



**Gladstone Area
Water Board**

7 August 2020

BY EMAIL – Mark.Holmes@gladstone.qld.gov.au

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Gladstone Regional Council
PO Box 29
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Dear Mark

Water Prices from 1 July 2020

As noted in our previous correspondence dated 9 March 2020, Gladstone Area Water Board's (**GAWB**) proposed water prices for the 1 July 2020 to 30 June 2025 regulatory period were submitted to the Queensland Competition Authority (**QCA**) on 30 September 2019 for review. On 3 June 2020, the QCA published its Final Report on GAWB's proposed prices¹ (**QCA's Final Report**). The QCA's Final Report represents the conclusion of its Price Monitoring Investigation.

Following the release of the QCA's Final Report, GAWB has reviewed the QCA's findings and has subsequently determined the bulk water prices to apply from 1 July 2020. A comparison between GAWB's final prices (by pricing zone) and the indicative prices set out in the QCA's Final Report is shown in Attachment 1.

Based on the prices shown in Attachment 1, the bulk water prices that will apply to Gladstone Regional Council (**GRC**) from 1 July 2020, along with the Delivery Point Reservation/s and Reserved Delivery MDQ/s (Maximum Daily Quantity) for the next regulatory period, are shown in Attachment 2. This represents a 14.2% increase on GRC's estimated 2019-20 water charges². This estimate is non-binding and GRC should run its own calculations for budgeting purposes.

The differences between GAWB's final prices and the QCA's indicative prices are the outcome of GAWB:

- finalising the Weighted Average Cost of Capital (**WACC**) calculation;
- finalising the demand forecast to reflect actual customer demand reservations;
- adjusting QCA modelling; and
- not accepting a small number of the QCA's findings.

These differences are addressed in detail in Attachment 3.

¹ Queensland Competition Authority Final Report – Gladstone Area Water Board price monitoring 2020-25, May 2020.

² The percentage change in the estimated annual water charges is based on actual bills for the period July 2019 to June 2020.

Changes to Water Supply T&Cs³

Now that the 2020 price review has been completed, GAWB will notify GRC shortly of the changes to the Water Supply T&Cs⁴ which will take effect from 1 July 2020. These changes will include:

- updating the Pricing Principles in Schedule 4; and
- updating item 6.3 in Schedule 3 to remove the 2015-2020 transitional arrangements relating to Delivery Overrun Charges and include provisions for the Delivery Overrun Charges that will apply from 1 July 2020.

Delivery Overrun Charges

From 1 July 2020, where a customer exceeds the Reserved Delivery MDQ in a month, the customer will pay for that month a Delivery Overrun Charge⁵ equal to two times the difference between the actual delivery MDQ charges (i.e. calculated on the higher actual MDQ) and the amount of the delivery MDQ charges if they were calculated on the Reserved Delivery MDQ. The Delivery Overrun Charge will be in addition to the Delivery Charges⁶ payable by the customer for the month. The Delivery Charges will be calculated on the higher actual MDQ.

This is consistent with GAWB's Regulatory Submission and was accepted by the QCA in its Final Report (which includes a formula for the calculation of the Delivery Overrun Charge)⁷. To assist in understanding how Delivery Overrun Charges will be calculated, refer to the example below:

Assuming a customer has, for a month:

Delivery Access Price (monthly) of \$10,500/ML MDQ

Reserved Delivery MDQ of 1.0ML

Delivery Point MDQ of 1.1ML

A Delivery Overrun Charge for the month would be payable and calculated as follows:

Delivery Overrun Charge = (Actual Delivery MDQ Charge – Reserved Delivery MDQ Charge) x 2

where:

Actual Delivery MDQ Charge = Delivery Point MDQ x Delivery Access Price
= 1.1 x 10,500
= \$11,550

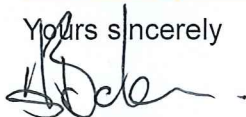
Reserved Delivery MDQ Charge = Reserved Delivery MDQ x Delivery Access Price
= 1.00 x 10,500
= \$10,500

therefore:

Delivery Overrun Charge = (11,550 – 10,500) x 2 = \$2,100

If you wish to discuss any aspect of this letter, please contact me (on 07 3020 8015 or hbarbour@gawb.qld.gov.au).

