

Queensland Competition Authority

Draft Assessment

Transition to performance monitoring – Queensland Urban Utilities

May 2014

We wish to acknowledge the contribution of the following staff to this report:

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SUBMISSIONS

Closing date for submissions: 30 June 2014

Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (QCA). Therefore submissions are invited from interested parties concerning its assessment of water retailers' transition to annual performance monitoring. The QCA will take account of all submissions received.

Submissions, comments or inquiries regarding this paper should be directed to:

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Public access to submissions

Subject to any confidentiality constraints, submissions will be available for public inspection at the Brisbane office, or on the website at www.qca.org.au. If you experience any difficulty gaining access to documents please contact us on (07) 3222 0555.

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THE ROLE OF THE QCA – TASK, TIMING AND CONTACTS

The Queensland Competition Authority (QCA) is an independent statutory authority to promote competition as the basis for enhancing efficiency and growth in the Queensland economy.

The QCA's primary role is to ensure that monopoly businesses operating in Queensland, particularly in the provision of key infrastructure, do not abuse their market power through unfair pricing or restrictive access arrangements.

In 2012, that role was expanded to allow the QCA to be directed to investigate, and report on, any matter relating to competition, industry, productivity or best practice regulation; and review and report on existing legislation.

Task, timing and contacts

The QCA has conducted four price monitoring reviews of distribution-retail water providers in south east Queensland covering the pricing periods from July 2010 to June 2015.

On 28 June 2013, the QCA received a Ministerial Direction to investigate and develop a long-term regulatory framework (and pricing principles). The purpose of the review is to improve the regulatory framework and reduce the regulatory costs for water businesses – while providing protection to water users from monopoly power.

Key dates

Ministerial Direction	28 June 2013
Position Paper - Regulatory Framework	24 February 2014
Position Paper - Pricing Principles	28 March 2014
Position Paper - Return on Capital	30 May 2014
Submissions due on Position Papers	30 June 2014
Submissions due on Draft Assessments (transition)	30 June 2014
Final Report	30 September 2014

Contacts

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1 INTRODUCTION

1.1 Purpose

This draft assessment outlines whether Queensland Urban Utilities (QUU) should transition to light-handed long-term performance monitoring. The assessment is based on the information available to the QCA from its price monitoring investigations and the transition criteria outlined in the QCA's position paper on the *Long Term Regulatory Framework for SEQ Water Entities* (QCA 2014a).¹

Comments are sought by **30 June 2014**. All submissions will be taken into account in the QCA's Final Report, due 30 September 2014.

1.2 Background

The Ministers have directed the QCA to investigate and report on a long-term regulatory framework for the monopoly distribution and retail water and sewerage activities of the five south east Queensland (SEQ) distributor-retailers (the retailers) — Unitywater, QUU, and the Logan, Redland and Gold Coast City Councils. If accepted, the framework would apply from 1 July 2015.

The overarching regulatory objective is to protect the long term interests of the users of SEQ water and sewerage services by ensuring the prices of these services reflect prudent and efficient costs, while promoting efficient investment in and the use of these services, having regard to service reliability, safety and security over the long term.

SEQ water retailers have been subject to different forms of price monitoring since 2008. Over 2010–15 the QCA has reviewed the costs of water and sewerage services, monitored changes in prices and compared the retailers' revenues against the maximum allowable revenue. The maximum allowable revenue (MAR) reflects the QCA's assessment of prudent and efficient costs.

The Ministers required that the form of prices oversight should minimise the administrative burden on the retailers and facilitate a move to a more light-handed framework over time.

1.3 Transition to long-term framework

In its position paper, the QCA recommended a light-handed performance monitoring framework which 'tracks' retailers' performance against:

- (a) CPI-X and certain financial information
- (b) pricing principles
- (c) desired customer engagement practices
- (d) strategic approach to long term investment
- (e) service quality standards (including performance targets).

¹ The QCA's draft position paper *Long Term Regulatory Framework for SEQ Water Entities* is available from the QCA website. Comments on this paper are also due by 30 June 2014.

The QCA also recommended that depending on the outcome of the 2013-15 review, a transition to performance monitoring may be required. The length and nature of the transition may vary between retailers.

1.4 Criteria

The position paper outlined the criteria for an immediate transition to long-term performance monitoring as including:

- (a) absence of public interest or equity issues that may warrant regulatory review
- (b) regulated services are clearly defined and separated from non-regulated services
- (c) evidence that market power is not being exercised
- (d) absence of imminent material changes in circumstances or major infrastructure costs
- (e) a demonstrated capacity to provide the required information accurately and on time, based on prior regulatory processes.

Performance in customer engagement, strategic planning for long term investment, service quality and application of pricing principles would also be relevant in assessing readiness.

It is also considered that water retailers may be required to provide additional information or resolve outstanding issues in the intervening period before commencement of annual performance monitoring from 1 July 2015.

Where criteria are not met

Should a retailer be considered not ready to move to annual performance monitoring, the existing arrangements should continue until outstanding elements are addressed. This would require a further detailed review - for a one-year period (2015-16). The scope of the one-year review would depend on the nature of the outstanding issues.

2 ASSESSMENT

2.1 Introduction

The QCA has assessed QUU against the criteria using the outcomes of the 2013-15 investigation and from publicly available sources.

2.2 Assessment against core criteria

2.2.1 Public interest and equity

The criteria require that there be an absence of public interest or equity issues that may warrant regulatory review for a retailer to transition to long-term performance monitoring.

The QCA is not aware of any public interest or equity issues that would warrant further regulatory review and prevent QUU from transitioning to long-term performance monitoring.

In previous reviews, the QCA has been required to assess whether QUU complied with a CPI cap when council rebates and subsidies were taken into account (QCA 2013 and 2012). Of QUU's participating councils, only Brisbane City Council (BCC) provides subsidies, relating to certain community organisations and to pensioners. The coverage and rate of this subsidy was continued in the years under review. The QCA concluded that QUU had complied with the CPI price cap in both 2011-12 and 2012-13.

