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8 February 2012

The Chief Executive Officer
Queensland Competition Authority
G.P.O. 2257
Brisbane Qld.4001
Attn. Ms Catherine Barker

Dear Sir/Madam,

The Queensland Competition Authority (QCA) has invited public comment regarding its Draft Report SEQ Interim Price Monitoring investigation for 2011/12, Parts A and B (the draft Reports). I refer to Submission #1 (dated 3 August 2011 with supporting correspondence) now posted on the QCA's web-site and draft Report Part A's Section 1.3 page 2 entitled *Approach - paragraph (a)*.

The draft Report's acceptance of an initial regulatory asset base (RAB) for Unitywater as advised by the former Minister for Natural Resources (now Minister for Water) appears inconsistent with *The Principles* set out on page (i) of QCA's *Statement of Regulatory Pricing Principles for the Water Sector (December 2000)* in respect to monopoly prices oversight. Such acceptance undermines the finding set out in Part A *Preamble* of page (ii) relating to Unitywater which could be fatally flawed from adoption of an inflated initial RAB mandated by the former Minister for Natural Resources and Ministers QCA. Acceptance of the initial 2008 RAB without independent verification makes the assertion "The Authority found no evidence of an exercise of monopoly power in 2011/12" of page (ii) potentially misleading, because independent verification necessary for such a public assurance has not been performed to date in the 2011/12 prices oversight investigation by the QCA.

Correspondence from the Treasurer (Ref: QTO-09535) dated 26 July 2010 and from the Queensland Water Commission (QWC) dated 22 July 2011 (Ref: ME/11/0396) asserts that a discounted cash-flow (NPV) methodology solicited from KPMG by the Queensland Government was used to determine non-current asset valuations for both Unitywater and bulk water assets purchased from SEQ councils as at 30 June 2008. Reliance on this NPV methodology appears at variance with Principle 3 (17) of the National Water Initiative's (NWI's) *Regulatory Principles for the Recovery of Capital Expenditures* that mandates use of the Optimised Deprival Value (DORC) approach set out on page 33 of QCA's *Statement of Regulatory Pricing Principles for the Water Sector*. Use of the NPV approach may have resulted in inflated RAB valuations for both Unitywater's non-current assets and SEQ Grid bulk water non-current assets throughout SEQ. Consequently capital recovery charges developed by the SEQ Grid Manager for 2011/12, could exceed maximum allowable revenues (MAR).

Correspondence from the Queensland Water Commission (QWC) (Ref: ME/11/0396) advises that the Minister for Water Utilities (formerly Minister for Natural Resources) is now Prices Regulator. Issues of possible official misconduct by senior managers of Maroochy Shire Council, Sunshine Coast Regional Council and Queensland Treasury resulting in manipulation of RAB to cover-up past and ongoing monopoly pricing abuse and involving past and present Ministers QCA are provided in Submissions #2, #14, #15, and #16. The Crime and Misconduct Commission (CMC) has declined to investigate potential ministerial misconduct involving past and present Ministers QCA, the Minister for Water Utilities, past and present Ministers for Local Government, and past and present Ministers for Natural Resources (see Submissions #5, #6, #7, #8, and #9).

I request that QCA reconsider the draft Reports' acceptance of Queensland Government mandated determinations of *The Initial Regulatory Asset Base* and Unitywater's 2011/12 RAB for the following reasons:

- Unitywater has set prices for 2011/12 without performing independent prices oversight of the initial RAB determination that is a requirement of the Queensland Government's Local Government Financial Standard;
- KPMG's discounted cash flow (NPV) approach for determination of the initial RAB has not been subject to independent scrutiny and verification by QCA;
- Prior period price monitoring reports also lack independent scrutiny of the initial RAB determination by QCA;

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- Transparency and independent scrutiny with respect to the derivation of *The Initial Regulatory Asset Base* and 2011/12 RAB is fundamental to providing stakeholder confidence that Unitywater's pricing for 2011/12 will not exceed maximum allowable revenues mandated under NWI Regulatory Pricing Principle agreements;
- The draft Reports' acceptance of an *Initial Regulatory Asset Base* at 1 July 2008 and the 2010/11 RAB without prior performance of independent prices oversight, prevents the QCA from performing its regulatory responsibilities in respect to consumer protection.

Whilst appreciating that web-page posting of Submissions #1 through #24 provides much needed public transparency, unfortunately not afforded by the Productivity Commission's Inquiry or the National Water Commission's 2011 Biennial Assessment, I request an independent forensic investigation of this documentary material for the following reasons:

- The Productivity Commission's Urban Water Sector Report #55 does not provide indication that such supporting documentation was considered;
- The National Water Commission's 2011 Biennial Assessment lacks any indication that any of this same material was considered, and no public transparency was afforded;
- Past investigations of possible official misconduct by 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 technical information provided (see Submission #2 correspondence dated 17 October 2000);
- The CMC has declined to investigate a ministerial misconduct complaint by the Coolum Beach Progress & Ratepayers Association relating to possible ongoing monopoly pricing abuse following MWS amalgamation into Unitywater (see Submissions #5, #6, #7, #8 and #9).

