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QLD COMPETITION AUTHORITY

20 August, 2008

27 AUG 2008

Mr John Hall
Chief Executive
Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001

DATE RECEIVED

Dear Mr Hall,

Submission to the Queensland Competition Authority (QCA) in response to the QCA Draft Report re Gladstone Areas Water Board Part (b) Submission

I refer to the QCA's recently released draft report concerning GAWB's "Part (b)" submission. CPM wishes to take this opportunity to provide some additional comments to the QCA.

Ultimate risk resulting from drought lies with the customers

In the draft report, QCA concluded that, while GAWB has certain obligations under the *Water Act 2000* and its contracts with customers, it is GAWB's customers whom "ultimately bear the economic risk of supply shortage caused by falling levels of water storage arising from drought" and hence, "should be in the best position to judge their own expected costs from drought and their tolerance of supply risks". On this, CPM concurs with QCA's views.

CPM has previously argued for, and remains in favour of, some form of 'opt in' arrangement for reliability contingency works undertaken during *drought periods*. Customers whom require a higher reliability of supply could 'opt in' to a 'premium' reliability supply contract, while other customers could elect to remain on a 'standard' reliability contract, receiving supply from Awoonga only.

This proposed 'opt in' arrangement would be for drought response projects only. Consistent with the QCA's position from its 2002 and 2005 investigations, CPM agrees that the costs of (appropriate) supply augmentation would be carried by all customers. A project which initially was developed as a drought response initiative – underwritten by certain customers for whom reliability is very important – may at some latter date be re-categorised as supply augmentation works, with remaining costs then shared across GAWB's customer base.

The suggested 'opt in' arrangement would allow GAWB to provide differentiated levels of service to its customers, therefore allowing its customers to decide on the balance between the costs which they are willing to bear as a result of drought versus their tolerance of supply risks. While it may not be possible for other water businesses to provide differentiated level of service to customers, the QCA has recognised that GAWB's unique position as a bulk supplier to a small number of customers could allow it to effectively implement service level differentiation.

However, as pointed out by QCA, in order for GAWB's customers to make prudent decisions, relevant information regarding pricing impacts of various response options to drought should be provided. CPM is in agreement with QCA and notes further that timely provision of such information is also vital.

Drought trigger timing

The QCA's draft report, drawing on the work of an independent consultant Cardno, suggests that GAWB's inflow assumptions are very conservative. A less conservative, though still reasonable, inflow assumption could defer any augmentation response and still meet GAWB's stated objectives.

On this, CPM supports the QCA's suggestion that GAWB should consider its customers and stakeholder's input in respect of the inflow assumption used for determining triggers for drought response purposes. Customers ultimately will be required to support the costs of any drought response, and therefore have a valid opinion as to appropriate inflow assumptions used to trigger a drought response.

Supply augmentation trigger

CPM notes that the QCA has proposed to revise certain of GAWB's assumptions regarding triggers for supply augmentation. Specifically, the QCA has proposed that GAWB's allowance for network losses be revised downwards, and that the 'contingency' allowances for possible over-use by existing customers, future downwards revisions of the Awoonga Dam yield, or as a buffer for unexpected future demand were not appropriate.

Consultation Period

CPM also supports the QCA's recommended increase in consultation period between GAWB and its customers. This would provide CPM, and indeed all customers, with more time to form a considered view on any GAWB proposals, and to determine how they wish to proceed. The increased timeframe would allow GAWB to engage its customers and stakeholders in more comprehensive discussions.

Alternative project options

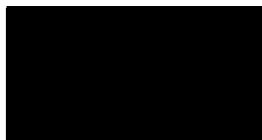
CPM recognises that the QCA's report is focused on the triggers GAWB proposes for either drought response or supply augmentation works, and not the specific projects which may ultimately be developed.

Notwithstanding, CPM remains of the view a reduction in power station water consumption, achieved through the retrofitting of hybrid dry-cooling capability, is a feasible and cost-effective alternative to GAWB's preferred Gladstone Fitzroy Pipeline. CPM's investigations suggest that dry-cooling:

- could be implemented within the timeframe required by GAWB's Demand Management Plan;
- is comparable, or better than, the GFP on a consistent dollar-per-megalitre basis;
- could be configured to be suitable as either a short-term drought response initiative, or longer-term alternative to supply augmentation – and particularly in the situation where a supply augmentation is triggered while the yield from Awoonga remains constrained to the interim level of 70,000ML.

CPM is prepared to engage in further discussions with GAWB with regards to its dry-cooling proposal at the appropriate time going forwards. GAWB have been responsive to date in supporting future discussions, particularly with regard to a supply augmentation potentially being triggered only nominally above the 70,000 ML contractual supply constraint.

Yours sincerely,



David Coucill
Commercial Manager
Callide Power Management Pty Ltd