QUEENSLAND FARMERS' FEDERATION

ENERGEX LIMITED

RESPONSE TO RESIDENTIAL AND BUSINESS CUSTOMER CONSULTATION PAPER – TARIFF REFORM AND LARGE CUSTOMER TARIFF REFORM

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Queensland Farmers' Federation (QFF) is the peak body representing and uniting 15 of Queensland's rural industry organisations who work on behalf of primary producers across the state. QFF's mission is to secure a sustainable future for Queensland primary producers within a favourable social, economic and political environment by representing the common interests of its member organisations. QFF's core business centres on resource security; water resources; environment and natural resources; industry development; economics; quarantine and trade.

Our goal is to secure a sustainable and profitable future for our members, as a core growth sector of the economy. Our members include:

- CANEGROWERS,
- Cotton Australia,
- Growcom,
- Nursery and Garden Industry Queensland,
- Queensland Aquaculture Industries Federation,
- Queensland Chicken Growers Association,
- Queensland Dairyfarmers' Organisation,
- Queensland Chicken Meat Council,
- Queensland United Egg Producers,
- Flower Association of Queensland Inc.,
- Pork Queensland Inc.,
- Australian Organic
- Pioneer Valley Water Co-operative Limited,
- Central Downs Irrigators Limited, and
- Burdekin River Irrigators Area Committee.

Tariff Reform Proposal by Energex Limited

Business Customers

Energex is seeking responses from customers on proposed tariff reform proposals for the preparation of their Tariff Structure Statement due to the Australian Energy Regulator (AER) by the end of November this year. The proposal involves introducing demand tariffs on a voluntary basis from 2017-18 for business customers. Demand tariffs are defined as 'charges for network usage comparable to the amount of the network required to supply electricity.' Energex believes the benefits of this approach will be the sharing of the costs of using the network more fairly, reducing the need for additional infrastructure thereby reducing costs and stabilising prices as new technology is introduced and consumption decreases. Energex wants to use the voluntary period to involve customers and electricity retailers in 'real time tariff studies' to assess the impacts of the demand tariff and compare this tariff structure with time of use and volume tariffs.

The components of the proposed tariff include:

- Daily fixed charge ($/day) for the use of the network (part of existing tariffs)
- Volume charge (c/kWh) for electricity consumed (part of existing tariffs)
- Demand charge ($/kW/month) to be applied either to the average of the top four daily maximum demands or the single maximum demand (measured at half hourly intervals) between 7am and 9pm on week days and a similar charge applied to off peak demand in excess of peak demand.

The engagement program involves Energex working with the Queensland Chamber of Commerce and Industry and the Queensland Farmers Federation to conduct real time tariff studies for demand based tariffs to be available on a voluntary basis for business customers from 2017-18.

The AER is to release their preliminary decision on the Energex Tariff Structure Statement in June 2016 which may necessitate that Energex conduct further consultation. AER releases its final determination in January 2017 to cover the period 2017 to 2020. From 2020 onwards Energex expects to focus on transitioning all small customers onto demand tariffs.

Large Customers

Proposed reforms will affect customers in the agriculture sector that are classed as Standard Asset Customers Large. From 1 July this year large business customers are to be charged for demand in kVA rather than kW. Energex notes that many of their large customers have invested in power factor correction technology to enable them to respond to this change. Given that this reform is a significant change for businesses, Energex does not propose further tariff structure changes during the 2017-20 period. However, they indicate that monthly demand charges (kVA) will continue to be adjusted to bring these charges into alignment with long run marginal costs.

Energex is proposing to introduce a voluntary (opt-in) time of use demand tariff from 1^{st} July 2018 which includes a peak demand charge between 7am and 9pm and an excess demand charge in the off peak only if demand exceeds that recorded in peak periods.

Impact assessment

In addition to the paper on proposed tariff reforms, Energex has released a Customer Impact Statement for residential and small and large businesses. It is recognised that impacts for small businesses cannot be accurately analysed because of limited half hourly interval load data. For large businesses load factor assessments are a measure of the efficient use of the network.

QFF Response

It is proposed to respond to the specific questions put by Energex under Item 1.3 of the Residential and Business Customer Consultation Paper and in the Introduction to the Large Customer Tariff Reform Consultation Paper.

At this stage QFF member industries do not have adequate interval load data across their sectors to provide a detailed response to the tariff proposals put forward in these consultation papers. For this reason we welcome the offer of a voluntary period to involve customers and electricity retailers in 'real time tariff studies' to assess the impacts of demand tariffs. The impacts of these tariffs are likely to vary significantly across agriculture sectors and farming businesses which employ varied farm management systems.

However, it is recognised that Energex requires at least some response on alternative features of the demand tariff proposals to prepare their Tariff Structure Statement which will recommend a preferred structure for analysis and reporting over the next 3 years at least. It is also understood that AER will be seeking submissions for the preparation of their Preliminary Determination on the Energex proposals due by June 2016.

Concerns with proposed tariffs

Overall, QFF is concerned that the introduction of these tariffs will add significantly to the challenges that rising electricity prices pose for farming enterprises. Comments are provided below regarding the likely initial response of farmers to these challenges and the significant impacts that the tariffs may have for particular farming systems.

