

Richard J. Koerner Ph.D.(Qld), M.E.Sc., B.C.E (Melb), MICE  
Strategic Management / Econometric Market Analysis - ABN 26 021 850 787

26 August 2010

The Chief Executive Officer  
Queensland Competition Authority  
G.P.O. 2257  
Brisbane Qld.4001  
Attn Ms. Cath Barker

Dear Ms. Barker,

The Queensland Competition Authority (QCA) has invited public comment regarding its prices monitoring role for water and sewerage treatment services provided by government owned business entities providing natural monopoly services throughout South East Queensland (S.E.Qld.). It is my understanding that such entities are subject to the provisions of the National Water Initiative (NWI) agreements between the Federal Government and Queensland in 2004. It is reliance on this assumption that underpins the following submission and these comments are specific to the 2010/11 Budgeted service charges of Unitywater the retail/distribution entity now serving the some 55,000 households formerly serviced by Maroochy Water Services (MWS), including Coolum Beach and surrounding communities.

I submit charges incorporated in the Unitywater 2010/11 Budget are improper as no effective prices oversight was performed by Unitywater prior to adoption of that Budget. Had comprehensive prices oversight been performed it would have been discovered that improper manipulation of the written down replacement value (WDRV) of non-current distribution assets of Maroochy Water Services (MWS) is recorded in the financial reporting period just prior to its amalgamation into Sunshine Coast Water (SCW). In the reporting period 2007/March 2008 MWS assets were revalued as follows (millions):

	WDRV as of 6/07	WDRV as of 3/08	Revaluation	Revaluation as % of 6/07 WDRV
Water assets	\$215.8	\$305.1	\$135.9	63%
Sewerage assets	\$373.4	\$550.2	\$249.2	66.7%

Source: Maroochy Council Annual Report 2007/March08

In the 2005/06 and 06/07 financial reports of Maroochy Council, MWS non-current asset revaluations in excess of 20% and 8% of opening WDRVs are also recorded. The QCA's "Statement of Regulatory Pricing Principles for the Water Sector" (December 2000 pages 33-37) spells out the legitimate methodology to adjust WDRVs to reflect anticipated changes over the regulatory period. Were this methodology being correctly followed one would have expected a roll forward revaluation of less than 9% in the 07/March'08 period, rather than actual revaluations in excess of 60%. Clearly revaluations of the magnitude indicated above are not the result of roll forward adjustments. Inflated asset valuations improperly provided by Maroochy Council, and incorporated into Sunshine Coast Water non-current asset valuations have resulted in inflated regulatory asset valuations causing improper recovery of capital expenditures and return on regulatory assets in the 2010/11 Budget of Unitywater.

Correspondence from the Treasurer (Ref: QTO-09535) dated 26 July 2010 states that KPMG applied a discounted cash-flow methodology to determine non-current asset valuations for SEQ bulk water assets purchased from S.E.Qld. councils as at 30 June 2008. Use of this methodology is at variance with Principle 3 (17) of the NWI's Principles for the Recovery of Capital Expenditures that mandates use of the Optimised Deprival Value approach described on page 33 of QCA's "Statement of Regulatory Pricing Principles for the Water Sector" cited above. It has resulted in inflated valuations of all bulk water non-current assets throughout S.E. Qld.. Consequently capital recovery charges developed by the Queensland Water Commission, now endorsed by the Minister Natural Resources, are inflated and at variance with the methodologies mandated in NWI agreements. This same correspondence also states that the Minister Natural Resources has determined that distribution asset valuations based on the cash-flow methodology used by KPMG would form the regulatory asset base (RAB) for pricing purposes. Such determination is in direct breach of NWI's Principles for the Recovery of Capital Expenditures Principle 3 (17), and Principle 6 (23).

It is noted that the QCA's terms of reference require provision of transparent information to customers about the costs and other factors underlying annual increases in water and wastewater prices etc. for 2010/11, 2011/12 and 2012/13. However the QCA is being prevented from performing an investigation of prior year determinations that established the foundation upon which these increases are based. Given the examples of non-compliance with NWI Pricing Principles cited above, one can have no confidence that the pricing principles contained in the Water Market Rules established under the Water Act (2000), or subsequent policies and regulations comply with the Principles set out in the NWI Regulatory Pricing Agreement.

Yours sincerely,

Eng: Letter Qld. Treasurer to R.J.Koerner dated 26 July 2010



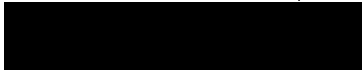
**Queensland  
Government**

Office of the  
Treasurer and Minister for Employment  
and Economic Development

QTO-09535

**26 JUL 2010**

Dr Richard Koerner  
Strategic Management / Econometric Market Analysis



Dear Dr Koerner

I refer to your letter of 10 June 2010 to the Honourable Andrew Fraser MP, Treasurer and Minister for Employment and Economic Development, regarding water pricing in South East Queensland (SEQ), and have been asked to respond on his behalf.

