

QCA 2016-17 FEE FRAMEWORK

Overview

The majority of QCA's operations are funded by fees paid by the entities the QCA regulates. Those fees are often passed on to the customers of the regulated entity via a QCA Levy. Section 3 of the Queensland Competition Authority Regulation 2007 (Qld) (the Regulation) allows the QCA to charge fees for providing a service or performing a function set out in Schedule 1 of the Regulation provided the amount charged is:

- (a) considered to be reasonable by the QCA; and
- (b) not more than the reasonable cost of providing the service or performing the function.

The QCA commits to advise each regulated entity about the detail of the QCA work-plan for that entity for the forthcoming year as part of the fee setting process.

Consideration of the reasonableness of a regulatory fee

The fee approval process includes a decision by the QCA that it is satisfied overall that the regulatory fee charged to individual entities is reasonable having regard to the costs of providing regulatory services and performing regulatory functions for those entities.

The QCA notes that it considers the likely impact of the fees on each entity and its capacity to pass on these costs to customers, and the customers' ability to pay, as part of its review process when setting fees. A review of the regulatory service or function and the associated fee is triggered when the proposed fee to be charged is more than 1% of the regulated annual revenue of the entity concerned.

Basis of calculating fees for providing general regulatory services or functions

The estimated fees for providing regulatory services or functions will be calculated by the QCA based on its estimate of the costs of performing the service or function. The QCA's estimate of the costs will be the sum of:

- (a) its estimated costs of analyst staff and specialist consultants required to perform the service or function; and
- (b) a proportion of the QCA's estimated overheads based on the estimated analyst staff costs for performing the service or function compared to the QCA's total analyst staff costs for the year.

A pro-forma example of the detail of the costs the QCA will provide is attached for information.

In estimating the costs to be incurred in performing a regulatory service or function, the QCA takes into account its previous experience of performing similar tasks as well as the nature and complexity of the task concerned and the expected consultation process.

Methodology for accounting for regulatory fees

A regulatory fee is made up of:

- (1) Analyst staff costs based on time sheets completed by the analyst staff working in the project team that has been established to perform the regulatory service or function. These costs include on-costs such as payroll tax, workers compensation and staff entitlements for the analyst staff who work on the regulatory

service or function. The QCA has an internal Cost Allocation Model that it uses for allocating analyst staff costs to the relevant regulatory service or function.

- (2) Actual consultancy costs associated with the performance of the regulatory service or function. These costs include legal costs, the costs of seeking advice from professionals such as engineers and technical advice related to the service or function.
- (3) A percentage of the QCA's total overheads for the period. These costs include:
 - (a) Board costs—which includes the remuneration costs of the Members of the QCA who are required to consider and make decisions in respect of regulatory services and functions;
 - (b) Executive and Corporate Services salaries—which includes the salary costs of the executive and corporate services staff who support the work of the QCA;
 - (c) “on-costs”—which includes payroll tax, workers compensation and staff entitlements for the above staff who support the work of the QCA;
 - (d) occupancy costs—which includes rental payments for the QCA’s premises, required for QCA staff and Members; and
 - (e) general administration costs—which includes general office operations costs supporting the work of the QCA and Members.

The QCA considers the Board and Executive and Corporate services are fundamental and fixed elements of the QCA, required for the QCA to perform its regulatory functions. The Board is responsible for the decisions of the QCA but is remunerated on a fixed basis. The Executive and Corporate Services staff are responsible for the overall management of the work of the QCA, but are not engaged for the specific project. Neither the Board Members nor the Executive and Corporate Service staff account for their time on a project-specific basis, and it would be artificial to do so. The QCA could not perform the regulatory services and functions without the Board and the Executive and Corporate Services staff.

The QCA considers that allocation of overhead costs across all functions performed by the QCA in proportion to the costs of analyst staff required to perform each function is an appropriate and reasonable way to allocate and recover the costs of providing regulatory services and functions. Overheads are reviewed by the QCA and where, in the reasonable opinion of the QCA, amounts are not reasonable to be included in regulatory fees these costs are excluded from the overhead costs charged to regulated entities.

The QCA retains internal auditors BDO to review the application of the fee framework and associated costing model each year. The QCA will expand the scope of the audit of the 2016-17 year to include sample-based testing of the costs charged to individual regulatory services or functions. A redacted version of the audit report will be published on the QCA website.

