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Professor Flavio Menezes
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8 April 2019

Lodged at: <http://www.qca.org.au/submissions>

Dear Sir

Submission to Draft determination - Regulated retail electricity prices for 2019–2020

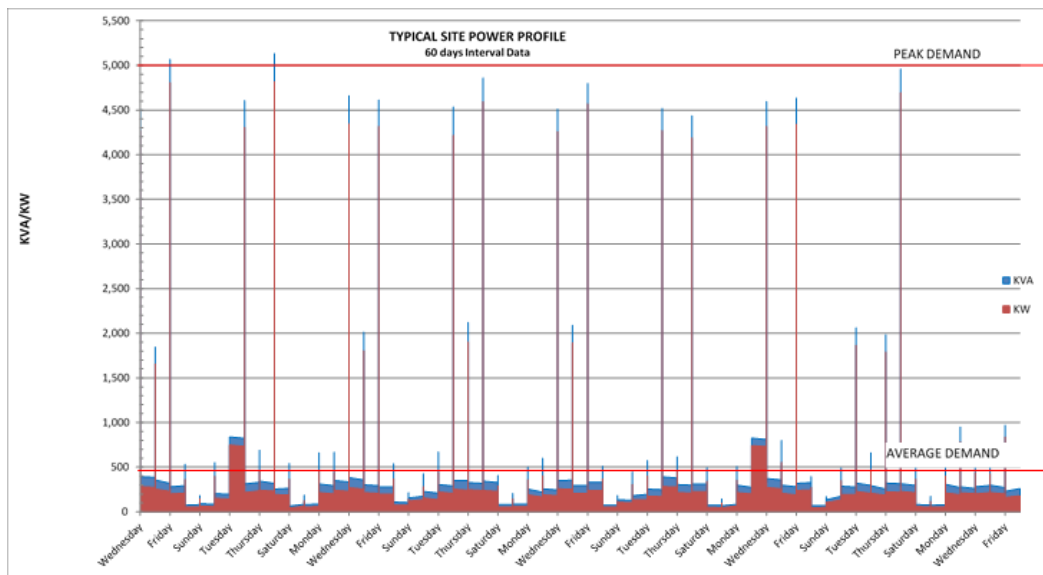
Background

Bundaberg Walkers Engineering Ltd (BWEL) appreciates the opportunity to provide further input to the Queensland Competition Authority (QCA) following the release of the Authority's draft determination – *Regulated retail electricity prices for 2019–20* and the subsequent workshop held in Bundaberg on 18 March.

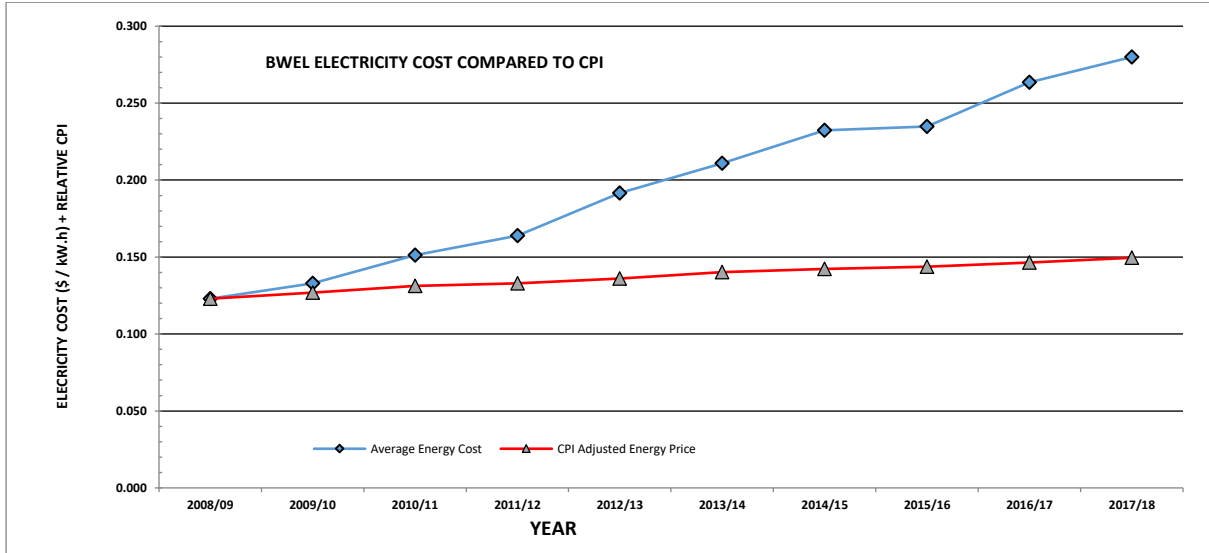
BWEL is a medium sized engineering enterprise located in Bundaberg. The business comprises a foundry along with heavy fabrication and machining operations. The company has operated continuously on the site since 1888. The company's core business is the supply of sugar process equipment to the Australian and international sugar industries. BWEL employs about 120 people in the Bundaberg facility. More than half of annual revenue is derived from export sales.

