

**Submission to the Queensland Competition Authority**

**Regulated Retail Electricity Prices 2013-14  
Transitional Issues  
&  
Cost Components and Other Issues**

**January 2013**

Queensland Farmers' Federation (QFF) is the peak body representing and uniting 16 of Queensland's rural industry organisations who work on behalf of primary producers across the state. QFF's mission is to secure a sustainable future for Queensland primary producers within a favourable social, economic and political environment by representing the common interests of its member organisations'. QFF's core business centres on resource security; water resources; environment and natural resources; industry development; economics; quarantine and trade.

Our goal is to secure a sustainable and profitable future for our members, as a core growth sector of the economy. Our members include:

- Australian Prawn Farmers' Association,
- CANEGROWERS,
- Cotton Australia,
- Growcom,
- Nursery and Garden Industry Queensland,
- Queensland Aquaculture Industries Federation,
- Queensland Chicken Growers Association,
- Queensland Dairyfarmers' Organisation,
- Queensland Chicken Meat Council,
- Queensland United Egg Producers,
- Flower Association of Queensland Inc.,
- Pork Queensland Inc.,
- Biological Farmers of Australia
- Fitzroy Food and Fibre Association,
- Pioneer Valley Water Co-operative Limited,
- Central Downs Irrigators Limited, and
- Burdekin River Irrigators Area Committee

QFF provides this submission without prejudice to any additional submissions provided by our members.

### **Preamble**

The Australian Government's Energy White Paper recognises the need to minimise energy price pressures. The Paper specifically notes that rising electricity prices 'reflect mainly increases in network costs' and governments responsibility 'to ensure that the cost of supplying energy is as efficient as it can be.' It is also recognised that 'current electricity pricing does not reflect the true cost of generating and supplying electricity at various times of the day so fails to provide critical financial incentive for more efficient behaviour.'

The White Paper recommends a more comprehensive program of reform for the electricity sector focusing on:

- a. Widening the powers of the Australian Energy Regulator to interrogate network businesses and to review and amend expenditure proposals backed with annual benchmarking of the efficiency of network businesses (Productivity Commission to advise on the annual benchmarking model).
- b. Amending the National Electricity Rules to allow the Australian Energy Regulator (AER) to require businesses to spend capital efficiently (e.g. AER to undertake ex-post reviews of efficiency of capital expenditure above approved levels).
- c. Improving the transparency of regulatory processes and the ability of stakeholders to engage the process e.g. improved data on network business operations from the AER.
- d. Encouraging state governments 'to promote greater commercial efficiency and discipline in energy businesses.

- e. Reviewing the current network regulatory appeals process to address the high use of limited merit reviews.
- f. Investigating scheduled network expenditures in the light of revised demand forecasts.
- g. Improving electricity use efficiency including implementation of smart metering.

The draft report of the Queensland Government's Independent Review Panel has made draft recommendations on all aspects of the network businesses in the state including reliability standards, overhead and indirect costs, capital expenditure, optimal structure of distribution businesses and the Federal regulatory framework.

These reviews highlight the difficulties being faced in implementing reforms to deliver efficient electricity supply. The White Paper particularly notes that 'addressing the causes of (electricity) price rises presents complex policy challenges for governments and, unfortunately, there are no easy fixes.' Governments are clearly indicating that it will take time to deliver efficient market based reform.

Irrigated agricultural enterprises throughout Queensland will face significant difficulties coping with price increases to achieve cost reflective electricity tariffs and the failure of these tariffs to provide sufficient incentive for improved demand management. Current recommended cost reflective tariffs will be an obstacle to farmers seeking to improve productivity while managing for variability in water availability and adjusting to the implementation of national water reforms.

Irrigation farming will need time and support to adjust to the implementation of cost reflective tariff reforms. Governments have also recognised in recently announced reform programs that additional time will be required to achieve efficient costs in supplying electricity and effective time of use tariffs.

QCA must take account of these issues in defining transitional pricing arrangements.

