

From: [Richard Koerner](#)
To: [Catherine Barker](#)
Subject: Re: Supplementary correspondence relating to 2012/13 SEQ prices monitoring investigation
Date: Tuesday, 21 May 2013 2:26:36 PM
Attachments: [Treasurersresponse1.pdf](#)

This email contains an attachment that may be work related and must be filed into the DMS. If you need assistance with this please contact the Executive Officer at xo@qca.org.au.

Attn. Ms Cath Barker

Dear Ms Barker,

Attached is the correspondence exchange with the Queensland Treasurer regarding establishment of the Four Point Water Plan.

I note that TOR provided QCA for 2013-15 SEQ Pricing Investigations makes no reference to the disbanding of Unitywater.

Regards,

Richard Koerner



Hon Tim Nicholls MP
Member for Clayfield
Treasurer and Minister for Trade

TRY-00206

Mr Richard Koerner
[REDACTED]

Dear Mr Koerner

I refer to your email of 11 April 2012, regarding the Queensland Competition Authority's 2011-12 Final Price Monitoring Report.

The Government is very concerned about the rising cost of living for families and has committed to reducing the cost of water in South East Queensland (SEQ) through a Four Point Water Plan involving:

- amalgamation of the four bulk water entities into one entity;
- handing back control of water distribution and retailing to councils;
- writing-off non-performing water grid assets to reduce price rises; and
- adopting a 40-year price path to repay the water grid debt over the economic life of the assets.

On 13 April 2012, the Honourable Mark McArdle MP, Minister for Energy and Water Supply, announced that the Government would immediately commence a review of SEQ's bulk water prices. The Government will be progressively considering the other elements of its Four Point Water Plan over the coming months.

Thank you for your interest in this matter.

Yours sincerely
[REDACTED]

Tim Nicholls
Treasurer and Minister for Trade

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ABN 90 856 020 239

Dear Hon Treasurer,

I applaud the announcement of the audit of Queensland's financial performance under the former government.

Please consider in that audit that the Queensland Competition Authority has recently released its final SEQ 2011/12 prices monitoring report which can be found on <http://www.qca.org.au/water/SEQRetailPriceMon/1112review.php> .

In Part B of that report please note the final sentences of pages 264 and 265 (copy attached). Be aware that the former Minister for Water Utilities July 2008 regulatory asset valuations were provided by KPMG after which KPMG's CEO in Queensland was appointed Chair of SEQwater and another retired employee of KPMG was appointed to the Board. These same individuals are currently members of SEQwater audit committee as far as I am aware.

Please act to restore protection against monopoly pricing abuse by Government controlled commercial water business entities such as SEQwater and Unitywater for myself and all households on the Sunshine Coast that is our statutory right under provisions of the NWI Pricing Principle agreements with the Federal Government.

Yours sincerely,

R.J.Koerner

Former external director Maroochy Water Services Advisory Board

File Note

Author: Susan Towne
Date Created: 17/04/2012
Document: For reply please.

Kim McInnes
Executive Assistant to the The Hon Tim Nicholls MP
Treasurer and Minister for Trade
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Ph: 07 3224 6909|Fax:07 3229 0642
Email: kim.mcinnes@ministerial.qld.gov.au

-----Original Message-----

From: Richard Koerner [REDACTED]
Sent: Wednesday, 11 April 2012 2:19 PM
To: Clayfield Electorate Office
Subject: Ongoing monopoly pricing abuse by SEQwater and
Unitywater

Dear Hon Treasurer,

I applaud the announcement of the audit of Queensland's
financial performance under the former government.

Please consider in that audit that the Queensland Competition
Authority has recently released its final SEQ 2011/12 prices
monitoring report which can be found on
<http://www.qca.org.au/water/SEQRetailPriceMon/1112review.php> .

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Yours sincerely,

R.J.Koerner

Former external director Maroochy Water Services Advisory Board

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3.6 The Initial Regulatory Asset Base

In March 2010, the (then) Minister for Natural Resources, Mines and Energy and the Minister for Trade advised the Authority of the initial regulatory asset base (RAB) as at 1 July 2008 for interim price monitoring. The Minister advised the RABs for each entity as well as the RABs for each participating council, and other adjustments. The Minister's advised RAB for Unitywater was 2,029.87 million.

Draft Report

In its initial submission, Unitywater noted that it had allocated the advised RAB of \$2.03 billion to each asset on the basis of their audited values.

