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Professor Flavio Menezes
Chair
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Professor Menezes

GLADSTONE AREA WATER BOARD PRICE MONITORING INVESTIGATION

1. **Background**

We refer to the price monitoring investigation being undertaken by the Queensland Competition Authority (**QCA**) into the submission by Gladstone Area Water Board (**GAWB**) in relation to the bulk water price review for the period 1 July 2020 to 30 June 2025. We wish to thank you for the opportunity to make a submission in relation to the investigation.

ConocoPhillips Australia Pty Ltd is the Downstream Operator of the Australia Pacific LNG facility on Curtis Island, Queensland. In 2011, Australia Pacific LNG (Shared Facilities) Pty Limited (**APLNG**) entered into a Common Use Infrastructure Agreement with GAWB and Gladstone Regional Council (**GRC**) (**CUIA**) which set out the way in which GAWB and GRC would construct and manage water and wastewater infrastructure for the LNG projects being constructed on Curtis Island. Under the CUIA, GAWB financed the capital costs of the water infrastructure and APLNG agreed to repay GAWB over a 25 year term. In 2011, the proponents of the two other LNG projects on Curtis Island acceded to the CUIA and became liable for a share of GAWB's infrastructure charges based on their respective water reservations. Following the accessions, APLNG's proportion of GAWB's infrastructure charges reduced to [redacted]%.

In 2013, when GAWB completed the infrastructure, GAWB and APLNG entered into a water supply agreement. At the regulatory price reset on 1 July 2015, the annual opening value of the infrastructure constructed under the CUIA was added to GAWB's Regulated Asset Base and the 'Curtis Island Delivery Zone' was created. APLNG was required at that time to enter into an amended water supply agreement under which GAWB charges both infrastructure charges and volumetric usage charges set by reference to its 'Curtis Island Regulated Asset Base'.

2. **Submission by GAWB to QCA**

We have reviewed GAWB's submission and would comment as follows:

(i) **Revenue Under-Recovery**

GAWB is seeking to move from a 20 year 'price-smoothing' period to a 5 year period with an additional payment to be made by customers in relation to accumulated unrecovered revenue. It submits that this allocation to current customers is fair and equitable in that it will not burden future customers or dissuade future investment. However, we consider that it is not fair or equitable to existing customers that they should bear accumulated historic costs that GAWB has failed to recover if future customers do not for the following reasons:

i. If the principles of 'fairness' set out in GAWB's submission[1] are followed, existing customers would be liable only for their respective proportions of unrecovered revenue from the date upon which they became customers and not their respective proportions of GAWB's total accumulated unrecovered revenue; and
ii. GAWB infrastructure has been constructed with significant unutilized capacity, designed to allow future customers to cost efficient access. Charging this unused capacity to existing customers distorts the market and subsidizes future customers at the expense of current customers.

In relation to the above, we submit that further information should be requested from GAWB on the methodology to be applied in determining any additional payment and, specifically, how such methodology will be applied to customers with differing pricing structures such as those in the Curtis Island Delivery Zone.

(ii) **Discretionary Capital Expenditure**

GAWB's submission includes a significant projected capital expenditure during the 2020 – 2025 price cycle. Whilst it is recognised that a certain amount of capital expenditure is necessary to replace ageing assets and comply with regulatory requirements, GAWB's projections involve accelerating certain projects which are not required until 2035. We do not support this discretionary, accelerated capital expenditure.

i. The potential cost savings identified by GAWB in undertaking capital works ahead of time do not provide sufficient justification for the increased capital expenditure during the 2020 – 2025 price cycle;
ii. Given GAWB's history of capital cost overruns to date, there is a very real risk to customers that the additional capital expenditure result in increased prices throughout the price cycle without any cost savings being achieved; and
iii. With the proposed shortening of the 'price-smoothing' period to 5-years, accelerating capital expenditure from 2035 subsidizes future customers at the expense of current customers.

(iii) **Capital and Operating Cost Overruns**

GAWB's submission offers no assurances or safeguards against capital and operating cost overruns as any such overruns are passed directly through to its customers. We consider that revision of the pricing structure should include measures which would incentivise GAWB to optimise and control its costs.

If you have any queries in relation to this submission, please contact Natalie Bower on +61-7-3182-7144 or Natalie.Bower@conocophillips.com.

Yours sincerely

Sheldon Swanson
Downstream Operations Manager

[1] Part A, page 65, final paragraph.