



CANEGROWERS ISIS

48 Churchill Street Childers 4660
PO Box 95 Childers 4660
Phone (07) 4126 1444 Fax (07) 4126 1902

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Queensland Competition Authority
GPO Box 2257
BRISBANE Q. 4001

Dear Sir/Madam,

Re: Response to Consultation Paper – Regulated Retail Electricity Prices 2017-18

CANEGROWERS Isis is the local organisation representing sugarcane growers supplying the Isis Central Sugar Mill near Childers. The Isis Central Sugar Mill is grower owned and therefore the sugarcane growers, for whom CANEGROWERS Isis acts, have a large investment not only in primary production but also in manufacturing. Viability of the Isis sugar industry is heavily dependent upon having access to a reliable electricity supply at affordable prices.

Almost all farms supplying the sugar mill are irrigated properties with access to either surface and underground water supplies or both. Various forms of irrigation are used across the mill area comprising (1) high pressure water winch, (2) low pressure water winch, including centre pivot and lateral move, (3) flood/furrow, and (4) trickle, both surface and sub-surface.

Cane growers have made considerable investment in irrigation systems designed to deliver maximum benefit and efficiency based the existing tariffs. The predominant tariffs utilised by Isis cane growers are Tariffs 65 and 66.

Because of seasonal climate variation and limited water storage, growers must use irrigation to supplement approximately half the crop's water requirement. In the dry years and when water is available, growers rely on irrigation for productivity and profitability. The main irrigation period is during the summer months but irrigation occurs outside this period in somewhat lower quantities. Given the reliance on irrigation to farm, electricity is a vital component to the Isis sugar cane industry. This reliance on electricity drives the responses offered by CANEGROWERS Isis to the questions posed by QCA in the consultation paper for Regulated Retail Electricity Prices 2017-18. For ease of reference the title of the relevant chapter and questions responded to are included before each retort.

POTENTIAL PRICING APPROACHES

For residential and small business customers, should we maintain the 2016–17 approach of basing notified prices on the costs of supply in south east Queensland? Why?

The 2016-2017 approach of basing notified prices on the costs of supply in South East Queensland (SEQ) should be maintained to sustain alignment to Uniform Tariff Policy (UTP). Alignment to UTP and the very spirit of the policy maintains equality in supply costs and allows regional commercial customers to remain competitive in a nation where location can so easily prejudice opportunity. Where location change is not optional the assurance of maintaining equality for electricity prices is vital to support regional development, sustainability and future growth.

NETWORK COSTS

Should we use Energex's network tariff structures as the basis for all retail tariffs for residential, small business and unmetered supply (excluding street lighting) customers? Alternatively, should we use Ergon Distribution's network tariff structures as the basis for some or all retail tariffs for residential, small business and unmetered supply (excluding street lighting) customers?

If Ergon's time of use network tariff structures were used as a basis to Energex's pricing this would deliver a viable solution for both regional irrigators and Ergon. Such a structure would accommodate different peak demand periods whilst sending the appropriate pricing signal on the tariff structure.

If so, how should Ergon Distribution's network tariff structures be adjusted to reflect the UTP?

Are there any other issues that we should consider?

The Ergon Distribution network tariff structure needs to be adjusted to accommodate industry practice and constraints in order for it to reflect UTP. The need for this adjustment is most important where the industry (Customer group) has exhausted efforts and existing opportunities to uptake renewable/alternative energy, technologies and change practice. Where external factors outside of the customers control, such as weather systems (made more erratic with the onset of climate change) and access to natural resources further exacerbates capacity to adapt/alter practice (ie irrigation water which is limited in supply to 1% of allocation over 24hrs requiring usage availability around the clock) customers become effectively trapped to 'guess' tariff requirements rather than choose their most economically and environmentally conducive tariff for practice. In this situation, such as demonstrated by Isis cane growers, UTP is not reflected. To rectify industry inequality and reflect UTP, flexibility in tariff election is imperative. Where such situations occur facility should be made to provide an option for the customer to elect to be on a range of tariffs and later confirm the tariff at the end of each quarter. This retrospective approach to pricing would reduce risk to an already high risk effected industry whilst providing savings to Ergon in their aftermarket efficiency advice costs. Alternatively, Ergon could apply the lowest tariff to qualifying retrospective customers at the end of each billing period. To enact such a system we would recommend the range of tariff selection be limited to the individuals' meter and the relative capacity of the same.

Electricity has now become a risk in agricultural production, whereas electricity was initially a risk reduction measure which facilitated irrigation in dry farming regions.

This proposed system would provide customers who already manage the high level of risks of agriculture (weather, climate cycles, pest and disease) relief from the tariff choice risk created by their location, changing climate and operational environment.

