AUSTRALIAN Sugar Milling COUNCIL

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Queensland Competition Authority
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Sent By Email: electricity@qca.org.au

Submission on the Draft Determination on Regulated Electricity Prices

Thank you for the opportunity to provide a late submission in response to the *Draft Determination on Regulated Retail Electricity Prices 2012-2013* (draft determination). The Australian Sugar Milling Council (ASMC) makes this submission on behalf of its members.

The ASMC is the peak policy body for Australian Sugar Milling Companies, representing over 99% of Australian raw sugar production, 95% of which is located in Queensland. Queensland sugar mills generate approximately 50% of Queensland renewable electricity, exporting surplus electricity for local distribution during the sugar crushing season, and sometimes beyond.

Out of season, most sugar mills import electricity from the grid. During the crushing season, most mills export electricity into the grid. Mills draw electricity from the grid out of season, typically in the capacity order of 500KW. This increases to between 1-2.5 MW capacity during the start up of a mill. This upper capacity rarely exceeds 24 hours within any season, as mills, once started, no longer draw power from the grid, unless maintenance is required, or an unforeseen breakdown occurs (and therefore need to restart). Overall, however, the milling industry is a net exporter of electricity to the grid. To date, most mills have operated under Tariff 22.

As such, ASMC is deeply concerned by the recommendations outlined under the draft determination. In particular,

- Withdrawal of Tariff 22 for large customers;
- Fundamental changes to existing tariffs without extensive consultation with affected customers, and a presumptuously short timeframe in which to respond; and
- The short timeframe proposed (1 July 2012) for major tariff reform to commence, especially for large customers.

If implemented as proposed in the draft determination, changes to the existing tariff arrangements will result in major financial impact for the sugar milling industry. Mills will typically move from Tariff 22 to Tariff 54, with an averaged sectoral impact of approximately 150% price increase, or additional $11.8 million in energy costs. However, price impacts for individual mills range from 40% to over 600% increase.

These proposed changes, and the potential impact on the sugar industry have not previously been raised with the industry, and the period provided for response is inadequate given the nature and magnitude of proposed changes. The initial figures provided in this submission are based on 2011 consumption patterns, which are lower than a typical sugar milling season, and therefore likely to further increase with more detailed analysis.

This level of price increase is excessively higher than the alternative BRCI increase (20%) and beyond any level of appropriate business risk management. It is fundamentally clear that no milling operations are capable of absorbing energy cost increases in the order 600%. The sugar industry trades a high volume, low margin commodity on the global market, with no capacity or opportunity to pass on costs. Raw sugar is almost 100% priced on the international sugar market, and energy cost increases are absorbed by the industry.

The Milling Council proposes that a moratorium be imposed for 12-24 months on all substantial and structural changes identified in the draft determination for energy users drawing greater than 100 MWh of electricity per annum.

This will allow all affected parties reasonable time to evaluate the potential impacts on their business, identify alternative options – and enable QCA to actively consult with affected industries to develop new tariff structures that are reasonable and achievable. We recognise that there are energy price impositions that need to be passed through to consumers – but this must be tempered within the whole energy sector picture – and not the very narrow view that has formed the basis of the draft determination.

We also draw to QCA's attention concerns of likely impact to the farming side of our industry, and our regional communities, by moving irrigators to tariff 22. Without opportunity to evaluate the extent of industry impact at this time, it is nevertheless self evident that grower productivity will be substantially impacted. The sugar industry has contracted to its smallest crop in over twenty years as a result of the natural disasters of the last two years, and is aggressively positioning itself to emerge from natural disaster and return to a scale of production that is sustainable. However, introducing price impacts of a similar order to that experienced by mills, coupled with significant water pricing increases, will result in farmers choosing not to irrigate. Abandoning irrigation will lead to a substantial loss in productivity – for the grower, harvester and miller.

The sugar industry cannot manage regulatory induced productivity shocks of this magnitude. When regional productivity falls beyond a critical point, there is ultimately economic pressure for the closure of sugar mills. In addition to the regional employment impact, sugar mills are an essential generator of local electricity, tempering the cost of electricity in adjacent townships, and therefore in government Community Service Obligations. Overall productivity impacts on the sugar industry has unintended consequences that will reduce regional electricity generation by mills and the quantum of electricity exported to the grid. This impact must be considered by QCA in developing electricity pricing proposals.

ASMC would appreciate the opportunity for further discussion in relation to this matter. Please contact Sharon Denny on 3231 5003 or sharon.denny@asmc.com.au for further information or clarification of any points raised in this submission.

Yours Sincerely

[redacted]

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