AUSTRALIAN Sugar Milling COUNCIL

14 January 2013

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Submitted via email: electricity@qca.org.au

Dear Sir

Submission on Queensland Competition Authority's consultation papers:

- ***Regulated Retail Electricity Prices 2013 – 2014: Transitional Issues*, released 2 November 2012; and**
- ***Regulated Retail Electricity Prices 2013 – 2014: Cost Components and Other Issues*, released 12 December 2012.**

Thank you for the opportunity to provide submissions in relation to the papers identified above. The Australian Sugar Milling Council (ASMC) makes this submission on behalf of its members.

The Australian Sugar Milling Council is the peak body for Australia's sugar milling companies, representing 99% of the Australian milling industry. As a seasonal importer and exporter of electricity, changes to the cost structure of electricity have a significant impact on the sugar milling industry, with worst impacts estimated at between 100 and 300%.

Similarly, the broader health of the Australian sugar industry, with over 90% of the industry located in Queensland, is directly affected by the cost of electricity in Queensland. As has been highlighted in previous ASMC and CANEGROWERS submissions, cane farming is a marginal activity that is highly sensitive to price shocks. In its current format, the proposed tariff restructure would result in farmers facing an electricity cost increase of between 30 and 300%, with the bulk of electricity used for irrigation. Loss of productivity throughout the sugar industry, as a result of reduced irrigation, would be a most undesirable outcome for both the industry, and Queensland's export profile.

Most, if not all, Queensland sugar mills will eventually move to tariff 48 under the proposed arrangements outlined by the Queensland Competition Authority (QCA). As such, the following represent the agreed positions of ASMC, expanded upon below.

- Uniform tariff policy and cost reflective pricing are incompatible.
- Greatest risk to the sugar industry, in addition to one off operating cost increases outside of acceptable business risk management strategies, is loss of productivity.
- An alternative tariff to apply during seasonal generation.
- A transitional arrangement of 5 years
- No increase in headroom for retailers or charging for exceptional circumstances
- New customers should be allowed access to obsolete tariffs during the transitional period.
- No double dipping on connection asset customers

Uniform tariff policy and cost reflective pricing are oppositional policies that do not reconcile.

As recognised during QCA's various consultation sessions around the state, uniform tariff policy and cost reflective pricing are conflicting policy positions. Critically, it remains the ASMC position that, irrespective of the delegated powers assigned to QCA, it is a gross policy distortion to attempt to reform retail electricity pricing in isolation of the broader Queensland energy policy – or more critically, how electricity is delivered in Queensland. The uniform tariff policy is one part of a targeted and specific policy for delivering electricity around the state at an equitable price. Cost reflective pricing is not – and effectively punishes regional Queensland for decisions of successive governments over the last 50 years.

Greatest risk to the sugar industry is loss of productivity

As highlighted in previous submissions, the greatest risk to the sugar industry through extreme price hikes is the loss of productivity. Electricity price increases of between 100 and 300% are not only untenable for sugar mills, but similarly may constrain further investment in major projects.

Furthermore, it is our industry's experience that irrigation is one of the first inputs sacrificed by farmers in financial difficulties. Removing time of use incentives from tariffs not only increases this risk, but also undoes a range of beneficial farming practice and education heavily invested in by the industry.

An alternative tariff to apply during seasonal generation

While acknowledging that a number of mills will experience relatively low level electricity cost increases under tariff 48, mills that typically export more electricity than import are projected to experience electricity cost increases between 100-300%. However, the driver for this price increase occurs when the mill is actively behaving as an embedded generator, drawing an auxiliary load from the network to power up generation. This is no different to a large scale generator drawing an auxillary load to commence start up. A mill's generation profile, during the period of operation, typically sits between a baseload and intermediate generator.

