AUSTRALIAN Sugar Milling COUNCIL

19 October 2012

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Via email: electricity@qca.org.au

Dear Sir/Madam

Thank you for the opportunity to comment on QCA's interim consultation paper on *Regulated Retail Electricity Prices 2013 – 2014*.

The Australian Sugar Milling Council (ASMC) is the peak policy body for Australian Sugar Milling Companies, representing over 99% of Australian raw sugar production, 95% of which is located in Queensland. Queensland sugar mills generate approximately 50% of Queensland renewable electricity, exporting surplus electricity for local distribution during the sugar crushing season, and sometimes beyond.

Sugar milling companies have a compelling interest in the fate of regulated retail electricity prices in Queensland. Collectively, Queensland sugar mills import approximately 20 GWh of electricity per year, categorizing each milling site as a large energy user. However, the industry also exports approximately 450-850 GWh per year into regional distribution networks, fundamentally affecting the cost of supplying electricity in townships co-located with the industry throughout regional Queensland, and subsequently reducing government community service obligations.

Consequently, milling companies are deeply affected by changes to the existing BRCI approach to retail electricity pricing, as highlighted by ASMC's submission to QCA on the *Draft Determination for Regulated Retail Electricity Prices 2012-2013*.

In the absence of any analysis proffered by the interim consultation paper, ASMC raises the following concerns for QCA's attention and action.

1. A new approach to network+retail (N+R) is required

On page 2 of the interim consultation paper, QCA suggests "that the approaches adopted last year will generally provide a good starting point" in relation to developing the approach to retail electricity pricing under the three year delegation period. However, ASMC argues that the nature of the delegation (i.e.

three years) and critically, the Terms of Reference, developed under a new government are evidence that a new approach is required – and expected. The government has indicated that it accepts that cost recovery approaches are required. However, the government did not endorse the specific approach of the 2012-2013 draft determination, requiring hasty amendments for the final determination, given the overwhelming implications for the state and energy customers, had this approach continued unchanged.

It is ASMC’s view that a new approach to N+R is required.

2. **The interaction of “making, producing of supplying goods” needs to be considered**

   QCA, in forming a price determination, is required to consider the actual cost of making, producing or supplying the goods or services under Section 90 (5) (a) of the *Electricity Act 1994.* While the draft determination of 2012-2013 indicated consideration of each of these components, there is no suggestion that the **interaction** or collective impact of these components was also considered. Hence in the case of sugar mills, which are both importers and exporters of electricity using the one and same set of infrastructure, a failure to consider this interaction resulted in charging mills' export capacity as import capacity. This resulted in a massive, detrimental impact on price increases faced by the industry under the proposed approach to network + retail (N+R) approach.

   ASMC strongly advocates for consideration of whole of system impacts when developing retail pricing, particularly as the authorising delegation and terms of reference make it eminently possible for the QCA to do so.

3. **Priority to ensure the overall customer impact is considered, not just the transition to a higher price**

   Although amended in the final determination of 2012-2013, the fact remains that the underlying methodology employed by QCA (for the draft determination) meant that many within the sugar industry (mills and farmers) were likely to experience price increases that would close their operations. Hence the length of transition period is irrelevant if the final cost impost is so high that businesses cease operation. This is a particular concern for regional Queensland.

   ASMC strongly advocates that the total price impact should not undermine industry or regional economic productivity.

4. **Extensive consultation must include a strong affected stakeholder (customer) focus, not just retailers**

   The cost impact of QCA's retail price determination affects both retailers and customers. Yet QCA has typically consulted retailers at length during previous annual retail electricity price determinations, while providing little interaction for the majority of customers. With fundamental reform of the approach to retail electricity price determination underway, it is critical that customers be consulted at length, ensuring QCA captures unintended consequences of a price determination methodology. The customer response to the Draft Determination of 2012-2013 should be a timely reminder of how necessary this consultation and feedback is.

   ASMC explicitly supports an extensive consultation period with energy customers throughout the development of QCA's price determination.

5. **Interim consultation processes to receive feedback on how affected stakeholders might respond to proposed approaches – to enable QCA to consider this further impact on retail pricing.**

   Following on from the extreme price increases identified during the draft determination for 2012-2013, mills and growers considered a range of potential responses, including some that would have significantly impacted on electricity demand in their regions. It is critical that in developing a new approach to retail pricing, QCA understand the full range of potential stakeholder responses – and their potential impact on cost recovery.

   ASMC is seeking opportunity to provide analysis and feedback on industry responses to particular price pathway approaches developed by QCA under the current delegation.

6. **Intersection of the Uniform Tariff Policy (UTP) with the amortization period of assets must be considered in the context of capturing public good.**

   While recognising that the Australian Energy Regulator sets the rate of amortization of energy assets, the new price determination methodology must recognise equitable service provision in regional Queensland, underpinned by the UTP. Substantial investment in new distribution infrastructure in regional Queensland has and will continue to be necessary over a number of years, to ensure an equitable level of quality and reliability of electricity, comparable with south east Queensland. This increasingly sophisticated electricity infrastructure underpins ongoing economic development in regional Queensland, necessary to the broader Queensland economy - and hence the broader public good. The UTP is essential to the ongoing economic development and social infrastructure of regional Queensland.

ASMC values the role of the UTP and believes that capture of public good must be considered as part of the determination approach.

Thank you once again for the opportunity to comment on the interim consultation paper for Regulated Retail Electricity Prices 2013-2014. Should you have any queries regarding the content of this submission, please contact Sharon Denny on Ph (07)3231 5003 or email Sharon.denny@asmc.com.au .

Yours sincerely

Dominic V Nolan
Chief Executive Officer