



Gladstone Area Water Board

Submission to the Queensland Competition Authority

Response to Stakeholder Submissions

GAWB's Expenditure Proposals Submission

for the 2010 Price Review

4 May 2010

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1.0 Introduction

GAWB provided its *Expenditure Proposals* submission for the 2010 price review to the Queensland Competition Authority (Authority) in December 2009. The following stakeholders have provided public submissions to the Authority in response to GAWB's proposals:

- Gladstone Regional Council (GRC)
- Callide Power Management Pty Ltd (CPM)
- CS Energy (CSE)
- Queensland Alumina Limited (QAL)
- NRG Gladstone Operating Services Pty Ltd (NRG)
- Rio Tinto Alcan (RTA)
- Department of Environment and Resource Management

GAWB takes this opportunity to respond to the issues raised by stakeholders in their submissions to the Authority.

2.0 GAWB's proposals

2.1 Demand forecasts

In its *Commercial Framework and Pricing Principles* submission, GAWB proposed using a 'base case' demand forecast for determining capital works expenditure (including source augmentation), price setting and revenue forecasting. In its *Expenditure Proposals* submission, GAWB detailed the current level of base case demand and two credible alternative base case demand scenarios projected for 30 April 2010. Table 1 summarises the issues that have been raised by stakeholders in relation to demand forecasts.

Table 1

Customer	Issues raised
CPM	<p><i>The Base Case Demand scenario represents the lowest risk profile to GAWB. If the QCA are to endorse this demand scenario, which CPM does not support, the benefit of this lower risk (i.e. risk premium reduction) needs to be articulated/quantified, and passed through to major customers.</i></p> <p><i>....GAWB are now proposing to adopt a more conservative, certain demand forecast, with an allowance only for very limited future growth.</i></p> <p><i>This, together with proposed future changes to the length of the pricing horizon, will result in existing customers paying for spare capacity which will benefit future users should they materialise.</i></p>

Customer	Issues raised
	<p>GAWB comment</p> <p>As outlined in GAWB’s submissions to the Authority¹, GAWB is not compensated in the current regulatory framework for its exposure to demand risk within the regulatory control period – a risk that is best managed by customers. As such, there is no benefit available to be passed through to customers.</p> <p>While GAWB has adopted ‘base case’ demand forecast for the next regulatory control period (1 July 2010 to 30 June 2015), it has also adopted a demand forecast for the balance of the planning period (1 July 2015 to 30 June 2030) that allows for future anticipated customers to share the cost of current efficient excess capacity, even though the specifics of this anticipated demand is not yet certain.</p> <p>Furthermore, GAWB’s proposed both a conservative ‘base case’ demand forecast and a revenue cap, which automatically transfers to customers the benefit of demand in excess of that forecast.</p> <p>Finally, GAWB has previously outlined that changes in the length in planning period was for the purposes of reducing the complexity and uncertainty associated with preparing 20-year forecasts and not to have adverse price outcomes for customers (that can be managed through other appropriate regulatory mechanisms).</p>
QAL	<p><i>The impact of reducing demand forecast in line with GAWB’s proposal will be to increase present customer prices to the benefit of any new customers. It is highly unlikely that any demand not realised as a consequence of the recent financial crisis and drought will be repeated during the next 5 years. This appears unreasonably conservative especially considering the forecast industrial growth prospects for Gladstone.</i></p> <p>GAWB comment</p> <p>GAWB contends that the proposed demand forecasts will not increase present customer prices to the benefit of new customers. Under GAWB’s current price-cap form of regulation, new customers would pay the same price as existing customers for water during every regulatory control period. However under GAWB’s revenue cap proposals, all customers would benefit from any additional demand in the regulatory control period over that which was used when prices were determined. While the recent financial crisis and drought may not be repeated over the next five years, GAWB has no control over these events and particularly, no control over whether new projects commence or current operations are expanded.</p>
RTA	<p><i>It is recommended that the best unbiased estimate of demand (including all available information such as ‘uncertain demand’) be adopted for all aspects of regulatory pricing....that QCA maintain the 2005 demand forecasts in the absence of any independent assessment showing a different</i></p>

