

30 January 2018

Our Ref: DCH:RC:Ih
Contact: 3829 8730

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Sir / Madam

Redland City Council is grateful for the opportunity to read the Seqwater Bulk Water Price Review 2018-21 Draft report and respond from a Distributer Retail perspective.

Redland City Council has been concerned with the impact of bulk water price increases to water customers in recent years that far exceed the Brisbane Consumer Price Index. Council has attempted to minimise the overall increase in water prices to customers by keeping its retail charges constant since 2015-2016. This is not a sustainable position as our water business costs increase like other water entities.

Redlands is committed to finding efficiencies and continues to treat water pricing as a major topic during each annual budget development process. In recent years we have sought external support with water pricing and modelling and are currently utilising a custom made Queensland Treasury Corporation (QTC) water pricing model to best support the water prices covering the works of the commercialised business activity of Redland Water.

We are advocating for price path two as proposed in the draft report to smooth the impact to Redland ratepayers following three recent consecutive bulk water annual price increases of 10%, 9% and 8%.

Bulk water prices have experienced significant annual increases ranging from 8% to 17% over the last five years. That equates to an average annual increase of 12% each year.

Bulk water charges from FY	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
2012-13 to FY 2017-18						
Bulk Water Prices (\$/KL)	\$1.472	\$1.717	\$1.962	\$2.162	\$2.361	\$2.561
% change in Price/KL each year		16.61%	14.27%	10.19%	9.20%	8.47%
Brisbane CPI (as per ABS website- September Qtr)	1.70%	2.17%	2.60%	1.50%	1.48%	1.55%

Bulk water cost is a significant portion of the overall operational expenditure and during Financial Year 2012-13 it was 8% of the total operational expenditure. This percentage is rising each year and is expected to be around 13% during FY 2017-18.

	Actual	Actual	Actual	Actual	Actual	Budget
	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Bulk water cost (M)	\$19	\$24	\$27	\$29	\$32	\$35
Total operational expenditure (M)	\$235	\$210	\$233	\$244	\$269	\$273
Bulk water cost/Total operational expenditure (%)	8%	11%	11%	12%	12%	13%

Proposed Bulk Water Prices in 2018-21

The Queensland Competition Authority (QCA) has recommended two price paths for the period 1 July 2018 to 30 June 2021 for Redland City. The details of the two proposed price paths can also be found in the table below.

Bulk Water Prices (\$/KL)	Proposed 2018-19	Proposed 2019-20	Proposed 2020-21
Price Path 1	\$2.771	\$2.980	\$3.060
% change in Price/KL each year	8%	8%	3%
Price Path 2	\$2.730	\$2.890	\$3.060
% change in Price/KL each year	6%	6%	6%
Forecasted Brisbane CPI (as per Financial Strategy FY 2017-27)	2.25%	2.25%	2.50%

It is noticeable that although the proposed price changes in 2018-21 are still considered to be higher than forecasted CPI, they are a reduction on increases to prior years. In addition, QCA has indicated that bulk water prices will increase by inflation after 2020-21, which is forecast at 2.50%. This is a substantially lower than the historic price increases.

Council's average consumption has been 200KL per year, which is different to QCA's SEQ recommended average consumption of 160KL per year. Based on December 2017 data, the residential daily average has changed to 0.527KL meaning Council's average consumption per year is 192KL (0.527 * 365).

