100 Edward Street (GPO Box 1032)
BRISBANE QLD 4001
T: 07 3864 6444 F: 07 3864 6429
info@canegrowers.com.au
www.canegrowers.com.au

18 January 2022

Mr Charles Millsteed
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Lodged: www.qca.org.au/submissions/

Dear Mr Millsteed

Regulated Retail Electricity Prices for 2022-23

Thank you for the opportunity to provide input to Queensland Competition Authority's (QCA's) paper for the Determination of Regulated Retail Electricity Prices in regional Queensland for 2022-23.

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 70per 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. The Queensland sugar industry relies heavily on irrigation. Electricity used in that task is a major input cost that affects the international competitiveness of irrigators across the sugar industry and in other agricultural industries across the state.

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

Like QFF and many representative groups, CANEGROWERS is keen to ensure the state's irrigators have access to competitively priced electricity tariffs that take account of the fact that irrigators are typically low-cost users of both electricity network capacity and volume weighted average wholesale electricity prices.

Several fundamental realities affect the cost of electricity supplied to sugarcane irrigators, such as:

- Irrigation principally occurs on non-congested parts of the Ergon distribution network.
- Irrigators' demand for electricity on the Ergon network has not increased since the completion of Paradise Dam in 2005. In recent years, that demand has declined as irrigators have invested behind the meter, switching to more energy efficient systems and turning to alternative energy sources (solar and diesel generation), to avoid excessive regulated retail electricity prices.

- Irrigation electricity demand is not high and does not increase sharply during extreme heatwaves, where periods of greatest utilisation of the network traditionally occur and when wholesale price spikes are most likely.
- Beginning to work with new load control tariffs, irrigators are reducing their load on the network at peak times.

In relation to several of the questions contained in the Interim Consultation Paper CANEGROWERS makes the following comments:

1. **Rationalising Existing Retail Tariffs**
   The Minister's letter and delegation highlights the need to progress network tariff reform. While Energy Queensland's final Tariff Structure Statement for Ergon is positive for small business, so far network tariff reform has not been successful in introducing cost-reflective tariffs, accounting for the structural changes associated with the increased penetration of Distribution Energy Resources (DER) and avoiding cross subsidies between customer segments. Until network tariff reform addresses these issues, to avoid or minimise inefficient cross subsidies, there is a case for retaining transitional tariffs that contain deep price reductions applied over an extended period, at least until the end of the current regulatory pricing period (2025).

2. **Electric Vehicle (EV) Compatibility with Retail Tariffs**
   Although the transition to electric vehicles is gaining momentum, EVs are just one source of electricity demand. Recognising the shape of the 'duck curve' associated with increased DER, retail tariffs should be available for all users that limit the peak period to 4pm to 9pm, Monday to Friday, with deeply discounted off-peak charges applying at all other times. This would encourage electricity off-take for EVs, irrigation and other uses as 'solar sponges' when DER supply is at its greatest relative to demand and where DER supply is increasingly likely to cause localised network congestion.

3. **Issues in Setting the Network (N) Component of Prices**
   The network charges contained in the QCA determination 2021-22 do not appear to reflect the fact that irrigators are low-cost users of electricity who operate on non-congested parts of the Ergon network. They do not encourage irrigators and other small businesses to act as 'solar sponges' in their energy use.

   For the 2022-23 regulated retail electricity price determination, CANEGROWERS recommends QCA determines prices for small business interruptible supply tariffs and small business time-of-use tariffs that encourage irrigators and other small businesses to act as 'solar sponges' in their energy use.

4. **Approach for Estimating Energy Costs**
   CANEGROWERS agrees with QCA's assessment 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 time of the day, not on the type of meters customers hold.

   The QCA determination 2021-22 for customers using either T62A or T65A is difficult to understand. Peak charges are applied during the period when DER, solar energy, supply is at its greatest as reflected in the shape of the 'duck curve'. This is also the time during which the wholesale price of electricity in Queensland is at its lowest, often negative.

CANEGROWERS is working with alternative retailers to develop a model whereby irrigators can take full advantage of the price opportunities arising from what has become the characteristic daily wholesale electricity price pattern. The that the energy cost component plus retail margin of an alternative retail offer would be significantly less than 8c/kWh. This work suggests that regulated energy charges should be significantly below those that presently apply.

To encourage the development of retail competition in regional Queensland, CANEGROWERS also renews its call for QCA to recommend to government that the CSO paid to Ergon Retail to implement the State's uniform tariff policy be redirected to Ergon Network.

Both the Queensland government and Australian Energy Regulator use a cyclical model of regulation, which has as an essential element a feedback loop to assess an entity's actual revenue performance against target performance. The AER applies this cyclical process to all cost building blocks except the Return on Capital. As noted in the Queensland Government Program Evaluation Guidelines (Queensland Treasury 2020), 'Evidence-informed program decision-making is strengthened by well-planned, timely evaluations.'

CANEGROWERS recommends that as part of 2022-23 and future regulatory price determination processes, QCA undertakes an ex-post assessment of the energy costs Ergon incurs in its energy purchases in the previous regulatory period and compare with those allowed costs for that period. In any workable 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.

5. Approach for Determining Retail Costs

CANEGROWERS is working with other potential retailers looking to enter the market in regional Queensland suggests that retail margins are narrower than those allowed in previous QCA price determinations. As noted, the expectation is that the energy cost component plus retail margin of an alternative retail offer is likely to be significantly less than 8c/kWh.

6. Issues Raised in Relation to the Standing Offer Adjustment and Direct Market Offer (DMO)

Notified prices should not exceed the Energex DMO. Higher prices would be incompatible with the State's uniform tariff policy.

.

7. Determining Advanced Digital Metering Charges for Small Customers

Consistent with the Queensland's uniform tariff policy, CANEGROWERS supports basing charges for advanced digital metering for small customers on the cost of standard (type 6) meters in South-East Queensland.

8. Large Customers

As CANEGROWERS foreshadowed ahead of the QCA determination 2021-22 large users who were previously using 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 2021, were forced to switch to large business tariffs. This switch resulted in a significant jump in the daily fixed charge the face increase from approximately $1.03/day to $40.448/day, a 3830% increase. The prospect of incurring an annual charge of almost $15,000, before even a kilowatt of electricity is used, caused many to incur significant on farm costs, including using different energy sources (solar and diesel generation) in order to minimise the charges associated with the change in policy.

CANEGROWERS is advised that Queensland legislation in combination with National Energy Retail Regulations establishes 100MWh as the annual consumption threshold for large customers. Understanding the level of this threshold is a policy decision for the Queensland government, we encourage QCA to recommend to the government an increase in the threshold to 160MWh annually.

CANEGROWERS welcomes the steps that have been taken to improve electricity prices in Queensland. We remain concerned that Energy Queensland's customers in regional Queensland who use the Ergon network are restricted in their access to competitively priced electricity and are working with different retail providers to explore what is possible within the current regulatory framework to address this issue. To support the development if retail competition in the regional Queensland electricity market, CANEGROWERS renews its call for QCA to recommend to government that the CSO paid to Ergon Retail to implement the State's uniform tariff policy be redirected to Ergon Network.

To encourage irrigators and other small businesses to act as 'solar sponges' in their energy use, CANEGROWERS recommends QCA caps prices for the small business interruptible supply tariff 34 and small business time-of-use tariff 22A during the off-peak period at 14c/kWh.

Regards

Dan Galligan
Chief Executive Officer