



Ref: B/D/19/27374

25 October 2019

Attention: Flavio Menezes
Chair
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Menezes

Gladstone Area Water Board – Price Monitoring 2021-2025

We thank you for making us aware that the Treasurer directed the Queensland Competition Authority (QCA) to monitor the prices of the Gladstone Area Water Board (GAWB) for the period from 1 July 2020 to 30 June 2025 (2021-2025). We understand a draft report is due from the QCA by 28 February 2020 and a final report by 29 May 2020. To assist in this process we welcome the opportunity to comment on GAWB's initial submission.

CS Energy Ltd (CS Energy) is a GAWB customer through the wholly owned Callide B Power Station and the joint venture in the Callide C Power Station. CS Energy is providing comments on behalf of Callide B Power Station. Callide Power Management (CPM) will submit a response to the GAWB proposal on behalf of the Callide C Power Station owners to which we give in-principle support.

Whilst the indicative pricing impact on the base price at Awoonga (CS Energy's offtake point) is forecasted to decrease by 6%, CS Energy does not believe GAWB has provided sufficient information to allow us to make a fully informed decision on whether the prices submitted reflect efficient and prudent operation.

In addition, we note that the under recovery, a cumulation of increases in costs not recovered over the preceding pricing periods, is not included in the indicative pricing.

CS Energy's key concerns regarding the GAWB submission and under recovery focus on:

- Clear articulation of the changes in the cost structure as applicable to Raw Water;
- Appropriate inclusion of capital expenditure (CAPEX); and
- The recovery of past under recovery and impact;

Changes in Cost Structure

Consistent with the pricing review, the draft Bulk Water Price Review does not provide sufficient information to determine the attributed savings nor the determination of the allocation of costs associate with Raw Water. CS Energy notes the indicated 6%

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reduction in pricing however cannot quantify the key changes in GAWB's operations. A lack of clarity does not allow for reasonable assessment of the pricing structure. This includes the methodology for attribution of the costs associated with the water reservation and the volumetric charge.

CS Energy would seek clarification on the key changes in expenditure items affecting the Awoonga water pricing for the 2021-2025 period.

CAPEX

GAWB proposed capital expenditure in the 2021-25 pricing period will replace aging assets and address regulatory or compliance obligations.

The Capital forecast includes the stage 2 and 3 capacity upgrade (\$60m) associated with Dam safety work in 2025 driven by compliance requirements, these cost are to be amortised over the current residual life of the dam at 120 years.

The regulatory dam safety upgrades stipulate that the Acceptable Flood Capacity for the dam is required to meet 65% of the Probable Maximum Flood (PMF) by 1 October 2025 and 100% of the PMF by 1 October 2035.

CS Energy agrees to the completion of the regulatory dam safety upgrades to be met by 2025 but does not agree with works to be undertaken that are required by 2035 within the current 2021-2025 pricing period. This does not reflect the appropriate cost structure for CS Energy as a customer.

Under Recovery

The under recovery is forecasted to be \$125m by 1 July 2020. The QCA is yet to advise a mechanism to recover the amount with consideration given to both GAWB and the customer.

An initial assessment of the potential impact of the accumulated under recovery to be recovered from existing GAWB customers could be upwards of a 11% increase based on a 5-year period through to 6% over a 10 year period. This will likely reduce any savings currently reflected in the draft base water price.

CS Energy requests the QCA to formulate an appropriate approach regarding the recovery of under recovery with fair and consistent treatment across all customers. CS Energy is happy to meet with the QCA if required to understand the proposed methodology and potential impacts.

CS Energy is pleased to have this opportunity to participate in QCA's price monitoring process for the 2020-2025 GAWB submission. Should you require any clarification on any of these issues please do not hesitate to contact me on 07 3854 7402.

Yours sincerely



Jason Mahoney
Head of Resources and Commercial