Mr Malcolm Roberts
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Sent by email: electricity@qca.org.au

19 March 2013

Dear Mr Roberts

ASMC Submission on the Queensland Competition Authority (QCA) *Draft Determination Regulated Retail Electricity Prices 2014-2015*.

Thank you for the opportunity to provide submissions in relation to the paper identified above. The Australian Sugar Milling Council (ASMC) makes this submission on behalf of its members.

The Australian Sugar Milling Council is the peak body for Australia's sugar milling companies, representing some 95% of the raw sugar produced in Australia. As a seasonal importer and exporter of electricity, changes to the cost structure of electricity have a significant impact on the sugar milling industry, and as highlighted in previous years, the sugar industry has no capacity to pass these costs through to our customers, as a globally traded commodity.

Similarly, the broader viability and profitability of the Australian sugar industry, with close to 95% of the industry located in Queensland, is directly affected by the cost of electricity in Queensland. As has been highlighted in previous submissions by ASMC and CANEGROWERS, cane farming is a globally competitive business that is highly sensitive to price shocks.

Most, if not all, Queensland sugar mills will eventually move to tariff 48 under the proposed arrangements outlined by the Queensland Competition Authority (QCA). As such, the following represent the agreed positions of ASMC, expanded upon below.

- Uniform tariff policy and cost reflective pricing are incompatible.
- Greatest risk to the sugar industry, in addition to one off operating cost increases outside of acceptable business risk management strategies, is loss of productivity.
- An alternative tariff to apply during seasonal generation.
- Support for the transitional arrangement of 7 years
- No increase in headroom for retailers or charging for exceptional circumstances; and
- Support for continuance of the QCA decision to allow new customers access to obsolete tariffs during the transition period.

Uniform tariff policy and cost reflective pricing are oppositional policies that do not reconcile.

As recognised during QCA's various consultation sessions around the state, uniform tariff policy and cost reflective pricing are conflicting policy positions. It remains the ASMC position that, irrespective of the delegated powers assigned to QCA, it is a gross policy distortion to attempt to reform retail electricity pricing in isolation of the broader Queensland energy policy – or more importantly, how electricity is delivered in Queensland. The uniform tariff policy is one part of a targeted and specific policy for delivering electricity around the state at an equitable price. Cost reflective pricing does not achieve this – and effectively punishes regional Queensland for decisions of successive governments over the last 50 years. In particular, this approach is at cross purposes with the premise of equitable and affordable access to energy for all Queenslanders. This issue is further explored in ASMC's submission to QCA's Issues paper, *Retail Electricity Price Regulation in Regional Queensland*.

Greatest risk to the sugar industry is loss of productivity

As highlighted in previous submissions, the greatest risk to the sugar industry through extreme price hikes is the loss of productivity. Electricity price increases of between 100 and 300% over the last 3-4 years are not only untenable for sugar mills, but similarly may constrain further investment in major projects. While a 15.0% price increase is recommended by QCA, most mills, particularly those that generate and send a significant proportion of electricity to the grid, will experience a significantly greater increase in electricity costs. These mills have typically invested in expanded generation capacity. This means that each time the mill restarts its cogeneration facilities, after regular, scheduled operational shutdown, it will attract a dramatic increase in import electricity costs, despite the fact that the mill's operation plays a fundamental role in delaying Ergon investment in additional distribution infrastructure. In effect, the mill is dampening network distribution cost increases, but attracting a further increase in its own costs.

Furthermore, it is our industry's experience that irrigation is one of the first inputs sacrificed by farmers facing financial pressure. The lack of sufficient differentiation between peak and off-peak tariffs is not only undermining a range of beneficial farming practice and education heavily invested in by the industry, but increasingly resulting in farmers failing to irrigate at all. For example, in the Bundaberg region, the cost of electricity for irrigation is approximately $120/ML compared with $60/ML for the next highest cost irrigation region – acting as a significant disincentive to irrigate.