¹ GAWB Commercial Framework and Pricing Principles for the 2010 Price Review (September 2009) p9-12,

Customer	Issues raised
	<p><i>demand forecast (and associated price path) is warranted.....</i></p> <p><i>Should the QCA decide that their 2005 demand forecasts require updating, it is recommended the update be based on QCA-procured independent advice (i.e. similar to the MJA process undertaken in 2005).</i></p> <p>GAWB comment RTA is suggesting that 2005 demand forecasts should be retained even though they haven't been achieved and are not reflective of the current supply situation – a contention that GAWB can simply not accept. Demand forecasts were not achieved not only because demand for new customers did not materialise, but because expansion projects from existing customers did not progress; with no financial consequence to existing customers.</p> <p>RTA has also suggested that if demand forecasts should be updated, they should be based on independent advice through the regulatory process. GAWB would support this suggestion if customers commit for the higher demand that they nominate for the purpose of price setting through contract or otherwise (ie. regulatory framework). This will ensure that customers do not 'game the system' through providing overly optimistic water demand forecasts that are used purely for the purposes of lowering the price paid for water.</p>

2.2 Capital expenditure

GAWB has provided details in the *Expenditure Proposals* submission of capital expenditure for the:

- current regulatory control period (1 July 2005 to 30 June 2010)
- next regulatory period (1 July 2010 to 30 June 2015) and
- balance of planning period (1 July 2015 to 30 June 2030).

Table 2 summarises the issues that have been raised by stakeholders in relation to GAWB's actual and proposed capital expenditure.

Table 2

Customer	Issues raised
GRC	<p><u>GWTP Emergency Power Supply</u> <i>Council would question the need to outlay \$2.1 million for an emergency power supply when Council maintains significant downstream storages. Council would be able to supply a number of days of water after a major cyclone which could obviate the need for this infrastructure.</i></p> <p>GAWB comment GAWB had proposed this expenditure to mitigate the risk of being unable to supply potable water following the occurrence of a disaster event. GAWB contends that this expenditure is justified having regard to the risk and likely consequences. GAWB however recognises GRC's comments in relation to the proposed expenditure and that GRC will be responsible for the majority of the cost recovery for this expenditure through higher water</p>

Customer	Issues raised
	<p>prices.</p> <p><u>Golegumma Pipeline</u> <i>Council would strongly object to the capital expenditure of \$5.4 million for this project.....Council customers in this area will gain nothing from this infrastructure</i></p> <p>GAWB comment GAWB submits that this expenditure is justified having regard to the risk and likely consequences of supply failure. However, GAWB recognises GRC’s comments in relation to the proposed expenditure and that GRC will be responsible for the majority of the cost recovery for this expenditure through higher water prices.</p>
CSE	<p><u>Saddle Dam No 3 and Awoonga left abutment raising</u> <i>GAWB will need to demonstrate that it has interpreted the statutory safety requirements correctly and that it will meet those requirements in the most cost effective manner.....CS Energy requests that the QCA ensure that GAWB’s interpretation and implementation of statutory requirements is realistic.</i></p> <p>GAWB comment GAWB is continuing to work with the dam safety regulator to ensure that the dam safety obligations are met in an efficient and effective manner.</p> <p><u>System storage</u> <i>...the GAWB submission does not indicate if it has considered, as an alternative to cover the contingency of failure of GAWB’s Awoonga pump station, teeing off the SunWater pipeline that supplies CS Energy and CPM power stations.</i></p> <p>GAWB comment GAWB has considered teeing off the SunWater pipeline as an alternative supply option. However, this option does not eliminate all of the risks of supply failure. For example, it does not eliminate the risk of an extended interruption of electricity supply to or caused by failure of the substation that feeds both the Awoonga Dam and SunWater pump stations.</p>
CPM	<p><u>Saddle Dam No 3 and Awoonga left abutment raising</u> <i>Significant cost was incurred when the dam was raised in 2002. What is the nature of the new safety requirements which were not apparent for a large infrastructure project completed only 8 years ago?</i></p> <p>GAWB comment As outlined in GAWB’s submission, the expenditure required relates to a new dam safety condition – a condition that did not exist at the time the dam was last raised.</p>