The Government has undertaken a range of structural, institutional and regulatory reforms to enhance regional water security and improve the way water services are provided. Key elements of this program have been the separation in ownership of regional water assets, and the reduction in the number of entities involved in managing SEQ's water supply. In particular, you will be aware that Unitywater, created from the amalgamation of the water business of the Moreton Bay and Sunshine Coast Regional Councils, commenced operations on 1 July 2010.

The Government considers that economic regulation of the SEQ water sector will make an important contribution to the success of these reforms. To this end, the Queensland Competition Authority (QCA), as the state's independent regulator, will have a central role in regulating prices charged by the new distributor-retailers and the Government-owned bulk water entities, Linkwater, WaterSecure and Seqwater.

In 2007, the Government retained KPMG to carry out the financial due diligence for the purchase of SEQ councils' bulk water assets. KPMG applied a discounted cash-flow methodology, based on generally-accepted economic regulatory principles, to establish a 'line-in-the-sand' valuation for each council water business as at 30 June 2008. These valuations were broken down into separate bulk and distribution components.

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In March 2010, the Honourable Stephen Robertson MP, Minister for Natural Resources, Mines and Energy and Minister for Trade determined that the distribution valuations would form the regulatory asset bases for the distributor-retailers and be used for regulatory pricing purposes. This means that, from 1 July 2010, the written-down value of assets will no longer be used as the basis for setting or measuring returns for water and wastewater prices.

As an interim measure for the next three years, the QCA will monitor water and wastewater prices charged by Unitywater, Queensland Urban Utilities and Allconnex Water on the basis of a framework which it has recently proposed to Government. This will ensure that water and wastewater prices in SEQ are appropriate and reflective of costs. As part of its price monitoring assessment, the QCA will undertake prudence and efficiency reviews of proposed new capital expenditure.

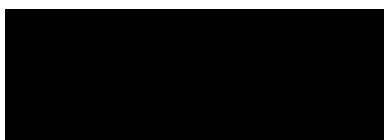
It is intended that the interim framework will subsequently transition to a deterministic regime from 1 July 2013, at which time the QCA will become responsible for setting retail water and wastewater prices. The regulated asset base set on 30 June 2008 will continue to be applied and 'rolled forward' consistent with standard regulatory practice. The Government will shortly direct the QCA to recommend a regulatory framework and key regulatory pricing principles for this purpose. As part of its review, the QCA will undertake an open consultation process, providing all interested stakeholders with an opportunity to express their views.

Currently, prices paid by the Water Grid Manager to the bulk water entities (grid service charges) are recommended to Government by the Queensland Water Commission (QWC), based on pricing principles contained in the Water Market Rules established under the *Water Act 2000*. These principles require full recovery of costs and reflect a number of key Government policies, including the limiting of returns on those assets constructed under the *Water Amendment Regulation (No 6) 2006* to their cost of debt.

The Government also intends for the QCA to assume responsibility for setting grid service charges under the *Queensland Competition Authority Act (1997)* from no later than 2013-14. In the near future, the QCA will conduct a public review to propose a framework for the deterministic regulatory regime, taking account of the Government's existing policies in relation to the bulk entities.

As a transitional measure, from 2011-12, the QCA will assume the QWC's existing role in recommending grid service charges to Government on the basis of the Market Rules.

Yours sincerely



Sharon Humphreys  
Principal Advisor

-----Original Message-----

From: Richard Koerner [REDACTED]

Sent: Sunday, 8 August 2010 4:14 PM

To: Ask Us

Subject: Water & sewerage service billings for Properties 12745 & 12744

Dear Sir/Madam,

I refer to billings for the period 1/7/2010 to 31/12/2010 due for payment on 13 September. Both these properties are registered "Land for Wildlife" with the Sunshine Coast Regional Council by reason of having mature stands of the endangered Richmond Birdwing vine *pararistolochia praevenosa*.

The unconnected water charge for property # 12744 has increased 47% from the same period last year. The unconnected sewerage charge has increased 56% from last year. Such increases are unfair and unwarranted considering this land remains undeveloped in the public interest.

Water charges for property #12745 have increased 29.5% from the same period last year despite usage actually being lower. The water access charge has increased 6.1% and the sewerage access charge 6.8%. General inflation is about 3% over the period.