Setting regulatory fees in advance

The QCA considers that it is open to it to set a fee for services to be provided or functions to be performed and that the QCA Act and Regulation do not require that a fee only be set in arrears, i.e. for services which have already been performed. The relevant legal requirements for a QCA regulatory fee are the two limbs in the QCA Regulation. The QCA sets a regulatory fee subject to it being satisfied that the fee will be no more than the actual cost of providing the regulatory service or function. It does that by making a conservative estimate of the costs in advance and then reconciling that estimate against actual costs in arrears. In the normal course, the QCA expects the actual costs will be more than the estimated costs. If the actual costs are expected to exceed the

estimated fee by more than 15%, the QCA will notify the regulated entity as soon as practicable and provide a revised estimate of the expected costs to the end of the financial year including the assumptions used in this revised estimate.

Reconciliation and Settlement of under and over recoveries of Fees

The QCA will undertake a reconciliation of actual versus estimated costs at year end, as part of its end-of-year financial reporting. To the extent actual costs are higher or lower than estimated costs the QCA will make an end of year adjustment to the fee in accordance with the mechanism described in this section.

In the event the actual cost of delivering the service or function is higher than the estimated fees charged that financial year, the under-recovery will be charged in October of the following financial year after the accounts for the financial year just ended have been audited.

In the event the actual cost of delivering the services is lower than the estimated fees charged for that financial year, the over-recovery will be paid (or with the agreement of the regulated entity netted against the next year's fees) in October of the following financial year after the accounts for the financial year just ended have been audited.

The QCA may enter into agreements to receive under-recoveries over a longer time period where the under-recovery is a material amount and payment in full in October or November of the relevant year would result in hardship for the regulated entity or its customers. Any such agreement will include compensating the QCA for the time value of money.

Apportionment of fees to particular sectors

Retail electricity

Consistent with the way the QCA has applied fees to electricity retailers in previous years, the annual fee applied from 1 July 2016 will be based on each retailer's estimated share of total customers. For administrative convenience, no fee is proposed to be charged to retailers with less than 1000 customers. Market shares will be reviewed annually.

If regulatory reviews are confined to a specific geographic area, fees will be charged to those retailers operating in that geographic area (e.g. fees for a review of electricity prices for customers outside of SEQ would be predominately charged to Ergon Energy Queensland as the largest retailer in this area).

In the event that a retailer is acquired by or merged with another retailer, the obligation to pay regulatory fees in respect of the acquired/merged retailer will transfer to the acquiring/merging retailer.

Electricity distribution

As has been the case in the past, it is proposed that the fee charged to electricity distributors will be apportioned equally between Ergon Energy and Energex. In the event that the Government election commitment to merge Ergon Energy and Energex proceeds, this allocation will no longer be required.

Retail water in Southeast Queensland

The apportionment of the costs of regulation across the water retailers in Southeast Queensland (SEQ) will be determined when the regulatory service or function to be performed by the QCA has been settled. The QCA will consult with Unitywater, Queensland Urban Utilities, Redland City Council, Gold Coast City Council and Logan City Council when the regulatory framework for the water industry in SEQ is determined.

Pass-through of fees via a QCA Levy

All fees charged in respect of general regulatory services or functions will be eligible for pass-through to customers, via a QCA Levy, wherever the QCA has responsibility for these pass-throughs. Approval of a QCA Levy is the subject of a separate approval process triggered by an application from the regulated entity concerned.

Additional fees

Some regulatory services cannot be anticipated in advance because the provision of the service is not foreseen. Where an unforeseen service or function is required or requested the QCA will apply the same processes set out in this document to the setting of fees for the service or function in question.

Payment Schedule

Estimated fees for the 2016-17 financial year will be invoiced quarterly in advance. 2016-17 over/under-recoveries will be paid/invoiced in October 2017.

[Description of regulatory service] provided to [name of regulated entity]

For the period 1 July 2016 to 31 January 2017¹

Estimate of costs

Salaries	
Staff (FTE 7.0 for 4 months)	275,298
On-costs ²	44,452
Subtotal	319,750
Overheads (10% allocation)³	
Board Costs	43,841
Executive and Corporate Services Salaries	106,209
On-costs ⁴	18,811
Occupancy Costs	54,126
General Administration Costs ⁵	84,565
Subtotal	307,581
Other Direct Costs	
Direct Travel	0
Direct General Administration Costs	0
Subtotal	0
Consultancies	
Legal Fees	250,000
Other	0
Subtotal	250,000
Total Estimated Costs of the Service	877,331

Notes:

1. The budget assumes the minimum resources to reach a final decision. If stakeholder submissions are extensive, a further interim fee may need to be charged.

2. On-costs includes payroll tax, workers' compensation and staff entitlements for analyst staff working on the project.

3. The QCA's total overheads, excluding costs the QCA considers are not reasonable to be charged to regulated entities, have been allocated in proportion to the estimate of the direct costs incurred on this project.

4. On-costs include payroll tax, workers' compensation and staff entitlements (e.g. long service leave) for senior executive and corporate service staff.

5. General Administration Costs are overheads not otherwise specified above.