

FACTSHEET: Monitoring of south east Queensland Retail Water and Wastewater Prices and Costs for 2012-13

The Queensland Government directed the Queensland Competition Authority to monitor the prices, costs, and revenues of Queensland Urban Utilities and Unitywater in 2012-13.

The Authority has now released its Final Report.

Residential Prices and Bills

There are five water and sewerage providers across south east Queensland. For 2012-13, the Queensland Competition Authority (QCA) has been directed to monitor only two of the providers, Queensland Urban Utilities (QUU) and Unitywater.

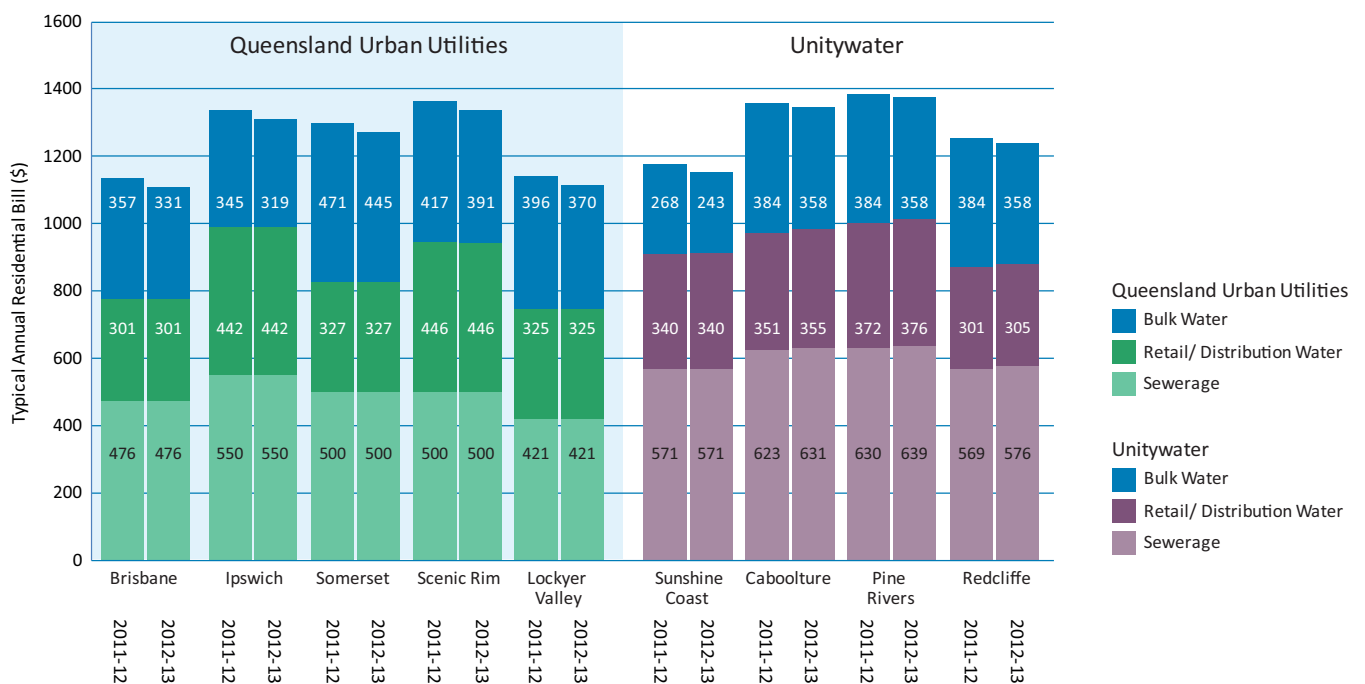
QUU and Unitywater are responsible for distribution and retail of water and sewerage services within south east Queensland. These services include distributing treated water to households and businesses, treating and disposing of sewage and other wastewater, and issuing bills. QUU services Brisbane, Ipswich, Somerset, Scenic Rim, and Lockyer Valley. Unitywater services the Sunshine Coast and Moreton Bay.

Residential water and wastewater prices vary across QUU and Unitywater's service areas. However, a typical residential bill has two main components – a distribution/ retail and a bulk component.

QUU and Unitywater set distribution and retail prices. QUU and Unitywater froze the distribution and retail component of residential prices for 2012-13. Moreton Bay Regional Council reduced its residential subsidy. The QCA found that the distribution and retail prices for residents and small businesses complied with the CPI (consumer price index) cap of 1.3% imposed by the Queensland Government for 2012-13.

Bulk water prices are set by the Queensland Government. A one-off State Government Bulk Water Rebate of \$80 was provided to households in 2012-13.

Figure 1. Changes in Typical Residential Bills in 2012-13



Note: Residential bills based on 200 Kilolitres of water use per year, and have been reduced to reflect the bulk water rebate for 2012-13.
Source: QUU (2012) and Unitywater (2012)

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Costs of Supply

The costs of providing water and wastewater activities include distribution and retail costs, and bulk water costs. The distribution and retail costs include operating and capital costs. The capital costs relate to the cost of infrastructure necessary to deliver services. These capital costs include depreciation (return of capital), an allowance for the cost of debt and a return for the risks involved (return on capital).

The components of QUU's and Unitywater's budgeted costs are shown in the figure 2.

