



Level 26, 400 George Street Brisbane Queensland 4000 AUSTRALIA
PO Box 5743 Central Plaza, Brisbane, QLD 4001
Ph 07 3001 7153 Fax 07 3001 7178

27 March 2020

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Sirs,

RE: GLADSTONE AREA WATER BOARD PRICE MONITORING 2020-25 DRAFT REPORT

I refer to your letter dated 27 February 2020 regarding the price monitoring investigation of the Gladstone Area Water Board (GAWB), which extends to the prices GAWB proposed for the next five-year regulatory period (1 July 2020 to 30 June 2025), pursuant to section 23A of the Queensland Competition Authority Act.

As noted in your response, none of your reports (to date) are binding on GAWB, as the Queensland Competition Authority (QCA) was not requested to make a recommendation to the Treasurer for this price monitoring investigation, pursuant to Part A (page 5). Furthermore, we note, that the extent to which GAWB can make changes following a QCA report depends on the Pricing Principles in Callide Power Management's (CPM) contract and how those can be amended, pursuant to Part B (pp. 30-31) of your draft report.

CPM would like the QCA and GAWB to be aware of its Pricing Principles as highlighted in the Schedule of the Water Supply Agreement (WSA) and would encourage GAWB to consider sound commercial negotiations made in good faith in this respect.

The revenue under-recovery methodology proposed by GAWB will have a material price shock to Callide C operating costs. CPM is encouraged by the QCA recommendations that provide for several alternatives aimed at reducing the impact. It should be highlighted that the revenue under-recovery has been created through no fault of the customers of GAWB.

CPM maintains that the Awoonga Dam spillway upgrade should be undertaken in two stages and separated by the Queensland Government requirements for when they should be completed i.e. 2025 and 2035. This is to ensure that existing customers are not subsidizing future customers (which is one of the issues we are currently facing with revenue under-recovery).

Lastly, the Directions given to the QCA did not seek to review GAWB's 2015-20 opex. The QCA noted a 17% increase in opex for the 2015-20 period compared to the estimate of prudent and efficient opex determined at the time of the 2015 investigation. GAWB's proposed 2020-25 opex represented a 30% increase over 2015-20. Despite the QCA not investigating 2015-20 opex (which CPM recommends should be included in its review), CPM is confident in the approach that has been applied to the 2020-25 opex costs (bottom up and supported by KPMG) and pleased to see the draft findings showing an 8.5% decrease.

Yours faithfully,

Shayne King
Commercial Manager