PIONEER CANE GROWERS ORGANISATION LIMITED
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22 March 2013

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

By email: electricity@qca.org.au

Dear Sir/Madam

Re: Draft Determination of Regulated Retail Electricity Prices 2013-14

Reference is made to the Authority's Draft Determination Report of Regulated Retail Electricity Prices for 2013-14 released February 2013.

Our organisation reiterates its previous submissions; refer to our correspondence dated 4 January 2013, a copy of which is ***enclosed*** for ease of reference.

Having regard to the Draft Determination we make the following further comments:

Retention of Obsolete Tariffs for 7 years

The Authority's rational for retaining the obsolete tariffs for only 7 years was based upon the Australian Taxation Office's depreciation schedule for irrigation pumps for 12 years. However the grower's reality is that an irrigation pump is not replaced merely because the irrigation pump can no longer be depreciated for tax purposes. The Queensland Department of Primary Industries (as it then was) published a manual for primary producers (1977) which stated that the working life of a pump and motor is in the order of 15 years. A grower has incurred the capital costs of structuring his irrigation system on his farm and the length of the transitional period should be such that the growers is not adversely burdened, allowing the grower the maximum benefit from existing capital investment on his farm.

The transitioning period should therefore be substantially longer than 7 years, in the order of 12 to 13 years.

2013-14 Price Increase on Obsolete Tariffs

An increase of some 17.5% for the 2013-14 period on obsolete irrigation tariffs is substantive, particularly given the Authority's representation at the regional Ayr workshop that it is likely these tariffs will continue to increase each subsequent year by an similar percentage (that is, another 17.5% for the following financial year and so on) until the transitional/obsolete tariffs are removed and the tariffs are cost-reflective.

Attached to our organisation's submission dated 4 January 2013 was an email from Ergon providing a small grower's (grower approximately 8,000 – 9,000 tonnes of cane) accounts for the preceding 12 months, with a comparison with similar use on different tariffs. The grower's total annual electricity account was $30,799.39. Applying the methodology that the tariffs will have to increase by some 17.5% over the next 7 years to become "cost-reflective", the grower's electricity account will increase as follows:

Year 1	$36,189.28	($30,799.39 x 17.5%)
Year 2	$42,522.08	
Year 3	$49,963.44	
Year 4	$58,707.04	
Year 5	$68,980.77	
Year 6	$81,052.40	
Year 7	$95,236.57	

The grower, applying this methodology, over a 7 year period will have suffered an increase in his electricity account of some $64,437.18 or 309%. Note: This is commensurate with the Authority's Draft Determination Report for Regulated Retail Electricity Prices 2012-13 (refer to page 83) wherein the Authority noted that for Tariff 66 an increase of some 337% was necessary for the tariff to be cost reflective. Such increases would cripple the sugar cane industry in the Burdekin. Growers would not be able to make sufficient efficiencies in their farming practices to absorb such an increase in the costs of electricity, particularly as growers are price takers in the Global Sugar Market, and are unable to pass along increases in cost to their retail price.

As stated previously, a grower in the Burdekin "purchases" water from the North and South Burdekin Water Boards and Sunwater. These statutory bodies themselves are electricity customers, and incur costs pumping water to their customers: the growers, the costs of which will be borne by the growers.

Growers will either stop using electricity as a power source and use alternative power sources (such as diesel) and incur the costs of replacing pumps to be compatible with the alternative power source, or cease to be primary producers. As growers drop out of the electricity market, the remaining growers will incur an even higher cost burden.

Any increase in the cost of electricity must be affordable.

Conclusion

It is incumbent upon the Queensland Government to ensure that primary producers in regional Queensland are financially viable. The structure of electricity tariffs (N + R) must be reviewed to ensure that the cost of electricity is not prohibitive to the operation of primary production in regional Queensland.

Please do not hesitate to contact the writer should you have any queries regarding the contents of this, or our previous, submission.