Customer	Issues raised
	<p><u>Contingent Supply Strategy (CSS)</u> <i>There is no real test as to whether CSS expenditures now generate benefits for customers versus as an alternative strategy for deferring work to future periods.....CPM strongly believes that the expenditure on CSS allowed by the QCA to be recovered through prices in the next planning period needs to be significantly reduced to come into line with the QCA’s previously determined principles.....</i></p> <p><i>Recent substantial inflows into Awoonga Dam in early February 2010 have elevated the dam to > 60% capacity as at 4 February 2010.....GAWB, as a matter of urgency, to re-assess their forecast contingent supply strategy and look to reduce costs for the next planning period as a direct result of this inflow</i></p> <p>GAWB comment The work undertaken by GAWB on the CSS after the February 2008 inflow event was revised to allow:</p> <ul style="list-style-type: none"> - value to be retained from the work that was already performed and - the deferral of non-essential works to an early works stage prior to construction. <p>GAWB contends that this was the most efficient and prudent response to the change in circumstances. The CSS generates significant benefits to customers by reducing the risk associated with delivering an augmentation due to low supply caused by either additional demand or drought.</p>
QAL	<p><u>Contingent Supply Strategy</u> <i>It appears that GAWB continued to spend money on the CSS notwithstanding the inflows in February 2008 and the probability that augmentation would not be required in the foreseeable future. In addition, it is QAL’s understanding that the EIS undertakings are only valid for a 4 year period and in the event the augmentation is not commenced within this time frame the EIS may need to be updated at best or at worst redone. Considering these issues any expenditure on the CSS after February 2008 should not be included in the next price review.</i></p> <p>GAWB’s comment Please refer to GAWB’s response to issues raised by CPM earlier in this section. Furthermore, limited ongoing expenditure is required to ensure that value is maintained for the work performed to date. While QAL contend that any expenditure on the CSS after February 2008 should not in included in prices, we also note its comment in relation to the proposed System Storage project that the risk of drought and dam failure is sufficiently mitigated by components of the CSS namely desalination or the Gladstone-Fitzroy Pipeline project.</p> <p><u>System storage</u> <i>GAWB has provided insufficient supporting data to justify both the scale and the need for this investment..... In addition to the Due Diligence Report conducted by R2A Pty Ltd (Appendix 16 to the GAWB Submission) found that either the desalination or Gladstone-Fitzroy Pipeline project address</i></p>

Customer	Issues raised
	<p><i>the long term credible threats that the system storage project is also intended to address, including drought and dam failure. QAL suggest that this risk is sufficiently mitigated by these other projects and the risk of pump failure (is) sufficiently mitigated by the installation of back up pumps at a much lower cost.</i></p> <p>GAWB comment GAWB agrees that a multi-source system would provide additional water source security compared with that currently provided through reliance on a single supply source which is entirely dependent on pumping from Awoonga Dam.</p> <p>While GAWB maintains a single supply system, the risk of supply failure is not fully mitigated by the use of a backup pump due to the location of Awoonga dam to the rest of the delivery network, inability to pump during times when specific maintenance is required and the reliance on a single substation (that may take up to 14 days or more to repair if required).</p> <p><u>Saddle Dam No 3 and Awoonga left abutment raising</u> <i>Insufficient data has been provided to demonstrate that the Saddle Dam needs to be completed within this timeframe. Regardless in the event it is demonstrated that the dam upgrade is required it is understood that the QLD Government has subsidised upgrades elsewhere and so a similar subsidy should be factored into any case to upgrade the Awoonga Dam number 3 Saddle Dam abutment.....The costs and benefits associated with deferring the project until the next economic downturn should also be assessed.</i></p> <p>GAWB comment As outlined in section 4.3.1 of GAWB’s <i>Expenditure Proposals</i> submission, GAWB is required to complete the Saddle Dam No 3 embankment by 1 October 2015. GAWB has proposed a planned approach to this requirement with completion of the project planned over a three year period ending in 2013. GAWB contends that the forecast completion date of 2013 is required to address the underlying reason for the dam safety compliance direction – population at risk. In this regards, GAWB also notes that at times of high storage levels, as is currently being experienced, there is an increased likelihood of the dam overflowing causing flooding as a result of a low inflow event.</p> <p>Furthermore, GAWB understands that there are currently no subsidies available in relation to this proposed expenditure. However, GAWB will pursue such subsidies, which will benefit customers, if they become available.</p> <p><u>Land and catchment management</u> <i>GAWB has provided no evidence in the submission that this project represents best practice, that it will reduce water costs, or that it is a requirement of legislation or government regulation. GAWB’s suggestion</i></p>