Yours sincerely



Hugh Barbour
Chief Financial Officer

cc - Anna.Scott@gladstone.qld.gov.au

³ The Water Supply T&Cs are GAWB's standard terms and conditions of water supply (March 2019 Version) that have been provided to GRC and govern the supply of water by GAWB to GRC from 21 March 2019.

⁴ As provided for in clause 20 of the Water Supply T&Cs.

⁵ Although both the Delivery MDQ Charge and the Delivery Metered MDQ Volumetric Charge will be used to calculate Delivery Overrun Charges, for the next regulatory period (1 July 2020 to 30 June 2025), only the Delivery MDQ Charge will be used because there is no Delivery Metered MDQ Volumetric Charge in the next regulatory period.

⁶ For the next regulatory period (1 July 2020 to 30 June 2025), the Delivery Charges will be only the Delivery MDQ Charge and the Delivery Volumetric Charge because there is no Delivery Metered MDQ Volumetric Charge in the next regulatory period.

⁷ QCA's Final Report, Part A, pages 125 – 127.

ATTACHMENT 1: INDICATIVE PRICES FROM 1 JULY 2020 (INCLUDING CAPITALISATION OF UNDER-RECOVERY ASSOCIATED WITH RAISING AWOONGA DAM)

QCA INDICATIVE PRICES*

Pricing zone	Reservation and storage		Delivery		Admin
	Storage access (\$/reserved ML)	Storage volumetric (\$/metered ML)	Delivery access (\$/MDQ)***	Delivery volumetric (\$/metered ML)	
Awoonga	363.61	1.71	-	-	30.86
Awoonga to Toolooa	363.61	1.71	6,046.73	32.93	92.58
Toolooa to Fitzsimmons	363.61	1.71	7,646.21	32.93	92.58
Boyne Raw	363.61	1.71	10,330.70	32.93	92.58
Central Raw**	363.61	1.71	9,467.74	32.94	92.58
Fitzsimmons to Gladstone	363.61	1.71	8,155.18	32.93	92.58
QAL	363.61	1.71	9,840.48	32.93	92.58
Fisherman's Landing Raw	363.61	1.71	13,274.97	33.52	92.58
Gladstone WTP	363.61	1.71	23,549.11	111.83	216.02
Gladstone City	363.61	1.71	26,745.76	111.83	216.02
Gladstone WTP to South Gladstone	363.61	1.71	28,169.61	111.87	216.02
Calliope	363.61	1.71	40,532.51	127.08	216.02
South Gladstone to Toolooa	363.61	1.71	36,447.29	114.90	216.02
Boyne Potable	363.61	1.71	43,970.04	115.19	216.02
Benaraby	363.61	1.71	66,617.25	138.01	216.02
Yarwun WTP	363.61	1.71	32,400.68	107.98	216.02
North Industrial Potable	363.61	1.71	38,794.63	109.27	216.02
Fisherman's Landing Potable	363.61	1.71	55,928.50	109.27	216.02
Boat Creek to East End	363.61	1.71	91,013.78	292.33	216.02

* QCA Final Report, Part B, May 2020, Pages 32-33.

** Central Raw was previously named Mt Miller Pipeline.

*** Delivery access charges are shown as monthly amounts (\$/MDQ). The annual \$/MDQ price is 12 times this monthly amount.

GAWB FINAL PRICES

Pricing zone	Reservation and storage		Delivery		Admin
	Storage access (\$/reserved ML)	Storage volumetric (\$/metered ML)	Delivery access (\$/reserved MDQ)***	Delivery volumetric (\$/metered ML)	
Awoonga	388.87	1.84	-	-	35.99
Awoonga to Toolooa	388.87	1.84	6,622.92	35.72	107.98
Toolooa to Fitzsimmons	388.87	1.84	8,393.86	35.72	107.98
Boyne Raw	388.87	1.84	12,212.75	35.72	107.98
Central Raw**	388.87	1.84	10,547.61	35.72	107.98
Fitzsimmons to Gladstone	388.87	1.84	8,927.98	35.72	107.98
QAL	388.87	1.84	10,854.70	35.72	107.98
Fisherman's Landing Raw	388.87	1.84	14,709.92	36.35	107.98
Gladstone WTP	388.87	1.84	24,012.96	120.63	251.94
Gladstone City	388.87	1.84	27,146.48	120.63	251.94
Gladstone WTP to South Gladstone	388.87	1.84	28,592.24	120.68	251.94
Calliope	388.87	1.84	42,841.96	138.83	251.94
South Gladstone to Toolooa	388.87	1.84	37,003.24	123.93	251.94
Boyne Potable	388.87	1.84	44,949.83	124.24	251.94
Benaraby	388.87	1.84	64,225.41	148.99	251.94
Yarwun WTP	388.87	1.84	34,473.57	116.68	251.94
North Industrial Potable	388.87	1.84	40,214.30	118.00	251.94
Fisherman's Landing Potable	388.87	1.84	67,702.27	118.00	251.94
Boat Creek to East End	388.87	1.84	83,191.18	316.32	251.94

