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Mr Mark Gray
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Dear Mr Gray

RESPONSE TO QUEENSLAND COMPETITION AUTHORITY'S DRAFT REPORT ON THE WATER AND SEWERAGE ACTIVITIES OF LOGAN WATER

This submission is Logan City Council's (Logan Water) response to the Queensland Competition Authority's (QCA) request for comments on the SEQ Price Monitoring Report 2013 -2015 Draft report.

We are pleased to receive acknowledgement from QCA that Logan Water's revenues are below prudent and efficient costs and there is no evidence of Logan Water exercising its monopoly power in the period under review.

Logan Water accepts most of the Authority's findings and recommendations but would like to provide comment on some aspects of the draft report for consideration by the Authority.

Operating Costs

Logan Water believes that taxation expenditure should be itemised separately as by definition, taxation expenditure is not part of operating costs. Income tax is a calculation which is influenced by the level of operating profit. Differences in the calculation of tax are due to our calculation being based on the Local Government Tax Equivalent Regime which differs from the regulatory tax calculation applied by QCA. The majority of operational savings suggested by QCA are in relation to the calculation of taxation expenditure not operating costs. As such possible savings in operating costs reported have been overstated by including taxation expenditure as part of operating costs.

Comparisons have been made between Logan Water and other water businesses which have their own bulk water supply. The bulk water supply cost for these entities are much lower than the bulk water supply costs which are charged to SEQ water entities by Seqwater.. This charge incorporates costs associated with the installation of the Water Grid in response to the long term drought experienced a few years ago. In addition, Logan Water has paid a higher price per kilolitre for bulk water since the commencement of these charges in 2008 in comparison to the other major areas of South East Queensland. This has impacted comparisons of water charges to customers and operating cost.



Capital expenditure

In regard to the New Beith to Round Mountain Reservoir Water Conveyance, the project has been deferred with an amended completion date of June 2016. As this project was not included in capital expenditure completion information provided in the data template for the period 2013 – 2015, we believe the adjustment for this project should not be deducted from the Regulatory Asset Base value as it was not included in this amount.

Asset Management

It is acknowledged that Logan Water's asset management systems are not consistent with good industry practice. This is due in large part to the significant period of instability created by the reform processes that Logan Water has been subject to since 2007. Following the return of the water services to Council in July 2012, a plan has been developed to implement improvements progressively with systems improvement being a key focus. As stated in the SKM report a number of tasks have been outlined to improve asset management in the water business.

In closing, we would like to express our appreciation to the staff of the QCA for the manner in which this challenging process has been managed and the opportunities provided to clarify and discuss information and interpretations throughout the review period.

Yours faithfully



Silvio Trinca
DEPUTY CHIEF EXECUTIVE OFFICER - ROAD & WATER INFRASTRUCTURE
(on behalf of Chris Rose, Chief Executive Officer)