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AGFORCE

07 January 2013

Mr John Hall
Chief Executive
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001
Email electricity@qca.org.au

Re: Submission on Regulated Retail Electricity Pricing 2013-14

Dear Mr Hall

AgForce Queensland welcomes the opportunity to contribute a submission to the Authority's Consultation on Regulated Retail Electricity Prices 2013-2014.

AgForce Queensland is the state's peak rural organisation dynamically representing almost 6,000 of Queensland's rural producers and agribusiness's. AgForce actively assists and represents broad acre producers in the beef, sheep and grain sectors at a local, state and national level and strives to ensure the long term growth, viability, competitiveness and profitability of the broad acre industries.

Energy use in the agricultural sector varies depending on industry. High energy bills are common place in intensive agriculture, irrigators and farms that rely on pumps for water. Other industries, such as sheep and wool see peaks in demand for electricity during shearing season.

Electricity prices in Australia are among the highest in the world, with increases of more than 40% since 2007.[1] Australia's electricity prices exceed those of Japan, the European Union, United States and Canada. Broadacre farm enterprises operate in a highly competitive world market and as price-takers increases in expenses such as electricity are not able to be passed onto consumers. Producers depend on access to reliable and cost effective electricity. There are implications for food security and competitiveness if productivity and profitability is affected by ever spiralling electricity prices. It is vital that regulated retail electricity prices are determined at a level consistent with vigorous competition and the Queensland Government's vision of doubling food production by 2040.

The vast majority of AgForce members live in regional and rural areas of Queensland and therefore have no access to competitive retail electricity pricing. There is realistically no prospect of retail competition outside Queensland's South East corner. AgForce is supportive of the Queensland Government's Uniform Tariff Policy that continues to ensure that customers pay the same notified price regardless of their geographic location.

[1] Carbon & Energy Markets 2012, *Electricity Prices in Australia: An International Comparison*, A report to the Energy Users Association of Australia, March 2012

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AgForce is concerned that the notified pricing methodology of Network (N) plus Retail (R) , where N is treated as a pass through and R is determined by the Queensland Competition Authority (QCA) is skewed favourably toward monopoly supply. Current network charges are considerably more than those a competitive market could achieve. Network costs in Queensland have increased substantially in recent years and can comprise up to 50% of the final cost of electricity for smaller customers. Ergon Energy's network cost increase was 11.3% in 2012-13 and AgForce questions whether continued increases at this level reflect an efficient operation.

Of further concern is the allowance of headroom to be added to notified prices. Headroom provides opportunity for retail competition in the electricity market. All customers supplied in regional and rural areas face this additional charge and yet are unable to benefit from a competitive market. AgForce would support the removal of headroom from the QCA notified price for customers supplied under the Uniform Tariff Policy as it seems to serve only to increase the cost of electricity to the customer whilst increasing revenue for the monopoly supplier Ergon Energy.

Due to the removal of agricultural tariffs from the network tariff structure producers are faced with massive hikes in the cost of electricity. The tariffs introduced in their place have increased off peak tariffs significantly whilst reducing the saving between peak and off peak rates to just two cents. AgForce is concerned that this will bring a marked reduction in off peak use when lower off peak electricity prices improve management of peak demand. The increased labour costs of operating infrastructure at off peak times will negate any attraction for producers to utilise off peak electricity at the new vastly reduced saving level. It appears incongruous that off peak tariff structures have been slashed when network demand management is vital in providing a reliable service to customers. Producers are likely to revert to using diesel generators to avert some financial distress from the significant tariff changes.

A major flow on effect for producers of removing the financial incentive for off peak electricity use will be increased water charges. Water suppliers such as SunWater, who supply 40% of all commercial water in Queensland will be adversely affected by rising electricity costs and will have no alternative than to pass on this cost to their customers. As previously stated the cost of farm inputs need to be carefully managed to ensure productivity does not decline in a competitive agricultural market.

AgForce would be supportive of further investigations into introducing improved time of use tariffs for the agricultural sector. Discussion would be welcomed between industry and network operators on the effects of moving to the new cost reflective tariffs coupled with extending transition arrangements enabling investigations into improved time of use tariffs to ensure equitable electricity costs across all parts of Queensland.

Customers supplied electricity under the Rural Subsidy Scheme or who are located in a drought declared area require clarification from the QCA and the Queensland Government as to what arrangements will be put in place when the cost reflective notified pricing is fully implemented. QCA to this point advise that these customers will operate under Tariff 20 subject to special terms and conditions set out in the tariff schedule. AgForce seeks to clarify that the QCA and the Queensland Government are agreed that the allowances in place will continue, that future allowances will be available to affected producers and that the allowance provide sufficient relief to distressed producers to enable future gains in productivity on farm.

Agricultural producers are faced with rising costs of production and increased environmental and economic pressures. The ability to improve productivity is a constant challenge. Rising electricity costs that cannot be passed down the value chain need to be addressed. Many producers are already utilising practices that reduce energy usage and find it difficult to find further savings. Better education, information and assistance from the electricity provider in choosing appropriate tariffs and implementing energy saving strategies would be highly beneficial.

Thank you for the opportunity to make a submission to the 2013-14 Review of Regulated Retail Electricity Prices. Please contact myself should you require any clarification on this submission.

Yours faithfully

[redacted]

Charles Burke
Chief Executive Officer
AgForce Queensland

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