



QUEENSLAND FARMERS' FEDERATION

QLD COMPETITION AUTHORITY

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QFF MEMBERS

Australian Prawn
Farmers Association

CANEGROWERS

Cotton Australia

Emerging Primary
Industries Group

- Australian Ginger Growers
- Biological Farmers of Australia
- Flower Association of Queensland Inc
- Queensland Aquaculture Industries Federation

Growcom

Nursery and Garden
Industry Queensland

Qld Chicken Growers
Association

Qld Dairyfarmers'
Organisation

Qld Irrigators Council
Association Inc

Qld Chicken Meat
Council

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Sir

Thank you for the opportunity to make a submission on the draft electricity BRCI for 2008-9.

The Queensland Farmers' Federation is the peak rural body representing intensive agriculture, which contributes around half of the State's \$12 billion in agricultural product. Electricity is a major cost item for intensive agricultural operations represented by our member bodies including CANEGROWERS, Growcom (Queensland Fruit & Vegetable Growers), Qld Dairyfarmers' Organisation, Cotton Australia, Nursery & Garden Industries Queensland, Qld Chicken Growers Association, Australian Prawn Farmers Association and Qld Irrigators Council.

I would like to support the comments already submitted by Mr Eric Danzi from CANEGROWERS. As he points out electricity contributes up to 20 percent of total cane growing costs for irrigation cane growers in Queensland. Farm costs more generally have risen by 45% over the last decade, with fuel and energy, feedstock and fertilisers the largest cost items. By contrast, sugar prices are down 14% on a decade ago, cotton prices are down 9%, poultry prices are down 15%, and milk prices have risen by just 11%. This highlights the sensitivity of agriculture, a key export sector, to rises in key inputs such as electricity. The specific issues raised by Mr Danzi which are supported by QFF are as follows.

1. Cost of energy

It is submitted that the long run marginal cost should be used to calculate the cost of energy. Such an approach would limit upward pressure on the cost of electricity whereas a market based system will reduce the incentive for retailers to attempt to limit this upward pressure. It has also been recognised that LRMC will smooth changes in the cost of energy rather than wild fluctuations from year to year where the current purchase costs of energy are taken into account. If this is not possible, then a different weighting between LRMC and a market based system should be considered which gives due weight to consistency and certainty in long term retail electricity prices. Mr Danzi recommends a weighting of 75 percent LRMC and 25 percent market.

2. Network costs

The massive expenditure on networks in recent years is a significant driver for increased retail electricity prices. It is proposed that Government should cover these increased costs which are the result of inefficient practices resulting in significant underspending on the network in the past and a conservative approach to design of distribution systems to avoid problems in the future. Mr Danzi questions the value of partially deregulating the electricity market but then 'burdening it with inefficiencies imposed by government that greatly outweigh any efficiency gains'.

3. Retail costs

The level of the retail margin at 5 percent is excessive and should be margins of 2-3 percent allowing 'market share to generate throughput and significant profits.' Lower margins also suit a regulated market with low risk and a guaranteed steady growth in demand.

These electricity price increases have serious implications for the viability of irrigation schemes. The escalating prices are opening a significant gap between current price paths set to 2011 and actual costs in schemes particularly those schemes with channels and pipelines where electricity is a significant component of costs. These schemes are likely to face excessive price increases when new price paths are put in place from 2011 with resultant adverse consequences for economic, environmental and social conditions in these areas. It is understood that these matters are of a policy nature and don't come within the terms of reference of QCA brief.

Yours faithfully



John Cherry
Chief Executive Officer