

Date: 8 August 2014
Contact: Andre Kersting
Location: Nerang
Telephone: 07 5582 9006
Your reference:
Our reference: WSS1125/1227/01(P1) #45390913

Mr Malcolm Roberts
Chairman
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Malcolm,

Long-term Regulatory Framework Investigation and Development for South East Queensland Water Entities (SEQ)

The City of Gold Coast (CoGC) appreciates the opportunity to respond to the Ministerial Direction Notice (Direction Notice) requiring the Queensland Competition Authority (QCA) to conduct an investigation into the bulk water prices for Queensland Bulk Water Supply Authority (Seqwater) for the period 1 July 2015 to 30 June 2018.

CoGC supports the review of Seqwater's bulk water prices. During the review period CoGC anticipates the cost of bulk purchases will increase by around 18.5 per cent with these costs passed directly through to our customers.

With regard to pricing for the provision of bulk water, CoGC understands trade-offs need to be considered between equity and efficiency when determining tariff structures. The direction notice proposes a 'common price' for the provision of bulk water to South East Queensland (SEQ) Retailers (entities). However, the Direction Notice proposes to extend the price path for Redland, Sunshine Coast and Noosa Councils by two years. CoGC questions the fairness of extending the price path for these Councils when other customers within SEQ are required to pay the full common price by 2017-18.

To ensure the promotion of economic efficiency and better alignment with QCA's proposed long term regulatory framework for SEQ Retailers it is important bulk water costs are transparent and understood. In terms of the Direction Notice it is not clear whether costs include:

- costs involved to supply irrigators
- maintenance of recreational facilities
- costs required to provide bulk water individually to each SEQ water retail entity and
- costs associated with the operation and maintenance of the desalination plant.

CoGC proposes that any mid period price review trigger (or other mechanism as outlined in section 1(i) of the Direction Notice) be considered as part of the long term regulatory framework. This would ensure consistency and, where appropriate, coincide with the QCA's proposed over (and under) recovery mechanism (for SEQ retailers) to reduce price shocks.

Section 1d) of the Minister's Referral Notice requires QCA to establish the opening regulated asset base (RAB) as at 1 July 2015, including the roll forward of depreciation and appreciation. The application of appreciation is not a concept incorporated within RAB calculations for SEQ Retailers. CoGC questions how the concept of appreciation will be applied, to which assets appreciation would apply and the rationale behind this concept.

CoGC proposes that any Seqwater asset appreciation to be appreciated should be transparent. Any material increase to Seqwater's RAB (as a consequence of appreciation) resulting in price rises should be mitigated via a 'glide path' approach.

Thank you for the opportunity to provide a response. Should you wish to discuss these issues further please do not hesitate to contact Mr Andre Kersting, Coordinator Pricing and Regulation on (07) 5582 9006.

Yours faithfully



Dale Dickson PSM
Chief Executive Officer
Council of the City of Gold Coast