QUEENSLAND FARMERS' FEDERATION

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

Emerging Primary Industries Groups

- Biological Farmers of Australia
- Queensland Aquaculture Industries Federation

9th December 2011

Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001

Dear Sir

Re: QFF submission on Draft Methodology Paper – Regulated Retail Electricity Prices 2012-13.

Thank you for the opportunity to make a submission on this Draft Methodology Paper. 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 submission provided by our members.

It is our understanding that the Draft Paper responds to a Delegation from the Minister for Mines and Energy and Water Utilities requiring the QCA to determine notified electricity prices to apply from 1 July 2012 to 30 June 2013. The purpose of the draft paper is to set out the Authority's proposals for determining key elements of regulated retail tariffs with a particular focus on estimating and recovering energy and retail costs. Network costs are to be treated as a 'pass-through' but the Authority is to consider the network tariff levied by Energex for each tariff for each tariff year.

Electricity is a major cost item for our cane cotton fruit and vegetable, dairy and poultry industries. Taking the cane industry as an example 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. Fruit and vegetable farmers would face similar costs. For the dairy farmer an average yearly electricity bill would be about $9,000 but for larger more intensive operations electricity costs could much larger. For poultry farmers, average electricity costs are upwards of $50 000.

The prawn farmer's average yearly electricity costs are $10,000 per hectare. Electricity costs for this sector represent approximately 9% of the annual production costs.

With just these few examples we can see that any increases to energy prices will have a significant impact on these industries.

Many of the farmers that fall within our membership group manage high value, capital intensive, farming operations. These farms cannot simply modify practices overnight as massive infrastructure costs would make it non viable for farms to operate.

Rising energy costs combined with a yet unknown impact of a carbon tax has the potential to severely impact the agriculture sector.

Given the large increases in electricity prices over recent years, farmers have had to significantly modify behaviour. For many growers for example, increases in electricity costs have caused them to reduce irrigation applications that have 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 industries that QFF represents.

Another issue for farmers is the potential impact on Sunwater and other water boards such as Pioneer Valley Water Board, North and South Burdekin Water Boards and other water service providers across the state who deliver water to farmers. Typically around a quarter of an irrigation water service provider's costs are electricity and these are passed on to customers including farmers. 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.

QFF submits the following comments in regards to specific proposals in the Draft Paper:

1. Representative retailer - Agree with the recommendation that the 'representative retailer' needs to be an incumbent of sufficient size to achieve economies of scale. It is also important that this retailer has customers both inside and particularly outside South East Queensland and has ongoing experience with retailing electricity on a stand-alone basis
2. Network costs – We are concerned at the potential loss of tariff options for farmers. There has been significant choice in tariff options which allowed famers to choose the tariff that best suited each individual need. To restrict 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.

QCA proposes that there are appropriate tariffs within the Energex network tariff that provide a basis for tariffs for farmers, irrigators and customers supplied under the Rural Subsidy Scheme or in drought declared areas. In particular the following proposals are cited in the Draft Paper:

a) Regulated retail tariff 66 (flat/demand – irrigation) aligns with Energex proposed network tariff 8300 (demand – small)
b) Regulated retail tariffs 67 (flat – farm) and 68 (flat – irrigation drought area) aling with Energex proposed network tariff 8500/8600 (flat – small/medium business)
c) Regulated retail tariffs 62 (time of use – farm) and 65 (time of use – irrigation) align with Energex proposed network tariff 8700/8800 (time of use – small/medium business)

It is good to see that Energex has flat and time of use tariff options available for farmers to consider however, is noted in your draft paper, that the existing time of use tariffs for farmers and irrigators do not align completely with the corresponding time of use network tariffs proposed by Energex. Tariffs 62, 65 and 66 are most commonly used by cane and other farmers. Most farmers have multiple pumps, electricity meters and use multiple tariffs. In fact most would have 5 to 10 bills and in total would be substantially larger than the average consumption suggests for each tariff groups.

