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8 December 2011

Zaeen Khan
Australian Energy Market Commission
PO Box A2449
Sydney South
NSW 1235

Dear Mr Khan

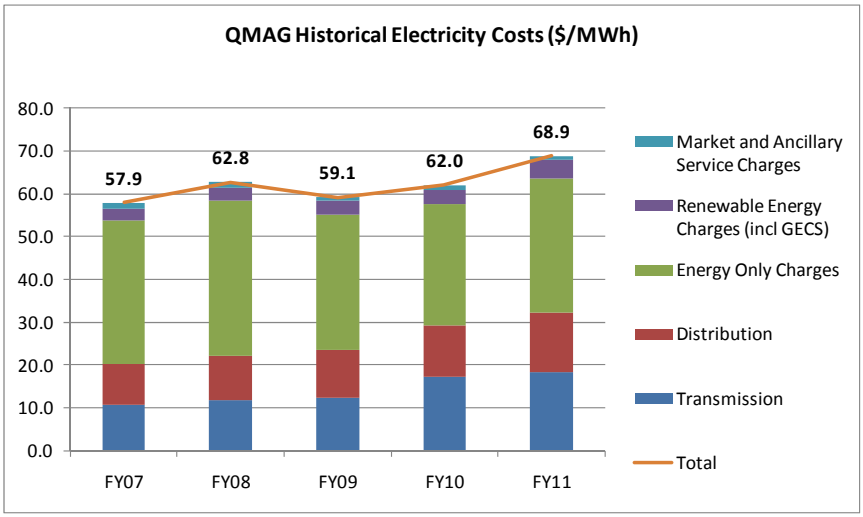
Proposal by the Energy Users Rule Change Committee (ERC 0134)

Thank you for the opportunity to comment on the AEMC's Consultation Paper on the Rule Change Proposal submitted the Energy Users Rule Change Committee (RCC). I am writing to you to register Queensland Magnesia's (QMAG) support for this rule change proposal.

QMAG is the largest independent non-Chinese producer of natural, high value and high quality magnesia products for the global refractory and chemical markets. QMAG commenced production in 1991 and currently employs approximately 400 people across its mining operations and processing facilities located in Rockhampton, Central Queensland and corporate and marketing offices in Brisbane, China and Germany.

QMAG owns one of the world's largest known cryptocrystalline magnesite deposit from which it mines magnesite. The mined magnesite is pre-concentrated and beneficiated on site before being converted to magnesia at QMAG's processing plant. This processing takes place in Multiple Hearth Furnaces, Vertical Shaft Kilns and Electric Arc Furnaces. Electricity is a major energy source and input for the organisation's mine and processing plants.

For the financial year ended 2012, the total amount of electricity expected to be used by QMAG is forecast to be in the order of 137,000 megawatt hours with an associated cost of approximately $9 million. As demonstrated in the following graph, for the five years to 30 June 2011 QMAG has experienced a significant increase in total average electricity costs.



Of the individual items contributing to the increase in total average electricity costs incurred by QMAG, the largest increases have been in the areas of Electricity Distribution and Transmission Network Costs. Over the period, these costs have risen from a total rate of $20.4/MWh to $32.4/MWh – representing an annual compound growth rate of 9.7%.

Global magnesia prices are set by international markets and QMAG can only operate in the market as a price-taker. QMAG has no opportunity to pass on increases in input costs for items like electricity to customers and consequently electricity price increases have an immediate and direct impact on profitability, economic stability and rates of employment.

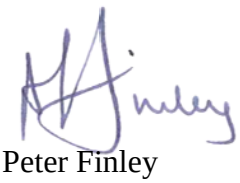
QMAG is very concerned about rising electricity prices. We agree with the finding by the Australian Energy Regulator, the Garnaut Review, the Independent Pricing and Regulatory Tribunal, the Energy Users Association of Australia and others that deficiencies in the design and conduct of economic regulation account for part of these price increases.

We support proposals to change the National Electricity Rules in order to strengthen incentives for efficient operation and investment by the network service providers operating in the National Electricity Market, and also to reduce excessive profits that are produced at the expense of higher electricity prices.

QMAG supports the principle proposed by the RCC that the allowed return on debt should as far as reasonable reflect the actual cost of debt. We agree with the RCC that these issues should be reviewed by the AEMC and prescribed in the National Electricity Rules, rather than left to periodic reviews by the AER.

We have confidence in the integrity of the AEMC's rule change process and commend the RCC's proposal to the AEMC. We will be taking an active interest in this proposal to change the National Electricity Rules and look forward to its transparent and comprehensive assessment against the National Electricity Objective.

Yours sincerely,



Peter Finley
Chief Financial Officer