Issues

Bundaberg Walkers has a particular exposure to retail electricity pricing because electricity is a significant part of its core operation of casting molten metal. The company's electricity cost is now around \$1M a year. The intermittent operation of BWEL's induction furnaces results in a peaky electrical demand.



The base level of consumption at the site is around 0.3 MW but the maximum demand, when the large furnace is operating, is about 4.5 MW – a ratio of peak to mean demand of around 15 : 1. Consequently, Bundaberg Walkers is especially sensitive to electricity pricing structures which penalise high, intermittent demand. The removal of existing, energy based, tariffs (\$ / kWh) and their replacement with new tariffs based substantially on capacity and demand charges (\$ / kW) as per the QCA Draft determination unreasonably penalises users with intermittent loads despite generally lower energy charges (\$/kWh).

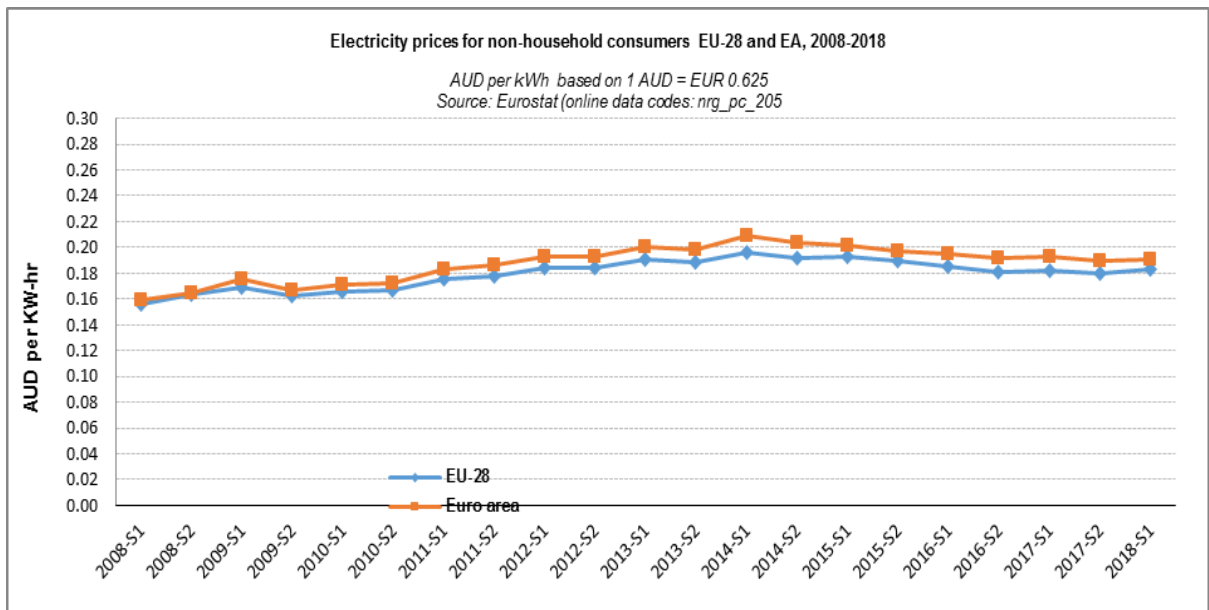


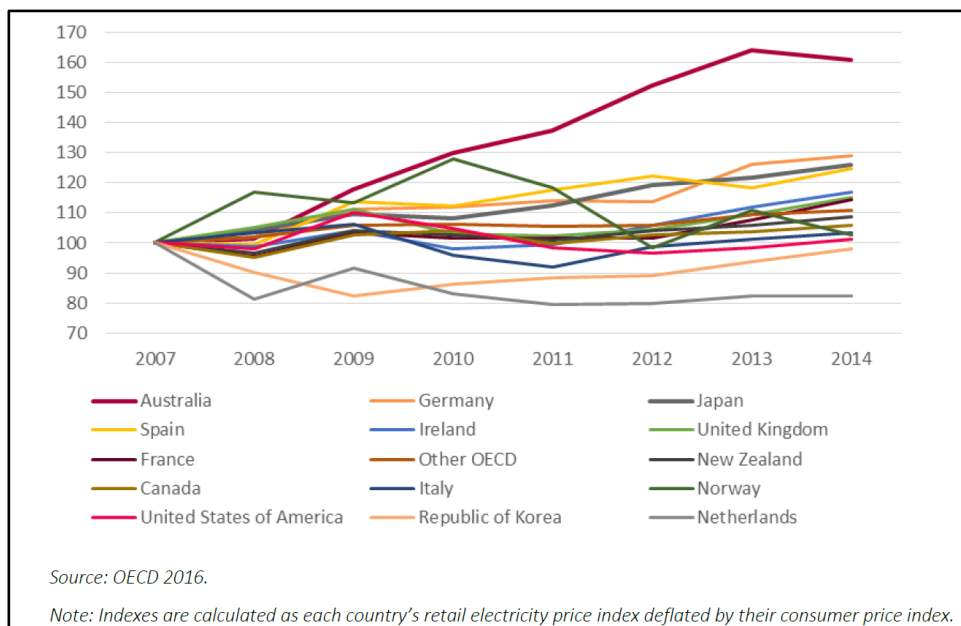
BWEL has already faced a rise in electricity price in excess of 100% during the past 10 years that far outstrips CPI. In contrast with the situation in Queensland, published prices in other parts of the world appear to be lower and more stable.

Industrial Electricity Rates & Consumption in California and USA

- The California average industrial electricity rate is 10.49¢/kWh (AUD 14.8 ¢/kWh)
- The US national average industrial electricity rate is 6.67¢/kWh (AUD 9.4 ¢/kWh)
- Industrial electricity consumption in California averages 53,013 kWh/month

Source: <https://www.electricitylocal.com/> (March 2019 based on AUD 1.00 = USD 0.71)





Source: Queensland Productivity Commission Electricity pricing enquiry – final report (May 2016)

A recent audit of BWEL energy management facilitated by Ergon Energy Network under the DNRME LCAT program found:

- the best “business as usual” tariff will increase electricity cost by 72%
- the best “business as usual + CAPEX” tariff will increase electricity cost by 50% and will also increase labour costs by extending foundry metal melting times
- the best “operational change + CAPEX” tariff will increase electricity cost by 15% but this option will significantly increase foundry labour costs and require operation of the foundry at night which will increase environmental risk from the adjacent residential area and is likely to be unsustainable.

From informal discussions facilitated by the Australian Foundry Institute, it is understood that other Queensland foundries are similarly afflicted. Figure 29 of the QCA draft determination (below) illustrates this point with some customers facing an increase in excess of 100%.