While proposals to trial optional tariffs are welcome, QFF expects that farmers will be unwilling to voluntarily switch to the tariffs without having some understanding about impacts on their businesses and opportunities they may have reduce the impacts.

Agriculture business response to tariffs

An extended time period for the evaluation of demand tariffs is warranted as it is expected that farmers will adopt a very cautious approach to making any changes and investments required to adopt new tariff structures. Tariff reform opens a number of risks for farming enterprises including:

- Greater uncertainty based on the expectation that networks will continue to change tariff structure due to changing demand patterns
- Costs of metering upgrades and billing changes
- Costs to address local capacity constraints in rural areas
- Changes of policies governing tariff reforms eg policies relating to the introduction of retail competition in rural and regional Queensland, application of Community Service Obligation arrangements and assessment of long run marginal costs
- Costs to replace existing assets well before it is necessary
- Costs to introduce other efficiencies on farm to maximise the gains that can be made through energy efficiency measures (eg investments to improve water use efficiency).
- High costs of energy efficiency measures relative to the benefits that can be derived
- Industry specific investment constraints eg low returns for industry products
- Lower productivity resulting from the impacts of rising electricity costs eg reduced productivity resulting from farmers relying more on rainfall than irrigation for crops.
- Risks of investing in off grid solutions

These risks give rise to a growing concern that farmers will have to make premature or poor investment decisions to accommodate the implementation of regulated demand based tariffs from 2020.

Impact of the tariffs on QFF member industries

QFF has deep concerns about the capacity of the irrigation sector to cope with the proposed tariffs. Energy used to pump water to meet the requirements of crops during the hot summer months is high in all the irrigation areas within the Energex network. The industries involved include the dairy, fruit and vegetables, nursery, turf and smaller intensive agriculture industries. Many farmers in the region have few options available to reduce their peak demand use during the proposed fourteen hour daily peak charges period which applies all year. Rural water supply within irrigation schemes or in unregulated areas is quite varied because priority is given to securing a reliable supply for urban and industrial needs. Also electricity costs are higher in some irrigation areas because of the need to pump from deep groundwater sources (such as in the Locker Valley), and the added pumping costs to deliver water to farmer customers in some irrigation schemes.

Dairy farms and nurseries will face difficulties managing demand during their peak morning and afternoon energy use periods. Animal husbandry requirements dictate the morning and afternoon timing for milking so the options to manage demand involve investment in energy efficiency measures at the dairy. Nurseries also rely on irrigation to maintain plants during hot days and to water regularly each early morning and late afternoon to gain efficiencies in the water use.

Understanding how these tariffs can be implemented

More detailed investigations are needed to determine the likely impacts of the introduction of demand charges on different farming systems and irrigation supply systems. Investigations can then focus on identifying and costing measures to mitigate the significant impacts and whether it will be feasible for farmers to make proposed investments. The selection of an extended daily period to reduce the level of peak charges and the proposal to transition the implementation of demand tariffs after 2020 will not necessarily guarantee that serious impacts from the tariffs will be avoided.

It is important that adequate trials are undertaken of the tariff proposals across selected demand profiles for the intensive agriculture sector. QFF welcomes the optional tariff proposal. However it is expected that agriculture based customers will be reluctant to voluntarily opt in unless they can review the results of trials that adequately address the implications of the tariffs for their farming systems. In addition, QFF is hoping that significant analysis is available regarding opportunities for investment in energy use efficiency measures to help reduce the impact of the implementation of the tariffs.

It is expected that some farmers will face significant costs from the implementation of these tariffs and have limited opportunities to reduce costs by changing demand patterns or investing in energy use efficiencies. Trial work needs to identify these potential impacts and investigations need to be undertaken at the policy level regarding support measures for enterprises to reduce the impact of the introduction of demand tariffs over an extended period beyond 2020.

The above proposals are unlikely to be implemented without QFF and Energex developing a structured proposal for the conduct of tariff trial investigations for selected industries and farming systems. It will be important also to develop tariff calculators that will allow rural customers to assess the implications of demand tariffs.

Specific issues that need to be addressed in the tariff investigations for business customers are as follows:

- Peak demand charges between 7am and 9pm based upon an average of the top four daily demand periods
- Peak demand charges over defined thresholds eg 2kW
- Off peak demand charges for demands in excess of peak demand
- Implications of addition of fixed and volume charges

The same will apply for large business customers but it also needs to be recognised that there are likely to be a number of these customers who have yet to implement power factor correction.

Review

As outlined, QFF cannot at this stage, provide analysis of the likely impacts of proposed demand charges. We know that farmers have a limited understanding of these charges and there will be some confusion about the charges given the different proposals being put forward by the two networks. Retailers will also not necessarily understand the issues sections of the farming sector will face with the implementation of demand tariffs.

QFF expects that in the absence of a structured approach to address implementation of these tariffs, farmers are unlikely to voluntarily switch to the tariffs which will present problems with implementation of the tariffs post 2020.