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QLD COMPETITION AUTHORITY

27th September 2012

28 SEP 2012

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

DATE RECEIVED

Dear Ms Barker,

Please consider the following public submission regarding the Authority's prices monitoring role for water and sewerage services provided by Government Monopoly Business Activities providing natural monopoly services throughout South East Queensland (SEQ).

I submit charges incorporated in Unitywater's 2012/13 Budget may again result in actual revenues exceeding maximum allowable revenues (MAR) permitted under NWI Pricing Principles. This is because no effective prices oversight was performed prior to adoption of that Budget due to improper restrictions incorporated into Terms of Reference (TOR) issued by the Ministers QCA of the former Government. Should an independent and effective prices oversight investigation have been permitted it would have shown that improper manipulation of non-current distribution assets of Unitywater and the Queensland Bulk Water Supply Authority were accepted by the former Queensland Government's Minister of Water Utilities in his determination of July 2008 legacy regulatory assets.

The final paragraph of correspondence from the Minister Water Supply dated 5th September 2012 that is attached states *no intention* by the Queensland Government to revisit KPMG's flawed discounted cash-flow methodology opinion used to determine non-current asset valuations and regulatory asset valuations (RAB) for bulk water assets transferred from SEQ councils as at 30 June 2008. Use of such a methodology was 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". It has resulted in inflated valuations of all bulk water non-current assets throughout SEQ and all subsequent RAB determinations used by Unitywater. Consequently capital recovery charges developed by the Queensland Water Commission, now also embraced by the current Ministers QCA were inflated and at variance with the methodology required by NWI agreements. Current TOR for 2012/13 prices monitoring contravenes NWI Principles for the Recovery of Capital Expenditures Principle 3 (17), and Principle 6 (23) relating to repayment of actual income in excess of MAR.

These TOR, reaffirmed by the current Ministers QCA, again prevent performance of an independent and transparent investigation of prior year RAB determinations that have established the foundation upon which 2012/13 service price increases are based. Again QCA is being prevented from performance of its duty to households throughout SEQ to have regard to *the protection of consumers from abuses of monopoly power* ("Statement of Regulatory Pricing Principles for the Water Sector Section 4.1 page 17).

Yours sincerely,



R.J. Koerner

Enc: Letter from Minister Water Supply dated 5th September 2012



Office of the Minister for Energy and Water Supply


10 SEP 2012

Ref: EWS/001823
CIS 12658/12

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5 September 2012

The Honourable Fiona Simpson MP
Speaker
Member for Maroochydore
Maroochydore Electorate Office
Suite 1 Corner First and Memorial Avenues
Maroochydore Qld 4558


Dear Ms Simpson MP

Thank you for your letter of 9 August 2012 on behalf of Dr Richard Koerner regarding the use of the Regulated Asset Base (RAB) approach for water and wastewater pricing in the Sunshine Coast Regional Council area.

As communicated to Dr Koerner in my letter on 24 July 2012, there are two approaches for calculating the capital charge component of water and wastewater prices: the annuity approach; and the RAB, or building blocks approach. The Queensland Government has adopted the RAB approach which is consistent with the National Water Initiative (NWI) Pricing Principles.

The Queensland Government does not intend to revisit the use of the RAB or change the regulatory approach for calculating water and wastewater prices.

Yours sincerely



Mark McArdle MP
Minister for Energy and Water Supply