19 April 2012

Mr John Hall
Chief Executive
Queensland Competition Authority
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sucrogen™

Dear Mr Hall

FURTHER SUBMISSION ON QUEENSLAND COMPETITION AUTHORITY'S DRAFT DETERMINATION: REGULATED ELECTRICITY PRICES 2012-13

On behalf of Sucrogen Australia Pty Ltd ("Sucrogen"), we wish to make the following additional comments further to our submission dated 13 April 2012.

Sucrogen is concerned that costs for electricity supplied under gazetted tariffs to its sugar mills will rise unreasonably, and in a manner that is neither truly cost reflective nor economically efficient. Sucrogen is further concerned that no transitional timeframe has been proposed, given the extremely large proposed cost increases.

We note that electricity pricing should be a means to the end of promoting efficient use of electricity. Achieving cost reflectivity of notified retail tariffs is clearly an important part of this overarching efficiency objective. However, sudden and dramatic price increases as foreshadowed in the proposed new tariffs will force changes in electricity usage with the potential for unintended adverse consequences to occur. We do not think that there has been proper consideration of the impacts of altered customer behaviour. Hence Sucrogen proposes a 1 year moratorium on these proposed substantial changes to structure of the tariff regime whilst further consultation takes place, and then a minimum of a further 2 years of transition to allow customers to adapt their facilities and operations to any new tariff regime.

Impact of QCA Determination

Sucrogen has not been able to fully assess the impact of the proposed tariff changes during the short time since the draft was published.

In most of its 8 sugar mills, Sucrogen imports electricity under Tariff 22. Under the draft tariff schedule in the QCA's draft determination, Tariff 22 will not be able to be utilised by sugar mills, which will most likely need to move to Tariff 54. If this was to occur, then our preliminary analysis indicates that the cost impact of this would be in excess of $5.5m per annum, an increase of 156%, more than a <u>doubling of the cost of electricity</u>.

If we are permitted continued access to Tariff 22, the cost impact of this would reduce to something in excess of $1.3m per annum, an increase of 34%, which in our view remains an unreasonably large rise in electricity cost at such short notice and without any opportunity to mitigate the impact.

We also note that cane growers who supply our mills will be unreasonably impacted by the proposed tariff regime. We understand that irrigators(3) may face a price rise in excess of 30%, and in some cases up to more than 300%

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on their electricity costs for irrigation pumping. This will particularly impact our growers in the Burdekin region, and no doubt expose them both to the direct cost increases attributable to their own on-farm pumping for irrigation, and indirect cost increases passed on in the form of increased water charges. We draw attention to the export oriented nature of our industry, meaning cost increases cannot be passed on to customers but must be absorbed by producers.

We are generally in agreement with Ergon(2) when they voice their "*concerns about the timeframes proposed for introduction, the financial impacts on customers and the lack of time-of-use price signalling*".

Issues in QCA Determination

We note that The QCA has elected to base the network cost component of the proposed charges on Ergon's costs rather than Energex's costs, in contravention of the clear direction under their Delegation. We are generally in agreement with the comments of Sunwater(1) on this matter.

We consider that the energy cost component of the determination is not truly cost reflective. We note that the Time-of-Use price signals previously inherent in tariffs have been generally removed. For example Tariff 22 off-peak rate was 35% of peak rate, and will now be 90% of peak rate. We consider this to be not reflective of the true cost supply at peak and off-peak times. Further we are concerned that this will lead to higher peak electricity usage, and consequently higher peak wholesale prices, the need for further investment in network augmentation, and other economically inefficient outcomes, which will in turn led to further price rises. We are generally in agreement with the comments of Sunwater(1) on this matter.

Sucrogen Recommendations

Greater time allowed for consultation
The propose changes represent a fundamental change to the principles underlying retail electricity tariffs in Queensland. There remain significant issues with the principles used in arriving at the draft determination. We would recommend that such wholesale changes undergo a more thorough consultation process, over the next 12 months prior to confirming any wholesale changes to future arrangements.
We agree with Ergon(2) when they advocate that "*more detailed analysis...is required during the 2012-13 year*"

Greater assessment of full impacts of changes
It appears that QCA have not fully assessed the consequential changes the electricity market which might be brought about by such wholesale changes in price and structure, for example brought about by altered consumer response to radically altered time-of-use price signals, and the consequential impacts of this on the network, and ultimately on future wholesale and other electricity prices. We recommend an assessment of consequential changes be undertaken during a one year moratorium on the substantial tariff changes.

Potential for double charging
All our sugar mills are able to generate export electricity to the grid. In some cases where larger generation projects have been undertaken, connection assets much larger than the import requirements have been built by Ergon and financed through specific network charges levied on Sucrogen. We

consider there is potential for double charging for these network assets where we are forced to move to a demand based tariff.

Greater Government policy involvement in the proposed changes
We note that many features of the tariff structure are matters of Government policy and have impacts on regional development, rural business viability, and the peak demands on networks and the consequent ability of networks to respond to this. As such Government should have a greater input to determination and decisions on such matters should not be abrogated to the QCA. We agree with Ergon(2) when they note that *"it is ultimately a matter of Government policy to determine the transition timeframe and the pricing principles for Large Customers"*

Retention of Tariff 22 for Large Customers
We recommend the retention of Tariff 22 for Large Customers. We agree with Ergon(2) when they advocate *"making a ToU energy tariff available to Large Customers"*.

Irrigation and farming customers
We recommend the retention of an energy only tariff with a strong time of use signal for use by irrigators. We note also that Ergon(2) *"does not support the removal of tariffs 62 and 65 from the tariff schedule"*. We note that even in the QCA draft determination acknowledgment is made of a potential impact on farming and irrigation customers of up to a 300% increase, and we do not consider this to be conscionable, and do not consider this would be supported by the wider community.

Transition period
Once any future tariff structure is confirmed, we consider that industry and farming customers will need at least two years before transition to such a new structure, to allow time for data collection to inform decisions, and then to allow time for the implementation of measures to ameliorate the impact of such changes. Such measures may include moving to the contestable market, installing equipment to lower demand, etc. We agree with Ergon(2) when they advocate *"A two year transitional period is required"*. We note that this is in addition to any time required to confirm the principles underlying any future arrangements as discussed above.

Yours faithfully

[redacted]

Craig Doyle
Executive General Manger – Cane Products
Sucrogen

1) Sunwater – Regulated Retail Electricity Prices 2012-13 Submission on Draft Determination, April 2012
2) Ergon Submission On Queensland Competition Authority's Draft Determination: Regulated Electricity Prices 2012-13, 16 April 2012
3) Canegrowers Isis Re: Draft Determination – Regulated Electricity Prices 2012-13, 13 April 2012