Customer	Issues raised
	<p><i>that 200 metre wide buffers are necessary for water storage operational purposes is inconsistent with more EIS finding for proposed dams including Wyaralong Dam & Traveston Crossing Dam..... In addition, according to appendix 3 to the GAWB Submission, 80 percent of GAWB water supplied is represented by untreated raw water for industry. In this context, the benefit of additional catchment management expenditure aimed at reducing water treatment costs is considered highly questionable.</i></p> <p>GAWB comment Considerable detail on GAWB’s land and catchment management activities has been included in Appendix 24 of GAWB’s <i>Expenditure Proposals</i> submission. Management of the catchment is important in ensuring that the raw water quality from Awoonga Dam is appropriate for customer use, without the need for costly pre-treatment.</p> <p>GAWB’s land and catchment management capital expenditure is in accordance with the requirements contained in the Awoonga Dam raising EIS and appropriate water quality catchment management practices. GAWB’s land rationalisation program also involves the identification and sale of land surplus to GAWB’s requirements. While capital expenditure on land and catchment management in the current regulatory period will total \$2.3m and is proposed to be \$0.4m in the next regulatory control period, the disposals of land surplus to GAWB’s requirements will total \$3.05m – a overall net reduction in the regulated asset base (RAB) of \$0.35m.</p>
RTA	<p><u>Contingent Supply Strategy</u> <i>The QCA stated in 2007 that preparatory expenditure (i.e. on the CSS project) is only appropriate if there is a high probability of project commencement in the next few years.....It is recommended that CSS project expenditure after February 2008 not be reflected in prices.</i></p> <p>GAWB comment The Authority has previously concluded² that GAWB’s contingent supply strategy is a prudent response to the demand and supply risks facing GAWB. The inflows of February 2008 could not affect the prudence of the strategy itself. Rather, the occurrence of these inflows altered GAWB’s assessment of the earliest trigger for the implementation of the strategy. For this reason GAWB undertook a substantial review of the activities and associated expenditure being undertaken in the CSS with a view to:</p> <ul style="list-style-type: none"> • maximise the value to be retained of the work already undertaken for future use at an uncertain date and • defer non-essential expenditure to an ‘early works stage’ to occur prior to construction. <p>GAWB therefore contends that all costs relating to the CSS should be reflected in prices.</p>

² Queensland Competition Authority - Gladstone Area Water Board: 2007 Investigation of Contingent Water Supply Strategy Pricing Practices, Stage A December 2007, p viii

