CS ENERGY SUBMISSION ON THE QCA INVESTIGATION OF GAWB PRICING PRACTICES

3.2 CS Energy agrees with QCA comments on monopoly pricing oversight.

3.3 CS Energy agrees with the QCA's proposal on retaining the hybrid price regulation.

3.4 CS Energy agrees with the QCA's three listed risk items and considers that the second listed risk (supply) being of most concern to CS Energy.

3.5 CS Energy agrees with the QCA about being best able to assess its own demand for water from GAWB.

3.6 On risk allocation, although the QCA does not provide a definition of hydrology risk, CS Energy does not agree with inclusion of the hydrology risk item. Both GAWB and CS Energy can take steps to minimize the impact of hydrology risk (eg demand management in advance of the impact, because an hydrology risk will not be an instantaneous and unforseen effect). A similar comment applies to drought risk (that CS Energy considers to be a subgroup of hydrology). In summary CS Energy considers that hydrology is a vague term that should not be glossed over as a reason for GAWB avoiding its responsibility for acting as a prudent operator. CS Energy agrees with QCA's other dot points in this area.

3.7 CS Energy would be interested in QCA's views on a price cap for the volumetric charge and a revenue cap for the access charge rather than a price cap on both charges. A revenue cap may be more appropriate for the access charge as it is presumed that, for CS Energy, the major determinant of that component is the capital cost of the dam, which is relatively static in magnitude in between upgrades.

3.8 CS Energy agrees with the QCA proposal for a 20-year planning period but is indifferent as to the use of a building block or a cash flow model.

3.9 CS Energy agrees with the 5-year review period with the next review in 2010.

4.2 CS Energy agrees with using LRMC, two-part tariff but is indifferent as to Turvey or AIC method.

4.3 CS Energy agrees with using 2-part tariffs for both storage and delivery, though only the storage service applies to CS Energy. CS Energy accepts the 100% take or pay component on the access charge provided any capital contribution is correctly dealt with elsewhere. CS Energy does not accept the differential between Council and industrial customers for pricing overruns. The QCA has not explained how the charge is calculated.
Banking is an integral part of Demand Management and requires further work by QCA. CS Energy sought a banking facility with GAWB during the drought

in 2002/03 but this was not entertained by GAWB despite the significant real reduction in consumption by CS Energy at the time in response to GAWB's request. If GAWB seeks cooperation from its customers in times of distress it must demonstrate its willingness to reciprocate and banking can assist in that process. Relief from Take or Pay or ability to take water at later date at no charge or a reduced charge are possible ways to deal with the matter. It may be that the QCA could find are examples of relevant banking methodologies in the gas industry if water industries in other parts of the world do not provide examples.

4.4 CS Energy agrees that price differential should exist based on utilisation of different components of GAWB's assets network as QCA describes, together with the added differential for capital contributions. No differentiation between new and existing customers is agreed, as is the concept of different prices for different levels of service and reliability and other contractual differences and credit risk. Determination of the differences would not be easy in some instances.

4.5 The QCA's comments on contributed assets are accepted.

4.6 CS Energy considers that the price should already include some allowance for drought costs based on historic information. Setting up alternative water arrangements in advance so they can be implemented quickly when required in times of drought is what would be expected of a prudent operator and the cost of doing that preparatory work is a reasonable part of GAWB's costs.

4.7 No comment.

5.1 HNFY is, to some degree, subjectively determined. CS Energy recommends reviewing it immediately prior to each 5-year review. CS Energy is not able to comment on the accuracy of the present estimate but accepts 78,000 ML for the purposes of this review.

5. 2 CS Energy accepts MJA's demand projection.

6.2 DORC is acceptable to CS Energy.

6.3 QCA's proposal accepted, but CS Energy considers that the dam valuation should be from a revaluation rather than rolled forward from the previous valuation.

6.4 Accept QCA comment.

6.5 Accept QCA comments.

6.6 Accept QCA comment.

6.7 Accept QCA comments.

7.3 No comment.

7.4 CS Energy considers the market risk premium at 6% is too high for an organization with GAWB's risk profile and the CPI projection should be at least 3% rather than 2.6%.

8. Accept QCA comment.

9.2 CS Energy agrees that some general administration costs should be shared equally on a per customer basis where the cost of servicing is not a function of the quantity of water supplied. CS Energy does not have the information needed to calculate the magnitude of this cost or the allocation of costs between users of the various components of capital.

9.3 CS Energy remains of the view that a CPI – X is a more effective way to control operating costs provided accurate costs are determined at review periods.

9.4 CS Energy has no comment on ECMs

10.3 CS Energy accepts the QCA proposals on Change in Circumstances.

10.4 CS Energy agrees that the Brisbane All Groups CPI is appropriate and agrees with the price smoothing suggested by the QCA.

10.5 CS Energy accepts the QCA's proposals on monitoring.

11.3 CS Energy acknowledges the QCA's overall proposal for implementation of new pricing, though in the case of CS Energy, because of the existing contract's financial and operational aspects that are specific to CS Energy/GAWB, settlement of price and other terms may be completed with effect from a date other than 1 July 2005.