



GLADSTONE
REGIONAL COUNCIL

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QLD COMPETITION AUTHORITY

19 OCT 2009

DATE RECEIVED

Contact Officer: Mr Larney

Our Ref: JAB:WS1.2

14 October 2009

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

Dear Mr Hall,

RE: GAWB: 5 YEARLY INVESTIGATION OF WATER PRICING PRACTICES

I refer to your letter of 8 September 2009 and thank you for the opportunity to comment. Issues that Council would like to raise are as follows:-

1. WEIGHTED AVERAGE COST OF THE CAPITAL (4.4)

The WACC rate identified in the report on the Queensland Competition Authority's (QCA) website has been significantly affected by the global financial crisis and is likely to bear little relevance to the 5 year period which is covered by the current review. There is already ample evidence that the factors which dramatically impacted on this WACC rate are dissipating. The current 20 day average is too short to provide any consistent rate because it can be subject to short-term market fluctuations. It would seem more appropriate for both customers and GAWB to move to a longer term averaging of rates to take out unusual movements to either the upside or the downside. A potential increase of 25% in the WACC rate is not appropriate and should not be supported in this review.

2. PRICE CAP vs REVENUE CAP (2.1)

Council has no preference for one cap over the other, however it is essential that whichever cap is approved, does not create incentives to overstate future demand thereby unnecessarily bringing forward supply augmentation to the great cost of existing and future customers. History conclusively demonstrates that all previous GAWB or their consultants' demand projections have significantly overstated actual future demand. Future demand projections need to include some level of contingency, however the reality is that only a small percentage of possible projects will ever reach fruition.

3. PRICE DIFFERENTIATION (5.2)

In principle, Council would support the proposal to include a price surcharge based on a current contract and the length of that contract. However it would appear that the GAWB has done very little to negotiate new contracts with their long term customers whose previous contracts have lapsed. The reality is that Council has a number of issues which need to be resolved prior to the entry into a new contract e.g. Pikes Crossing customers etc. These issues and the overall contract needs to be resolved between two parties free of interference or unnecessary pressure. It could be argued that this provision is really GAWB's attempt to put a gun to the head of existing customers to sign a contract or face the consequences of significantly higher water prices.

4. INSTANTANEOUS FLOW RATE PRICING (5.5)

Council would support instantaneous flow rate pricing or any other measure which attempts to charge customers based on their impact on the network. Council has its own storage facilities and therefore unlike many industrial customers can take water when it is most advantageous for the efficient running of the distribution network.

Council would ask that consideration be given to see if there are peak and off-peak periods and if there are, whether an off peak rate should be considered.

Clearly whatever can be done to delay augmentation of the network will benefit all customers that use that infrastructure. Council believes that all customers would support any mechanism which ensures the efficient use of the network.

Please do not hesitate to contact Mr Mark Larney, Council's Director Corporate Services on (07) 49758100 if you have any queries in relation to the issues raised in this letter.

Yours faithfully, 



GRAEME KANOFSKI
CHIEF EXECUTIVE OFFICER