

**CS ENERGY'S COMMENTS ON GAWB'S SUBMISSION TO THE QCA ON
PART (b) - AUGMENTATION TRIGGERS**

Preamble

Before dealing with the specifics of GAWB's latest submission, CS Energy's overall view is that it is seriously concerned about GAWB's justification and plans for proceeding with building the Fitzroy River Pipeline and its failure to consider alternative means for dealing with the two situations it claims to be addressing i.e. drought mitigation and meeting increased demand.

In the last 18 months GAWB appears to have changed from following a reasonable and rational consultative process to exhibiting the behaviour of a monopolist unreasonably using its position to justify a single, and to date, economically unsustainable response to its publicly expressed requirements. From CS Energy's perspective the justifications seem to be based on questionable logic and contrivances.

CS Energy has a considerable interest in ensuring reliability of water supply to its power stations at Callide. In total, the power stations (of which CS Energy has 100% interest in Callide B and a 50% interest in Callide C) accounted for approximately 50% of GAWB's 2007 water sales of 53,300 ML.

CS Energy is equally interested in ensuring that GAWB does not invest unnecessarily in water assets to meet what CS Energy considers are unsupportable expectations for drought and demand growth.

Under CS Energy's present agreement with GAWB, it is charged for water on the basis of GAWB's actual cost of operation, maintenance and capital. CS Energy is concerned that the augmentation programme, as enunciated by GAWB, will substantially increase water costs regardless of whether or not CS Energy supports the programme. Implementing such an arbitrary price determination will have a severe commercial impact on the Callide power stations. These power stations have to compete in the National Electricity Market where the price received is effectively unregulated but is subject to a cap and not a floor and where uncertain revenues are subject to full market forces.

CS Energy, in conjunction with CPM has been examining a demand management alternative to GAWB's supply augmentation. This alternative is based on partial dry cooling Callide C in two stages and partial dry cooling Callide B as a third stage.

The combined water savings of the entire process is approximately 16,000 ML/year.

The staged implementation of dry cooling would allow investment in drought and/or demand augmentation to proceed in a less lumpy and more economically sustainable manner than the one-off Fitzroy River Pipeline proposal.

The decision to examine the dry cooling alternative by CPM and CS Energy was driven by the substantial increase in the projected cost of the Fitzroy River Pipeline from its initial estimate of \$110 - \$144 million provided in GAWB's 2004

Strategic Water Plan to GAWB's present estimate of over \$350 million. In addition, the major variable operating cost, electricity, appears to be understated.

CPM and CS Energy have engaged Sigma Energy Solutions Pty Limited to develop the options for dry cooling to a point where they will be financially and technically robust enough to receive project approval from the Boards of CPM and CS Energy. Even though the drought requirement is effectively off the agenda for some years and the need for supply augmentation is not close, CPM and CS Energy are continuing to move the project forward.

Whilst GAWB showed initial interest in the dry cooling option and was involved in the study of this option during its early phase, in recent times, GAWB has appeared dismissive of dry cooling as an alternative to meet the drought and demand requirements. This is despite the escalation in the cost of the Fitzroy River Pipeline and the positive economic and operational benefits of dry cooling indicated by the work done so far by Sigma.

A further matter of concern to CS Energy is GAWB's decision not to pursue water trading as demand management tool. CS Energy considers that a water market has the potential to moderate demand and allow water to go to its highest value use. An active water trading market is consistent with efficient water management and this is widely accepted in the water supply industry in Queensland and elsewhere. The National Competition Council states that the ability to trade water is important to achieving the COAG vision that water move to higher value uses. Whilst that was said in relation to irrigation, it is equally relevant to other major water using industries such as those supplied by GAWB.

There have been significant rainfall events in the last 7 weeks that have increased the available capacity in Awoonga Dam by nearly 85% (from about 32% full to 59% full). The consequence of this substantial increase means that the need for GAWB to consider drought as the trigger for augmentation has been delayed for some years even if very low inflows occur in the next few years. Therefore a number of critical factors, that were relevant at the time the QCA issued its Stage (a) Final Report in December 2007, no longer apply. CS Energy suggests that the QCA give consideration to issuing a short amending report to reflect the present circumstances.

In summary, CS Energy considers that in relation to GAWB's proposal for the Fitzroy River Pipeline: -

- The need has not been demonstrated.
- The alternatives for meeting the need have not been properly considered.

CS Energy's specific comments

Summary

CS Energy's view of the GAWB submission on Part (b) and its various attachments reinforce the impression that GAWB is continuing to contrive to justify the Fitzroy River Pipeline.

