



an initiative of
Institute of Public Works Engineering Australia QLD Division
Local Government Association of QLD Inc.
Local Government Managers Australia
Australian Water Association

43-49 sandgate road
albion, qld, 4010

po box 2100
fortitude valley, bc, 4006

phone 07 3632 6854

email enquiry@qldwater.com.au
website www.qldwater.com.au

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Queensland Competition Authority
Level 27, 145 Ann Street
GPO Box 2257
Brisbane QLD 4001
Australia

Dear Sir/ Madam

RE: SEQ Long Term Regulatory Framework - Pricing Principles position paper March 2014

The Queensland Water Directorate (*qldwater*) is the central advisory and advocacy body within Queensland's urban water industry. Its members currently include 67 of the 71 local government or local government-owned water and sewerage businesses state-wide including all of the South-East Queensland utilities.

qldwater has consulted its members in South East Queensland in relation to the position paper, and all have indicated satisfaction with the opportunities given to provide feedback. We understand that all intend to provide a formal response. The concept of regulatory reform to reduce the reporting burden on water service providers is fully supported.

However, we offer the following specific comments:

The Minister's Direction Notice (Appendix A) includes the following statements which we do not believe have been fully addressed:

Conduct of the QCA pursuant to this referral

The development of the regulatory framework should consider the following over-arching principles:

- (a) *ensure the costs of implementing the regulator regime do not exceed the benefits and*
- (b) *sufficient co-ordination with other regulatory and regulatory review processes taking into consideration things such as Netserv plans, Total Water Cycle Management Plans, environmental regulation and land use planning and*
- (c) *taking account of the different characteristics, in particular, size of the DRs.*

(along with others addressing similar themes)

Costs vs benefits and size of DRs

The political decision to allow the functions of Allconnex Water to be returned to its owner councils is a matter for history, however the transitional arrangements are still being addressed and will take time to resolve.

Draft recommendation 6.1 in the position paper proposes that *“the council water businesses be subject to the same legislative and regulatory planning requirements as the DRs.”* The preceding narrative suggests that *“there is no evident reason for there to be differences in the regulatory obligations the entities must meet as SEQ service providers under the DR Act...”* and

“to assist long term investment, it is appropriate that council water businesses be covered only by the requirements placed on the DRs. This would reduce duplication and the complexity of the regulatory environment, thereby reducing the administrative burden on the councils. This could be achieved by providing an exemption to those requirements under the LGA that go beyond the requirement of the impositions placed on DRs.”

A balanced analysis should have included the option for removal of the regulatory burden imposed by the DR Act and deferment to the Local Government Act and it is the view of **qldwater** that the concerns raised by the councils impacted have been inadequately addressed. In addition, the analysis of the cost of QCA administering this regulatory regime (both direct QCA charging and internal costs to service providers) for the smaller councils is deficient.

The example of Redland City Council was discussed during the consultation process. The QCA direct costs and council costs to administer the framework are in the order of 2% of annual OPEX. Our interpretation of the minister’s direction is that the QCA advice needs to demonstrate that the regulatory framework will clearly lead to a greater than 2% cost improvement for Redland City customers.

The QCA’s recently released “SEQ Water Retailers’ Transition to the Light-handed Regulatory Framework assessment” implies the council is struggling to meet QCA expectations meaning that full compliance would be even more expensive. QCA should demonstrate that its process significantly benefits consumers of small council-run utilities compared with other Governance controls under the Local Government Act.

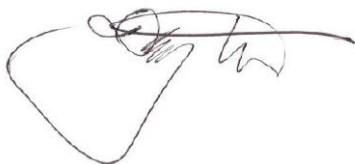
Coordination with other regulation

Page viii of the position paper recommends that entities report against 38 indicators including 9 “other” indicators which are not currently captured by the National Performance Report. Since this work commenced, there have been significant changes impacting the approach to collecting such information, including the abolition of the mandatory requirement for Strategic Asset Management Plans (from which some “other” indicators are drawn) and the announcement of the abolition of the National Water Commission, which administers the National Performance Report.

As advised throughout the consultation process, it is completely inappropriate to establish a separate Queensland Government reporting process to capture data for these indicators. The Department of Energy and Water Supply (DEWS) now has an established mandatory reporting process against a set of indicators and is also responsible for Queensland’s participation in the National Performance Report.

Some of the additional indicators are inappropriate, irrelevant or difficult/impossible to interpret and there is little justification (and no industry consultation) for their selection. Moreover, the commentary suggests that some indicators are already recorded in Customer Service Standards. Why then do they need to be replicated in this framework? We hold significant concerns that the QCA is proposing to replicate existing processes and does not have the capacity to assess and interpret the “new” indicators without building unnecessary costs into the framework. It was our understanding that agreement had been reached to allow DEWS to capture and prepare appropriate reports against any such indicators and no reason has been offered as to why this agreement should change.

Yours sincerely



Dave Cameron

A/CEO

dcameron@qldwater.com.au

ph: 07 3632 6854

mob: 0407 761 991

Copies to:

The Hon. Tim Nicholls MP, Treasurer and Minister for Trade

The Hon. Jarrod Bleijie MP, Minister for Justice

The Hon. Mark McArdle MP, Minister for Energy and Water Supply

qldwater