

Our ref: A1715065

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

2 August 2013

Dear Malcolm

### **Longer term regulatory framework for South East Queensland Water Entities**

Thank you for the opportunity to register Unitywater's interest and to provide input into the key issues to be addressed in developing the longer term regulatory framework for distributor-retailers and council water and wastewater businesses in South East Queensland (SEQ).

Unitywater is pleased to see an initial definition for the overarching regulatory objective for the water and sewerage sector. This is important as water supply and sewerage are lead infrastructure and enablers of regional economic development and construction which is one of the four pillars the Government identified to grow the Queensland economy.

Set out below are key issues that Unitywater considers should be addressed in the development of a long-term regulatory framework:

- a. **Stable pricing for customers** - The regulatory framework should promote efficient investment whilst mitigating price shocks to customers. The regulatory framework might achieve these by ensuring distributor-retailers have mechanisms to smooth prices over time and that inputs such as weighted average cost of capital (WACC) is stable reflecting the long term nature of the infrastructure that provides water and sewerage services;
- b. **Recovery of efficient costs** - The QCA in regulating a distributor-retailer should have regard to providing a reasonable opportunity to recover at least the efficient costs and ensure that the regulatory framework takes into consideration that the costs of regulation do not exceed the benefits;
- c. **Regulator collaboration** - Closer co-operation between different stakeholders, government agencies, economic and environmental regulators and the Energy and Water Ombudsman of Queensland will assist in identifying and promoting least cost solutions. For example, environmental licence conditions set discharge licences (nitrogen and phosphorus parts per million) on the basis of environmental concerns and that can lead to expensive solutions for sewage collection, transport, treatment and effluent discharge. Support for bubble licences, total water cycle management and

nutrient offsets may provide options to deliver non-network solutions with the potential to deliver lower cost water supply and sewerage services as well as satisfying environmental concerns;

- d. **Light handed price monitoring** - From 2015 the preferred form of economic regulation is light handed price monitoring of water supply and sewerage services that excludes oversight of non-regulated services and miscellaneous fees or charges;
- e. **Innovation in the regulatory process** - Commence greater collaboration between the QCA and distributor-retailers in order to reduce costs to both the QCA and distributor-retailers through avoidance of both regulators and entities engaging consultants which may not be in the best interests of customers;
- f. **Consistent application of regulation to all industry participants** - Unitywater agrees with the concept that distributor-retailers and council water and sewerage businesses should be treated on similar terms with regard to economic regulatory arrangements, however it should also incentivise entities to seek lighter handed regulation;
- g. **Incentives** - The price monitoring framework should create incentives for water entities by allowing them to transition to lighter handed price monitoring or even have price monitoring removed altogether where the entity has demonstrated itself worthy of the reward. The QCA should establish criteria needed to be satisfied in order to achieve this objective;
- h. **Regulatory oversight periods** - The regulatory period should be either 3 or 5 years, nominated by the relevant water entity. Flexibility of timeframe may provide an opportunity to optimise alignment with other regional planning processes;
- i. **Price monitoring reporting** - Consideration should be given to the longer term price monitoring using an ex-post review of audited accounts rather than ex-ante regulatory submissions. Use of historical regulatory accounts might assist to remove estimation error as the costs and events will be known rather than focusing on near complete projects. This may provide a better opportunity for actual learning's to be incorporated into future projects;
- j. **Concurrent activity** - Timeframes contained in the Ministers' Direction Notice will be challenging and it should be noted that they will place a strain on resources that may inadvertently increase costs due to the use of consultants. Known concurrent work programs include but are not limited to:
  - i. Undertaking assessment of the 2013-15 price monitoring submission;
  - ii. Participating in the QCA WACC review;
  - iii. Infrastructure charges discussion paper issued by the State Government;
  - iv. Working on the longer term regulatory arrangements;
  - v. Recognising the reconstituted Noosa Shire Council; and
  - vi. Ongoing work on Netserv and Total Water Cycle Management Plans and the Utility Model.




- k. **Framework and approach** - Development of the framework and approach should be structured to include consultation and publication of guidance on matters such as:
  - i. Guidelines for cost allocation; demand forecasts and service standards;
  - ii. Modelling business rules formalised including RAB roll forward, MAR construction and developer contributions treatment;
  - iii. Classification of services, tariff reform and pricing principles guidance; and
  - iv. Formalisation of the eligibility and business rules regarding the carrying forward of MAR under or over recoveries.
- l. **Balanced outcomes** - Water and sewerage pricing should take into consideration and balance outcomes in terms of customers; risk and sustainability outcomes in all of their forms;
- m. **Geographic boundaries** - Distributor-retailers should be de-linked from local Council boundaries; Unitywater suggests the QCA permits distributor-retailers to elect to report as a single region business rather than report by participating council boundaries; and
- n. **Financial sustainability** - The longer term economic regulatory framework should ensure financial sustainability of the regulated businesses whilst accommodating growth, network risk and customer outcomes.

Unitywater looks forward to making a meaningful contribution to the work program and in particular identifying opportunities to lower cost to serve, and lighten the form of regulatory oversight. Unitywater considers that fit for purpose regulatory oversight should add to the customer value proposition and make maximum use of business as usual documentation, strategy, planning, reporting, systems, processes, controls and accreditations as well as other regulatory oversight functions in order to scale fit for purpose economic regulatory oversight.

For ongoing consultation, Damian Platts, Manager Regulatory Affairs is nominated as the contact officer for this review. Damian can be contacted by emailing [damian.platts@unitywater.com](mailto:damian.platts@unitywater.com) or by phone 0488 980 763.

Yours sincerely



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CC: Louise Dudley, Chief Executive Officer, Queensland Urban Utilities  
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