Qenos
A Bluestar Company

11 November 2009

Mike Buckley
General Manager
Network Regulation North Branch
Australian Energy Regulator
Email: mike.buckley@aer.gov.au

Dear Mike,

Submissions on Jemena Access Arrangement Proposal 2010 - 2015

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

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 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 imported products. Qenos has no control or influence over prices to achieve a pre-determined return.

We would like the following issues considered before the AER makes a final determination in relation to the Jemena Access Arrangement Proposal 2010-2015 ("Proposal").

New Tariff Rates

Qenos is a large natural gas user. The Botany site uses approximately 3 PJ's of natural gas a year and uses the Capacity Reservation Service under the current Access Arrangement which is to be replaced by Demand Capacity. In its presentation to the public forum on 23 September 2009 Jemena represented that there will be no material change in total revenue from the revision of the demand service tariff. Using the information contained in the Proposal Qenos estimates that the tariff charges for its Botany site will increase to $780k, almost double, if the Proposal is accepted. It is difficult to reconcile Jemena's representations relating to revenue with the likely impact on Qenos's operations.

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.

Demand Capacity First Response ("DCFR")

Qenos understands that there may be potential opportunities to reduce its tariffs by meeting the DCFR criteria to curtail at least 40% of its demand. Qenos has modeled the impact of the Proposal in the event it was able to meet the additional requirements and found that its tariff would remain close to 2009 levels. Companies that are able to comply with the DCFR criteria will provide a financial benefit to Jemena, enabling it to defer capital expenditure required for network capacity increases. In order to realize the opportunities afforded by the DCFR users, such as Qenos, will incur additional costs in reducing gas usage when required and maintaining its systems to meet the necessary criteria set out by Jemena which may increase Qenos's operating costs. It is Qenos' view that customers that are able to meet the DCFR criteria should be rewarded by a reduction in their current tariff costs.

In any event, given the nature of Qenos's operations, it would be very difficult for Qenos to meet the DCFR criteria. Not only does Qenos operate on a 24/7 basis and has limited capacity to alter its off take in a manner consistent with the DCFR criteria but Qenos must also balance its natural gas off take with its feedstock supply. Qenos's ability to take advantage of the reduced rates through being able to meet the DCFR criteria may be further reduced in the near future. Qenos is already considering the replacement of its coal fired boilers, and the introduction of an Emissions Trading Scheme will accelerate this process. Ironically, an adjustment to the network charges may result in Qenos operating its less efficient coal fired boilers for longer.

Chargeable Demand

Under the proposal, demand charges will be based on Chargeable Demand, which is the 9^{th} highest MDQ. Qenos is comfortable with the concept that a user should pay based on its consumption. The definition of Chargeable Demand, however, seems one sided with the potential for tariffs to increase but not decrease. Qenos suggests that Chargeable Demand should be based on the 9^{th} highest MDQ over the last 12 months to take into account increases as well as decreases in gas demand.

Summer Tranche & Short Term Capacity

Jemena has proposed to simplify the Reference Services from seven to two. Under the simplified process, Jemena has removed the availability of Summer Tranche Capacity and Short Term Capacity. The Summer Tranche Capacity enables the user to increase its MDQ from 1 October to 30 April during periods where additional capacity is available. The Short Term Capacity enables the user to increase its MDQ for 1 to 4 weeks due to equipment failure and such exceptional circumstances that occur less frequently then once every year.

Qenos operates two coal fired boilers along with one gas fired boiler and six gas fired furnaces. Up to 50% of the maximum gas load can be consumed by the gas fired boiler when a coal fired boiler is offline. As a result, Qenos peak demand is very sensitive to planned and unplanned outages of the coal fired boilers. The additional services provided by the Summer Tranche and Short Term Capacity enable Qenos to manage its peak load during planned and unplanned outages. Qenos suggests that some form of temporary additional capacity should be considered in the Access Arrangement to enable planned maintenance, and take into account unplanned failures to ensure that users are not paying for capacity that is not used the majority of the time.

Thank you for considering Qenos' comments. If you have any questions concerning this submission, please do not hesitate to contact Andrew Cheah on (02) 8336 1245.

Yours sincerely,

Stephen Bell

Stephen Bell
General Manager Commercial