**ATTACHMENT 2: GLADSTONE REGIONAL COUNCIL –
WATER PRICES, DELIVERY POINT RESERVATION/S AND RESERVED DELIVERY MDQ/S**

PART A – WATER PRICES FROM 1 JULY 2020*

	Customer Delivery Point/s												
	Gladstone City	Gladstone South			Boyne Tannum		Benaraby (Wurdong Reservoir)	Calliope Booster	Mt Larcom	Aldoga Washdown Facility	Combined Sewage and Trade Waste	Hetherington Reservoir	Kirkwood Reservoir
Pricing Zone	Gladstone City	Round Hill Reservoir	Gladstone South 300mm	Gladstone South 600mm	Boyne Tannum Reservoir	Broadacres Reservoir	Benaraby	Calliope	Boat Creek to East End	Boat Creek to East End	Fisher's Landing Potable	Gladstone WTP to South Gladstone	Calliope
Storage Access Price - \$/ML	\$388.87		\$388.87		\$388.87		\$388.87	\$388.87	\$388.87	\$388.87	\$388.87	\$388.87	\$388.87
Storage Capital Contribution Rebate - \$/ML	(\$41.08)		(\$41.08)		(\$41.08)		(\$41.08)	(\$41.08)	(\$41.08)	(\$41.08)	(\$41.08)	(\$41.08)	(\$41.08)
Storage Volumetric Price - \$/ML	\$1.84		\$1.84		\$1.84		\$1.84	\$1.84	\$1.84	\$1.84	\$1.84	\$1.84	\$1.84
Delivery Access Price - \$/ML MDQ (monthly)	\$27,146.48		\$28,592.24		\$44,949.83		\$64,225.41	\$42,841.96	\$83,191.18	\$83,191.18	\$67,702.27	\$28,592.24	\$42,841.96
Delivery MDQ Prudent Discount - \$/ML MDQ (monthly)	-		-		-		-	-	-	-	-	-	-
Delivery Capital Contribution Rebate - \$/ML MDQ (monthly)	(\$378.61)		(\$378.61)		(\$378.61)		(\$378.61)	(\$378.61)	(\$10,009.53)	(\$378.61)	(\$343.71)	(\$378.61)	(\$378.61)
Delivery Volumetric Price - \$/ML	\$120.63		\$120.68		\$124.24		\$148.99	\$138.83	\$316.32	\$316.32	\$118.00	\$120.68	\$138.83
Delivery Volumetric Prudent Discount - \$/ML	-		-		-		-	-	(\$82.26)	-	-	-	-
Administration Price - \$/ML	\$251.94		\$251.94		\$251.94		\$251.94	\$251.94	\$251.94	\$251.94	\$251.94	\$251.94	\$251.94
Administration Prudent Discount - \$/ML	-		-		-		-	-	(\$143.97)	-	-	-	-

*Delivery Metered MDQ Volumetric Price and associated prudent discount have not been listed because the amount is \$0/ML MDQ.

