

QFF MEMBERS

Australian Prawn
Farmers Association

CANEGROWERS

Cotton Australia

Growcom

Nursery & Garden
Industry Queensland

Qld Chicken Growers
Association

Qld Dairyfarmers'
Organisation

ASSOCIATE
MEMBERS

Queensland Chicken
Meat Council

Flower Association of
Queensland Inc.

Pork Queensland Inc.

Fitzroy Food & Fibre
Association

Pioneer Valley Water
Co-operative Limited

Central Downs
Irrigators Limited

Burdekin River
Irrigators Area
Committee

Queensland United
Egg Producers

Emerging Primary
Industries Groups

- Biological Farmers
of Australia
- Queensland
Aquaculture
Industries
Federation

5th October 2012

Committee Secretary
Senate Select Committee on Electricity Prices
PO Box 6100
Parliament House
Canberra ACT 2600

Re: Submission to Senate Select Committee on Electricity Prices

Thank you for the opportunity to make a submission to the Inquiry.

The Queensland Farmers' Federation is the peak rural body representing intensive agriculture, which contributes around half of the State's \$13 billion in agricultural product. Electricity is a major cost item for our members which includes CANEGROWERS, Growcom (Queensland Fruit & Vegetable Growers), Qld Dairyfarmers' Organisation, Cotton Australia, Nursery & Garden Industries Queensland, Qld Chicken Growers Association and Australian Prawn Farmers Association. QFF provides this submission without prejudice to any additional submissions provided by our members.

Our recommendations are as follows:

1. Where electricity markets are slow to develop, the Australian Energy Regulator have the power to intervene to determine network prices based upon a rigorous and comprehensive assessment of the prudence and efficiency of network costs.
2. Monitoring and reporting requirements be put in place at a national level to require network operators to show how they have assisted customer groupings to reduce peak demand

QFFs response to specific issues raised by the Inquiry is as follows:

1. Identification of key causes of electricity price increases over recent years and those likely in the future

Substantial electricity price increases in recent years have been the result of a number of factors including:

- a. Network costs associated with use of transmission and distribution networks have increased substantially in Queensland over the past few years and account for around 50% of total costs. In 2012-13 alone network charges for Energex and Ergon Energy increased by 15.7% and 11.3% respectively.

Network operators argue these cost increases are justified due to the costs of expanding the networks to meet consumer demand particularly at peak times, replacing ageing infrastructure, complying with the Queensland Governments reliability standards and the higher costs of borrowing due to the global financial crisis. However, QFF questions whether these network cost increases are needed and efficient. In particular, it is not accepted that reviews being conducted by the Australian Energy Regulator (AER) as a basis for five yearly budget approvals for network operators are comprehensive and rigorous enough to assess the prudence and efficiency of network operator costs.

It would appear that there is an undue reliance that the development of a competitive market will drive costs down without the need for greater intervention by the AER. Questions are also being raised about the return that State Governments are earning from the Network Operators. The Prime Minister has pointed out the revenue to State Governments have climbed by over 50% over the last five years from the previous 5 year average.

- b. The Queensland Competition Authority (QCA) Final Determination on Regulated Retail Electricity Prices for 2012-13 highlighted that the introduction of the carbon tax increased the underlying cost of energy for small customers by around 43%. Energy costs comprise around 40% of total costs and include the costs of purchasing wholesale energy from the national market, renewable energy costs of State and Commonwealth greenhouse schemes and national electricity market fees and charges including the costs of network energy losses. It is expected that as is the case for 2012-13 any cost increases as result of carbon reforms will be passed through in price increases.
- c. QCA also found that retail operating costs for small customers remained generally unchanged. These costs comprise 10% of total costs and include customer acquisition and retention costs and an allowance for a retail margin which includes return on capital, depreciation and systematic risk costs.
- d. The shift from applying cost indexation to determine prices in previous years to a tariff structure from 2012-13 that more closely reflects the actual costs of supply has had a mixed impact on prices. Some notified tariffs have increased substantially and others have decreased. The impact of the increases in recommended tariffs affecting irrigation industries resulted in QCA retaining irrigation specific tariffs but applying increases of 10% and 20% to specific tariffs as a transitional measure this financial year. Further comment on the implications of this shift in approach for the future will be made later in the submission.

2. *Legislative and regulatory arrangements and drivers in relation to network transmission and distribution investment decision making and consequent impacts on electricity bills and on the long term interests of consumers*

The previous State Labor Government's decision to shift from using an indexed approach to determining prices was based on QCA advice that the existing tariffs and prices determined on the basis of an index were unlikely to fully reflect the costs of supply ie network and retail (energy and actual retail) costs.

The Benchmark Retail Cost Index that had been used to assess prices annually based upon existing tariff structures did not involve the assessment of the efficient cost of supplying electricity as it only estimated the percentage change from year to year.

However, the State Government direction to QCA in assessing 2012-13 prices was to treat network costs as a pass through cost to consumers and should equate with the Energex network price for the relevant tariff year as approved by the AER. A Uniform Tariff Policy is still applied which allows customers in the same class to access uniform retail tariff and pay the same notified prices regardless of geographical location in the State. This has meant that retail prices in the Ergon Energy areas have to reflect the Energex tariff structure and costs of supply predominantly in the South East Queensland. This allows Ergon Energy to charge retailers to their cost reflective price and take advantage of the Queensland Government subsidy to maintain Uniform Tariffs.

