QUEENSLAND FARMERS' FEDERATION

QFF MEMBERS

Australian Prawn Farmers Association

CANEGROWERS

Cotton Australia

Growcom

Nursery & Garden Industry Queensland

Qld Chicken Growers Association

Qld Dairyfarmers' Organisation

ASSOCIATE MEMBERS

Queensland Chicken Meat Council

Flower Association of Queensland Inc.

Pork Queensland Inc.

Fitzroy Food & Fibre Association

Pioneer Valley Water Co-operative Limited

Central Downs Irrigators Limited

Burdekin River Irrigators Area Committee

Emerging Primary Industries Groups

- Australian Organic
- Queensland Aquaculture Industries Federation

25th March 2013

Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001

Re Submission on Regulated Retail Electricity Prices

Thank you for the opportunity to make a submission to the Inquiry.

The Queensland Farmers' Federation is the peak rural body representing intensive agriculture, which contributes around half of the State's $13 billion in agricultural product. Our members include CANEGROWERS, Growcom (Queensland Fruit & Vegetable Growers), Qld Dairyfarmers' Organisation, Cotton Australia, Nursery & Garden Industries Queensland, Qld Chicken Growers Association and Australian Prawn Farmers Association. QFF provides this submission without prejudice to any additional submissions provided by our members.

Our members are highly dependent on electricity for irrigation, refrigeration and packing operations. As a result, electricity is a major cost item and increases of the scale in the recommendations will put additional direct pressure on farm profitability.

QFF's January submission to the QCA inquiry asked for obsolete irrigation tariffs to be retained to allow for sufficient time for irrigated farming enterprises to adjust to the implementation of electricity tariffs that reflect efficient costs. We also called for an improvement in the time-of-use tariffs to provide some incentive for off-peak use.

QCA has responded to this request. Transitional tariffs are proposed to be available for up to seven years. Larger irrigation enterprises will also be able to access the extended seven year transition period.

However, the transitional tariffs for most irrigators are proposed to increase by 17.5%. Irrigation enterprises could also shift to transitional Tariffs 20 and 22 which are proposed to increase by 12.5%. These are steep increases for irrigation enterprises to cope with in 2013-14 and come on top of increases between 10% and 20% this financial year and increases of over 90% in the last seven years if the proposed increases are implemented. Irrigation customers who were not able to access a transitional tariff this financial year may have this opportunity if QCA recommends a transitional tariff in their final report. But even in this case the transitional Tariff 22 for example is proposed to increase by 12.5%. Price rises of this magnitude can easily increase a horticulture farm's annual electricity bill by $25,000.

Queensland Farmers' Federation Ltd. A.C.N. 055 764 488 A.B.N. 44 055 764 488
PO Box 12009 George St, Level 6, 183 North Quay, Brisbane QLD 4003
Phone: 07 3837 4747 Fax: 07 3236 4100 Email: qfarmers@qff.org.au
Web Site: http://www.qff.org.au

Rising electricity prices remain a significant concern for irrigators with QCA annual determinations providing no certainty for irrigation business planning and so threaten to undermine the State Government's plans for increasing the value of agricultural production in this State.

Action needs to be taken urgently by the Queensland Government to reduce the prices of electricity from 2013-14. QFF and members recommend that the following action be taken:

1. The significant part of Queensland's irrigation industry that is serviced by Ergon Energy (network and retail) is unlikely to enjoy any benefits from increased competition at least over the term of the proposed transition period to 2020. The Queensland Government applies the existing subsidy at the retail level.

   Recommendation
   The Queensland Government investigate applying the subsidy at the network level as a means of encouraging improved retail competition.

2. QCA advocates that obsolete tariffs must escalate substantially on an annual basis to progressively achieve tariffs that will recover costs. QCA is proposing an escalation of 1.25 times cost increases for most irrigation customers that would face bill increases between 10 and 100% to achieve cost recovery. It is submitted that the current process for assessment of annual escalations is not implementing an effective transition which should aim to moderate the impacts of price increases on farming enterprises over the proposed seven year term.

   QCA argues that such escalations are also necessary because the current numerous reviews of network charges could make changes that result in transitional prices over- or under-shooting 'eventual cost-reflective tariffs' (p 76 Draft Determination). However, there is also a major risk that the recommended price signals will force significant demand cut backs in rural regions reducing cost recovery from variable tariffs resulting in steeper increases in transitional tariffs in subsequent years.

   QFF submits that QCA could moderate proposed escalations having regard to the likelihood that it will take much longer than seven years for some customers to adjust to cost reflective tariffs. Farming enterprises facing the prospect of annual electricity price increases in excess of 12% per year for five or more years are unlikely to remain viable and will have little hope of restructuring.

   Recommendation
   The Queensland Government abolish the 25% price escalation of transition tariffs proposed by QCA

3. QCA has accepted the return on capital of 9.8% (the weighted average cost of capital) applied by the AER for the assessment of network costs. This rate needs urgent review in keeping with the annual process for price determination.

The Queensland Government needs to take steps to have this rate reviewed as a matter of urgency to reflect reductions in the costs of funds since the onset of the global financial crisis. Applying an assessed rate of return for a five year period is not in keeping with annual tariff determinations.

Recommendation
The Queensland Government take the necessary steps to have the current rate of return applied by AER reviewed as a matter of urgency

4. QFF has continued to call for improved time-of-use tariffs compared to the tariffs implemented this year which, if maintained, would be expected to discourage farmers from using electricity in off-peak periods. QCA is recommending two time-of-use tariffs (Tariff 22 with peak and off-peak and Tariff 12 with peak, shoulder and off-peak) which provide some incentive the use of water in off-peak periods.

