Pioneer Valley Water Co-operative Limited
A co-operative formed under the *Cooperatives Act 1997*
ABN : 55 322 373 770

PO Box 275
(Level A, Canegrowers' Building, 120 Wood Street)
Mackay QLD 4740

Ref: 10/015/10

12 April 2019

Queensland Competition Authority
GPO Box 2257
BRISBANE Q 4001

Submitted via: www.qca.org.au/submissions

Dear Sir/Madam,

Re: Regulated Retail Electricity Prices for 2019-20

This submission is an addendum to Pioneer Valley Water's earlier submission to the QCA's Interim Consultation Paper of December 2018 and addresses specific issues contained in the QCA's *Draft determination: Regulated retail electricity prices for 2019-20*.

Transitional arrangements

The QCA's draft decision in relation to transitional arrangements is to:

"…

- *reclassify all transitional tariffs (tariffs 20 (large), 21, 22 (small and large), 62, 65, and 66) as obsolete, allowing existing customers to remain on these tariffs but closing them to new customers*
- *maintain existing transitional periods for tariffs 20 (large), 21, 22 (small and large), 37, 47, 48, 62, 65 and 66*
- *maintain transitional and obsolete tariffs at their 2018–19 price levels.*

…"

In relation to transitional arrangements, Pioneer Valley Water is deeply concerned that:

1. *the QCA's draft decision to maintain existing transitional periods refers to data which significantly under-estimates the level of financial pain yet to be overcome by transitioning businesses in order to move to standard business tariffs*:

   Pioneer Valley Water believes the data provided to the QCA by Ergon Energy, intended to quantify the size of the step-change yet required to be overcome by transitioning businesses on 01 July 2020, is flawed.

   Leaving aside the need for Ergon to *estimate* demand where metering is not yet of a standard capable of capturing this information, the data provided to QCA is based on modelling designed to output the *least*

Email: pvwater@pvwater.com.au
Phone: (07) 4957 8481
Web: www.pvwater.com.au

expensive tariff option available to businesses. This approach fails to take account of whether businesses can *practically* choose to move to the least expensive tariff.

Ergon modelling typically encompasses 12 months of usage data. For businesses with variations in total energy use from year to year and/or with varying usage patterns overlaying total energy use, (such as irrigated agriculture), Ergon's modelling will naturally recommend different *least expensive* tariff options, depending on which 12 months of data is modelled. The issue here is that recommended tariffs are being selected in hindsight, with full knowledge of the total usage and usage pattern for the period modelled. These *least expensive* tariff options are informing the data provided by Ergon to the QCA.

A business does not have the advantage of hindsight when selecting a tariff and must therefore attempt to select the tariff which offers the best *average* outcome over the longer term. Even allowing that the business (somehow) correctly selects the tariff which gives the best outcome over the longer term, the difference when compared to the least expensive option modelled by Ergon with hindsight from year to year, can be staggering.

The QCA's decision *appears* to be based on real data, but that data fails to take practical implementation considerations into account, and as a result significantly understates the level of pain yet to be felt by transitioning businesses. This argues strongly for extension of the period for which legacy (transitional and obsolete) tariffs need to remain available.

2. *the QCA's draft decision to maintain existing transitional periods does not allow for unprecedented price increases in the energy market since transitional tariffs were introduced:*

   At the time transitional tariff arrangements were initially introduced, and transitional periods set, the sheer magnitude of increases in electricity prices over the intervening years was not envisaged by the QCA (nor by anyone else).

   This, again, points to a need for extension of the period available to reasonably effect transition. The river is in flood, and it takes more time and resources for businesses to build the bridge to span it.

3. *the QCA's draft decision to maintain existing transitional periods points to the depreciable life of irrigation infrastructure as a valid basis, however adoption of the originally nominated transition periods did not adequately foresee the level of infrastructure change required.*

   This is particularly true at an irrigation *scheme* level and is amplified dramatically both at the scheme and on-farm level in *supplementary* irrigation areas where costs associated with infrastructure change have far longer payback periods.

   In supplementary irrigation, the level of infrastructure and operational change required in order to adapt to tariffs incorporating a significant demand component, moves well beyond changing over shorter-lived assets such as electric motors and variable speed drives. It changes irrigation methodologies at the farm and scheme level, leading to a range of potential infrastructure remedies up to and including complete system re-design. In some circumstances these remedies are cost prohibitive, and where they aren't, the depreciable life of the assets involved can be 30-80 years!

   Off-grid alternatives are often not feasible either, however where they are, the move to cost-reflective pricing for the electricity network is effectively forcing customers to stop supporting that network. This is, quite frankly, a self-defeating approach to electricity infrastructure management in regional Queensland.

   While Pioneer Valley Water agrees generally with the QCA, that the question of whether it is appropriate to develop network tariffs specifically for irrigation is a matter for Ergon Distribution and the Australian Energy Regulator (AER), the QCA *is* in a position under item 4 of the Terms of Reference accompanying the Minister's Delegation, and Section 90(5)(b) of the *Electricity Act 1994* to *have regard to any matter it considers relevant*. Pioneer Valley Water respectfully submits that the damage already being borne by

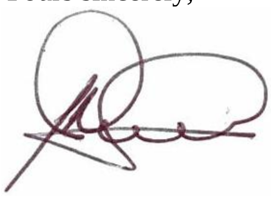
Email: pvwater@pvwater.com.au
Phone: (07) 4957 8481
Web: www.pvwater.com.au

regional economies as a result of current electricity prices under transitional arrangements is one such matter to be given very serious consideration by the QCA, not only in terms of the need for a reduction in the price-point for transitional tariffs, but also in regard to the need for the indefinite continuation of transitional tariffs in the absence of suitable alternative tariff arrangements. Further, we urge the QCA to engage with Ergon at both the network and retail levels, the AER and the Queensland government to address these critical issues.

As advised in our previous submission, this industry needs breathing space. We need historic pricing increases introduced under transitional arrangements *unwound*. **It cannot be emphasised enough that without intervention in the *existing* pricing arrangements, irrigated agriculture in the Pioneer Valley is at serious risk.**

Please feel free to contact PVWater to discuss any aspect of the information presented here, or to seek additional details.

Yours sincerely,



Greg Dawes
General Manager / Co-operative Secretary

Email: pvwater@pvwater.com.au
Phone: (07) 4957 8481
Web: www.pvwater.com.au