

30 April 2021

Mr Charles Millstead
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001
Via email: charles.millstead@gca.org.au

Dear Mr Millstead

Draft Determination: Regulated Retail Electricity Prices For 2021-22

Thank you for the opportunity to provide input to the Queensland Competition Authority's (QCA) Draft Determination: Regulated Retail Electricity Prices for 2021-22 Regional Queensland.

Queensland Cane Growers Organisation Ltd (CANEGROWERS) is a not-for-profit public company with the sole purpose of promoting and protecting the interests of sugarcane growers since inception in 1925.

Representing over 80 per cent of Australia's sugarcane growers, CANEGROWERS is the peak body for the sugarcane industry. With 13 district offices in Queensland, our strong regional presence ensures that services and advocacy are provided in local communities as well as at the highest levels of industry and Government decision-making.

CANEGROWERS is also an active member of Queensland Farmers' Federation (QFF) and endorses the concerns raised by QFF in its response to the Queensland Competition Authority's Interim Consultation Paper.

Like QFF and many others, CANEGROWERS is disappointed in the QCA's draft determination. The draft misses an important opportunity for the QCA, as required under the *Queensland Competition Authority Act 1997*, to spell out the real cost to the regional Queensland economy of electricity prices being determined in accordance with the Minister's January 2021 Delegation.

Small Customers

The proposed new transitional retail tariffs (T62A, 65A and 66A) include materially higher charges, both fixed (up 19 to 30 per cent) and usage (up 7 to 14 per cent), than the obsolete tariffs (T62, T65 and T66), which are widely used by irrigators, that they replace. These material increases are offset only by a modest (0.3 per cent) reduction in the off-peak usage charge for T62A. This means many small customers will be materially worse off if they switch from the obsolete tariffs to the replacement transitional tariffs.

CANEGROWERS recommends QCA clearly identify and report the likely bill impact of customers moving from obsolete tariffs (T62, T65 and T66) to transitional tariffs (T62A, T65A and T66A).

Large Customers

The draft determination is particularly disappointing for those large users who presently have access to obsolete tariffs (T62, T65 and T66). Unable to access the new transitional retail tariffs

(T62A, 65A and 66A) or other small business tariffs after 30 June, these users will be forced to switch to large business tariffs. This switch will see the daily fixed charge the face increase from approximately \$0.78/day to \$40.42704/day, an increase of 5083 per cent. Large users face the prospect of incurring an annual charge of almost \$15,000, before even a kilowatt of electricity is used. This very large increase in underlying cost structure, if applied, would be a direct consequence of a policy decision taken at a time when the underlying cost of supplying and delivering electricity has fallen sharply.

CANEGROWERS is aware and acknowledges that Queensland legislation in combination with National Energy Retail Regulations establishes 100MWh as the annual consumption threshold for large customers. Although the level of this threshold is a matter for the Queensland Government to determine, there is a clear role for QCA to identify the impact of imposing this restriction on large customers who, from 1 July will no longer be able to access transitional tariffs or other tariffs available to customers who use less than 100MWh annually.

CANEGROWERS recommends QCA clearly identify and report the likely bill impact of large customers moving from obsolete tariffs (T62, T65 and T66) to large customer tariffs.

Energy Charges

CANEGROWERS reiterates its call for the peak charging windows for the three new transitional retail tariffs to be limited to 4pm to 9pm, Monday to Friday, with deeply discounted off-peak charges applying at all other times. Reflecting the falling electricity cost structure, we are keen to ensure the state's irrigators have access to competitively priced electricity that takes account of the fact that irrigators are typically low-cost users of both electricity network capacity and volume weighted average wholesale electricity prices.

As reflected in the draft determination, the wholesale energy costs in the National Electricity Market (NEM) can range from negative \$1,000 to \$15,000 per megawatt hour (MWh). The highest prices generally occur during the peak period – 4pm to 9pm, Monday to Friday. The strong uptake of renewable energy generation across Queensland means the price of electricity outside of this period is less than \$5/MWh. During daylight hours, especially between 8am and 4pm, the wholesale energy price in Queensland is often lower, frequently negative.

CANEGROWERS agrees with QCA's assessment of that wholesale energy costs should reflect how retailers incur costs when purchasing electricity from the NEM. That irrigators may be on accumulation meters has no impact on retailers' purchasing decisions. Those decisions are based on retailers' assessments of their bulk energy needs at zone substation level at different times of the day. The decisions are not based on the type of meters customers hold.

The energy component of charges for T62A and 65A, the transitional time-of-use tariffs contained in the draft determination, suggests the peak / off-peak NEM price differences are not fully reflected in QCA's draft retail prices.

