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John Hall
Chief Executive Officer
Queensland Competition Authority

By email: electricity@qca.org.au

Dear Mr Hall

Regional consultation for developing 2013-14 electricity price determination

Thank you for the opportunity to make a submission following the QCA's regional consultation process. Regional consultation is a valuable source of direct consumer engagement and it should be continued into the future.

Following the forums, many sugarcane farmers have commented that the information delivered was very useful and that they appreciated the opportunity to voice their concerns regarding electricity pricing with the QCA. However, some key issues still need to be addressed in relation to transitional issues before the Draft Determination is released:

- The cost of electricity will become prohibitive if off-peak irrigation tariffs for on-farm water pumping are removed as well as the impact on other agricultural electricity users (such as bulk water suppliers and sugarcane mills).
- The QCA needs to consider the uncertainty in the Queensland energy sector due to current reviews by the Queensland Government, AER, AEMC and Ergon Energy
- The length of transitional arrangements need to take into account the full depreciable life of irrigation pumps

Cost of electricity becoming prohibitive

As observed at the forums around Queensland, sugarcane farmers are encouraged by the Queensland Government's economic policies of doubling Queensland's agricultural production by 2040 and developing a four pillar economy – where agriculture is the first of the four pillars. However, this overarching economic policy is confused with rapidly increasing cost of production for irrigated agriculture. Electricity and water prices are the main cost drivers.

Off-peak electricity tariffs were developed for irrigation users to reward farmers for their contribution to network peak-demand management. Transitioning irrigation tariff users off T62, T65 and T66 to T20 will result in the loss of a worthwhile off-peak price differential and sharply increase the cost of operating electric water pumps. The graph below shows the price increases across some sugarcane growing regions following the removal of irrigation tariffs and a transition to T22.

Table 1 Price increases with the removal of irrigation tariffs

	Average increase	Maximum increase	Minimum increase*
Tablelands	36%	58%	-24%
Burdekin	37%	119%	-64%
Bundaberg	30%	73%	3%

* Price increases at the minimum scale were observed when irrigation pumps were not in use due to unseasonal wet weather for the period in which the data was collected.

For some perspective of the cost pressures facing the sugarcane industry, over the 2012 calendar year, the sugar price has fallen by 23% (from 24.02 ¢/lb in January 2012 to 19.51 ¢/lb in January 2013). Increases in electricity cost of 35% in 2013 due to the removal of dedicated irrigation tariffs will either force sugarcane farmers to convert to diesel pumps or discontinue their operations. Both of these options will result in the stranding of Ergon's large network assets in regional Queensland and increase network charges to other users as well as reduce Queensland's agricultural output.

Uncertainty in Queensland energy policy

Queensland faces great uncertainty in energy policy in 2013. Parallel reviews by the Australian Energy Regulator, the Queensland Government, the Australian Energy Market Commission, a Senate Select-Committee and the Productivity Commission provide a compelling case to retain the existing quite of electricity tariffs while policy deliberations continue.

Ergon Energy's is also reviewing its network tariff structures, a process in which CANEGROWERS has been actively involved. Ergon's inclusion of irrigation tariffs in their network tariff development show that irrigation tariffs are popular and that T62, T65 and T66 need to be retained while this process continues.

Irrigation pump depreciation and future transition arrangements

Sugarcane farmers have invested heavily to optimize off-peak irrigation systems as a means of reducing their cost of production to remain internationally competitive. In some cases, individual farmers have invested up to $500,000 in laser-leveling and water saving technology such as re-lifts and water efficient pumps. Some farmers run two pumping systems for their irrigation operations: one electric pump for off-peak electric use and a diesel pump for peak electric times.

Changes to the electricity tariff structure, especially regarding the structure of peak/off-peak price signals require long lead-in times. Farmers as business men need certainty for a return on their investments over the equipment's full depreciable life – for irrigation pumps the depreciation schedule developed by the ATO is 12 years. CANEGROWERS strongly supports this time frame to provide certainty of investment in any future transitional arrangements developed by the QCA.

CANEGROWERS recognises the challenges faced by the QCA in developing a Draft Decision for the 2013/14 electricity price determination. If you would like more information about electricity use in the sugarcane industry or to talk about developing appropriate transitional arrangements, please do not hesitate to contact me.

Yours faithfully

[redacted]

Steve Greenwood
CHIEF EXECUTIVE OFFICER