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Mr John Hall
Chief Executive
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Dear Mr Hall

Thank you for the opportunity for AgForce to contribute a submission to the Authority's Draft Determination on regulated retail electricity prices for 2012-13.

AgForce is the peak lobby group representing the majority of beef, sheep & wool, and grain producers in Queensland. AgForce represents around 7,000 members and exists to ensure the long term growth, viability, competitiveness and profitability of these industries. The gross value of production of these broadacre industries in Queensland is over $5 Billion per annum, and they support a food value chain worth over $18 Billion to the Queensland economy.

Modern agricultural enterprises depend on having access to affordable and reliable sources of energy to carry out productive and profitable food and fibre production. Historically agricultural productivity has increased roughly in line with the energy inputs available. Productivity growth is a key element in keeping our domestic industries competitive in the global marketplace.

As a cost of doing business, total electricity use represents a relatively low percentage of the total input costs of broadacre enterprises. On average for our membership from 2000 to 2010, electricity costs would be in the order of 1 to 5% of total cash costs and in excess of 5% of total cash income[1]. These figures could potentially be up to 20% of total cash costs for members with a high level of irrigation. While a low proportion of total enterprise costs, given the average low return on assets for broadacre enterprises this expense still represents an important business consideration. This submission will focus on some principles that AgForce would like to see considered in the process of establishing a regulated retail electricity price framework.

Equity of access between urban and regional electricity users
The majority of AgForce's members reside outside of South East Queensland and so they commonly operate under a notified price regime. AgForce is supportive of ensuring customers of the same class have access to uniform retail tariffs and pay the same notified price regardless of their geographic location, as currently ensured by the Government's Uniform Tariff Policy. AgForce expects that this Government program would continue to be available.

[1] Australian Bureau of Agricultural and Resource Economics and Sciences, http://www.abare.gov.au/ame/agsurf/agsurf.asp, accessed 6 April 2012.

Lower off-peak electricity prices are needed to improve management of peak demand
Generally the suggested tariff structure will see reduced peak usage costs and increased off peak variable charges, combined with increased fixed charges and service fees. The QCA was directed by the Minister in 2009 to review the price-setting methods to better reflect the costs of supplying electricity, improve long-term management of peak electricity demand and to encourage efficiency. The proposed new tariffs would likely result in businesses having a reduced motivation to use electricity during off-peak periods. For example, farmers moving from Tariff 62 to 22 would see an increase in electricity costs during off-peak periods (night and weekends) and a reduction in usage costs per kWh during the 7 am to 9 pm period. The residual lower prices per kWh for off-peak use in comparison to peak use is unlikely to compensate for the additional labour costs involved in running infrastructure between 9pm and 7am. The QCA should consider reducing off-peak variable tariffs to manage this potentially increased peak energy demand.

Longer consultation periods are needed following the release of the draft determination
Given the much greater fixed charge (service fee per metering point) for the proposed Tariff 41 compared to Tariff 66 it is unlikely that producers will move to that tariff. It is possible that a greater number will move to the proposed Tariff 20, although data around member's intentions towards tariffs under the new scheme is unavailable due to the short 2-week period for consultation following the release of the draft determination. In setting pricing, the Authority must determine if any transitional arrangements are needed and develop an appropriate tariff for customers who are supplied under the Rural Subsidy Scheme, or are located in a drought declared area. AgForce would call on the Authority to lengthen consultation periods following the release of its Draft Price Determination and before publishing its Final Price Determination. A 2-week period is insufficient to undertake appropriate member consultation.

A 2-year transition period would improve capacity to adjust businesses
Past consultations by the QCA, including with the Queensland Farmers Federation, have highlighted that some farmers had made significant investment decisions based on the current tariff structure and that moving to new tariffs (e.g. Tariff 37 to 22) may require considerable capital investment to adapt business models and processes. A single year of concessional pricing (20% of total cost increase) on a limited number of tariffs before the full impact of the removal of a pre-existing tariff is applied is welcomed but insufficient for many enterprises to adjust appropriately. Where significant investment has occurred, AgForce would be supportive of a 2-year transition period for tariff changes to allow upgrading or replacement of equipment and give those customers more time to adjust before the full impact of altered pricing was felt.

Appropriate Government assistance programs should be in place before tariff changes occur
As a general principle, the Authority suggested that any social welfare concerns arising from tariff changes would be best addressed through direct assistance by the Government rather than by continuing to distort electricity prices with concessional tariffs. In setting the new tariff structure, will the Authority confirm that it has approached the State Government to confirm that the Government will have in place these direct assistances before the new tariffs become active? If not it raises questions about how the new tariffs will affect customers who are supplied under the Rural Subsidy Scheme, or are located in a future drought declared area.

Recognition of flow-on costs
The modelling work that is included in the Authority's draft determination does not seem to account for the flow-on costs to some farmers that a change in electricity tariffs will likely to mean, in addition to the direct electricity costs on each business. For example, water suppliers such as Sunwater would be similarly affected by electricity pricing and would in turn pass any additional costs onto farmers through increased water charges. Such flow on costs should be considered by the Authority when establishing appropriate tariffs for rural customers.

Equity of access for all businesses to declining block tariffs if these are retained
From 1 July 2012, any customer who is on an obsolete or declining block tariff will be required to move to, or be transitioned to, an alternative regulated retail tariff. AgForce requests that the Authority clarify if any businesses in Queensland, such as aluminium smelters or resource sector operations, will continue to have access to declining electricity block tariffs and if so under what justifications that could not also equally be applied to food-producing businesses.

The inclusion of a 'head room' allowance in tariffs does not benefit customers on notified prices
The Authority has indicated that, as at 31 December 2011, there were 171 retailers supplying customers in the retail market. This competition is largely limited to South East Queensland within the Energex distribution area. The inclusion of 'head-room' within the tariff structure makes an allowance for some additional profit in order to maintain levels of retail competition. It is proposed that consumers then have the opportunity to benefit from the downward pressure on non-regulated prices that result from this active competition. There appears to be limited benefit for consumers on notified prices of this inclusion, which could be seen as another cross-subsidy.

Allowances for customers suffering from drought are needed
In relation to establishing appropriate tariffs for customers supplied under the Rural Subsidy Scheme or located in a drought declared area, the QCA recommended that rather than create two additional subsidised tariffs exclusively for these customers, it would be more appropriate for any special arrangements to be decided by Government and included in the terms and conditions that are associated with the notified prices. For those customers supplied under the Rural Subsidy Scheme or in drought declared areas of the State, Tariff 20 is the identified tariff but subject to special terms and conditions as set out in the tariff schedule. Currently for drought declared areas and individually drought declared properties this is proposed to be the:

1. waiving of fixed charge components including minimum payments, service fees, annual fixed charges under Tariff 66 and guaranteed agreement shortfall charges
2. deferral of payment provisions relating to farm consumption although interest may be charged.

AgForce supports allowances for drought affected producers. Can the Authority confirm that these special arrangements have been agreed to by the Queensland Government as part of its development of appropriate tariffs for drought declared customers?

AgForce members have limited capacity to change their consumption of electricity and depend on having access to reliable and affordable electricity supplies for business and domestic uses.

We look forward to continuing the discussion with the Queensland Competition Authority on retail electricity pricing. Please contact Dr Dale Miller, Senior Policy Advisor, on 07 3236 3100 if you wish to discuss our submission in more detail.

Yours sincerely

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Rachel Fraser
Acting CEO AgForce Queensland