

# Fee framework

## Introduction

The Queensland Competition Authority (QCA) is an independent statutory body, established in 1997 to promote competition as the basis for enhancing efficiency and growth in the Queensland economy. Our primary role is to ensure monopoly businesses operating in Queensland, particularly in the provision of key infrastructure, do not abuse their market power through unfair pricing or restrictive access arrangements.

The QCA administers and discharges its responsibilities by ensuring compliance with the *Queensland Competition Authority Act 1997* (the Act) and other relevant legislation including the *Electricity Act 1994*. The QCA's services and functions are detailed in the Act and the services and functions for which fees are payable are included in Schedule 1 of the *Queensland Competition Authority Regulation 2018* (the Regulation).

## Purpose of this fee framework

The purpose of this fee framework (the framework) is to set out the approach and methodology the QCA will apply when determining and allocating fees to regulated entities and other entities or industries the QCA is directed to monitor.

## QCA revenue

The majority of QCA's operations are funded by fees paid by the entities the QCA regulates. In turn, fees charged to regulated entities may be passed on to the customers of the regulated entity via a QCA Levy. Section 3 of the Regulation allows the QCA to charge fees for providing a service or performing a function set out in Schedule 1 of the Regulation provided the amount charged is:

- considered to be reasonable by the QCA; and
- not more than the reasonable cost of providing the service or performing the function.

Apart from fees, the QCA's only other source of revenue is provided via a grant from the State Government. Operational expenditure that is not reasonable to charge to regulated entities and monitored sector entities is funded by the grant.

The QCA commits to advise each regulated entity about the detail of the QCA work-plan for that entity for the forthcoming year as part of the fee setting process.

## Consideration of the reasonableness of a regulatory fee

The fee approval process includes a decision by the QCA that it is satisfied overall that the regulatory fee charged to individual entities is reasonable having regard to the costs of providing regulatory services and performing regulatory functions for those entities.

The QCA notes that it considers the likely impact of the fees on each entity and its capacity to pass on these costs to customers, and the customers' ability to pay, as part of its review process when setting fees. A review of the regulatory service or function and the associated fee is triggered when the proposed fee to be charged is more than 1 per cent of the regulated annual revenue of the entity concerned.

## Basis of calculating fees for providing general regulatory services or functions

The estimated fees for providing regulatory services or functions will be calculated by the QCA based on its estimate of the costs of performing the service or function. The QCA's estimate of the costs will be the sum of:

- its estimated costs of analyst staff and specialist consultants required to perform the service or function; and
- a proportion of the QCA's estimated overheads based on the estimated analyst staff costs for performing the service or function compared to the QCA's total analyst staff costs for the year.

In estimating the costs to be incurred in performing a regulatory service or function, the QCA takes into account its previous experience of performing similar tasks as well as the nature and complexity of the task concerned and the expected consultation process.

A pro-forma example of the detail of the costs the QCA will provide is attached for information.

## Methodology for accounting for regulatory fees

A regulatory fee is made up of:

- Analyst staff costs based on time sheets completed by the analyst staff working in the project team that has been established to perform the regulatory service or function. These costs include on-costs such as payroll tax, workers compensation and staff entitlements for the analyst staff who work on the regulatory service or function. The QCA has an internal Cost Allocation Model that it uses for allocating analyst staff costs to the relevant regulatory service or function.
- Actual consultancy costs associated with the performance of the regulatory service or function. These costs include legal costs, the costs of seeking advice from professionals such as engineers and technical advice related to the service or function.
- A percentage of the QCA's total overheads for the period. These costs include:
  - (a) Board costs—which includes the remuneration costs of the Members of the QCA who are required to consider and make decisions in respect of regulatory services and functions;
  - (b) Executive and Corporate Services salaries—which includes the salary costs of the executive and corporate services staff who support the work of the QCA;
  - (c) “on-costs”—which includes payroll tax, workers compensation and staff entitlements for the above staff who support the work of the QCA;
  - (d) occupancy costs—which includes rental payments for the QCA's premises, required for QCA staff and Members; and
  - (e) general administration costs—which includes general office operations costs supporting the work of the QCA and Members.

The QCA considers the Board and Executive and Corporate services are fundamental and fixed elements of the QCA, required for the QCA to perform its regulatory functions. The Board is responsible for the decisions of the QCA but is remunerated on a fixed basis. The Executive and

Corporate Services staff are responsible for the overall management of the work of the QCA, but are not engaged for the specific project. Neither the Board Members nor the Executive and Corporate Service staff account for their time on a project-specific basis, and it would be artificial to do so.

The QCA considers that allocation of overhead costs across all functions performed by the QCA in proportion to the costs of analyst staff required to perform each function is an appropriate and reasonable way to allocate and recover the costs of providing regulatory services and functions. Overheads are reviewed by the QCA and where, in the reasonable opinion of the QCA, amounts are not reasonable to be included in regulatory fees these costs are excluded from the overhead costs charged to regulated entities.

The QCA engages auditors to review the application of the fee framework and associated costing model each year. The QCA has expanded the scope of the annual audit to include sample-based testing of the costs charged to individual regulatory services or functions. A redacted version of the audit report will be published on the QCA website.

