
DRAFT QCA FEE FRAMEWORK

Introduction

This draft fee framework is released for comment by any and all interested parties. It is based on the QCA fee framework that has been in operation for the past six years. You are invited to make submissions on this proposed fee framework and its operations by close of business on Friday 5 February 2016. The QCA will use this consultation process to inform its decision on the fee framework to apply from the 2016-17 financial year. Details on how to lodge your submission can be found on our website at www.qca.org.au

Overview

The majority of QCA's operations are funded by fees paid by the entities QCA regulates. Those fees are often passed on to the customers of the regulated entity via a QCA Levy. Section 3 of the Queensland Competition Authority Regulation 2007 (Qld) (the Regulation) entitles the QCA to charge fees for providing a service or performing a function set out in Schedule 1 of the Regulation provided the amount charged:

- (a) is considered to be reasonable by the QCA; and
- (b) is not more than the reasonable cost of providing the service or performing the function.

Consideration of the reasonableness of a regulatory fee

The fee approval process includes a decision by the QCA that it is satisfied overall that the regulatory fee charged to individual entities is reasonable having regard to the costs of providing regulatory services and performing regulatory functions for those entities.

The QCA notes that it considers the likely impact of the fees on each entity and its capacity to pass on these costs to customers, and the customers' ability to pay, as part of its review process when setting fees. A review of the regulatory service or function and the associated fee is always triggered when the proposed fee to be charged is more than 1% of the regulated annual revenue of the entity concerned.

Basis of calculating fees for providing general regulatory services or functions

The fees to be paid to the QCA for providing general regulatory services or functions by a regulated entity that is the subject of the QCA's fee charging regime will be calculated by the QCA based on its estimate of the actual cost of performing the service or function in respect of that entity over the coming financial year. The QCA's estimate of the total costs of performing the service or function will be the sum of:

- (c) its estimated costs of analyst staff and specialist consultants required to provide the service or function; and
- (d) a proportion of the QCA's estimated overheads based on the estimated analyst staff costs for performing the service or function compared to the QCA's total analyst staff costs for the year.

In estimating the costs to be incurred in providing a regulatory service or function, the QCA takes into consideration the QCA's previous experience of performing similar tasks as well as the nature and complexity of the task concerned and the expected consultation process.

Methodology for accounting for regulatory fees

A regulatory fee is made up of:

- (1) Analyst staff costs based on time sheets completed by the analyst staff working in the project team that has been established to provide the regulatory service or function listed in Schedule 1 to the

QCA Regulation. These costs include on-costs such as payroll tax, workers compensation and staff entitlements for the analyst staff who work on the regulatory service or function. The QCA has an internal Cost Allocation Model that it uses for allocating analyst staff costs to the relevant regulatory service or function. The QCA retains internal auditors, BDO, who review the Cost Allocation Model and its application each year in order to confirm it is consistent with the fee framework approved by the Members of the QCA;

- (2) Actual consultancy costs associated with the performance of the regulatory service or function listed in Schedule 1 to the QCA Regulation. These costs include legal costs, the costs of seeking advice from professionals such as engineers and, technical advice related to the service or function; and
- (3) A percentage of the QCA's total overheads for the period. These costs include:
 - (a) Board costs—which includes the remuneration costs of the Members of the QCA who are required to consider and make decisions in respect of regulatory services and functions;
 - (b) Executive and Corporate Services salaries—which includes the salary costs of the executive and corporate services staff who support the work of the QCA;
 - (c) “on-costs”—which includes payroll tax, workers compensation and staff entitlements for the above Members and staff who support the work of the QCA;
 - (d) occupancy costs—which includes rental payments for the QCA’s premises, required for QCA staff and Members; and
 - (e) general administration costs—which includes general office operations costs supporting the work of the QCA and Members.

The total budgeted overheads are reviewed by the QCA and where, in the reasonable opinion of the QCA, amounts are not reasonable to be included in setting regulatory fees these are excluded from the overhead costs charged to regulatory fees.

The QCA considers the Board and Executive and Corporate services are fundamental and fixed elements of the QCA, required for the QCA to perform its regulatory functions. The Board is responsible for the decisions of the QCA but is remunerated on a fixed basis. The Executive and Corporate Services staff are responsible for the overall management of the work of the QCA, but are not engaged for the specific project. Neither the Board Members nor the Executive and Corporate Service staff account for their time on a project-specific basis, and it would be artificial to do so. The QCA could not perform the regulatory services and functions without the Board and the Executive and Corporate Services staff.

