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22 December 2014

Mr Matthew Bradbury
Team Leader
Queensland Competition Authority
145 Anne Street
Brisbane, QLD 4000

Subject: Gladstone Area Water Board: 2015-20 Price Monitoring

By email: matt.bradbury@qca.org.au

Dear Matthew,

Thank you for the opportunity to make a submission to the Queensland Competition Authority with respect to your investigation of the Gladstone Area Water Board (GAWB) proposed pricing for the period 1 July 2015 to 30 June 2020. Rio Tinto Alcan (RTA) appreciates the opportunity to contribute to this important pricing review. RTA has reviewed the GAWB submission, and summarised below our key observations and concerns for your consideration.

Rio Tinto Alcan's primary concern is it appears operating and sustaining capital cost increases at GAWB have largely offset a significant reduction in the weighted average cost of capital (WACC) which is applied to the GAWB Regulated Asset Base (RAB). In 2011 consumers incurred a significant cost increase when the WACC increased from 7.3% to 9.35%. In 2015 WACC is reducing from 9.35% to 6.85% (estimate); however GAWB is proposing only a modest 2% real reduction in overall prices. Rio Tinto Alcan is concerned that a significant reduction in the GAWB cost of capital has been offset by significant operating cost inflation at GAWB. It is difficult for RTA to verify the GAWB operating cost and sustaining capital plans as this is not our core business. Therefore, RTA asks the QCA (through its technical consultants) to rigorously challenge the GAWB operating and sustaining cost forecasts.

Following from the above, Rio Tinto Alcan is of the understanding that GAWB has taken the strategic decision to insource key maintenance activities which were previously outsourced to contractors. RTA understands that GAWB has done this to improve overall productivity and quality control. RTA is concerned that there is the potential for GAWB to have increased its in-house labour costs and not made the offsetting reduction in its out-sourced contractor costs. Therefore, RTA asks the QCA (through its technical consultants) to rigorously challenge the GAWB operating cost forecast to ensure that the appropriate reduction in contracting costs has been built into the GAWB budget. RTA asks that the QCA prepare a summary of the changes in employee and contracting costs to make it transparent to consumers the change in these two cost categories.

The final concern which Rio Tinto Alcan would like addressed by the QCA relates to the plan by GAWB to include \$22 million in costs related to expenditure on the Contingent Supply Strategy (CSS), costs which were previously rejected by the QCA. In 2010 the QCA recommended that the CSS expenditure incurred after April 2008 should not be included in the RAB. At the time the QCA concluded that GAWB should have abandoned preparatory works when the drought initially broke. RTA fails to see a satisfactory justification from GAWB as to why the QCA decision in 2010 should be overturned and these costs now included in the RAB.

In conclusion, Rio Tinto Alcan thanks the Queensland Competition Authority for the opportunity to comment on the Gladstone Area Water Board proposed pricing for the period 1 July 2015 to 30 June 2020.

Please do not hesitate to contact me if you would like to discuss the Rio Tinto Alcan submission in further detail.

Yours Sincerely

Blaise Danielson
Chief Advisor Business Analysis
Rio Tinto Alcan (Bauxite and Alumina)