Yours faithfully
PIONEER CANE GROWERS ORGANISATION LTD

[redacted]

Julie Artiach
MANAGER

PCGO

PIONEER CANE GROWERS ORGANISATION LIMITED

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4 January 2013

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

By email: electricity@qca.org.au

Dear Sir/Madam

Re: Transitional Issues – Regulated Retail Electricity Prices 2013-14

Reference is made to the Consultation Paper relating to Transitional Issues pertaining to Regulated Retail Electricity Prices for the 2013-2014 period.

We advise that our organisation represents approximately 100 sugar cane growers in the Burdekin, accounting for between 1.6 million to 2 million tonnes of cane grown in this district, with an average size farm of approximately 20,000 tonnes.

Set out below are our organisation's views to some of the matters raised on page 10 of the Consultation Paper.

How should the Authority determine whether transitional arrangements are necessary for each obsolete tariff? What would be considered a "significant" price impact?

The Queensland Competition Authority (QCA) in its draft Determination Paper released March 2012 pertaining to Regulated Retail Electricity Prices for the 2012-13 period (refer to page 83) based its comments in relation to farming and irrigation tariffs (Tariffs 65, 66, 67 and 68) upon "typical" consumption levels of 4,790 kWh for Tariff 65, 9,910 kWh for Tariff 66 and 2,520 kWh for Tariff 68. The manner in which the "typical" annual consumption was ascertained was not explained. Further, the QCA determined that usage of Tariffs 65 and 68 are low, and therefore "dollar impacts are modest", in comparison Tariff 66 customers were likely to experience "more significant in both percentage and dollar terms (337% or $10,320 per annum)" increases.

Unlike other sugar cane growing regions of Queensland, growers in the Burdekin irrigate the crop all year round, and consequently their annual consumption use of electricity is substantially higher than the "typical" consumption levels of electricity by irrigators referred to in the QCA March 2012 Report.

By way of example, please find ***attached*** a copy of an email dated 6 December 2012 from Ergon Energy to our organisation's member. This email summarises for the grower his use of electricity for four pumps on his farm, the existing cost to him under obsolete Tariffs 65 and 65, and a comparison of anticipated increase in electricity costs should the tariffs for each of the four pumps change from the obsolete tariffs to a replacement tariff. This grower is a small grower, growing approximately 10,000 tonnes of cane. The grower's current annual usage of electricity for the existing four pumps is substantially higher that the QCA's "typical consumption levels" as can be seen from the following summary:

Pump 1	Tariff 65	19,939 kWh
Pump 2	Tariff 65	37,542 kWh
Pump 3	Tariff 66	48,064 kWh
Pump 4	Tariff 66	36,201 kWh

It is evident from Ergon Energy's calculations, particularly in relation to loss of Tariff 66, that the grower will be paying substantially higher electricity costs. The difficulty for the grower is assessing the likely cost increase of a replacement tariff from the cost of electricity based upon an obsolete tariff. Ergon Energy has attempted to do so, however, it is noted that it has also put some provisos on its calculations. This uncertainty is of major concern to growers.

Matters to be considered by the QCA in relation to transitional issues should include:

(a) The length of the transition period must be commensurate with the impact of the increased cost of electricity on the grower's viability. A grower is a "price taker" and therefore cannot pass along increases in input costs to the customer. Should the cost of electricity detrimentally impact the grower's cash flow (having regard to the manner in which growers receive remuneration by the incremental advance payment system that is determined by Queensland Sugar Limited and the miller) and ultimately the grower's viability, then –

   i. The retail pricing structure must be reviewed and there must be a moratorium on removing the obsolete tariffs until such time as the review is completed. The viability of sugar cane farming, particularly as the Burdekin region is reliant upon the revenue generated from the Sugar Industry, must be protected.

   ii. There should be a lengthy (greater than ten years) transitional period to provide the grower the maximum opportunity to make other efficiencies in their farming practices to be in a position to then absorb the cost increase.

