

4 June 2007

Mr. Paul Smith
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Dear Paul

PROPOSED PRICING PRACTICES OF THE GLADSTONE AREA WATER BOARD

Reference: Your file reference 5-25-03 dated 13 April 2007

We have reviewed the referenced submission made by the Gladstone Area Water Board (GAWB) regarding the treatment of costs incurred in preparing a contingent supply source strategy for water to the Gladstone Region.

GAWB's approach to fully accepting the responsibility for water supply to the area, its proactive approach to the timely supply of water under uncertain demand and supply situations, and its plans to secure long term water supplies is commendable. Indeed it is refreshing to see such an approach being taken. Other utility and infrastructure proponents within Queensland could take a lesson from GAWB as the community is currently suffering because of an apparent absence of planned infrastructure development.

The pricing philosophy and approach being taken by GAWB is also supported. GAWB need confidence their investigative efforts will be paid for by end users at a later time. Their approach to identifying the Fitzroy and desalination plant options is also supported.

GAWB's recognition of the need for certainty of long term, reliable water supply in the planning and implementation for new industrial projects is of particular relevance to Gladstone Pacific Nickel. We are currently in the process of completing a Definitive Feasibility Study for a world-scale nickel refinery in Gladstone. Water is a critical input to our Project and we require certainty that water will be available for this US\$2.8B Project.

In our view the investigations of the Fitzroy pipeline and the alternative desalination plant as sources of supply should be continued as planned (section 11.2 of the submission). Additionally it is recommended that an updated cost review of the desalination plant should, if not already included, also identify updated capital and operating costs for such a facility. The existing high power and capital costs in the current market are likely to have significantly increased the existing cost estimate.

Gladstone Pacific Nickel supports GAWB in its requirement:

- (1) to have certainty on the treatment of costs incurred in preparing for bringing water supply from the Fitzroy River on stream within 24 months;
- (2) for these costs to be recoverable from all its customers through prices charged for water from 1 July 2010;
- (3) that the costs incurred in undertaking preliminary investigations into the feasibility and cost of a desalination plant be handled in the same way; and
- (4) that if the Fitzroy River option becomes redundant (e.g. because the desalination option becomes the preferred contingent supply) then GAWB will be compensated for the costs incurred as appropriate.

We believe the controls built into the regulatory process to ensure the costs incurred and recovered are reasonable and necessary, are sound.

We look forward to your favourable consideration of the GAWB submission.

If you have any further questions on this response please contact Bruce McCleary on 07-3211-8899 or email bfm@gladstonepacific.com.au.

Yours sincerely,



John Downie
Chief Executive Officer