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19 October 2019

Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop NSW 2130

To Whom it May Concern,

RE: Pricing Proposal Hunter Water 01 July 2019
Page 41 Location-based water usage charges for very large
customers
Phase out of discount

Orica Australia Pty Ltd (Orica) acknowledges receipt of a letter received on 25 September advising Water Utilities Australia (WUA) that the Hunter Water submission to IPART was recommending the removal of the location-based pricing, based on a principle of equity for customers and as an incentive for water conservation.

Hunter Water's Pricing Proposal (dated 1 July 2019) indicates that consultation occurred with business customers in relation to the proposed changes. Orica is unaware of any contact from Hunter Water. The survey outcomes detailed on the bottom of Page 41 of Hunter Water's Pricing Proposal in relation to customer preferences, suggest that businesses did not have a firm preference for continuing or stopping the "discount" (ie. removal of location-based pricing). This view is inconsistent with Orica's and appears unlikely to reflect the actual view of customers under the location-based pricing structure. Orica recommends that Hunter Water consults directly with its location-based customer group, given it consists of only 19 customers, to ensure genuine stakeholder input occurs when proposing changes that affect commercial viability.

Orica opposes the proposed removal of location-based pricing on the basis of the following;

Equity

Based on the principle of equity, supply charges should reflect the cost of supply to the customer. Orica is a large user of potable water, close to the water source, so the cost of supply is substantially lower than for smaller usage customers. As such location-based pricing for large customers does not reflect a discount, but reflects the lower cost of supply.

Hunter Water's proposal will result in large users subsidising other higher cost customers, which is inconsistent with the principle of equity.

Orica's significant investment in implementing recycled water also allowed Hunter Water to defer system upgrades to potable water supply, resulting in lower costs to supply the total customer base.

Incentive to conserve water

Orica recognises the importance of its role as a business in the Hunter community. As part of its contribution to the community, Orica has invested significantly in reducing its consumption of potable water since 2014, with potable water use now less than 25% of total site usage (refer Appendix). As a result, Orica has moved from being Hunter Water's biggest user of potable water, to in the vicinity of the 19th -largest user.

Orica continually evaluates opportunities to improve resource use, however the significant reduction in potable water use that has already been achieved means there are limited opportunities to reduce potable water usage further. Orica continues to work with Water Utilities Australia to maximise opportunities for use of recycled water.

Orica notes that the preparation of a Water Efficiency Management Plan (WEMP) is required to be prepared as part of the implementation of Stage 1 Water Restrictions, and suggests this regulatory mechanism is sufficient incentive to conserve water, mitigating the need for incentivisation via financial penalty (ie. removal of location-based pricing).

Economic impact

Orica is under economic pressure in relation to rising costs and is required to compete in an internationally trade exposed environment. The additional costs associated with the proposed removal of location-based pricing for potable water contribute to undermining the competitiveness of Orica's Kooragang Island operations.

Recommendations

For the reasons outlined above, Orica believes location-based water pricing remains an equitable approach to potable water pricing, but recognises the need to contribute to efforts to continue to reduce potable water demand, particularly considering drought conditions and Stage 1 Water Restrictions.

We appreciate the opportunity to provide initial feedback on the proposed changes to Hunter Water's pricing structure. If you have any questions in relation to this submission, please contact Grant Rodgers or David Hayes

Signed for and on behalf of
Orica Australia Pty Ltd

Appendix



