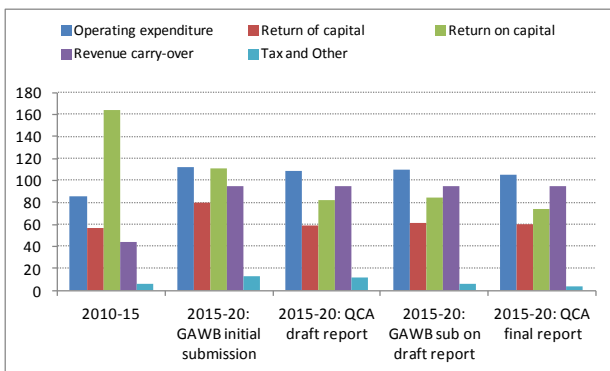


The Queensland Competition Authority (QCA) has assessed the Gladstone Area Water Board's (GAWB) proposed prices for 2015-20.

As a monopoly, GAWB has considerable market power. Price monitoring by the QCA gives customers an independent assessment of how GAWB is managing its costs and whether its proposed revenue for the next five years is reasonable.

In its original submission, GAWB proposed to raise \$428 million in revenue over the next five years. We propose a \$77 million (18%) reduction: we understand that GAWB will accept \$73 million of these savings.

Total revenue requirement (\$ million)



REVENUE

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

GAWB's prices must recover a range of business costs.

Return on investment

GAWB needs to recover its borrowing costs and earn a return on its investments.

Since the last price monitoring investigation in 2010, borrowing costs have fallen. A lower rate of return accounts for \$38 million of the \$77 million in savings identified by the QCA.

Operating costs

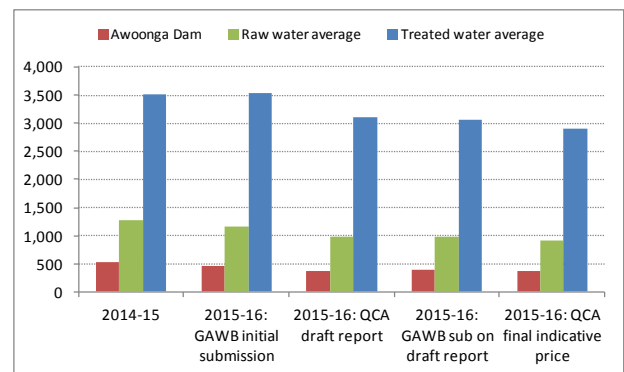
GAWB's operating costs have increased significantly since 2010. We believe that that all but \$7 million of the proposed \$117 million is justified.

Capital costs

We believe that GAWB could spend \$8 million less than the proposed \$98 million on capital projects. The QCA has identified a cheaper option to GAWB's offline storage project. We understand GAWB's concerns about the alternative option. However, we believe that GAWB should provide a full explanation to its customers if it chooses the more costly project.

PRICES

Reflecting lower costs, our indicative prices (\$ per megalitre) in 2015-16 are lower than current prices and GAWB's proposed prices.



Lower GAWB charges will not necessarily mean lower retail prices for residential customers in Gladstone; GAWB's bulk water charges are just one part of the final bill.

As our indicative prices reflect prudent and efficient costs, we believe that GAWB should justify to its customers any departure from these prices.

PROJECT DETAILS

The full final report is available on our website:

www.qca.org.au/Water