

House of Representatives Standing Committee on Industry and Resources
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**Supplementary Statement by CS Energy**

Mr Richard Boys, Chief Finance Officer

Date: 7 March 2003

Statement on behalf of CS Energy Limited to the Standing Committee on Industry and Resources, Brisbane sitting, Friday 7th March 2003.

My name is Richard Boys and I am the Chief Financial Officer at CS Energy Ltd. This statement is made in conjunction with and in addition to the written submission by CS Energy in relation to the Inquiry Into Resources Exploration Impediments dated 17th October 2002.

CS Energy Ltd is a Queensland Government Owned Corporation. It is a public company incorporated under the Corporations Law and operated in accordance with the provisions of the Government Owned Corporations Act of Queensland.

CS Energy owns and operates power stations at three locations in Queensland, these being the Callide Power Station at Biloela in central Queensland, the Swanbank Power Station near Ipswich and the Mica Creek Power Station at Mt Isa in the North West. In total the company generates approximately 25% of the total Queensland electricity requirements.

The company's submission to this inquiry focuses on the problems associated with the provision electricity supply to remote areas of Queensland and in particular the impact that this has on the ability of resource companies to invest in development in locations such as the North West Minerals Province in and around Mt Isa.

We have detailed in our written submission five key issues which we see as impacting on the successful development of these resources. These are:

1. The Indigenous Land Use Agreement Process
2. The Absence of Road and Rail Infrastructure
3. The Methods Used to Quantify Resources and Reserves
4. Taxation Issues
5. Economies of Scale In Generation and Distribution of Electricity

The first three of these issues, namely land use agreements, road and rail infrastructure and quantification of resources are not matters in which CS Energy has any particular expertise or involvement but they are referred to the Committee as matters which we observe in the conduct of our business are of considerable concern to the customers who take our electricity and who often refer to these as issues which prevent or delay the further development of

resources in the North West We do not intend to make any further comment in relation to those issues.

We would like to make a brief statement in relation to the two remaining issues being the taxation treatment of generating and transmission assets and the economies of scale associated with the generation and distribution of electricity.

In relation to the taxation issue, we refer in particular to the inequitable outcome produced by the Taxation Ruling TR 2000/18C3 which effectively creates a biased tax treatment in favour of small, decentralised generating assets. The removal of the accelerated depreciation provisions in the tax act and the introduction of this ruling effectively disadvantage generators such as ourselves who provide centralised and efficient generating facilities and instead encourages the use of smaller less efficient site based units. Centralised electricity assets are required to be written off over a 30 to 45 year period while smaller units can be depreciated for tax purposes over only 10 year. This effectively increases the after tax cost of electricity from centralised plant and discourages investment in these types of essential assets. The continued growth and development of remote resources relies heavily on the economies of scale which are only provided by these types of infrastructure.

This leads me to the second issue on which CS Energy would like to comment. Perhaps the main impediment which we see in relation to resource development in the North West is the inability to take advantages of the economy of scale normally available in relation to generation and transmission infrastructure. The cost of producing power in an efficient and reliable centralised generation facility such as the one we operate in Mt Isa can be as much as 50% cheaper per megawatt hour than smaller less efficient on site generation options. However, the significant fixed costs associated with the construction and installation of high voltage transmission lines can lead to a much higher electricity charge for the end user where these fixed costs must be recovered from a single operation with an initial proven ore-body of perhaps only 7 to 10 years life. Invariably this life will eventually be extended as the ongoing exploration program identifies extensions to the existing ore-body or additional adjacent deposits.

Because the eventual life of the ore-body is not known with certainty the full cost of the infrastructure must be amortised over the relatively short initial life span adding considerably to the operating costs during the initial phase of the development and, in some cases, preventing the development from proceeding because of the poor initial returns. Adding to this is the fact that there may be other significant deposits in the and around the same area which are not yet at the stage of being ready for development approval but which would eventually

benefit from the transmission infrastructure. Instead, the initial development may proceed using site based transmission options which cannot then be used to support other mining developments.

There is a clear role here for the Federal and possibly State governments to play in underwriting this type of infrastructure development to get cheap and efficient generation capability to these remote sites to enable development to proceed. In addition to reduced operating costs for remote mines, the transmission infrastructure will also lessen the need to transport large volumes of liquid fuel over long distances with the associated cost of road haulage and damage to road infrastructure.

I wish to conclude by thanking the Committee for their consideration of this submission and I am happy to take any questions in relation to the matters I have raised.

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