



Cement Australia Pty Limited

ABN 75 104 953 474

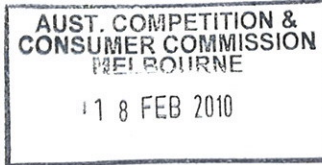
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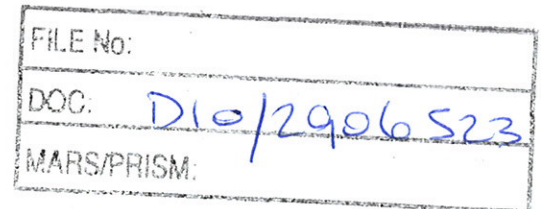
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16 February 2010

Mr Steve Edwell
Chairman
Australian Energy Regulator
360 Elizabeth St
Melbourne VIC 3001
steve.edwell@aer.gov.au



Dear Mr Edwell

AER Review of Electricity Distribution Prices in Queensland

I am writing to you in relation to the Australian Energy Regulator's current deliberations on Queensland's electricity distribution network service providers and would like to draw your attention to the adverse impacts of the significant price increases being proposed by the draft determination.

Cement Australia is the leading manufacturer of cementitious products in Australia. The company supplies 47% of the Australian market. Cement Australia has an annual turnover of nearly one billion dollars, through 4.8 million tonnes of cement sales per annum, and sales of lime products, fly ash and slag. We employ approximately 1,420 employees – largely in regional Australia.

Cement Australia operates three major integrated clinker and cement manufacturing operations, located in Queensland, NSW and Tasmania, as well as some twenty-two facilities providing the support and logistics necessary to supply such a geographically diverse market as Australia.

Making cement is an energy and resource intensive process, requiring the precise combination of lime, silica, alumina, and iron that are fused together during the mixing and cooking process in the kiln. The raw materials are initially heated to 1000°C, calcining the calcium carbonate in limestone to calcium oxide.

Within the rotary kiln, the materials are mixed and further heated to about 1450°C causing a high-temperature sintering reaction to occur, forming a calcium silicate matrix called 'clinker'. All of the materials fed into the kiln become part of the clinker, forming an intrinsic matrix which, once cooled, is then ground with small

amounts of gypsum and other minerals to produce the grey powder commonly recognised as cement.

Cement manufacture is capital intensive with economically efficient increases in capacity being substantial in comparison with Australia's market size. For optimum energy and economic efficiency, kilns must operate at full production with typically only a major maintenance shutdown of perhaps four weeks duration annually.

Cement manufacture is predominantly domestic, requiring ready access to mineral resources most commonly found in limestone, as well as economic energy supplies and market distribution networks. Demand shortfalls are made up from imports due to the aforementioned issues relating to capital intensiveness.

Cement is a vital commodity for the Australian economy, not only as a critical component of any infrastructure development program, but increasingly in resource recovery and reuse innovation – in both cases providing significant economic and social benefits. It's relatively low value and independence from unique geological raw materials, as well as its critical importance for the built environment mean that only very few countries do not maintain a viable and strategically important domestic cement manufacturing industry.

Building materials are the backbone of socio-economic development

Over the last five years, the world economy has grown at a rate of 4–5% and the world population is projected to increase from 6.7 billion people in 2007 to more than 8 billion by 2030, with most of the growth taking place in the developing world. Continued economic growth, driven by entrepreneurship, is indispensable in raising living standards across all strata of society, not least in securing high rates of employment and creating opportunities for millions of entrants in the job market.

These rates of growth require the construction of urban and rural infrastructure and housing. The EU estimates that buildings account for up to 40% of primary energy consumption. Adopting a more sustainable approach to construction will be key to securing long-term environmental, economic and social viability. Given its long life cycle, and owing to its natural thermal inertia, concrete is one of the most energy-efficient and eco-friendly building materials. - Holcim Corporate Sustainable Development Report 2007

Specifically in relation to electricity; Cement Australia currently uses approximately 400 GWh of electricity with almost half of that utilised within Queensland. Energy is a significant operating cost and large price increases will have a significant adverse impact on our operations.

Cement is an acknowledged emissions-intensive, trade-exposed product. Despite significant and demonstrable improvements in energy efficiency (by way of example Cement Australia has achieved a 37% improvement since 1990 in

electrical efficiency alone - measured as kWh/t cement), we remain exposed to imports with our domestic pricing subject to import parity. Our only remedy to maintain competitiveness against imported product is to achieve world-class energy efficiency and to maintain tight cost control. It is a particular concern to us where electricity distribution pricing is allowed to increase significantly and where this may be a result of network operators not being similarly required to operate efficiently and competitively.

If Cement Australia is unable to continue to operate competitively, there will be clear impacts relating to regional employment; loss of security of supply of a critical building sector input material; and obvious flow-on impacts for infrastructure development.

It is important that the Australian Energy Regulator understands that such large price increases come at a time when our business is already under stress due to tougher economic times and where our energy costs are facing significant upward pressure due to the increasing costs of renewable energy and an impending cost of carbon. Additional large increases such as those proposed threaten the viability of energy-intensive, trade-exposed sectors such as cement.

While we support the provision of costs to network operators that ensure a continuing reliable supply, it is critical that these costs drive an efficient distribution network and we strongly urge you to ensure this. In that regard, we are most concerned that the Australian Energy Regulator apply its statutory role to use benchmarking to help establish an efficient level of networking costs.

We trust that the AER will give our submission due regard, particularly given the significance of these decisions for companies such as Cement Australia, and the cumulative impact on the Australian economy.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Stuart Ritchie".

Stuart Ritchie

National Sustainability Manager

Cc: The Hon M. J. Ferguson MP, Minister for Resources and Energy
Hon Stephen Robertson MP, Minister for Natural Resources, Mines and Energy
and Minister for Trade