

Queensland Competition Authority,
GPO Box 2257,
BRISBANE. QLD. 4001.

February 10th, 2005.

Dear Mr. Hall,

It is with the deepest concern that I respond to the contents of your recently released draft report "Gladstone Area Water Board: Investigation of Pricing Practices".

✦ You state in the executive summary of the report:-

"Objectives of Monopoly Prices Oversight: Monopoly prices oversight is intended to ensure that prices or pricing practices achieve economic efficiency and revenue adequacy, and promote the public interest". The document proceeds from this statement on to do anything BUT promote the public interest!

✦ This nation and particularly the State of Queensland, recognised its expansiveness and diversity. This was most specifically shown (appropriately) in the price equalisation policy in the electricity industry. This policy accepted the interdependency of urban and rural communities. It allowed all areas of the State, irrespective of supply line distances to be connected to that most necessary electricity service and, while I believe this policy has been undermined more recently due to economic rationalisation and the demand by governments for dividend payments, the basic philosophy remains sound.

The QCA Report accepted that basic philosophy by endorsing the price equalisation policy between Calliope Shire Council and Gladstone City Council. The retention of that pricing methodology rightly reflected an historic agreement to transport the water from Awonga Dam for Calliope via Gladstone to ensure Gladstone (more geographically remote from the water source than Calliope) could receive much needed treated water while Calliope Shire Council and the Calliope township received potable water through Gladstone albeit making the piping infrastructure to Calliope unnecessarily long.

The QCA then proceeded to apply quite a different and mercenary policy to Mt. Larcom ensuring, by its very nature, that the price to residents of Mt. Larcom would be untenable.

✚ The document also outlines one main reason for the recent reduction in water demand. This region has been suffering from prolonged drought. Indeed, the severity of the drought was demonstrated by the mandatory reduction of available supply to large industry consumers in the region. The 25% reduction in supply was in place for some time with an imminent threat that commercial supplies would reduce to 50%. On the basis of that probability, several plants actively implemented reduction strategies with Queensland Alumina Limited moving to install treated water recycling – the Gladstone City Council contracting to supply QAL with the cities treated water.

The community was also called on to share the cost of the drought. Gradual water restrictions were put in place ending in a total ban on all external water use at homes. The two Councils implemented reductions in differing ways both successfully reducing domestic consumption.

Your report now proposes to penalise residents for their responsibility and responsiveness with increased water charges to all areas of the GAWB supply on the basis that consumption has reduced (therefore GAWB income as reduced) although the level of increase differs. **This attitude of the QCA is staggering.** Residents are asking themselves why they bothered to show concern for the dwindling water supply ... many now feel the QCA has slapped them in the face and question what they as ratepayers should do should the situation reoccur – which no doubt it will. Your attitude has jeopardized future community co-operation.

My understanding is that commercial contracts will not or cannot be revised therefore the community will carry the full cost of the loss of revenue given that industry contracts will be honoured.

✚ In subsequent clarifications from the Queensland Competition Authority you state in a letter to Mrs. Karen Wilcocks, President of the Mt. Larcom Chamber of Commerce:-

“1. The Authority was ~~been~~ directed by the Premier and the Treasurer to recommend to them the pricing practices that the Gladstone Area Water Board (GAWB) should adopt in calculating the maximum prices it may charge without abusing its monopoly power as the sole supplier of bulk water in the Gladstone area.

Actual prices charged by GAWB are to be determined by commercial negotiation between GAWB and its customers.

The Authority released its draft report for comment by all stake holders on 23 December 2004. A copy of the draft report may be obtained from the Authority's website the address for which is <http://www.qca.org.au>.”

Concerns have been expressed that a draft report with such serious price implications should be released 2 days before Christmas with the majority of the time for comment being during the Christmas break when most families, if not away, are distracted by Christmas holiday activities.

“2. The pricing practices recommended by the Authority in its draft report aim to allow GAWB to recoup its reasonable costs and earn a fair return on its assets. In line with the

Authority's 2002 Report and previous GAWB pricing practices, the draft report recommends that customers of GAWB be charged on the basis of their usage of GAWB assets. In other words the more assets used to supply water to a customer, the more the customer should be charged.

An exception to this general principle is that the draft report recommends the continuation of the long standing practice of charging Calliope and Gladstone Councils the same price for bulk water received from infrastructure assets that were the subject of historical cost-sharing arrangements. For other infrastructure (Boyne Island, part of the Northern industrial area and Mt. Larcom), a separate cost was established on the basis of the individual assets involved."

As stated at the commencement of this letter, the QCA was established to protect the community from unfair pricing by monopoly enterprises. Over time, either by Government decisions or decisions by GOC's, Local Authorities and the like, this focus has changed markedly and negatively.

When we as a State and a nation actually had vision, we recognised that the only entity able to carry the long term capital and holding costs for major infrastructure was the Government funded by the community the Government served. Road, rail, electricity and water infrastructure was constructed, with provision of services at an affordable price to the community who also funded the longer term cost as above.

This draft report requires the GAWB to achieve a rate of return on the present day value of infrastructure with no recognition of the actual cost of provisions; any 'special circumstances' surrounding provision nor the actual probability that the entire infrastructure would EVER need full replacement. By 'special circumstances' I refer to the fact that the pipeline from which Mt. Larcom's water is taken was constructed to supply water to Queensland Cement and Lime (now Cement Australia) and that both Cement Australia and residential customers pay for upgrading and maintenance via water charges.

