Geoffrey McCarthy
[redacted]

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Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Sir

SUBMISSION
DRAFT DETERMINATION - REGULATED RETAIL ELECTRICITY PRICES 2013-2014

I own and operate a 160ha fully irrigated sugar cane and grain cropping farm on light soils in the Bundaberg Regional Council area supplying 11,500 tonnes of sugar cane to Isis Sugar Mill and up to 250 tonnes of peanuts and other legumes such as soy beans to processors in Kingaroy annually. Irrigation systems are currently all electrically grid connected in Ergon's area with four 45kw motors, one 37kw pump, two electric centre pivots and two small kw drainage sump pumps. We also operate some high pressure travelling irrigators from the pumps. All connections are on Tariff 65.

I have serious concerns about the findings of the Draft Determination and the methods used to benchmark power companies. I do not believe QCA has adequately addressed the ToR.

Cost Reflective Tariffs:

The Solar feed-in tariff is not cost reflective at 44 cents/kwh. A cost reflective feed-in tariff should be 6.5 cents/kwh. Customers on the solar bonus scheme don't pay any network charges when they are exporting power to the grid. Therefore no other customers can be cost reflective while **any** solar bonus costs are passed on through tariffs to all customers.

There is no sound economic justification to charge electricity users for past bad government economic policy. The only way **any** of the current tariffs can begin to be made cost reflective is to firstly remove all solar bonus scheme associated costs from electricity consumers' bills. QCA has not given due regard to this issue in it's determination under Terms of Reference Section 5 (E) (11).

Tariffs

In Table D2, I draw attention to Tariff 22 Variable Rate Peak - the total charge 23.920 cents/kwh.

I fail to see how a customer on Irrigation Tariff 65 can be classed as non cost reflective when using power costing 30.529 cents/kwh at the same time of day as the one on Tariff 22. To achieve cost reflectivity the peak rate for Tariff 65 should reduce to 23.9 cents/kwh plus a small adjustment in fixed charge especially when having regard for UTP.

Differences in costs of supply are not truly reflected in the small differences in peak and off peak in Tariff 22. If peak demand is truly a major cost driver as power distributors claim, then a much lower off peak price would apply for Tariff 22. Accordingly, I draw attention to cost reflective Tariff 31 Super Economy where network charges are 5.124 cents/kwh compared to Tariff 22 network peak charges of 12.934 cents/kwh. This is a difference of 7.81 cents in network charges and suggests a much larger difference than the current 4.84 cents on Tariff 22. Application of the 7.81 cents from Tariff 22 would bring the off-peak price down to 16.12 cents which is below that of Tariff 65.

Ergon has failed to pass on cost reflective differences between peak and off peak Tariff 22 under this determination. Would it not have been more prudent for them to have installed programmable metering on all time of use irrigation installations in consultation with irrigators in order to better reflect price signals instead of wasting money on advertising? Customers should not be penalised for Ergon's inefficiencies!

Benchmarking

Cost reflectivity depends on many factors including: a customer's pattern of usage, Ergon's and Energex's forecast of future demand, the customer's distance from generators, valuations placed on assets and the rate of WACC, absence of competition, Ergon's efficiency or the lack of it, methodology for calculating costs, and the rate at which customers leave the network due to high prices or solar bonus schemes or just convert to gas or diesel.

There appears to be no rigorous benchmarking of many of the above cost claims by QCA to test the validity of Ergon or Energex costs.

It does not matter that N is a pass through. This does **not** mean QCA must automatically accept claimed network charges. N costs must still be efficient and arrived at by internationally accepted means. How has QCA determined cost reflective tariffs if no rigorous bench marking has been performed to test the legitimacy of costs - both N and R? For example, government owned distributors value land and easements in their regulated asset bases, consumers are being charged hundreds of millions of dollars over a five year period for regulated returns on these 'assets'. Private distributors in Victoria do not value such land and easements or make any claim for rate of return on them. This is accepted practice in the commercial world as return on land cannot be included as a cost. Why has QCA accepted this practice by Ergon and Energex when setting supposedly cost reflective tariffs? Has the QCA considered the possibility of legal action by consumers to reclaim these fictitious costs?

