

February 2020

Price monitoring investigation—initial findings

Why are we conducting this investigation?

The Gladstone Area Water Board (GAWB) provides bulk water to industrial and power generation companies, as well as the Gladstone Regional Council.

As some of GAWB's activities have been declared as monopoly business activities, the Queensland Competition Authority (QCA) oversees the prices GAWB charges, to ensure customers have access to bulk water at prices that reflect prudent and efficient costs.



The Treasurer directed us to:

- conduct a price monitoring investigation of GAWB for the next five-year regulatory period (1 July 2020 to 30 June 2025), and
- provide advice on measures to address GAWB's accumulated under-recovered revenues.

We are summarising the initial findings of our investigation in this document, and invite stakeholders to comment. Our initial findings on the accumulated under-recovered revenues are outlined in a separate document, which is available on the QCA [website](#).

What are our initial findings?

Our draft report includes the initial findings of our investigation. We may change and/or refine these findings for our final report based on new information and stakeholders' submissions. Our findings are meant to inform stakeholders; they do not determine the prices, nor directly bind the Treasurer or GAWB.

GAWB submitted a pricing proposal for the 2020–25 regulatory period. We assessed GAWB's proposal and found its proposed costs to be broadly appropriate.

Rate of return

GAWB's proposed weighted average cost of capital (WACC) is below the WACCs of comparable water entities, and is only slightly higher than our estimate. We therefore consider the proposed WACC of 4.57% is appropriate at this time.



However, we consider that some adjustments should be made to the following:

Operating expenditure

We do not consider all of the proposed operating expenditure (opex) prudent and efficient. We find that forecast opex should be 8.5%, or \$14.8 million, lower than GAWB's proposal (\$158.5 million instead of \$173.2 million).

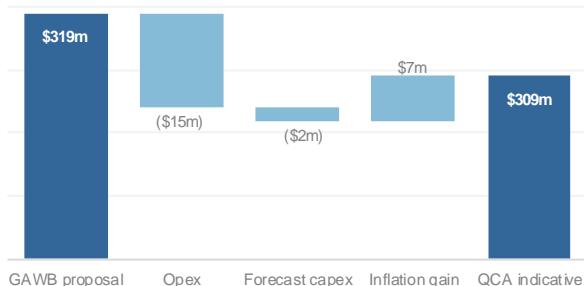
Capital expenditure

We do not consider all of GAWB's proposed capital expenditure (capex) prudent and efficient. We find that forecast capex should be 12%, or \$22 million, lower than proposed (\$156.7 million instead of \$178.7 million).

Revenue requirement

We calculated a lower indicative revenue requirement for the 2020–25 pricing period than GAWB proposed (\$309 million instead of \$319 million). This is because of our lower forecast of prudent and efficient opex and a lower net effect on forecast capex, which is partly offset by a higher inflation gain (see part A, chapter 10 of the draft report for details).

Revenue requirement 2020–25: GAWB and QCA (\$ nominal)



Note: The Curtis Island pricing zone is not included. The forecast capex (\$2m) represents the revenue impact from the difference between GAWB's proposed forecast capex and our calculated prudent and efficient forecast capex (i.e. the change to regulatory depreciation and return on assets related to the \$22 million reduction in forecast capex).

What price impact do we expect?

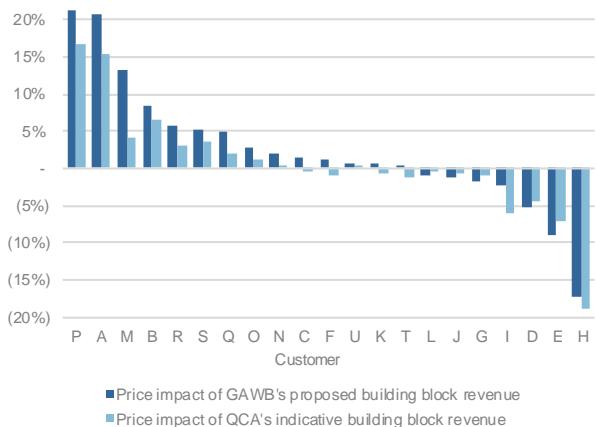
Based on our calculations of required revenue and forecast demand, we calculated indicative prices for the 2020–25 regulatory period. The prices for 2020–21 are:



- 1% higher than the prices proposed by GAWB for the Awoonga pricing zone
- 1% to 6% lower than the prices proposed by GAWB for all the other pricing zones.

The indicative revenue requirement we calculated mainly results in reductions to customers' price impacts, reflecting the fact that it is \$10 million less than GAWB's over the 2020–25 regulatory period, or \$1.4 million less for 2020–21.

Real price impact for customers in 2020–21: QCA's indicative prices versus GAWB's proposal



Note: The impact of capitalising the under-recovery associated with the Awoonga Dam augmentation is not included in the figure.

This investigation is a price monitoring review. We do not set or recommend prices that GAWB charges to its customers. Actual prices for individual customers are set by GAWB, subject to contractual arrangements.

Ratepayers' water prices are set by the Gladstone Regional Council. As the bulk water price the council pays is only one component of these prices, it is not possible to draw conclusions on the changes to ratepayers' water bills from the indicative bulk water prices.

Where can you find out more?

Our draft report is on the QCA [website](#) in two parts:

- Part A—GAWB price monitoring 2020–25: Overview
- Part B—Advice on GAWB's accumulated under-recovery



A summary of our initial findings of Part B of the draft report can also be found on the QCA [website](#).

What happens next?

Public involvement is a key part of our review.



Our draft report gives stakeholders an opportunity to review and comment on our proposed approach and findings, before we finalise our report and provide it to the government by 29 May 2020.

We invite stakeholders to comment on this draft report. **Submissions** can be made on our [website](#), and are **due by 27 March 2020**.

Our [stakeholder notice](#) provides details on the issues we are seeking specific stakeholder feedback on.

An indicative timeline for the remainder of our investigation is provided below.

