GAWB 2010 PRICE REVIEW

CS Energy, through its 100% ownership of Callide B and its 50% ownership of Callide C, accounts for nearly 50% of GAWB's raw water commitments from Awoonga Dam.

CS Energy receives water from the Awoonga Dam via the SunWater owned pipeline drawing raw water direct from the dam. That pipeline is a safeguard for GAWB's Gladstone customers as an alternative raw water offtake point from Awoonga Dam in the event of a breakdown of GAWB's raw water offtake equipment or to allow maintenance by GAWB of that equipment.

CS Energy's comments are restricted to the high level matters of concern to CS Energy.

GAWB lists three proposed changes to regulatory arrangements as being most significant:-

1. ***Demand forecasts for pricing purposes*** that include highly certain demand underpinned by customer contracts which would::

- Allow cost of demand triggered augmentation to be signalled to customers;
- Provide that the existing Customers won't bear the cost of indicative demand forecasts driving different forms of augmentation

GAWB has a small number of existing customers who have reasonably stable annual requirements covering a significant demand. This should allow a very high degree of accuracy in forecasting and provide less divergence between projected and actual offtake in a year. The quantum of annual raw water demand relative to the storage capacity of Awoonga Dam provides GAWB with a degree of low cost operational flexibility from year to year.

It is CS Energy's position that existing customers should not bear the cost of augmentations based on indicated demand from potential customers or on augmentation driven by new demand. If potential customers were required to fund the cost of their new demand and to pay an up-front charge (rebated against actual water usage once they commence drawing water) GAWB would have a sound mechanism for achieving accurate forecasts.

CS Energy considers that a user pays approach is the most efficient way to refine demand projections.

2. ***Change from Price Cap to Revenue Cap price regulation***

GAWB's argument for the change to a Revenue Cap:

- Allocation of demand risk to customers;
- Avoids GAWB being conservative in its demand forecast causing higher price.

CS Energy has a preference for the Price Cap or alternatively a Price Cap for the Access Charge which, owing to its relationship to the capital base, is not volatile and a Revenue Cap for the Volumetric Charge as the variable costs have the potential to be more volatile. CS Energy would support GAWB in respect of allocating demand risk to customers to encourage forecasting accuracy.

3. ***Price/Term differentiation***

In general, CS Energy agrees with GAWB's view on the relationship between price and contract term whereby long term customers obtain a price benefit over short term customers.

However there may be occasions where it is commercially sensible for GAWB (and therefore beneficial for its other customers) to provide water for a short term project at a price that covers variable costs plus a small margin e.g. a project with a choice of locations, one of which is in GAWB's region and running, say, less than 12 months when Awoonga Dam is relatively full.

It is CS Energy's view that there should be no surcharge for contracts in excess of 7 years.

Changed regulatory arrangements

GAWB is proposing the following changes to the regulatory arrangements:-

- 5-year rather than 20-year price averaging
- Instantaneous Flow Rate (IFR) pricing for delivery services

CS Energy does not agree to the blanket application of 5-year price averaging rather than 20-year price averaging. For customers where their demand requires augmentation, a 5-year price averaging may be justified, however this is not so for customers where demand is satisfied by existing assets.

Specifically, the nature of CS Energy's offtake arrangement, which is directly from Awoonga Dam, does not require an IFR pricing system.