The QCA also considers that allocation of overhead costs across all functions performed by the QCA in proportion to the costs of analyst staff required to perform each function is an appropriate and reasonable way to reflect and recover the costs of providing regulatory services and functions.

Setting regulatory fees in advance

The QCA considers that it is open to it to set a fee for services to be provided or functions to be performed and that the QCA Act and Regulation do not require that a fee only be set in arrears, i.e. for services which have already been performed. The relevant legal requirements for a QCA regulatory fee are the two limbs in the QCA Regulation. The QCA sets a regulatory fee subject to it being satisfied that the fee will be no more than the actual cost of providing the regulatory service or function based on an estimate of those costs, which is likely to be below the actual costs of providing the regulatory services or functions. While the QCA sets regulatory fees to recover no more than its actual costs of the delivery the regulatory services or functions, in the eventuality that actual costs are different to the estimated cost,

the QCA provides a subsequent adjustment to the regulatory fee in accordance with the mechanism outlined below.

Reconciliation and Settlement of under- and over-recoveries of Fees

The QCA Fee Framework contemplates a reconciliation of actual versus estimated costs at year end, as part of its end-of-year financial reporting. To the extent actual costs are higher or lower than estimated costs the QCA makes an end of year adjustment to the fee in accordance with the mechanism outlined in the QCA Fee Framework.

In the event the actual cost of delivering the service or function is higher than the estimated fees charged that financial year, the under-recovery of providing the service will be charged in October of the following financial year after the accounts for the financial year just ended have been audited.

In the event the actual cost of delivering the services is lower than the estimated fees charged for that financial year, the over-recovery of providing the service will be paid (or with the agreement of the regulated entity netted against the next year's fees) in October of the following financial year after the accounts for the financial year just ended have been audited.

Apportionment of fees to particular sectors

Apportionment of fees for performing services or functions in respect of retail electricity, electricity distribution, and retail water in South East Queensland (SEQ) is proposed as follows:

Retail electricity

Consistent with the way the QCA has applied fees to electricity retailers in previous years, the annual fee applied from 1 July 2016 will be based on each retailer's estimated share of total customers. For administrative convenience, no fee is proposed to be charged to retailers with less than 1000 customers. Market shares will be reviewed annually.

If regulatory reviews are confined to a specific geographic area, fees will be charged to those retailers operating in that geographic area (e.g. fees for a review of electricity prices for customers outside of SEQ would be predominately charged to Ergon Energy Queensland as the largest retailer in this area).

In the event that a retailer is acquired by or merged with another retailer, the obligation to pay regulatory fees in respect of the acquired/merged retailer will transfer to the acquiring/merging retailer.

Electricity distribution

As has been the case in the past, it is proposed that the fee charged to electricity distributors will be apportioned equally between Ergon Energy and Energex. In the event that the Government election commitment to merge Ergon Energy Corporation Ltd and Energex proceeds, this allocation will no longer be required.

Retail water in SEQ

The QCA proposed a flat fee for each of the retail water entities in SEQ as part of the proposed light handed regulatory framework. However, at the time of writing, the Government has not accepted the proposed framework. Consequently, it is proposed that the annual fee for water retailers in SEQ will be apportioned equally between Unitywater, Queensland Urban Utilities, Redland City Council, Gold Coast City Council and Logan City Council.

Pass-through of fees via a QCA Levy

All fees charged in respect of general regulatory services or functions will be eligible for pass-through to customers, via a QCA Levy, wherever the QCA has responsibility for these pass-throughs. Approval of a

QCA Levy is the subject of a separate approval process triggered by an application from the regulated entity concerned.

Additional fees

In addition to the fees charged for general regulatory services, fees may also be charged for:

- (a) special services which are beyond those required for the general regulatory task; and
- (b) arbitration or mediation services.

These fees will only apply when services are specifically requested.

Payment Schedule

It is proposed that fees will be invoiced on a quarterly basis with payment due by the middle of the quarter (15th day of the relevant month, i.e. August, November, February, May).