AUSTRALIAN Sugar Milling COUNCIL

3 April 2017

Professor Roy Green
Chair
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Via online upload at: http://www.qca.org.au/submissions

Dear Professor Green

RE: Draft Determination for Regulated Retail Electricity Prices for 2017-18

Thank you for the opportunity to comment on the Queensland Competition Authority's Draft Determination for Regulated Retail Electricity Prices for 2017-18.

This submission is made on behalf of the members of the Australian Sugar Milling Council (ASMC). Please consider this submission an addendum to ASMC's December 2016 submission. We wish to address some key commentary made by QCA in the draft determination, in relation to sugar mills interaction with Tariff 48.

Should you have any further queries in relation to the information provided in this submission, please contact Ms Sharon Denny, Senior Executive Officer, on Ph 07 3231 5003, or Sharon.denny@asmc.com.au.

Yours sincerely

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Chief Executive Officer

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QCA Comment (page 48):

The QCA notes comments from the ASMC who was against closing tariff 48 to new customers on the basis that it would prevent its members from reducing their electricity costs by switching between transitional tariff 22 and tariff 48

…However, the decision to allow new customers to access transitional tariffs was not intended to enable customers on transitional tariffs to move even further away from standard business tariffs, and effectively increase their level of subsidy from taxpayers.

The capacity to switch between tariffs was an offer made by Ergon to various milling companies over the last two years, on the basis that it serves Ergon's best interests. Specifically, Ergon offered the opportunity for milling companies to switch tariffs twice a year, at specific intervals – using tariff 22 during the industry's cane crushing season, tariff 48 outside of the crush. Given the operating profile of the sugar industry, this a crude and deliberate form of demand management by Ergon, in which sugar mills have willingly participated.

The peak demand of sugar mills does not coincide with the Queensland market's peak demand. Yet peak demand is a contributing factor in transmission costs. Similarly, the peak demand of sugar mills does not coincide with the peak demand of bulk substations in north Queensland – and yet the peak demand of bulk substations is a contributing factor in the marginal costs of distribution costs. Further, many mills are clustered around a single feeder, yet network tariffs are designed at a site level.

In effect, sugar mills peak electricity demand occurs between May and November, where mills are importing high electricity loads, enhancing utilisation of an otherwise overcapacity, underutilised network at this time of year. By switching to Tariff 48 from December to April, where mills are operating with very low import loads, the tariff structure encourages mills to closer monitor site electricity import, at a time when it benefits Ergon to ensure that mills are drawing the lowest possible demand from the network. The cumulative effect of multiple mills adopting this tariff provides Ergon with a significantly clearer understanding of the available network capacity during peak demand in summer. Tariff 22 does not incentivise this form of off-season demand management.

A transition towards cost reflective pricing requires a stronger relationship between Ergon and its customers, including the recognition of shared benefits. While portrayed as direct benefit to the mills accessing tariff 48, this tariff flexibility reduces or delays the investment in further energy infrastructure to manage peak demand events between December and February, is clearly factored into Ergon investment and operational budgets – yet has continued to be greatly undervalued in the public arena. Hence rather than "enabling customers on transitional tariffs to move even further away from standard business tariffs", mills are providing a service, while simultaneously adjusting their operational profile to increasingly meet the new generation of tariff structures.

There are additional opportunities for the sugar milling sector and Ergon to work together to enhance demand management and reduce community service obligation payments (CSO). To this end, ASMC recently commissioned an investigation by Enernoc, in partnership with the Queensland Government's Department of Energy and Water Supply (DEWS), to identify industry readiness and key actions required to move from transitional tariffs to alternatives. As very clearly demonstrated by this report, the cost and risk sits with mills, while Ergon reaps the rewards of a monopoly player that constrains our options as both a retailer of imported electricity and purchaser of mills exported generation.

As such, ASMC is arguing that tariff 48 should not be closed to the tariff switching arrangements that currently exist on the basis that:

- By using tariff 48 during Queensland's peak demand, mills are providing a network service that enhances the efficiency of the network.

- There has been no notice of intent to close this tariff to new entrants, and no communication via Ergon of an intent to do so. The first indication of a change to the relatively new arrangements appeared in the discussion paper for this determination period. As such, mills have continued to work on the expectation of consistency – that Queensland Government, through its delegated authority, would remain consistent in its phasing out of transitional tariffs for 2020. Consequently, in addition to milling companies factoring tariff switching into their operational budgets for the year, a number of mills as part of their preparation for tariff transition, have also brought forward investment in site energy efficiency and demand management, based on the inclusion of tariff 48 during the crush season; and

- Ergon only provides KW data – not KVA or KVAR. In the absence of this data, mills are unable to assess their likely costs against the full spectrum of tariffs, only tariff 22.