



20 April 2012

Chief Executive
Queensland Competition Authority
PO Box 2257
Brisbane Qld 4001

By email: electricity@qca.org.au

Dear Mr Hall

QCA Draft Determination Regulated Retail Electricity Prices 2012-13

Thank you for the opportunity to make a submission on the QCA Draft Determination Regulated Retail Electricity Prices 2012-13.

CANEGROWERS strongly supports the Queensland government's policy positioning of agriculture as one of the four pillars essential to the development of the state's economy. The vision to double Queensland's food production by 2040, positioning the state to take advantage of the rapid growth in Asian population and food consumption, will underpin the development of regional economies and communities. For Queensland's sugarcane industry to capture the emerging export opportunities, ensuring the ongoing competitiveness of agriculture is a necessity.

Sugarcane is Queensland's largest agricultural crop by volume and by value. Production is export focused. Prices for sugarcane are linked closely to the world determined raw sugar price. Of all agricultural commodities, the world sugar price is one of the most volatile. By way of illustration, in the six month period from 20 October 2011 to today (20 April 2012), the world sugar price (as measured by the ICE11 July-12 raw sugar futures contract) has fallen 13%. In the same period, the Australia dollar has appreciated by 5% and is now buying USD1.0322.

In the highly competitive world sugar market, prices are not determined on a regulated cost reflective basis. Cane growers and the sugar millers they supply do not have an ability to pass cost increases onto final consumers. Unless offsetting productivity gains can be achieved, all input price increases flow directly to the bottom line, reducing income and profitability throughout the industry. This exacerbates the combined effect of the commodity price downturn and currency appreciation on producer incomes.

Electricity and water are two of the largest input costs for irrigation water users. Prices for each are regulated; QCA determined in the case of electricity and QCA recommended in the case of water. To enable electricity and water users to compete internationally it is important that regulated prices are set at the level that would result from the forces of a competitive market. Such a price outcome would be consistent with Queensland government policy and long term vision for agriculture in Queensland.

In competitive markets, prices are determined by the forces of both demand and supply. Given the supply side technical constraints of electricity generation and distribution, issues associated with demand management are a critical element of the market structure and in a competitive market would be an important factor in price determination.

Price signalling

Constrained by its terms of reference, the QCA analysis focuses on issues associated with the cost of generation, transmission, distribution and retail when determining cost-reflective retail tariffs and prices. No consideration is given to the benefits of a tariff structure that provides worthwhile incentives for demand management through shifting load from peak to off-peak periods or to the likely additional capacity and systemic costs that are likely to arise from the proposed dilution of existing load-shifting incentives.

Put simply, it is important that the price difference between peak and off peak periods is structured in a way that provides financial incentive for sugarcane growers and other businesses to move their energy use and network load from peak to off-peak periods. The QCA's proposed tariff structures significantly reduce this incentive. Over time, this will concentrate electricity use in peak periods, increasing peak loads and with it accelerate the need for additional investment in generation and network capacity. Higher generation and network costs will follow, increasing upward pressure on prices in future periods from an already growing peak demand.

In this regard, CANEGROWERS' shares Ergon's concerns in relation to the unintended consequences of QCA's approach.

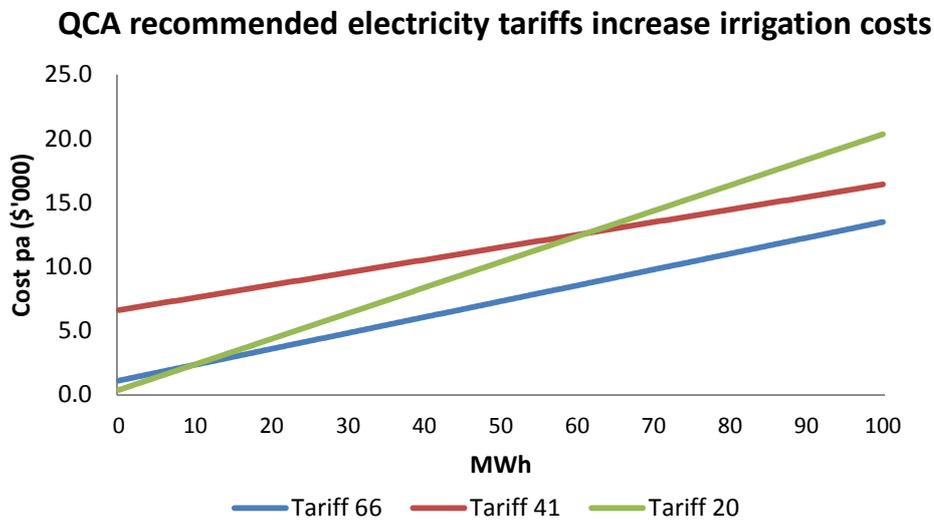
Tariff 66, 65 and 62 – Irrigation

The approach followed in QCA's Draft Determination, would result in significantly higher electricity charges for irrigation users. Moving from Tariff 66 to Tariff 41 would see the electricity costs for irrigation use more than double, increasing by 120% per quarter on average. The Draft Determination identifies expected price increases in the range of 30 to 300% on the basis of sharp increase in fixed (demand and consumption) charges. CANEGROWERS assessment is that the range of price increase for sugarcane irrigators is much wider, up to 600%. An irrigator using a 15kW pump would see these charges increase from \$280 to \$1655 per quarter. Sugarcane irrigators typically use more than one pump in their farming systems.

