5 August 2011

Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Sir

Re: CANEGROWERS submission on Review of regulated retail electricity tariffs and prices

Thankyou for the opportunity to make a submission on the review of regulated retail electricity tariffs and prices. CANEGROWERS is the peak representative body for Australian sugarcane growers. Around 80% of Queensland sugarcane growers are members of the highly successful lobby, representation and services group. Based in Queensland, the State that produces around 95% of Australia's raw sugar output, the CANEGROWERS Australia represents the interests of cane growers Australia wide.

Electricity is a major cost item for cane production and the average cane grower would spend around $5,000 per year on electricity. Electricity is predominantly used to power irrigation systems to irrigate cane. Around 55% of cane growers irrigate and the average electricity cost for irrigated cane growers is around $10,000. For growers with electricity intensive irrigation systems average yearly bills would be in the order of $20,000 per year.

Given the large increases in electricity prices over recent years, growers have had to significantly modify behaviour. Unfortunately for many growers, increases in electricity costs have caused them to reduce irrigation applications that has resulted in a significant drop in production. Consequently, any further increase in electricity costs or change in tariff structures are a major concern for the sugar industry.

CANEGROWERS is also concerned re the potential impact on Sunwater, Pioneer Valley Water Board, North and South Burdekin Water Boards and other water service providers who deliver water to cane growers. Typically around a quarter of an irrigation water service providers costs are electricity and these are passed on to consumers including cane growers. Water service providers are major electricity users in regional Queensland. It is imperative that very large electricity users such as water service providers are being appropriately charged for electricity rather than subsidise smaller users.

There are a number of issues of concern in your paper. Firstly, CANEGROWERS is concerned at the potential loss of tariff options for growers. There were 7 farm and irrigation tariffs including a number of obsolete and drought tariffs. None the less there has been significant choice in tariff options which allowed growers to choose the tariff that best suited each individual need. To remove this choice is not desirable especially since most of our growers are outside south east Queensland and thus unable to take advantage of electricity competition.

For the irrigation tariffs, many growers have set up their farms to take advantage of off peak tariffs and overcapitalised their irrigation equipment to do so. Other growers have made the conscious decision to irrigate 24 hours a day and made capital irrigation decisions on this basis given the tariffs available. The removal of tariffs could adversely affect growers and require them to make considerable capital changes to adjust.

There should remain a number of tariff options for growers similar to what other customers face. For example, there should be at least a flat tariff, time of use tariff and a few fixed tariffs.

Tariffs 62, 65 and 66 are most commonly used by cane growers. Most cane growers have multiple pumps, electricity meters and use multiple tariffs. In fact most irrigated cane growers would have 5 to 10 meters and in total would be substantially larger than the average consumption suggests for each tariff groups.

It is unclear whether there will be any farm or irrigation tariffs in the new regime. However this will be difficult since they do not exist in the Energex area. If there is not, then will these be merged with other tariff groups to have a range of tariffs groups for small to medium sized commercial businesses? This would appear to be the only sensible option.

It will be important to ensure that the unit prices for each customer group reflect the costs for each customer group. For example, if the average unit cost of supply for domestic customers is higher than for commercial businesses then this should be reflected in the tariffs.

I understand the reason for choosing to using a market based approach for assessing the wholesale energy costs and this appears to be a sensible approach to take. However, I do not see any reason why the LRMC should be used as a floor in the price. It could equally be argued that the LRMC could be used as a cap on the price to protect consumers and this should be considered.

With regards to retailer characteristics, all the major players have business interests in many parts of Australia and not just Queensland. Also, they have a range of interests outside retail electricity, they are not new comers to the market and the majority of electricity is retailed by major players. These characteristics should be reflected when setting costs and margins for retailers. Although it may be preferable to choose an actual retailer with these characteristics in reality this may be very difficult to achieve.

I fail to understand why you need to include a cost item for customer acquisition and retention. To me this a commercial decision by a retailer to invest in these areas if they believe the returns are sufficient to do so. If the returns are sufficient then a company will invest in these areas and attempt to maintain and grow its business. If returns are not sufficient then a company will not invest in this area. If a company is not investing in this area then why should the retail price include a cost item for this?

Also, is there any advantage to the consumer from retailers incurring these costs and undertaking these activities? My belief would be that consumers would be better off not being annoyed by marketers so I cannot see the rationale for the regulator encouraging this behaviour by including a cost item for this.

I find the concept of a retail margin a perplexing one. More specifically, as the distribution, generation and retail costs go up so does the retail margin in the same proportion. To me this generates a windfall gain for the retailer in a period of rapidly increasing costs. I thought returns in business where largely driven by the value of assets, the riskiness of a business and the competition in a market. However it would seem that even when all these items are unchanged it is appropriate to increase a retailers margin.

With respect to the level of the margin, it would be hard for a retailer to credibly argue that the margin was too small since there are many market based customers paying less than the regulated price. If anything, this suggests that the margin is too great or some of the cost assumptions under the BRCI were excessive.

So far as allocating retail costs, these need to be cost reflective which would mean that the costs per unit for small domestic customers would be substantially higher than for larger commercial customers.

Transitionary issues will need to be considered to allow customers to adjust to a new regime. If the intent can be signalled in the first year but the full impacts phased in over 3 years this will give customers facing significant changes to adjust before the full impact is felt. However without information on the level of tariff group and price changes proposed it is difficult to know the magnitude of this issue.

It would appear that the new price system in this review will be implemented for 2012/13 only. Consequently, risk should not be a major issue compared to if 3 or 5 year prices were being set. If there are any substantial unforeseen events for 2012/13 these can be accounted for in the following year under the new review for that year.

I look forward to hearing back from you on my submission. I can be contacted on 3864 6444 or eric_danzi@canegrowers.com.au. Thankyou

Yours sincerely

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CANEGROWERS