In its 2013-15 review, the QCA noted that the State Government bulk water rebate that applied to the bulk water component of the residential bill expired on 30 June 2013. There are no other changes in rebates that would affect customer bills, as BCC rebates for pensioners and community organisations have been continued.

QUU also provides a haemodialysis rebate which provides customers using haemodialysis machines at home with an allowance (at no charge) of 200 kilolitres per annum.

The Department of Energy and Water Supply (DEWS) is undertaking a review of the Water and Sewerage Services Code for Small Customers in South East Queensland and will consider the water businesses' current policies (including hardship) in relation to supporting customers.

2.2.2 Regulated services are defined

The criteria require that regulated services be clearly defined and separated from non-regulated services.

In previous reviews, the QCA requested retailers to list all regulated services, their tariffs and corresponding volumes and revenues. QUU complied with this requirement, providing the (average) tariffs, volumes and revenues from their price setting process. Further, QUU provided a detailed price list for its services.

The QCA also requested retailers to exclude the revenues and costs of non-regulated services, with only the regulated revenues and costs falling under review. The retailers were also required to provide explanation of the basis of any allocations made to non-regulated services that would assist the QCA in its assessment of their submissions. Relevant definitions were as follows:

- (a) a non-regulated service was defined to mean a service provided by a retailer that is not required to satisfy any specified legal obligation or is provided by other service providers

in a competitive market in which the business has no legal power to influence a customer's selection of the business as the service provider. For example, this could include laboratory services. Non-regulated services are not to be disaggregated between water and wastewater.

- (b) non-regulated revenue includes interest on investments, but not interest paid by customers on overdue accounts.

In previous reviews, the delineation between regulated and non-regulated services has not been specifically investigated by the QCA: non-regulated services have not been a material segment of costs and revenues. The precise boundary of regulated and non-regulated services may change over time as the nature of relevant services and markets develops.

QUU has identified its non-regulated services, costs, revenues and assets. For the 2012-13 review, QUU listed its non-regulated services as consultancy, connection design and private plumbing works. For the 2013-15 review, QUU submitted that:

- (a) during 2012-13, 34 new staff were employed as part of QUU's acquisition of the SAS Laboratories (in non-regulated services) resulting in a 2012-13 forecast FTEs of 1,327
- (b) over the period 1 July 2013 to 30 June 2015:
 - (i) non-regulated revenues are \$7.8 million, regulated revenues are \$1,866.0 million
 - (ii) non-regulated operating costs are \$5.9 million, regulated operating costs are \$1,195.4 million
 - (iii) non-regulated capital expenditure is \$0, regulated capital expenditure is \$744.6 million
 - (iv) non-regulated assets are \$0, regulated assets are \$5,100.4 million (as at 30 June 2015).

The QCA notes that given the acquisition of SAS Laboratories in 2012-13, the lack of non-regulated capital expenditure and assets is anomalous. In response to a query from the QCA, QUU advised that the relevant assets are not included in the price monitoring submission (that is, excluded from both non-regulated and regulated assets) although they are included in the financial asset register.

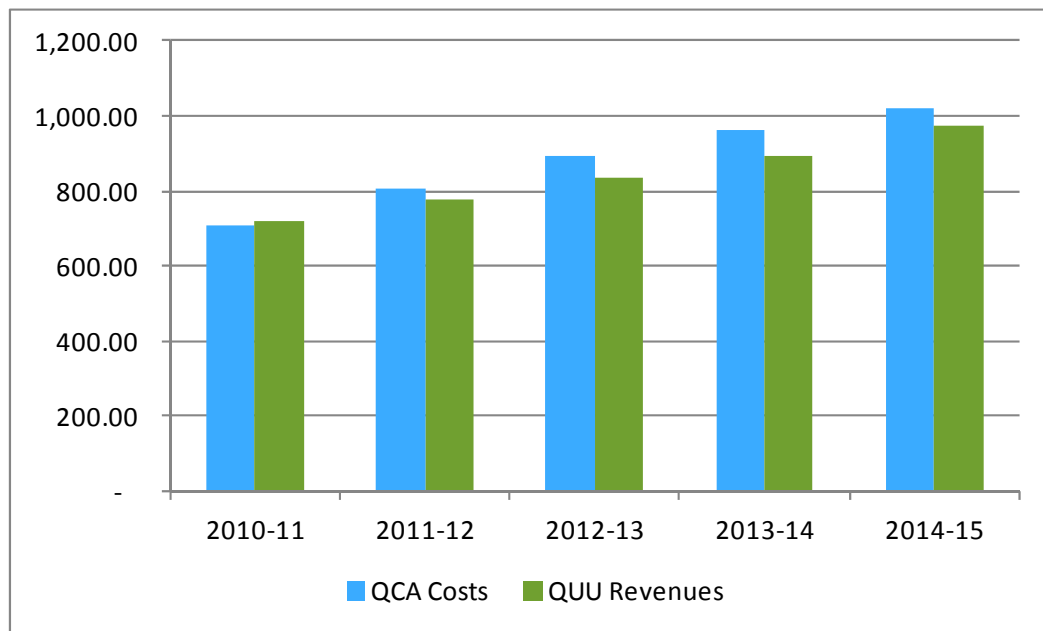
Overall, the QCA considers that regulated services are clearly defined and sufficiently separated from non-regulated services. The revenues and costs of non-regulated services are not material enough to warrant further investigation.

However, the QCA has not reviewed whether costs have been appropriately allocated between service categories. The QCA needs to be confident that prices reflect the cost of providing services. This is an issue to be addressed in assessing retailers' compliance with pricing principles.

