

6 August 2009

Mr J Hall
Chief Executive
Queensland Competition Authority
GPO Box 2257
BRISBANE Q 4001



Dear Mr Hall

Submission in response to GAWB May 2009 Part (c) Submission on the Gladstone to Fitzroy Pipeline QCA Investigation

This submission to the QCA is CS Energy's response to the GAWB's Gladstone to Fitzroy Pipeline Part (c) submission on pricing practices.

CS Energy has previously made submissions on GAWB's contingent water supply proposals to cover drought or additional demand.

Summarising its submission to GAWB's Part (a), which dealt with the contingent supply strategy, CS Energy indicated that it did not consider that there was justification for the overly conservative presumptions about inflows of water. It was also concerned about GAWB not giving due consideration to alternatives to the Fitzroy scheme e.g. demand side measures. It was, and still is, CS Energy's view that GAWB has not justified its decision on the Fitzroy scheme.

CS Energy's response to GAWB's Part (b) on trigger points again raised concerns over GAWB's justification for what it was proposing.

The GAWB Part (c) now looks at pricing practices and it is CS Energy's concern that this is being done when Part (a) and Part (b) were not settled satisfactorily from CS Energy's perspective.

CS Energy still has the view that GAWB is determined to connect to the Fitzroy regardless of the lack of need or economic justification. The concern for CS Energy that it is GAWB's existing customers, of which CS Energy represents some 50%, who will be expected to fund it whether or not they need it or are in favour of it.

CS Energy also considers that GAWB's suggestion on augmentation with desalination plant is not well considered or economic and this alternative should not be included as a feasible solution.

CS Energy requires the ability to have a choice of being part of any augmentation for drought purposes as it has a number of alternatives for dealing with drought induced water limitations. A business case by CS Energy would consider all options available to it at the time. Any attempt by GAWB to

include CS Energy in a drought augmentation plan that is not acceptable to CS Energy will be challenged vigorously.

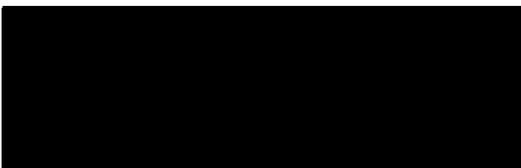
In addition, if CS Energy were to make the decision to be part of the drought based augmentation, when the drought requirement no longer existed and new demand emerged, there should be a review of the pricing with a view to redirecting the cost of the drought augmentation to the new demand.

CS Energy does not consider it should incur the cost of augmentation to meet GAWB's new water demand and CS Energy would also challenge any such attempt by GAWB to impose the cost on CS Energy. GAWB needs to ensure that in the case of augmentation for new demand that it run its business case based on revenue from the new users and not on the assumption that additional costs would be borne by existing customers.

It is acceptable to CS Energy for payment for source based assets and GAWB's contention that "if demand management is undertaken to either defer augmentation or in place of augmentation, then efficient costs of demand management are recovered from customers as if they were augmentation costs".

For these reasons CS Energy does not see any need to provide detailed commentary on pricing methodology apart from expressing the view that a "user pays" principle should apply.

Yours sincerely



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COAL AND WATER RESOURCES MANAGER

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