Customer	Issues raised
	<p><u>Saddle Dam No 3 and Awoonga left abutment raising</u> <i>It is recommended that, prior to allowing this project expenditure to be reflected in pricing, further evidence is provided in relation to the:</i></p> <ul style="list-style-type: none"> • <i>Details of the business case for the project, including the impact of the high cost relative to the unspecified original business case</i> • <i>Case for a subsidy to be provided for the project similar to those provided for other similar projects;</i> • <i>Relative priority of this project in the context of all required dam safety projects in Queensland;</i> • <i>Cost benefit analysis associated with deferring the project.</i> <p>GAWB comment Please refer to GAWB’s comments on the issues raised earlier in this section by QAL.</p> <p><u>System storage</u> <i>Moreover, any proposed off-line storage and pump station should be re-examined and test with GAWB customers.</i></p> <p>GAWB comment The 2010 price review is an open and transparent process that enables all stakeholders, including customers, to comment on GAWB’s proposals. This forum and subsequent recommendations from the Authority must promote certainty for GAWB in making investments during the next regulatory control period. Furthermore, GAWB has engaged with major customers regarding this project prior to the commencement of the price review process.</p> <p><u>Land management expenditure</u> <i>In relation to regulatory requirements, the reference to consistency with EIS commitments, as opposed to say resource operation or environmental license requirements, suggests that there are no regulatory requirements relating to the expenditure.</i></p> <p><i>As detailed in appendix 3 of the second submission, 80 percent of GAWB water supplied is untreated raw water for industry. The benefit of additional catchment management expenditure aimed at reducing water treatment costs is questionable.</i></p> <p>GAWB comment Please refer to GAWB’s comments on the issues raised by QAL earlier in this section.</p> <p><u>Capital Planning and renewals expenditure</u> <i>....Appendix 3 of the second submission identifies some concerns with renewals planning by GAWB.....</i></p> <p>GAWB comment GAWB submits that the consultant report referred to in RTA’s response does not, in fact, raise the concerns that have been incorrectly paraphrased by RTA.</p>

2.3 Operating expenditure

GAWB has provided details in the *Expenditure Proposals* submission of operating expenditure proposed for the:

- next regulatory period (1 July 2010 to 30 June 2015) and
- the balance of the planning period (1 July 2016 to 30 June 2030).

Table 3 summarises the issues that have been raised by stakeholders in relation to GAWB's operating expenditure proposals.

Table 3

Customer	<i>Issues raised</i>
GRC	<p data-bbox="443 658 1305 792"><i>Council would ask that the QCA investigate the Self Insurance Operating Expenses which is budgeted to commence in 2010/11. There does not appear to be any reduction in insurance expenses and would therefore question what this expense is expected to achieve.</i></p> <p data-bbox="443 837 651 864">GAWB comment</p> <p data-bbox="443 875 1342 1189">As outlined in section 5.3.8 of GAWB's <i>Expenditure Proposals</i> submission, the premium for self insurance represents the residual risk faced by GAWB after mitigating risks through capital or operating expenditure, obtaining appropriate insurance or employing regulatory mechanisms such as cost pass-through or price review triggers. In some cases, self-insurance is a more efficient option than traditional insurance either due to the cost of the insurance premium or inability to obtain adequate insurance coverage. Consequently, GAWB's forecast insurance cost will not reduce as a result of the quantification and inclusion in forecasts of a self insurance premium.</p>
CPM	<p data-bbox="443 1234 603 1261"><u>Maintenance</u></p> <p data-bbox="443 1267 1353 1507"><i>These programs (preventative maintenance) will reduce the risk exposure to GAWB. CPM would like to know how this is to be reflected in subsequent pricing and/or contractual levels of service. Capital programs and asset replacement programs (which have also increased) should also work to reduce the need for administration and other operational cost activity because there should be fewer instances of emergent repairs and reactive maintenance.</i></p> <p data-bbox="443 1552 651 1579">GAWB comment</p> <p data-bbox="443 1590 1342 1830">GAWB agrees that its continued deployment of a best practice asset management solution is efficient and the proposed dedicated resource will improve GAWB's knowledge on the condition of assets. This will further allow for preventative maintenance schedules to be refined and take into account the increasing age of GAWB's assets. GAWB also acknowledges that it will take time to fully achieve this goal including the clearing of maintenance backlogs that are currently being worked through.</p> <p data-bbox="443 1874 1331 2004">GAWB contends that the tasks and costing for the proposed preventative maintenance activities is appropriate for that of a bulk water supplier including the forecast replacement of assets based on the expiry of their useful lives.</p>

