

Date: 8 August 2014
Contact: Andre Kersting
Location: Nerang
Telephone: 07 5582 9006
Your reference:
Our reference: WSS1125/1227/02(P1) # 45395229

Mr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Malcolm,

Long-term Regulatory Framework – Implementation Issues

The City of Gold Coast (CoGC) appreciates the opportunity to respond to matters relevant to the implementation of the proposed annual performance monitoring regulatory framework outlined in the Queensland Competition Authority's (QCA) Technical Paper (SEQ Long Term Framework - Annual Performance Reporting - Implementation Issues).

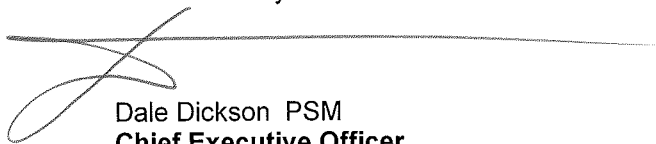
Council supports the continuation of economic regulation post 30 June 2015 and sees merit in expanding the regulatory framework to include service quality performance reporting and stakeholder engagement.

This attached submission addresses a number of issues raised within the Technical Paper, including the:

- Consumer Price Index
- Costs Risk
- Interaction with the proposed recovery mechanism
- Information Requirements and
- Long Run Marginal Cost.

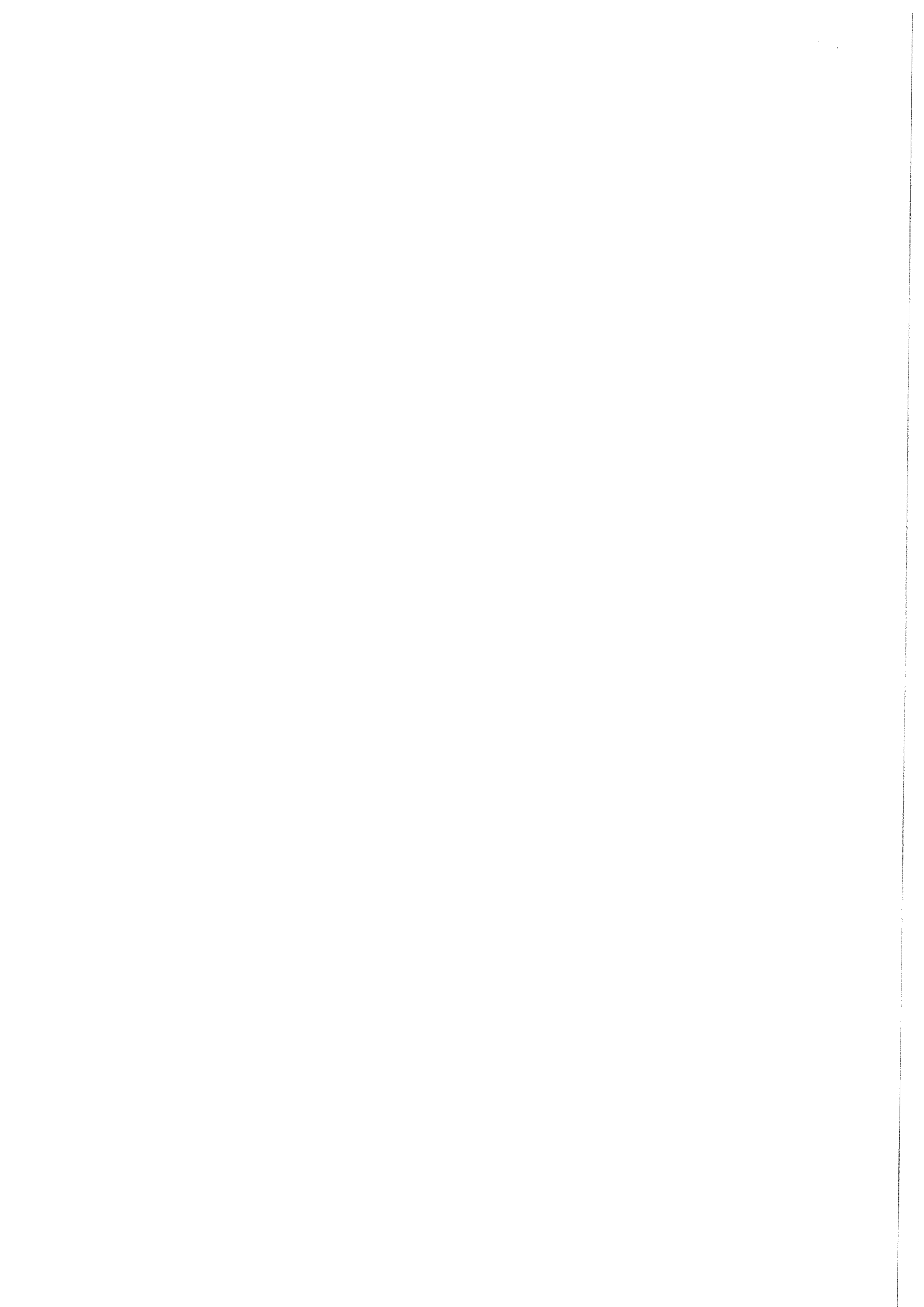
Thank you for the opportunity to provide a response. Should you wish to discuss these issues further please do not hesitate to contact Mr Andre Kersting, Coordinator Pricing and Regulation on (07) 5582 9006.