ENERGY COSTS

Is there any new information available to suggest alternative approaches to those used in the 2016–17 price determination might be more appropriate?

What improvements could be made to the current approaches?

The cost building structure engaged in the approach used for 2016-17 price determination has resulted in unsustainable price rises for many years. These rises are multiples (roughly 8 times) over and above CPI which highlights a faulty unsustainable system. This energy cost structure should be challenged as ultimately such a system will lead to a failure of the network. This situation is akin to Australia Post and their response to the challenge faced by the increase of email communications. Where Australia Post had watched it's sales falter as the new technology entered and was rapidly adopted, rather than leveraging their trust position created by their long lived national postal service and winning market position by providing alternate email services to better service their customers, they chose a price hike.

Customers responded by walking away in droves. Whereas supporting the new technology would have provided strength in marketing and on selling opportunity to use snail mail to support email (ie automated snail mail support for record keeping) ultimately, by not supporting the customer's business they are driving themselves out of business.

This situation, given the increasing uptake of solar, wind and ultimately battery systems may ultimately result in it becoming technologically feasible to replace the grid and strand assets which will destroy the remaining customer bases capacity to support infrastructure costs.

RETAIL COSTS

Is there any new information available to suggest that the approach used in the 2016–17 price determination is no longer appropriate?

The Isis sugar industry is suffering and being rapidly abandoned for less energy intensive crops such as Macadamias. This abandonment ultimately leads to regional industry collapse as mills require high inputs of cane to remain viable. In most cases failure of the mill to produce results in total regional cane industry loss as many growers have no choice of alternate mills to process their sugar cane. The rapid increase in loss to sugar cane growing enterprise in the Isis district presents risk of local industry collapse. Such collapse can strand assets and result in extreme detriment to local economies and regional population.

CANEGROWERS Isis Implore the QCA to apply careful consideration to the retail cost structure effecting irrigator relevant tariffs and consider the impacts increasing retail costs have already inflicted upon our regional industry.

Should the retail cost allowances be indexed? If so, how should they be indexed (e.g. by CPI)?

Prices should reflect the overall market and be used as an efficiency driver for the retailer. In effect retail cost allowances should be fixed for periods in the order of five years to encourage ongoing improvement to the retailer's efficiency. With a high reliability of supply now achieved on the network, the costs of maintaining the same are reduced-this payback from infrastructure up grade and associated works should be recognised/reflected in retail pricing, and as such reduce retail prices.

OTHER ISSUES

- *the standing offer differential*

Is there any new information available to suggest an alternative approach to that used in the 2016–17 price determination to estimate the standing offer differential might be more appropriate?

Competitive prices should be applied to ensure the SOD is restricted to within a commercially competitive range. This application would ensure regional areas are not disadvantaged in comparison to SEQ urban customers and, importantly, the spirit of the UTP is upheld. Given the Queensland Competition Authority are providing consultation in this instance it would be clearly expected that an air of competition management would be addressed.

- **competition and headroom**

Should headroom continue to be included in notified prices for large business customers? If so, at what level? If not, why not? What other issues should we consider in relation to competition and headroom?

Headroom is a theoretical consideration which is not reasonably applicable in the instance and scale of a public utility. This is an application which should be calculated and monitored for performance and asset assessment purposes but not applied as a cost component.

If the Government aims to reduce the subsidy it pays to support to regional consumers to uphold UTP they should look to making Ergon more efficient rather than increasing retail pricing. There should be efficiency driver inbuilt to the organisational structure and overseen by the QCA to ensure the onus on competition is maintained through all aspects of the business from production to retail sales.

- **transitional arrangements for tariffs classed as transitional or obsolete**

Is there any new information that suggests the overall approach we propose to take for transitional and obsolete tariffs is no longer appropriate? What other issues should we consider? Please provide supporting evidence where possible.

An alternative set of tariffs, based on economic viability/capacity to pay, should be identified through meaningful discussion across the range of stakeholder groups. Until the alternative is identified the tariffs should remain in place and simply 'on notice' of becoming obsolete.

CANEGROWERS ISIS RECCOMENDATION

Economic impacts analysis is required to ascertain the effect of the rising costs of electricity on Queensland businesses, especially in relation to those dependant on exporting and unable to on charge such cost increases. This study should determine an optimal price for a range of electricity consumers that maximizes the total return to all sectors of the economy.

CANEGROWERS Isis Thank QCA for the opportunity to provide comment and responses to the questions posed in relation to the Interim Consultation paper.

We warmly welcome further opportunity for open discussion and debate on the issues surrounding and impacting regulated retail electricity prices for 2017-18.

Sincerely,

Donna P Sheehy

Manager

CANEGROWERS Isis