**Recommendation:**

**QCA retain obsolete irrigation tariffs for sufficient time to allow for irrigation farming businesses to adjust to the implementation of electricity tariffs that reflect efficient costs and provide incentives for time of use.**

**Network tariffs for small and large businesses**

The delegation from the State Government requests QCA to assess the suitability of Energex network tariffs for small business and Ergon network tariffs for large business customers. QCA has encouraged Energex to review their network tariffs as the structure of these costs is a matter for Energex and the AER (i.e. energy costs are treated as a pass through). QCA has also asked Ergon Energy and Energex to advise if there are any practical constraints to prevent customers on obsolete tariffs from moving to cost reflective tariffs in the coming financial year.

At the QCA briefing in Brisbane on the 19<sup>th</sup> December Energex advised that in the coming months they would table a revised time of use tariff (Tariff 22) based on three parts. There were no further details provided about the proposed tariff other than it would be an improvement on the current regulated small business Tariff 22 but would not be able to achieve the off peak rates of the obsolete time of use tariffs. Ergon advised that their pricing strategy for large business tariffs would be available in late 2013 for consultation in 2014. Ergon has advised that it is conducting a review of irrigation tariffs as part of the preparation of the pricing strategy.

### *Small business tariffs*

The current proposal to increase off peak rates substantially for small businesses with a saving of only 2 cents on peak rates will substantially increase electricity costs for irrigation farms and irrigation water suppliers and will reduce the incentive for customers to use off-peak electricity. Irrigation farmers in various parts of the State have made substantial investments to shift their use of water to off-peak times. Night time use is more water use efficient as there are reduced losses through evaporation and less wind interference with high pressure irrigation systems. Implementation of water reforms particularly water pricing and water trading reforms will encourage higher usage of available water which will prompt irrigators to make more efficient use of water. Irrigators need an incentive to utilise off-peak tariffs to better manage their demand for electricity.

Cane, fruit and vegetable and dairy industries confirm that many of their farmers irrigate at off peak times. They are concerned that the proposed off-peak tariffs will do little to encourage off-peak use into the future. 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.

It is unclear at this stage what analysis and consultation will be conducted into the proposed Energex tariffs for Ergon irrigation customers in different parts of the state. How will the results of this analysis be addressed by Energex and/or Ergon? What input will QCA have to this process? The irrigation industry has been seeking open consultation with Energex and Ergon on a range of irrigation tariff options. The impact of proposed tariff changes for irrigation customers must be openly and collaboratively investigated. This process must also include assessment of the metering changes that will be required and the likely associated costs such as asbestos removal and work place health and safety risk management requirements.

### *Large business tariffs*

Ergon has recently advised large customers on obsolete tariffs that demand and capacity charges will have to be considered in the future. This change will mean substantial cost increases particularly for those customers with poor load factors and a highly variable electricity consumption pattern. The change will also mean no access to time of use tariffs. QCA has also noted that the cheaper Eastern Zone for Ergon was used as a basis for the assessment of 2012-13 prices. Future prices could be higher if the costs of supply in the other two zones are to be taken into account. QCA also notes that Ergon transmission charges differ across a number of regions.

It is submitted that the large customers will require longer term transition period to undertake business planning and the adjustment required to either cope with proposed changes in charges or to implement alternative energy supply options.

The following case example is provided of an irrigation water harvester near St George in south west Queensland.

The farm involves investment in pumping capacity to 'harvest' river flows during regulated periods to fill ring tanks which supply flood and low pressure irrigation of cotton and other crops. Electricity supply is critical to the operation of the farm from water harvesting from river flows to on farm distribution and the capture of run-off water to meet environmental requirements.

Table 1 below shows the announced periods of water harvesting in the Lower Balonne water management area for each quarter over the past 10 year period.

**Table 1 Lower Balonne Water Management Area – Announced Days for Water Harvesting**

<b>Water Year</b>	<b>Quarter</b>	<b>Number of Days</b>	<b>Total</b>
2003/04	1	0	
	2	1	
	3	36	
	4	0	<b>37</b>
2004/05	1	0	
	2	5	
	3	0	
	4	0	<b>5</b>
2005/06	1	4	
	2	8	
	3	0	
	4	0	<b>12</b>
2006/07	1	0	
	2	0	
	3	0	
	4	0	<b>0</b>
2007/08	1	0	
	2	22	
	3	30	
	4	0	<b>51</b>
2008/09	1	0	
	2	0	
	3	0	
	4	0	<b>0</b>
2009/10	1	0	
	2	0	
	3	44	
	4	0	<b>44</b>
2010/11	1	10	
	2	75	
	3	61	
	4	13	<b>159</b>
2011/12	1	0	
	2	34	
	3	47	
	4	2	<b>83</b>

The variability of access dictates when pumping mainly on a 24hour basis is required.

