



Please address all correspondence to The Chief Executive Officer

GLADSTONE
REGIONAL COUNCIL

QLD COMPETITION AUTHORITY

Contact Officer: Mr Larney
Our Ref: SCW

10 AUG 2009

DATE RECEIVED

4 August 2009

Mr John Hall
Chief Executive
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Hall,

RE: GAWB 2009 INVESTIGATION OF PRICING PRACTICES – CONTINGENT WATER SUPPLY STRATEGY

I refer to your letter of 24 June 2007 and the submission located on your website.

Council would support the continued practice of zonal prices for portable water and raw water spurs as per proposals 1 and 2. These suggestions by the GAWB are consistent with the current practice and the introduction of a second source of supply would not impact on these additions to the core raw water network and therefore there would appear to be no justification to amend the current pricing methodology.

The two previous Councils and the new Regional Council have and continue to argue that the augmentation of the Board's water storage will principally be the result of new industries establishing in the region, and as such, they (i.e. new industries) or the State Government which attracts these new industries, should pay the higher cost of water coming from the Fitzroy River. Domestic consumption has not risen significantly since the 2001 drought and therefore any future augmentation of supply is not to meet the needs of Gladstone's residents. The existing storage facility can easily accommodate natural growth within the existing customer base.

To force Gladstone residents, which use less than 20% of the region's water, to pay significantly higher water prices once the second source is connected is nothing more than local residents subsidising the establishment of major industries into the region. Council believes that this is an unfair impost on Gladstone residents and is inconsistent with other domestic water customers in Queensland.

Council would make the following comments in relation to the issues raised in GAWB's submission.

The establishment of a second source of supply is to meet future demand as well as increasing the surety of supply. Given those facts, the question becomes, which of the new and existing assets are

water source assets? Because supply is charged uniformly, the complication with this question is that Callide customers access water solely from the Awoonga Dam and hence will not use water from the second source. However, Callide customers certainly do benefit from the increased surety of supply which results from having the second source, because they are able to access more Awoonga Dam water during periods of drought. However, surety of supply is only achievable if there is a raw water main or artery running from one source to the other. The flow charts contained in the submission clearly indicate that all customers with the exception of the Callide customers could and probably will be supplied with water from either Awoonga or the Fitzroy.

The submission calls for the separation of the two storages as well as the Fitzroy River pipeline (excluding a small amount of the pipeline) from the raw water delivery network. This decision is presumably designed to limit the adverse financial impact on Callide customers. It is also assumed that the excluding of a small amount of the pipeline is to deter customers in the Aldoga area accessing cheaper water directly from the source (Fitzroy pipeline). The difficulty with this proposal is that it is designed to create an artificial boundary which is based on no economic or functional basis other than to arrive at a predetermined pricing outcome.

Page 15 states *"If the connection between the new source and the existing delivery system was not considered part of the source then those customers taking water supply but not delivery would not see the true marginal cost of consumption and the cost of increased system wide supply reliability."* The basis of this statement is correct, however by arbitrarily saying that supply goes only to this point (that will be defined sometime in the future), after which it becomes delivery infrastructure is solely designed to arrive at an artificial outcome where there are no major winners or losers. This is acknowledged on Page 30 of the submission which states that *"GAWB proposes to retain the zonal pricing methodology in large part to minimise the winners and losers from the connection of new sources."* It is somewhat surprising that an economic pricing model would be proposed on the basis of not creating winners or losers, because that desired outcome would appear to lack economic rigour and fails to truly consider the facts of the network. It also casts doubt into the value of future reviews if they are only designed to maintain the status quo. The fact is that system wide supply reliability is only achievable with a raw water main connecting the two sources. Therefore, Council would argue that the raw water main connecting the two sources is in fact a key component of the Board's water source and should be included as part of the source asset.

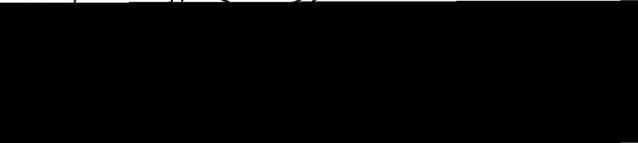
Page 27 of the document states *"including the trunk raw water delivery network in the source definition will not provide any signals related to constraint of the trunk raw water delivery network"*. While this statement is valid in a single supply network, it is questionable if it is true in a dual supply network. To illustrate that point, demand by consumers in the Aldoga area will not dictate the raw water main size, pumping costs etc between Aldoga and Mt Miller because this infrastructure is required to potentially supply Fitzroy water to the whole network, not just to a portion of it. Therefore each section of the raw water network (excluding spurs) must meet the needs of all consumers rather than some defined list of zonal customers. The reality is that the Mt Miller section of the main potentially needs to supply raw water from the Fitzroy River to Boyne and QAL. Therefore it would appear very clear that the whole raw water main connecting the two storage facilities are integral to the supply of all water within the network and should be regarded as part of the supply asset rather than the delivery asset. This obviously impacts significantly on the Callide customers, however to charge them a different water price would contradict the philosophy that all customers should pay the same price for the same service. Page 14 of the submission states that *"equity requires that all*

customers pay the same water reservation and storage price for this common reliability product.” All customers must mean all customers and the raw water main running from the Fitzroy to the Awoonga Dam is an integral component of this common product.

Council would support the general thrust of proposals 6 through 11 as being commonsense solutions to the relevant issues raised in the submission. Council would strongly support the intention of point 7 in that demand initiatives which delay augmentation should be treated as if they were augmentation costs. Clearly there is little point in undertaking demand mitigation works if demand is well below dam yields as there is no benefit for customers. The only potential problem with the suggestion is if it actually provides incentives for customers to defer demand management initiatives on the basis that other customers will subsidise these outlays. This would produce an outcome that is completely opposite to the intention of the whole pricing model.

If you have any questions regarding this, please do not hesitate to contact Mr Mark Larney Council's Director Corporate Service or the undersigned.

Yours faithfully,

A large black rectangular redaction box covers the signature area, obscuring the name and any handwritten notes or dates.

GRAEME KANOFSKI
CHIEF EXECUTIVE OFFICER