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GAWB Price Monitoring Review 2025-2030

Professor Flavio Menezes

Queensland Competition Authority

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<http://www.qca.org.au/submissions>

Dear Professor Menezes

## **CEMENT AUSTRALIA SUBMISSION TO THE QUEENSLAND COMPETITION AUTHORITY – GLADSTONE AREA WATER BOARD (GAWB) PRICE MONITORING INVESTIGATION 2025-2030**

Cement Australia (CA) appreciates the opportunity to participate in the 2025-2030 price monitoring process and would like to provide the following business context and items for consideration to the Queensland Competition Authority (QCA).

### Corporate Profile

CA is a leading Australian manufacturer of cementitious materials with the largest dedicated distribution network in the industry. CA has a production capacity of over 3 million tonnes annually and operates plants in Queensland, New South Wales and Tasmania with additional packaging and distribution facilities in Victoria and South Australia. CA has a world class laboratory servicing the broader industry and leading the way towards low carbon cementitious building materials. Further to its technological product development, CA has recently secured a significant Federal Government grant and committed even more internally sourced capital to fundamentally change heat streams to materially reduce fossil fuel usage and related CO<sub>2</sub>-e emissions. CA's Gladstone operations are a critical link in our supply chain, supporting economic and transitional pillars of QLD including alumina and aluminium, sugar and proposed hydrogen and green methanol production.

### Cement Industry

Cement is a critical input into concrete which is the most used man-made material in the world due to its unique properties (strength, durability, thermal mass, affordability and abundance of

raw materials). The versatility of concrete is evident in its widespread use in our houses, schools, hospitals, pavements, roads, bridges, dams and sewage systems.

Cement is manufactured in Australia from local sources of limestone using state-of-the-art pre-calciner technology. An outline of the process is shown in Figure 1 and described below.

Limestone is crushed and blended with minerals such as shale, iron ore and sand. The resultant raw mix, or 'meal', is then sent to a pre-calciner where it reaches temperatures of up to 860°C, before entering a rotating kiln where it is further heated to 1,450°C.

At these temperatures the mix undergoes a sintering process as it passes through the rotating kiln, partially melting and forming nodules of clinker.

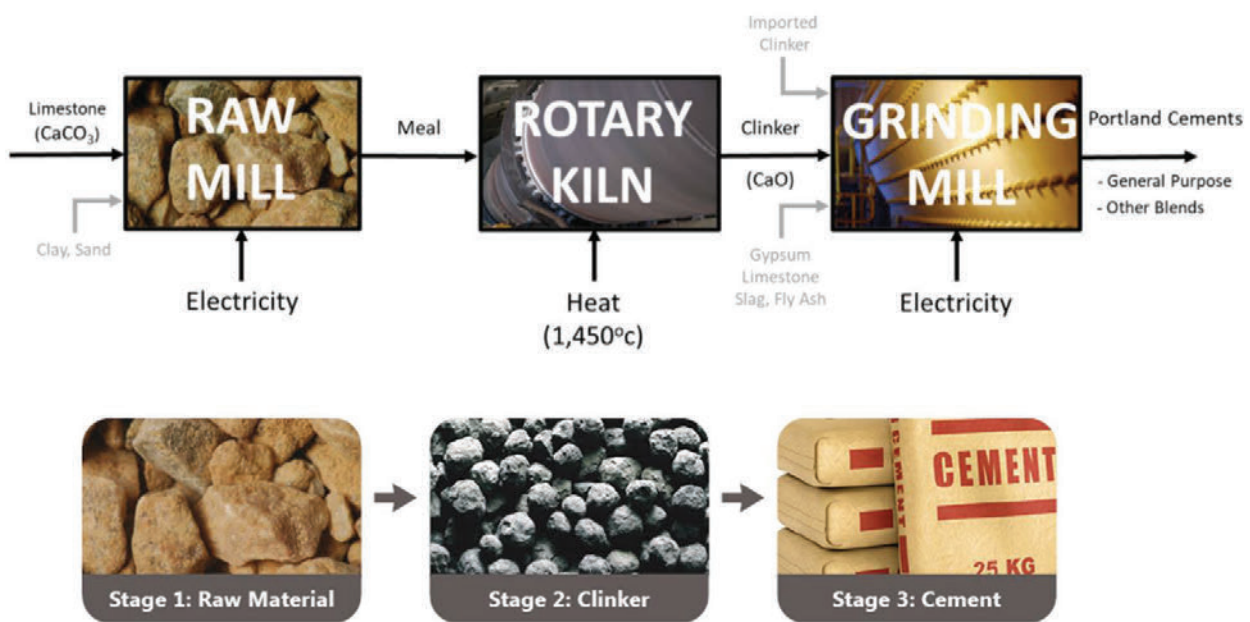


Figure 1: Schematic showing the key stages of cement production

The clinker is then cooled and stored before being sent to the grinding mill, where it is blended with gypsum and other materials (such as unburnt limestone, fly ash and blast furnace slag) – depending on the type of cement required. The resulting cement products are then distributed (via road, rail or sea) to customers around the country.

The cement industry is one of the most trade exposed Australian industries. As a Hard to Abate, Energy Intensive Trade Exposed Industry (EITE), the industry is under increasing pressures to remain internationally competitive. The increase in energy costs as well as the introduction of the Federal Government’s emissions reduction SafeGuard Mechanism is placing unprecedented pressures on ongoing local manufacturing viability. Such costs are not being seen by CA import competitors and need to be contextualised within the lessons learned from recent global supply chain disruptions and sovereign risk exposure associated with reliance on import supplies for critical industries.

