

24 AUG 2011

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22 August 2011

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Our Reference:
Your Reference

Mr E J Hall
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
BRISBANE Q 4001

Dear Mr Hall

I refer to your letter to me on 8 July, 2011 inviting submissions on the Queensland Competition Authority's price monitoring investigation on South-East Queensland's water and wastewater distributor-retailers covering the period from 1 July, 2011 to 30 June, 2013.

Please find attached a submission from the Sunshine Coast Regional Council in relation to this price monitoring investigation.

Please contact Mr Greg Laverty, Executive Director Finance & Business at the Sunshine Coast Regional Council on (07) 54418200 should you require further information on our submission.

Yours sincerely



JOHN KNAGGS
CHIEF EXECUTIVE OFFICER

Sunshine Coast Regional Council Submission to QCA

Price Monitoring of SEQ Water and Wastewater Distribution and Retail Activities

1 July 2011 to 30 June 2013

1. Purpose

The purpose of this submission is to detail the Sunshine Coast Regional Council's (SCRC) response to your call for submissions on the impacts and outcomes of water and wastewater pricing capping within the Sunshine Coast local government area for the period 1 July 2011 to 30 June 2013.

2. Background

The Queensland State Government has referred the monopoly distribution and retail water and wastewater activities of Unitywater to the Queensland Competition Authority (QCA) for price monitoring investigation covering the period from 1 July 2011 to 30 June 2013.

Under the Authority, QCA must

- a) Provide timely and transparent information to customers about the costs and other factors underlying the provision of water and wastewater services;
- b) Monitor the change in prices of distribution and retail water and wastewater services for households and small business customers having regard to the CPI price limit as described in the South-East Queensland Water (Distribution and Retail Restructuring) Act 2009;
- c) Monitor the change in prices for water and wastewater services not included in the CPI price limit as described in the South-East Queensland (Distribution and Retail Restructuring) Act 2009 having regard to the change in revenue from these services compared to the change in the total prudent and efficient cost of carrying on the relevant activity; and
- d) Monitor the maximum allowable revenue based on the total prudent and efficient costs of carrying on the activity.

In a letter to all councils on 9 June 2011, the Minister for Energy and Water Utilities stated that

"It is appropriate that decisions adopted by a participating local government which directly impact on the Distributor-retailer's equity holder value are suitably reflected through a concomitant change to either dividends or equity rights, such that other equity holders are not adversely affected."

And further, *"I have asked the Queensland Water Commission (Commission) to explore options to ensure participating local governments have explicitly addressed the circumstances in which*

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water and wastewater pricing decisions will be reflected in recognised participation rights or dividends.”

3. Prices and Maximum Allowable Revenue over the Price Cap Period

In the 2010/2011 year, Unitywater commenced a process to move water and wastewater pricing for Sunshine Coast and Moreton Bay Council residents to return full maximum allowable revenue (MAR).

As noted in the QCA 2010/2011 Price Monitoring of SEQ Water and Wastewater Distribution and Retail Activities Report, *“as a whole, Unitywater’s revenues lie below the Authority’s maximum allowable revenue of \$392.87 million by approximately \$20.59 million.”*

Unitywater have provided figures, based on a price path to full MAR by 2020/21, that show their revenue in 2011/12 and 2012/13 will be \$52.80 million and \$44.29 million below MAR respectively.

The Unitywater analysis also shows that water and wastewater prices for the Moreton Bay community have caused \$50.07 million of that \$52.8 million below MAR recovery in 2010/11 and \$44.90 million of the \$44.29 million below MAR recovery in 2011/12. The Sunshine Coast community will be responsible for only \$2.74 million of the shortfall in 2011/12 and will recover \$0.61 million above MAR in 2012/13.

Because the State Government cap was imposed before Unitywater could implement tariff reform for Moreton Bay council customers, this resulting under MAR revenue is directly attributable to previous pricing decisions of the Moreton Bay Regional Council.

Unless processes are put in place to apply from 1 July 2011 in accordance with the Minister’s letter of 9th June 2011, Sunshine Coast water and wastewater customers will be contributing a significantly higher proportion of Unitywater’s revenue than the proportion they will receive back in the form of equity returns.

This means that Sunshine Coast water and wastewater customers are significantly subsidising Moreton Bay customers in 2011/2012 and 2012/13.

4. Resolution of Inequity

In accordance with the Minister’s request in his letter of the 9th June 2011, SCRC has forwarded a response to the Queensland Water Commission that outlines a process to ensure council pricing decisions are reflected in equity returns of participating councils.

This process requires a participating council to provide a payment to a distributor-retailer for any shortfall to MAR as a result of council pricing decisions in their local government area.

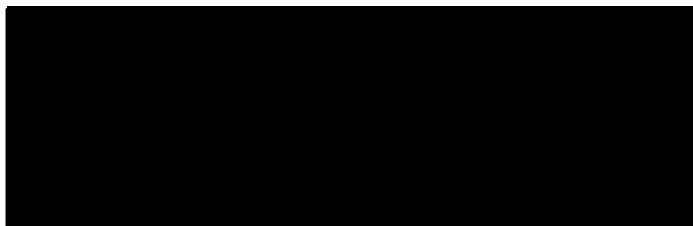
5. Role of QCA Relating to Pricing Impacts

Sunshine Coast Regional Council

The adverse impacts detailed above of the Moreton Bay Council pricing decisions and the State Government pricing cap on the Sunshine Coast community and water and wastewater consumers is significant.

These impacts directly relate to price monitoring items (a), (b), and (d) above that the QCA must consider as part of the Minister's referral.

SCRC respectfully requests that as part of their price monitoring exercise, QCA considers and comments on the pricing decisions of councils and the impact such decisions have on achievement of MAR in 2011/12 and 2012/13 and equitable distribution of returns.



John Knaggs

Chief Executive Officer

Sunshine Coast Regional Council