CANEGROWERS notes that the network (N) component of Tariff 66 is the Energex network tariff 8500, not 8300. Rectifying this error would result in Tariff 66 moving to Tariff 20, not Tariff 41 as proposed in the QCA Draft Determination. While this would reduce the prospective cost impost on irrigation users significantly, the average cost of energy use for irrigation would increase by 25%, with some charges more than doubling. The reduction in fixed costs of Tariff 20 does not offset the 62% increase in electricity usage charges.

Similarly, any movement from Tariff 65 will see large cost increases to irrigators. In moving from Tariff 65 to recommended Tariff 22, the cost of electricity to operate irrigation pumps will increase by 46% on average. For some it will more than double, increasing by more than 112% per quarter. The increases are principally due to increases in off-peak (night time) electricity use. As noted, this removes the economic incentive for off-peak demand management and undermines the water efficiency benefits of irrigating at night.

For irrigators moving from Tariff 62 to Tariff 22, the reduction in price differential between peak and off-peak is even greater.



Note: Sugarcane irrigation use is between 15 and 150 MWh depending on annual climate variability. In wet periods use is at the lower and in dry years at the upper end of the range.

Tariffs 66 – Users greater than 100 MWh

1. Irrigation

For irrigation users using more than 100MWh pricing will move from Tariff 66 to Tariff 42, 43 or 44. The new tariff structure will result in sharply higher fixed (demand and consumption) charges and irrigation costs, discouraging the achievement of economies of size.

2. Irrigation water prices

In addition to the on-farm costs of pumping water, the electricity tariffs contained in QCA’s Draft Determination would have a significant effect on the price of irrigation water itself.

SunWater is a significant off-peak electricity user. The reduction in off-peak pricing benefit in Tariff 22 (reduced from a saving of 35% to 10% compared with the peak rate) and its elimination from Tariff 43 (reduced from a saving of 40% to zero on the peak rate) will result in a significant escalation in SunWater’s costs. In a regulated water pricing environment, this will flow quickly to higher water prices.

In its response to the Draft Determination SunWater writes:

This decision by the Authority will likely cost SunWater millions of dollars more on their electricity bills and these costs will be passed through to irrigators under the regulated irrigation pricing arrangements. The decision not to use Energex’s network charges will penalise regional businesses and will discourage business investment in regional areas of the state, where it is most needed.

SunWater's assessment of the likely flow on effect of electricity price rises to irrigation water prices is consistent with the QCA's proposed treatment of electricity price rises in its draft recommendations on irrigation water prices, where QCA's draft recommendation reads, in part.

(d) should SunWater sustain material cost increases in electricity above the escalated level, consideration should be given to cost pass through, either within-period or at the end of the regulatory period (QCA Draft Report, SunWater Irrigation Price Review: 2012-17, Volume 1 p253).

Timeframes and transitional arrangements

QCA's Draft Determination envisages a significant structural adjustment be made to electricity tariff structures and prices. Ergon makes it clear that time will be required to change billing systems, replace or modify meters and other customer installations, and to allow customers to make informed decisions about usage under the proposed arrangements. Ergon's request for a two year transitional arrangement, should the proposed changes be introduced, is not unreasonable and is supported by CANEGROWERS.

Sugar Industry – an electricity generator

Sugar mills generate a significant amount of electricity during the harvest, produced as a co-product of sugar production using bagasse (fibrous waste from sugarcane) as an energy source. Some mills also store bagasse for out-season electricity generation. Much of this electricity is sold onto the wholesale market. This renewable energy electricity supply supplements Queensland's coal fired electricity production and decentralises the energy distribution network. All sugarcane irrigators are located within 100 km of the sugar mill they supply. The location minimises transmission losses from the electricity generated in sugar mills and used by sugarcane irrigators.

In competitive market electricity tariffs for sugarcane irrigation would take account of the close commercial interdependence of sugar mills and their supplying canegrowers. In a cost reflective environment, one way in which this relationship could be captured is to remove the impact of transmission costs and transmission losses from calculation of electricity tariffs for sugarcane irrigators.

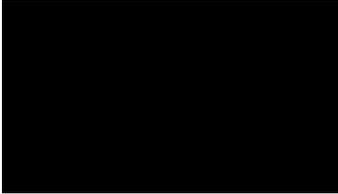
Mill start-up

Although significant net electricity generators, each season during the start-up phase of mill activities (at the beginning of a season and, during the season, following shut down for maintenance) sugar mills draw significant quantities of electricity for very short periods of time. The effect of the QCA draft determination in relation to capacity charges would be to more than double the annual electricity costs faced by mills. For one group, electricity costs would increase by more than \$4 m pa; another would face a 500% increase; and a third would see electricity costs increase by 688%.

Attention should be drawn to the unprofessionally short time period; two weeks interrupted by the Easter break, for responses to the draft determination and two months for the QCA to consult interested parties, address issues and prepare its final determination. It is clear that QCA requires more time than available to properly assess responses to the draft determination. For users to have confidence in the new price and tariff structure it is important that a transparent and credible set of price recommendations are made.

CANEGROWERS seeks the introduction of an electricity pricing system and tariff structures which would mirror those resulting from a competitive market structure. Prices and tariffs should provide performance incentives, encourage reductions in cost across the supply chain and enable users to remain internationally competitive.

Yours sincerely



Warren Males
Head – ECONOMICS