Efficient Resource Allocation

QCA's *Statement of Regulatory Pricing Principles for the Water Sector* page 34 requires the asset base to be optimised. There is no indication in draft Report's Part B Section 3.7 discussion that Unitywater's non-current assets have been subjected to independent optimisation verification. Correspondence to the Under Treasurer dated 24 May 2010 (included with Submission #15) provides a capital efficiency benchmarking comparison suggesting the Maroochy Water Services (MWS) infrastructure assets may have been unwarranted at the time of transfer to Unitywater.

Correspondence from the Treasurer's Office (QTO-00946 dated 4 February 2008 in Submission #15) describes a requirement set by the Ministers QCA in June 2005 that an optimisation study of non-current asset resource allocation of MWS be completed by the end of 2006. Maroochy Council at first agreed to perform this study by December 2006 and later declined on the grounds of anticipated institutional water reforms in SEQ.

In late 2006 Treasury advised the Ministers QCA to refer a May 2003 prices oversight request to the QCA for independent investigation. Correspondence from the Treasurer to Coolum Beach Progress and Ratepayers Association (TRO-19822 dated 16 November 2007), informed the Association of a decision by the Ministers QCA not to follow advice of Treasury to refer their prices oversight request on "*the basis of impending wide-ranging institutional reforms to water in S.E. Queensland – reforms which will capture MWS.*"

Earlier detailed studies into the optimisation of non-current asset resource allocation of MWS can be found in the MWS Advisory Board Agenda Reports (Ref. Items 9.2 and 9.3 of May 2002 Agenda Report). Given the utilisation rates for the most costly non current assets that are reported in Items 9.2 and 9.3 together with the narrative of events in QTO-00946, the Queensland Government's determination of initial RAB valuations should not be accepted without further efficient resource allocation verification studies.

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Benchmarking studies of comparative efficiency of the water and wastewater commercial entities of the Sunshine Coast and Caboolture for 2000/01 are reported as Items 9.5 and 9.6 in the MWS Advisory Board Agenda Reports of November 2002 (copies already submitted electronically). Item 9.5 (Section 3 p.3) addresses water investment efficiency for these four commercial business entities. Findings that the Maroochy and Caloundra water investment efficiency was inferior to that of Noosa in 2000/01 is significant considering that economies of scale are normally to be expected in such capital intensive businesses.

Summary

For the reasons discussed above, draft Report Part B's tables 3.30, 3.98 and 3.101 together with the findings of section 3.15, do not provide assurance to Coolum Beach households that Unitywater's 2011/12 prices will not exceed the maximum allowable revenue (MAR), and bulk water charges determined by the SEQ Grid Manager will not also exceed MAR.

Yours sincerely,

R.J.Koerner
Former external director MWS Advisory Board

Cc: Mr. Brian Parmenter
Chair Queensland Competition Authority
Mr. Kim Harrington A/g Manager
Parliamentary Services Unit – The Treasury

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9 September 2009

Department of
Infrastructure & Planning
Draft S.E.Qld. Climate Change Management Plan

Dear Sir/Madam,

You have invited public submissions on this draft management plan. I wish to offer the following comments:

Key Management Plan Elements

1) S.E.Qld. Regional Plan Population Projections

I refer to submission No. 0175 made for the draft S.E.Qld. Regional Plan 2009-2031 (the Plan) dated 6 March. Strategic forecasting issues raised in that submission were ignored in the final adopted Plan. It is noted that forecast additional dwelling construction in the final Plan for the Sunshine Coast Region was 98,000 by 2031, compared with the total of 98,500 suggested in the draft document.

That the Plan's population projections are now quoted in the Minister's foreword and on page 10 Section 2.4 of this draft document is surprising.

Approach Used*

The population projections published in the S.E. Qld. Regional Plan 2009-2031 report were prepared using three separate methodologies. A ratio share method was employed to prepare initial projections of total persons for each Local Government Area (LGA). A multi-region cohort component model was then used to produce projections by age and sex, at the same time allowing modification of the initial projections to improve consistency with the net migration and natural increase values for each LGA, which those projections imply. A housing unit model was used to explicitly incorporate residential land supply constraints within the projections for LGAs in South East Queensland. These methodologies were also used to produce population projections the S.E. Qld. Regional Plan 2005-2026.