In answers to questions posed at recent public meetings relating to 2010 budgeted charges, Unitywater's CEO stated that prices oversight was not performed prior to adoption of these charges. This is most troubling in that prices oversight of budgeted service charges including bulk water is the statutory obligation of Unitywater.

I formally protest these charges as they were determined without performance of the prices oversight obligations required under National Competition Policy agreements between Queensland and the Federal Government relating to water reform.

Yours sincerely,

Richard Koerner

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Dear Mr Koerner,

Thank you for your enquiry regarding Unitywater's recently released Account for water supply and sewerage services.

Unitywater's prices have been set considering a number of economic and historical factors:

- the cost of bulk (wholesale) water that Unitywater must purchase from the Water Grid Manager. This price is set by the State Government and has increased by 21% in the Moreton Bay Regional Council area and 26% in the Sunshine Coast Regional Council area for 2010-11;

- the cost of building, replacing, improving and maintaining almost \$3 billion worth of water and sewerage infrastructure;
- the cost of capital;
- the maximum allowable return on assets to enable a fair and full economic return, so the asset base (the community's water and sewerage infrastructure) is maintained, and a fair return can be provided to the owners to maintain value;
- the need to standardise pricing for water supply and sewerage services in all parts of Unitywater's service area;
- the cost of retailing the water and sewerage service, including accounts and receipting.

Unitywater was required to bring together the hundreds of different pricing tariffs and pricing methods that our owner councils were in the process of standardising and aligning when the State Government announced the multiple distributor/retailer reform model about 12 months ago.

Unitywater has aligned all prices within Moreton Bay and Sunshine Coast areas first, reflecting the true economic cost of the asset base and operation in these respective local government areas before moving towards alignment across the entire Unitywater area.

Also important to know is that Unitywater has to justify price setting to the independent regulator, the Queensland Competition Authority (QCA) from 1 July 2010. The QCA has price oversight to ensure prudent and efficient expenditure and precise economic pricing, which is not allowed to exceed the maximum allowable revenue.

Enquiries about historical prices for water supply and sewerage services in your area should be directed to your local council.

Yours sincerely

David West  
 Manager Customer Service  
 For Chief Executive Officer  
 Unitywater  
[customer.service@unitywater.com](mailto:customer.service@unitywater.com)

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Dear Mr. West,

Thank you for this response. However it does not address Unitywater's failure to perform prices oversight obligations prior to adoption of a 2010/11 budget that includes pass through of bulk water charges.

My specific concerns are spelled out in the attached correspondence to the Treasurer. Economic values based on the methodology used by the Queensland Government to determine bulk water charges are flawed and inappropriate for natural monopoly services such as Unitywater.

This e-mail exchange will be forwarded to the Queensland Competition Authority in response to their request for public submissions relating to 2010/11 water and sewerage price monitoring in S.E.Qld.

Sincerely,

Richard Koerner

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Ground Floor, 33 King Street  
Caboolture QLD 4510  
PO Box 953  
Caboolture QLD 4510  
www.unitywater.com

ABN: 89791717472

Mr Richard J Koerner

23 August 2010

Dear Mr Koerner

I refer to your email of 10 August to Mr West of this office.

Unitywater set prices for 2010/11 on the basis of not recovering greater than the Maximum Allowable Revenue (MAR) requirement under full cost pricing principles.

As you will be aware MAR consists of operating expenses (including the pass through of bulk water charges), a return of capital component (i.e. depreciation) and a return on capital component.

The latter two components of the MAR were calculated using the Regulatory Asset Base (RAB) determined by, and assigned to, Unitywater by the Queensland Government.

The Queensland Government has directed the Queensland Competition Authority to accept the RAB assigned to Unitywater for the purposes of evaluating the appropriateness of Unitywater's price setting during the Interim Price Monitoring period (including for 2010/11).

Consequently, Unitywater has adopted this assigned RAB in setting prices for its customers.

Yours sincerely

  
Jon Clark  
Chief Executive Officer

CC: Peter Scott, CFO

**Richard J. Koerner Ph.D.(Qld), M.E.Sc., B.C.E (Melb), MICE**  
**Strategic Management / Econometric Market Analysis - ABN 26 021 850 787**

10 June 2010

The Queensland Treasurer  
The Hon. Andrew Fraser M.P.  
GPO Box 611  
Brisbane Qld. 4001

Re: Continuing prices oversight maladministration

Dear Hon. Treasurer,

I refer to correspondence dated 4 February 2008 from the Treasurer's Office relating to ongoing concerns regarding the Queensland Government's failure to embrace National Competition Policy (NCP) related water reforms.

