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1 July 2004

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

Dear Mr Hall

**Gladstone Area Water Board: 2004 Investigation of Pricing Practices**

Thank you for your letter of 29 April 2004 providing a copy of the "Gladstone Area Water Board: 2004 Investigation of Pricing Practices Issues Paper" to the Director-General for comment. I have prepared a response to the Issues Paper on the Director-General's behalf.

In my view, it is important that this review establish reasonable pricing principles to balance the objectives of providing a reliable supply of water for existing and future customers whilst ensuring the service provider's ongoing financial viability. To assist in the achievement of these goals, it is hoped that this investigation may identify price floors and caps to guide future contractual negotiations. It is suggested that any such price limits may require updates to coincide with regulatory review periods or significant changes in the Board's circumstances as noted in the QCA's 2002 report.

It is anticipated that this investigation may also provide guidance as to general pricing principles to apply where GAWB implements demand and supply management initiatives or is involved in providing infrastructure to satisfy customer demand from alternative sources, such as grey or seawater.

Furthermore, the QCA's draft report should take into account the impact of the Central Queensland Regional Water Supply Study and the revised Gladstone Area Water Board Strategic Water Planning Process. In particular the draft report should consider the impact of these two processes on the timing, scale and type of planned augmentations and/or

alternative water supply infrastructure investments, as this may significantly influence the value of GAWB's asset base for pricing purposes.

This investigation should also consider appropriate review triggers and cost pass-through arrangements. In particular, it is noted that any future significant variability in hydrology may cause the timing of projected augmentations and hence pricing to change.

In relation to the appropriate weighted average cost of capital methodology to apply, please refer to the Department's previous submission to the QCA on *The Cost of Capital for Regulated Entities* report by Dr Martin Lally.

Should you have any queries in relation to the matters raised in this letter, please contact Ms Ann Taylor, Financial Analyst, on 3224 7789.

Yours sincerely



R W Reilly  
**General Manager**  
**Water Industry Compliance**