Customer	Issues raised
QAL	<p><u>Staff cost allocations</u> <i>GAWB's proposed staffing cost allocation appears high in proportion to the operational budget. It also appears a high proportion of the additional Operational Business Unit FTE's are required to address issues in relation to the treatment of water. GAWB does not demonstrate how this increase adds value to raw water users. QAL would like to see a detailed breakdown of cost allocation methodology between service areas to confirm growth of operational staff costs required for water treatment activities is correctly allocated to treated water customers.</i></p> <p>GAWB comment GAWB's allocation methodology has been outlined in section 5.2.3 of the <i>Expenditure Proposals</i> submission. As with all of GAWB's expenditure, staffing costs are allocated to specific pricing zone/(s) to ensure cost reflectivity. For example, staffing costs relating to the water treatment plant operators are included in the water treatment plant pricing zones. This expenditure only impacts potable pricing zones including and downstream of the water treatment plants. Detailed breakdowns of staff costing allocations have been provided to the Authority as part of their review.</p>
RTA	<p><u>Staff cost allocations</u> <i>GAWB is seeking significant increases in staffing numbers as a proportion of operational expenditure over the planning period. Moreover, a high proportion of the increases are occurring in the GAWB Operational Business Unit FTEs to address issues in relation to the treatment of water. Major raw water customers do not directly benefit from this additional expenditure.</i></p> <p><i>It is recommended that GAWB provide a detailed breakdown of the cost allocation methodology between services areas to confirm the growth (past and future) of operational staff costs required for water treatment activities is correctly allocated to treated water customers.</i></p> <p>GAWB comment Please refer to GAWB's comments on the issue raised by QAL earlier in this section.</p>

2.4 Regulated asset base

Details of GAWB's regulated asset base (RAB) were included in GAWB's Expenditure Proposals submission. Table 4 outlines issues that stakeholders have raised in relation to GAWB's proposals.

Table 4

Customer	Issues raised
CPM	<p><u>Contingent Supply Strategy</u> <i>GAWB's plan to include preparatory costs for augmentation into the RAB prior to that augmentation being commissioned contradicts prior QCA directives.</i></p>

Customer	Issues raised
	<p>GAWB comment GAWB's contends that its proposal to include preparatory costs into the RAB is consistent with the Authority recommendations and submissions made by GAWB to the Authority.</p> <p><u>RAB Opening Balance</u> <i>Separately, GAWB appears to be proposing an increase the starting RAB by \$16M, evidently to get a 'clean' opening valuation for the 2010 price review consistent with its most recent detailed asset valuation . GAWB's submission suggests that it is unable to reconcile the starting asset value for its existing assets to a roll-forward of the previous QCA valuation, given information provided to it by the QCA.</i></p> <p><i>The valuation uplift is inappropriate. It essentially represents an attempt to double-dip in customer charges: once through a nominal rate of return amount, which already includes an allowance for asset indexation, and secondly through an upwards revaluation to the RAB.</i></p> <p>GAWB comment The Authority's 2005 report recommended that GAWB's asset base be re-valued on the basis of 1 July 2005 depreciated optimised replacement cost (DORC). GAWB's adjustment proposal is not challenging the Authority's previous decision, but ensuring that the decision has been given the proper effect in pricing – something that didn't occur in the current regulatory period to the benefit of customers.</p>
QAL	<p><u>Opening Balance</u> <i>Acceptance of GAWB's proposal would represent the acceptance of a principles that there is an indefinite period in which previous pricing decisions can be challenged and reconsidered. The RAB determined in 2005 must have been analysed in detail to arrive at the final value and therefore QAL believes it is unreasonable to base RAB on any value different to that determined by the QCA in 2005.</i></p> <p>GAWB comment Please refer to GAWB's comments on the issues raised by CPM earlier in this section. GAWB accepts the 2005 decision that prices should be based on the 1 July 2005 DORC. GAWB reiterates that neither the Authority nor the Authority's valuation consultant has been able to provide GAWB with the valuation detail necessary to roll-forward the RAB.</p>
RTA	<p><u>Opening Balance</u> <i>The re-opening of the RAB has not been justified by GAWB, and is inconsistent with the regulatory goals of consistency and price stability.</i></p> <p>GAWB comment Please refer to GAWB's comments on the issues raised by CPM earlier in this section.</p>

2.5 Cost pass-through events

GAWB has identified in the *Expenditure Proposals* submission possible cost pass-through events that may impact on the next regulatory period. These events have not been included in operating expenditure forecasts. Table 5 outlines the issues that stakeholders have raised in relation to GAWB's proposals.

