

#### FACT SHEET

# Final Report: Long-term regulation of SEQ retail water prices

The Government has asked the Queensland Competition Authority (QCA) to recommend a new regulatory framework for monitoring water retailers in south east Queensland from 1 July 2015.

Since 2010-11, the QCA has monitored water retailers' prices and costs in south-east Queensland. Price monitoring has confirmed that retailers are not using monopoly power to set prices higher than necessary. Successful price monitoring over the last four years gives the QCA the confidence to now recommend a simpler, cheaper system of regulatory oversight.

After extensive public consultations, the QCA is recommending a 'light handed' approach to future price monitoring. The recommendations are contained in the QCA's report SEQ Retail Water Long-Term Regulatory Framework.

#### Five retailers

Five water retailers are responsible for the distribution and retail of water and sewerage services in the ten SEQ local government areas. The retailers are Unitywater, Queensland Urban Utilities, Logan City Council, Redland City Council and Gold Coast City Council.



### Recommended approach to regulation

The QCA recommends that each year retailers report their performance against prices (costs where relevant), customer engagement practices, a strategic approach to long term investment and service quality indicators. While retailers already report on some of these indicators, the QCA framework would mean consistent, comprehensive reporting by all retailers. Making this information accessible and transparent will help inform customers (see diagram below). Government agencies will be better placed to monitor the performance of the businesses, including changes in their prices and service standards.

#### Incentives for performance

The new approach will include strong incentives for retailers to deliver ongoing efficiency improvements. Annual changes in water and sewerage prices would be measured against price increases in the broader economy (CPI), less an adjustment for expected efficiency gains (X). This CPI-X approach will also allow customers to compare the performance of their retailer against other retailers. If a retailer's performance raised concerns about the possible use of monopoly power, the QCA would have the option of undertaking a cost of service review and/or intervening to set prices.

#### Why light-handed monitoring?

The light handed approach offers customers the security of regulatory oversight at a lower cost than past reviews. The new approach would focus on assessing retailers' performance on a broad range of indicators and avoid the need for further, costly reviews of each business' expenditure. We expect regulatory costs will be halved without compromising consumer protection.

#### Recommended approach to regulation

#### Prices

Water retailers must identify annual changes in prices for comparison with CPI-X.

If price increases exceed CPI-X, further information should be submitted to justify the changes.

Prices will also be assessed against QCA's pricing principles.

#### Service quality

Water retailers must report against 20 indicators that are relevant and meaningful to residential and non-residential customers.

## Performance Monitoring

#### Customer engagement

Water retailers must develop a customer engagement strategy including the creation of a customer consultation committee.

#### Investment strategies

Water retailers must demonstrate:

- · effective strategic planning in their Netserv plans
- · co-ordination with planning requirements
- compliance with asset management standards
- appropriate project evaluation methods used to ensure the efficiency of long-term investments.

### **Pricing principles**

The QCA has released a set of pricing principles to apply for water, sewerage, trade waste, recycled water and stormwater reuse. Applying these principles will promote transparent, efficient pricing. Many of the principles identified by the QCA are already accepted and in use by retailers.

Retailers will have the discretion to depart from these principles. However, retailers will be expected to explain such departures in their annual reporting.

#### **Transition**

In light of their past performance, we recommend that Unitywater, QUU, Gold Coast and Logan City Councils should move to annual performance monitoring from 1 July 2015. Redland City Council is addressing concerns related to its pricing model. These issues will need to be resolved before the first annual reports are due in October 2015.

#### More information

Our final report, position papers and submissions made in response to position papers are available on our website: qca.org.au/water