## Setting regulatory fees in advance

The QCA considers that it is open to it to set a fee for services to be provided or functions to be performed and that the QCA Act and Regulation do not require that a fee only be set in arrears, i.e. for services which have already been performed. The relevant legal requirements for a QCA regulatory fee are the two limbs in the QCA Regulation. The QCA sets a regulatory fee subject to it being satisfied that the fee will be no more than the actual cost of providing the regulatory service or function. It does that by making a conservative estimate of the costs in advance and then reconciling that estimate against actual costs in arrears. In the normal course, the QCA expects the actual costs will be more than the estimated costs. If the actual costs are expected to exceed the estimated fee by more than 15 per cent, the QCA will notify the regulated entity as soon as practicable and provide a revised estimate of the expected costs to the end of the financial year including the assumptions used in this revised estimate.

## Reconciliation and settlement of under- and over-recoveries of fees

The QCA will undertake a reconciliation of actual versus estimated costs at year end, as part of its end-of-year financial reporting. To the extent actual costs are higher or lower than estimated costs the QCA will make an end-of-year adjustment to the fee in accordance with the mechanism described in this section.

In the event the actual cost of delivering the service or function is higher than the estimated fees charged that financial year, the under-recovery will be charged in October of the following financial year after the accounts for the financial year just ended have been audited.

In the event the actual cost of delivering the services is lower than the estimated fees charged for that financial year, the over-recovery will be paid (or with the agreement of the regulated entity netted against the next year's fees) in October of the following financial year after the accounts for the financial year just ended have been audited.

The QCA may enter into agreements to receive under-recoveries over a longer time period where the under-recovery is a material amount and payment in full in October or November of the relevant

year would result in hardship for the regulated entity or its customers. Any such agreement will include compensating the QCA for the time value of money.

## **Apportionment of fees to particular sectors**

### **Retail electricity**

Consistent with the way the QCA has applied fees to electricity retailers in previous years, the annual fee will be based on each retailer's share of reported total customers. For administrative convenience, no fee is proposed to be charged to retailers with less than 1000 customers. Market shares will be reviewed annually.

If regulatory reviews are confined to a specific geographic area, fees will be charged to those retailers operating in that geographic area (e.g. fees for a review of electricity prices for customers outside of SEQ would be predominantly charged to Ergon Energy Queensland as the largest retailer in this area).

In the event that a retailer is acquired by or merged with another retailer, the obligation to pay regulatory fees in respect of the acquired/merged retailer will transfer to the acquiring/merging retailer.

### **Regional electricity distribution**

As has been the case in the past, it is proposed that the fee charged to electricity distributors will be apportioned equally between Ergon Energy and Energex as part of Energy Queensland.

### **Water**

The apportionment of the costs of any regulation of government owned water businesses will be determined having regard to fairly allocating the costs to the beneficiaries of the regulatory service, and having regard to the terms of any specific direction notice issued by the Treasurer.

The apportionment of shared costs or fees will generally be based on water volume or other relevant measure. For example, shared regulatory costs or fees relating to any regulation for the supply of water to irrigation customers will be based on water entitlements (mega litres) held by irrigation customers of each water business.

## **Pass-through of fees via a QCA Levy**

All fees charged in respect of general regulatory services or functions will be eligible for pass-through to customers, via a QCA Levy, wherever the QCA has responsibility for these pass-throughs. Approval of a QCA Levy is the subject of a separate approval process triggered by an application from the regulated entity concerned.

## **Additional fees**

Some regulatory services cannot be anticipated in advance because the provision of the service is not foreseen. Where an unforeseen service or function is required or requested the QCA will apply

the same processes set out in this document to the setting of fees for the service or function in question.

## **Payment schedule**

Estimated fees for each year will be invoiced quarterly in advance. Over/under-recoveries will be paid/invoiced annually in October.

## **Review of the fee framework**

Should there be a change to the *Queensland Competition Authority Act 1997* or the *Queensland Competition Authority Regulation 2018*, or a stakeholder requests a formal review, then changes to the fee framework will be considered. Any proposed changes will include stakeholder consultation prior to final approval and publication on the QCA website.

## **Enquiries**

All enquiries regarding the methodology, allocation of costs and any other matter contained in the Fee Framework should be referred to the Director Corporate Services on (07) 3222 0555 or by email at [sharon.ibardolaza@qca.org.au](mailto:sharon.ibardolaza@qca.org.au).

## EXAMPLE OF COST ESTIMATE

### [Description of regulatory service] provided to [name of regulated entity]

For the period 1 July XXXX to 30 June XXXX<sup>1</sup>

<b>Estimate of costs</b>	
<b>Salaries</b>	
Staff (FTE 7.0 for 4 months)	275,298
On-costs <sup>2</sup>	44,452
Subtotal	<b>319,750</b>
<b>Overheads (10% allocation)<sup>3</sup></b>	
Board Costs	43,841
Executive and Corporate Services Salaries	106,209
On-costs <sup>4</sup>	18,811
Occupancy Costs	54,126
General Administration Costs <sup>5</sup>	84,565
Subtotal	<b>307,581</b>
<b>Other Direct Costs</b>	
Direct Travel	0
Direct General Administration Costs	0
Subtotal	0
<b>Consultancies</b>	
Legal Fees	250,000
Other	0
Subtotal	<b>250,000</b>
<b>Total Estimated Costs of the Service</b>	<b>877,331</b>

Notes:

1. The budget assumes the minimum resources to reach a final decision. If stakeholder submissions are extensive, a further interim fee may need to be charged.
2. On-costs includes payroll tax, workers' compensation and staff entitlements for analyst staff working on the project.
3. The QCA's total overheads, excluding costs the QCA considers are not reasonable to be charged to regulated entities, have been allocated in proportion to the estimate of the direct costs incurred on this project.
4. On-costs include payroll tax, workers' compensation and staff entitlements (e.g. long service leave) for senior executive and corporate service staff.
5. General Administration Costs are overheads not otherwise specified above.