The Ministers Queensland Competition Authority (QCA) terms of reference for price monitoring of retail entities such as Unitywater specifically precludes an independent investigation of bulk water prices. You should also be aware that improper manipulation of the written down replacement value (WDRV) of non-current assets of Maroochy Water Services (MWS) is recorded in the financial reporting period just prior to its amalgamation into Sunshine Coast Water (SCW). In the reporting period 2007/March 2008 MWS assets were revalued as follows (millions):

	WDRV as of 6/07	WDRV as of 3/08	Revaluation	Revaluation as % of 6/07 WDRV
Water assets	\$215.8	\$305.1	\$135.9	63%
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Source: Maroochy Council Annual Report 2007/March08

In the 2005/06 and 06/07 financial reports of Maroochy Council, MWS non-current asset revaluations in excess of 20% and 8% of opening WDRVs are also recorded. The Queensland Competition Authority's "Statement of Regulatory Pricing Principles for the Water Sector" (December 2000 pages 33-37) spells out the legitimate methodology to adjust WDRVs to reflect anticipated changes over the regulatory period. Were this methodology being correctly followed by the Sunshine Coast Regional Council one would have expected a roll forward revaluation of less than 9% in the 07/March'08 period, rather than actual revaluations in excess of 60%. Inflated asset valuations improperly provided by Maroochy Council, and now incorporated into SCW asset valuations, will lead to continued monopoly pricing abuse by Unitywater to also place that entity in breach of its prices oversight statutory obligations stemming from NCP agreements relating to water reforms.

As retail prices for water include a pass-through of bulk water charges, please initiate a prices oversight investigation of the bulk water price projections determined by the Queensland Water Commission (QWC). An independent investigation of bulk water charges by the QCA is necessary to ensure that households serviced by Unitywater do not suffer additional improper monopoly pricing abuse resulting from failure to embrace the QCA's "Statement of Regulatory Pricing Principles for the Water Sector" cited above, and pricing consequences of inefficient capital investment and/or operating practices accepted by QWC in developing the recent bulk water price projections adopted throughout South East Queensland.

Yours sincerely,

R. J. Koerner  
Former External Director  
Maroochy Water Services Advisory Board





**Queensland  
Government**

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Office of the  
**Treasurer and Minister for Employment  
and Economic Development**

QTO-09535

**26 JUL 2010**

Dr Richard Koerner  
Strategic Management / Econometric Market Analysis

Dear Dr Koerner

I refer to your letter of 10 June 2010 to the Honourable Andrew Fraser MP, Treasurer and Minister for Employment and Economic Development, regarding water pricing in South East Queensland (SEQ), and have been asked to respond on his behalf.

The Government has undertaken a range of structural, institutional and regulatory reforms to enhance regional water security and improve the way water services are provided. Key elements of this program have been the separation in ownership of regional water assets, and the reduction in the number of entities involved in managing SEQ's water supply. In particular, you will be aware that Unitywater, created from the amalgamation of the water business of the Moreton Bay and Sunshine Coast Regional Councils, commenced operations on 1 July 2010.

The Government considers that economic regulation of the SEQ water sector will make an important contribution to the success of these reforms. To this end, the Queensland Competition Authority (QCA), as the state's independent regulator, will have a central role in regulating prices charged by the new distributor-retailers and the Government-owned bulk water entities, Linkwater, WaterSecure and Seqwater.

In 2007, the Government retained KPMG to carry out the financial due diligence for the purchase of SEQ councils' bulk water assets. KPMG applied a discounted cash-flow methodology, based on generally-accepted economic regulatory principles, to establish a 'line-in-the-sand' valuation for each council water business as at 30 June 2008. These valuations were broken down into separate bulk and distribution components.

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In March 2010, the Honourable Stephen Robertson MP, Minister for Natural Resources, Mines and Energy and Minister for Trade determined that the distribution valuations would form the regulatory asset bases for the distributor-retailers and be used for regulatory pricing purposes. This means that, from 1 July 2010, the written-down value of assets will no longer be used as the basis for setting or measuring returns for water and wastewater prices.

As an interim measure for the next three years, the QCA will monitor water and wastewater prices charged by Unitywater, Queensland Urban Utilities and Allconnex Water on the basis of a framework which it has recently proposed to Government. This will ensure that water and wastewater prices in SEQ are appropriate and reflective of costs. As part of its price monitoring assessment, the QCA will undertake prudence and efficiency reviews of proposed new capital expenditure.

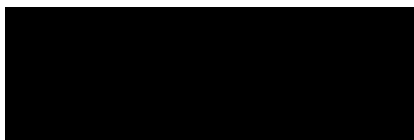
It is intended that the interim framework will subsequently transition to a deterministic regime from 1 July 2013, at which time the QCA will become responsible for setting retail water and wastewater prices. The regulated asset base set on 30 June 2008 will continue to be applied and 'rolled forward' consistent with standard regulatory practice. The Government will shortly direct the QCA to recommend a regulatory framework and key regulatory pricing principles for this purpose. As part of its review, the QCA will undertake an open consultation process, providing all interested stakeholders with an opportunity to express their views.

