

**Incitec Submission
to the
Review of Hunter Water Corporation's Operating Licence
by the
Independent Pricing and Regulatory Tribunal**

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1. Introduction

Incitec is pleased to provide a submission to the Independent Pricing and Regulatory Tribunal of NSW (IPART) to assist with its review of the operating licence for Hunter Water Corporation (HWC). We have contributed our views in the areas of system performance standards and customer and consumer rights.

2. Background on Incitec

Incitec is a national company that manufactures fertilizers, industrial chemicals and crop protection chemicals and markets these to a variety of Australian industries, particularly the agricultural industry. It operates a manufacturing site at Kooragang Island in Newcastle, which inputs natural gas, electricity and water to produce ammonia. This can either be supplied directly to market or further processed to make ammonium nitrate, for use as a fertilizer and an explosive. It manufactures over 400K tonnes of products per annum, which provides important import substitution valued at \$150 million and direct employment of approximately 200 people in the Newcastle area.

Water is an important input in our manufacturing process at Kooragang Island, particularly for:

- the cooling towers (Ammonia Plant and Nitric Acid process); and
- the boilers to generate steam for the ammonia process.

Current water expenditure with Hunter Water Corporation is estimated at \$2.3 million per annum. This is based on a usage of 225,000kL per month (2,700 mega Litres per annum) at Kooragang Island, covering both the Heron Road and Greenleaf sites. Based on figures supplied by HWC, the average domestic customer uses 215kL per annum, making Incitec equivalent to 12,600 domestic consumers in the region. However, as a consistent water user, Incitec places less stress on the system infrastructure.

3. System performance standards

Incitec's Kooragang Island plant operates continuously all year around, therefore standards involving the continuity of water supply, consistency of water pressure and

security of water supply during drought are particularly relevant to us. Incitec and HWC have a good working relationship and Incitec has not encountered any difficulties in water supply or pressure in recent years. However, in the event of water supply disruption or low water pressure, the current standards do not seem to provide incentive for HWC to perform in the interest of industrial customers such as Incitec.

Firstly, the current standards are based on the percentage of properties that are not affected by water supply disruption or low water pressure, and do not distinguish between industrial and domestic customers. Incitec's water consumption is equivalent to 12,600 domestic customers in the region. If Incitec was affected by either water disruption or low water pressure, under the current measurement, Incitec would be counted as 1 property out of the total 185,000 affected properties (Published HWC approximate customer base). This would make HWC 99.999% compliant, but would not represent the true scale of the impact to customers. We therefore propose two alternative options. Incitec has a preference for option 1, as this would provide a differentiation between industrial and domestic customers, and recognition of this difference.

- OPTION 1. to classify customers in groups based on their annual consumption and set percentage standards to reflect on their potential impact; or
- OPTION 2. to standardise each property in accordance to the average consumption, eg. Incitec would be equivalent to 12,600 domestic properties and therefore 6.8% of HWC's customer base.

Secondly, the current standards do not measure and limit the number of repeated incidents and their impact to the same property and customer. From Incitec's perspective, any one-off disruption to the water supply or pressure on the Kooragang Island site would result in tremendous production and consequential losses. We therefore suggest the establishment of a new standard to limit the number of re-occurring disruptions per property, as part of the System Performance Standards.

The future of Incitec depends on the security of resources, such as gas, electricity and water, which are all-important inputs in our manufacturing process. While the current standard covers the security of water supply during drought at no less than 10 yearly intervals, there should also be some shorter-term indicators, work plans

and progress reports. This information should be transparent and available for customers to comment and scrutinise.

4. Customer and consumer rights

Incitec being a large, consistent and predictable industrial water user in the region, would like to reserve the right to negotiate a customised service agreement that is more customer focused. The current Customer Contract and Charter are used as standard measure for all customers of HWC, and do not differentiate the rights and obligations set for industrial and domestic customers. The amount of rebate set for incidences of water interruption, low pressure and sewer surcharge events, are standard amounts and are inadequate in comparison to the potential production and consequential losses for Incitec.

There should be emphasis on HWC to ensure that the industrial customers in the region are not overlooked. Hence, we suggest the following to be included in the current Customer Charter or Customer Contract for industrial customers:

- Rights to negotiate service agreements;
- Rights to negotiate planned water interruptions or restrictions;
- Damages to be assessed individually with rebates that *could* be capped at a certain amount;
- Response and repair time to be measured and set as standard; and
- Customer feedback on HWC performance to be sought and rated annually.

HWC holds Consultative Forums quarterly and Open Board Meetings monthly that are advertised in the local newspaper. Incitec has never been made aware of this consultative process, which may also be the case for other customers in the region. A more formal consultative approach and a wider awareness program, such as that of Sydney Water (and Sydney Water's Customer Council) should be adopted here.

5. Conclusions

Incitec has studied the areas of system performance standards and customer and consumer rights in the current operating licence of HWC. One concern is that the

current standards and customer rights do not differentiate industrial customers from domestic customers, even though their water consumption patterns and requirements are drastically different. We have proposed our suggestions to the current operating licence of HWC for consideration, with emphasis on both industrial and domestic customers.

System performance standards

- a) To classify customers in groups based on their annual consumption and set percentage standards to reflect on their potential impact;
- b) To establish a new standard to limit the number of re-occurring disruptions per property; and
- c) To establish shorter-term (eg. 1-5 years) indicators, work plans and progress reports on security of water during drought (and other circumstances), which are available for customers to comment and scrutinise.

Customer and consumer rights

- d) To allow customised service agreements (especially for industrial customers);
- e) To allow customers to reserve the right to negotiate planned water interruptions or restrictions (especially for industrial customers);
- f) To assess damages on property individually, and then determine the rebate amount which could be capped at a certain amount (especially for industrial customers);
- g) To measure and set standards on the time taken to respond and repair damages;
- h) To set standards based on HWC's product and service performance using customer feedback and rating annually; and
- i) To adopt a more formal consultative approach and extend the invitation to a wider selection of parties, using Sydney Water's Customer Council model as a benchmark.