

30 September 2019

Our Ref: 2956417

Queensland Competition Authority

Wiggins Island Coal Export Terminal – Initial Stakeholder Submissions

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 request for initial stakeholder submissions to be provided by 30 September. WICET's initial submissions are set out below.

Summary of Terms of Water Supply Contract with GAWB

A summary of the terms of the Contract with between WICET and GAWB is set out below.

Term of Contract

The initial term of the contract is for a period of 20 years, commencing on 1 October 2011 and expiring on 30 September 2031. WICET has two extension options available to it:

- First extension period – 1 October 2031 to 30 September 2036; and
- Second extension period – 1 October 2036 to 30 September 2041.

The extension periods are subject to WICET complying with the notification requirements and agreement by GAWB. If WICET terminates the contract prior to its expiration WICET is required to pay a substantial Early Termination Payment. The examples provided for in the contract illustrate Termination Payments of between \$1.5M to \$2.7M.

As GAWB is the only supplier able to provide the bulk quantities of water required by WICET, WICET does not currently see that it has any alternative other than to continue with the contract with GAWB.

Pricing

Schedule 4 of WICET's contract with GAWB states:

"The contents of this Schedule are intended to accord with the recommendations that were made by the QCA following its investigations (completed in 2002 2005, and 2010) into the pricing practices of GAWB to the extent that these recommendations have been accepted by the QCA Act Ministers."



Under the contract GAWB has broad entitlements to adjust the amounts paid by WICET including:

- Annually using the Index in the contract;
- Every 5 years on the Review Date;
- As a result of a conversion from volume based to flow based pricing;
- From the commencement of each contract extension;
- If the price review methodology under the contract is changed;
- If there is, or is reasonably expected to be, a sustained variation in aggregate annual revenues derived from the supply of water by GAWB of at least 15%;
- If there is a change in law or a change accepted by the QCA Act Ministers as a material change in expected costs that can be passed on to customers;
- To recover from a force majeure event; and
- In time of water supply restrictions.

Based on the prices that GAWB has advised WICET will be charged for the 2019/2020 financial year, the rates charged by GAWB to WICET have increased between 15% and 30% since the commencement of the contract.

Change to Volumetric Based Charging and MDQ

In July 2015, GAWB introduced a volumetric based pricing regime into its contract with WICET by way of a Maximum Daily Quantity (**MDQ**) based delivery charge. Under this regime, WICET was to nominate an MDQ volume that would determine the price that it paid per ML of water for each delivery point.

Under this system:

- If WICET exceeded its nominated MDQ, it would shift to the next price bracket and would be charged at that price bracket for all future usage, even if the increased MDQ was as a result of a one off spike in usage and WICET reverted back to its previous MDQ levels;
- During a 5 year transitional period (expiring in July 2020), if WICET experienced a spike in its MDQ shifting it to a higher price bracket, it could ask GAWB to reduce the MDQ and it could be reset (at GAWB's discretion).

Since the implementation of the MDQ based pricing, WICET has requested to reset its MDQ approximately 8 times. WICET's current MDQ is set at:

- 1.3 ML for the Permanent Raw water Hanson Road connection;
- 0.001 ML for its Permanent Potable water Reid Road connection; and
- 0.0135 for its Permanent Potable water Hanson Road connection.

WICET has implemented extensive operational changes and infrastructure improvements to minimise the possibility of it exceeding its MDQ, though its water usage requirements may change in future.



Factors for consideration by QCA

WICET requests that the QCA consider the following factors in the course of its investigation:

- WICET is locked into a long term contract with GAWB and there is currently no other alternative available for bulk supply of water;
- WICET expects that GAWB will rely on the outcome of the QCA investigation to implement price changes under its contract with WICET;
- GAWB has advised WICET in writing when it implemented the MDQ process, and verbally in recent consultation sessions with WICET in relation to its repricing process with QCA, that at the end of the 5 year transitional period (expiring in July 2020) GAWB will not be continuing the process of allowing WICET to reset its MDQ. This will mean that if WICET has a one off spike in water usage, it will progress to a higher price point that will apply for the remainder of its contract with GAWB, regardless of whether its MDQ drops consistently to a lower level.
- WICET is currently operating at less than half of its available capacity and expects that usage of the Terminal will increase over the coming years, which will likely increase water usage at the Terminal and could cause its MDQ to fluctuate.
- An inability to reset the MDQ to a lower level means that WICET would pay for water that it is not using. There is no “true up” mechanism contained in the contract for GAWB to reconcile actual usage against what is paid for and make an appropriate refund to WICET. Whilst WICET understands that GAWB needs to manage water supply to a number of users, WICET submits that it is unreasonable that the GAWB pricing regime could result in it paying significantly more than its actual usage
- If WICET is unable to reset its MDQ there is no incentive for it to reduce its water usage as it will then simply be paying a higher price for something it is not using. This is inconsistent with recent requests that WICET has received from GAWB asking for information about drought management plans.
- WICET understands that GAWB might seek to impose higher charges on customers to make up under recoveries that it has experienced to date on infrastructure costs. In September 2016, WICET in fact paid for all costs associated with the installation of an additional customer delivery point for permanent potable water at Hanson Road.

WICET expects that it will provide further submissions in response to GAWB's proposal that is due to be provided on 30 September 2019.

Yours faithfully

Alana Allard
Legal Counsel and Company Secretary

