

30 June 2014

Dr Malcolm Roberts  
Chairperson  
Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

Dear Malcolm,

### **Submission to Long-Term Regulatory Framework Review**

Thank you for the opportunity to provide feedback on the Queensland Competition Authority's ("QCA") proposed regulatory framework to apply post 1 July 2015. We acknowledge that the QCA and its staff have been working diligently to develop a long-term regulatory framework that is consistent with the Ministers' Direction Notice.

Queensland Urban Utilities (QUU) understands the importance of effective economic regulation. It ensures that the long term interests of customers are protected, and that the long term financial viability of distributor-retailers ("DRs") is maintained.

In QUU's view, the extent of market power of the industry and the available evidence regarding the misuse of that market power, if any, should determine the level of economic regulation applied. Given the outcomes of SEQ water price monitoring reviews undertaken by the QCA in recent years, QUU agrees with the Direction Notice that the form of regulation for the SEQ water distribution-retail sector should be light-handed in nature.

Moreover, the governance structure of QUU acts to prevent any exercise of market power. Our shareholding councils are strong advocates for our customer base and play an important role in ensuring that sufficient tension is placed on our operations to ensure the provision of water and sewerage services to the required service standards at a reasonable price. The competing tensions also hold QUU to account, with the business having to ensure financial viability through maintaining an investment grade credit rating such that we can continue to raise the funding necessary to undertake appropriate network investment. It is important that, as a business, QUU delivers balanced outcomes for both our customers and our shareholders.

Having reviewed the QCA's Position Papers on the Long-Term Framework and the Pricing Principles, we have made a number of suggestions we consider will help with

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the development and governance of the framework. Our suggestions are primarily intended to provide greater certainty to the DRs regarding how the framework will operate. I note that a further paper has been released by the QCA in June 2014, however this was too late to incorporate within this submission and therefore a separate submission will be drafted to address this paper. Our suggestions are detailed in the attached submission to the review.

With regard to the Long-Term Framework Position Paper some of the key suggestions from our submission are:

Performance Monitoring Determination – at the conclusion of the review, the QCA should make a determination (“Performance Monitoring Determination”) which will outline the rules of the new framework and the obligations of each party. All final recommendations by the QCA should be contained in this determination. Where further, more detailed, guidance to the DRs is required in relation to specific obligations under the framework, such as the development of long run marginal cost estimates, the QCA should release specific guidance papers.

Independent Review of QCA’s Decisions – to further strengthen the regulatory framework, the QCA’s decisions regarding the outcomes of cost of service reviews, which may ultimately result in the application of heavy handed deterministic price regulation, should be subject to an independent review. This is consistent with best practice regulation, and its purpose is to ensure that the QCA is held accountable for its decisions and to promote predictability within the framework. Therefore, QUU proposes that an independent review mechanism be incorporated into the framework.

Periodic Independent Review of Framework – there should be periodic, independent review of the framework to assess its effectiveness in achieving its initial objectives as set out in the Direction Notice, and to assess the ongoing relevance and currency of the framework. QUU suggests that this review could be undertaken by the Office of Best Practice Regulation.

Cost effectiveness of Framework – in developing and implementing the framework, the QCA should be cognisant of the intent of the Direction Notice in having a light handed framework, which is to reduce the regulatory burden and associated costs imposed on DRs, while protecting consumers from the exercise of market power. Therefore, the quantity of information sought by the QCA from the DRs to complete the annual information templates and justification of reported outcomes or for more detailed cost of service reviews, should be mindful of the need to reduce regulatory compliance costs relative to those currently imposed on the SEQ DRs.

Overlap between different regulatory regimes applied to SEQ DRs – QUU has some concerns about the potential for the DRs to face conflicting or inconsistent regulatory objectives stemming from the interaction between elements of the QCA’s proposed long term framework and developments in the Queensland Government’s water policy more broadly. This includes in relation to infrastructure charging and the development of new water and sewerage service quality standards. QUU would like to see closer dialogue between the QCA and other

regulators in the water and sewerage sector to prevent DRs being placed in potentially adverse regulatory compliance situations beyond their control.

In terms of the Pricing Principles Position Paper, QUU highlights the following issues.

Purpose of the paper – QUU considers that any pricing principles developed by the QCA should be for guidance purposes only. However, in QUU's view, the draft recommendations are generally quite prescriptive in nature, belying the intended light-handed nature of the framework.

Customer impacts of major tariff reform – QUU considers that the QCA needs to clarify whether it expects the DRs to implement rather than have general regard to its draft recommendations, a number of which represent substantial tariff reform. In QUU's view, careful consideration would need to be given to the customer impacts of any major changes to existing water and sewerage pricing structures required by the QCA.

Issues out of scope – the Pricing Principles Position Paper considers aspects that we consider to be either outside the scope of a pricing principles paper (i.e. demand forecasting), have little relevance to the DRs (i.e. the introduction of scarcity charging and tradeable urban water entitlements) or are covered through other mechanisms (i.e. metering and billing arrangements and hardship). The inclusion of these aspects detracts from the overall purpose of the Pricing Principles Position Paper.

For both of these Position Papers, QUU has a number of issues for which it is seeking greater clarity to better understand how the framework will operate. These issues are covered in the Executive Summary and in more detail in the body of our submission. We note however, that we may have further comments when clarification of these issues is provided by the QCA.

QUU look forward to continue working with the QCA in developing the long term regulatory framework. If you have any comments in relation to our suggestions made above and those outlined in our submission (attached) please feel free to contact Tim Ryan (07 3855 6161).

Yours sincerely



**LOUISE DUDLEY**  
**Chief Executive Officer**  
**Queensland Urban Utilities**

cc. George Theo, Unitywater  
George Passmore, Queensland Competition Authority

Enc. Queensland Urban Utilities Submission: SEQ Long-Term Regulatory Framework Review