


SEQ Water and Wastewater Price Monitoring 2012-13 Unitywater

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Review of Response to QCA Draft Report

Queensland Competition Authority

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Document History

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Halcrow Pacific
Level 40, 385 Bourke Street, Melbourne VIC 3000, Australia
GPO Box 1841, Melbourne VIC 3001
Tel +61 3 8682 3900 Fax +61 3 8682 3999
www.halcrow.com

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1 Introduction

This document provides Halcrow's comments in respect of issues raised in Unitywater's formal response to the Queensland Competition Authority's (QCA's) Draft Interim Price Monitoring Report for 2012/13.¹

Unitywater's comments are presented in a letter to the Chairman of the QCA dated 28 February 2013 (hereinafter referred to as 'Unitywater's Response' or 'its Response').

Halcrow's comments are provided in respect of (and limited to) issues that relate to findings presented in Halcrow's report to the QCA.²

¹ QCA, *Draft Report, SEQ Price Monitoring for 2012-13; Part A – Overview*, January 2013 and QCA, *Draft Report, SEQ Price Monitoring for 2012-13; Part B – Detailed Assessment*, January 2013.

² Halcrow, *SEQ Water and Wastewater Price Monitoring 2012-13; Unitywater; Assessment of Operating and Capital Expenditure - Review Report (460502-32-002 Version 2.2)*, January 2013.

2 Operating Expenditure

2.1 General

The issues raised by Unitywater in respect of the findings presented in Halcrow's report to the QCA relate to Halcrow's assessment of Corporate Costs. Unitywater's concerns relate principally the use of Sydney Water as a comparator (it suggests that Hunter Water Corporation would be more appropriate), whilst other issues relate to ratio benchmarking (Halcrow's comments in respect of the key benchmark ratio) and the Authority's Data Template.

2.2 Adopted Comparator

As previously advised to the QCA in respect of Queensland Urban Utilities,³ whilst Sydney Water figures were included in the benchmarking analysis of corporate costs for comparative purposes, Halcrow's assessment was made more specifically against the Council on the Cost and Quality of Government (CCQC)⁴ benchmark which indicates that, for agencies of greater than 350 FTE employees, corporate costs should be in the order of 10-12 percent of total operating costs. The Sydney Water figures, coupled with the comment provided in the WS Atkins/Cardno report (as referenced) were included in Halcrow's report primarily to demonstrate that another (similar) water company is operating close to the CCQC benchmark. Sydney Water has not been used as a direct comparator; it appears that Unitywater fails to recognise this point.

Halcrow accepts that Hunter Water Corporation may be a more appropriate direct comparator entity for Unitywater due to greater similarity of corporate footprint. Sydney Water was adopted primarily due to the availability (in the public arena) of relatively current information suitable for the purpose identified above.

Considering the points specifically raised by Unitywater in respect of the use of Sydney Water for benchmarking purposes:

- Halcrow does not accept that the adoption of an outsource model would materially understate corporate costs. Provided costs are appropriately accounted, the manner in which corporate (or any other) functions are delivered should not lead to under (or over) statement.
- Halcrow accepts the point in respect of the size and nature of Sydney Water in comparison to Unitywater and the fact that this provides a greater base against which to drive efficiencies. The example in respect of customer density is

³ Email Halcrow to QCA, *Response to QUU Comments on Draft Report*, 8 January 2013.

⁴ Reference to the CCQG benchmark was drawn from: QCA, *Final Report; SEQ Interim Price Monitoring for 2011-12; Part B - Detailed Assessment*, March 2012, page 345. It is noted that the Council on the Cost and Quality of Government (CCQG) is now known as the Performance Improvement Branch, Department of the Premier and Cabinet, New South Wales.

acknowledged; Halcrow used this point in comparing Unitywater's and Queensland Urban Utilities' operating costs in its report to the QCA.⁵

- Halcrow acknowledges the maturity of Sydney Water as an organisation in comparison to Unitywater.

Halcrow reiterates that the primary benchmarking comparison of corporate costs was made on the basis of the CCQG benchmark.

2.3 Ratio Benchmarking

In its report to the QCA,⁶ Halcrow presented indicative ratios of corporate cost in comparison to the number of employees (FTE), customer connections (based on number of water connections) and revenue; this was consistent with ratio benchmarking reported in the QCA's 2011/12 Interim Price Monitoring Report.

As noted by Unitywater, in its analysis Halcrow suggests that the key ratio considered is the ratio of corporate costs to customer numbers as this shows most clearly the impact of the level of corporate costs to customer bills. Whilst Unitywater is consistent with QUU on the basis of this measure, its ratio is double the figure for most interstate comparators.

Unitywater suggests (as does QUU)⁷ that comparison on the basis of the ratio of corporate costs to revenue is more appropriate than a connection based comparison, its principal argument against the later approach being that customer charges comprise both fixed and variable components. Halcrow acknowledges that fixed and variable components are likely to be differently impacted by corporate cost allocations.

The benchmarking presented in Halcrow's report to the QCA⁸ shows that Unitywater is broadly consistent with its comparators on the basis of the ratio of corporate costs to revenue. This ratio is, however, proportional and consequently conceals any direct/absolute measure of the cost impact. Higher absolute cost (cost per connection), whilst the proportion of revenue being attributable to corporate costs is consistent to its comparators, may be indicative of higher overall costs on the part of the entity being reviewed.

⁵ Halcrow, *SEQ Water and Wastewater Price Monitoring 2012-13; Unitywater; Assessment of Operating and Capital Expenditure - Review Report (460502-32-002 Version 2.2)*, January 2013, page 36.

⁶ Halcrow, *SEQ Water and Wastewater Price Monitoring 2012-13; Unitywater; Assessment of Operating and Capital Expenditure - Review Report (460502-32-002 Version 2.2)*, January 2013, page 73.

⁷ QUU letter to the Chief Executive Officer of the QCA dated 1 March 2013.

⁸ Halcrow, *SEQ Water and Wastewater Price Monitoring 2012-13; Unitywater; Assessment of Operating and Capital Expenditure - Review Report (460502-32-002 Version 2.2)*, January 2013, page 73.

2.4 Data Template

Halcrow notes Unitywater's comments in respect of the Authority's Data Template. Halcrow provided comments in respect of the Data Template and QUU's compliance with requirements in completing the Template in its report to the QCA.⁹

2.5 Halcrow's Recommendation

In its report to the QCA, Halcrow recommended that Unitywater's forecast corporate expenses for 2012/13 be reduced by \$2.5 million to \$30 million to reflect the assessed efficient costs of providing corporate services.¹⁰ Given that, following a review of the comments/issues raised by Unitywater, Halcrow does not consider that there is demonstrated justification to change the basis of its assessment, no change to the previous recommendation is proposed.

⁹ Halcrow, *SEQ Water and Wastewater Price Monitoring 2012-13; Unitywater; Assessment of Operating and Capital Expenditure - Review Report (460502-32-002 Version 2.2)*, January 2013, page 4.

¹⁰ Halcrow, *SEQ Water and Wastewater Price Monitoring 2012-13; Unitywater; Assessment of Operating and Capital Expenditure - Review Report (460502-32-002 Version 2.2)*, January 2013, page 74.

3 Capital Expenditure

Unitywater did not raise any issues/provide any comments in respect of Halcrow's assessment of its Capital expenditure in its Response.