

31st July 2009

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DATE RECEIVED

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

Dear Mr Hall,

Submission to the Queensland Competition Authority (QCA) in response to Gladstone Area Water Board Part (C) submission to the QCA (May 2009)

Callide Power Management wishes to make the following submission to the QCA in response to the Gladstone Area Water Board's (GAWB), Gladstone to Fitzroy Pipeline Part (C) submission to the QCA regarding GAWB's proposed changes to pricing practices.

1. Reservation and Storage Price

GAWB proposes that all customers should pay the same water reservation and storage price, irrespective of the source from which their supply is normally physically derived.

CPM Response to QCA:

CPM notes that in GAWB's Part (C) submission, there is no differentiation between pricing for the second source in the event of drought or supply augmentation.

CPM has always been a proponent for differentiated service levels in the event of drought-triggered augmentation. 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 higher reliability supply contract at a price 'premium', while other customers could elect to remain on a 'standard' reliability contract, receiving supply from Awoonga Dam only.

This proposed 'opt-in' arrangement would be for drought response projects only. In the event that these assets are used for supply augmentation purposes in the future, the relevant asset costs would be shared equally across GAWB's entire customer base (in substitution for general supply augmentation expenditures GAWB otherwise would need to commit to).

CPM has previously examined the option of implementing a Hybrid Dry Cooling system as a demand reduction strategy and found it to be feasible relative to GAWB's proposed price increases as a result of the construction of Gladstone Fitzroy Pipeline (GFP). This alternative would still be considered subject to an economic assessment on the benefits of Dry Cooling compared to potential price changes in supply over the remaining life of the Power Station.

2. Price Methodology

GAWB identified three options for pricing of its trunk water delivery network (postage stamped – as source asset, postage stamped – as delivery system asset, and zonal pricing based on normal flow) and proposes to retain a zonal pricing structure for trunk raw water. CPM recognises that there are benefits and detriments in each method. While GAWB views zonal pricing to be more complicated and customer prices are dependant on GAWB's decisions in setting the source/delivery system boundary, it is also the method that would likely minimise the difference between customers' current and expected future pricing.

CPM Response to QCA:

CPM's position has always been that CPM pays for its share of **source assets only**, and any supply augmentation to source assets should be shared equally across GAWB's customer base. However, in the event of drought-triggered augmentation, CPM's position is for an 'opt-in' arrangement for higher supply reliability as discussed above.

An issue for the future is where the asset 'boundary' will be for the GFP given it is physically a water delivery asset but one which is acting as a supplementary source.

3. Price Transition Arrangements

GAWB proposes that significant price movements arising from connection of a second source be mitigated for customers using a price transition arrangement.

CPM Response to QCA:

CPM is supportive in principle of the proposed price transition arrangements for customers. However, CPM seeks clarification on the quantification of 'significant price movement'.

4. Operating Rules for Supply System

GAWB proposed the development of operating rules for the supply system once there is more than one supply source.

CPM Response to QCA:

CPM is supportive of the establishment of operating rules for the supply system once there is more than one supply source, provided they are developed in consultation with GAWB's customers. GAWB needs to ensure that draft operating rules are transparent and customers have sufficient opportunity to review and provide feedback.

5. Preparatory Costs

GAWB proposes that in the case that the physical infrastructure associated with preparatory expenditure is not anticipated to be commissioned within the 20 year planning horizon, efficient preparatory costs be included in the RAB and priced and depreciated over the economic life of the preparatory works.

CPM Response to QCA:

This issue was addressed by the QCA following GAWB's Part A submission. CPM supports QCA's previous recommendation that efficient preparatory costs to not be included into GAWB's regulated asset base until assets related thereto are commissioned.

CPM's interpretation of QCA analysis¹ is that QCA allows GAWB's preparatory expenditures to accrue some form of capitalised interest during construction, between the time when the expenditure is 'efficiently' incurred and when the assets finally are delivered, but that there is no price impact until the assets are physically commissioned and brought into service.

Yours Sincerely,



Jamie Maione
Commercial Manager
Callide Power Management

¹ Page 59, QCA Final Report, Gladstone Area Water Board: 2007 Investigation of Contingent Water Strategy Pricing Practices – Stage A (December 2007)