Yours faithfully



Dale Dickson PSM
Chief Executive Officer
Council of the City of Gold Coast

Enc. Attachment: Long Term Regulatory Framework – Implementation Issues



Attachment: Long-term Regulatory Framework – Implementation Issues

CPI:

The Queensland Competition Authority (QCA) proposes the consumer price index (CPI) be based on Reserve Bank of Australia (RBA) forecast national CPI index (or the mid-point of the forecast range where a forecast is not available) applying at the time of South East Queensland (SEQ) retailers' pricing decisions.

CoGC bases its final annual price decisions on the March to March Australian Bureau of Statistics (ABS) CPI data released in mid-April each year. This practice is undertaken as it facilitates alignment with CoGC contractual arrangements, provides greater certainty and reduces costs risk. It is proposed that any under or over recovery of revenue associated with variations in definition of CPI be addressed in future periods using QCA's proposed under and over recovery mechanism.

Costs Risk:

CoGC continually endeavours to incorporate business efficiencies in its operations. Based on current trends, operating costs (influenced by exogenous factors) are anticipated to increase by more than CPI-x. Excluding labour, the majority of the CoGC operating costs are determined by an open tendering process influenced by market-driven forces that are outside the City's control. Major operating costs exposed to market conditions include chemicals, bio-solids disposal and electricity.

There is potential for these costs to be known in a stable regulatory environment where regulatory periods are clearly defined so that contracts can be aligned accordingly.

Where GCW is not in a position to manage or avoid prices determined by market driven forces, these costs should be considered 'uncontrollable' for the purposes of the under-recovery mechanism as proposed by QCA.

Long Run Marginal Costs:

CoGC recommends QCA develop a marginal cost pricing framework, similar to frameworks that exist in other jurisdictions (i.e. Victoria) to assist SEQ entities in estimating the long run marginal cost (LRMC) associated with their services. For example, the Victorian Water Industry (through the Smart Water Fund) established a framework for estimating LRMC.

Should QCA consider the development of a LRMC framework three clear steps (as outlined in the Victorian Framework¹) should be considered. These include:

1. identifying the relevant dimensions of each service provided
2. determining whether it is practicable to measure how much of each service is 'consumed' and whether customers are able to make independent decisions as to how much of a particular service dimension is 'consumed' and
3. assessing the likelihood and magnitude of customer response to price signals for each measurable service dimension.

Such a framework would also inform the application of LRMC pricing principles in pricing decisions and ensure a consistent approach by entities.

Information Requirements:

CoGC acknowledges QCA's proposed four (4) levels of information requirements, designed to minimise the cost of regulation. Given the prevailing economic climate, CoGC suggests it is an

¹ Smart Water Fund, NERA Economic Consulting (2012), An Economic Framework for Estimating Long Run Marginal Costs in the Victorian Water Industry – Final Report, p. 11.

unrealistic expectation that retailers would be in a position to meet the Level 1 or Level 2 parameters in the foreseeable future.

CoGC expects future submissions to be reflective of its 2013-15 submission, in order to ensure regulatory compliance with Level 3 information requirements as outlined in the technical paper. This does not include additional regulatory requirements proposed by QCA such as supporting information demonstrating the application of the QCA's pricing principles.

Accordingly, CoGC suggests the cost associated with regulatory compliance under the proposed framework is likely to remain similar to the costs incurred for the 2013-15 price monitoring period.

Under a level 3 assessment, QCA proposes to monitor the impacts of cost changes against a 'Reference' MAR that will be calculated and updated annually for each retailer, using principles consistent with the CPI – x framework. The Reference MAR is proposed to be based upon that carried forward from the 2013-15 price monitoring investigation.

To avoid confusion in future regulatory years, CoGC suggest 2013-15 information submissions be updated with actual figures, rather than forecast data prior to carrying forward the reference MAR.