However, this variable load profile dramatically impacts the costs born by sugar mills during seasonal operation. It is worth noting that this fluctuating demand does not occur during the peak demand "season", as mills operate June to December. ASMC proposes there is a strong argument for mills to have access to an auxillary load tariff during the season of electricity generation, moving back to a typical operating tariff (22 or 48) for the remainder of the year.

A transition arrangement of 5 years.

ASMC recognises that cost reflective pricing is intended to encourage greater demand management by affected customers. If the purpose of this reform is to ultimately improve the cost effectiveness, operation and resilience of the distribution network, then affected customers need a reasonable period to explore and potentially test their options before moving into final arrangements. Similarly, affected retailers will benefit from

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understanding the reasoned and informed responses of their customer base, which may appear very different to an initial response. It should not be assumed that the customer base is without options – or that retailers are sufficiently informed to understand the likely reaction of their customer base.

The sugar milling industry is currently considering options around off-grid diesel generation to meet peak demand. Given that a mill only requires peak generation support for a few hours in any given month, an industry based approach may be an economically feasible solution. The loss of revenue to the retailer is potentially significant in this context.

Similarly, cane farmers, along with several other agricultural industries, are currently considering the re-installation of diesel generators at the individual farm level to meet their electricity needs for irrigation. With approximately 4000 farmers in the Queensland sugar industry alone, the impact of a significant number of farmers moving to diesel generation needs to be considered not only as a retail energy concern, but also in the broader energy policy context. It is worth noting that both the Federal and Queensland Governments have invested considerable effort in moving regional Queensland away from diesel generation over the last 15-20 years.

No increase in headroom for retailers or charging for exceptional circumstances

It is the strongly held view of ASMC members that a head room allowance to foster competition is only defensible when competition exists. This is not the case for regional Queensland, and certainly not the case for sugar mills entering into regional retail agreements. ASMC does not support further increase in headroom – indeed ASMC argues that no justification exists for headroom charges at all under tariff 48, given this is an Ergon customers only tariff.

Similarly, ASMC does not support the notion that a further financial mechanism is required to account for unforeseen or uncertain events. It is not the role of QCA to protect retailers from all eventualities; it is not unreasonable to expect every retailer to have an appropriate risk management strategy for such events, the same as any other business in Queensland. In the case of extreme eventualities, it must be the role of government to consider an equity transfer if necessary, in the same way that any other industry would be required to develop a case for consideration. It is particularly noted that there is only a discussion of charging for exceptional circumstances, with no similar commitment to pass through a discount when benefiting from exceptional circumstances.

New customers should be allowed access to obsolete tariffs during the transition period

ASMC supports extending obsolete tariffs during the transition period to new customers.

No double dipping on Connection Asset Customers (CACs)

In its advice to the Minister for Energy and Water Supply on *Retail Electricity Prices for Ergon Energy Queensland's Very Large Customers*, November 2012, QCA advised that there is no "…reason why EEQ could not charge embedded generators the appropriate export network charges. Not doing so simply increases the size of the Government's community service obligation (CSO) payment to EEQ."

ASMC disagrees with this statement. Rooftop solar is exported into the distribution network without exposure to network charges. Similarly, large scale generators import electricity for auxillary load without imposition of network charges. The proposition that an embedded generator should wear both charges is grossly inequitable under the current arrangements – and effectively a double dip. In the absence of a tariff that recognizes the auxillary load of sugar mills, or equitable voided Distribution Usage of system (DUoS) payments from the retailer across all embedded generators, it seems grossly inappropriate that QCA would further advance the cause of disproportionate charging by Ergon.

It remains the view of ASMC that transitional arrangements are essential if the government continues to progress 'cost reflective pricing'. Further, notified prices are essential to deliver a uniform tariff policy. The extraordinary price increases anticipated by the sugar industry, both in milling and farming activities have a direct impact on the health and longer term sustainability of the industry. Should you have any further queries regarding this submission, please contact Sharon Denny, Senior Executive Officer Government & Business Development on (07) 3231 5003 or sharon.denny@asmc.com.au.

Yours Sincerely

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