



**NRG Gladstone Operating Services Pty Ltd.**

(Operator for the Gladstone Power Station Joint Venture)  
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**Message SUBMISSION ON WATER PRICING PRACTICES 2010**

This submission is based on the QCA Draft Report, Gladstone Area Water Board: Investigation of Pricing Practices dated September 2009.

## Background

Gladstone Power Station (GPS) has a tripartite Treated Water Supply Agreement (TWSA) between NRG Gladstone Operating Services Pty Ltd (NRG), Gladstone Area Water Board (GAWB) and Gladstone Regional Council (GRC). Basic terms of the agreement are:-

- GAWB sells potable water to the GRC based on annual nominations provided by NRG
- GRC on sells potable water to NRG plus reticulation charges
- NRG funds the cost of repairs for the spurline and reservoir supplying the Gladstone Power Station (GPS)
- Acknowledgements in the tripartite agreement entitles:
  - o The GAWB to review its pricing practices for the future supply of water to the Council and if the Board does so, the Council will at all times be entitled to review its pricing terms for the future supply of Water to NRG.
  - o Neither the Board nor the Council should be exposed to risk of financial loss due to their respective pricing terms for their respective obligations to supply Water.

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The Gladstone Power Station Joint Venture is comprised of the following companies which are liable severally in the following proportions:

GPS Energy Pty Ltd ACN 063 207 436 (22.125%)	GPS Power Pty Ltd ACN 009 103 422 (20.000%)	Sunshine State Power B.V. AREN 062 295 425 (20.000%)	Sunshine State Power (No 2) B.V. AREN 063 382 829 (17.500%)	SLMA GPS Pty Ltd ACN 063 779 028 (8.500%)	Ryewal II GPS Pty Ltd ACN 063 780 058 (7.125%)	YKK GPS (Queensland) Pty Ltd ACN 062 905 275 (4.750%)
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## Gladstone Regional Council Price Averaging

The GRC will source potable water from a number of pricing zones for residential, commercial and industrial purposes. The GAWB has up until this submission, undertaken to charge the Council & Shires that make up the GRC one price for potable water.

The GAWB has in the past managed the averaging of water pricing across connections. It now proposes moving to a zonal pricing system with prices reflective of that particular zone.

In Section 5.4 the GAWB proposes to hand the responsibility for managing the averaging of potable water prices, which the GRC is exposed to across multiple zones of the water distribution network, to the GRC.

In a submission to the QCA on GAWB Pricing Practices dated November 2001, NRG on behalf to the GPS Joint Venture successfully argued that GPS should not be exposed to cross subsidisation or equalisation schemes.

*In 2001, the QCA recognised the significant difference in the cost of providing water services to each individual Council.*

**Our position on an equalisation arrangement across the parts making up the GRC has not changed.**

The price of water charged to the GPS by the GRC should consist of the following components.

1. The Glenlyon Road Junction zonal price for potable water,
2. Plus the GRC reticulation charges

## Instantaneous Flow Rate Pricing

### Background

NRG's Water Entitlement in a Financial Year shall be their allocation of up to maximum of 2007 ML. This is equivalent to 5.5 ML/day or 64 l/s. There is provision in the TWSA for GPS to take up to 8.0 ML/d from the Jeff Ringland Drive reservoir subject to providing prior notice to the GRC so they have sufficient time to maintain a reservoir level to meet supply requirements.

GPS has a normal daily volumetric usage of between 2.5 ML (29 l/s) and 3.0 ML (35 l/s) of potable water.

The reservoir was installed during the construction of the Power Station to buffer the water supply against an instantaneous flow rate greater than could be supplied by the Local Authority. Initially, GPS was the only connection to the reservoir over looking the Power Station. Industrial premises in the Clinton Industrial estate have increasingly been connected to the reservoir.

In March each year NRG provides the GRC with water nominations for the next succeeding Financial Year. In April each year the GRC provides the GAWB with its water nominations for the next succeeding Financial Year including the Gladstone Power Station component.

GPS has 2 connections after the reservoir.

1. A primary connection of 300 mm diameter supplying the majority of water
2. A backup connection of 150 mm diameter supplying the coal area

### Instantaneous Flow Rate Pricing Detail

The Commercial Framework and Pricing Principles for the 2010 Pricing Review submitted in September 2009, do not provide detail on where a customer's maximum flow rate is determined.

