

2 February 2016

Professor Roy Green
Chair
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Professor Green

2016 QCA Fee Framework Consultation

Thank you for your letter of 11 January 2016 to Ms Louise Dudley providing an opportunity to comment on the Queensland Competition Authority's (QCA) Draft Fee Framework that will apply from 2016/17. Ms Dudley has asked that I respond to your letter. Please accept the following comments as Queensland Urban Utilities (QUU) submission to the draft framework consultation.

Summary

QUU notes the QCA is reasonably entitled to levy fees on specific regulated industries in order to fund the majority of its services and functions. It is imperative however that those costs incurred by the QCA are reasonable and efficient and fee allocations directly reflect the QCA's actual costs of performing its services and functions for that industry.

In this regard, QUU notes the following key points:

- The QCA ought to ensure transparency in its fee allocation methodology by annually publishing a proposed future scope of works and establish fee guidance for user charging of its services.
- The current economic regulatory uncertainty that exists in the SEQ water sector and the QCA's consequently reduced scope of activities should be accounted for in calculating regulatory fees.

Apportionment of fees and pass-through mechanism

With specific reference to the QCA's proposed treatment of the SEQ water entities, QUU is supportive of the QCA's consistent and principles based approach to determining interim regulatory fees by apportioning the annual fee equally across the five SEQ water retailers. QUU is of the view that this approach is desirable while uncertainty prevails regarding the regulatory process in the SEQ water sector. QUU is satisfied that any under or over recoveries can be managed as a true-up at the end of the period and netted off against future fees. Importantly, as the QCA acknowledges, any fee framework must provide regulated entities the opportunity for full recovery of fees from customers through a pass-through mechanism.

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Since customers are the ultimate financier of regulatory fees, it is important that the costs incurred by the QCA are reasonable and efficient. QUU remains focused on delivering a quality and cost competitive service to its customers. In this respect, QUU would welcome the opportunity to work collaboratively with the QCA and its consultants to minimise duplication of effort and incursion of added costs to our customers.

Basis for calculating fees and supporting documentation

With respect to the fee structure period, QUU supports the proposed annual levy as this provides the QCA with a period of certainty associated with the allocation of costs to industry. Moreover, QUU notes the proposed regulatory fee charging regime will be forward looking and calculated by the QCA based on its estimate of the actual cost of performing functions in respect to that entity over the coming year. In which case, a short time horizon of one-year provides the QCA with greater transparency on its forecast costs and in which case the regulatory fees levied on industry are more likely to closely reflect actual costs incurred.

Correspondingly, if the QCA is to set fees on a one-year forward looking basis, good regulatory practice would require the QCA to present in advance clear, transparent and well-supported reasoning for its regulatory fees through the provision of a robust annual work program that was reflective of the proposed fees to be levied on industry. QUU recommends the QCA prepare an annual forward-looking Statement of Works that outlines its proposed future scope of works for each industry/sector as a means of justifying its fees.

Moreover, the QCA ought not to set the level of their cost recovery fees, or the scope of activities that incur fees, without arm's-length oversight. These fees and the scope of activities subject to fees should be in accordance with the policy objectives and fees guidance set by government or, as QUU understands these are not in place, the Organisation for Economic Cooperation and Development's Best Practice Guidelines for User Charging for Government Services. QUU recommends the QCA commence an engagement with Queensland Government to establish guiding principles for calculating user charges of its services with the objective of not only achieving cost recovery from users, but also to ensure the QCA's service offerings are effective and efficient.

Staged implementation of a long-term fee framework

QUU notes the services and functions the QCA undertakes are outlined in schedule 1 of the *Queensland Competition Authority Regulation 2007 (Qld)* (the Regulation) and that QCA's operations are mostly industry funded. Notwithstanding QUU's broad support for the proposed fee framework, QUU notes any material changes to the long-term fee structure should be through a staged implementation where the structure is consistent with a new and fully implemented economic regulatory framework for SEQ water entities.

Review of fees

Current regulatory fees must account for the absence of an economic regulatory framework for SEQ water entities. For 2015/16 QUU is being levied approximately \$150,000 for QCA's regulatory services. QUU notes however, the existing regulatory uncertainty in the SEQ water sector has translated into limited services and functions provided by the QCA in 2015/16 with respect to the SEQ water retailers. This reduced role for the QCA is likely to be reflected in actual costs of delivering regulatory services being lower than the estimated fees charged. Accordingly, over-recoveries in 2015/16 ought to be netted off against regulatory fees for 2016/17.

Should you have any questions in relation to this letter or QUU's position with respect to the proposed fee framework, please do not hesitate to contact Mr James Benjamin, Manager Economic Regulation and Pricing on 07 3855 6161 or james.benjamin@urbanutilities.com.au.

Yours sincerely



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cc: Ms Robyn Farley-Sutton
Director Corporate Services
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