

### Why are we providing advice on this matter?

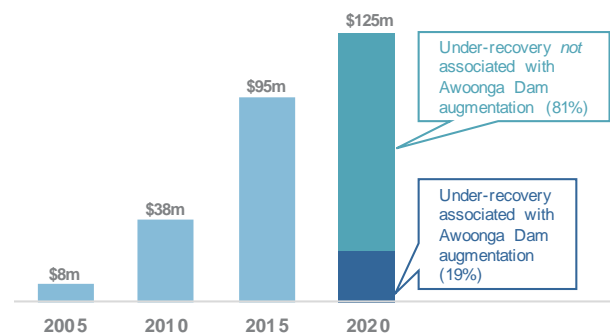
To date, the Gladstone Area Water Board (GAWB) has been charging prices that have not recovered the full prudent and efficient costs of providing water. The balance of revenue that GAWB has not recovered has grown in each regulatory period. GAWB's present balance of under-recovery is nearly \$125 million—which is over double our estimated 2019–20 revenue requirement for GAWB.

The Treasurer directed us to provide advice on measures to:

- prevent the further accumulation of under-recovered revenue
- reduce the existing under-recovery
- manage the impact on customers.

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

GAWB's accumulated under-recovery balance over time



### What are our initial findings?

Our draft report includes our initial findings. 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 proposed measures to address the revenue under-recovery. We broadly agree with GAWB's proposal to recoup accumulated under-recoveries from customers via a separate charge.



We also find it appropriate to align the regulatory and price smoothing periods at five years to prevent the further accumulation of under-recovery.

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

#### Further capitalisation of accumulated under-recovery



We do not find GAWB's proposal to further capitalise the full accumulated under-recovery to 30 June 2022 appropriate. Rather, GAWB's accumulated under-recovery balance should be capped at \$124.7 million.

#### Under-recovery associated with the Awoonga Dam augmentation

We consider it appropriate for GAWB to capitalise the under-recovery associated with the Awoonga Dam augmentation (\$23.5 million). This balance should be recouped through prices from existing and future users, as opposed to a separate charge.

#### Under-recovery not associated with the Awoonga Dam augmentation

For the remaining \$101.2 million of under-recovered revenue that is related to the rest of GAWB's expenditures, we consider GAWB should negotiate the method of repayment with its existing customers (e.g. an annuity of an agreed term, or a lump-sum upfront payment). GAWB could consider offering discounts to customers for a prompt payment.

If negotiations on the repayment method with existing customers fail, we consider that appropriate default repayment terms should include:

- an annuity repayment term of 30 years for industrial customers (GAWB proposed 20 years) and 100 years for council customers
- an interest rate set at the appropriate cost of debt (GAWB proposed to set annuities based on the prevailing weighted average cost of capital).



#### Customer impact

We consider the above modifications balance the interests of GAWB and its customers. They allow GAWB to recoup its prudent and efficient accumulated under-recovered balance, at an average impact that is 36% lower compared to GAWB's proposed approach.

## What are the options for GAWB?

Instead of current and future customers repaying all past under-recoveries, an option could be that GAWB does not recover certain past under-recoveries. However, we consider that such a decision is best left to GAWB and its shareholding minister. Should it be decided not to recover certain past under-recoveries, we consider that:

- this would not adversely affect GAWB's financial health
- the accumulated under-recovery amount for GAWB's direct domestic customers should first be considered for non-recovery.

## 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 A 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.