Access to reliable and affordable energy and raw materials, including bulk water, underpinned the decision for CA to locate in Gladstone and these remain critical to retaining ongoing local jobs and future investment by CA in Gladstone.

As an Emissions Intensive Trade Exposed (EITE) domestic manufacturer, CA is facing multiple material cost increases with little ability to pass costs on to customers. Retaining cost competitiveness in the face of rising domestic costs is becoming increasingly difficult and places compounding stress on local supply chains, dependent businesses and people.

### Appropriate Prices

Under section 26(1)(m) of the *Queensland Competition Authority Act 1997* (QLD) (the Act), one of the matters which the QCA must have regard to is economic and regional development issues, including investment growth and employment. The magnitude of the price increases proposed by GAWB reduce competitiveness of local industry relative to import and interstate production and will have detrimental effects on future investment decisions for the region. The step change also reduces business security and confidence.

Part C of the referral notice dated 14 December 2023 and amended 23 May 2024, requests the QCA to consider GAWB's application of Appropriate Prices and that these are consistent with Allowable Costs (both terms as defined in the Act).

It is expected that GAWB is financially responsible and prudent and that due care continues to place safety first. It is also appreciated that GAWB should make an appropriate return on its asset base. However, with mounting cost pressures, particularly from energy and water, it is becoming increasingly difficult for CA to maintain a long-term confidence in competitiveness, particularly against imports which are not facing the same pressures. All efforts are undertaken by CA to achieve continuous improvement, however margins are rapidly tightening as the economy slows and demand falls against an increased fixed cost base. CA requests that any consideration of what is "allowable" and reasonable be viewed in light of the prevailing broader economic situation and that the postponement of some of the expenditure and requested price increase be given serious thought.

Smoothed prices allow business to plan, however the 74% step change increase in CA's cost from the start of the new price period is clearly contrary to this intent. Even carving out any East End pipeline replacement costs, a 35% increase is still faced by the Fishermans landing plant. This is far above prevailing inflationary impacts and will only act to exacerbate the current difficult economic climate.

Section 12.2 of GAWB's price review submission shows proposed indicative prices for pricing zones and a wide range of price increases. CA requests further analysis on the distribution of the burden to better share across the board.

### QLD Government Renewable Energy Target

The development of the hydrogen industry is believed to underpin the QLD Government renewable energy target through large scale green hydrogen and other energy carriers to electricity. CA supports the development of the hydrogen and green energy industry and is exploring a range of renewable energy self-supply alternatives in Gladstone and is actively participating in electricity demand response programs essential for grid stability and enabling large scale transition to 80% renewable electricity by 2035. The reservation and volumetric prices

proposed by the revenue-assuring calculation model are not considered to incentivise investment in water-intensive renewable energy, such as hydrogen, and are likely to divert potential renewable energy investment funds to operating budgets of established industry.

### QLD Government's Common User Infrastructure Assessment Principles

CA requests consideration be given to the question of whether the Common User Infrastructure supports the development of competitive industries.

In this case, whilst the common user infrastructure is appropriate, its provision under the model provided and resulting costs to customers discourages and inhibits development of competitive industries. In this regard it is believed that opportunity exists for the government to assist in the delivery of CUI which would support the economic ongoing viability of existing industry and further development of the region.

### Inclusion of Forecast Demand

In addition to the specifically listed matters in the referral notice, CA requests the QCA consider the impacts to existing industry of including forecast new demand from hydrogen and the impact on price and price certainty.

With so many factors influencing the delivery of hydrogen projects, including water costs, it is likely the total water reservation and the base for fixed cost recovery, will change. CA needs price certainty for decision making and GAWB's price methodology will mean that CA is unable to rely on the indicative prices given and is also unable to estimate any potential impact to its costs should included hydrogen proponents fail to materialise.

GAWB's regulatory pricing submission makes references to the hydrogen industry and its need for secure water supply as well as the significance of the hydrogen industry on both the RAB and forecast water demand. Whilst CA appreciates that the capital cost of new connections are covered by the recipients, inclusion of the associated forecast consumption in the 2025-2030 price model causes ongoing cost uncertainty and risk.

Furthermore the intent to pass through the significant but as yet unquantified cost impacts of the Fitzroy Gladstone Pipeline adds materially to business uncertainty.

### Water Conservation

Regardless of cost pressures it is considered good environmental practice to minimise water use and continually seek operational efficiencies that will reduce the need to consume valuable water resources. With the fundamental intent of maintaining allowable revenue, GAWB's price model effectively penalises users for reducing water consumption by increasing prices. Furthermore, this penalty is shared across all users.

### Regulatory Review Cycle and Price Model

GAWB's price model and the 5-year regulatory review process were initially introduced more than 20 years ago when expectations and uncertainty were less volatile. Over the past 5 years industry has experienced the impacts of COVID, sustained inflationary pressure, increased capital and borrowing costs, labour challenges an energy crisis and an ongoing fundamental energy transition. It is expected that the next 5 years will be equally, if not more challenging. On this basis CA

requests a broader review and consideration of the ongoing fitness-for-purpose of the underlying model.

Benchmarking

Although GAWB's customer base for bulk water differs to other bulk water utilities CA proposes a benchmarking exercise be undertaken to establish comparative efficiency standards, methods of managing fixed costs and commercially encouraged conservation strategies. It is noted that benchmarking is undertaken for a number of input factors including remuneration which informs GAWB's labour strategy. Whilst a like-for-like benchmarking exercise might not be applicable, broader consideration is requested to demonstrate that GAWB is determining its prices as though it were a competitive supplier, rather than a monopoly.

I look forward to ongoing consultation and a sustainable outcome.

Yours sincerely

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