Auctus Resources

6 December 2016

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Via online submission

Dear Sir/Madam,

SUBMISSION
REGULATED RETAIL ELECTRICITY PRICES FOR 2017-18

Introduction

Auctus Resources Pty Ltd (Auctus) appreciates the opportunity to provide a submission in relation to the assessment of the 2017-18 regulated retail electricity prices.

Auctus is currently re-developing the Mungana Mine and Process Plant and developing a new mine at King Vol (**Mungana Project**). The Mungana Mine and Process Plant are located approximately seven kilometres north-west of the township of Chillagoe approximately 220 kilometres inland via road from Cairns in far north Queensland. The investment decision for the Mungana Project was based on known factors at the time the decision was undertaken. Auctus is concerned that the introduction of significant changes to electricity supply tariffs by the Queensland Competition Authority (QCA) may have a detrimental impact on cost inputs for the operation of the Mungana Project. Significant tariff changes may force the Mungana Project to cease operation, which would have flow on impacts for growth and employment in regional Queensland.

Therefore, this submission supports the implementation of transitional arrangements for tariff T48. Auctus recommends that the transitional arrangements for tariff T48 allow existing customers to remain on this tariff and any change to the tariff should be consistent with the QCA's recommendation, *"to continue to base notified prices for large business customers on the costs of supply in Ergon Distribution's east pricing zone, transmission region one"* as this should ensure that the Mungana Project will not be exposed to significant step-changes in tariffs.

Discussion

Auctus is the owner and operator of the Mungana Mine facility. The mine is at the end of a long, single circuit 66kV line supplied from Ergon's Turkinje substation on the Atherton Tableland. This section of Ergon's network also supplies the towns of Dimbulah and Chillagoe. The mine is currently supplied on Ergon's tariff T48. The Mungana Mine is the main employer of the residents in the town of Chillagoe.

While Auctus supports the objectives of the *Electricity Act*, we consider that tariffs for large customers should not be altered in such a way that materially impacts the operation of existing customers. The following are the main points that support Auctus' position:

- The Queensland Government's Uniform Tariff policy provides that *"large non-market customers of the same class should pay no more for their electricity, regardless of their geographic location."*[1] This policy supports Auctus' view that the Mungana Mine should not be discriminated against due to its location in a remote section of the Ergon electricity network.

- In the letter accompanying the Delegation initiating this tariff review, the Minister stated that the *"Government remains committed to ensuring regional customers have access to reliable electricity supply at affordable prices"* and are identifying *"ways to assist small and large business to manage their electricity consumption and costs."* The fact the mine is supplied at the end of a long section of Ergon's network means that if full cost-reflective pricing was implemented for the Mungana Mine supply, the network cost[2] alone would make the mine unviable. Therefore, the QCA can assist government commitments by taking into account the impact a significant change to existing tariffs will have on Auctus' operation at the Mungana Mine.

- Auctus supports QCA's assessment that the appropriate approach for 2017-18 tariffs is *"to continue to base notified prices for large business customers on the costs of supply in Ergon Distribution's east pricing zone, transmission region one."* This is the current arrangement under which Mungana Mine is currently supplied, and therefore any future increases will be based on the cost of supply for that zone, rather than specific cost-reflective prices. This will ensure that the Mungana Mine will not be exposed to significant step-changes in tariffs.

- In the QCA request for submission document, the statement is made that *"competition in the large customer segment shows greater promise of developing further, particularly in areas where notified prices more closely reflect the actual costs of supply."* Auctus does not agree that this applies to tariffs applied to the Mungana Mine, as the mine is in a geographic location that is not suitable for competition as actual cost of supply to this remote location impedes competition. Large customers connected to the Ergon network on the east coast of Queensland are able to enter into the competitive retail market as the network costs are in reasonable proportion to the overall costs of supply. As stated above for the Mungana Mine, the network costs are so high that they dominate the energy and retail component of electricity supply, making retail competition ineffective.

Based on the above points, Auctus supports the QCA approach to continue to implement transitional arrangements for tariff T48. With transitional arrangements in place, Auctus should be able to operate the Mungana Mine with the confidence that there will not be any future electricity supply "bill shocks".

I thank you for this opportunity to provide input to the review of the regulated retail electricity prices for 2017-18. Auctus will continue to monitor the tariff review process and provide input to ensure that electricity supply tariffs are fair and reasonable for the Mungana Mine.

Yours sincerely

SMurdoch

STEVE MURDOCH
EXECUTIVE CHAIRMAN
AUCTUS RESOURCES PTY LTD

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[1] QCA Interim Consultant Paper, Regulated Retail Electricity Prices for 2017-18, Section 1.3

[2] Annual Indicative Network Charges of approximately $50 million - provided by Ergon Energy, November 2016