2.2.3 Market power

The criteria require evidence that market power is not being exercised, that is, the opening cost base is efficient and further cost increases comply with the CPI-X mechanism (with above referenced qualifications) and service quality is in line with expectations.

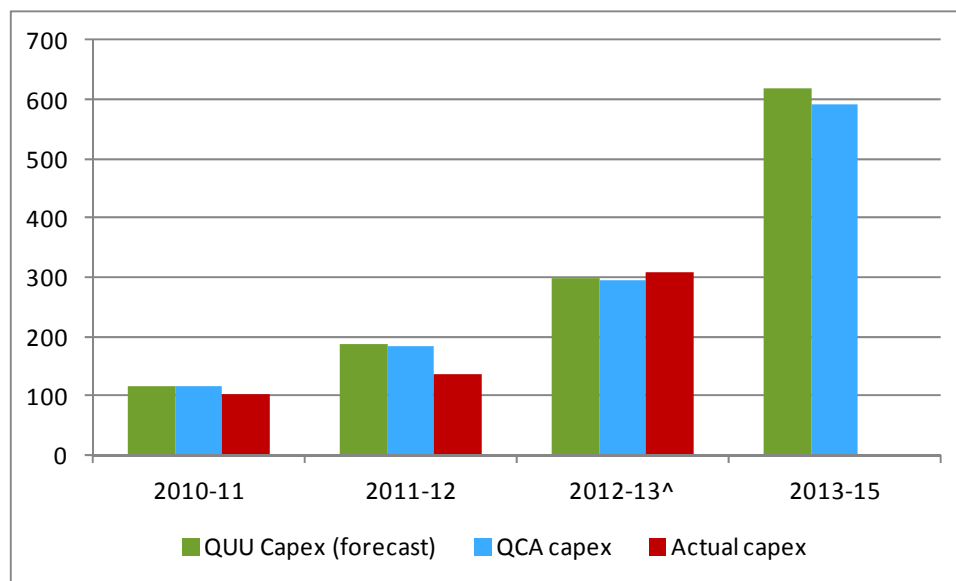
In previous reviews of costs and revenues, the QCA did not find any evidence that QUU was exercising its monopoly power. QUU's revenues have been below the MAR (2011-15) or not materially over the aggregate MAR (2010-11) (see Figure 1 below).

Figure 1 Forecasts of QUU Costs (MAR) and Revenues (\$m)

Source: QCA past price monitoring revenues 2010-15.

It is noted that:

- (a) the difference between the QUU's and the QCA's estimates of total prudent and efficient costs (the MAR) has been small, although the difference has gradually increased. However, while differences exist, the QCA proposes to use its MAR as a basis for performance monitoring from 2015. QUU's revenues have been below the QCA MAR.
- (b) capital expenditure proposals have been reviewed four times over the period 2010-2015, by two different independent groups of consultants. Over 2010-15, the sample of capital projects subject to prudence and efficiency review has averaged 29% of forecast capital expenditure (excluding contributed assets). Over 2010-15, the QCA's prudent and efficient capital expenditure was lower than QUU's by up to 4.6% (see Figure 2). However, actual capital expenditure for 2010-13 was below the level of forecasts previously found to be prudent and efficient and therefore actual capital expenditure was used to roll forward the regulated asset base (RAB) in the 2013-15 review.

Figure 2 QUU capital expenditure (\$m)

- (c) for the 2013-15 review, QUU's starting RAB as at 1 July 2008 was consistent with the Ministerial-advised RAB value and indexation, depreciation and disposals were taken into account as required. Further, as noted above, actual capital expenditure for 2010-13 was below the level of forecasts previously found to be prudent and efficient. QUU's commissioning model is integrated with QUU's information systems.²

The QCA opening RAB as at 1 July 2013 was slightly (0.05%) higher than that estimated by QUU.

However, the QCA closing RAB as at 30 June 2015 was (1.6%) below that of the QUU. This arose due to the QCA reductions to capital expenditure in 2013-15 (see further below) and removal of QUU's proposed capitalisation of under-recovery (QCA 2014b). The rules for under and over-recovery are addressed separately in another paper

- (d) non-bulk operating expenditure has also been reviewed 4 times (by two different independent groups of consultants). Over 2010-15, the QCA's estimate of prudent and efficient non-bulk operating expenditure was lower than QUU's. As noted above, while differences exist, QUU's revenues have been below the QCA MAR.

Overall, the QCA considers that there is no evidence to suggest that market power is being exercised.

2.2.4 Imminent change in circumstances

The criteria require that there is an absence of imminent material changes in circumstances or major infrastructure costs.

QUU's cost information requested for the 2013-15 review did not provide information on post 2015 costs. Bulk water prices until 2017-18 are publicly available on the DEWS website.

The QCA is not aware of any imminent material changes in circumstances or major infrastructure costs that would impede QUU's transition to the long-term framework.

² Although the QUU commissioning model provided to the 2013-15 review included hard-coded values instead of formulae, the versions provided in previous years included formulae and allow for this conclusion.

2.2.5 Information provision

The criteria require that there is demonstrated capacity to provide information accurately and on time.

To date, QUU has provided all submissions to price monitoring accurately and on time. QUU has responded to further requests for information in a reasonable timeframe.

The QCA considers there is demonstrated capacity to provide information accurately and on time.

2.2.6 Summary of assessment against core criteria

On the basis of the above assessment, QUU meets the core criteria for immediately moving to the light-handed performance monitoring framework.

2.3 Assessment against other criteria

2.3.1 Introduction

The position paper noted that performance in customer engagement, strategic planning for long term investment, service quality and pricing principles are relevant to the assessment. Only a partial assessment can be made in relation to many of these criteria, as some were not monitored in the past and complete information is not readily available.

The QCA has sought to identify whether there is any information on these criteria that would delay or impede transition by assessing the entities' performance to date and predisposition to further improvement. To assist entities improve their performance, areas of potential improvement that would be expected to be addressed in subsequent annual performance monitoring are identified.

