

Date: 28 February 2012
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Mr EJ Hall
Chief Executive
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Hall

Allconnex Water's comments on the *SEQ Interim Price Monitoring for 2011/12- Draft Report*

Allconnex Water appreciates the opportunity to provide comment to the Queensland Competition Authority (the Authority) regarding the *SEQ Interim Price Monitoring for 2011/12- Draft Report* (Draft Report).

It is acknowledged that the Draft Report confirms that Allconnex Water is substantially below its Maximum Allowable Revenue for both water and wastewater services, has complied with the CPI price cap and that there is no evidence of an exercise of market power for 2011/12.

Allconnex Water generally accepts most of the Authority's findings and recommendations; however there are some specific items to which Allconnex Water provides comment for the consideration of the Authority (see Attachment 1).

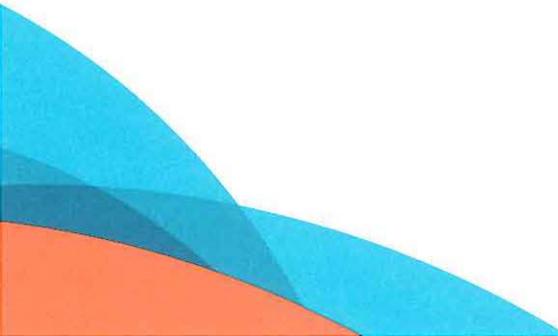
Allconnex Water has also provided updated information requirement templates to enable a reconciliation with our 2010/11 statutory accounts.

If you require any further information regarding this response please do not hesitate to contact Sean Mackay, Manager Pricing on (07) 5570 7210 or email: sean.mackay@allconnex.com.au.

Yours faithfully

A large black rectangular redaction box covering the signature of Andrew Foley.

Andrew Foley
Chief Executive Officer



Attachment 1 Allconnex Water's specific responses to the report

Average Prices

The QCA's analysis confirms that the retail and distribution components of water and wastewater prices for households and small businesses have increased by 3.6% and that Allconnex Water has complied with the CPI price cap for 2011-12.

Allconnex Water therefore believes that the use of an average price analysis between 2010-11 and 2011-12 is misleading, as it may convey that Allconnex has recovered more than was allowable through its 2011-12 prices.

Operating Cost Efficiencies

While Allconnex Water accepts the concept of a reasonable efficiency target, it considers that the QCA's target of 2% per year may not be achievable across all non-bulk categories in the short to medium term. This is due to certain costs being relatively fixed in this period.

For example:

- Labour costs are relatively inflexible due to the existing workforce framework and prescribed EBA increases
- Service Level Agreements with participating Councils are generally fixed costs

Additionally, the efficiency factors applied do not take into account that Allconnex Water's operating budget underwent a series of reviews and reforecasts to reduce operating expenditure before a final operating budget was finalised. This included the decision to not apply growth to expenditure forecasts for demand / connection related expenditure, resulting in an implied reduction in associated costs of around 2.5% per annum. Also considered was a reduction of employee costs to take into account expected vacancies.

Further, as part of a benchmarking exercise undertaken by the QCA's independent consultants, Allconnex water's corporate costs were assessed to be substantially below its regional counterparts on all measures. All items of operating expenditure sampled as part of the review were also assessed as being prudent and efficient.

Unfortunately, due to the dis-establishment of Allconnex Water, the reduction of costs through efficiencies of scale, increased purchasing power and working across local government boundaries, individual councils may lose the opportunity to provide water and wastewater services more cost effectively.

Capital Expenditure

Allconnex Water acknowledges that the QCA's report has deemed all sampled capital projects as being prudent, with all but one also being deemed efficient.

The only project not to be deemed efficient, *Operational Management Program*, is a project that is no longer proceeding due to the dis-establishment of Allconnex Water.

The draft report also makes comments (p 161) regarding the *Billing System Project* and that testing and migration activities for the Gold Coast are continuing. Allconnex Water advises that these activities are no longer occurring with Gold Coast City Council (i.e. this project has been halted indefinitely).

Rolling Forward the Regulatory Asset Base (RAB)

The QCA in its draft report (p141) states that the RAB at 30 June 2010 remains an interim value. Allconnex Water requests the Authority to expedite the finalisation of the opening 1 July 2010 RAB to provide certainty to our Participating Councils.

Additionally, Allconnex Water seeks the opportunity to review any 'RAB roll forward' calculations (due to updated 2010-11 actuals) before the Authority's final report is released. This would allow confirmation of the methodology and would assist in providing appropriate data to our Participating Councils.

Allconnex Water acknowledges the QCA's comments that commissioned capital expenditure should include capitalised interest (p147).