**ATTACHMENT 2: GLADSTONE REGIONAL COUNCIL –
WATER PRICES, DELIVERY POINT RESERVATION/S AND RESERVED DELIVERY MDQ/S**

PART B – DELIVERY POINT RESERVATION/S AND RESERVED DELIVERY MDQ/S FOR THE 2021-25 REGULATORY PERIOD

Customer Delivery Point	Delivery Point Reservation (ML per annum)							Reserved Delivery MDQ (ML)				
	2020/21	2021/22	2022/23	2023/24	2024/25	2020/21	2021/22	2022/23	2023/24	2024/25		
Gladstone City	1,631.75	1,638.78	1,645.84	1,652.93	1,660.04	5,2677	5,2888	5,3099	5,3312	5,3525		
Gladstone South	4,361.14	3,535.60	3,550.83	3,566.13	3,581.49							
Round Hill Reservoir						11,5057	9,2934	9,3306	9,3679	9,4054		
Gladstone South 300mm						3,5900	3,6044	3,6188	3,6333	3,6478		
Gladstone South 600mm						1,8680	1,8755	1,8830	1,8905	1,8981		
Boyne Tannum	1,529.95	1,535.31	1,540.68	1,546.07	1,551.49							
Boyne Tannum Reservoir						1,5000	1,5060	1,5120	1,5181	1,5241		
Broadacres Reservoir						3,5000	3,5140	3,5281	3,5422	3,5563		
Benaraby (Wurdong Reservoir)	292.93	294.84	296.76	298.70	300.66	1,1661	1,1743	1,1825	1,1908	1,1991		
Calliope Booster	872.50	878.20	883.94	889.71	895.53	2,7686	2,7880	2,8075	2,8271	2,8469		
Mt Larcom	58.61	58.81	59.00	59.20	59.40	0,3760	0,3771	0,3783	0,3794	0,3805		
Alodga Washdown Facility	2.16	2.16	2.16	2.16	2.16	0,0060	0,0060	0,0060	0,0060	0,0060		
Combined Sewage and Trade Waste	1.10	1.10	1.10	1.10	1.10	0,0010	0,0010	0,0010	0,0010	0,0010		
Hetherington Reservoir	1,010.10	1,010.10	1,010.10	1,010.10	1,010.10	2,7849	2,7849	2,7849	2,7849	2,7849		
Kirkwood Reservoir**	-	840.70	844.32	847.96	851.61	-	2,2123	2,2211	2,2300	2,2390		
Customer Water Reservation***	9,760.24	9,795.60	9,834.73	9,874.06	9,913.58							

**Kirkwood Reservoir Customer Delivery Point is expected to be operational/commissioned in the 2021/22 financial year.

***Customer Water Reservation is the total of the Delivery Point Reservations for all Customer Delivery Points.

ATTACHMENT 3: DIVERGENCES FROM QCA'S FINAL REPORT AND/OR INDICATIVE PRICES

WACC Parameters

As noted in GAWB's response to the QCA's Draft Report, a 20-day averaging period, commencing on 4 May 2020, has been used to calculate the risk-free rate. Based on this averaging period, the final risk-free rate is 0.91%. This is slightly higher than the QCA's March 2020 estimate of 0.90%.

GAWB's post-tax nominal WACC is 4.74%. This is slightly higher than the QCA March 2020 estimate of 4.72%, and somewhat higher than GAWB's original submission of 4.57% (which used August 2019 data). Although the risk-free rate is lower now than what was observed in August 2019, the increase in GAWB's WACC has been driven by a higher debt risk premium (**DRP**).

The DRP for May 2020 is 2.45%. Whilst this is only one basis point higher than the QCA's March 2020 estimate of 2.44%, it is considerably higher (i.e. 40 basis points) than GAWB's August 2019 estimate of 2.05%. The increase in the DRP is potentially being driven by increased uncertainty arising from COVID-19. Changes in the DRP have a meaningful effect on GAWB's overall WACC due to GAWB's capital structure which assumes a 50% debt / 50% equity mix.

Finalisation of the Demand Forecast

The QCA's indicative prices (in its Final Report) are based on the demand forecast contained in GAWB's original Regulatory Submission (September 2019). This was a probabilistic forecast, where the median aggregate forecast value (50% probability of exceedance) for each year was adopted to form the 5-year demand forecast.

As noted in GAWB's response to the QCA's Draft Report, subject to the terms of customers' contractual arrangements, there may be scope for customers to adjust their current reservations prior to the finalisation of prices to apply from 1 July 2020. Over recent months, GAWB has worked with customers to confirm their water reservations for the next regulatory period (i.e. 1 July 2020 to 30 June 2025). Actual customer reservations have been used to determine the bulk water prices set out in Attachment 1.

Adjustment to QCA Modelling

The modelling conducted by the QCA to determine indicative prices relies on some simplified assumptions. GAWB has used actual values, rather than the QCA's simplified assumptions, to determine final water prices.

