



**Gladstone Economic and
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Queensland Competition Authority
GPO Box 2257
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I refer to a letter from Mr E J Hall dated 13 April 2007 that invites submissions on the pricing investigation into the Fitzroy River Contingency Infrastructure proposal that is being advanced by the Gladstone Area Water Board (GAWB).

The Gladstone Economic and Industry Development Board (GEIDB) has no specific comments on GAWB's selection of a pipeline as the preferred supply option as opposed to other supply options. Similarly GEIDB has no specific comments on the proposal's expenditure recovery aspects or the level of efficient costs.

In relation to the timing and prudence of the proposal however, GEIDB considers GAWB's proposal to be essential to ensuring Gladstone's water supply is reliable for industrial development. GEIDB seeks the Queensland Competition Authority to consider the following issues in its deliberations.

Capacity critical for investment attraction

GEIDB is responsible for attracting world scale industrial projects to the Gladstone State Development Area and the broader Gladstone development region. These projects tend to involve resource / minerals processing and have heavy multi modal infrastructure demands. Through its interaction with the proponents of these projects, GEIDB has obtained a unique insight into the factors that the proponents weigh up when making their investment decisions.

It is evident that the timely availability of reliable infrastructure capacity is a critically important factor. However, in the drought affected Australian and Queensland contexts, it is becoming increasingly clear that project proponents expect great emphasis to be paid to reliable water infrastructure. Project proponents tend to become concerned when the spare capacity (i.e. unallocated sustained yield) of water supply reaches around 10%. In addition, the adverse experiences of electricity generators at Tarong and Swanbank has resulted in project proponents becoming very sensitized to water supply risk. GEIDB believes that the investment attractiveness of Gladstone would suffer heavily if spare capacity falls to 7,000 ML / annum.

Future Project Demand

GEIDB is presently in talks with a diverse range of major industrial projects but hereon will refer only to those projects that are genuinely "under study". Projects that are in the conceptual phase are not covered. There are presently no significant projects in the committed phase however, it is possible that this may change before the end of 2007.

The Commercial – in – Confidence Attachment 1 lists fifteen (15) under study projects and their potential water consumption. The cumulative potential water demand of these projects is in the vicinity of 27,000 ML / annum. When probability of development is taken into account however, this figure reduces to approximately 20,000 ML / annum of future demand having medium to high potential to occur by the end of 2011.

Given that GAWB presently has 14,000 ML / annum of unallocated water under sustained yield conditions, it is possible that future industrial demand may result in a water supply deficit of 6,000 ML / annum by 2011 if a significant supply augmentation is not undertaken.

A supply augmentation of the order of 30,000 ML / annum by 2011 appears to be required to ensure that a water supply deficit does not occur and that a reasonable reserve margin is maintained.

Project Timeframes

The Commercial – in – Confidence Attachment 2 lists the construction timeframes of five potential projects that are classed as either high or medium probability of proceeding to commitment. This sample of projects, representing approximately \$7.3 billion in capital expenditure, covers a construction lead time that ranges from 18 months to 30 months. All of the 15 projects under study are understood to have lead times that fall within this range.

It is evident from this data that supporting infrastructure has no more than 30 months from time of demand commitment to when supply needs to be available. This timeframe presents a strong challenge to infrastructure providers who need to perform system augmentations.

The implication of the project timeframes is clear. Infrastructure supply augmentations need to be under study concurrently with the under study phase of major industrial projects. If not, the timing of the infrastructure augmentation runs a high risk of being misaligned with the needs of the industrial projects.

GEIDB considers the actions of GAWB to be a prudent recognition of contemporary major industrial project lead times and the need for concomitant infrastructure to be under study on a concurrent rather than sequential basis.

Infrastructure Construction Lead Times

Queensland is currently undertaking a major round of infrastructure investment. This investment has coincided and is partly driven by the resources boom that is itself also driving major capital works. Together with a comparable set of activities in Western Australia, the Queensland infrastructure and mining investment programs have caused a substantial tightening in the supply chains that major infrastructure programs rely upon. The tightening of supply chains has led to cost escalations and has elevated the timing risk of major infrastructure development.

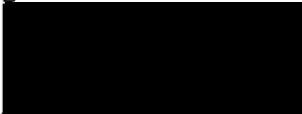
Unfortunately, there appears to be no respite in the pressure on the supply chains. Indeed there are strong signs that the pressure may intensify in coming years as projects outside Queensland may compete aggressively for resources and succeed in diminishing the state's access to skills and equipment. For example, in the United States, the \$160 billion reconstruction of New Orleans and other gulf communities has recently commenced and is targeting Australian construction supply chains (see Attachment 3). In Australia, BHP Billiton is preparing to commence a \$7 billion expansion of its Olympic Dam copper / uranium mine that may require in the vicinity of 5,000 construction personnel.

Amid this activity, GAWB's efforts to progress a contingent water supply strategy are to be commended. If GAWB delays, there is a very real risk that competition from other projects in Australia and overseas may cause cost and time blowouts that could culminate in threats to the security of water supply to Gladstone.

Summary

In summary, GEIDB strongly supports the proposed Fitzroy River Contingency Infrastructure proposal. When considered in the context of the construction timeframes of industrial projects and the tightening of construction supply chains, GAWB's approach is a prudent effort to guarantee that Gladstone's water supply remains reliable. It is an approach that will confirm that capacity will be available when needed. The timely availability of capacity is a highly valuable attribute for investment attraction. A reasonable reserve margin of capacity helps Gladstone and Queensland retain the confidence of existing industry and greatly assists efforts to win new world scale project investment.

Regards



**Russell Byram
Chief Executive**

CC Mr Leo Zussino, Chairman, Gladstone Economic and Industry Development Board
Mr Michael Schaumburg, Deputy Chairman, Gladstone Economic and Industry Development Board