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Strategic Management / Econometric Market Analysis -

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Dear Sir/Madam,

The Queensland Competition Authority (QCA) has invited public comment regarding its Draft Report SEQ Interim Price Monitoring for 2010/11-Part B (the Report).

I refer to the submission dated 26 August 2010 with supporting correspondence now posted on the QCA's web-site (Original Submission) and the Report's Section 3.5 page 149 entitled *The Initial Regulatory Asset Base(RAB)*. Paragraphs under the heading *Stakeholder Submissions* (pps. 149-150) of the Report make several assertions attributed to the Original Submission that are incomplete.

Manipulation of the written down replacement value of non-current distribution assets of Maroochy Water Services resulting from revaluations unrelated to QCA's mandated Optimised Deprival Value (ODV) approach appear in the 2002/03, 05/06 and 06/07 financial reports of Maroochy Council in addition to the period just prior to its amalgamation into Sunshine Coast Water.

Correspondence from the Treasurer (Ref: QTO-09535) states that KPMG applied a discounted cash-flow methodology to determine non-current asset valuations for SEQ bulk water assets purchased from S.E.Qld. councils as at 30 June 2008. Capital recovery charges developed by the Queensland Water Commission for pass through in bulk water charges, endorsed by the Minister Natural Resources, are likely to also be at variance with those determined using the ODV methodology mandated in NWI agreements. QCA should be aware that a revaluation increment of \$246 million is recorded for dams and weirs in the 2009/10 financial report of the Queensland Bulk Water Supply Authority.

The Report is silent regarding *The Initial Regulatory Asset Base* determinations of the Queensland Government raised by other stakeholders apart from the QCA's decision to accept the Minister of Natural Resources determinations expressed in the final paragraph of Section 3.5, thus accepting removal of all determination transparency.

I request the QCA to reconsider its decision to accept Queensland Government mandated determinations of *The Initial Regulatory Asset Base* and Unitywater's 2010/11 RAB for the following reasons:

- Unitywater has set prices for 2010/11 without performing prices oversight of the 2010/11 RAB mandated by the Queensland Government;
- The Minister's QCA terms of reference require the Report to provide transparent information to consumers about the costs (including capital recovery) and other factors underlying the annual increase in water and wastewater prices;
- KPMG's discounted flow approach cited by the Treasurer is not available in the public domain nor has the 2010/11 RAB derivation mandated by the Queensland Government been subject to detailed scrutiny by QCA;
- Prior period price monitoring reports by QCA have lacked RAB scrutiny and the Treasurer's Office has not provided clarifications requested in correspondence dated 30 July 2010;
- Transparency and independent scrutiny with respect to the derivation of *The Initial Regulatory Asset Base* and 2010/11 RAB is fundamental to providing stakeholder confidence in Unitywater's pricing processes.

It is noted that the QCA has a regulatory responsibility to have regard to *the protection of consumers from abuses of monopoly power* (QCA's "Statement of Regulatory Pricing Principles for the Water Sector Section 4.1 page 17). Transparency with respect to the derivation of *The Initial Regulatory Asset Base* and 2010/11 RAB used by Unitywater to determine capital related charges is essential for QCA to carry out this regulatory responsibility.

This draft's acceptance of an *Initial Regulatory Asset Base* at 1 July 2008 and the 2010/11 RAB determined by the Minister for Natural Resources without prior performance of independent prices oversight, prevents the Report from fulfilling transparency requirements cited above, and prevents the QCA from performing its regulatory responsibilities with respect to consumer protection.

Yours sincerely,

R.J.Koerner

Cc: Productivity Commission's Urban Water Sector Inquiry