

The Queensland Competition Authority (QCA) has monitored the Gladstone Area Water Board's (GAWB) proposed prices for 2015-20.

We have examined GAWB's proposed costs and revenues. We largely agree with GAWB's proposed capital and operating costs but differ on the rate of return required by the business.

Our estimate for GAWB's required revenue for 2015-20 is 15% lower than proposed by GAWB. This revenue requirement is a minimal increase (0.2%) on 2010-15.

We have also released indicative prices that incorporate our findings as well as updated (lower) cost of debt inputs. These indicative prices for 2015-16 are lower than the current prices.

This fact sheet outlines the key findings.

GAWB

GAWB is owned by the Queensland Government. GAWB supplies bulk raw and potable water sourced from Awoonga Dam to industrial customers and the Gladstone Regional Council.

Operating costs

GAWB's operating costs have increased significantly since our last review in 2010. GAWB proposes to spend \$118 million in operating costs over the next five years. We found that all but \$2 million of the increased expenditure is justifiable.

Capital costs

GAWB forecast to spend \$97 million on capital projects in 2015-20. We believe that this could be reduced by up to \$12 million.

Contingent Supply Strategy

As GAWB sources all of its water from Awoonga Dam, it has a contingent supply strategy in case dam levels fall or customer demand rises sharply.

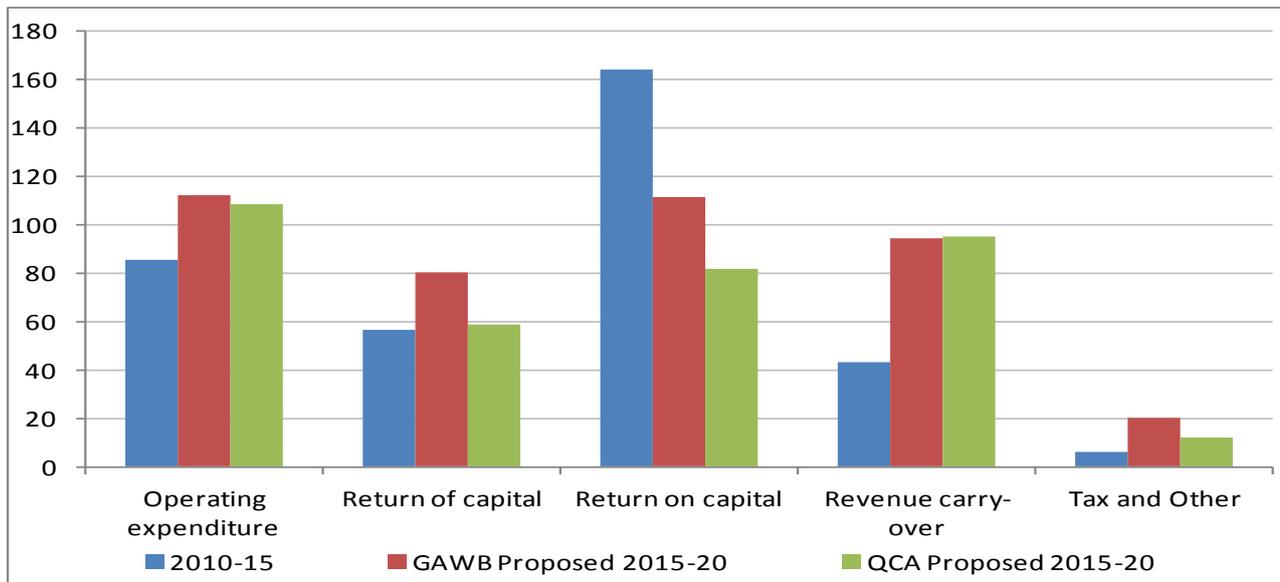
We did not agree with GAWB that \$25.7 million of preparatory expenditure (between 2008 and 2015) on its contingent supply strategy should be recovered in current prices. As per our 2010 review, GAWB should only charge customers for activities needed to maintain this strategy.

Return on investment

GAWB needs to recover its borrowing costs and earn a return on investments. Since 2010, debt servicing costs have decreased, reducing the rate of return required by GAWB. The QCA's approach to calculating GAWB's weighted cost of capital would reduce GAWB's revenue requirement for 2015-20 by \$34 million based upon current cost of debt inputs.

