



**REVIEW OF QUEENSLAND
COMPETITION AUTHORITY'S
COSTINGS FOR ITS REGULATORY
FEE MODEL**

July 2017



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1 INTRODUCTION

1.1 Scope

The objective of this review is to determine whether, in the opinion of BDO, the costings used in the model for 2016-17 are appropriate given the requirements for setting fees in section 3 of the *Queensland Competition Authority Regulation 2007*.

This section provides that:

The fee payable to the authority for providing a services or performing a function mentioned in schedule 1 is the amount -

- (a) the authority considers to be reasonable; and
- (b) that is not more than the reasonable cost of providing the service or performing the function.

Schedule 1 to the regulation lists 21 services or functions for which fees are payable.

For the 2016-17 financial year, the review is to particularly review:

1. time allocations by user;
2. consultant cost coding;
3. costs against fees in terms of coding reasonableness; and
4. to sample test the original documentation supporting costs charged to particular services or functions.

1.2 Level of Costs and Fees

For 2016-17, the Authority's budget provides for expenditure of \$16,165,474 (2015-16, \$21,323,082). Of this amount, \$8,476,000 (52%) is invoices quarterly to the regulated entities, on the basis of the estimated costs for 2016-17 attributable to those entities - with actual cost adjustments to be made after year-end.

The actual cost adjustments can be significant, due to the actual scope and scale of regulatory activities differing from those provided for in the development of the annual budget.

2 SUMMARY OF FEE FRAMEWORK

The Fee Framework and costing model provide the basis for the Authority's assessment of the reasonable cost of providing a service or performing a function.

The main elements of the Fee Framework are:

1. Fees are calculated on the Authority's estimate of the actual cost of performing the Functions in respect of each regulated entity over the coming 12 months.
2. For each regulated entity, these estimates are the sum of:
 - a. the estimates costs of staff and specialist consultants' advice; and
 - b. a proportion of estimated overheads.
3. Regulatory services and the associated fee will be reviewed if the proposed fee is more than 1% of an entity's regulated annual revenue.
4. Any under or over recover of actual costs will be adjusted after year-end.

The framework includes a pragmatic measure to simplify its implementation in relation to the Retail Electricity sector - namely that no fees are levied on the small retailers, with their costs being spread across, and recovered from, the larger retailers.

3 SUMMARY OF COSTING MODEL

The Authority's costs model has a number of elements, as described below.

3.1 Cost Centres

Staff and specialist consultants' cost are allocated to:

1. industry sectors - for Retail Electricity, Electricity Distribution and SEQ Retail Water, and then to regulated entities within each sector;
2. individual regulated entities - Dalrymple Bay Coal Terminal, Aurizon Network, Queensland Rail and SunWater;
3. corporate services; and
4. non-recoverable costs.

3.2 Recording of Staff Time

The staffing levels for a year, and their allocation to projects, are estimated in the development of the annual budget.

The actual allocations of staff time to projects are recorded weekly on a time allocation sheet through the intranet. Any adjustments of the estimated staffing costs to the actual staffing costs are made at year-end by reference to the actual time allocation data for the year, as well as any unbudgeted changes to salary costs.

3.3 Cost Allocation Drivers

The Authority uses a single cost driver - staff costs - to allocate corporate overheads.

Corporate overheads are allocated to regulated sectors and entities in the same proportion as the cost of Staff Salaries for those sectors and entities. The Staff Salary costs for each sector and entity are the gross payroll costs for each employee working on that project, including the Peer Review team members.

4 FINDINGS AND RECOMMENDATIONS

4.1 Findings

Our findings in relation to the Fee Framework and costing model are as follows:

1. the accounting for staff costs and consultancy costs to cost pools for the regulated sectors (Retail Electricity and Electricity Distribution) and to the other regulated entities (Dalrymple Bay Coal Terminal, Aurizon, Queensland Rail and SunWater) is accepted practice in cost accounting;
2. the equal allocation of staff costs and consultancy costs to the two entities within the Electricity Distribution sector (Energex and Ergon) is reasonable, given that much of the Authority's now reduced workload between these entities is similar;
3. the allocation of staff costs and consultancy costs to the larger entities within the Retail Electricity sector based on customer numbers, is equitable and reasonable as the regulatory effort varies with the size of entity, and the smaller retailers collectively only account for 0.13% of customers (which proportion equates to \$3,010 of the overall costs for that sector);
4. the equal allocation of staff costs and consultancy costs between the five entities in the SEQ Retail Water sector is reasonable, given that there is a separate regulatory report provided on each entity;
5. the use of staff costs as the cost driver for the allocation of corporate overheads is a reasonable method of allocating such costs.

4.2 Opinion on Reasonableness

In our opinion, the Authority's Fee Framework and model provide a basis for setting reasonable fees for regulated entities, based on the allocation and recovery of the Authority's costs.

No opinion is given on whether the Authority's estimated or actual costs for a particular year have been reasonably allocated in determining the fees for a particular regulated entity or for all regulated entities.