

QUEENSLAND COMPETITION AUTHORITY ACT 1997
SECTIONS 23A
MINISTERS' REFERRAL NOTICE

Referral

As the responsible Ministers, pursuant to section 23A of the *Queensland Competition Authority Act 1997* (the QCA Act), we refer the monopoly distribution and retail water and sewerage activities (the activities) of the following entities (the entities):

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

to the Queensland Competition Authority (QCA) for a price monitoring investigation for the period from 1 July 2013 to 30 June 2015.

Conduct of the QCA pursuant to this referral

In referring this investigation, we direct the QCA under section 24 of the Act as follows. For each entity, the QCA shall:

- (a) provide information to customers about the costs and other factors underlying the provision of water and sewerage services including distinguishing between bulk and distribution/retail costs to the extent possible;
- (b) allow the entities to treat bulk water costs as a 'cost-pass-through' item;
- (c) monitor the change in prices of distribution and retail water and sewerage services for residential and non-residential customers;
- (d) monitor water and sewerage revenues against the maximum allowable revenue based on the total prudent and efficient costs of carrying on the activity including each of the following:
 - i. the operational and capital expenditure in carrying on the activity;
 - ii. depreciation;
 - iii. return on capital employed; and
 - iv. tax payable.
- (e) in respect of the return on capital:
 - i. advise a benchmark Weighted Average Cost of Capital (WACC) by 31 January 2013; and
 - ii. monitor the WACCs applied by the entities against the benchmark WACC;

(f) roll forward the regulated asset base (RAB) using the following principles:

i. the opening RAB for 1 July 2013 to be calculated as:

$$RAB_t = RAB_{t-1} + \text{Capital expenditure}_t - \text{Regulatory Depreciation}_t - \text{Disposal}_t + \text{Indexation}_t$$

where $t = \text{year under consideration}$.

ii. for Unitywater and Queensland Urban Utilities:

RAB_{t-1} = the rolled forward RAB for 1 July 2012 as verified by the QCA;

iii. for Logan, Redland and Gold Coast City Councils:

RAB_{t-1} = the RAB for each individual council as at 1 July 2013 should reflect their agreed disaggregation of the total Allconnex RAB as at 1 July 2010 and subsequent capital expenditure incurred to 30 June 2013;

for clarity, a revaluation of the initial RAB is not to be considered.

(g) to assess operating and capital expenditure in (d) above, the QCA is to undertake a review not more than once per entity during the monitoring period based on the following approach:

i. assess the existence of robust policies and procedures having regard to good industry practice, as well as compliance, using a sample of six capex projects (per entity) and each of the following broad opex headings: employee expenses (including contractors); electricity; other materials and services; corporate overheads;

ii. assess the robustness of the capex and opex program planning and delivery processes and procedures in an overall sense and identify any areas for improvement; and

iii. form a view on the prudence and efficiency of capital and operating expenditure, focussing on any areas of significant cost increase and identifying the reasons why.

(h) the QCA is to accept that, in setting prices entities may have applied a revenue offset approach to account for capital contributions received. This approach is to remain in effect until such time as the entity nominates, through their price monitoring returns, to adopt the asset offset method. Where a change in methodology is adopted, the RAB is not to be adjusted retrospectively.

(i) to assess Regulatory Depreciation in (f) above, the QCA must take into account the regulatory depreciation on the physical assets has been calculated using existing useful lives attaching to the individual assets or relevant asset classes;

(j) to assess the indexation in (f) above, the QCA must use the annual March to March Australian Bureau of Statistics Consumer Price Index (all groups, Brisbane);

(k) monitor according to the QCA Final Report on the SEQ Interim Price Monitoring Framework (April 2010) and Information Requirements, except as amended by this referral.

Consultation

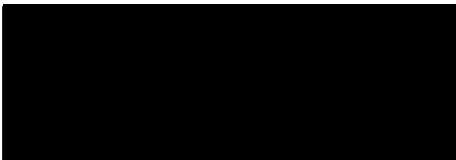
The QCA must undertake an open consultation process with all relevant parties and consider submissions within the timetable for the review and reports. Consistent with section 34 of the QCA Act, all reports and submissions must be published on the QCA website.

Timing

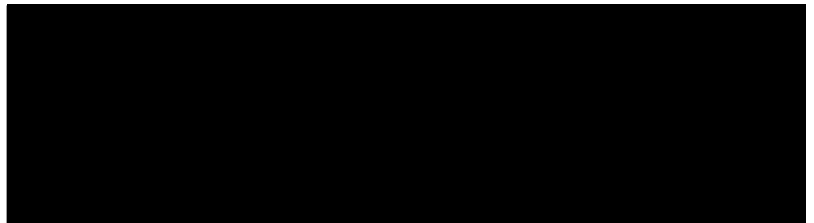
The entities must provide price monitoring information returns in respect of 2013-14 and 2014-15 to the QCA by:

- i. 30 June 2013 for Queensland Urban Utilities and Unitywater; and
- ii. 30 September 2013 for Logan, Redland and Gold Coast City Councils.

The QCA must provide to responsible Ministers and the Minister for Energy and Water Supply a draft report by 31 January 2014 and a final report by 31 March 2014.



TIM NICHOLLS
Treasurer and Minister for Trade



JARROD BLEIJIE
Attorney-General and
Minister for Justice