

12 August 2014

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2014 Jemena Gas Access Arrangement Review
Australian Energy Regulator

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Dear Sebastian,

Submissions on Jemena Access Arrangement Proposal 2015 - 2020

Thank you for the opportunity to provide a submission on the Jemena Access Arrangement Proposal.

Executive Summary

Qenos's position is that the proposed Jemena tariff increases place an unequal and unsustainable burden on large industrial users such as Qenos due to:

- Jemena's proposed new tariff rates from July 2015 – June 2020 will result in a 8.6% or \$104,000 per year increase in overall costs to \$1.32M p.a.
- Qenos being a trade exposed business is unable to pass on these additional costs
- Such disproportionate increases further distorting the market and increasing the cross subsidisation of smaller and residential customers

Additionally, Qenos requests Jemena retain the 1st response tariffs, but review the onerous requirements to allow large industrials to more readily participate.

Introduction

Qenos Pty Ltd ("Qenos") is Australia's sole manufacturer and leading supplier of polyethylene. Polyethylene is the raw material used in the manufacture of plastic products including water tanks, pipe, film and bottles for household chemicals. The company employs approximately 800 people across its two large manufacturing sites at Botany (New South Wales) and Altona (Victoria).

The Botany site manufactures ethylene and three types of polyethylene (low, linear-low and high density). The ethylene is produced from ethane sourced by a 1400 km pipeline from South Australia's Moomba gasfields (constructed in 1995 at a cost of \$240 million).

Qenos is involved in substantial value-adding processes to Australia's indigenous raw material reserves through its manufacturing operations at Botany and Altona. The Company's annual turnover of between \$700 and \$900 Million makes it one of the

largest petrochemical companies in the region and the largest in Australia (with a capital replacement cost of \$2.5 billion).

Qenos is a trade exposed business that operates in highly competitive markets where prices are determined by the price of imported products. Qenos has no control or influence over these prices in order to achieve a pre-determined return.

Qenos is a large natural gas user. The Botany site uses approximately 3 PJ's of natural gas a year

We request that the AER consider the following issues before it makes a final determination in relation to the Jemena Access Arrangement Proposal 2015 - 2020 ("Proposal").

New Tariff Rates

In Jemena's presentation titled '*Jemena Gas Network (NSW), Fact sheet, Our proposed network prices*' ("**Fact Sheet**") Jemena makes the representation that large industrial users will see modest increases of around 2.5% annually (~13% over the 5 years). This is based on the analysis of a customer in the DC1 tariff with Chargeable Demand (CD) of 402 and MHQ of 21. This analysis is not a true reflection of the increase faced by Qenos, which is currently on a Demand Throughput rate tariff of DMT-3. Qenos has estimated the increased costs for its main site in Matraville (when factoring in both Demand throughput rates and fixed charges) for the period 2015/2016 vs 2014/2015 period to be 8.5% or \$97K per annum. Assuming similar increases over the 5 year period would see Qenos facing a price increase of 42.5%.

The breakdown of the increases

	% increase
Standing charge (Fixed)	24%
Demand throughput	2.5%
Metering charge (1st meter)	18%
Metering charge (2nd meter)	18%

Similarly the increase faced by Qenos' smaller site at Port Botany (tariff rate DC-3 with demand capacity of 181GJ) is estimated to be 8.8% or \$7.5K per annum

	% increase
Standing charge (Fixed)	40%
Demand throughput	6%

Overall Qenos estimates the overall increase in both variable and fixed charges to be \$104.5K per annum.

As a trade exposed business, Qenos is not able to pass through any increased costs to its polyethylene customers. These increased costs will have to be borne by Qenos. A large increase in Qenos's operating costs will have a material impact on Qenos's

ongoing viability, particularly when combined with other cost pressures, including the forecast increase in the price of natural gas.

The Fact Sheet states that Jemena's operating costs will reduce by 4.6% per year. However, Jemena proposes that this decrease be disproportionately passed on to residential and small business customers, whilst significantly increasing the costs to large industrial users. Jemena's rationale is that it wants to attract new residential gas users, which will enable it to further reduce tariffs. In order to do this it is proposing to significantly increase large industrial pricing, impacting upon the viability of such businesses which could ultimately have the reverse effect on total consumption. In summary, the proposal further exacerbates the cross subsidy that large industrial users provide to the market as a whole.

Additionally, large users (including Qenos) are the first customers called upon to reduce total load in the event of a network emergency or supply shortfall. Large users should not be required to bear a greater share of the cost burden while receiving a lower level of supply surety.

For these reasons Qenos requests that the forecast decrease in Jemena's operating costs be proportionally passed on to all customers (both small and large) across the network. Large customers, such as Qenos, should not have increased costs imposed upon them in order to allow Jemena to attract more smaller customers.

1st Response Capacity Tariff

Jemena's proposal includes a recommendation to grandfather the 1st Response tariff (DMTFR), ie. it will only be made available to existing subscribers to the DMTFR. Jemena's justification is that there has been little or no uptake of the DMTFR. In Qenos's opinion the requirements for participation in the DMTFR are too onerous and therefore difficult for larger users to subscribe to. If Qenos accepted the conditions of the DMTFR it would put the operational integrity of the Qenos plant at risk. Qenos appreciates that as one of the largest gas users in Sydney the requirement to curtail a high volume of gas usage at short notice in the event of a network emergency is an important feature of the network. Qenos's modelling suggests that while Qenos is not able to meet the entire requirements set out for uptake of the DMTFR, it should be able to reduce 40% of contracted MHQ 90% of the time within 12 hours' notice (rather than the 6 hour requirement that is currently required). For this reason Qenos suggests it that the DMTRF be retained but the requirements be tailored to better enable large users to participate, particularly as a large user like Qenos may be called upon to curtail its load to similar levels in a load shedding event.

Thank you for considering Qenos' comments. If you have any questions concerning this submission, please do not hesitate to contact Wendy Holtz on (03) 9258 4420.

Yours sincerely



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