   Ergon is yet to conduct their irrigation tariff review to assess an effective time-of-use tariff. This review must ensure that recommended time-of-use tariffs reflect the actual cost of electricity generation in off-peak times. It would be expected that Ergon conduct their tariff investigations in close contact with the irrigation industry in different parts of the state.

   Recommendation
   The Queensland Government take steps to ensure that Ergon reviews time-of-use tariffs to ensure they reflect the actual cost of electricity generation in off-peak times.

5. The numerous reviews currently being undertaken into network costs and regulatory processes to determine network price increases at both the national and state levels clearly shows that there has not been adequate scrutiny of network investments and operating costs. However, it may take some years for governments to implement the regulatory changes necessary to drive greater efficiencies into network businesses. There may also be a lag before these efficiencies flow through to tariff reductions. QFF will be keen to see the final results of the Queensland Independent Review Panel investigation of network costs. It will be important that this review clearly identify measures that can be implemented urgently to reduce the high network costs and particularly costs to the irrigation sector arising from high network reliability standards.

   Recommendation
   The Queensland Government implement measures urgently to reduce the high network costs and particularly costs to the irrigation sector arising from high network reliability standards.

QFF remains concerned that the transition arrangements including proposed transitional tariff increases will not allow rural enterprises to adequately adjust to electricity price increases. Farm investments are made for an 'effective life' well in excess of depreciation terms defined for tax or other purposes. It is most likely that irrigation enterprises particularly the larger enterprises will need to reinvest to mitigate the impacts of significant electricity price increases.

It would be expected that these enterprises would have already been undertaking significant investment over the last ten years as well as dealing with drought and flood impacts. For example, farm infrastructure and operational procedures have been developed around access to much cheaper off-peak rates, and it's not necessarily a quick, easy or cheap process to adapt to the new tariff structure.

Also the transition term available is probably less than five years given the current uncertainty regarding the Ergon tariff review which has yet to get underway. It could also be expected that the term for the implementation of electricity reforms will blow out and at least a 12 year transition period should be considered.

Recommendation
QFF submits that a transition period of seven years is inadequate and provision should be made to review this once Ergon has completed its tariff review.

A tariff review such as proposed by Ergon over the next 12 to 18 months must have a defined component that transparently reviews electricity cost impacts on prices and addresses measures to mitigate these impacts. In particular, the shifting of larger customers to demand tariffs would require case specific investigation of options to reduce major cost increases. Electricity providers gave these enterprises notice late last year that they would eventually have to shift to large business electricity tariffs. Cost increases currently proposed are expected to necessitate a restructuring of these farms to introduce alternative energy sources or reduce electricity use. These farming operations are found in the cane, cotton, fruit, vegetable, nursery and aquaculture industries and play a significant role in local and regional development.

Any review should also take into account, the impact of the pass through of electricity costs to customers from water providers such as SunWater, SeqWater and Pioneer Valley Water Board. The impact of electricity charges are expected to be significant particularly in schemes that have to shift to demand tariffs.

To date the emphasis of tariff reform has been on efficient outcomes for the electricity industry and the hope that this will eventually be passed on to customers. QFF has concerns that electricity providers will continue with this approach and not put in place effective measures to address adjustment problems for both large and other customers.

Recommendation
Electricity providers must undertake a transparent process to review their tariffs with customers. Such reviews must also ensure that governments, industries and local communities are well informed of the benefits of pricing reform and the costs.

QFF's January submission to QCA requested that customers in southeast Queensland and surrounding areas who were converted to regulated tariffs in 2012-13 should have opportunity to shift to transitional tariffs. QCA has recommended such a shift. However, this recommendation may be opposed by electricity providers on the grounds of reduced efficiency. Analysis of case studies undertaken for fruit and vegetable farms and dairies shows that proposed transitional tariff increases of 12.5% will push farm enterprises to regulated tariffs with the first two years of the transition period. However, QFF submits that rural customers must have the opportunity to move to a transitional tariff if this option helps them moderate the impact of electricity price increases they would face moving to a regulated tariff.

Recommendation
QCA allow customers in southeast Queensland and surrounding areas to shift to transitional tariffs.

Rural customers question the addition of a 5.4% increase in costs to encourage competition in retail markets. This impost has little value outside of the south east Queensland market where the prospect of growing competition is unlikely to occur in the near future and particularly for the twelve month term of this price determination.

Recommendation
No provision should be made for 'head room' in Ergon tariffs during the transition period.

Electricity is one of the most significant costs for intensive farming enterprises, and facing double-digit percentage rises year-on-year is simply unsustainable, especially for businesses that have limited capacity to pass on increased costs.

As outlined above rural customers are now uncertain about how they will manage their farming operation to cope with proposed electricity price increases. They question how they can continue to cope with these increases with no guarantees that electricity cost increases can be better contained.

Yours sincerely

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Dan Galligan
Chief Executive Officer

Queensland Farmers' Federation Ltd. A.C.N. 055 764 488 A.B.N. 44 055 764 488
PO Box 12009 George St, Level 6, 183 North Quay, Brisbane QLD 4003
Phone: 07 3837 4747 Fax: 07 3236 4100 Email: qfarmers@qff.org.au
Web Site: http://www.qff.org.au