

Bauxite and Alumina
12 Creek Street
Brisbane Queensland 4000
Australia
Postal Address:
GPO Box 153
Brisbane Queensland 4001
Australia
T +61 (0) 7 3867 1711
F +61 (0) 7 3867 1775

10 September 2008

Mr EJ Hall
Chief Executive
Queensland Competition Authority
PO Box 2257
BRISBANE QLD 4001

Our reference 080908 ltr Report of GAWB_Part B
Your reference

Dear Mr Hall

RE: Draft report for investigation into GAWB contingent water supply strategy pricing practices (Part B)

Thank you for the opportunity to comment on the QCA's report into Gladstone Area Water Board's (GAWB) Part B submission. We apologise for the delayed response and trust our comments will be useful in finalising your report.

We provide our brief comments below. Please note we have only commented on those specific issues tabled in the report where we felt our views could provide additional context from a customer's perspective rather than reiterating the issues raised in our previous submission.

Criteria for Drought Triggers

We note the Authority's views on GAWB's conservative in-flow assumptions. While Rio Tinto Alcan (RTA) is comfortable with GAWB's inflow assumptions, RTA supports further analysis to identify higher probability inflow assumptions that would permit a considered delayed augmentation without comprising security of water supply.

Criteria for Unexpected Additional Demand Triggers

We note the Authority's views on GAWB's 5% water loss allowance. It is RTA's opinion that system water loss allowances should be based on recent historical performance rather than a desired performance indicator (e.g. 3%). The allowance can be revised on a regular basis to reflect system performance for the previous period. This avoids factoring in an assumed level of system efficiency which may or may not reflect actual system performance.

Review of GAWB's Proposed Process

We note the Authority's views on a 120 day consultation period for customers to respond to a potential augmentation trigger event. It is RTA's understanding that binding proposals must be submitted to GAWB 30 days from provision of notice.

This is an insufficient period of time for RTA to develop and commit to robust, viable alternatives. The likely response is for customers to expend resources to develop and maintain alternative supply options well in advance of a possible augmentation trigger event without any certainty of deployment. We should note that while RTA prefers a longer period in which to respond, it is concerned as to the impact, if any, a longer response period would have on GAWB's contracting strategy and construction price certainty.

While not specifically mentioned in the report or our earlier submission, it is our opinion that augmentation is more likely to be triggered by emergent demand. Unlike a drought where certainty of trigger is increased over time (i.e. as the drought persists over many years), a demand trigger can effectively materialise 'overnight' if a new water intensive site strikes a water supply contract with GAWB. Without an understanding of the looming demand trigger, it is difficult for customers to develop alternative supply options in the short period of time proposed by GAWB. It is RTA's opinion this risk can be somewhat mitigated by the provision of customer demand commitments and forecasts on a transparent and regular basis by GAWB so customers can form their opinion on the potential timing of a demand trigger and take steps to develop alternative supply options in advance of the trigger event. RTA understands this may present some confidentiality issues relating to customer information however such a process is in the best interests of all GAWB customers.

Yours sincerely

A black rectangular redaction box covering the signature of Paul Arnold.

Paul Arnold
General Manager, Commercial Development