(b) Certainty of the likely cost increases of moving to a replacement tariff. Certainty of the cost of electricity is absolutely necessary (as electricity is a substantial cost for growers) for cash flow and budgets, particularly given the manner in which a grower is paid via the incremental advance payment system.

(c) Once a grower makes the election to change to a replacement tariff, the decision cannot be reversed by the grower as he/she no longer has access to the obsolete tariff. A grower should have a reasonable period of time to make informed decisions regarding the most appropriate tariff for the grower's circumstances.

(d) A reasonable period of time to make capital improvements (purchase a smaller/larger pump etc.) to enhance any benefit, or reduce any cost, of the change to a replacement tariff.

(e) The working life of a pump and motor is in the order of 15 years (report of the Department of Primary Industries 1977). A grower has incurred capital costs of structuring his irrigation system on his farm and the length of the transitional period should be such so that the grower is not further burdened and allows the grower to obtain the maximum benefit from existing capital investment on his farm.

Are there any non-financial reasons why obsolete tariffs should be retained or other transitional arrangements put in place?

Farming and Irrigation Tariffs (tariffs 65, 66, 67 and 68) and other obsolete tariffs (for example, tariff 62) should be retained indefinitely. We repeat and rely upon the matters raised above.

Further, the obsolete tariffs recognise that there is a substantial benefit to the network for growers/primary producers to irrigate during off-peak periods. The difference in cost between peak and off-peak supply provides an incentive to growers to irrigate outside of certain hours. The replacement tariffs reduce any such benefit or incentive.

There is no competition in the retail electricity market in North Queensland. A grower has only one retail supplier, Ergon Energy and a grower has no opportunity to benefit from price competition.

As stated above, a grower is a "price taker" and must itself absorb input cost increases. A substantial input cost to a grower is the cost of water. A grower in the Burdekin "purchases" water from the North and South Burdekin Water Boards and Sunwater. These statutory bodies themselves incur electricity costs in supplying water to growers, the costs of which are passed on to, and recuperated from, the grower.

It is incumbent upon the Queensland Government to ensure that primary producers in regional Queensland are financially viable. The Burdekin's (comprises the towns of Ayr, Home Hill, Brandon and Giru) predominant industry is the sugar industry. The health and prosperity of the Burdekin community is reliant upon sugar cane growers being financially viable. The structure of electricity tariffs, including farming and irrigating tariffs, must ensure that the cost of electricity is not prohibitive to the operation of primary production in regional Queensland.

Conclusion

Please do not hesitate to contact the writer should you have any queries regarding the content of this submission.

Yours faithfully
PIONEER CANE GROWERS ORGANISATION LTD

[redacted]

Julie Artiach
MANAGER

[redacted]

From:
Sent: Monday, 10 December 2012 1:46 PM
To: [redacted]
Subject: FW: Tariff comparison [redacted]

From: Customer Service (Ergon) [mailto:customerservice@ergon.com.au]
Sent: Thursday, 6 December 2012 6:46 PM
To:
Subject: Tariff comparison Account # [redacted]

Dear

Thank you for your recent enquiry regarding tariff options. The following comparisons are for connection on tariff 65. Please be mindful the off-peak and peak period differ with tariff 65 as to tariff 22. As discussed tariff 65 is a 12 hour period and for these connections are from 8am to 8pm for peak consumption 7 days a week. Peak period on tariff 22 is between 7am to 9pm, Monday to Friday only with all other periods at off peak. The projection of cost may differ as a result on tariff 22.