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The Government also intends for the QCA to assume responsibility for setting grid service charges under the *Queensland Competition Authority Act (1997)* from no later than 2013-14. In the near future, the QCA will conduct a public review to propose a framework for the deterministic regulatory regime, taking account of the Government's existing policies in relation to the bulk entities.

As a transitional measure, from 2011-12, the QCA will assume the QWC's existing role in recommending grid service charges to Government on the basis of the Market Rules.

Yours sincerely



Sharon Humphreys  
Principal Advisor

**Richard J. Koerner Ph.D.(Qld), M.E.Sc., B.C.E (Melb), MICE**  
**Strategic Management / Econometric Market Analysis - ABN 26 021 850 787**

30 July 2010

The Queensland Treasurer  
GPO Box 611  
Brisbane Qld. 4001

Attn. Ms. Sharon Humphreys  
Principal Advisor

Dear Ms. Humphreys,

Thank you for the response dated 26 July (Ref. QTO-09535) on behalf of the Queensland Treasurer.

I refer to my correspondence addressed to the Treasurer dated 10 June and to the Under-Treasurer dated 24 May pointing out that manipulation of non-current assets of Maroochy Water Services had taken place in the 2007/ March'08 financial statements of the Sunshine Coast Regional Council. The correspondence to the Treasurer also requested independent prices oversight investigations of the bulk water charge projections of the Queensland Water Commission (QWC) now endorsed by the Government, and the 2010/11 Budgeted service charges of Unitywater.

Past terms of reference given to the Queensland Competition Authority (QCA) by the Ministers QCA have prevented their investigation of regulatory asset base determinations for government monopoly business activities (GMBAs) providing water and sewerage services that were formerly subsidiaries of South East Queensland councils. It is particularly troubling to now learn that the Minister for Natural Resources has determined regulatory asset bases for the newly created distributor-retailers that are based solely on a flawed discounted cash-flow methodology apparently used by KPMG in the 2007 study commissioned by the Government.

I refer to page 33 of the QCA's "Statement of Regulatory Pricing Principles for the Water Sector (December 2000)". It can be noted that the Deprival Value Approach (ODVA), endorsed by COAG under the National Competition Policy agreements relating to water reform, requires consideration of both depreciated optimised replacement cost as well as economic value. The final paragraph on page 1 of the Treasurer's letter (Ref. QTO-09535) suggests that KPMG have used a net present value (NPV) approach based on projected after tax cash flows discounted at an appropriate rate of return for GMBAs to determine distribution valuations that have now been endorsed by the Minister for Natural Resources for regulatory pricing purposes. Use of such an approach is clearly inconsistent with the ODVA methodology cited above and inappropriate for commercial entities that are natural monopoly service providers. Did the terms of reference given to KPMG by the Government require sole use of NPV methodology?

In answers to questions posed at recent public meetings relating to budgeted charges, Unitywater's CEO has stated that prices oversight was not performed prior to adoption of the 2010/11 Budget, but that the QCA would perform such oversight at a later date. This is most troubling in that prices oversight of budgeted service charges is the statutory obligation of Unitywater as a GMBA. Given the Minister for Natural Resources's determination of regulatory asset bases discussed above, it suggests that inflated asset valuations of Maroochy Water Services are being used in the determination of regulatory base for the water and sewerage infrastructure now on the books of Unitywater and in the calculation of permissible returns on such assets. Is this the case?

I again request a comprehensive prices oversight investigation of the bulk water price projections determined by the Minister Natural Resources, making available the studies performed by KPMG in 2007 and any other relevant material to facilitate QCA's investigation. Independent investigation of bulk water charges is necessary to ensure that households throughout South East Queensland are not suffering improper monopoly pricing abuse resulting from failure to embrace water reforms.

Yours sincerely,

R. J. Koerner  
Former External Director  
Maroochy Water Services Advisory Board

**Richard J. Koerner Ph.D.(Qld), M.E.Sc., B.C.E (Melb), MICE**  
**Strategic Management / Econometric Market Analysis - ABN 26 021 850 787**

24 May 2010

The Under-Treasurer  
Queensland Government  
GPO Box 611  
Brisbane Qld. 4001

Re: Continuing prices oversight maladministration - Maroochy Water Services (MWS)

Dear Mr. Bradley,

I refer to correspondence from Treasury TRO-06280 dated 25 September 2004, and QTO-00946 dated 4 February 2008 from the Treasurer's Office relating to ongoing concerns regarding the Queensland Government's failure to embrace National Competition Policy (NCP) related water reforms.