As result of data difficulties QCA had to use a model based approach to estimate the price a retailer would be prepared for purchasing energy which included making estimates of the wholesale spot price forecasts, customer load forecasts and energy losses. Modelling was also required to assess the impact of the carbon tax. QCA estimated retail operation costs and customer acquisition costs and the retail margin were assessed as a percentage of sales.

During consultations conducted by QCA, QFF voiced concern at the potential loss of tariff options for farmers as a result of the approach adopted. Farmers have had a significant choice in tariff options which allowed them to choose the tariff that best suited each individual need. Any restriction on this choice is not desirable especially since most of our farmers are outside south east Queensland and thus unable to take advantage of electricity competition.

QFF submissions also raised concern that the Authority did not try to obtain disaggregated costs of retailers. The inclusion of customer acquisition and retention costs was not supported as these costs are a commercial decision by a retailer to achieve market growth. The inclusion of a retail margin for systematic risks was also questioned.

3. *Options to reduce peak demand and improve productivity of the national electricity system*

- a. Incentive based off-peak rates - The tariffs recommended by QCA to apply after a transitional period which at this stage is the 2012-13 financial year will increase off peak tariffs significantly and reduce the saving on off peak rates compared with peak rates to only two cents. For example, irrigators shifting from one existing irrigation tariff to a recommended tariff would face 72% increase in off peak charges while another irrigation tariff change would increase off-peak charges by 39%. Submissions from Canegrowers and Growcom provide estimates of the impact of this significant increase in off-peak rates.

Advice from all our member industries has raised concerns about the impact of these increases in off peak rates if recommended tariffs are finally implemented. For cane and fruit and vegetable growers and dairyfarmers the impacts will be felt on their irrigated operations.

Cotton farms reliant on flood irrigation will generally favour flat demand tariffs but farms that are shifting from flood to more efficient irrigation systems will be disadvantaged. About 20% of water use for chicken meat producing farms is in off-peak periods and nurseries report off peak use at about 44% of total use. Industry submissions also question the QCAs assumptions regarding the peak/off-peak split for different industries as a basis for their assessments of tariff recommendations.

Irrigation water suppliers will also face problems. The Pioneer Valley Water Co-operative Limited tabled a submission with the Authority regarding an increase in their off-peak rates of 82% which will impact on irrigation customers reducing the incentive to take advantage of off-peak rates. The submission explains the significant impact the recommended tariffs will have for sections of the scheme that have been specifically designed for off-peak pumping. SunWater schemes will face similar issues particularly the schemes that make significant use of electricity such as the larger channel schemes. This is because off-peak rates have been eliminated in the larger industrial tariffs.

These tariff changes, if implemented, will be a significant disincentive for irrigators and other farmers to shift to off-peak use. Night time use is more water use efficient as there are reduced losses through evaporation and less wind interference with high pressure irrigation. It is likely that these tariffs will also encourage a progressive conversion to peak use for farms and irrigation water supply providers.

The decision to retain a number of tariffs for a transitional period provides some time for QFF to work with network operators, government agencies and QCA to develop tariff structures for irrigation as a base load and off-peak electricity user. These investigations cannot just focus on those farmers that have transitional tariffs. For example production nurseries have been moved to final tariffs without any transition and are reporting increases of between five and seven times their last year charges. Large aquaculture farm operations faced similar problems but have accepted adjusted tariffs with increases expected of between 10 and 16% on their bills for last year. Larger farming operations involved in cotton, cane and nursery production are also facing significant price increases because their electricity use for only a small part of the growing season has exceeded the 100MW threshold pushing them into high usage tariffs which are expected to have no off-peak allowances.

- b. Increasing use of solar or other renewable energy – There is the option for smaller farming operations to convert to solar energy. While costs are significant solar energy for operations such as nurseries will no doubt be attractive and allow greater flexibility in the operation of these farming operations.
- c. Use of diesel generators – There is a significant risk that farmers will move to make greater use of diesel generation to manage the initial impact of tariff changes. This will be particularly the case if adequate transitional arrangements there are not made. Irrigators are also likely to make use of diesel generators to help them manage through low water availability periods.

4. ***Investigation of mechanisms that could assist households and business to reduce energy costs***

Response to specific issues is as follows:

- a. Opportunities for improved customer advocacy and representation arrangements bringing together current diffuse consumer representation around the country – Improved customer advocacy at the national level is needed to focus on the need for rigorous investigation of the prudence and efficiency of network costs. This could be delivered by strengthening the powers and resourcing of the AER to implement this level of scrutiny. Other matters such as the need for improved off-peak tariffs would be better addressed at a state level.
- b. The arrangements for network businesses to assist their customers to save energy and reduce peak demand as a more cost effective alternative to network infrastructure spending – Agriculture industries are finding it difficult to make progress with the network businesses on the issue of the development of an irrigation tariff. There are clearly other priorities and while we have got recognition of the problem, making progress on the design of an irrigation tariff is lagging to extent that longer transitional arrangements will be required. However, it is critical that irrigation industries sit down with network operators to develop tariff proposals. Implementation of some form of reporting by electricity businesses of their performance in assisting customers to save energy and reduce bills may facilitate a better response from the network operators.

Yours sincerely

Dan Galligan
Chief Executive Officer