For GPS, metering for the proposed Instantaneous Flow Rate Pricing would be within the GRC reticulation system, so would presumably be supplied by and under the control of the GRC.

Migrating GPS from a volumetric pricing to an Instantaneous Flow Rate Pricing arrangement without addressing the following issues removes the ability for Station Management to effectively manage and control the Station's water supply efficiently and effectively.

1. Instantaneous flow rates at the GPS boundary are not appropriate measures of the GPS burden on the network. The Jeff Ringland Drive reservoir was installed for the specific purpose of buffering the GPS peak demand on the network. Hence, high IFR's occurring at the station boundary are accommodated by the reservoir's buffering.
2. Given that other customers are now connected to the reservoir, if the GPS MIFR must be measured, it needs to be gauged after the reservoir but prior to the take off for the 150 mm diameter back up connection. This should be in a section of pipe set a side for exclusive use by the GPS. Currently, supply is taken from a trunk main from the reservoir running along the eastern boundary with the primary and backup connection approximately 100 metres apart.

Failure to provide an exclusive connection would corrupt NRG's MIFR by other industrial users of the reservoir and the trunk main discharging water from the reservoir.

3. Under an Instantaneous Flow Rate Pricing arrangement, NRG rejects being exposed to the CIFR and the MIFR of the GRC who purchases potable water on behalf of NRG as part of the GRC's Financial Year water nominations.

Under the TWSA, NRG has a Financial Year allocation of 2007 ML/year and should not be exposed to a CIFR greater than our entitlement under the TWSA. The MIFR of the GRC is unknown to NRG and NRG is unable to adequately model this scenario to determine the level of risk.

NRG requests QCA undertake modelling on it's behalf for NRG's allocation under the TWSA to allow NRG to make an informed decision; however in the absence comparative data NRG rejects Instantaneous Flow Rate Pricing on 2 grounds:

- Instantaneous Flow Rate Pricing under the TWSA, NRG is exposed to the CIFR and the MIFR of the GRC where NRG relinquishes control over its MIFR.
- Instantaneous Flow Rate Pricing takes no account of the Jeff Ringland Drive reservoir's original purpose.

**NRG submits it can not support Instantaneous Flow Rate Pricing until further information is made available.**

## Surcharge

The Commercial Framework and Pricing Principles for the 2010 Pricing Review submitted in September 2009 do not explicitly state that contracts with an original term greater than 20 years will have a nil surcharge. This can be inferred from the Summary of Proposal on page 50.

<2 Years (Incl. Uncontracted)	2 to < 5 Years	5 to < 10 Years	10 to < 15 Years	15 to < 20 Years	> 20 Years
25%	20%	10%	5%	3%	0%

The TWSA signed in March 1994 is for 35 years & expires 31 December 2029. The time remaining for the contract to run is 20 years.

**NRG submits that contracts with an original term greater than 20 years be allocated 0% surcharge throughout the entire term as indicated in the table above.**

## Price Cap Form of Regulation

Previously, the QCA has supported a Price Cap over a Revenue Cap.

Quoting in part from c2.1.1.1,

*A revenue cap may not provide GAWB with sufficient incentive to put in place relevant contractual arrangements as prices can be varied to achieve allowable revenues within the regulatory control period.*

GAWB indicated in c5.5.2, applying either the volume pricing or contracted maximum IFR, there is expectation revenue will be identical.

**NRG supports a price cap methodology as it drives behaviour delivering efficiency gains.**

## Transitional Pricing

Gladstone Power Station has a consistent daily off take of between 2.5 and 3.0 ML/day. Volatility of water prices due to the capacity and timing of augmentation projects can be smoothed by the continuation of the transitional pricing arrangements.

**NRG as agents for the Participants in the GPS Joint Venture requests price increases not take place immediately and be phased in over 5 years commencing from the start of the next regulatory period on 1 July 2010.**

## **Planning Period**

NRG has always stated it requires a reliable water source with certainty of supply and pricing to enable NRG to meet its commercial obligations. A 20 year planning period is consistent with supply reliability and price certainty.

Impacts on GPS moving to a 5 year planning period are:

- Water storage and supply significantly influenced by large industrial projects.
- Relatively small customer base.
- GAWB only water provider in the Port Curtis region.
- Increased pricing volatility – price shocks.
- No water market and unable to hedge against volatility
- Exposes NRG to paying for excess capacity not required by GPS

**NRG supports a 20 year planning period and does not support migrating to a 5 year planning period.**