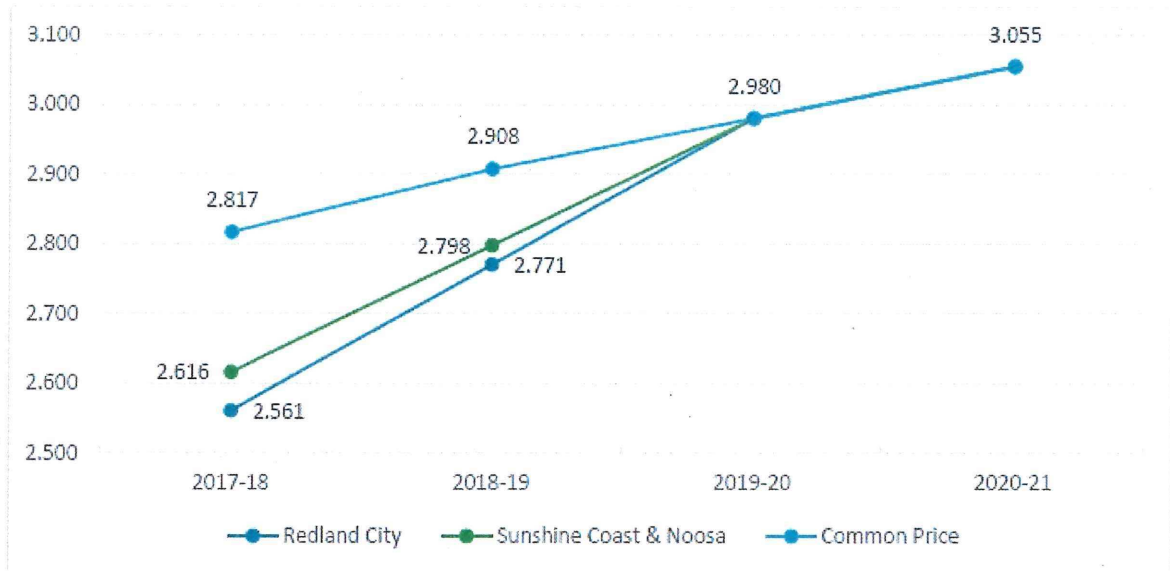
The table below illustrates the potential impact on the water bills based on the draft recommended prices. The proposed charges are volumetric and the percentage increases in bills are the same as the percentage increases in prices. Please note that the indicative bulk water bill is based on average consumption of 192KL per annum.

Pricing Option	2017-18	2018-19	2019-20	2020-21
Price Path 1	\$491.71	\$532.03	\$572.16	\$586.56
\$ increase		\$40.32	\$40.13	\$14.40
% change		8%	8%	3%
Price Path 2	\$491.71	\$523.58	\$555.46	\$587.33
\$ increase		\$31.87	\$31.88	\$31.87
% change		6%	6%	6%

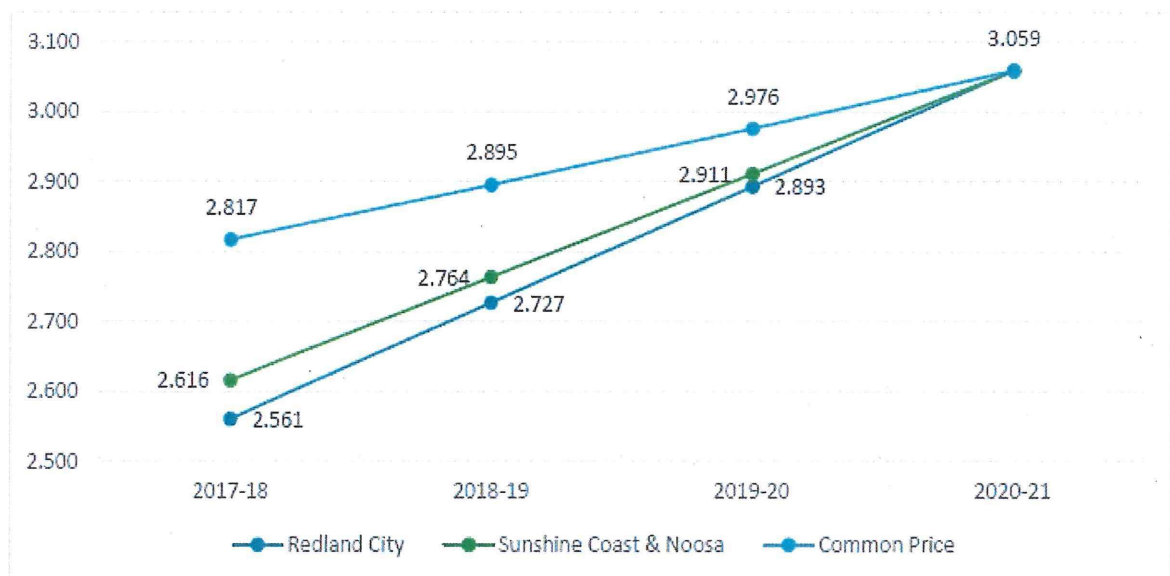
The total dollar increase proposed from 2018-19 192KL/year under Price Path 1 is \$94.85.

The total dollar increase proposed from 2018-19 192KL/year under Price Path 2 is \$95.62.

QCA Proposed Price Path 1



QCA Proposed Price Path 2



Yours sincerely

Richard Cahill
Acting Chief Financial Officer
Redland City Council

Copy Mayor Karen Williams
 Andrew Chesterman – Chief Executive Officer
 John Oberhardt – General Manager Organisational Services
 Peter Best – General Manager Infrastructure and Operations