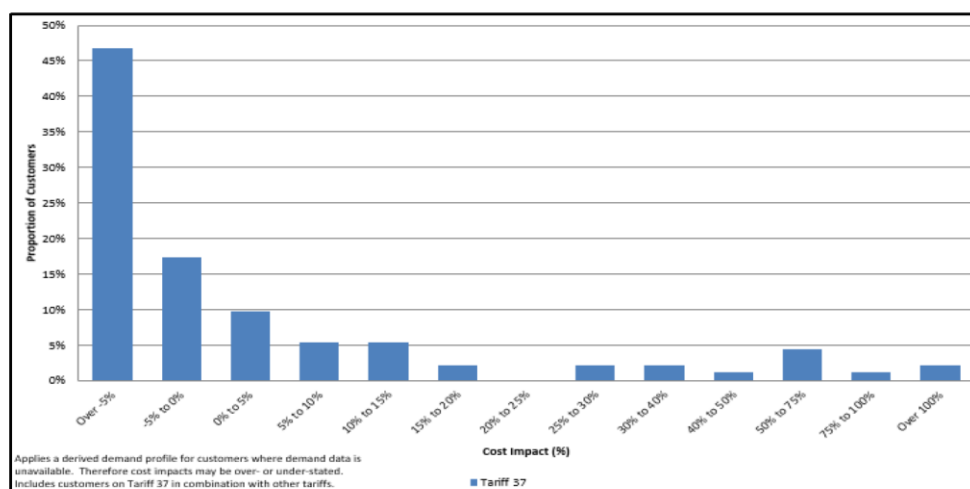
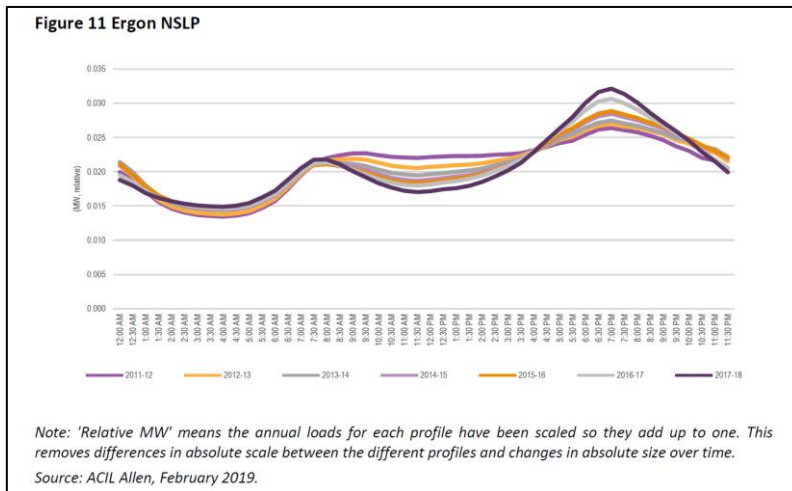


Figure 11 of the QCA Draft determination (reproduced below) shows that the regional Queensland net system load profile (NSLP) is changing over time with less demand during daylight hours due to PV solar and increasing demand in the evening. Despite this trend, the QCA does not seem to be proposing any large customer tariffs that would promote consumption during the period outside the

true peak evening hours. Suitable time of use price signals to large industrial users is a way to trim the load profile since they are large consumers by definition and have greater flexibility than other customer types as to the time of use. Alternatively, tariffs that recognised industry’s ability to avoid or shed load could assist management network load.



Summary

- BWEL is a long established export focussed manufacturer located in regional Queensland.
- BWEL has already suffered electricity price increases exceeding 100% during the past 10 years far outstripping CPI.
- BWEL has an inherently intermittent electrical demand that is unreasonably penalised by tariffs with high capacity and demand charges.
- BWEL operates in price sensitive export markets. Existing electricity tariffs already put BWEL at a competitive disadvantage to foreign competitors. Elimination of existing energy based tariffs, such as Tariff 37 will further erode market position both locally and internationally.
- None of the new tariffs contained in the QCA draft are sustainable for BWEL or other similar businesses.
- It is difficult to make a rational business case to expend CAPEX to reduce the impact of the new tariffs that will still result in increased energy costs.
- Existing tariffs will result in significant loads disappearing from the state electricity grid and will be accompanied by diminished employment opportunities in regional Queensland.

Recommendations

- The QCA must powerfully and unequivocally alert the Minister to the severe impact that current plans will have on a number of Queensland businesses including BWEL. This is clearly indicated in Appendix E of the QCA Draft determination.
- Existing tariffs must be retained until appropriate and sustainable replacement tariffs can be devised.
- Additional tariffs that are compatible with intermittent operation and recognize the ability to shed or to avoid load at peak times are urgently needed. These tariffs must reduce costs below the current level and be internationally competitive.

Yours faithfully,

E Troiani

General Manager