



8 JUL 2004

Treasury

Our Reference: TRO-05018

Mr EJ Hall
Chief Executive
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Hall

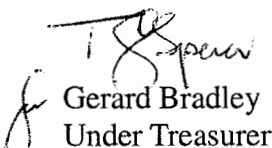
Thank you for your letter of 29 April 2004 providing Treasury with the *Gladstone Area Water Board (GAWB): 2004 Investigation of Pricing Practices* issues paper and invitation to comment on any issues relating to this investigation. Treasury would like to raise two issues.

The first issue is the change in revenue required to trigger a review. This is currently set at 15 per cent. Treasury questions whether 15 per cent is suitable given the relatively low beta (i.e. reflecting a relatively stable revenue stream) assigned to GAWB. Furthermore, as information is examined on an historical basis, there could be a large lag between a breach and a review. Treasury considers it may be appropriate to review whether 15 per cent is the correct level and also investigate if the revenue trigger should be linked to beta.

The second issue relates to changes in hydrology and demand required to trigger a review to consider augmentation options. Current projections suggest an augmentation would not be required until 2015-16. However, Treasury requests the Queensland Competition Authority include a review trigger based on hydrology and demand such that, in the event of unforeseen circumstances, augmentation requirements and the revenue cap could be re-examined prior to the next regulatory period. The lead time for infrastructure investment is such that the trigger should be set so appropriate augmentation could be in place using conservative timelines.

The contact officer with regard to this issue is Mr Gerald Schmidt and he may be contacted by email at gerald.schmidt@treasury.qld.gov.au or by telephone on (07) 3227 6878.

Yours sincerely


Gerard Bradley
Under Treasurer