

**Proposed Pricing Practices of the Gladstone Area Water Board
Part (b) Investigation - Triggers for Construction**

Criteria and Invitation for Submissions

On 23 February 2007, the Premier and the Treasurer (the Ministers) directed that the Authority investigate the appropriateness of the pricing practices proposed by the Gladstone Area Water Board in relation to a contingent supply source strategy for Gladstone, with the investigation to be undertaken in three parts.

In December 2007, the Authority released its Final Report of the Part (a) of the investigation into the prudence of GAWB's contingency supply strategy and preparatory expenditures on the preferred supply source.

GAWB has since provided a submission *Fitzroy River Contingency Infrastructure: Part (b) – Augmentation Triggers* to the Authority relating to the next part of the investigation. The Authority's Final Report for Part (a) and GAWB's submission on Part (b) are available on the Authority's website. Printed copies of the proposal are also available from the Authority upon request.

Following receipt of GAWB's Part (b) submission, GAWB has confirmed that it proposes separate criteria for drought and unexpected demand and that these are as detailed below.

For drought, GAWB's proposed criterion to trigger construction of the appropriate augmentation is:

“to enable the appropriate augmentation to commence operations in sufficient time to avoid emergency restrictions and defer supply failure for a target period (currently two years), after allowing for inflows, losses, current and future contracted demand, and other forecasts as set out in the Drought Management Plan”.

For unexpected demand, GAWB's proposed criterion to trigger construction of the appropriate augmentation is:

“when GAWB has entered into contracts with customers that exceed the capacity of its water sources, after allowing for distribution losses and contingency”.

The key terms in these criteria are explained in GAWB's submission. Additional information provided by GAWB is included in Table 1 below.

Interested parties are invited to submit comments on the proposed criteria, as well as the appropriateness or otherwise of the assumptions identified as being relevant to the current circumstances, such as:

- the assumption adopted in GAWB's DMP that inflows reflecting the worst 3-year average are appropriate for triggering an augmentation in response to drought; and
- the assumptions for distribution losses (5% of distribution volumes) and a demand contingency (5% of total allocation) proposed by GAWB for establishing the trigger level for responding to unexpected demand.

Comment is also sought on GAWB's proposed process for responding to current drought circumstances, including timing; the approach to restrictions, proposals for curtailment and demand management; the selection of the appropriate augmentation and other matter that may be considered relevant, such as the service standard implied in GAWB's proposal.

The Authority invites submissions from interested parties regarding the issues to be considered in the pricing investigation by **22 February 2008**. Submissions should be emailed to gawb.investigation@qca.org.au or sent to:

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001
Fax: (07) 3222 0599

Any information considered 'commercial in confidence' should be clearly marked and, where possible, provided in original form and in a modified form, with the 'commercial in confidence' material deleted. While the Authority will endeavour to identify and protect material claimed as confidential as well as exempt documents (within the meaning of the *Freedom of Information (FOI) Act 1989*), it cannot guarantee that submissions will not be made publicly available.

Any queries on this matter should be directed to Mr Paul Smith on telephone 07 3222 0562, fax 07 3222 0599, or email paul.smith@qca.org.au.

Table 1 – Interpretation of the Criteria

Item	Generic application	Application in the current drought
Appropriate augmentation	The augmentation determined as a result of the process set out in Section C of GAWB's submission	The Gladstone-Fitzroy Pipeline with a capacity of 30GL/annum (subject to customers submitting alternative proposals that will defer or avoid the need for this augmentation).
Sufficient time	A reasonable period of time to develop, commission and make operational the appropriate augmentation to enable supply to GAWB's customers, including reasonable allowance for project delivery risks and the costs and benefits of fast-tracking.	Two years
Target period	As described in GAWB's Drought Management Plan as amended or revised from time to time.	Extension of supply by at least two years, as described in Chapter 3 of GAWB's submission.
Storage inflows and loss assumptions used to calculate the time to supply failure.	The inflows and losses set out in GAWB's Drought Management Plan, as amended or reviewed over time.	The inflows and losses set out in GAWB's Drought Management Plan – for example inflows of 23,633ML/annum.