Consequently it deepens CS Energy's existing concern, as a major customer, about being forced to fund an unjustified and substantial capital investment

programme through a permanently high water price which would be, in a sense, an impost akin to a retrospective tax for CS Energy.

As a result it is CS Energy's view that the Fitzroy River Pipeline is not justified in the present circumstances from either a hydrological or an economic perspective.

Details

Drought

The term “climate change” has acquired an image of scientific respectability through its daily use by the media, with a clear implication that it is something new. Even the most rudimentary and short-term examination of this planet’s long history reveals that the climate has always “changed”. The debate about the causes and effects of “climate change” and the present circumstances have ensued and, in numerous instances, involving a series of semi-scientific *non-sequiturs*. It is in this environment that GAWB has chosen, in CS Energy's view, an unrealistically conservative short-term measure for expected inflows, which gives an unduly pessimistic result. This pessimistic result is the basis for GAWB’s plan to initiate the Fitzroy River Pipeline at this time.

The inflow calculations in GAWB’s DMP, reviewed and confirmed by consultants, Synergies, seem based on just such a pessimistic and overly short-term backward glance. Its Option 2 assumes that only 23,000ML/year will flow into Awoonga Dam. CS Energy's view is that Option 2 is quite unreasonably pessimistic especially when reference is made to the various figures in the Synergies report (eg Figure 1 – Historic Flows, Figure 2 - Inflow Profile – Lowest 10-year Sequence and Figure 3 – Inflow Profile – Alternative Inflow Sequence)

The Synergies report also highlights that GAWB has moved from a demand response to a supply response. Adopting this approach also appears to be justified by a reliance on the pessimistic data. In view of the recent substantial rain events in the Awoonga Dam catchment, CS Energy does not believe there is any justification to change to a supply response.

The Synergies report acknowledges the occurrence of high inflow events such as this most recent one, but has tended, in CS Energy's view, to underplay their importance. Whilst it may be argued that the frequency and extent of the big inflows have reduced in recent years, they are still extensive and frequent enough to sustain a much more optimistic view than the 23,000ML/year being assumed by GAWB in its justification of the Fitzroy River Pipeline.

Demand

GAWB uses the term “unexpected additional demand”. That somewhat emotive term really does not reflect the words used to define it. (*“Demand that is beyond the available capacity of existing sources (taking into account distribution losses and contingency) that have been approved by the QCA for inclusion in GAWB’s regulated asset base for pricing purposes”*).

The term implies that there would be insufficient time in which to take steps to deal with additional demand and so extra water must be arranged before it is required or even anticipated. This also has the appearance a contrived justification.

CS Energy understands that GAWB is in the process of having consultants review the HNFY for Awoonga Dam. CS Energy would be very concerned if the advice of the consultants is to be based on GAWB's Inflow Option 2 and used to justify, prematurely, a need for augmentation.

Risk management

If GAWB were to proceed with the Fitzroy River Pipeline at this time, it would effectively remove the ability of CS Energy to manage its risk through a number of means at its disposal. CS Energy would be given no option but to bear the cost of GAWB's conservatism and its decision not to give serious consideration to the alternative of dry cooling the Callide stations and the flexibility that a water-trading scheme would allow.

Whilst CS Energy acknowledges that GAWB should have a well-constructed Drought Management Plan that has full regard for the long-term security of the water supply, it is not clear if directions given by GAWB under its DMP are really binding on CS Energy. Presently, this is a moot point and will be for some years as a consequence of the recent increase in the water level at Awoonga Dam. CS Energy will question the validity of a poorly constructed and/or implemented DMP; especially if it considers there are demonstrably better alternatives.

Future actions

Although CS Energy's submission is critical of the direction that GAWB has taken in recent times as evidenced by its Part (a) and Part (b) submissions to the QCA, CS Energy does respect the need for GAWB to undertake preparatory work so it can deal in a timely fashion with drought and demand augmentations. The concern is that GAWB seems determined to proceed with constructing the Fitzroy River Pipeline despite considerable evidence that it is not the right answer for now.

The recent rains have provided GAWB with a useful opportunity to spend more time discussing options with its customers, selecting and pricing augmentation options, as well as ensuring that it has thoroughly costed the Fitzroy River Pipeline option.

Regardless of if and when it needs to augment its water supplies, GAWB will still need to convince its existing customers of the suitability of the chosen options rather than adopt an unreasonable monopolists stance and force them through based on questionable premises.