Unitywater advised that the allocation of the Ministerially advised RAB in its 2011-12 submission differs from that provided in its 2010-11 submission. This follows further work by Unitywater based on detailed information which was not available at the time of the 2010-11 submission. For Unitywater this has resulted in the RAB value for water increasing relative to wastewater.

Table 3.30: Unitywater RAB as at 1 July 2008 (\$m)*

	<i>Previously Allocated Water</i>	<i>Previously Allocated Wastewater</i>	<i>Previously Allocated RAB</i>	<i>Water</i>	<i>Wastewater</i>	<i>RAB</i>
Moreton Bay	481.07	628.43	1,109.50	509.75	599.86	1,109.61
Sunshine Coast	368.24	551.46	919.70	369.06	550.64	919.69
Unitywater	849.31	1,179.89	2,029.20	878.81	1,150.50	2,029.31

*Note: * excludes non-regulated business. Shaded data reflects the Authority's previously accepted RAB as published in its SEQ Price Monitoring Report for 2010-11. This data is provided for comparison purposes only. Source: Unitywater (2011).*

Mr Koerner and Ms West submitted that the initial RAB value should be subject to investigation by the Authority. In this regard, Mr Koerner and Ms West argued that, as the advised RAB value as at 1 July 2008 is based on a discounted cash flow methodology, the RAB value is inflated as they consider that councils' water prices at that time were inflated above appropriate levels due to revaluations conducted by council water businesses.

Mr Koerner provided copies of his correspondence with, and submissions to, a range of government agencies that detail his concerns⁵¹.

In the Draft Report, the Authority noted that the total RAB value as at 1 July 2008 in Unitywater's submission reconciled with the Ministerially advised value.

The Authority noted that these adjustments do not materially affect the total RAB allocated to council areas, rather the allocation of the RAB to water and wastewater activities.

In response to Mr Koerner and Ms West, the Authority noted that it is required to accept the RAB valuation as at 1 July 2008 as advised by the Minister for Natural Resources, Mines and Energy and Minister for Trade.

⁵¹ Copies of Mr Koerner's submission have been made available on the Authority's website.

Stakeholder Submissions on the Draft Report

Mr Koerner submitted that the Draft Report's acceptance of Unitywater's initial RAB as advised by the Minister appears inconsistent with the principles set out in the Authority's *Statement of Regulatory Pricing Principles for the Water Sector (December 2000)* in respect of monopoly prices oversight and makes the Authority's assertion on the absence of evidence of an exercise of monopoly power in 2011-12 potentially misleading.

Mr Koerner requested that the Authority reconsider its acceptance of the Queensland Government's mandated initial RAB. Further, Mr Koerner requested an independent forensic investigation of the documents he submitted citing the following reasons:

- (a) the Productivity Commission's (PC) Urban Water Sector Report #55 does not provide indication that such supporting documentation was considered;
- (b) the National Water Commission's (NWC) 2011 Biennial Assessment lacks any indication that any of this same material was considered. Further, no public transparency was afforded;
- (c) past investigations of senior management of Maroochy Council and Sunshine Coast Regional Council and Queensland Treasury performed by the Queensland Ombudsman in 2007, 2009 and 2010 have been ineffective due to the Ombudsman's lack of expertise for an independent assessment of the technical information provided; and
- (d) the Crime and Misconduct Commission (CMC) has declined to investigate a ministerial misconduct complaint by the Coolumb Beach Progress and Ratepayers Association relating to possible ongoing monopoly pricing abuse following Maroochy Water Services (MWS) amalgamation into Unitywater.

Mr Koerner submitted that given the utilisation rates for non-current assets, the Queensland Government's initial RAB values should not be accepted without further verification.

Ms West requested an investigation of the application of the National Water Initiative (NWI) pricing principles in the initial RAB.

In its submission on the Authority's Draft Report, Unitywater noted Mr Koerner and Ms West's submissions. Unitywater considered that the matter of the initial RAB is finalised. In the interests of influencing future capital expenditure programs, Unitywater welcomed working with interested stakeholders to progress micro-economic reform initiatives to reduce further capital expenditure such as through development of a Water Sector Regulatory Test (WET Test) and nutrient offsets.

Summary

In response to Mr Koerner and Ms West, the Ministerial Direction requires that the Authority accept the RAB valuation as at 1 July 2008 as advised by the Minister for Natural Resources, Mines and Energy and Minister for Trade.

The Authority proposes no change to its Draft Report finding on the initial RAB. The WET test proposed by Unitywater in relation to capital expenditure is addressed further below.

The Authority has accepted Unitywater's revised apportionment of the Minister's advised RAB.