Account # [redacted]

			TARIFF 20	TARIFF 22	TARIFF 41	TARIFF 65							
1	30/11/2012	7454	$ 1,741.15	$ 1,696.15	$ 2,396.61	$ 1,842.16	35%	87.69	85	Possible Savings		%	
2	6/09/2012	1547	$ 456.32	$ 454.93	$ 1,992.32	$ 475.42	13%	15.79	98	20	$ 228.55	4.7%	*
3	31/05/2012	4196	$ 1,032.30	$ 1,004.61	$ 2,170.46	$ 1,050.43	38%	45.61	92	22	$ 342.06	7.3%	*
4	29/02/2012	6742	$ 1,591.52	$ 1,552.09	$ 2,430.35	$ 1,681.84	35%	74.09	91	41	-$ 3,939.89	-43.8%	*

Account # [redacted]

1	5/12/2012	19496	$ 4,390.53	$ 4,208.88	$ 4,707.85	$ 4,376.04	50%	232.10	84	Possible Savings		%	
2	12/09/2012	4088	$ 1,016.80	$ 978.40	$ 3,482.34	$ 965.00	50%	41.29	99	20	-$ 227.95	-2.6%	*
3	5/06/2012	5370	$ 1,289.53	$ 1,233.03	$ 3,441.83	$ 1,210.12	55%	59.01	91	22	$ 136.80	1.6%	*
4	6/03/2012	8610	$ 2,002.69	$ 1,914.49	$ 4,893.26	$ 1,920.44	54%	94.62	91	41	-$ 8,053.68	-48.7%	*

The following comparison are for connections on tariff 66. There was no time of use data available but as discussed I did a breakdown on the consumption based on average usage on the 2 pumps which did have time of use. The breakdown used as discussed was 60% during peak period and 40% in off peak. The projection of cost may differ as a result of differing consumption habits to that discussed.

Account # [redacted]

1	30/11/2012	18606	$ 4,195.82	$ 4,064.26	$ 3,616.46	$ 3,405.37	40%	218.89	85	Possible Savings		%	
2	6/09/2012	3668	$ 923.18	$ 897.24	$ 2,224.32	$ 1,262.25	40%	37.43	98	20	-$ 1,149.97	-10.4%	*
3	31/05/2012	10116	$ 2,335.36	$ 2,263.83	$ 2,818.01	$ 2,184.50	40%	109.96	92	22	-$ 810.12	-7.6%	*
4	29/02/2012	15674	$ 3,557.55	$ 3,446.72	$ 3,407.37	$ 3,009.81	40%	172.24	91	41	-$ 2,204.23	-18.3%	*

Account # [redacted]

1	5/12/2012	14916	$ 3,382.43	$ 3,276.96	$ 3,194.23	$ 2,697.69	40%	177.57	84	Possible Savings		%	
2	12/09/2012	5890	$ 1,413.44	$ 1,371.80	$ 2,485.98	$ 1,428.35	40%	59.49	99	20	-$ 963.53	-11.5%	*
3	5/06/2012	6152	$ 1,461.66	$ 1,418.16	$ 2,365.81	$ 1,423.47	40%	67.60	91	22	-$ 707.56	-8.7%	*
4	6/03/2012	9243	$ 2,142.02	$ 2,076.66	$ 2,703.92	$ 1,886.50	40%	101.57	91	41	-$ 3,313.92	-30.8%	*

Please find attached a link to the tariff price structure found on our website.

http://www.ergon.com.au/your-business/accounts--and--billing/tariffs-and-prices-2012-13

Any changes to the tariffs would also require a meter change and there maybe fee's asccociated with a requested change quotable by the depot. You would also require work to be completed by an electrical contractor. The only exception to this is if you wanted to change to tariff 20 on account number [redacted] this connection already has the capabilty to measure tariff 20 as it is a digital meter.

If you have any further questions or enquiries you can contact Ergon Energy by phone on 1300 135 210, 7.00am - 6.30pm Monday to Friday.

Alternatively, you may choose to contact us by one of the methods provided below.

Kind Regards

National Contact Centre
Ergon Energy
Phone: 1300 135 210
Facsimile: 07 4922 7562
E-mail: businesscustomerservice@ergon.com.au
Web: http://www.ergon.com.au

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