TOTAL REVENUE REQUIREMENT

Our estimated revenue requirement for 2015–20 is \$355 million - 15% lower than the \$417 million proposed by GAWB and 0.2% higher than 2010–15.



CURTIS ISLAND PIPELINE

Since 2010, GAWB built the Curtis Island Pipeline (CIP) to provide water to liquefied natural gas (LNG) proponents on Curtis Island. We accepted a request from GAWB to treat the costs, revenues and prices of this project as confidential to support GAWB's commercial arrangements with the LNG proponents. The key findings in this fact sheet, and our draft report, exclude the pipeline project.

PRICES

As a consequence of lower costs, our estimated indicative price for all of GAWB's price zones would decrease in 2015–16 compared with both 2014–15 prices and GAWB's submitted prices.

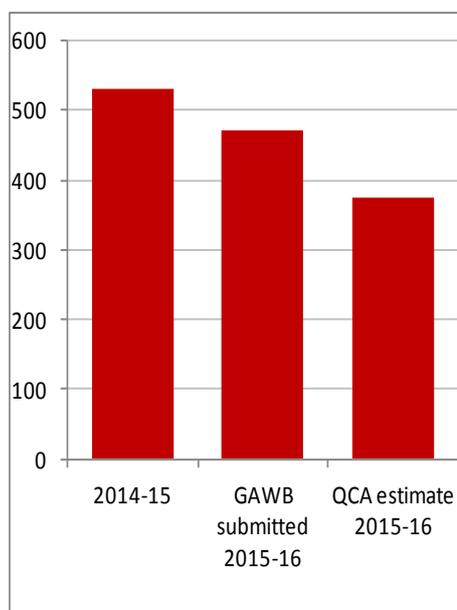
We emphasise that the Gladstone Regional Council sets prices for retail customers. This report only pertains to the price that GAWB charges the council for the provision of bulk potable water services.

PROJECT DETAILS

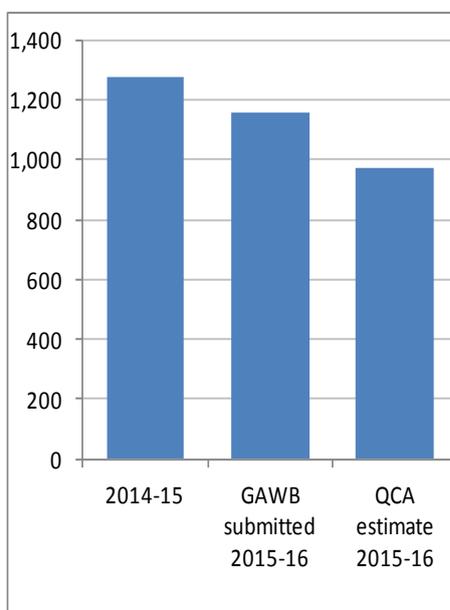
The full draft report is available on our website: www.qca.org.au/Water

We welcome submissions on our draft report, which should reach us by 27 March 2015.

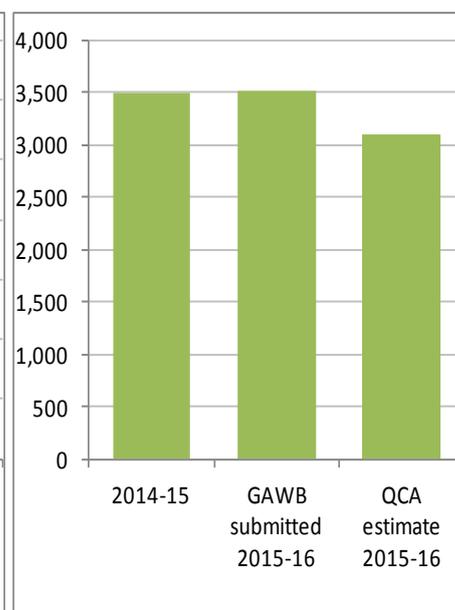
Our final report will be published by 31 May 2015.



Awoonga Dam
(\$ per megalitre)



Raw water average
(\$ per megalitre)



Treated water average
(\$ per megalitre)