In relation to the QCA rationale that 'the more assets used to supply water to a customer, the more the customer should be charged', I would refer to the CSO applied by Government to the passenger rail system in the South East Corner. **If customers paid per kilometre of assets used, those commuters further removed from the city would pay such an exorbitant amount as 'end line users' that elected representatives could never survive the revolt.**

3. omitted

"4. The pricing practices recommended by the Authority relate solely to the prices that GAWB charges its customers. The Calliope and Gladstone Councils are customers of GAWB. Individual residents, such as the residents of Mt. Larcom, are not customers of GAWB. They are customers of the relevant Councils. The prices the Councils charge residents will be determined by the Councils themselves, subject to the provisions of the Local Government Act 1993."

This argument is pedantic. While Calliope and Gladstone are the direct customers of GAWB, all consumers who do not contract directly with GAWB i.e. large industry

consumers, are no less customers of the Board albeit indirectly. Council does not have an unlimited financial ability to bridge the charging gap between GAWB's price to Council (based on the recommendations in this report) and Council's ability to recoup those costs.

"5. Calliope Shire Council has chosen to apply the Code of Competitive Conduct to its water business and, therefore, under the Local Government Act, is required to recover the full cost of supplying water to its customers, including GAWB's charges for bulk water and a commercial return on Calliope's own capital invested in the water supply system."

This information for many residents will be concerning. Very few (if any) non Council employed, including Councillors, would be aware of the implications of Council's decision as outlined above. I would hope that residents will question the direction taken by Council given the implication of their decision in isolation and also in the light of QCA's recommendations.

"6. The Local Government Act does not prevent Calliope from charging Mt. Larcom residential customers the same price for water as it charges other residential customers. There is no requirement for differential pricing within the same customer class (ie residential customers)."

The Local Government Act may not prevent Calliope Council from price equalisation across the Shire. This however does not absolve the QCA from the implications of its unfair and inequitable pricing methodology.

"7. Given the total length of the supply system to Mt. Larcom, and the small volume of water supplied, the cost of supplying water to Mt. Larcom is understandably high. The price charged by Calliope Shire to Mt. Larcom residents need not reflect the high cost of supply. The price is to be determined solely by Calliope Shire Council."

This comment is at best naïve. Councils have a limited revenue raising ability. They receive funding from both Federal and State Governments as tied and special purpose grants as well as general allocations. Other necessary income must be generated from the shire residential, rural and commercial ratepayers.

Residents of Mt. Larcom have applied to subdivide the area on a number of occasions however these applications were generally refused. Additionally, part of the development of the area was stymied because a proportion of the inner township blocks were owned by an overseas investor who was not interested in developing the blocks. The ability to increase water consumption and 'grow' demand was therefore removed from the community. They were and remain unable to affect this situation – the decisions were generally Calliope Council's to make. This report however clearly penalises residents for decisions which were both frustrating to them and outside their realm of influence.

"8. Overall, water prices in the Gladstone area are likely to rise because the recent drought has caused both a reduction in the long term sustainable yield of Awoonga Dam and demand, resulting in GAWB having to recoup its costs, most of which are fixed, over a smaller volume of water."

I re-iterate my concerns regarding the drought made in dot point 3.

The recent augmentation to the dam's capacity was made predominately to provide for current and future industrial growth. I continue to support the expansion of the Awoonga Dam's capacity as the preferred option to enhance future water supplies however it should be acknowledged that domestic consumption makes up a small portion of that consumption. From my perspective, good financial administration requires that current borrowings should result in an enhanced asset base towards which current and future residents and commercial enterprises invest.

As above, the increased capacity of the dam was predominantly required for current and future industrial growth. Queensland Governments, past and present have acknowledged the natural and built attributes of the area and its investment potential. In order to ensure equity between residential and commercial consumers (current and future), a further 'customer' needs to be added to GAWB's customer base. That customer should be the Department of State Development who could/should stand in the market to pay the holding costs of this augmentation on a pro rata basis. As new industry establishes in the region the Department's financial payment (CSO contribution) would reduce commensurate with the uptake by the new industry ensuring fairness, equity and affordability for residents of this region.

"9. Comments on the draft report are required by the Authority by 11 February 2005. The final report is required by the Premier and the Treasurer by 21 March 2005."

I would additionally add my support to correspondence from both the Chief Executive Office, Mr. Graeme Kanofski of Calliope Shire and a separate submission from the Mayor, George Creed.

Following also are copies of correspondence to my office from residents of the electorate, but predominately Mt. Larcom expressing their fears and concerns. I support them in their submissions.

The QCA states this is a 'draft'. We as a community will have no opportunity to comment on the final report as submitted to the Premier and Treasurer. There has been no obligation on the QCA to include in this document a Social Impact Study. Had they taken that step, the unacceptability of the proposed increases in the GAWB supply area would have been clearly evident. I would sincerely request that such a study be included, based on accurate data, to show the untenable position these recommendation place our region.

Yours faithfully,

Liz Cunningham
Member for Gladstone.