/08	Revaluation	Revaluation as % of 6/07 WDRV
Water assets	\$215.8	\$305.1	\$135.9	63%
Sewerage assets	\$373.4	\$550.2	\$249.2	66.7%

Source: Maroochy Council Annual Report 2007/March08

In the 2005/06 and 06/07 financial reports of Maroochy Council, MWS non-current asset revaluations in excess of 20% and 8% of opening WDRVs are also recorded. The Queensland Competition Authority's "Statement of Regulatory Pricing Principles for the Water Sector" (December 2000 pages 33-37) spells out the legitimate methodology to adjust WDRVs to reflect anticipated changes over the regulatory period. Were this methodology being correctly followed by the Sunshine Coast Regional Council one would have expected a roll forward revaluation of less than 9% in the 07/March'08 period, rather than actual revaluations in excess of 60%. Inflated asset valuations improperly provided by Maroochy Council, and now incorporated into SCW asset valuations, will lead to continued monopoly pricing abuse by Unitywater to also place that entity in breach of its prices oversight statutory obligations stemming from NCP agreements relating to water reforms.

As retail prices for water include a pass-through of bulk water charges, please initiate a prices oversight investigation of the bulk water price projections determined by the Queensland Water Commission (QWC). An independent investigation of bulk water charges by the QCA is necessary to ensure that households serviced by Unitywater do not suffer additional improper monopoly pricing abuse resulting from failure to embrace the QCA's "Statement of Regulatory Pricing Principles for the Water Sector" cited above, and pricing consequences of inefficient capital investment and/or operating practices accepted by QWC in developing the recent bulk water price projections adopted throughout South East Queensland.

Yours sincerely,

R. J. Koerner
Former External Director
Maroochy Water Services Advisory Board

Richard J. Koerner Ph.D.(Qld), M.E.Sc., B.C.E (Melb), MICE
Strategic Management / Econometric Market Analysis - ABN 26 021 850 787
31 Fauna Terrace Coolum Beach Qld. 4573

“L”

24 May 2010

The Under-Treasurer
Queensland Government
GPO Box 611
Brisbane Qld. 4001

Re: Continuing prices oversight maladministration - Maroochy Water Services (MWS)

Dear Mr. Bradley,

I refer to correspondence from Treasury TRO-06280 dated 25 September 2004, and QTO-00946 dated 4 February 2008 from the Treasurer's Office relating to ongoing concerns regarding the Queensland Government's failure to embrace National Competition Policy (NCP) related water reforms.

Treasury should be aware that improper manipulation of the written down replacement value (WDRV) of non-current assets of Maroochy Water Services (MWS) is recorded in the financial reporting period just prior to its amalgamation into Sunshine Coast Water (SCW). In the reporting period 2007/March 2008 MWS assets were revalued as follows (millions):

	WDRV as of 6/07	WDRV as of 3/08	Revaluation	Revaluation as % of 6/07 WDRV
Water assets	\$215.8	\$305.1	\$135.9	63%
Sewerage assets	\$373.4	\$550.2	\$249.2	66.7%

Source: Maroochy Council Annual Report 2007/March08

In the 2005/06 and 06/07 financial reports of Maroochy Council, MWS non-current asset revaluations in excess of 20% and 8% of opening WDRVs are also recorded. The Queensland Competition Authority's "Statement of Regulatory Pricing Principles for the Water Sector" (December 2000 pages 33-37) spells out the legitimate methodology to adjust WDRVs to reflect anticipated changes over the regulatory period. Were this methodology being correctly followed by the Sunshine Coast Regional Council (SCRC), one would have expected a roll forward revaluation of less than 9% in the 07/March'08 period, rather than actual revaluations in excess of 60%. Inflated asset valuations improperly provided by Maroochy Council, and now incorporated into SCW asset valuations, may lead to continued future monopoly pricing abuse by Unitywater to place that entity in breach of its prices oversight statutory obligations relating to NCP agreements relating to water reform.

Also attached is a capital efficiency benchmarking comparison for SCRC's three water and sewerage commercial business entities. Information to explain the marked differences in capital efficiency per household connected to water and sewerage services between MWS and Noosa Water Services (NWS) was requested in correspondence to the Chief Executive Officer of SCRC in March 2009. Details relating to a further SCW sewerage asset revaluation write up of \$ 425.3 million that is recorded in SCRC's financial statements for 2008/09 was requested on 1 April 2010. No responses to either of these information requests have been received to date. It should be noted that since 2007/March'08, all financial and operating performance transparency relating to MWS has been removed from the public domain. This is despite it being preferable for such transparency to be restored to pre 2001/02 levels.

