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31 January 2022

Mr Charles Millstead
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001
(<http://www.qca.org.au/submissions>)

Dear Mr Charles Millstead,

Submission: Seqwater Bulk Water Price Review 2023-26 Draft Report

Urban Utilities welcomes the opportunity to make a submission to the Queensland Competition Authority ("QCA") with respect to its Draft Report on the Seqwater Bulk Water Price Review 2023-26.

We are broadly supportive of the recommendations in the draft report, in particular the reductions to the (non-drought) price path to around two percent per annum. As noted in our previous submission in August 2021, bulk water is Urban Utilities' largest operating expense, and for our customers represented approximately 40% of average customer bills in 2020-21. Given this considerable impact on our customers, and noting that bulk water prices are subject to change in the Final Report, we believe it is important to ensure that bulk water costs are transparent, and that prices charged by Seqwater in delivering its services represent only its prudent and efficient costs considering a range of trade-offs. Keeping price increases close to or below CPI will help to address affordability in water supply for our customers.

Urban Utilities makes the following additional observations and comments on the Draft Report.

Prudent and Efficient Operating Costs

Ultimately, only prudent and efficient expenditure should be reflected in customer prices. From this standpoint, Urban Utilities supports an efficient path for operating costs, and the provision of further details on efficiencies to place downward pressure on costs for customers. Urban Utilities therefore welcomes further details on efficiencies in Operational Expenditure to reduce costs for our customers.

Prudent and Efficient Capital Expenditure

Urban Utilities recognises that downward pressure on bulk water prices can also be achieved by delaying or avoiding expensive infrastructure expenditure and ensuring necessary infrastructure is delivered in a prudent and efficient manner. We understand that the highest value projects likely to effect Seqwater's Capital Investment Program (CIP), and ultimately bulk water prices, are; Dam safety upgrades, and; Water security investments.

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In considering water security capital investments, Urban Utilities supports continued prudent capital planning that expedites cost effective demand and supply projects which work to reduce, defer or, if possible, eliminate *large-scale* bulk water investments. A large-scale manufactured water facility (such as a desalination plant) is a significant investment and Urban Utilities commends Seqwater on their recent work to explore small-scale water security options as a contingency for drought response and encourages QCA to recognise the ongoing investment in such small-scale options when considering an appropriate capital expenditure allowance in the Final Report.

Urban Utilities notes that various drought response opportunities identified by Seqwater have yet to be fully incorporated in the Capital Program. The recalibration of the investment program following the expected upcoming Queensland Government endorsement of the Water Security Program is an appropriate time for Seqwater to review security related projects and for the QCA to consider these important investments. Urban Utilities supports the ongoing capital program of work for dam safety capital investments that are a critical foundation for water security, and the continued focus on the effectiveness and efficiency of these investments which are an important contributor to efficient outcomes for customers.

Opportunities for an integrated approach to deliver Least Cost Investment

As noted in our August 2021 submission, in ongoing work to address the water supply challenges of the future, Urban Utilities will continue to work with Seqwater to take a comprehensive and integrated approach to investment options. This approach will consider broader objectives, including, but not limited to, social, economic, environmental and community benefit outcomes, and will continue to optimise these outcomes across the water sector. In assessing the prudence of Seqwater's capital program Urban Utilities therefore encourages the QCA to consider the impacts of the proposed Seqwater capital investments on the performance and cost impacts on the downstream entities including Urban Utilities.

Population growth across the Urban Utilities service area is placing pressure on sewer transfer and treatment infrastructure, and without a change in the management of the urban water cycle, is likely to require significant additional investments in these assets over the next decade. To minimise the potential increase in capital costs, Urban Utilities is undertaking detailed capital planning work on an integrated catchment plan basis. This analysis is highlighting the opportunity to reshape the water cycle, with water recycling closer to home thereby reducing the investment required in augmenting sewage infrastructure. This is a key pillar and focus for Urban Utilities to keep downward pressure on water and sewerage prices for our customers.

Localised water recycling opportunities have the potential to defer, reduce, or eliminate the need for Seqwater to deliver large scale manufactured water assets. Exploring opportunities to offset critical potable water supply is an important component in managing future demand and water security. As well as delivering capital cost efficiency, these opportunities are likely to decrease operational costs across the water and wastewater sector, contribute positively to greening and cooling in our local communities, and play a significant role in the industry's efforts to minimise our carbon footprint by reducing the significant distances that we convey our water.

As such, in evaluating the prudence and efficiency of Seqwater's proposed capital program for water security augmentation, we recommend that the QCA consider the broader investment initiatives, and potentially consider cost-sharing opportunities, for related work being undertaken by distributor-retailers in South East Queensland as part of a more holistic assessment approach.

