



QUEENSLAND FARMERS' FEDERATION

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Submission

13 January 2020

Queensland Competition Authority
GPO Box 2257
BRISBANE Q 4001

Via web: <http://www.qca.org.au/Submissions>

Dear Sir/Madam

Re: QCA Interim consultation paper: Regulated Retail Electricity Prices for 2020-21 (December 2019)

The Queensland Farmers' Federation (QFF) is the united voice of agriculture in Queensland. It is a federation that represents the interests of peak state and national agriculture industry organisations, which in turn collectively represent more than 13,000 farmers across the state. QFF engages in a broad range of economic, social, environmental and regional issues of strategic importance to the productivity, sustainability and growth of the agricultural sector. QFF's mission is to secure a strong and sustainable future for Queensland farmers by representing the common interests of our member organisations:

- CANEGROWERS
- Cotton Australia
- Growcom
- Nursery & Garden Industry Queensland (NGIQ)
- Queensland Chicken Growers Association (QCGA)
- Queensland Dairyfarmers' Organisation (QDO)
- Australian Cane Farmers Association (ACFA)
- Pork Queensland Inc.
- Queensland United Egg Producers (QUEP)
- Queensland Chicken Meat Council (QCMC)
- Bundaberg Regional Irrigators Group (BRIG)
- Burdekin River Irrigation Area Irrigators Ltd (BRIA)
- Central Downs Irrigators Ltd (CDIL)
- Fairbairn Irrigation Network Ltd
- Mallowa Irrigation Ltd
- Pioneer Valley Water Cooperative Ltd (PV Water)
- Theodore Water Pty Ltd.

QFF welcomes the opportunity to provide comment on the QCA Interim consultation paper: Regulated retail electricity prices for 2020-21 (December 2019). We provide this submission without prejudice to any additional submission from our members or individual farmers.

The united voice of intensive, semi-intensive and irrigated agriculture



Prices

The interim consultation paper is designed as noted by the QCA to set regulated retail electricity prices on behalf of the DNRME (Department of Natural Resources, Mines and Energy). It references the framework contained in the Electricity Act that sets out factors that the QCA must have regard to when deciding on pricing. This consultation paper does not incorporate a streamline approach to its pricing methodology, so that pricing is clear to the consumer. The QCA are unable to transparently identify a more precise pricing structure and how this is to be achieved within the cost build up components. The cost build-up components are provided in reference to the cost elements and what costs are associated with setting a notified price.

The methodology utilised does not consider the variability in current tariffs and how AER's approved new network tariffs do not align to existing retail tariffs, with similar structures. These tariffs are not identified in the network component for calculation of costs, other than utilising the underlying network tariffs approved by the AER, as a basis to build up costs. This approach allows for maintaining existing retail tariffs whilst adjusting the network costs component (N component) with a suitable index, which is unfortunately unspecified. Delegation allows for flexibility in determining the N component which is of concern when factoring in future financial costings and an inconsistent water supply. The supply of water, which is a paramount factor for irrigation, is not accurately incorporated in energy pricing, which is a requirement for the long-term viability of our agricultural industry.

It is noted in this Consultation Paper that the information required to make decisions under the delegation by the Minister in reference to the *Electricity Act 1994*, are deemed to be incomplete, and no clarity has been given to the longevity of any tariff changes and the pricing structure for each one. Under the *Electricity Act 1994* Section 90 (2), price determination must be in the form of a tariff schedule. This has not been provided. QFF therefore notes that further consultation is necessary to incorporate a detailed pricing structure rather than an inconsistent plan that is not yet formulated due to insufficient data.

Similarly to the QCA draft determination of 2019-20, this plan does nothing to help farmers producing food, fibre and foliage mitigate the escalating costs of operating essential farm infrastructure. A real and meaningful reduction in electricity prices now may assist some farmers to install energy efficient and renewable energy technologies which would provide long-term benefits, not just to the farm but also the network by potentially reducing peak demand.

Obsolete and Transitional tariffs

QFF notes that the Queensland Competition Authority (QCA) yet again did not pass on network electricity price savings to farmers and other businesses on transitional and obsolete tariffs in their determination. It is disappointing that despite QCA acknowledging that Ergon's network charges and generation costs are declining, this may not be passed onto farmers on irrigation tariffs and other business tariffs.