Yours sincerely,

Richard J. Koerner

Richard J. Koerner Ph.D.(Qld), M.E.Sc., B.C.E (Melb), MICE
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SCRC Water and Sewerage Business Capital Efficiency Benchmarking

2007/March'08 Financial Statements

	WDRV (\$millions)	#properties connected to water and sewerage**	WDRV per property
MWS	855.3*	59,686	\$14,330
Calaqua	417.0	35,020	\$11,907
NWS	227.8	25,453	\$8,950

* Includes a revaluation write up of \$384 million.

** Estimated by extrapolation from prior period year to year growth data.

Sources: SCRC Council financial statements
Qld. Local Government Comparative Statistics 2006/07

Officer: Greg Laverty
Direct Telephone: (07) 54418200
Response Address: Nambour Office
Email: greg.laverty@sunshinecoast.qld.gov.au
Our Reference: Filenet
Your Reference

24 February 2009

Mr Richard J Koerner
31 Fauna Terrace
COOLUM BEACH Q 4573

Dear Mr Koerner

I refer to your letter dated 29 January 2009 and provide the following comments:

1. The shareholder return is based on assets rather than connections. The reasons for the differences between the water businesses are twofold.

Firstly as part of the State Government's water reform program bulk water assets were transferred from Council. There was a substantial difference in the portion of the businesses that were transferred – MWS (4%), Caloundra (11%) and Noosa (20%). The percentage of the asset base left for calculating the return in MWS is obviously much higher than the other two.

Secondly the other Councils returns have been based on much lower rates than that of MWS. The returns for the other Councils range between zero and just over 1%.

2. There are no forward projections for Maroochy Water Services (MWS). MWS along with the other two Council's former businesses is being consolidated into Sunshine Coast Water. Figures for the consolidated business are only available for the next financial year as the responsibility for running water and sewerage operations will no longer be held within Council after 30 June 2010.
3. Related to point 2 the pricing of the combined water and sewerage businesses were consolidated not separately calculated for MWS. However, there were no concerns in relation to MWS pricing levels and returns during the recent due diligence and financial evaluation process by the Queensland Government to determine the compensation payment made for the transfer of bulk water assets.

Yours faithfully



GREG LAVERTY
EXECUTIVE DIRECTOR FINANCE & BUSINESS

cc Mayor Bob Abbot



Queensland
Government

Office of the
**Treasurer and Minister for Employment
and Economic Development**

QTO-09535

26 JUL 2010

Dr Richard Koerner
Strategic Management / Econometric Market Analysis
31 Fauna Terrace
COOLUM BEACH QLD 4573

Dear Dr Koerner

I refer to your letter of 10 June 2010 to the Honourable Andrew Fraser MP, Treasurer and Minister for Employment and Economic Development, regarding water pricing in South East Queensland (SEQ), and have been asked to respond on his behalf.

The Government has undertaken a range of structural, institutional and regulatory reforms to enhance regional water security and improve the way water services are provided. Key elements of this program have been the separation in ownership of regional water assets, and the reduction in the number of entities involved in managing SEQ's water supply. In particular, you will be aware that Unitywater, created from the amalgamation of the water business of the Moreton Bay and Sunshine Coast Regional Councils, commenced operations on 1 July 2010.

The Government considers that economic regulation of the SEQ water sector will make an important contribution to the success of these reforms. To this end, the Queensland Competition Authority (QCA), as the state's independent regulator, will have a central role in regulating prices charged by the new distributor-retailers and the Government-owned bulk water entities, Linkwater, WaterSecure and Seqwater.

In 2007, the Government retained KPMG to carry out the financial due diligence for the purchase of SEQ councils' bulk water assets. KPMG applied a discounted cash-flow methodology, based on generally-accepted economic regulatory principles, to establish a 'line-in-the-sand' valuation for each council water business as at 30 June 2008. These valuations were broken down into separate bulk and distribution components.

In March 2010, the Honourable Stephen Robertson MP, Minister for Natural Resources, Mines and Energy and Minister for Trade determined that the distribution valuations would form the regulatory asset bases for the distributor-retailers and be used for regulatory pricing purposes. This means that, from 1 July 2010, the written-down value of assets will no longer be used as the basis for setting or measuring returns for water and wastewater prices.

As an interim measure for the next three years, the QCA will monitor water and wastewater prices charged by Unitywater, Queensland Urban Utilities and Allconnex Water on the basis of a framework which it has recently proposed to Government. This will ensure that water and wastewater prices in SEQ are appropriate and reflective of costs. As part of its price monitoring assessment, the QCA will undertake prudence and efficiency reviews of proposed new capital expenditure.