Table 5

Customer	Issues raised
NRG	<p><u>Employing Office</u> <i>NRG does not support costs associated with the Employment Office to be treated separately to staffing costs.....</i></p> <p><i>Deployment of the Employment Office creates the opportunity for the inefficient use of labour.</i></p> <p><i>Where additional labour is required, it should be funded from within each annual staffing cost budget.</i></p> <p>GAWB comment As outlined in section 7.3 of GAWB's <i>Expenditure Proposals</i> submission, GAWB's proposed cost pass-through is to cover additional expenditure for ongoing audit and administration requirements of a new employing entity, that may be imposed on GAWB by legislation. There should be no change to staffing costs if an employing entity is required. However, any unavoidable costs should be treated as a cost pass-through.</p>

2.6 Escalation factors

GAWB has outlined in the *Expenditure Proposals* submission the appropriate escalation factors that have been used to determine forecast operating and capital expenditure. Table 6 outlines the issues that stakeholders have raised in relation to GAWB's proposals.

Table 6

Customer	Issues raised
RTA	<p><i>GAWB's proposal to adopt short run historical averages for forecasting cost escalation factors is not supported for two reasons:</i></p> <ul style="list-style-type: none"> • <i>historical data, when considered in isolation, does not necessarily contain useful information about likely future outcomes; and</i> • <i>the 3 year timeframe chosen by GAWB to escalation factors displays a historically high level of price growth.</i> <p><i>We suggest adopting an independent, defensible forecast for escalation factors where available is more appropriate. If historical averages are adopted, a longer term average is a more appropriate estimate.</i></p>
CPM	<p><i>The concept of selecting 2007-2009 indicators and carrying this forward into the next 5 year period is flawed. 2007-2008 represents the tail end of what could be described as the economic boom in Queensland. The economy moved remarkably downwards in 2009 and recovery will take time. Resources became and are currently more readily available and the</i></p>

Customer	Issues raised
	<p data-bbox="440 230 1246 264"><i>competition for firms to gain/continue business is more aggressive.</i></p> <p data-bbox="440 338 651 371">GAWB comment</p> <p data-bbox="440 376 1326 656">As GAWB is not able to adjust for any over or under expenditure during a regulatory period, it is important that forecasts are as meaningful and accurate as possible. Determining appropriate escalation factors is an inherently difficult process however GAWB believes that the escalation factors chosen are representative of the likely movement in costs for the next regulatory control period. GAWB submits that while the use of the Consumer Price Index is appropriate for certain types of expenditure, it is not appropriate to use as an escalation factor for all types of expenditure.</p>

2.7 Other issues

2.7.1 Weighted Average Cost of Capital (WACC)

GAWB acknowledges the further comments made by CPM, QAL and RTA in relation to the WACC proposed by GAWB. As per GAWB's *Response to Stakeholder Submissions* in relation to the *Commercial Framework and Pricing Principles Submission*, GAWB recognises that the Authority will consider GAWB's operating environment and other regulatory decisions, including those made by the Authority, when determining the WACC methodology and parameters to apply for the next regulatory control period.

2.7.2 Price transitioning

'CPM is supportive of the view of price transition, but firmly believes a price transition of 5 years is far too short. The price transition period should be consistent with the customer's current contract or remaining contract term is appropriate'. GAWB contends that in any price transition recommended by the Authority must be based on the principles outlined in section 2.4 of the *Commercial Framework and Pricing Principles* submission. Any transition path outside of said principles would be subject to separate commercial negotiations with individual customers.