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- 9 JUL 2004

E J Hall
Chief Executive
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Mr Hall

I refer to your letter dated 29 April 2004 inviting a submission on the Issues Paper released recently by the Queensland Competition Authority (QCA) entitled "*Gladstone Area Water Board: 2004 Investigation of Pricing Practices*".

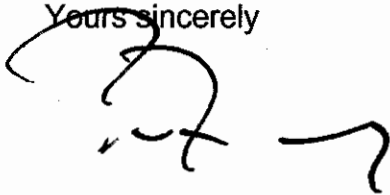
The Department of State Development and Innovation (DSDI) is satisfied that the basis for determining existing pricing practices for the Gladstone Area Water Board (GAWB) continues to be relevant in respect of this investigation.

In addition, as identified in the Issues Paper, there are changed circumstances that should also be taken into account in the current investigation. In particular, security of supply is an important factor given the extended drought recently endured in Central Queensland and the impact of climate change on management practices and long term water planning. To this end, it needs to be recognised that any development in respect of enhanced security of supply or alternate sources of supply by GAWB, may not be consistent with the "just-in-time" planning and development strategies upon which the current asset evaluation methodology establishes maximum price setting. Consideration could be given for the inclusion of excess capacity within the regulated asset base for prudential management reasons, with the additional infrastructure priced to reflect the enhanced security of supply to users.

Based on DSDI's involvement with GAWB's Strategic Water Planning Project, I anticipate that the outcomes from this project, when released later this year, would assist the Authority in addressing foreshadowed issues from the previous investigation that now require further consideration. This updated information on demand projections and supply and management strategies, risk etc, would provide useful input into your pricing considerations if the reporting timeframe for your report could accommodate the finalisation of GAWB's work.

I trust these comments will assist QCA in its review. Should you have any further queries, please contact Mr Brett Garner on 3225 8023.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Paul Fennelly', with a long horizontal stroke extending to the right.

Paul Fennelly
Director-General