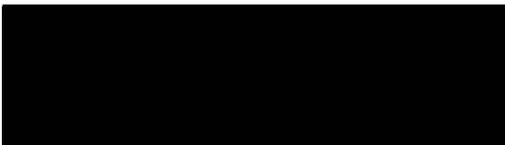
It is intended that the interim framework will subsequently transition to a deterministic regime from 1 July 2013, at which time the QCA will become responsible for setting retail water and wastewater prices. The regulated asset base set on 30 June 2008 will continue to be applied and 'rolled forward' consistent with standard regulatory practice. The Government will shortly direct the QCA to recommend a regulatory framework and key regulatory pricing principles for this purpose. As part of its review, the QCA will undertake an open consultation process, providing all interested stakeholders with an opportunity to express their views.

Currently, prices paid by the Water Grid Manager to the bulk water entities (grid service charges) are recommended to Government by the Queensland Water Commission (QWC), based on pricing principles contained in the Water Market Rules established under the *Water Act 2000*. These principles require full recovery of costs and reflect a number of key Government policies, including the limiting of returns on those assets constructed under the *Water Amendment Regulation (No 6) 2006* to their cost of debt.

The Government also intends for the QCA to assume responsibility for setting grid service charges under the *Queensland Competition Authority Act (1997)* from no later than 2013-14. In the near future, the QCA will conduct a public review to propose a framework for the deterministic regulatory regime, taking account of the Government's existing policies in relation to the bulk entities.

As a transitional measure, from 2011-12, the QCA will assume the QWC's existing role in recommending grid service charges to Government on the basis of the Market Rules.

Yours sincerely

A large black rectangular redaction box covering the signature of Sharon Humphreys.

Sharon Humphreys
Principal Advisor

Richard J. Koerner Ph.D.(Qld), M.E.Sc., B.C.E (Melb), MICE
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“J”

1 April 2010

The CEO
Sunshine Coast Regional Council
Locked Bag 72
Sunshine Coast Mail Centre Qld.4560

Re: Performance of prices oversight obligations for SunshineCoast Water (SCW) in 2008/09

Dear Mr. Knaggs,

I refer to reforms defined by the Council of Australian Governments' Strategic Water Reform Framework covering such issues as water and sewerage service pricing and performance monitoring and the letters to you dated 29 January and 2 March 2009 involving such matters. Information relating to the benchmarking comparison of capital efficiency of Noosa Water Services (NWS) vis-à-vis Maroochy Water Services (MWS) requested in the second last paragraph of the 2 March correspondence has not yet been provided.

I now refer to page 72 of the Financial Information attachment to the Annual Report for 2008/09 and note that SCW's actual revenues were \$26.9 million above 08/09 Budget projections that already suggested the presence of monopoly pricing abuse in MWS service charges.

The Budget estimate also provided line item detail for the three individual water entities MWS, NWS and Calcaqua entitled "Shareholder return on capital". The Annual Report's financial information for SCW does not provide this information for comparative purpose against budget projections that totalled \$23.6 million for SCW. In the interests of advancing Council's aspirations relating to financial transparency expressed in Items 8.1.1 and 8.1.2 of the SCRC Corporate Plan, the provision of actual "Shareholder return on capital" information for each of the three business entities would be appreciated.

Further information regarding the revaluation of assets appearing on pages 76 and 77 that could possibly relate to commercial business unit equity applying to natural monopoly services would also be appreciated. **Please provide the details for this \$461.4 million asset revaluation as it might apply to the respective MWS, NWS and Calcaqua regulatory asset base determinations for 08/09.**

Yours sincerely,

Richard J. Koerner

Cc Mayor Bob Abbot

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“J”

2 March 2009

The CEO
Sunshine Coast Regional Council
Locked Bag 72
Sunshine Coast Mail Centre Qld.4560

Re: Potential monopoly pricing abuse by Maroochy Water Services (MWS) in the 08/09 Budget

Dear Mr. Knaggs,

I refer to my letter to you of 29 January and a reply dated 24 February from the Executive Director Finance & Business (Your ref: Filenet). This response exacerbates my concerns regarding possible monopoly pricing abuse by MWS in the 08/09 SCRC Budget for the following reasons:

