

Ref: 385/20/1  
Letter No:

02 July 2004

Attention: Ralph Donnet  
Queensland Competition Authority  
GPO Box 2257  
BRISBANE Q 4001

Dear Sir

**GAWB: 2004 INVESTIGATION OF PRICING PRACTICES**

CS Energy has prepared the attached submission to the Issues Paper accompanying your letter of 29 April 2004.

An electronic version of this letter and submission has been sent by email as well.

Nothing in this submission is considered confidential

Yours sincerely

Ron Roduner

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# 2004 INVESTIGATION OF GAWB PRICING PRACTICES

## SUMMARY

The matters of most interest to CS Energy in this QCA Issues Paper relate to the demand side management and drought management aspects of GAWB's operation.

Whilst price stability and recognition of CS Energy's past capital contribution are of important commercial concern, security of supply is critical.

The Callide site, with some 1,600MW (16% of Queensland's total interconnected capacity) is dependent on water from Awoonga Dam, so it is clear that security of water supplies for Callide is a matter of state significance.

CS Energy would also recommend that the QCA allow open discussion of submissions prior to making any final recommendations.

## BUSINESS OVERVIEW

### Water Supply Issues

The review of hydrology in times of drought may tend to have a pessimistic bias just as the opposite can be the case during significant periods of wet conditions. A mechanism for accommodating any upward revision to the Awoonga Dam hydrology may need to be considered as well as the prospect of a further downgrading.

Rather than vary reliability, a scale of reliability with appropriate pricing will drive the customers to make their decisions on the basis of importance of continuity of water supply. CS Energy intends controlling its own reliability through various operational procedures. This will be achieved through discussions with GAWB and changes to the water supply agreement.

### Water Demand Issues

CS Energy's water requirements are reasonably stable regardless of weather and climatic conditions, i.e. demand isn't higher in dry conditions or less in wet conditions, and is largely unaffected by hot or cold weather either locally or within the remainder of the state.

CS Energy is working with GAWB on the feasible demand side management alternatives within CS Energy's control. Incentives for CS Energy to provide demand side management would be to have relief from the take-or-pay requirements in any water supply agreement.

### Cost-effectiveness of Supply and Demand Management Initiatives

It is recommended that, in addition to the demand side management initiatives, augmentation alternatives are costed, planned and necessary approvals obtained to allow construction to proceed in an orderly and timely manner.

## **GAWB'S PRICING FRAMEWORK**

### Pricing over time

CS Energy has long-term supply contracts with GAWB that are intended to provide surety of supply and a degree of price stability for CS Energy and reciprocal stability for GAWB. Overly frequent price reviews are in conflict with the concept of stability of long-term agreements, particularly when the impetus is based on subjectively determined issues, which may prove to be neither consistent nor accurate.

An area of difficulty for GAWB in planning and price setting is the difference between the volume of water actually used by customers compared with their indicated contractual allocations.

### GAWB's Drought Management Plan (DMP)

CS Energy's experience with the implementation of GAWB's previous DMP showed that it could be improved. GAWB did not adhere to its DMP by invoking reductions ahead of schedule. The other issues were that restrictions were not lifted as soon as possible and significant demand side management action by CS Energy was not given due recognition despite being of considerable significance and benefiting all GAWB's other customers. Banking was raised by CS Energy at this time and remains an issue, but is only one component of a number of considerations for the overall DMP.

The other major cause of concern is GAWB's failure to acknowledge CS Energy's fixed allocation as determined by its past capital contribution. This was also not included when determining the allocation to which the drought reductions would apply.

## **ELEMENTS OF THE MAXIMUM REVENUE REQUIREMENT**

The matters canvassed under this heading in the QCA Issues Paper cover the range of current thinking on the philosophy of pricing and CS Energy does not have any comments.

## **PRICE REVIEW AND MONITORING ARRANGEMENTS**

Pricing mechanisms should allow GAWB to gain from improved efficiencies as an encouragement to GAWB to seek them.

Pass through pricing is just a cost-plus arrangement and does not by itself provide an incentive for GAWB to seek better ways of running its business. A pricing scheme that provides an incentive for GAWB to improve its business for the benefit of all parties, GAWB and its customers is preferred.

Unanticipated gains (or losses) in efficiency should not be part of a regular price adjustment arrangement. They may be indirectly considered along with all other factors when there is a price review. Price reviews probably should be held every 5 years, or whenever there is a significant change in GAWB's asset base (e.g. dam raising) or customer base (major new user or a permanent big step up or down in an existing customer's off take). In the interim period, a CPI - X price escalation formula is preferred. It is suggested that the value of X should be varied depending on the general level of inflation e.g. when CPI growth exceeds 5% p.a., X = 50% and for CPI less than 5% p.a. X = 25%.

The Brisbane CPI would seem the most appropriate index to use.

The QCA is the preferred arbiter of price levels and price adjustment mechanisms and should be the authority to disseminate any generic information on pricing.