Some of the cost escalators used in the QCA's pricing model have been incorrectly applied for the following cost categories:

- Pooled Asset Purchases and Minor Assets: consistent with GAWB's original pricing submission and response to the QCA's Draft Report, these costs should be escalated by the *other materials and services* percentage.
- Consulting Services related to Engineering: consistent with GAWB's original pricing submission and response to the QCA's Draft Report, these costs should be escalated by the *professional services (engineering)* percentage.

As noted in GAWB's Regulatory Submission, the Regulated Asset Base (**RAB**) roll-forward forecast has been updated to reflect the actual asset capitalisation and disposals that have occurred over the 2019-20 financial year up to 31 May 2020.

Since publishing its Final Report, the QCA has provided an updated forecast for the QCA levy (i.e. the cost to undertake the 2020 Price Monitoring Investigation). This amount is higher than GAWB's original forecast. The updated QCA levy has been incorporated in the pricing model.

QCA Findings Not Accepted by GAWB

GAWB disagrees with a small number of the QCA's findings, as explained below. As noted by the QCA in its Final Report¹, its findings have an informative rather than deterministic purpose and do not directly bind GAWB. GAWB is happy to discuss these departures further with its customers.

Inflation Forecast – 10 Year Forecast

The QCA did not consider GAWB's use of Deloitte Access Economics' (**DAE**) data for forecast inflation to be appropriate. The QCA preferred a 10-year forecast of inflation and the Reserve Bank of Australia's (**RBA**) forecast method. The RBA takes the 10-year geometric mean of the short-term RBA inflation forecast a year or two years out, and the midpoint of the RBA's medium-term inflation target range for the remaining eight years of the forecast period. This approach produced a 10-year inflation forecast of 2.42%.

This measure of forecast inflation is used in the pricing model to roll-forward the RAB, reduce the nominal return on capital, escalate costs and smooth prices.

GAWB acknowledges that currently, the most common regulatory methodology for forecasting inflation is to use the RBA's short-term inflation forecasts where available, and then assume the midpoint of the RBA's target inflation band (2.5%) for all periods thereafter. This approach is also used by the Australian Energy Regulator (**AER**).

The AER issued its Final Determination for Ergon Energy, along with Energex and SA Power Networks, on 5 June 2020 – two days after the publication of the QCA's Final Report. The inflationary forecast used by the AER was 2.27%. In a departure from its usual practice, the AER used the RBA's 'Trimmed' Mean Inflation (**TMI**) forecasts for the first two regulatory years (year-to-June 2021 and year-to-June 2022). The AER explained that its usual approach is to use headline Consumer Price Index (**CPI**). However, due to COVID-19, it opted to use the TMI instead, as this series better reflected expectations of core (or underlying) inflation and because it smooths transient volatility in the RBA's CPI forecasts.

GAWB engaged Synergies Economic Consulting (**Synergies**) to comment on the approaches recently used by the QCA and AER. According to Synergies, the QCA's 2.42% continues to rely on headline CPI rather than TMI. This appears to explain the difference between the AER and QCA estimates, despite both decisions being released at almost the same time and relying on the same RBA publication.

As noted by the QCA and its consultant, KPMG, COVID-19 is having a material impact on the economic outlook. GAWB believes the inflationary forecast should take account of COVID-19. GAWB accepts the QCA's finding that a 10-year forecast of inflation and RBA data should be used. However, GAWB believes the AER's approach, using TMI rather than headline CPI, more appropriately reflects expectations of core (or underlying) inflation.

The inflationary forecast used by GAWB to set prices is 2.27%.

A copy of Synergies' advice on this issue is available on request.

Inflation Forecast – Indexation rate for 2019-20

The QCA used the RBA's short-term CPI for the year ending June 2020 to escalate GAWB's 2018-19 base year operating expenditures to the start of the new regulatory period. This approach produced an annual escalation factor for the 2019-20 financial year of -1.0%.

GAWB engaged DAE to comment on the appropriateness of the QCA's approach. According to DAE, year-average growth rates differ from the year-end growth rates published by the RBA. For 2019-20, the year-end measure of inflation is calculated as growth in the June 2020 CPI compared to the June 2019 CPI. The year-average measure for 2019-20 takes the average growth of CPI in the four quarters of 2019-20 compared to the average growth in the four quarters of 2018-19.