Figure 2. QUU and Unitywater's Budgeted Costs for 2012-13

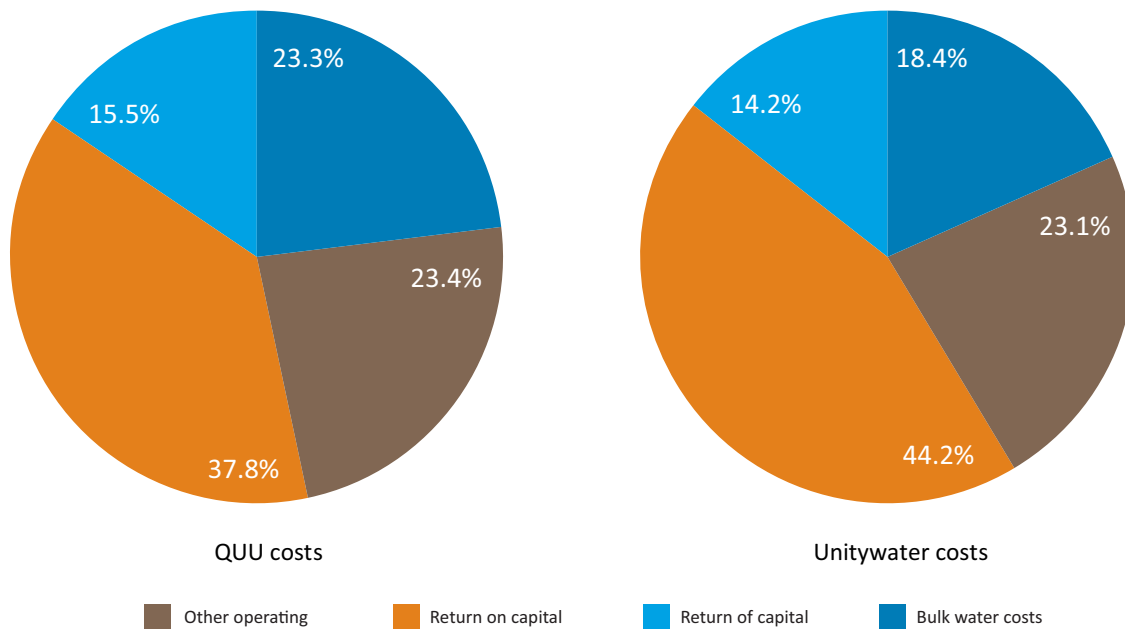
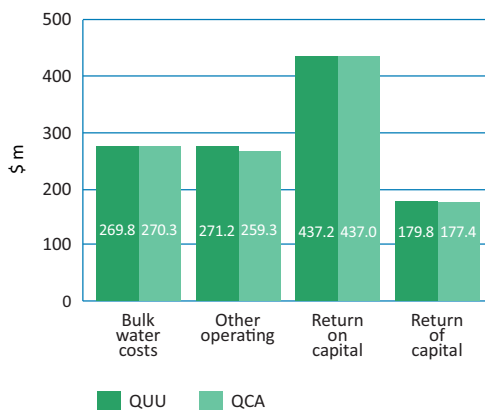
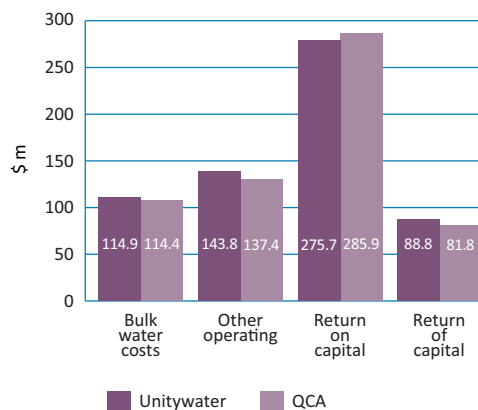


Figure 3. Comparison of Budgeted and QCA Cost Categories (\$m 2012-13)

QUU and QCA Costs for 2012-13



Unitywater and QCA Costs for 2012-13



Note: Does not include adjustments for indexation and capital contributions

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Prudent and Efficient Costs

The QCA independently investigated QUU and Unitywater's budgeted costs. The Authority concluded that these could be reduced by \$14 million for QUU and \$6 million for Unitywater (less than 2% of total costs). The comparison of budgeted and QCA cost categories is shown in figure 3.

Market Power

QUU and Unitywater's revenues are below the Authority's estimate of the revenue required to recover prudent and efficient costs. As a result, the Authority found no evidence of an exercise of monopoly power in 2012-13.

Progress under Price Monitoring in 2010-13

Over the three-year price monitoring period, the transparency and review provided by price monitoring has contributed to an environment which has constrained the distribution and retail entities from exercising their market power and reduced their costs of service delivery.

The entities subject to price monitoring (including Allconnex in 2010-11 and 2011-12) reduced their capital expenditure estimates over the three-year period by around \$1.1 billion and operating expenditure estimates over the period have fallen by \$127 million from those originally forecast.

The Authority will work with the entities to address a number of issues which remain outstanding in the upcoming 2013-15 review.

Future Price Monitoring 2013-15

The QCA will monitor water and wastewater prices, costs and revenues for 2013-15 in Logan, Redland, and Gold Coast City Councils as well as for QUU and Unitywater.

Further information on that review is available from the Authority's website.