22 March 2013

DR Malcolm Roberts
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Email: electricity@qca.org.au

sucrogen™
cane products

Dear Sir,

SUBMISSION ON QUEENSLAND COMPETITION AUTHORITY'S DRAFT DETERMINATION FOR REGULATED RETAIL ELECTRICITY PRICES 2013-14

On behalf of Sucrogen Australia Pty Ltd ("Sucrogen"), we wish to make the following submission regarding the "Draft Determination for Regulated Retail Electricity Prices 2013-2014".

Impacts of QCA Draft Determination

1. Cane Grower Impacts

As raised in our previous submissions to the QCA, we note that cane growers who supply our mills will be unreasonably impacted by the proposed tariff regime. We understand that irrigators may face a price rise in excess of 30%, and in some cases up to more than 300% on their electricity costs for irrigation pumping. This will particularly impact our growers, especially those in the Burdekin region; exposing them both to the direct cost increases attributable to their own on-farm pumping for irrigation and the indirect cost increases of a tariff regime that has significantly weakened price signals for farmers to irrigate off-peak. The future impact of which may have significant adverse consequences on peak demands and associated network costs.

2. Head-Room

In its 2013-14 Determination, the QCA included a 5% head-room allowance to all retail tariffs to foster competition. Firstly, Sucrogen does not support this cost impost on consumers. This head-room is almost specifically designed to drive competition in SEQ where there is close to 70% of customers on market contracts. From our perspective this equates to another inequality between the Energex and Ergon pricing regions as this excess profit margin for southern retailers must be faced by Ergon customers without the option of competitive market contracts. In the Draft Determination (5.13) the head-room is described as *"undermining of the intent of the UTP"*. Sucrogen is surprised that the authority continues to maintain their approach.

Furthermore, if the purpose of headroom is *"to ensure competition is maintained in SEQ"* (5.13), Sucrogen questions what the purpose of applying head-room to artificially inflating the large business tariffs only applied in the Ergon's distribution region if competition will and has not resulted from the increase. We do not believe the QCA can claim that for large business tariffs it has *"balanced the long term benefits to customers of sustaining an actively competitive market with the interests of those customers who may not have access to, or choose not to take up, alternative market offers"* if no active competitive market exists in the Ergon distribution area. We also disagree with the sentiment that introducing headroom merely makes prices more cost reflective in the Ergon region when cost reflective large business tariffs should already be cost reflective of the region.

3. Uniform Tariff Policy

Sucrogen believes that the aims of cost-reflective pricing and more specifically site-specific notified prices are at odds with the Uniform Tariff Policy. In regards to the draft determination, we believe that the calculation of large business tariffs based around the Ergon distribution region is in direct opposition to the intent of the uniform tariff policy and effectively disadvantages all large business in regional Queensland, where market contracts are much less competitive. The QCA's justification that large customers in the Energex region do not have access to notified pricing and therefore should be excluded from the calculation of the large business tariffs ignores the fact that Energex customers (in general) **do** have access to much more competitive pricing than large businesses in the Ergon distribution region.

We note the significant benefits for regional Queensland of the Uniform Tariff Policy in economic growth and the continued viability of existing businesses located in regional Queensland. We recommend that clarification of the intent of the UTP be sought before undertaking further actions which are at odds with this policy.

4. CSO payment made to network service provider

While recognising that community service obligations (CSOs) are outside the scope of QCA, Sucrogen is of the view that this mechanism should be paid direct to network service providers thus providing greater transparency and competition in regional Queensland. Not doing so maintains the effective monopoly that EEQ enjoys in regional Queensland.

5. Time of Use

Sucrogen agrees in principle with time-of-use pricing mechanisms in retail tariffs to drive consumption onto off-peak times. We agree with the QCA that Ergon should add time-of-use components in the current review of network pricing to both energy and demand charges for 2013-14.

6. Retail-Margin

Secondly, along with Ergon's and Government submissions Sucrogen does not support the same percentage retail margin applied for small and large customers. Some economies of scale need to exist in this tariff component as is applied to other components of the retail tariff cost stack. We support the QCA working with Ergon to develop a more suitable pricing mechanism as offered in Ergon's Submission on the Regulated Retail Electricity Prices 2013-14 Interim Consultation Paper, 19 October 2012.

7. Transitional Issues

Cost reflective tariffs if faced currently by Sucrogen would increase the electricity bill incurred by around 25% greater than the proposed Tariff22L increase, nearly 40% on 2012-2013 prices. To adjust to this step change in pricing mechanisms imposed upon the business a period of **certain** transition will be required. The changes that should be made to the business in preparation for the change include capital expenditure, control system changes, change to operating philosophies and cultural changes. These modifications of plant and procedures will not occur until a direction for very large customers is known.

It is for these reasons that Sucrogen acknowledges the QCA's decision to extend the transition period for large business tariffs. While Sucrogen would support a longer transition period than the seven years proposed in the draft, we are concerned about the uncertainty of the price path or trajectory within the transitionary period. Consequently, Sucrogen would like greater certainty as to the path to de-regulation or cost-reflective tariffs for very-large businesses in the Ergon's distribution region.

Yours faithfully

[redacted]

Paul Trayner
Cogeneration Operations Manager
Sucrogen