Treasury should be aware that improper manipulation of the written down replacement value (WDRV) of non-current assets of Maroochy Water Services (MWS) is recorded in the financial reporting period just prior to its amalgamation into Sunshine Coast Water (SCW). In the reporting period 2007/March 2008 MWS assets were revalued as follows (millions):

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Also attached is a capital efficiency benchmarking comparison for SCRC's three water and sewerage commercial business entities. Information to explain the marked differences in capital efficiency per household connected to water and sewerage services between MWS and Noosa Water Services (NWS) was requested in correspondence to the Chief Executive Officer of SCRC in March 2009. Details relating to a further SCW sewerage asset revaluation write up of \$ 425.3 million that is recorded in SCRC's financial statements for 2008/09 was requested on 1 April 2010. No responses to either of these information requests have been received to date. It should be noted that since 2007/March'08, all financial and operating performance transparency relating to MWS has been removed from the public domain. This is despite it being preferable for such transparency to be restored to pre 2001/02 levels.

Yours sincerely,

Richard J. Koerner

**SCRC Water and Sewerage Business Capital Efficiency Benchmarking**

2007/March'08 Financial Statements

	WDRV (\$millions)	#properties connected to water and sewerage**	WDRV per property
MWS	855.3*	59,686	\$14,330
Calaqua	417.0	35,020	\$11,907
NWS	227.8	25,453	\$8,950

\* Includes a revaluation write up of \$384 million.

\*\* Estimated by extrapolation from prior period year to year growth data.

Sources: SCRC Council financial statements  
Qld. Local Government Comparative Statistics 2006/07



QTO-00946

Office of the  
Treasurer of Queensland

- 4 FEB 2008

Mr Richard Koerner  
[REDACTED]

Dear Mr Koerner

Thank you for your email of 3 January 2008 requesting clarification of the Treasurer's letter of 16 November 2007 to the Coolum Residents Association. Specifically, you have asked whether or not the updated internal review of the Maroochy Water Services (MWS) financial performance was completed in early 2007.

In June 2005, the Premier and Treasury Department wrote to Maroochy Shire Council recommending an optimisation study be conducted to determine whether MWS's assets contained excess capacity, and a review by the council of its pricing practices, in light of risks that MWS's rate of return will increase over time.

In May 2006, the council wrote to the Treasurer advising it had accepted the recommendation to undertake an optimisation study and foreshadowed the study would be completed by December 2006. However, in December 2006, citing anticipated reforms to water arrangements in the South East Queensland and limited organisational capacity/resources, the council advised Treasury it had decided to not prepare the optimisation study.

Treasury was unable to proceed with the review of the MWS at that time, so the internal Treasury review did not occur. Subsequently, consideration was given to referring the matter to the Queensland Competition Authority. However, it was decided that given the substantial reform program in the South East Queensland water sector, these issues would be considered as part of the broader reform program for water in South East Queensland.

If you have any further queries in relation to this matter, please contact Ms Tania Homan, Acting Director, Economics and Intergovernmental Relations on (07) 3224 2806 or [tania.homan@treasury.qld.gov.au](mailto:tania.homan@treasury.qld.gov.au).

Yours sincerely

[REDACTED]  
*for* Michael Dart  
Senior Advisor

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ABN 65 959 415 158

**Coolum Beach Progress & Ratepayers Association Inc.**  
**PO Box 121**  
**Coolum Beach Q 4573**

12 April 2006

The Under Treasurer  
Queensland Government  
GPO Box 611  
Brisbane Qld. 4001  
Reference: Queensland Competition Authority (QCA) TRO-06280

Re: Prices oversight investigation request - Maroochy Water Services (MWS)

Dear Mr. Bradley,

Thank you for the response of 3 March 2006 and provision of Council's Annual Report at the 4 April meeting with Treasury Officers at Noosa.

Further to the Association's letter of 27 January, it appears manipulation of regulatory capital financial data has also taken place in each of the three years reviewed by Treasury Officers. Asset values quoted in the Ministers letter of 25 September 2004 appear not to have been adjusted to reflect long term debt incurred by MWS for construction of water and sewerage infrastructure. As interest on infrastructure debt is considered in the calculation of NPAT, estimates of regulatory capital base for calculation of return on assets must surely deduct long term debt for each of the years considered.