2.3.2 Customer engagement

Excerpt of draft recommendations in position paper

- 5.1 Each SEQ entity, in consultation with its customers, develop a strategy for customer engagement based on best practice principles.**
- 5.2 Customer engagement should:**
 - (a) promote understanding of customer's needs and be representative and responsive of customer views**
 - (b) be relevant, evidence based, open and transparent, timely, collaborative, and cost-effective.**
- 5.3 The customer engagement strategy should include a customer consultation committee.**
- 5.4 SEQ entities submit by 31 October 2015 an initial statement of their customer engagement strategy.**
- 5.5 The QCA will assess these customer engagement strategies and provide, where appropriate, advice to entities on possible improvements to ensure best practice**

For the 2013-15 price monitoring review, QUU stated that its engagement with customers about costs and other factors underlying prices is primarily delivered through three processes/initiatives:

- (a) the Water Netserv Plan - consultation on this included newspaper advertisements, small group forums and at customer service points

- (b) its customer and community reference group, which consists of 11 members representing key community sectors, local government and major industries and meets quarterly and is regularly consulted on water and sewerage pricing and related topics
- (c) tracking customer insights through annual focus groups and monthly customer surveys.

In its 2013-15 review, the QCA noted that retailers should explain the reasons for the change in each part of the bill as well as the overall change.

QUU has a community reference group in place which appears similar to a customer consultation committee. The QCA considers that, based on available information, QUU's activities incorporate many of the desired attributes of effective customer engagement.

Accordingly, current performance should not impede its moving to light-handed annual performance monitoring.

QUU will be required to provide more information on customer engagement practices as part of annual performance monitoring.

2.3.3 Strategic planning for long term investment

Excerpt of draft recommendations in position paper

- 6.1 The council water businesses be subject to the same legislative and regulatory planning requirements as the DRs.**
- 6.2 Entities should provide evidence of board/council approval and Ministerial endorsement of their relevant Water Netserv Plans to the QCA.**
- 6.3 Entities annually report to QCA on their annual capital works plans or annual performance plans.**
- 6.4 Annual updates to Water Netserv Plans also be submitted.**
- 6.5 SEQ entities provide to the QCA annually, details of their compliance with the asset management standard they have implemented and report on progress in addressing areas of improvement to achieve good industry practice.**
- 6.6 Should a cost of service review be triggered, the QCA assess entities asset management practices against PAS-55.**
- 6.7 Entities report on the project evaluation practices used for significant capex projects.**
- 6.8 Entities submit details of project evaluation, including options analysis and risk analysis, for up to the six largest capex items, where required as part of a request for further information.**

As noted above in the 2013-15 price monitoring review, the QCA made adjustments to five of QUU's capital expenditure projects, based on its consultant SKM's advice following their detailed review of six sampled projects. However, the overall reduction of \$27.46 million was made to the sampled expenditure of \$153.07 million (total capital expenditure for 2013-15 is \$619.16 million) predominantly due to a deferral of \$22.63 million for a project to be commissioned after 2013-15.

SKM also reviewed QUU's policies and procedures for capital expenditure, including in its Water Netserv Plan for consistency with the SEQ Regional Plan. A summary of SKM's findings is provided in Table 1.

Table 1 Capital expenditure policies and procedures

<i>Criteria</i>	<i>Findings</i>
Standardised approach to cost estimating	QUU applied cost estimating approaches for capital projects which were consistent with good industry practice.
Gateway review	QUU's gateway processes include five review points/gates. QUU is developing its benefits realisation framework for integration into its capital planning and delivery framework.
Detailed analysis of options for major projects	QUU has processes in place which provide for detailed analysis of options for major projects.
Commissioned capital expenditure from 1 July 2010 in the RAB	QUU uses models to translate capital expenditure as-incurred to as-commissioned expenditure using the WACC. Commissioned values were reflected in the data templates used to roll forward QUU's RAB from 1 July 2010.
Compliance	QUU's capital expenditure policies and procedures met the compliance requirement and were robust.
Considers regional perspective	<p>QUU participates in the SEQ Water Service Provider Partnership, SEQ Operations Committee, and SEQ Strategy and Planning Committee.</p> <p>QUU's capital expenditure documents included provisions to address regional requirements at key decision points.</p> <p>The QCA considers that the realisation of benefits due to a regional perspective should be captured and reported, to demonstrate regional efficiencies are being pursued and achieved.</p>
Asset management system	QUU's asset management systems were not always consistent with SKM's view of good industry practice. QUU was aware of issues with its asset management system and has improvements planned. QUU participated in the IWA/WSAA 2012 Asset Management Performance Improvement Project ³ .
Procurement	QUU has an active program to identify procurement-related savings in materials and services costs and thereby contribute to, or exceed, a three-year savings target of 10% in materials and services.

Source: SKM (2014).

The QCA concludes that, based on available information, there are no material deficiencies in QUU's performance in its planning for long term investment that would impede its moving to light-handed annual performance monitoring.

The QCA proposes to seek evidence that the issues raised by SKM (Table 1) are being progressed as part of future performance monitoring.

2.3.4 Service quality

The position paper recommended 38 service quality indicators to be used as a basis for initial service quality reporting: 8 on baseline information, 13 on water and sewerage reliability and service, 4 on water quality, 5 on water consumption, recycling and reuse, 4 on customer responsiveness and service, and 4 on the environment.

These indicators were released after the price monitoring reviews from 2010-15 were finalised. Therefore, the price monitoring reviews to date have not investigated QUU's service quality against these principles and have not requested relevant information to do so.

³ IWA (International Water Association); WSAA (Water Services Association of Australia).

However, a preliminary assessment can be made based on information that is publicly available.