Table 2 below provides the analysis of tariffs provided by Ergon for four quarters to September 2012.

**Table 2 Comparative Analysis of Large Tariff Implications – St George farm**

Date	kWh	44	45	46	62	%Night	kWh/day	Days
21/9/12	3251	\$56,281	\$50,352	\$49,745	\$564	87%	37.8	86
27/6/12	39,942	\$99,337	\$88,291	\$86,457	\$11,055	36%	434.15	92
27/3/12	435,954	\$150,066	\$138,505	\$136,593	\$97,042	48%	4494.37	97
21/12/11	139,010	\$116,054	\$104,388	\$102,439	\$29,458	59%	1,448.02	96
	618,157	\$421,737	\$381,536	\$375,233	\$138,120	Average - 534.53 kWh/day		371

The shift to the recommended tariff 46 will mean an increase of 172% in charges for the 12 months to the end of the September 2012 quarter. This is a very large price impact which will necessitate transitional arrangements. Other farms in the area have similar price impacts. Cotton Australia is making a submission which highlights a number of other case examples.

These farms also face the prospect of the loss of allocation to meet the environmental requirements of the approved Murray Darling Basin Plan. Water is to be recovered through either voluntary buyback or on farm efficiency measures where half the water saved must be returned to the Commonwealth Environmental water holder. Implementation of these measures over the period to 2019 will necessitate further farm restructuring.

Pioneer Valley Water Cooperative Limited is making a separate submission to QCA. Their case provides another example of significant price increases if they are required to move from their current Tariff 22 to Tariff 41 or 44. The submission also highlights the significant variability in annual electricity consumption from year to year. PV Water submits that quantum of price increases would lead to a severe reduction in water use on farm with consequent production downturn. Analysis is provided on the likely impact on individual scheme customers.

These case examples highlight the need for specific investigation of alternative tariff arrangements that will allow these larger businesses to remain viable. Ergon has suggested that measures such as capacity based tariffs, time of use tariffs and critical peak pricing arrangements may need to be investigated. However, this process will take time and investigations may have to include options for these enterprises to convert to alternative energy sources.

#### **Recommendation**

**Queensland Government undertake a comprehensive review of implementation of irrigation tariffs (for small & large businesses) in conjunction with the Network Operators to determine appropriate irrigation tariffs.**

#### **Transitional Issues**

The following comments are provided in response to QCA questions regarding transitional arrangements:

*(a) How should the Authority determine whether transitional arrangements are necessary for each obsolete tariff? What would be considered a "significant" price impact?*

Any real price increases could have significant implications for farming enterprises particularly if these increases are applied over consecutive years. For example a further round of 20% increases for some tariffs will have significant impacts.

Case examples show that the increases for large irrigation business customers currently on obsolete tariffs are most likely to be significant.

*(b) Are there any non-financial reasons why obsolete tariffs should be retained or other transitional arrangements put in place?*

Irrigation enterprises in supplemented irrigation areas are facing real price increases for their water supply which will be imposing adjustment pressures. Irrigation enterprises in the Queensland Murray Darling catchments also have to adjust to the implementation of the Basin Plan.

*(c) If transitional arrangements are necessary:*

*(i) Should the obsolete tariffs be retained and escalated or should other transitional arrangements be put in place?*

*(ii) What would be a reasonable level of annual price increase and over what time period should transitioning occur?*

Obsolete tariffs should be retained for small irrigation businesses and any escalation of existing charges should be capped at an upper limit for each year of a defined transition period. These customers will require a transitional period of at least another 5 years of obsolete tariffs to allow sufficient time for Ergon to fully review irrigation tariff requirements across the State and to assess the implications of implementing the Energex time of use tariff proposal.

Larger irrigation enterprises will require a maximum term over which to adjust either to electricity charges or if necessary alternative energy options. The level of investments in these farms is such that a transition period of up to 20 years must be considered. Case specific investigations will be required to determine how obsolete tariffs can be retained to allow time for each enterprise to adjust.

