GLADSTONE ECONOMIC AND
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1 November 2007

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

Dear Mr Hall

I refer to your letter dated 5 October 2007 and its attached Draft Report on the Contingent Water Supply Strategy of the Gladstone Area Water Board. Please accept this submission from the Gladstone Economic and Industry Development Board (GEIDB).

In general, the QCA's draft report is a substantial and useful discussion. On the drought mitigation aspects of the QCA report, GEIDB notes that the QCA endorses GAWB's approach as being prudent. On the subject of demand however, I wish to bring to your attention GEIDB's concerns about two aspects of the QCA's investigation.

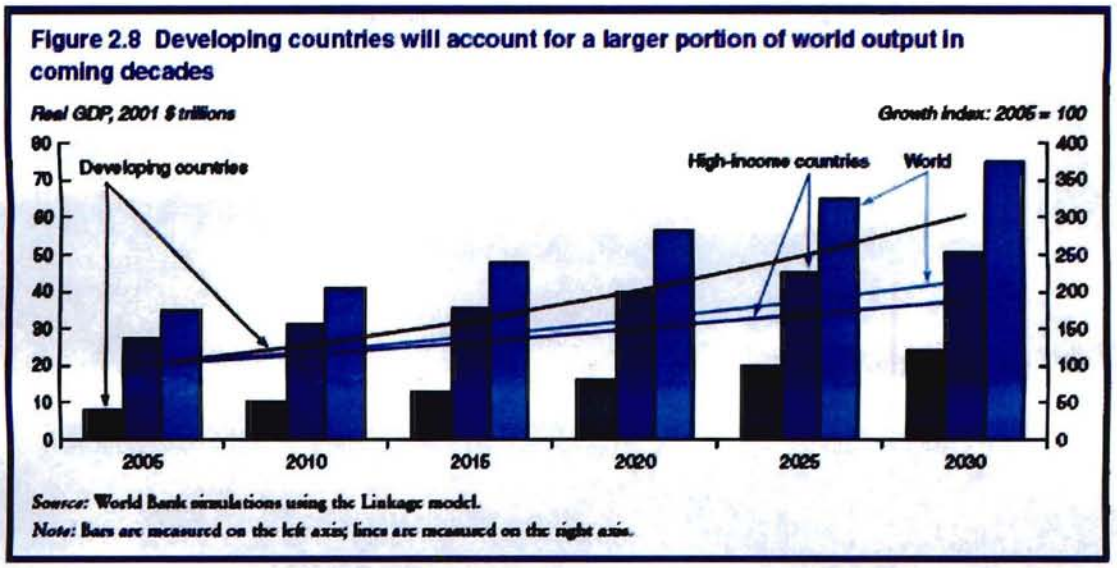
1. Methodological basis of the QCA assessment of demand

The QCA acknowledges that a range of demand scenarios exist. The QCA however, advances a method of demand estimation in which it "has not sought to assign any level of probability to each of the demand scenarios identified but *on the basis of historical precedent* considers that high demand scenarios are less likely" (pp 15.).

Evidently the QCA considers the historical record as being a more reliable guide to the future demand than a probability assessment such as that applied by GEIDB. GEIDB acknowledges that over estimation of future demand has occurred in previous investigations. Nevertheless, GEIDB is unconvinced that the QCA retrospective analysis is a more reliable method. An adequate body of information exists upon which a reasonable probability assessment of future demand can be made.

Essentially, the QCA considers that past demand is a reliable guide to future demand. In order for this to be true however, the past economic conditions that gave rise to past demand would need to be more or less the same as future economic conditions. GEIDB considers this fundamental assumption to be questionable. Far from a continuity of underlying economic conditions, GEIDB concurs with many industrialists and economists that the period 2006 to 2030 will stand in discontinuity with the period 1980 to 2005. Indeed, the World Bank publication, *Prospects for the*

Global Economy 2007, provides an extensive forecasting and modeling discussion that suggests that the gross product of world economy may more than double by 2030 (pp 39). As depicted below, the World Bank forecasts this expansion to be around $40 trillion.



GEIDB accepts the World Bank view that "global economic growth will be somewhat faster in 2006-30 than 1980-2005" (pp xiii). It is not unreasonable to expect therefore, that Gladstone's globally oriented, mineral and energy driven economy will be influenced by this enhanced growth and that demand for water will accrue at a rate at least as high as in the past.

Accordingly, GEIDB submits that the QCA assessment of the future water demand in Gladstone should be revised and should use a method that places more emphasis on observation of present and emerging trends.

2. Shifts in Supply / Demand Balance

The QCA notes that the maximum single step up in demand has been of the order of 11,000 ML / annum and that the largest 5 year increase was of the order of 17,000 ML/annum. The QCA argues that major project construction lead times of around 3 years in conjunction with 15,000 ML / annum of existing spare capacity "should allow GAWB sufficient time to plan for augmentation". GEIDB seeks the QCA to reconsider its position on this matter for the following reasons:

(a) There is no basis to expect that the largest future demand increases would be of the order of 11,000 ML / annum and 17,000 ML / annum simply because these are the current record figures. Indeed, as world scale for major industrial projects gradually increases it is to be expected that increments in water demand and other utilities will also increase.

(b) Unlike the supply / demand balance situation in June 2007 when there was 15,000 ML/annum of spare capacity in Awoonga Dam, there is now only 10,000 ML/annum of spare capacity. 5,000 ML/annum of the 20,000 ML/annum increase in demand forecast by GEIDB has in fact occurred.

Thus, the existing reserve margin is now less than the record largest single step up in demand.

(c) Gladstone Pacific Nickel (GPN) is presently working to a revised Stage 1 water demand significantly greater than 10,000 ML / annum. It is distinctly possible therefore that the existing reserve margin will be exceeded by committed forward demand by early to mid 2008. Despite the already stretched civil construction supply chain, GEIDB trusts that the Fitzroy supply augmentation should be deliverable within the 3 year lead time for GPN. Importantly however, the pipeline would be time critical infrastructure wherein installation delays imply consequences for industry. Pre - planning for the augmentation by GAWB is therefore a key risk mitigation measure to ensure adequate and timely water supply for demand growth, not just drought.

(d) In terms of cumulative demand GEIDB has adjusted its forward estimates to take account of the Rio Tinto Alumina Refinery Stage 2 demand commitment and changes in potential demand that have recently come to light (see attachment 1 – Commercial in Confidence). At time of writing, GEIDB considers that there is a high probability that around 4,000 ML/annum of additional demand will be committed by 2011. In addition there is a medium probability of around 18,500 ML /annum of additional demand being committed by 2013. Thus there is a medium to high probability that a shortfall of around 12,000 ML /annum may occur by 2013. While these figures are highly influenced by the fortunes of Gladstone Pacific Nickel, they do not take into account all of the prospective projects presently considering an investment in Gladstone. One such prospective project is the proposed 2.1 mtpa Chalco Alumina Refinery that may consume in the vicinity of 5,000 ML/annum. As such GEIDB is not advancing a "maximum" water uptake scenario.

In conclusion, GEIDB maintains that demand increase is an important factor for the contingent water supply strategy. The QCA Draft Report did not attribute enough significance to demand. GEIDB requests the QCA to reconsider its position on methodological grounds and on the recent shifts in the existing and potential supply / demand balance for Gladstone.

Regards,

Randall Byram
Chief Executive