

7 May 2002

Mr Paul Swan
National Competition Council
Melbourne

Dear Paul,

Re: Water pricing in Brisbane

In follow up to our discussion this afternoon, I have outlined below the approach Incitec has taken in relation to recent substantial increases in water pricing for our facility.

Water is an essential input/requirement in Incitec's manufacturing process. It is required for the cooling towers (Ammonia Plant process) and as steam, to react with methane, as part of the ammonia process. Incitec has no ability to substitute any other commodity for water in these applications.

Incitec is currently paying Brisbane Water/BCC \$1.03/kL for water which amounts to a cumulative increase of 73% in water costs since 1997. (A higher price of \$1.13/kL was threatened unless a Water Efficiency Management Plan was submitted to the BCC.) In contrast, the average householder is paying \$1.05/kL (based on 1100 litres/day). This is evidence of cross subsidisation and without transparency of information we can only assume that other cross subsidies exist.

As we understand the Water Resource Policy, following the CoAG Agreement in Hobart on 25 February 1994, water pricing in general called for "desirably the removal of cross subsidies which are not consistent with effective service, use and provision". This also required "Where cross subsidies continued to exist they be made transparent". Given that domestic consumers are being charged close to identical tariffs to large volume users, irrespective of geography and load factor, we have questioned whether Brisbane Water/BCC has acted in conformance with the CoAG agreement. Our views are further reinforced by the Hunter Water Corporation Determination 2000 which allocated a reduced third tier to industrial customers on the basis of geography and efficiency of use, resulting in a delivered water tariff to Incitec of 79c/kL.

Incitec, in conjunction with a number of other industrial water users, has been lobbying for a transparent process and the right to negotiate with respect to water.

Our approach has involved the following:

- A joint working group involving other water users and Brisbane Water
- Meetings with the Lord Mayor
- Promotion of the Hunter Water Corporation Process as a benchmark (Nb/ Incitec has a manufacturing plant in Newcastle) which incorporates:
 - A transparent and open regulatory regime
 - A third tier pricing regime (discount for large users based on geography and efficiency of use)
 - IPART adopting a "less than" full optimal replacement cost methodology
- Participation in the submission process in relation to the "Assessment of whether the bulk water activities of nominated councils are monopoly business activities".
- Presentations to Department of State Development and Office of Energy

- Letters to Treasury
- Development of a water model, endorsed by the BCC, which highlights the true cost of delivered water to be a lot lower than the current price (Information has been withheld due to sensitivity)

We are currently waiting for a declaration from the Treasurer and the Premier in relation to the bulk and retail water activities of the BCC. This has not been a short process and is only the first step. A referral to the QCA for prices oversight is also required.

Incitec believes that prices oversight by the QCA is one way to achieve transparency in water pricing and it should also provide an avenue for arguing for the ability to negotiate for industrial users. The benefits of the open and transparent regulatory process are evident when viewed in light of Hunter Water Corporation.

This is not a *new* issue for Incitec. Water pricing has been a concern for our company for over two years. We wanted to raise this concern with the NCC and call for any assistance and support that can be provided in ensuring that the QCA's powers are tested, cross subsidies are eliminated and a transparent process be put in place.

Should you require any further information, please contact me directly on 07 3867 9404.

Kind regards

Mary Goodwin
Energy Development Manager