CANEGROWERS recommends off-peak charges for the energy component of T62A and T65A be significantly reduced to reflect Queensland's off-peak energy price structure.

Network Prices

CANEGROWERS remains concerned that it does not have sight of Ergon's proposed network tariffs to be used in the cost build up for the transitional retail tariffs. The assumed network prices contained in the QCA draft determination do not appear reflect the fact that irrigators are low-cost users of electricity who operate on non-congested parts of the Ergon network. It is difficult to understand why the fixed network charges for customer using either T62A or T65A are higher than charges that would apply if the same customer used T20.

CANEGROWERS recommends QCA identify and report the irregularities and inconsistencies in Ergon's proposed network tariffs.

Promoting Competition in the Provision of Electricity Retail Services

Community Service Obligation (CSO)

It is important that the QCA final determination identify all impediments to the establishment of effective competition in the provision of electricity retail services across the state. Currently the CSO to support the Queensland Government's Uniform Tariff Policy is paid to Ergon retail not to Ergon network. Removing this significant impediment will be an important precursor to the establishment of retail competition for electricity in regional Queensland.

Headroom

Prior to the 2020-21 retail price determination QCA included an allowance of 5 per cent in notified retail prices to promote retail competition. It is pleasing that in the 2020-21 determination QCA identified the market features that mean an allowance for headroom may not support the development of competition. Amongst the features identified was the impact of regulation. Drawing on Yarrow¹, QCA reported:

“there is a risk that the limited regulatory tools available to promote competition (like headroom) instead produce regulated prices that serve as a coordination device among retailers, potentially resulting in higher market prices than if price regulation were removed.”

The same features apply to the provision of retail services to small customers, meaning the inclusion of a headroom charge effectively results in retail prices higher than would prevail in a competitive market to the detriment of customers and the wider Queensland economy.

CANEGROWERS recommends QCA clearly identify the costs to the Queensland economy that flow from:

- *the allocation of the CSO to Ergon Retail rather than Ergon Network; and*
- *the allowance for a headroom charge that applies to notified electricity prices for small customers.*

Solar Rebate

The change in Queensland Government policy that resulted in the solar bonus charge being switched from consolidated revenue to a charge on all electricity users has had a clear and direct impact, making retail electricity prices higher than they otherwise would have been. CANEGROWERS understands this is a matter of Government policy. However, in accordance with its Act, there is a clear role for QCA to identify the implications of this for electricity prices and the wider Queensland economy. Such information will help inform both consumers and the Queensland Government of the real economic impact of policy decisions.

CANEGROWERS recommends QCA clearly identify the costs to the Queensland economy that flow from the switching of the solar bonus payment from consolidated revenue to electricity prices.

Best Practice Evaluation Framework

It is disappointing that the draft determination provides no *ex-post* assessment of whether the prices Ergon retail is paying for its energy purchases are consistently less than those allowed for in the retail price determination. In any workably competitive market or well-regulated sector, the prices paid by regulated retailers for energy would be no higher than those paid by non-regulated retailers. The returns Energy Queensland is achieving from its Ergon business suggest this may not be the case.

¹ Yarrow, G, *Report on the impact of maintaining price regulation*, Regulatory Policy Institute, Oxford, UK, January 2008, p. 71.

As noted in the Queensland Government Program Evaluation Guidelines (Queensland Treasury 2020), '*Evidence-informed program decision-making is strengthened by well-planned, timely evaluations*'.

Consistent with Queensland Treasury's performance evaluation guidance, CANEGROWERS recommends applies a cyclical model of economic regulation to all aspects of its retail electricity price determination process by collecting and reporting on returns achieved by Ergon retail during each regulatory period and using this to inform forthcoming price decisions.

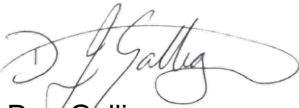
Conclusion

CANEGROWERS is disappointed in the QCA's draft determination. The draft misses an important opportunity for the QCA, as required under the QCA Act, to spell out the bill impacts on individual customers and the real cost to the regional Queensland economy of electricity prices being determined in accordance with the Minister's January 2021 Delegation. The discontinuation of T62, T65 and T66 is likely to have a significant impact, especially for customers who use more than 100MWh.

It is a concern that there is insufficient information available to assess the impacts of irrigators moving to either the proposed new business or transitional tariffs.

Please do not hesitate to contact [Warren Males](#), Head-Economics, if you require further information.

Regards



Dan Galligan
Chief Executive Officer