- Paragraph 1 asserts that returns to Noosa Water Services (NWS) and Calqua range between zero and just over 1%. The information sought related to the target return on the regulatory capital base for MWS that would justify a \$20 million return to Council. The return on the regulatory capital base for NWS in the 08/09 SCRC Budget is estimated to be 7.9%. This target return for NWS appears reasonable relative to the ceiling set by the Local Government Act and Financial Standard for commercial business units that are natural monopoly services. Other information in this paragraph relating to bulk water assets is irrelevant. It can be noted that this reasonable return is likely despite water assets being reduced more substantially for NWS than MWS or Calqua due to the S.E.Qld. water reforms.
- Paragraph 2 asserts that no forward projections of revenue exist for MWS. This is incorrect as forward projections were provided in the 07/08 Budget Papers of Maroochy Council, and the revenue estimate used for MWS in the 08/09 SCRC Budget approximates closely the value forecast in the prior year Budget Papers of Maroochy Council for that year.
- Paragraph 3 is confusing. The Local Government Act and Financial Standard requires a council to perform a prices oversight review of service charges of commercial business units that are monopoly service providers in developing their budgets. I have obtained a public document entitled Queensland Competition Authority (QCA) Report for SCRC dated December 2008. It is clear from the terms of reference provided in Appendix A of that report that the QCA is unable to monitor prices oversight responsibilities of SCRC with respect to the service charges of MWS.

Attached is a capital efficiency benchmarking comparison for SCRC's water and sewerage commercial business units. Information to explain the marked differences in capital efficiency per household connected to water and sewerage services between MWS and NWS for the 2007/March 2008 financial year would be appreciated.

I note that the information requested in the final paragraph of my letter of 29 January has not been provided.

Yours sincerely,

Richard J. Koerner

Cc Mayor Bob Abbot

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SCRC Water and Sewerage Business Benchmarking

Capital Efficiency

2006/07 Financial Statements

	WDRV (millions)	#properties connected to water and sewerage	WDRV per property
MWS	589.2	57,835	\$10,188
Calaqua	325.7*	34,000	\$11,424
NWS	232.2	25,400`	\$9,142

*** Includes a revaluation write up of \$118 million.**

2007/March08 Financial Statements

	WDRV (millions)	#properties connected to water and sewerage**	WDRV per property
MWS	855.3*	59,686	\$14,330
Calaqua	417.0	35,020	\$11,907
NWS	227.8	25,453	\$8,950

*** Includes a revaluation write up of \$384 million.**

** Estimated by extrapolation from prior period year to year growth data.

Sources: Council's financial statements

DLG&P Local Government Comparative Statistics 2006/07

Richard J. Koerner Ph.D.(Qld), M.E.Sc., B.C.E (Melb), MICE
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“H”

29 January 2009

The CEO
Sunshine Coast Regional Council
Locked Bag 72
Sunshine Coast Mail Centre Qld.4560

Dear Mr. Knaggs,

I refer to the SCRC Budget for 2008-09 and in particular the statement of income and expenses for Council's commercialised business units.

As a Coolum resident and former external director of the Maroochy Water Services (MWS) Advisory Board, I am curious that the shareholder return on capital for MWS is stated to be \$20 million, whereas the shareholder returns for Noosa Water Services (NWS) and Caloqua combined is some \$3.6 million. According to Queensland Local Government Comparative Information 2006/07 statistics, the number of connections to water and sewerage as of July 2007 is 57,835 for MWS, and for Caloqua and NWS combined the total are 59,400. It is my understanding that a commercial business entity that is also a natural monopoly service is entitled to receive a return on the regulatory capital base in the range of 8 to 8.6% after notional tax. How is it that the shareholder returns to MWS are stated to be more than five times the returns of Caloqua and NWS combined, when the number of connections to water and sewerage infrastructure for the combined commercial business units is somewhat greater than for MWS?

I also note that previous budgets provided four year forward estimates of revenue for MWS. This information is not provided in the 08/09 Budget. What are the forward revenue projections for MWS for 2009/10, 2010/11, 2011/12 and 2012/13?

Given the above comparisons with NWS and Caloqua combined I have concerns that MWS pricing in the 08/09 Budget exceeds ceilings permitted under the Local Government Act and Financial Standard. To assist in allaying such concerns please provide copies of financial data requested in correspondence from the Under-Treasurer to K.Spiller (TRO-03552) dated 12 February 2004 that was provided on 22 March 2004, and the optimisation study of MWS's assets cited in correspondence from the Under-Treasurer to CRA (TRO-16963) dated 27 July 2006 foreshadowed for completion in December 2006.

Yours sincerely,

Richard J.Koerner

Attachments: Letter Under-Treasurer to K.Spiller dated 12 February 2004
Letter G.Laverty to G.Schmidt dated 22 March 2004
Letter Under-Treasurer to CRA dated 22 July 2006

Cc Mayor Bob Abbot w/attachments.
Cr. Vivien Griffin