*Preparation of these population projections also involved **considerable subjective assessment** of the results achieved at each stage of the production process. All LGAs in Queensland were consulted to provide local input in relation to future population change, while studies into specific industries such as mining, major projects planning, regional plans and other research were also used to provide data inputs and to assist with the production of quality projections. LGA projections take into account long-term trends in the primary components of population change and many secondary factors influencing population growth, however **the influences of short term activities or unusual events are not modelled**. For example, the models do not incorporate the effects of change in policy directions, war, natural disasters or change in economic conditions.*

The methodology considered the effects of major residential developments and major employment generating projects only, which biased the projections. The output from these simplistic modelling studies was always totally dependent on the quality of the input data and the underlying assumptions used. Those assumptions were not stated or tested using either scenario sensitivity analyses or econometric modelling techniques.

* Source: Queensland's Future Populations 2008 edition – Appendix J

Comment:

Use of a simplistic time series extrapolation forecasting methodology for such fundamental strategic planning projections is seriously flawed. It ignores critical environmental factors such as the business cycle, possible housing bubble effects impacting relative housing price competitiveness in S.E. Queensland vis-à-vis housing prices elsewhere in Australia, household debt and national debt trends, possible impact of changes in national immigration policy, Australia's future balance of trade trends, future transportation primary energy costs, global warming related emission trading outcomes, and climate change abatement cost impacts for future development and the like. Such economically related external environmental factors are far from being secondary in nature and the carry over of these flawed population projections renders achievement of desired regional outcomes of Table 3 page 12 harder and exacerbates the difficulty of effectively implementing the Management Plan.

The recent world financial meltdown was initiated by the collapse of a speculative housing bubble in the USA. According to a study by Roberto Cardarelli of the International Monetary Fund, Australia's house price gap from 1997 and 2007 that could not be explained by fundamental economic factors was in excess of 20%. That for the USA was about 10%, Ireland's was in excess of 30% and the UK close to 30%. Housing prices in Ireland, the UK and the USA are now deflating. A more recent article entitled "*The changing housing cycle and its implications for monetary policy*" Cardarelli et. al. (April 2008) suggest that central monetary authorities may have to intervene to ameliorate excesses arising due to housing investment speculation to prevent financial meltdowns in future. S.E. Queensland as a whole and portions of the Sunshine Coast Region in particular are prone to speculative development pressures and effects of these suggested changes in monetary policy would be significant.

2) Climate projections

Section 2.3 asserts "*Natural hazard and climate change risk or vulnerability assessments for SEQ will rely on the best available climate projections etc.*"

Comment:

Given such an assertion, it is surprising that no data are drawn from the report prepared by Maunsell Australia Pty.Ltd., in association with CSIRO Sustainable Ecosystems entitled, "*Impact of climate change on infrastructure in Australia and CGE model inputs*" (June 2008) in this draft. This report was commissioned during The Garnaut Climate Change Review and represents more specific and current climate projections for Queensland than the IPCC (2007) data that are cited as source for the projected sea level rise table appearing on page 9. Findings of the Garnaut Review suggest this table on page 9 may understate potential sea level rise by underestimating a significant contribution from melting of the Greenland and Antarctic ice sheets by 2100. Adoption of the precautionary principle would mandate considerably higher sea level rises than currently appear in that table.

3) Purported ecological sustainability aspects of S.E.Q. Regional Plan 2009-2031

Section 3 page 11 describes a vision and desired regional outcomes that cannot be achieved from adoption of the Southern Californian style of low density coastal focussed development stretching from Noosa to Coolangatta that is implicit in the SEQ Regional Plan.

Comment:

Continued reliance on the private motor vehicle for transportation cannot be assumed in the era of peak oil now forecast by most reputable energy experts, yet this is the unstated assumption implicit in the Regional Plan's urban footprint.

The worthy aspirations set down in Table 4 page 12 have not been achieved in the past, and adoption of the flawed population growth projections discussed above will make it most difficult to achieve them in the future.

4) Lead Agency Implementation Roles

The Minister and Department of Infrastructure and Planning (DIP) dominates all other agencies of Government in the implementation of most action plans quoted on pages 22, 23, 25, 26, 29, 31, 32, 33, and 35 of the Management Plan.

Comment:

Given a clear conflict of interest that exists between DIP's primary role relating to unsustainable short-term job creation in S.E. Queensland, this is surprising. The Government has already established a Ministry for Climate Change and Sustainability. The absence of any role for this Ministry in the drafting of the Management Plan or in its implementation raises the question as to whether the Queensland Government is serious about making communities more resilient to the possible impacts of climate change, or reducing regional greenhouse gas emissions. Rather it suggests that the establishment of that Ministry was a political ploy designed to allay legitimate community concerns regarding the likely future impacts of global warming and climate change in S.E. Queensland.

Yours sincerely,

R. J. Koerner