QUU's Customer Service Standards outline its commitments, responsibilities and standards for water and sewerage services. Based on these, QUU has identified 13 key performance indicators in relation to service quality for public reporting purposes. QUU annually reports on its performance against these 13 key performance indicators as shown in Table 2.

Table 2 Queensland Urban Utilities' performance against its service standards

Indicator	Service standard	2010/11 result	2011/12 result	2012/13 result
Water quality				
Water quality complaints	≤8 per 1000 properties	3.2	4.6	2.7
Water quality incidents	≤10 per 1000 properties	0.3	0.04 ¹	0.03
Water supply				
Water pressure	Urban area ≥210kPa Trickle feed areas (and private booster) ≥100kPa	Queensland Urban Utilities undertakes ongoing electronic and manual monitoring of the water network to ensure water supply pressure and volume standards are met. Where an issue is detected or a complaint received, it is investigated and corrective action is undertaken.		
Water volume	Urban area ≥25 L/min Trickle feed areas (and private booster) ≥3.2 L/min			
Customer service				
Calls answered - grade of service	≥80% within 30 secs	75% (% within 20 secs)	83% (% within 30 seconds)	76% (% within 30 secs)
Service connections				
Time to install a new service connection	≥95% within 15 working days (following customer payment)	38%	52%	86%
Continuity of supply				
Number of unplanned water supply interruptions	≤100 per 1000 properties per annum	63	48	63
Restoration of water supply	≥90% unplanned interruptions restored within 5 hours	87%	89%	89%
Response to incidents				
Urgent water	100% within 1 hour	93%	99%	93%
Urgent sewerage		85%	97%	93%
Non-urgent water	100% within 24 hours	78%	97%	92%
Non-urgent sewerage		86%	98%	95%
Notification of interruptions				
Notification of planned interruptions - water and sewerage	48 hours' notice given	Queensland Urban Utilities provides a minimum of 48 hours' notice to our customers before any planned interruption to services. This is done through letterbox notices or hand-delivered calling cards.		

Source: QUU Annual Report for 2012-13.

http://www.urbanutilities.com.au/About_us/Publications_Reports_and_Policies/Reports/Annual_Reports/

While some of the QUU key performance indicators (KPIs) overlap with some of those identified by the QCA for performance reporting, some of the precise indicators and measures differ. For example, the QCA indicators do not include water quality incidents, water pressure (by kPa) or water volume (in l/min), or response to non-urgent incidents. QUU reports on six of the QCA's 38 recommended indicators.

Therefore, 32 additional indicators are recommended by the QCA. Many (25) of these are already required under the National Water Commission (NWC) performance reporting process. QUU has provided information for NWC performance reporting since QUU's inception in

2010-11. QUU's performance in key network reliability and customer service indicators was below the average of utilities in the 100,000+ connections category in 2012-13 (NWC 2014).

There is therefore evidence that QUU has set and is monitoring and publicly reporting on its service quality. QUU has met its own performance targets for most of its nominated indicators.

The QCA has not previously monitored service quality performance and QUU has not been required to report against all of the QCA's indicators.

Having regard to QUU's commitment to service quality performance monitoring, the QCA considers that the identified shortcomings should not impede QUU moving to light handed annual performance monitoring.

However, the QCA proposes that QUU will be required to report against the full range of indicators as part of the light-handed framework.

2.3.5 Pricing principles

The QCA position paper *SEQ Long Term Regulatory Framework - Pricing Principles* (QCA 2014c) recommended pricing principles to apply to urban water, sewerage, trade waste, recycled water and stormwater reuse.

These principles were released after the price monitoring reviews from 2010-15 were finalised. Therefore, the price monitoring reviews to date have not investigated QUU's prices against these principles and have not requested relevant information to do so.

The QCA has not previously reviewed QUU's pricing practices and there is insufficient available information in many instances to allow a detailed assessment (see Table 3).

Pricing is important both to ensure customers are aware of the implications of their consumption and to allow QUU to manage its risks.

Nevertheless, previous detailed price monitoring has not required adherence to the proposed pricing principles. It would therefore seem inappropriate to impede QUU from moving to more light-handed performance monitoring.

The QCA notes that for all retailers this is considered a priority issue for attention.

Table 3 General pricing objectives and principles

		<i>Draft Recommendations - QUU Assessment</i>
Pricing objectives	1.1	<p>That pricing of urban water, sewerage, trade waste, recycled water and stormwater re-use services provided by SEQ entities:</p> <p>(a) promotes economic efficiency</p> <p>(b) ensures revenue adequacy</p> <p>(c) takes account of the public interest (including fairness and equity)</p> <p>(d) is transparent, predictable, simple and cost-effective to apply.</p> <p><i>Comment: Insufficient information for assessment. Past price monitoring has adopted annual water and sewerage cost/revenue comparisons.</i></p>
Pricing Principles	1.2	<p>Entities initially establish that the pricing principles are being applied and subsequently advise of any departures, the reasons for the departure and provide relevant supporting analysis.</p> <p><i>Comment: Insufficient information for assessment. Past price monitoring has adopted annual water and sewerage cost/revenue comparisons.</i></p>
	1.3	<p>Pricing reflects marginal cost, together with a two part tariff where necessary to achieve revenue adequacy.</p> <p><i>Comment: Insufficient information for assessment. Prices generally based on legacy council pricing with some harmonisation and generic price increases. QUU has a three-block inclining block tariff for both residential and non-residential customers for 2013-14, with different block thresholds and charges for residential and non-residential customers.</i></p>
	1.4	<p>Prices be set between incremental (marginal) cost and stand-alone cost.</p> <p><i>Comment: Insufficient information for assessment.</i></p>
	1.5	<p>Prices reflect the long run marginal cost (LRMC) of providing a particular service.</p> <p><i>Comment: Insufficient information for assessment.</i></p>
	1.6	<p>Prices reflecting short run marginal cost (SRMC) be considered when SRMC for a particular period significantly exceeds the LRMC (estimated for a longer period) for a particular service. This is sometimes referred to as scarcity charging.</p> <p><i>Comment: QUU does not charge based on scarcity. Bulk water prices are set by the Queensland Government (not QUU) and do not vary with supply constraints.</i></p>
	1.7	<p>LRMC be estimated on the basis of the perturbation or AIC method.</p> <p><i>Comment: Insufficient information for assessment.</i></p>