Values of regulatory assets used by the Ministers for return on investment estimates quoted in TRO-06280 are:

	2000/01	2001/02	2002/03
\$Millions	279.4	279.7	324.4

For the reasons discussed at the November 2004 meeting with Treasury Officers, the Association reaffirms our belief that the write up of long term assets in 2002/03 was unwarranted and a ploy to further manipulate the return on regulatory assets in that financial year. Setting aside that issue for the moment, more appropriate values of assets to be used in calculation of return on regulatory assets with infrastructure long-term debt deducted can now be determined from ROCE data as (\$millions):

	1999/00	2000/01	2001/02	2002/03	2003/04 (Target)	2004/05
	114.3	105.6	123.6	161.5	125.5	102.0

According to financial data now also available in the public domain, actual values of NPAT for MWS are in fact:

	1999/00	2000/01	2001/02	2002/03	2003/04	04/05
\$Millions	34.3	23.0	26.5	28.3	36.2	39.1

Average annual returns on regulatory assets are calculated at 25.5% for the years 1999/00 to 2004/05. Average annual MWS service charges in excess of ceilings permitted under LGA Financial Standards is \$20.7 million, or about \$450 per connected property per year.

Such an average return on regulatory value is significantly in excess of the range from 8.0 to 8.6 % considered reasonable, despite the contention to the contrary made in the Minister's letter of 16<sup>th</sup> June 2005. Total overcharging from 99/00 to 04/05 seems about \$120 million

Since the declaration of MWS as a commercialising business entity in 98/99, Maroochy ratepayers connected to water and sewerage services appear to have suffered monopoly-pricing abuse of more than \$100 million. It remains the Association's conviction that satisfactory resolution to the MWS prices oversight complaint mandates prompt referral of the matter to an independent entity such as the Queensland Competition Authority.

Yours sincerely,

Peter M. Brown  
President

Cc: The Hon. Desley Boyle - Minister for Local Government and Planning

**Coolum Beach Progress & Ratepayers Association Inc.**  
PO Box 121  
Coolum Beach Q 4573

13<sup>th</sup> December 2004

NCP Inquiry  
Productivity Commission  
P.O.Box 80  
Belconnen ACT 2616

Dear Sir/Madam,

You have invited public comment on the October 2004 Draft Discussion of the Review of National Competition Policy Reforms.

The Coolum Beach Progress and Ratepayers Association Inc. (CBP&RA) notes that the Draft does not discuss governance, legislative, and prices oversight issues raised in our submission of 2<sup>nd</sup> June, and consequently wishes to comment on Sections 9.3, 9.4 and 9.5 in the light of these omissions.

#### Section 9.3 Governance Arrangements

The focus of the Draft Discussion is directed primarily toward situations where a GBE's pricing is failing to achieve rates of return above its risk free cost of capital. As described in Submission 13, the case of Maroochy Water Services is quite the contrary. It seems to be abuse of monopoly pricing powers by the GBE to achieve rates of return in excess of regulatory ceiling levels, and failure by the Maroochy Council and responsible State Government Agencies to effectively perform their prices oversight responsibilities.

#### Section 9.4 Legislation Review Process

Queensland's Local Government Act attempts to achieve the NCP outcomes envisaged for GBE's in the process of commercializing by the provisions set out in Part 5 Clauses 458CA(1) to 458CP. However, the current legislative treatment of transitional issues in these provisions is weak and ineffective. For example, the more stringent provisions of Part 6 that apply to a fully corporatized Local GBE do not apply to a commercializing GBE in Queensland. This invites a long drawn out process of commercialization. Should the recalcitrant operating management of such a GBE also be supported by an unethical Council, the only recourse available to a citizen's interest group is that of requesting the Queensland Competition Authority (QCA) to investigate.

Whether such an investigation actually takes place depends on a referral decision by the Premier and Cabinet. However, referrals to QCA are infrequent as they are costly and can create precedents that may be considered unhelpful by bureaucrats in bringing transparency to oversight deficiencies by State Government agencies. In Queensland, a request for Local GBE price oversight investigation is first reviewed by the Department of Local Government and Planning and then is sent on to the Treasurer's Department. The time taken in deliberations by these entities can be considerable. In the case of the CBP&RA complaint, the oversight request was made in May 2003 and a final Treasury recommendation to refer the matter has not yet been made. It is unlikely the QCA would complete its investigation short of a further 12 months. Meanwhile the offending Local GBE can continue its likely abuse of monopoly pricing powers without fear of financial penalty, or even an obligation to compensate ratepayers for its ongoing, let alone past pricing practices.

#### Section 9.5 Oversight of monopoly service providers

This section is incomplete considering the material contained in Submission 13 and further outlined above. Consideration is not given to the significant conflict of interest that exists under Queensland's Legislation and perhaps that of other State Governments for a Council's use of its GBE as revenue raising entity and its responsibility to perform price oversight over that same entity. Improper use of



transfer pricing mechanisms can also impede realization of the efficiency gains contemplated under NCP for both the GBE and those elements of the Council's activities not subject to commercialization.

