

QFF Members

CANEGROWERS

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Nursery & Garden Industry
QueenslandQueensland Chicken
Growers AssociationQueensland Dairyfarmers'
Organisation**QFF Associate Members**Queensland Chicken Meat
CouncilFlower Association of
Queensland Inc.

Pork Queensland Inc.

Queensland United Egg
Producers LtdPioneer Valley Water Co-
operative LtdCentral Downs Irrigators
LimitedBurdekin River Irrigators
Area Committee**Emerging Primary
Industries Groups**

- Australian Organic
- Queensland Aquaculture
Industries Federation

30 March 2015

Ergon Energy Corporation Limited
Group Manager Regulatory Affairs
PO Box 264
Fortitude Valley QLD 4006

Dear Sir,

RE: QFF Submission - Demand Based Tariffs and Aligning Network Prices to the Cost of Peak Demand

Thank you for the opportunity to make a submission on the Consultation Papers – The Case for Demand Based Tariffs and Aligning Network Charges to the Cost of Peak Demand (Long Run Marginal Cost) March 2015.

Ergon Energy is seeking responses to a proposal to introduce time of use energy tariffs during the summer months (December to February) which would apply peak charges (peak and shoulder periods) on weekdays for business customers. For the remaining nine months of the year including all weekends the off peak rate is proposed for all times of the day. The proposed peak tariff time for businesses would apply from 11.30am to 5.30pm and the shoulder tariff time from 10am to 11.30am and 5.30pm to 8pm. Peak charges are to be assessed to recover the costs of network investment over the longer term (ie long run marginal costs) to meet demand for power in the summer months. Fixed charges are also to apply (\$/day) throughout the year to recover those network costs that are not driven by demand. Ergon estimates that continuing with existing volume based energy tariffs (ie a fixed charge and an energy based charge) could result increase electricity prices by 13% over a ten year period compared with the prices that would result from the implementation of a seasonal time of use tariff.

QFFs February submission on Ergon's Future Network Tariffs consultation paper indicated that the introduction of a seasonal time of use demand tariff could be useful for those farmers able to minimise their use of electricity during the summer peak demand periods. However, it was pointed out that irrigation for crops and pasture in the summer months can involve extended daytime pumping. In addition, farmers may have to pump when river flows are available. Production cycles may also dictate timing for use of electricity eg milking, use of cold rooms etc. In these cases farmers are unlikely to shift to a time of use tariff where they may face peak charges for the summer months estimated by Ergon to be 200% higher than current peak rates assessed applying full long run marginal costs. QFF would question the estimates of these costs until the AER releases its determination

however it is anticipated that peak charges are still likely to be excessive. QFF member industries expect that many of their farmers will have to make significant and costly changes to their farming systems if they choose to use this tariff. QFF has also opposed the implementation of demand based tariffs because they are expected to penalise a significant component of irrigation demand that is base load or off-peak compared with residential and some components of industrial demand.

While the Consultation Paper on the application of long run marginal costs and supporting analysis provides more details about the proposed tariff, our member industries need the opportunity to work through with Ergon issues each would have about how the tariff proposal is structured and implemented. Issues that have been raised from a preliminary review of the consultation paper include:

- a. Assessment of long run marginal cost based upon using the proposed Average Incremental Cost Approach.
- b. Proposed response to the AER in regard to matters that must be addressed in calculating and applying long run marginal cost in accordance with National Electricity Rules (ie costs and benefits of applying a proposed approach; additional costs of implementing the tariff at times of greatest utilisation of parts of the network; and costs of applying the tariff in different geographic locations).
- c. Opportunity to tailor the tariff to different industry requirements.
- d. Providing greater certainty to customers about their bills under defined times for electricity use.
- e. Approach proposed to assess customer use in peak (shoulder) periods.
- f. Identification of those farming systems that will not benefit from shifting to the proposed tariff.
- g. Implications for the implementation of demand management or other network incentives in local or regional locations.
- h. Recoupment of residual (fixed charge) costs.
- i. Options for transitioning the implementation of long run marginal costs to assess peak charges.

These and other issues need to be addressed as part of the preparation of Ergon's proposal to the AER for the introduction of time of use tariffs. It is understood that this proposal has to be submitted by October 2015.

QFF would welcome the opportunity for our member industries to engage with Ergon Energy over the coming months to address the issues critical to the implementation of time of use tariffs for our industries.

Yours sincerely



Dan Galligan
QFF CEO