Table 4 Application of pricing principles

Chapter	Topic	No	Draft Recommendation - QUU Assessment
Urban Water	Demand forecasting	2.1	<p>Long term forecasts used for capital planning be based on SEQ Water Strategy forecasts.</p> <p><i>Comment: In the 2013-15 review, QUU provided information on its long-term demand for capital planning: it uses base population and employment projections and land use data from councils' planning models. The OESR medium population growth series is adopted. Further, QUU's capital planning reflects the SEQ Design and Construction Code.</i></p>
		2.2	<p>Short term demand forecasts be based on estimated water use per customer/connection and population forecasts (number of connections) and take account of any bounce-back effect as well as local circumstances.</p> <p><i>Comment: QUU has applied this principle in setting water prices, as noted in past price monitoring reports.</i></p>
		2.3	<p>Demand forecasting practices and alternative models (including demand elasticities) be reviewed by a working group including the entities, QCA and other relevant parties.</p> <p><i>Comment: QUU has participated in a past working group on demand.</i></p>
	Volumetric charges	2.4	<p>The volumetric charge for urban water services should reflect LRMC.</p> <p><i>Comment: Insufficient information for assessment. Past price monitoring has adopted annual water and sewerage cost/revenue comparisons.</i></p>
		2.5	<p>Where prices exceed average costs, short-term over-recovery of revenues be addressed by ex-post rebates with adjustments made to the fixed charge.</p> <p><i>Comment: Insufficient information for assessment. Past price monitoring has adopted annual water and sewerage cost/revenue comparisons.</i></p>
	Fixed charges	2.6	<p>Fixed charges be set to recover the MAR not covered by the volumetric charge.</p> <p><i>Comment: Insufficient information for assessment.</i></p>
		2.7	<p>Charges not encourage customers to bypass or disconnect from the network.</p> <p><i>Comment: No information to indicate customers are seeking to bypass or disconnect from QUU's network. Past price monitoring has not investigated cost allocation, including to customer types.</i></p>
	Inclining and declining block tariffs	2.8	<p>Inclining and declining block tariffs not be introduced, and where they are in place be phased out over time to a single volumetric charge.</p> <p><i>Comment: QUU has a three-block inclining block tariff for both residential and non-residential customers for 2013-14, with different block thresholds and charges for residential and non-residential customers.</i></p>
	Location-based or nodal pricing	2.9	<p>Location-based charges for urban water services be applied where the location cost differences are material and where it is practical and cost effective.</p> <p><i>Comment: QUU has 8 pricing areas for water (including Toowoomba Regional Council) and 6 pricing areas for sewerage based on previous council boundaries.</i></p>

Chapter	Topic	No	Draft Recommendation - QUU Assessment
	Peak period and seasonal charges	2.10	Time of day or seasonal charges be considered for urban water services where there are identified economic efficiency benefits and where practical and cost effective. <i>Comment: QUU has no time of day or seasonal charges.</i>
	Self-selecting tariffs	2.11	Self-selecting tariff options be considered where there is sufficient information for customers to make choices, provided they do not result in cross-subsidies or introduce unmanageable revenue risks for the entity. <i>Comment: QUU does not offer self-selecting tariff options.</i>
	Service quality differentials and interruptible tariffs	2.12	Price/service quality tariff options are supported, where material cost differentials are associated with different levels of service. <i>Comment: QUU does not offer tariffs differentiated by service quality.</i>
	Metering and billing arrangements	2.13	Individual metering of flats and units be adopted where economic and practical. <i>Comment: As of 1 Jan 2008 all new unit/apartment complexes are required to be fitted with individual meters per dwelling. For existing complexes with shared meters, QUU's billing approach reflects an apportionment based on the original plans submitted for approval by the builder. Therefore, those flats and units with more bedrooms/bathrooms are allocated a greater proportion of water and wastewater charges.</i>
		2.14	Where water is separately metered, and where practical, tenants be billed the fixed and variable charges for water and sewerage. <i>Comment: Landlords are entitled to pass the volumetric proportion of a bill to a tenant provided the premises are individually metered and meet water efficiency standards.</i>
		2.15	Customers with unmetered connections be charged a deemed amount for usage, reflecting average use for similar property types. <i>Comment: QUU has a specific fixed access charge for unmetered connections in Ipswich only. This charge is 3.6 times higher (in 2011-12) than the residential water charge.</i>
		2.16	Customers with unmetered connections be given the option of paying for meter installation. <i>Comment: Insufficient information for assessment. The QUU website states that QUU owns and is responsible for water meters (QUU 2014a). The QUU fact sheet on multi-residential properties states that "Occasionally property owners may have installed individual water meters for each dwelling / unit to allow water consumption charges to be passed on to the tenant. This is agreed with the tenant in line with their Rental Tenancy Agreement, and we don't have visibility of these arrangements" (QUU 2014b).¹</i>
		2.17	For vacant land where water and services are available for connection, the water access charge that applies to connected properties (the relevant domestic or commercial charge) be applied. <i>Comment: QUU charges vacant land the same water and sewerage access charge that applies to connected properties, except for: non-residential water charges for vacant land in Ipswich, all charges for vacant land in Lockyer Valley, sewerage charges for vacant land in Scenic Rim, and all charges for vacant land in Somerset. All exceptions have a lower charge for vacant land.</i>