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It is understood that Energex may be willing to adjust 'some of the bounds and eligibility criteria' to better suit potential customers. QFF and members will need adequate opportunity to examine these issues in detail with Energex well prior to implementation in July 2012. It is understood that there may be some constraint to this because the National Energy Customer Framework allows changes to retail prices only once every six months.

Many farmers have set up their farms to take advantage of off peak tariffs and overcapitalised their irrigation equipment to do so. Other farmers 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 and the shift to cost reflective tariffs could adversely affect farmers and require them to make considerable capital changes to adjust. The Authority must consider the impacts of these changes and make allowances for transitional measures to allow a period of adjustment to new tariffs. It should also be recognised that new five year prices paths for SunWater schemes will also be due for implementation on 1 July 2012 which will involve added adjustment problems.

1. ***Energy cost component***
    a. ***Estimating wholesale energy costs*** – QFF supports the proposal to use a market based approach for assessing the wholesale energy costs based upon ACIL's proposals to estimate the price that a retailer would be willing to pay in purchasing energy to meet the load of customers and mitigating a range of risks. It is understood that ACIL will also take into account transmission and distribution losses in its approach. Hopefully the Authority's draft report will allow reasonable scrutiny of the ACIL modelling and outcomes.
    b. ***Customer load forecasts*** – Estimating energy costs by tariff class is supported. It will be important to ensure that the unit prices for each customer group reflect the costs for these groups. 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.
    c. ***Carbon pricing*** – Agree with proposals for ACIL to assess the implications of carbon pricing and in particular the compensation measures and impacts of carbon pricing on demand and supply.

2. ***Retail costs***
    a. ***Retail operating costs*** – It is a concern that the Authority does not consider that it will be possible to obtain disaggregated costs of retailers. As a result benchmarking of the current retail cost allowance against those accepted in other jurisdictions would appear to be the best available option. The inclusion of customer acquisition and retention costs is not supported. These costs are a commercial decision by a retailer to achieve market growth. If returns are not sufficient then a company will not invest in this area.
    b. ***Retail margin*** – The inclusion of a retail margin for systematic risks is questioned. Returns in business should be driven by the value of assets, the riskiness of a business and the competition in a market. When all these items are unchanged it is not appropriate to increase a retailer's margin. With respect to the level of the margin, the QCA needs to assess the basis for retailer's argument that the margin is 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.

3. ***Allocating energy and retail costs***
    a. ***Energy costs*** – As outlined QFF supports proposals for ACIL to estimate energy purchase costs via estimating the costs of each of Energex's network tariff class. It would be expected that this approach would be cost reflective which would mean that the costs per unit for small domestic customers would be substantially higher

than for larger commercial customers. It is understood that energy costs would be fully recovered through the variable component of each tariff.

b. ***Retail costs*** - see comments above re customer acquisition and retention costs and retail margin.

4. Other issues

a. ***Unforeseen events*** – Surely unforeseen events can be assessed on an annual basis. There should not be a need to address these events within the 12 month pricing period.

b. ***Transitional arrangements*** – QCA must address adequate transitional arrangements to allow phasing in of new tariffs. Arrangements need to take account of the impact of tariffs on farming as outlined above and particularly if new tariffs mean price increases to achieve cost reflectivity.

Your review program provides for the release of a Draft Report by 30 March next year with submissions due in early April. QFF seeks some clarity over what opportunities would be available in the intervening period to examine Energex tariff proposals in more detail? We are keen to ensure that we have the opportunity to understand the implications of all aspects of this review. We are currently also involved in the QCA review of SunWater prices and expect that early next year the review of SEQWater rural water prices will commence. As outlined above electricity costs are significant in many of the irrigation schemes and we must ensure that we have an understanding of the implications of the Authority's review for overall scheme costs and prices.

Yours sincerely

[redacted]

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Chief Executive Officer

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