18 August 2014

Carbon Tax Removal Substantiation Statement under section 60FD of the Competition and Consumer Act 2010 (CCA)

This Substantiation Statement is a written statement that sets out, in respect of Mackay Sugar Limited's (**Mackay Sugar**) electricity customers, Mackay Sugar's estimate, on an average annual percentage price basis or an average annual dollar price basis, of Mackay Sugar's cost savings that have been, are, or will be directly or indirectly attributable to the carbon tax repeal and that have been, are being, or will be passed on to each class of Mackay Sugar's electricity customers during the financial year that began on 1 July 2014.

This Substantiation Statement is also published on Mackay Sugar Limited's website.

Background

Mackay Sugar generates electricity from each of its 4 sugar mills in Queensland. Production of electricity from each of its Marian, Farleigh and Mossman mills is fuelled through renewable energy sources (bagasse) and has never attracted a carbon tax liability.

In addition, Mackay Sugar has established a 38 MW cogeneration power plant at Racecourse mill which produces both bagasse-fired and coal-fired energy. The Racecourse Mill cogeneration facility does have a carbon tax exposure when it is not operating on renewable fuel (bagasse).

Mackay Sugar records usage of coal, distillate/oil, bagasse and alternative fuels on a weekly basis, which is used to calculate the tonnes of CO_{2}-e generated and associated carbon tax liability. Carbon dioxide emitted is reported and audited through the NGER's annual reporting structure.

Electricity Customers

Mackay Sugar supplies electricity to the following customers:-

1. **Graincorp Liquid Feeds Pty Ltd:**

   Electricity is supplied to the molasses liquid feeds plant from Marian Mill during the crushing season only. Marian Mill operates only on renewable fuel during the crushing season so there is no carbon tax liability attributable to those sales. There was no adjustment to the price charged to Graincorp upon introduction of the carbon tax so there are no savings to be passed on as a result of its repeal.

   During the non-crushing season Mackay Sugar simply passes on the electricity on a costs pass through basis from Ergon Energy, our local retailer.

2. **Queensland University of Technology** – Mackay Renewable Bio-commodity Pilot Plant (Racecourse Mill site)

   The charge for electricity was in place before the introduction of the carbon tax and the price was agreed on establishment of the project. The electricity price is escalated at regular intervals in accordance with an agreed price index which was determined at the start of the project. There was no carbon price built into the original pricing nor was there any escalation when the carbon tax was introduced. As a result there are no savings to be passed on upon repeal of the carbon tax.

3. **Ergon Energy**

Electricity is sold from each of Mackay Sugar's mills to Ergon Energy which retails to network-based customers. The price is determined through Power Purchase Agreements (**PPAs**) which Mackay Sugar has entered with Ergon Energy for each of its mill sites. Carbon tax is a component which has been previously factored into the offtake agreements through the amount paid by Ergon Energy for electricity which Mackay Sugar exports into the network.

For Farleigh, Marian and Mossman mills where there was no carbon tax liability due to the use of 100% renewable fuel (bagasse), the current contracted electricity pricing for 2013 to 2015 has reduced on the expectation of the repeal of the carbon tax. This has resulted in reduced electricity income to Mackay Sugar by approximately 25%, despite there being no cost savings to Mackay Sugar following the repeal of the carbon tax.

For Racecourse mill, the PPA with Ergon Energy provides explicitly for an adjustment to the price paid to Mackay Sugar for exported electricity, should the carbon tax be repealed. The Racecourse Mill PPA indicates this will result in reduced electricity income to Mackay Sugar of approximately 8%.

Racecourse Mill does incur an annual carbon liability due to the burning of coal on site for part of the non-crushing season. Approximately 17% of this liability is attributable to generating export electricity at Racecourse mill. The nett result is that the loss of income for Mackay Sugar from electricity sales to Ergon Energy is over five times the costs savings accruing from the repeal of the carbon tax.

4. **Sugar Australia Pty Ltd**

Sugar Australia reimburses Mackay Sugar directly for the carbon tax cost associated with their contribution to Racecourse Mill site CO_2-e emissions, due to the supply of energy to Sugar Australia Pty Ltd. This is calculated on the Energy Content method. The costs associated with the carbon tax are negotiated in confidence through contracts of supply. The reimbursement by Sugar Australia to Mackay Sugar for their future contributions to site carbon emissions will cease from the effective date of the carbon tax repeal.

Consequently, Mackay Sugar's carbon liability costs are passed through to Sugar Australia directly, rather than within the pricing of electricity to Sugar Australia.

Peter John Gill
Chief Financial Officer