Chapter	Topic	No	Draft Recommendation - QUU Assessment
		2.18	<p>Concessions and rebates:</p> <ul style="list-style-type: none"> (a) reflect a consistent approach between the entities (b) be set to apply to either the fixed charge or as a total direct adjustment to the gross invoice amount (c) be capped so as not to subsidise discretionary use (d) be transparent with acknowledgement of the source of, and purpose for, particular concessions/rebates. <p><i>Comment: Of QUU's participating councils, only BCC provides subsidies, relating to certain community organisations and to pensioners. The coverage and rate of this subsidy was continued in past price monitoring reviews. The pensioner subsidy is applied as a direct adjustment to the total bill. The subsidy provided to certain community organisations is by way of lower pedestal charges (groups 2 and 3).</i></p> <p><i>QUU also provides a haemodialysis rebate which provides customers using haemodialysis machines at home with an allowance (at no charge) of 200 kilolitres per annum.</i></p>
		2.19	<p>Concessions associated with excess water use caused by leaks, be determined by the entities in consultation with customers.</p> <p><i>Comment: QUU has a concealed leak policy that is publicly available.</i></p>
		2.20	<p>Hardship arrangements be consistent with legislative or operating requirements and avoid cross-subsidies where practical.</p> <p><i>Comment: QUU has a financial hardship policy, as noted in 2013-15 price monitoring. DEWS is undertaking a review of the SEQ Customer Code⁴ and will consider the water businesses' policies (including hardship) in relation to supporting customers.</i></p>
		2.21	<p>Meter-reading and billing be undertaken at least quarterly.</p> <p><i>Comment: QUU applies quarterly billing for smaller customers and does monthly meter reading and billing for large customers.</i></p>
	Tradeable water entitlements	2.22	<p>Tradeable urban water entitlements be considered only where the efficiency gains are sufficient to justify the administration and transactions costs.</p> <p><i>Comment: No tradeable urban water entitlements.</i></p>
Sewerage	Demand forecasting	3.1	<p>Demand for sewerage services be based on forecast growth in connections, linked to population growth.</p> <p><i>Comment: QUU has applied this principle in setting sewerage prices, as noted in past price monitoring reports.</i></p>

⁴ Water and Sewerage Services Code for Small Customers in South East Queensland.

Chapter	Topic	No	Draft Recommendation - QUU Assessment
	Efficient pricing	3.2	<p>For residential customers:</p> <p>(a) sewerage charges generally be based on a single part tariff with a fixed charge per customer or connection</p> <p>(b) volumetric charges (based on discharge factors) be applied where the LRMC is significant and should be based on discharge or return factors linked to the LRMC of providing the water volumes.</p> <p><i>Comment: QUU applies a single part sewerage tariff with a fixed charge per residential connection. In the Lockyer Valley there is a fixed charge by assessment with different charges for pressure sewer main and for additional pedestals. A separate charge is applied to septic sewers. In the Scenic Rim there are pedestal charges.</i></p>
		3.3	<p>For non-residential customers:</p> <p>(a) fixed sewerage charges be based on the impact of the customer on the system. In the absence of direct metering, water connection size is considered a reasonable proxy</p> <p>(b) if appropriate, volumetric charges be applied based on relevant discharge factors established by customer type. Customers should be able to negotiate a variation in the discharge factor.</p> <p><i>Comment: QUU applies a fixed charge (higher than residential charge) and additional pedestal charges also apply. The charges for additional pedestals vary by the type of non-residential use in Brisbane, Lockyer Valley and Somerset.</i></p>
		3.4	<p>Nodal pricing for sewerage services be applied where cost effective.</p> <p><i>Comment: QUU has 8 pricing areas for water and 6 pricing areas for sewerage, based on previous council boundaries. Somerset and Scenic Rim have the same residential sewerage access charge.</i></p>
Trade Waste	Demand forecasting	4.1	<p>Where the customer base changes in line with growth, trend information be used to provide reasonable forecasts of demand for trade waste services.</p> <p><i>Comment: Insufficient information for assessment.</i></p>
		4.2	<p>Entities consult with large customers to monitor any step changes in demand for trade waste services.</p> <p><i>Comment: Insufficient information for assessment.</i></p>
	Efficient pricing	4.3	<p>Trade waste prices be based on the impactor pays principle.</p> <p><i>Comment: Insufficient information for assessment. In the 2012-13 review, QUU noted it had made progress in separating the cost of trade waste from domestic sewage using a costing model.</i></p>
		4.4	<p>Charges be based on the LRMC of transport, treatment and disposal of trade waste, with variable charges based on volume and contaminant load.</p> <p><i>Comment: Insufficient information for assessment. QUU charges for trade waste in Brisbane and Ipswich using five categories based on risk (A to E). Charges are based on volume (assumed or metered depending on category) and contaminant load (assumed or measured depending on category). Category A also has a fixed charge.</i></p>
		4.5	<p>Specific charges for the management of trade waste services (inspection and monitoring) be applied on a cost reflective basis.</p> <p><i>Comment: Insufficient information for assessment.</i></p>

