

Obj Ref: A6956676

Charles Millstead
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

28 January 2022

Dear Mr Millstead

Unitywater's submission – South East Queensland Bulk Water Price Review 2023-26

Thank you for the opportunity to put forward a submission in relation to QCA's draft report on Seqwater Bulk Water Prices for 2023-26.

Unitywater welcomes the approach to provide transparency of Seqwater's plans to ensure bulk water is delivered in an efficient and low-cost way, whilst ensuring water security and water quality is not compromised.

Unitywater offers the following feedback regarding the draft report:

- a. Support for QCA's proposed improvements in Seqwater's demand forecasting.
- b. Support for QCA's draft bulk water pricing outcomes which equates to a 2.0% increase per year.
- c. Support the application of an efficiency target to operating costs in the absence of a detailed efficiency plan.
- d. Request for the following in relation to asset management:
 - i. greater transparency of assumed asset lives
 - ii. review of the appropriateness of asset lives
 - iii. assessment of whether asset lives are conservative, balanced or aggressive based on benchmarking of similar assets
 - iv. assessment of asset management practices with a view to considering how these practices extend asset lives

The assumed asset lives applied is reflected in the Return of Asset component of the building blocks and currently represents approximately 34% of total building block costs. Positions taken on asset lives can therefore have a material impact on prices and asset management practices should seek to extend asset lives and thereby defer capital expenditure.



- e. Request for transparency on the overall impact of recreation management, flood mitigation and dam safety on baseline operating costs. In other words, what is the proportion of these costs on the non-drought bulk water price
- f. Support for recommended improvements relating to the capital expenditure program. QCA has indicated that the proposed capital expenditure program is 'ambitious' with the forward capital program over two times Seqwater's actual expenditure. Of concern is that if underspends occur due to an inability to deliver projects in a timely manner, the price path for the referral period will not change even though the cost has not been incurred. Customers should be protected from over-paying against what has been forecast but not delivered during the pricing period via a 'true up' in the next price review process. This assumption was not made clear upon review of the draft QCA report.
- g. Unitywater is alarmed by the proposed drought allowance due to the potential for a 14.5% increase in bulk water charges to customers. Customers would find it difficult to further understand the need to pay a drought allowance while being requested to reduce water consumption. The proposed bulk water price increase inclusive of the drought allowance is the equivalent of up to three years of savings delivered through price freezes by Unitywater to its customers. While the retail service providers are delivering real savings to customers, the bulk water price continues to increase the cost of living for customers in what has become the most expensive bulk water price in the country.

Based on the recommended drought allowance price in the draft report, Unitywater:

- i. Supports QCA's intention to seek further information on the incremental costs associated with drought and requests that if a drought allowance is to be established, then the trigger for application of the allowance should also be linked to the commencement of all of the activities set out in the Water Security Plan for drought response ie. during 2021 dam storage levels fell below 60% however recommissioning of the Western Corridor Recycled Water Scheme did not commence.
- ii. Requests clarification on the application of the drought allowance ie; can it apply for a partial or a full year. While it is noted this is a government decision and not specifically for the QCA to determine, clarification as to how the drought allowance will be implemented for the recovery of incremental costs is sought beyond the application of dam storage levels. For example, if dam level increase above 60%, does the drought allowance stop?
- iii. Notes that given the quantum of the drought allowance and the significant impact on end users (customer bills), feedback should not be limited to an indicative drought allowance price only. It is essential that the final drought allowance price is not arrived at with no further opportunity for community feedback.
- iv. Notes that all end use customers and members of the community face the same large increase in water bills. The increase for higher water users is



significant. The increase is also significant for low water users such as pensioners and low-income families.

- v. Notes that the drought allowance includes an allowance for revenue shortfall to cover normal operating expenditure due to reduced customer demand. If lower demands are placed on Seqwater because of drought conditions, by default it therefore suggests that operating costs would be lower. Has this been factored into the bulk water price (non-drought) for when the drought allowance is applied?
- h. A request that the QCA highlight in their recommendations that if a drought allowance is to be implemented then Distributor Retailers will need enough transition time (3 months minimum) to communicate with customers and make changes to billing systems and bill presentment. If a drought allowance were to apply from 1 July 2022 then the current timing for approval of prices does not accommodate implementation of a drought allowance.
- i. While noted it is out of the scope of this review, Unitywater requests transparency on expected bulk water price impacts post 2028 and the expected impact on customer bills when price path debt is forecast to be paid.

Should you require any further information please contact Danny Power, Manager Corporate Performance on danny.power@unitywater.com or (07) 5431 8783.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'G. Theo', is positioned below the text 'Yours sincerely'.

George Theo
Chief Executive Officer