



Queensland Cotton - A division of Queensland Cotton Corporation Limited ACN 010 944 591
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Submission to the Queensland Competition Authority

Draft Determination Regulated Retail Electricity Prices 2013-14

March 2013

About Queensland Cotton

Established in 1921, Queensland Cotton Corporation Pty Ltd ("Queensland Cotton") is Australia's oldest cotton ginning and marketing organisation – being a major supplier of premium cotton to the world's textile markets.

As a supply chain manager, Queensland Cotton specialise in all stages of the processing and ginning of seed cotton to the marketing process including the financing, acquisition, risk management, sale, classification and storage of processed cotton.

In 2007, Olam International Ltd ("Olam") acquired Queensland Cotton. Olam is a leading global supply chain manager and processor of agricultural products and food ingredients - operating an integrated supply chain for 20 products in 64 countries, delivering these products to over 10,000 customers worldwide.

Queensland Cotton's business has diversified to now include the buying and selling of other agricultural products being pulses, grains, and wool. The Australian business continues to trade under the recognised and trusted name of Queensland Cotton.

Response to Draft Determination

The Queensland Competition Authority ("Authority") sets the regulated retail prices for electricity.

The Authority has released its draft determination on prices to apply from 1 July 2013 ("Draft Determination").

In relation to the findings contained in the Draft Determination, Queensland Cotton makes the following submissions:

1. Continued Increase in Tariffs

Queensland Cotton operates a number of cotton ginning sites on tariff 48.

Pursuant to the Draft Determination and based on our discussions with Ergon Energy, we understand Queensland Cotton will be subject to an increase in the order of 12 percent for 2013-14 in respect of those gins operating on tariff 48.

This increase, on top of increases over the past seven years which have seen Queensland Cotton's energy rates nearly double, will have a continued adverse impact on operating margins and a consequent flow-on effect for Queensland Cotton's ginning customers (cotton growers).

Queensland Cotton has little option but to pass these increased costs onto cotton growers, who themselves are under increasing strain as a result of the continued escalation in energy prices. Imposing this burden on growers will result in significant implications for the productivity of regional areas as many growers do not have the capacity to absorb such increases.

The increases in energy prices have far exceeded the increases in consumer price index changes.

Queensland Cotton reiterates the view of Cotton Australia Limited ("Cotton Australia") as stated in its March 2013 submission to the Authority, that the Authority must thoroughly examine the impact of its pricing recommendations on the viability of businesses and the communities they support so that the impact of the Authority's price determinations do not undermine industry or regional economic productivity.

Further, Queensland Cotton strongly supports the recommendation that the Authority undertake a robust analysis of the impact of price increases on the business profitability of business electricity users.

2. Obsolete Tariffs

Queensland Cotton also operations cotton gins on tariff 43.

We note tariff 43 will be retained for 2013-14 but will then be removed at which time Queensland Cotton will be compelled onto another tariff.

Queensland Cotton will be subject to an increase of 11 percent for 2013-14 in respect of those gins operating on tariff 43. We repeat the comments provided above in respect of the notified price increase and the detrimental effect this further increase will have on Queensland Cotton's ginning operations and that of its customers.

In respect of the abolition of tariffs (including tariff 43), Queensland Cotton submits that the transitional arrangements include the retention of obsolete tariffs so that customers are provided with the ability to remain on obsolete tariffs until such time as they have chosen to move to a new tariff which is suitable for their requirements.

Retention of obsolete tariffs, like tariff 43, would allow more options and better flexibility for customers in determining the tariff that is most appropriate for their needs. This is of particular importance to Queensland Cotton given the seasonality of its business, where the energy requirements for any one season can vary greatly having regard to factors outside of its control, such as drought.

3. Site-Specific Charges

Whilst the Draft Determination does not introduce site-specific charges for Very Large customers for 2013-14, Queensland Cotton seeks to raise its concerns with site-specific charges if they were to be adopted at some later stage.

Queensland Cotton operates cotton gins in numerous regional locations. Based on the indicative pricing impact Queensland Cotton has received from Ergon Energy, if site-specific charges were adopted for Very Large customers, then this would have devastating consequences for Queensland Cotton's ginning operations.

Further, as highlighted in Cotton Australia's submission to the Authority (March 2013), it would likely result in regional cotton gins becoming completely uneconomic to operate and would jeopardise the cotton ginning industry's \$1 billion contribution to the Queensland economy.

Queensland Cotton's ginning operations are located in regional areas in order to service and support the cotton farmers who produce crops in those regions. Queensland Cotton does not have the option to relocate its operations away from those locations. Therefore, penalising regionally based businesses (particularly those which have been long established in regional areas) by introducing site-specific charges would be grossly inequitable.

Further, as mentioned above, such increases in costs would flow through to growers with the impact to be felt throughout the supply chain.

For the above reasons, Queensland Cotton submits to the Authority that customers like Queensland Cotton continue to be able to access non-site specific tariffs.