

5 July 2019

Attention: Mr Darren Page
darren.page@qca.org.au

Professor Flavio Menezes - Chair
Queensland Competition Authority
GPO Box 2257
BRISBANE Q 4001

Re: Sunwater Water Pricing Changes

Dear Professor Menezes

Thank you for your recent communication advising Sunwater's revised proposal including cost blocks for the bulk water schemes in the Wide Bay Burnett Region.

We are in the process of analyzing the information contained in this material but our early impressions indicate the following concerns with Sunwater's revised proposal.

1. The principle of Sunwater revising its proposal 5 months after the initial stakeholder workshop seems to be counter to a transparent and efficient process of engagement of stakeholders. It gives an impression of allowing 'two bites at the cherry' and suggests that Sunwater's forward horizon on cost-efficiency may lack the foresight or capacity required to offer stability in pricing of an essential service. It effectively condenses the consultation period even further than the planned release of the draft recommendation by August 31st, allowing a few weeks for analysis and preparation of stakeholder responses for a second round of workshops in early October. This presents a challenge to the capacity of both individual and regional stakeholder groups to prepare well-considered and factual counter-argument in the face of shifting goal-posts.

WBBROC proposes that there should be a similar extension to the review period prior to the stakeholder workshops to facilitate greater transparency and fairness.

2. The five-year pricing review period compounds the impact of 'retrospective' recovery of extraordinary costs that accrues historical inefficiencies and costs. This is particularly so when there are large intervening upward price adjustments as is the case in the current review. While WBBROC supports the National Water Initiative's 'user-pay' and 'cost-reflective' pricing principles, there needs to be an accommodation to facilitate both the immediate sustainability and the development or transition of water-dependent industries. This should be accommodated through CSO or transparent subsidies identifying the alternate costs of socio-economic decline resulting from exorbitant price increases. It is suggested that unless the pricing review process is reformed, the issues facing both Sunwater and its customers will continue to re-materialize under the 5-year review cycle.

Member Councils: Bundaberg Regional Council, Cherbourg Aboriginal Council, Fraser Coast Regional Council, Gympie Regional Council, North Burnett Regional Council, South Burnett Regional Council

Any price adjustments approved should be annualised to smooth the impacts on customers who typically work to a multi-year production-oriented budget.

WBBROC proposes that if extra-ordinary changes (e.g. insurance and electricity) are projected in Sunwater's Annual Reports, a review should be triggered to mitigate the sudden rise in the price glide-paths proposed.

3. Bulk water customers have no opportunity to change service providers and are therefore disadvantaged by any monopolistic inefficiencies or strategic planning failures. National Competition Policy requires monopoly service providers to "**prevent the misuse of monopoly powers of Government business activities**" and while WBBROC is not suggesting that there is any intentional misuse of power, a reasonable interpretation of the term 'misused power' include the failure to apply commercial due-diligence in prudent and efficient operation of State-owned assets and resources. This is particularly concerning in relation to the high rate and quantum of increases for regional and head-office corporate services proposed by Sunwater. WBBROC's contention is that a disproportionate share of 'cost-risk' is borne by customers under the current monopoly service arrangement. Any pass-through of costs without careful assessment of prudence and efficiency substantively insulates Sunwater from commercial risk and thereby constitutes an effective misuse of power. The current 5-year annual average increase in user-charges is over 13% for the WBB significantly exceeding CPI forecasts.

WBBROC proposes that any price increases above CPI should trigger an independent efficiency review to ensure compliance with NCP.

4. WBBROC is concerned that the opportunity for Sunwater to revise its proposal precludes a fair and transparent process of stakeholder engagement. Sunwater has a stated policy of being "**committed to managing our business through clear accountabilities and being transparent with all of our stakeholders**" however, it is concerning that Sunwater has removed access to a significant number of historical scheme-related documents from its website during the course of this review. This has frustrated the preparation of well-considered stakeholder responses within the time-frame proposed and gives rise to ongoing concerns over Sunwater's intentions.
5. The glide path proposed by Sunwater is heavily skewed to the year 2021 when some scheme prices will be dramatically increased by over 120% to meet cost-reflectivity. Cost increases should be smoothed over the full five-year cycle to reduce the effect of introducing artificial cost-pressures on customers. The referral to QCA included a requirement that; "**balancing the legitimate commercial interests of the businesses with the interests of their customers, including considering less than cost reflective volumetric prices which are necessary to moderate bill impacts for customers**".

While customers generally accept these as inherent risks, the coincidence of these pressures in the local economy represents an emerging existential threat to bulk water customers, industry sectors and the regional economy. These pressures are already reflected in the low rate of utilization in the Burnett and Mary basins and will be further accentuated by any exorbitant price increases.

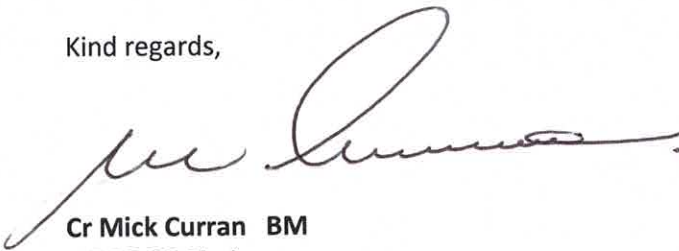
The longer-term effects of a 'peaky' glide path could well include an accelerating and irreversible structural decline in the bulk water market rendering some schemes commercially unviable (e.g. Paradise Dam).

WBBROC is of the strong opinion that both the quantum and glide-path proposed by Sunwater are contrary to the referral's instruction and should be considered in context with externalities such as high rates of unemployment, recurrent drought, rising electricity costs and depressed commodity prices across the Wide Bay Burnett.

WBBROC will be meeting with Minister Lynham in the next few weeks and will be raising these and other concerns directly.

Please feel free to contact Steve Brown, WBBROC's Regional Water Coordinator on 0421 951 929 or email steve.brown@wbbroc.org.au if you or your department have any further queries on this matter.

Kind regards,



Cr Mick Curran BM
WBBROC Chair

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c.c. Anthony Lynham, Minister for Natural Resources, Mines and Energy
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