Chapter	Topic	No	Draft Recommendation - QUU Assessment
		4.6	Charges be differentiated according to customer type and risk factors, and by location (as part of risk assessments) if considered cost effective. <i>Comment: QUU charges for trade waste in Brisbane and Ipswich using five categories based on risk (A to E). Charges are based on volume (assumed or metered depending on category) and contaminant load (assumed or measured depending on category). Category A also has a fixed charge.</i>
	Compliance	4.7	Consistent with regulations, entities to apply penalty charges for non-compliance and recover costs associated with breaches. <i>Comment: QUU relies on a combination of penalty units outlined in the Water Supply (Safety and Reliability) Act 2008 and (if necessary) the courts to recover reasonable costs associated with damage to infrastructure caused by breaches of trade waste agreements.</i>
Recycled Water	Efficient pricing	5.1	The revenue requirement for recycled water services be based on the total additional cost of recycling less avoided costs and less developer contributions. <i>Comment: Insufficient information for assessment.</i>
		5.2	Direct and avoidable costs be allocated between relevant parties on a beneficiary pays basis. <i>Comment: Insufficient information for assessment.</i>
		5.3	Recycled water volumetric prices be based on LRMC for the established recycled water scheme where possible, based on marginal operating costs less marginal avoided costs. Where the volumetric charge is then higher than the potable water volumetric charge, it may be necessary to reflect demand sensitivities to ensure demand clears supply. <i>Comment: In 2013-14, QUU provides Class A water in Brisbane at \$1.162212/kl and in Ipswich at \$1.075332. Class C water is provided in all districts at \$0.10/kl. QUU's recycled water charges are below the bulk water charges in Brisbane (\$2.302/kl) and Ipswich (\$2.238/kl).</i>
		5.4	If still required to ensure revenue adequacy, fixed charges in a two-part tariff should be set to recover remaining revenues, also subject to willingness to pay. <i>Comment: See above, no fixed charges apply for recycled water.</i>
		5.5	If the revenue requirement is still not achievable, unrecovered amounts should be allocated to potable and sewerage charges in proportion to avoided cost allocations. <i>Comment: Insufficient information for assessment.</i>
	5.6	Charges to be periodically reviewed, as customer acceptance increases. <i>Comment : Insufficient information for assessment.</i>	
	Sewer mining	5.7	Charges for sewer mining be set on a case-by-case basis to reflect relevant direct costs, a share of sewerage system common costs, service costs for any returns, less avoided costs. <i>Comment: Insufficient information for assessment. BCC undertakes sewer mining at Rocks Riverside Park and New Farm Park.</i>
Stormwater Reuse		6.1	Stormwater reuse pricing be subject to the same pricing principles as recycled water. <i>Comment: QUU does not provide stormwater re-use services.</i>

Chapter	Topic	No	Draft Recommendation - QUU Assessment
Stormwater drainage		6.2	Rate-based charges continue to be used for recovery of stormwater drainage costs. <i>Comment: Rate-based charges are used for recovery of stormwater drainage costs. QUU does not provide stormwater drainage services.</i>
		6.3	Charges pertaining to stormwater drainage are to be transparently identified on customer bills. <i>Comment: Insufficient information for assessment.</i>
Industry-wide issues	Externality pricing	7.1	The inclusion of externality prices be supported where material impacts can be valued accurately and cost effectively. <i>Comment: Insufficient information for assessment.</i>
		7.2	Prices incorporating estimates of externalities avoid duplication with other mechanisms and be transparent. <i>Comment: Insufficient information for assessment.</i>
		7.3	Licences and market mechanisms (where practical) be considered by Government where the benefits are considered to justify the costs. <i>Comment: Insufficient information for assessment.</i>
	Third party access	7.4	Third party access prices be based on the cost of service methodology, and take account of relevant joint or common costs. Any departure from this methodology (such as applying the retail minus methodology) is to be justified. <i>Comment: Insufficient information for assessment.</i>
		7.5	Where retail prices are averaged across user groups (postage stamp tariffs) an adjustment apply to ensure that access prices do not result in increased costs of service delivery for remaining customers. <i>Comment: Insufficient information for assessment.</i>
	Cost allocation	7.6	Common costs be allocated to services and customers on the basis of a causal relationship between the costs incurred and the water, sewerage, recycled water or other service performed. <i>Comment: Insufficient information for assessment. See above, regarding cost allocation between sewerage and trade waste.</i>
		7.7	If a causal relationship cannot be established between costs incurred and the relevant service, a reasonable cost allocator needs to be established. <i>Comment: Insufficient information for assessment.</i>
	Price paths	7.8	Price paths be applied where there are substantial price increases, having regard to customers' ability to pay and the impacts on the service provider's financial viability. <i>Comment: QUU has not published a future price path. Insufficient information for assessment.</i>
		7.9	Price paths be set on a revenue neutral basis. <i>Comment: QUU has not published a future price path. In past price monitoring, QUU sought guidance on under and over-recovery mechanisms. The QCA is publishing a separate paper on these mechanisms.</i>

Source: QCA 2014c.

2.4 Conclusions

On the basis of its assessment against core criteria (see Table 5), the QCA considers that QUU should immediately transition to long-term annual performance monitoring as from 1 July 2015.

A full assessment against the other non-core criteria could not be conclusive due to insufficient information and therefore these criteria provide no impediment to QUU's transitioning.

It is also noted that apart from the application of proposed pricing principles (where a detailed assessment has yet to be undertaken), QUU has showed a commitment to and performed well against other elements of the proposed performance monitoring framework.

Potential areas of improvement with respect to other non-core criteria are identified in Table 5.

Table 5 Summary of draft assessment - QUU

<i>Criteria</i>	<i>Achieved?</i>
Core criteria	
Absence of public interest or equity issues that may warrant regulatory review	Yes
Regulated services are clearly defined and separated from non-regulated services	Yes
No evidence of an exercise of market power and opening cost based is efficient	Yes
Absence of material changes in circumstances or major infrastructure costs	Yes
Demonstrated capacity to provide information accurately and on time	Yes
Other criteria	
Performance in customer engagement	Existing customer engagement practices are consistent with many desired features. QUU is well placed to build on these practices to achieve best practice.
Strategic approach to long term investment	Broadly addressing many desired elements. Areas of improvement have been identified including in QUU's asset management systems and the capture and reporting of regional efficiencies.
Service quality	QUU has committed to and is reporting on a limited number (6) of the QCA's 38 recommended measures.
Pricing principles	Insufficient information for full assessment. Prices generally based on legacy council pricing with some harmonisation and generic price increases. This is considered a priority area for consideration in future performance monitoring.

Submissions on this assessment are due **30 June 2014**. All submissions will be taken into account in the QCA's Final Report, due 30 September 2014.

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