The intent of corporatization under NCP is purported to be:

- (a) establishing efficient and effective commercial business units in the public sector; and
- (b) establishing a framework for operation and accountability of the units.

In the case of Maroochy Water Services as a GBE of Maroochy Shire Council in Queensland, these worthy objectives are not currently being achieved.

Yours sincerely

Peter M. Brown  
President CBP&RA

Queensland Government

MINISTERS FOR QUEENSLAND COMPETITION AUTHORITY

Our Reference: TRO-06280

25SEP2004

Mr P Brown

Coolum Beach Progress and Ratepayers Association

PO Box 121

COOLUM BEACH QLD 4573

Dear Mr Brown

The Coolum Beach Progress and Ratepayers Association (CBP&RA) wrote to the Minister for Local Government and Planning, the Honourable N Cunningham MP, on 21 May 2003, requesting Maroochy Water Services (MWS) be referred to the Queensland Competition Authority (QCA) for a prices oversight investigation. This request was forwarded to Treasury on 10 December 2003. We have also received the submission sent to Ms Cunningham on 31 March 2003 regarding the pricing structure of MWS and the submission sent to us on 9 March 2004.

We note your concerns relate to:

- the valuation of MWS's asset base, in particular their sewerage assets and level of working capital;
- high water and sewerage charges (in comparison to other councils); and
- a loss of transparency in financial reporting following a decision to dissolve the Maroochy Water Services Advisory Board.

MWS is a declared Government Monopoly Business Activity (GMBA) under part 3 of the Queensland Competition Authority Act 1997 ("the Act"). Part 3 of the Act provides us, as responsible Ministers for the Act, with the option of referring a GMBA to the QCA for a monopoly pricing oversight investigation if there is evidence the GMBA is engaging in monopoly pricing activities.

In deciding whether to refer a matter to the QCA, we may consider a range of factors including whether there is a reasonable probability a monopoly pricing problem may exist. On this basis, Treasury has been collating relevant information and undertaken an analysis to assist us in our consideration of this matter.

Based on the analysis of publicly available information and additional data provided by Maroochy Shire Council, Treasury advises the information indicates that MWS is not earning an excessive rate of return, and therefore, is unlikely to be misusing its market power. MWS's actual return was compared with a range of reasonable returns, 8.0 to 8.6, calculated using assumptions based on the principles outlined in the QCA's "Statement of Regulatory Pricing Principles for the Water Sector", December 2000. The results of the analysis are summarised in the table below:

	2000-01	2001-02	2002-03
Current assets <sup>1</sup>	(\$,000)2,556	2,810	2,874
Assets (water and sewerage) <sup>2</sup>	(\$,000) 276,777	276,911	321,500 <sup>4</sup>
Actual return on assets	7.0	8.1	7.1
Assets, adjusted for 10 over-capitalisation <sup>3</sup>	(\$,000) 249,355	249,501	289,637
Actual return on assets	7.7	9.0	7.8

1. A figure equivalent to 5 of revenue was chosen on the basis that it is an industry benchmark derived from a survey

of 15 similar service providers.

2. Contributed assets were recognised and removed from the asset base.
3. If excess capacity exists in MWS's network then the asset base used for pricing purposes should be reduced accordingly. Even though MWS utilises less assets per connected property than similar services in NSW, MWS's asset base was reduced by 10 to test the impact on the rate of return.
4. In 2002-03 MWS's assets were re-valued to include previously unrecognised assets and a more accurate estimation of the useful lives of some infrastructure.

We note your concern there is a decreased level of transparency in MWS's financial reporting. While it was outside the scope of Treasury's analysis to investigate these concerns, we acknowledge it is preferable if MWS:

- re-instigates the preparation of publicly available detailed annual financial reports for MWS, and
- participates in the Department of Local Government and Planning's survey of local government water and sewerage services.

Before making a final decision on this matter, we invite you to make a final submission (if you would like us to consider any additional information) by 8 October 2004, after which we will make a final decision in relation to this matter.

If you have any question about this matter, please contact Mr Gerald Schmidt by telephone on (07) 3227 6878 or via email at [gerald.schmidt@treasury.qld.gov.au](mailto:gerald.schmidt@treasury.qld.gov.au).

Thank you for your submissions.

Yours sincerely

PETER BEATTIE MP  
PREMIER AND MINISTER FOR TRADE

TERRY MACKENROTH MP  
DEPUTY PREMIER, TREASURER AND MINISTER FOR  
SPORT