Farming Issues

If government accepts these price hikes, electricity in Australia will be the most expensive in the world. We believe power is available to farms in America at 8 cents/kwh total. My irrigation power costs have risen from $3.39 per additional tonne of cane produced in 2007 to a projected $7.84 per additional tonnes for 2013-2014 or 25% of the expected revenue produced. If a rise of 17.5% is applied this year and next year when added to other costs then broad scale irrigation is finished on our property except for a very small nucleus of 'seed' cane. This will see productivity reductions of between 30 and 70% depending on seasonal rainfall. Lack of productivity due to high power prices will threaten our farm's viability. I assure you we run a very efficient operation and have done for four decades through some

very difficult times. We will not be alone in losing our viability and this will lead ultimately to Isis Sugar Mill's closure and the loss of a valuable export industry. Significant public electricity assets will become stranded as well as public irrigation scheme assets worth hundreds of millions of dollars and private assets on our property and elsewhere. We cannot afford any price hikes above CPI.

In 2009 we invested $377,680 in a major system change to low pressure pivot irrigators in order to improve efficiency, reduce power costs by irrigating over 90% of the time in off peak Tariff 65 and replace aging assets. There was no indication in 2009 that power costs would rise to unviable levels simply because of poor oversight and regulation of the power industry. We are now forced to pay massive price rises on top of already inflated high prices and our time of use tariffs no longer reflect the parameters under which we made the investment. We can only write the assets off for tax over 20 years and they have an effective life of 30 years. We therefore submit that if government insists on forcing us to pay these ridiculous prices in order to balance their budget then we need a minimum of 20 years to adjust with an amnesty on prices above CPI for 3 years until all adjustments have been made to tariffs following the current reviews into the electricity industry.

Other Issues

Section 7.3 D Under-Recovered Revenue

How is it that current customers must pay a price which is deemed cost reflective today when that price includes a factor for under-recovered past revenue based on flawed consumption forecasts by power companies who advertised heavily to encourage reduced consumption?

There are necessarily two separate groups of customers being charged, i.e. past customers who under utilised and therefore supposedly underpaid and current customers who are being made to pay for the companies' mistakes. I suggest that this practice should be illegal and the ACCC could well find it so. Any finding of this nature would surely lead to a class action by consumers. QCA should take the lead with regard to this practice and remove any costs to current consumers for under-recovery of past forecast revenue. This is simply business risk which all of us in the commercial world have had to deal with since the beginning of commerce. Power companies are being rewarded doubly with their margins as well as ridiculous claims for under-recovered revenue and over investment at consumers' expense.

Headroom

Ergon and SEQ retailers receive 5% additional revenue to promote competition. This is simply a farce when Ergon has no competitors. QCA is correct in calling Headroom (I add CARC) "a free kick" for Ergon. Unfortunately, it's a kick in customers' guts which we can't afford! Government needs to remove these unnecessary costs on all export industries.

Conclusion

Rules allowing Ergon to claim WACC of 9.7% on over-valued assets have combined with over-optimistic demand forecasts and a non cost reflective solar bonus scheme are causing our power costs to be unsustainably high due to poor benchmarking and absurd rules. Add to this perverse outcomes from UTP in relation to competition and a total lack of efficiency in Ergon and Energex who have no incentive to change and we have arrived at a point where most irrigation is now bordering on unviable and will become so within two years.

As consumers, we are very angry and feel betrayed by a system of setting power prices which is broken and needs fixing! We urge QCA and the Queensland Government to reconsider this price determination accordingly and reduce price rises for irrigation to CPI.

Yours faithfully
Geoffrey McCarthy