Planning holistically for Water Quality

Specifically, in addition to the comments above, Urban Utilities suggests that there are four key areas where investment by Seqwater would make the water system safer, more reliable and more affordable when the South-East Queensland water System is considered as an integrated whole:

1. **Chlorine Disinfection.** Urban Utilities would support additional investment by Seqwater to improve the performance of chlorine disinfection residual throughout the extensive distribution network. A modest investment by Seqwater will result in reduced risk and increased performance throughout the distribution network.
2. **Disinfection By-Products.** Urban Utilities would support additional investment by Seqwater to manage disinfection By-Products. While Seqwater produces water compliant with the Australian Drinking Water Guidelines at the point of supply to Urban Utilities, further investment in the removal of organic compounds concentration would further improve water quality throughout the water network. Urban Utilities has no means by which to manage this quality issue once water is in the Urban Utilities network.
3. **Water Taste and Odour.** Urban Utilities would support additional investment by Seqwater to improve water taste and odour. Seqwater periodically supplies water with high concentrations of Organics that meet the Australian Drinking Water Quality Guidelines but results in taste and odour that does not meet customer expectations. Urban Utilities has no control over the Taste and Odour once the water is in Urban Utilities network.
4. **Capacity.** Urban Utilities would support additional investment by Seqwater to improve capacity across rural schemes. Urban Utilities has experienced capacity issues in several rural schemes exposing customers to increased water supply risk. Investment is more efficient when undertaken by Seqwater to address such risk and Urban Utilities would be willing to engage on how such integrated solutions might deliver better outcomes for impacted customers.

Luggage Point Advanced Water Treatment Plant and Drought Allowance

Urban Utilities notes the discussion in the Draft Report regarding the use of the Luggage Point Advanced Water Treatment Plant and the recommissioning of the Western Corridor Assets and the operational costs associated with this matter. Urban Utilities considers that the regulatory assessment of this expenditure should be reflective of the water security plan for South East Queensland which is currently being reviewed by the Queensland Government.

With the impacts of climate change and population growth, the Western Corridor Assets are quickly moving from being drought contingency assets to becoming an integral part of delivering water security for South East Queensland's water users. Over the past two years, the partial recommissioning of these assets has been crucial to water security and is also a demonstration of the importance that purified recycled water plays in water security for South East Queensland. Current water use and demand from industrial users is helping to advance community understanding and acceptance of the role that water recycling plays in water security in South East Queensland. As such, Urban Utilities would support the consideration of appropriate costs based on consideration of industrial demand and potential use of recycled water rather than being drought dependent.

Urban Utilities acknowledges the need for a bulk water drought allowance stemming from Seqwater's need to undertake additional investment and activities to ensure that the water supply for the South-East Queensland region is secure. It also sends a signal to consumers of the need to use water wisely. However, Urban Utilities is of the view that given the significant costs imposed on customers if a drought is triggered, there needs to be careful consideration and transparent treatment of the bulk

water drought allowance. There is significant potential for material annual bill increases if a bulk water drought allowance is activated (both as currently approved and with potential further cost increases proposed). Urban Utilities welcomes the QCA's request for additional detail and transparency to support a full assessment of the drought allowance costs and is particularly concerned the bulk water drought allowance may rise further as more information is made available to the QCA in advance of the Final Decision. We therefore urge QCA to carefully consider increases to the bulk water drought allowance above the current levels in the Draft Decision.

Carbon Abatement and Natural Assets

Urban Utilities supports the importance of exploring carbon pathways and natural asset opportunities, given this aligns with community expectations and is a demonstration of prudent expenditure.

Urban Utilities notes the discussion in the Draft Report regarding the efficient management of expenditure on Greenhouse Gas Emissions and environmental offsetting. Urban Utilities would support Seqwater to investigate additional cost-effective carbon abatement options and for the QCA to have regard for this in its Final Report, noting the QCA's attention to costs following the proposed priority of approaches in the SEQ Draft Report.

Demand Projections and Demand Management

Urban Utilities notes the Seqwater pricing submission placed a strong focus around the importance of accurate demand projections to support revenue for the Seqwater business. Urban Utilities has worked actively with Seqwater on the demand numbers and supports both the projections provided in the Seqwater submission and QCA's response in its Draft Report.

However, whilst revenue projections are an important part of consideration in developing demand projections, it is critical that the desire to understand revenues and focus on this aspect of prudent utility management does not impact water security planning and investment outcomes. Given the step change in demand management resulting from the millennium drought, water industry participants in South East Queensland need to continue optimising demand management programs and strategies to ensure prudent investment outcomes are delivered for our customers.

Community expectation is strong that the water industry should minimise water losses and water wastage. It is also important to recognise that demographic changes in our community (e.g. more unit living and smaller outdoor spaces) and technology enhancements are likely to continue to drive down per capita demand for water in the future. Recognising these drivers in our future water security planning is therefore a prudent approach to capital investment planning. We would encourage QCA to review Seqwater's demand management activities with these drivers in mind, with the aim of ensuring prudent and efficient investment in water security planning.

Delivering discounts and supporting customer costs aligned with distribution-retailer practice

Urban Utilities acknowledge the QCA's position that Seqwater's proposed recommendation that the Price Direction allow Seqwater to provide a discount for the bulk water component of concealed leaks is outside of its remit. Urban Utilities will continue to advocate that such a discount in accordance with a concealed leaks remission policy, with foregone revenue recovered via bulk water charges, would ensure alignment with Distributer-Retailer existing concealed leaks policies resulting in a better customer outcome for those impacted by concealed leaks.

Additionally, we note the QCA has not provided recommendations on an approach to prudent discounting frameworks, as this is also outside of the scope of its review. Urban Utilities will continue to advocate for a sector-wide approach for a broader discount framework for customers that meet agreed

social value criteria, or other agreed discount criteria, in conjunction with broader Local and State Government objectives.

Should you have any queries in relation to our initial submission please contact Ruth Coulson on 0419 779 205.

Yours sincerely,

Louise Dudley
Chief Executive Officer