*(d) Any other suggestions on how customers might be transitioned from below cost prices to prices that more closely reflect the cost of consumption?*

Other options for transitioning need to be considered once tariff options and implementation implications are more clearly defined for both small and large irrigation businesses.

#### *Maintaining alignment of retail and network tariffs*

It is submitted that QCA should proceed as for last year i.e. request Energex and Ergon to supply their proposed network tariffs when they are submitted to the AER in April.

However, QFF would not support the implementation of a revised time of use tariff proposed by Energex for irrigators within their network area until such time as there has been full consultation via the Ergon process. In other words obsolete tariffs must be maintained in all irrigation areas including those serviced by Energex until such time as a state wide irrigation tariff review has been completed.

#### **Recommendations**

- 1. Obsolete tariffs should be retained for all irrigation businesses and any escalation of existing charges should be capped at an upper limit for each year of a defined transition period.**

- 2. Small business customers will require a transitional period of at least another 5 years of obsolete tariffs but larger irrigation enterprises will require a maximum term of up to 20 years to adjust either to electricity charges or, if necessary, to implement alternative energy options.**

### **Energy Costs**

QFF supports the implementation of a market based approach, but the regulatory reform program must recognise the obstacles and time required to implement this approach on a state-wide basis. There is a significant risk that the implementation of cost reflective tariffs will adversely impact on irrigated agriculture in this state unless governments and network operators take some time to work with the industry to plan for the implementation of tariff reform which includes appropriate adjustment measures including continuance of the Uniform Tariff.

It is difficult to see how the irrigation industry can move forward with electricity tariff reform based upon continuing QCA investigations which are limited to energy cost issues. It is particularly concerning that the critical issue of time of use signals is not adequately addressed at this stage of the reform process.

QFF has not had the opportunity to adequately review ACILs proposed approach of estimating energy costs, the estimation of other energy costs (e.g. Qld Gas Scheme, Small-Scale and the Large Scale Renewable Energy Schemes), National Electricity Market charges and accounting for energy losses.

### **Retail Costs**

QFF also has not had the opportunity to adequately review the approach to determining and allocating retail operating costs.

### **Competition issues**

It is difficult to see how greater competition can be encouraged given the current cost structures in the Queensland electricity supply market which would drive high cost reflective tariffs across the state. The Independent Review Panel on Network Costs has tabled a range of recommendations to deliver cost savings in both capital and operating expenditure but it is unclear at this stage whether the savings can produce reductions in expenditure programs of the network operators.

### *Headroom*

QFF has not been supportive of measures such as the provision of 5% headroom in retail component of tariff to 'prop up' competition. Retailers currently receive a retail margin of 5.4% which should be sufficient to support competition measures.

### *Accounting for unforeseen and uncertain events*

It is unclear what type of events would be included and why they could not be managed via insurance arrangements.

### *Access to obsolete tariffs by new customers*

Smaller irrigation customers mainly in the South East Queensland area were shifted from the old Tariff 22 to new Tariff 22 without having any option to go to an obsolete tariff to help them transition to the cost reflective time of use tariffs. These smaller customers are having difficulty adjusting to the new tariff and are seeking the option to move to an acceptable obsolete tariff for a suitable transition period.

**Recommendation**

**Irrigation customers transferred directly to the new cost reflective Tariff 22 must have the opportunity to apply for obsolete tariffs for defined transition periods.**

*Large customer threshold*

QCA advises that the application of the threshold of 100MW for the differentiation of small and large business tariffs is a policy matter to be taken up with the State Government. QFF is concerned that the strict application of this threshold does not make adequate allowance for irrigation operations which must cope with seasonal changes in water availability. For example, over a defined period of say 5 years, irrigation customers may operate below for 100MW threshold for a majority of the time period but will be forced to a large customer tariff as they breach this threshold significantly but for relatively short periods of time when water is available. QFF submits that there should be some flexibility in applying the threshold for such cases.

**Recommendation**

**A review of irrigation tariffs examine adjusting the large business threshold to account for variability of electricity use in response to water supply availability.**

**E.O.D**