

27 March 2020

Professor Flavio Menezes
Chair
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Professor Menezes

GLADSTONE AREA WATER BOARD PRICE MONITORING INVESTIGATION

1. Background

We refer to the price monitoring investigation being undertaken by the Queensland Competition Authority (QCA) into the submission by Gladstone Area Water Board (GAWB) in relation to the bulk water price review for the period 1 July 2020 to 30 June 2025 (GAWB's **Submission**). We wish to thank you for the invitation to make a submission in relation to QCA's draft report and in particular the topics in section 1.2.3.

2. QCA's Draft Report

We would respond as follows:

(i) Under-recovery of revenues

We understand from Part B of GAWB's Submission that the redacted breakdown of accumulated revenue under-recovery at Table 2.1 is representative of each customer's historic reservation, services provided by GAWB and the period during which they have taken supply.

In our submission to QCA of 25 November 2019, we submitted that QCA should request further information from GAWB on the methodology to be applied in determining any additional payment in respect of the under-recovery. In response, QCA provided information at Appendix A of Part B of QCA's draft Report.

Whilst Appendix A helpfully sets out principles that have been applied by GAWB in relation to the proposed under-recovery, it does not explain the way in which the proposed additional payment has been calculated or applied to us. We have requested this information several times directly from GAWB but to date it has not been provided.

If GAWB is to follow its key principle in seeking revenue recovery, i.e., that "*The mechanism needs to be transparent and easy for all stakeholders to understand and administer.*",¹ it is submitted that this information needs to be provided to customers.

¹ GAWB Submission, Part B, Section 2.1.2(4).

We also note that QCA considers that, if GAWB were not to recover its under-recovered revenue, this would not adversely affect GAWB's financial health. Given the current and forecast economic climate, we consider it appropriate to ensure GAWB's domestic and industrial customers are not adversely impacted during the 2020 – 2025 pricing period.

(ii) **Five-Year Pricing Smoothing**

If GAWB were to agree not to recover or only partially recover its under-recovered revenue to date, we would concur with QCA's finding that going forward it is appropriate to align the regulatory and price smoothing periods at five years to prevent the further accumulation of under-recovery.

(iii) **Review Triggers**

We concur with QCA's finding that adjustments to demand should not be an eligible review trigger given that customers already bear most of this risk.

(iv) **New Connections and Capital Contributions Framework**

We concur with QCA's view that the treatment of dedicated connection assets is a commercial matter for negotiation between GAWB and new connecting customers, noting only GAWB's history of capital cost overruns and the lack of safeguards or incentives to ensure GAWB stays within budget should GAWB undertake the connection.

(v) **Pricing Disputes**

We confirm that it has indeed been our expectation that in the event of a pricing dispute QCA could intervene to resolve it as set out in the dispute resolution provisions of our Water Supply Contract. In the absence of any amendment to the QCA Act (which we would strongly support), we further confirm that we shall seek to renegotiate the terms of our Water Supply Contract with GAWB to include enforceable provisions.

(vi) **Recreational Strategy**

We fully support those elements of GAWB's recreational strategy which represent prudent environmental practices or are necessary for compliance with the conditions of GAWB's environmental approvals. However, we do not consider it appropriate that customers pay for GAWB's discretionary projects or community initiatives. As another stakeholder has noted,² GAWB's industrial customers including APLNG already make significant and lasting investments to the community.

Should you have any queries in relation to this submission, please contact Natalie Bower on +61-7-3182-7144 or Natalie.Bower@conocophillips.com.

Yours sincerely



Dirk Faveere
Downstream Operations Manager

² WICET Submission of 28 October 2019.