An alternative tariff to apply during seasonal generation

Mills that typically export more electricity than import are projected to experience extreme cost increases. However, as highlighted above, the driver for this price increase occurs when the mill is actively behaving as an embedded generator, drawing an auxiliary load from the network to power up generation. This is no different to a large scale generator drawing an auxiliary load to commence start up. A mill's generation profile, during the period of operation, typically sits between a baseload and intermediate generator.

However, this variable load profile dramatically impacts the costs born by sugar mills during seasonal operation. It is worth noting that this fluctuating demand does not occur during the peak demand "season", as mills operate June to December. As stated in previous submissions, ASMC continues to highlight there is a strong argument for mills to have access to an auxiliary load tariff during the season of electricity generation, moving back to a typical operating tariff (22 or 48) for the remainder of the year.

While ASMC recognize that this issue falls outside of QCA's remit, we again highlight it as an industry issue.

A transition arrangement of 7 years.

ASMC supports the decision by QCA in last year's final determination to move to a transition period of seven years, recognising the needs of industry.

No increase in headroom for retailers or charging for exceptional circumstances

As per previous submissions, it is the strongly held view of ASMC members that a head room allowance to foster competition is only defensible when competition exists. This is not the case for regional Queensland, and certainly not the case for sugar mills entering into regional retail agreements. ASMC does not support further increase in headroom – indeed ASMC argues that no justification exists for headroom charges at all under tariff 48, given this is an Ergon customers only tariff.

Similarly, ASMC does not support the notion that a further financial mechanism is required to account for unforeseen or uncertain events. It is not the role of QCA to protect retailers from all eventualities; it is not unreasonable to expect every retailer to have an appropriate risk management strategy for such events, the same as any other business in Queensland. In the case of extreme eventualities, it must be the role of government to consider an equity transfer if necessary, in the same way that any other industry would be required to develop a case for consideration. It is particularly noted that there is only a discussion of charging for exceptional circumstances, with no similar commitment to pass through a discount when benefiting from exceptional circumstances.

New customers should be allowed access to obsolete tariffs during the transition period

ASMC supports extending obsolete tariffs during the transition period to new customers. In the absence of such a measure, there is clearly a disadvantage to new entrants, as demonstrated by the experience of Mackay Sugar at their Racecourse Mill. Although a long term embedded generator, the site has undergone substantial upgrade over the last three years, including $120 million investment in expanded cogeneration capacity. As such, new inter-connection infrastructure has been installed – and energized after 1 July 2012. As a result, this mill is now operating under tariff 48, with a subsequent increase in electricity cost of 285% over tariff 22. Given the financial projections for this project were based on tariff 22, the cost impact is highly significant.

No double dipping on Connection Asset Customers (CACs)

In its advice to the Minister for Energy and Water Supply on *Retail Electricity Prices for Ergon Energy Queensland's Very Large Customers*, November 2012, QCA advised that there is no "…reason why EEQ could not charge embedded generators the appropriate export network charges. Not doing so simply increases the size of the Government's community service obligation (CSO) payment to EEQ."

ASMC disagrees with this statement. Rooftop solar is exported into the distribution network without exposure to network charges. Similarly, large scale generators import electricity for auxiliary load without imposition of network charges. The proposition that

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an embedded generator should wear both charges is grossly inequitable under the current arrangements – and effectively a double dip. In the absence of a tariff that recognizes the auxiliary load of sugar mills, or equitable voided Distribution Usage of system (DUoS) payments from the retailer across all embedded generators, it seems grossly inappropriate that QCA would further advance the cause of disproportionate charging by Ergon.

It remains the view of ASMC that transitional arrangements are essential if the government continues to progress 'cost reflective pricing'. Further, notified prices are essential to deliver a uniform tariff policy. The extraordinary price increases anticipated by the sugar industry, both in milling and farming activities have a direct impact on the health and longer term sustainability of the industry. Should you have any further queries regarding this submission, please contact Sharon Denny, Senior Executive Officer Government & Business Development on (07) 3231 5003 or sharon.denny@asmc.com.au.

Yours Sincerely

Dominic Nolan
Chief Executive Officer