The price of electricity over the last 10 years has increased about 10 times the rate of inflation. This critical input for intensive, semi-intensive and irrigated agricultural farm businesses has now become a major cost, which has eroded business competitiveness, profitability and even viability. Farming businesses already struggling to cope with unsustainable electricity price increases particularly in the context of a widespread and prolonged drought, other climatic impacts, increasing volatility in global commodity prices and exchange rates amongst other factors.

At the end of 2016, there were about 42,000 regional businesses on eight different tariffs classified as transitional or obsolete. QFF understands from Ergon Retail that there are currently around 12,000 connections for farming and irrigation still on transitional tariffs (obsolete from 30 June 2021). The Queensland Government decision to not allow new irrigation connections or existing customers to access transitional and obsolete tariffs, or for irrigators to return to transitional tariffs (should they have switched to another tariff out of season or as part of a trial; and including those irrigators in newly drought declared

areas) has, and will continue to hamper efforts to changeover customers who would be legitimately better off on alternative tariffs. The fear of non-reversion and lack of trust in the tariff identification process will continue to obstruct movement away from the transitional and obsolete tariffs before their cessation date.

The impacts of rising electricity prices are negatively impacting Queensland's irrigation sector, with a growing number of producers switching to dryland farming practices as the price of electricity has already become unsustainable. Electricity costs are resulting in a steady decline in the number of irrigation businesses as well as reduced productivity across the sector. Negative impacts associated with the unsustainable increase in electricity prices are well documented¹.

In response to price increases, farming businesses, including irrigators, have been installing energy efficiency measures and renewable energy and, in many cases, simply reducing demand. Much of these gains however, have been diminished by the increasing electricity costs. Simply reducing demand has also come at a cost either through reduced productivity or farmers simply choosing not to plant a crop.

Along with the costs of irrigation, supply of electricity to heavy machinery used in farm production and agri-processing is proving to become almost uneconomical as tariffs are no longer able to be swapped to be in line with energy use for production. The implementation of a T34 interruptible load tariff may appear as an alternative, however, pricing is unclear and may, in some cases, pose a high risk for irrigators. It is paramount that producers are provided with access to tariffs that are not only cost effective, but also reflect their rates of usage, whilst also allowing flexibility. This is vital for all producers that are intensive users of electricity, but also require flexibility in tariffs to accommodate varying demands in line with their business use. Providing a service, that is proving to be uneconomical, will only push more producers off grid, in search of alternative energy sources to ensure their businesses remain economically viable.

Further Issues

QFF notes the current Rural Irrigation Price Review 2020-24. The referral notice requires the QCA to consider electricity to be a pass-through cost in this price path. Electricity costs have become a major component of water charges during this price path and are projected to escalate further during the next price path. Electricity makes up 19.5% of the total routine costs for 2019 and 20.75% for 2024 within SunWater's financial model².

QFF has requested that the QCA establish the electricity unit cost per ML, to investigate whether a separate part E charge for the variable cost of electricity could be established in some schemes and to also establish a transparent approach for passing through electricity costs. These issues are still outstanding.

Along with the increase in irrigation costs, and ongoing increase of electricity, a reduction in electricity pricing and a clear and concise overview of pricing structure and relative tariffs, is paramount, in order to provide an economical service for producers, whilst also retaining consumers on grid.

As such, QFF considers it to be inappropriate for the Queensland Government and QCA to determine electricity prices for the agricultural sector in isolation from the current review of irrigation water pricing. Queensland's agricultural sector requires a joined-up and coherent policy approach to address the issues, otherwise Queensland will continue to experience a fast decline across both its electrical and water infrastructure, risking the future viability of the intensive and irrigated agricultural sector in the state.

¹ Australian Farm Institute. (2018) Research Report: The Impacts of Energy Costs on the Australian Agriculture Sector

² <https://www.qff.org.au/wp-content/uploads/2017/04/20190308-QFF-submission-to-QCA-re-rural-irrigation-pricing-review-2020-24-SunWater-WEB.pdf>



If you have any queries about this submission, please do not hesitate to contact Ms Sharon McIntosh at sharon@qff.org.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'georgina', written in a cursive style.

Dr Georgina Davis
Chief Executive Officer