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Queensland Competition Authority

Wiggins Island Coal Export Terminal – Response to GAWB Proposal

We refer to the price monitoring investigation being carried out by the Queensland Competition Authority (QCA) of the Gladstone Area Water Board (GAWB) and the proposal submitted by GAWB on 30 September 2019. In addition to the points raised in its submission dated 30 September 2019, WICET makes the following further submissions set out below in response to GAWB's proposal.

GAWB's Proposal Does Not Give Complete Transparency of the Proposed Price Increases to Customers

GAWB's cover letter states that *"the net result of all forecast activities is a 9% increase in real prices on an average network wide \$/ML basis"* but that the 9% increase is *"exclusive of the accumulated revenue under recovery"*. GAWB proposes that customers will receive a letter in July 2020 (which falls after the date that the final report is to be provided to the Government in the QCA Regulatory process timeline) specifying how much of the under recovery will be charged to them and how it will be charged. WICET submits that the full impact on customers should be known and quantified before any \$/ML price increases are finalised.

It is also unclear whether the 9% increase quoted by GAWB includes escalations that will occur during the 2020 – 2025 period such as CPI.

WICET notes that the nominal costs escalation factors identified in table 10.6 of GAWB Proposal – Part A range from between 2.06% to 5.7% - which is significantly less than the average 9% increase proposed by GAWB.

Operating Expenditure and Capital Expenditure

GAWB's proposal submits that it will see an increase in both operating costs and capital expenditure in the 2021 – 2025 pricing period.

GAWB's actual capital expenditure for the period 2016 – 2020 was approx. \$122.48M, which was \$20.95M over forecast or approximately 21%. GAWB is then forecasting capital expenditure of \$178.75M for the 2021 – 2025 period. If a similar cost overrun is experienced for this period then this forecast number would increase to approximately \$216.29M, almost double the spend for the previous period.

In circumstances where GAWB funds its operating expenditure and capital expenditure through the prices that it charges to customers, and is proposing that it be entitled to charge under recoveries from previous periods to customers, there is no incentive for GAWB to ensure that its expenditure remains within forecast and further, no incentive for it to bring costs in under forecast.



GAWB's Proposed Community Spend

GAWB's Proposal details a spend of over \$7.2M for the Lake Awoonga Recreational Strategy and \$7.1M for the relocation of the Hatchery during the 2021 – 2025 period. This proposed spend accounts for 8% of the total capital spend forecast for the period.

WICET notes that the sole reason set out in GAWB's proposal for the relocation of the Hatchery is the expansion of the GPCL East Shores development and queries why the relocation was not factored into the cost of the development and borne by GPCL, rather than being funded by increased charges to GAWB's customers.

WICET notes that it has previously independently provided significant funding of approximately \$35M to the development of the East Shores Maritime Precinct.

Whilst WICET understands the importance of contributions to improve the community facilities in the Gladstone area, WICET and other customers of GAWB will ,through increased water charges, be funding community projects decided upon by GAWB, in circumstances where WICET (and it expects GAWB's other industry customers) already make substantive community contributions in their own capacity.

GAWB's Inability to Control the Exit of Major Customers

At paragraph 6.3 of GAWB Proposal – Part A, and at various other points in its proposal, GAWB references its inability to control the entry or exit of a major customer as a factor in setting prices. WICET submits that there are two factors mitigating the risk to GAWB of the exit of a major customer (with the exception of complete business failure of that customer) that should be taken into consideration in setting prices which are:

- No alternative bulk water providers for major customers to shift their business to; and
- Length of contract term and termination penalties in contracts. As noted in its previous submissions the initial term of the contract between WICET and GAWB is for 20 years expiring in 2031 (which spans beyond the 2021 – 2021 pricing period) with optional extensions in addition to this period. If WICET terminates the contract prior to its expiration, WICET is required to pay a substantial termination fee, with the examples provided for in the contract illustrating termination payments of between \$1.5M to \$2.7M. Whilst WICET does not know the details of GAWB's contracts with its other customers, it can only assume that similar provisions are in place.

Yours faithfully

Alana Allard
Legal Counsel and Company Secretary