CQMS RAZER Mining's Edge

Queensland Competition Authority

GPO Box 2257
Brisbane QLD 4001

18/10/2012

Dear Sir/Madam,

Submission – Review of Regulated Retail Electricity Prices 2013-2014

On behalf of CQMS Razer (CR), I wish to lodge CR's formal submission regarding your Review of Regulated Retail Electricity Prices for 2013-2014. As a reminder, CR submitted notice in 2011, raising the following concerns:

1. Removal of Tariff 37
2. Consultation Process
3. Transitional Provisions

Points 1 & 3 remain our focus and CR wish to note an improvement in the consultative notification process.

Set out below is an extract of CR's submission last year:

"CQMS RAZER is a global supplier of mining related products and employs approximately 500 staff worldwide. Its main manufacturing facility is based in Maryborough, Queensland and employs approximately 190 staff within the foundry operations. The facility itself has over 140 years of history on this site and is considered one of Australia's most significant foundry operations, (previously under the name of Walkers Pty Ltd).

With regard to the foundry's electricity consumption, we are classified as a Large Customer and exclusively use Tariff 37 for our melting operations. This has been the case for all of CQMS's history and typically consumes 3,500 MWh per annum. The foundry operations involves melting steel using Electric Arc Furnaces, with the majority of consumption during the off-peak period. Because of the nature of melting steel, these furnaces require an extremely large demand over a short period of off-peak time. As such, whilst we are a Large Customer, the actual consumption is small compared to a typical user of such a large demand.

Submission Concerns:

1. Removal of Tariff 37

The removal of Tariff 37 will have a severe financial impact on the Maryborough foundry operations to the point it will jeopardise 190 local jobs. The foundry is already under intense off shore pricing pressure, ignoring the recently implemented EPA dumping charge (circa $200K) and the soon to be introduced Carbon Tax (circa $400K). With the removal of this Tariff, we assume the only transferrable Tariff is Tariff 20, 22 or 43. For example, the cost implication is as follows:

Tariff	*kWh*	*Cost ($)*
37 (Current)	*3,406,104*	*$374,762*
20	*3,406,104*	*$868,863*
22	*3,406,104*	*$1,055,449*
43	*3,406,104* *9000 kW Demand*	*$2,304,521*

Please note that this is based on the current 2011 schedule Tariff charges and does not take into account any future increases. Therefore, electricity costs could be expected to rise by anywhere between 232% and 615%.

2. Consultation Process

The consultation process has been non-existent. We were fortunate to learn that Tariff 37 was disappearing through a casual conversation with our local Ergon representative. Strangely, the current Ergon Tariff Guide (effective July 11) illustrates a foundry operation under Tariff 37, yet the Australian Foundry Institute (AFI) has not been made aware of these changes. For that matter, the Australian Industry Group (AI Group) was not made aware of these changes either.

Furthermore, whilst I have indicated potential Tariff options above, these cannot be verified to exactly which Tariff will be usable by our operations. This is necessary, so we can make decisions about future budgets, current facility viability and on-going off-shore supply.

3. Transitional Provisions

Section 7.2 discusses the need for transitional arrangements for obsolete and declining block Tariff's. It is not clear how this will be negotiated and given the consultation process with industry so far, many questions surround this clause and its implementation. However, as our cost profile suggests, for our business to remain viable these provisions will be necessary.

In summary, I wish to reiterate my concerns regarding the Draft Methodology Paper for Regulated Retail Electricity Prices 2012-13. I have demonstrated the cost burden our business will carry, which will have far reaching implications for our employees and customers. The consultation process has been non-existent and any changes must be delivered through transitional provisions. These matters need to be addressed in an expedient manner and cannot wait until the 31st of May for finalised direction."

CR appreciates the need for Ergon to escalate prices, ensuring Network Charges are proportioned appropriately. We simply ask, that given the vulnerability of manufacturing (in particular the foundry sector) to offshore pressures, that any price increases over the nominated 2013-2016 period be "transitional" and capped at no more that 10% as per the recent 2012 review.

Yours sincerely,

[redacted]

Michael Davies
National Operations Manager
CQMS Razer