¹ QCA's Final Report, Part A, page 5.

Typically, there are not significant differences between year-average and year-end measures of inflation. However, due to the expected impact of COVID-19 in the June 2020 quarter, there is likely to be a large divergence between these two measures in 2019-20, with the year-end measure showing a more significant slowdown in inflation compared to the year-average measure.

Drawing on published CPI data to March 2020 and the RBA's estimate for the June quarter, DAE calculated an implied year-average RBA forecast for 2019-20 of 1.2%. An implied calculation is necessary as the RBA does not publish a year-average growth rate for CPI, as there are not typically significant differences between year-average and year-end measures of inflation. DAE's implied rate (of 1.2%) compares to DAE's forecast of 1.4% for CPI in Australia in 2019-20.

According to DAE, it is more appropriate to use the year-average rate when analysing the 2019-20 CPI growth, as this measure best accounts for the change in price levels throughout the entire year. DAE also noted the year-average approach is also consistent with all other cost escalation advice provided by DAE to GAWB and other estimates considered reasonable by the QCA.

Based on DAE's advice, GAWB believes it is reasonable to apply a year-average rather than year-end growth rate. An annual escalation factor of 1.2% for the 2019-20 financial year has been used to escalate the baseline operating expenditure forecast.

A copy of DAE's advice on this issue is available on request.

Insurance

The QCA found the expenditure forecast for insurance should be based on GAWB's budgeted insurance spend for 2019-20, escalated by the DAE escalator, plus the forecast costs associated with the asset valuations in 2020-21 and 2023-24.

As noted in GAWB's response to the QCA's Draft Report, it was our intention to use actual 2020-21 insurance costs as base year costs, when the information became available. Since the release of the QCA's Final Report, GAWB has received a quote, via its broker, for the 2020-21 financial year. The scope of this quote (i.e. the breadth of areas covered) is consistent with the current year's policy (2019-20) and the QCA's finding on cyber insurance. So too is the procurement process that has been applied, that is, via an insurance broker.

Considering the emerging pressures in the insurance market and the uncertainty of forecasting, GAWB has based the expenditure forecast for 2020-21 on the quote recently issued by its broker. The insurance forecast will be escalated by the DAE escalator as accepted by the QCA in future years.

A total insurance forecast of \$7.913 million (\$nominal) for the 5-year regulatory period (which includes the forecast costs associated with asset valuations in 2020-21 and 2023-24) has been used to set prices.

Accommodation Project

The QCA's consultant KPMG found that the project was largely prudent and efficient, but considered that customers should not bear the cost of holding the unsold 147 Goondoon Street property. As noted in GAWB's response to the QCA's Draft Report, GAWB agreed that the 147 Goondoon Street premises should be removed from the RAB. However, GAWB has concerns with the QCA's proposed timing, as it does not align with regulatory precedent.

Whilst the QCA agreed with KPMG's recommendation in principle, it did not make an adjustment in its Final Report to reflect KPMG's recommendation. Rather, the QCA noted that GAWB should make an appropriate adjustment through an asset disposal to the amount of the expected sale price for 147 Goondoon Street, before setting final prices for the next regulatory period. Once the sale of 147 Goondoon Street has been finalised, the QCA noted a further adjustment could be made for the realised sale value as part of the RAB roll-forward at the end of the relevant regulatory period.

In light of the QCA's recent comments, GAWB has recognised the anticipated disposal of the assets related to the 147 Goondoon Street property. This has been done in accordance with the approach detailed in GAWB's response to the QCA's Draft Report.

Lake Awoonga Recreational Strategy

The QCA found that the proposed contingency allowance of \$944,000 should be excluded from GAWB's capital allowance, as it did not consider it to be justified at this stage. The contingency of \$944,000 is required to respond to several investment activities that cannot be quantified now. These include addressing any actions arising from the disability audit (to be undertaken in 2021), to upgrade the ablution facilities on the Boyne Valley and Benaraby sides of Lake Awoonga and to respond to new ideas raised by the community.

GAWB believes it is reasonable to include the full contingency as:

- the cost of implementing the actions from the disability audit are unknown;
- the Community Consultative Forum endorsed the full cost of the recreational strategy; and
- there is a community expectation that GAWB will deliver on all actions listed in the strategy.

The total forecast of \$7.2 million for the Recreational Strategy has been used to set prices.