QUEENSLAND FARMERS' FEDERATION
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Submission

30 November 2016

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

E-mail: Powerlink2016@aer.gov.au

Dear Mr Roberts

Re: Response on Australian Energy Regulatory (AER) Draft Decision on Powerlink's Revenue Proposal for the 2017/18 - 2021/22 Regulatory Period.

The Queensland Farmers' Federation (QFF) is the united voice of intensive agriculture in Queensland. It is a federation that represents the interests of 15 of Queensland's peak rural industry organisations which collectively represents more than 13,000 primary producers across the state. QFF engages in a broad range of economic, social, environmental and regional issues of strategic importance to the productivity, sustainability and growth of the agricultural sector. QFF's mission is to secure a strong and sustainable future for Queensland primary producers by representing the common interests of our member organisations:

- CANEGROWERS
- Cotton Australia
- Growcom
- Nursery & Garden Industry Queensland
- Queensland Chicken Growers Association
- Queensland Dairyfarmers' Organisation
- Burdekin River Irrigation Area Committee
- Central Downs Irrigators Limited
- Bundaberg Regional Irrigators Group
- Flower Association of Queensland Inc.
- Pioneer Valley Water Board
- Pork Queensland Inc.
- Queensland Chicken Meat Council
- Queensland United Egg Producers
- Australian Organic.

QFF welcomes the opportunity to provide comment on the AER's draft decision pertaining to Powerlink's Revenue Proposals for the 2017/18 – 2021/22 regulatory period. QFF provides this submission without prejudice to any additional submission provided by our members or individual farmers.

QFF commends Powerlink on the approach taken in the preparation of its proposal in applying the AER's Guidelines with regards to its proposed Rate of Return for the next regulatory period. QFF also acknowledges the consultation work undertaken by Powerlink to engage with stakeholders, with QFF being an invited member of Powerlink's Customer and Consumer Panel from early 2016. Whilst there are no agricultural users directly connected to Powerlink's transmission network at this stage, QFF found this consultation insightful. It has facilitated further dialogue and interaction on a range of matters including renewable energy projects through to workplace health and safety.

Background

QFF and its members have serious concerns about the unsustainable increase in electricity prices in Queensland, which are damaging on-farm productivity and critical export markets (see Attachment 1). The National Electricity Objective is to "*promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity with respect to price, quality, safety, reliability, and security of supply of electricity*". At this point in time, QFF does not consider that the National Electricity Objective is being realised. Under current market governance arrangements, existing loopholes enable price gouging by network businesses and prevent a fair and effective pricing structure for consumers.

Whilst QFF acknowledges the work of the AER through the draft pricing determinations where price reductions were reflected in 2015 in Queensland, New South Wales and South Australia; many of these determinations have been challenged and, combined with the constraints within the Australian Energy Markets Commission (AEMC) rules that govern the regulatory process, our sector stakeholders find themselves returning to the status quo of unsustainably high electricity prices.

Response on Australian Energy Regulatory (AER) Draft Decision

QFF formally records its concern with the broader framework and rules, including the role of the AER. QFF proposes that an examination must be undertaken of the way network companies present information in their submissions to the AER and the volume of material involved. The arrangement adopted in the National Electricity Market (NEM) known as the 'propose-respond' model results in an imbalance in the current system, where network businesses propose their business cases and the regulator is required to respond.

The 'propose-respond' arrangement creates a significant advantage for network (and distribution) businesses relative to the regulator, and effectively places the onus of proof on the regulator to demonstrate that a business proposal is incorrect or flawed. While the AER is able to interrogate and question various aspects of network submissions during the pricing determinations and seek information, the regulator is not free to set the agenda. This process leaves the regulator constrained and enables network businesses to effectively inundate the regulator through the weight of material provided. The volume of material also disadvantages consumers and organisations such as QFF who do not possess the resources to adequately review and respond to this material. As such, consumers (rightly or wrongly) place an additional expectation on the AER to provide clarity on the proposals, their decisons and to also answer any queries that arise, particularly where there is a range of conflicting views presented.

QFF attended the Public Forum in Brisbane on 19 October at which the AER presented its draft decision on Powerlink's revenue proposal. It was clear from the evidence presented by the AER and from its Consumer Challenge Panel (CCP) members, that there is a fundamental 'disconnect' between the role and outcome from the CCP and the value which the AER places on that process. I note that the AER appears to have ignored the information and views provided by its own CCP and, even at the meeting, the fundamental role of the AER was interpreted quite differently between the parties. For consumers, this is disappointing, adding concern about the process in general but also because there was no clear path of 'truth' from the divergent assessments (of Powerlink's submission) which were presented.

We acknowledge that the AER engaged a consultant to review the effectiveness of the CCP initiative. It is disturbing that the AER expressed the opinion that the advice provided by the CCP did not substantially alter the matters or issues considered in their regulatory decision making and this was clearly evident during the public forum. This lack of a 'common pathway' adds additional resource requirements on energy consumers to undertake or seek further analysis and independent review of the AER's decision as well as the assessment provided by the CCP. This is a resource intensive process for any organisation.

QFF acknowledges that there are wide variations in the relative strength of regulators and utilities, and divergent perceptions of how proactive or customer focused regulators such as the AER should be. However, QFF urges the AER to also respond to the assessment provided by the CCP or any credible alternative assessments which may arise pertaining to any revenue proposal.

QFF acknowledges the work of the AER in challenging the over-inflated revenue proposals presented, and defending consumers through the Australian Competition Tribunal process. But, QFF maintains its position that the current framework of utility regulation in which the utility's revenue is a function of its regulated asset base (RAB investment), multiplied by an allowed rate of return plus recovery of incurred operating expenses is fundamentally flawed. We must have a new utility model to transiton from a rate-of-return structure to direct performance regulation. At such a time where electricity prices are becoming unsustainable, there must be a clear policy decision by all sectors of government (and within the AER) on redesigning the current rules and the role of the AER in order to ensure the electricity sector produces a product which consumers want and can afford. Otherwise we risk a future of stranded assets and disproportionally negative impacts to parts of the community who are least able to afford them, including those consumers in vulnerable circumstances.

As an example, the AER states that the "*reductions proposed in our draft decision, we expect that the transmission component of the average annual residential electricity bill in 2021–22 would reduce by about $40 below the 2016–17 level; and that the transmission component of small businesses electricity bills would reduce. For small business customers with annual consumption of 10 000 kWh, the transmission component of the bill would be $75 lower than in 2016–17*".

Whilst QFF welcomes any reduction to householder and business electricity bills, it is worth noting that this stated reduction is attributable to the decrease in the calculated rate of return to 5.48 per cent (for 2017–18). This compares with Powerlink's proposed 6.04 per cent in its revenue proposal, and the 8.61 per cent set for the 2012–17 regulatory control period and not as a result of any reductions made by Powerlink with regards to its future expenditure. This reduction is a direct result to the decrease in market rates for the risk free rate and return on debt. However, it is highly likely that market rates will increase in the future which will immediately drive up the rate of return which, in turn, will increase electricity bills. It is noted that the AER will update the rate of return again, having regard to the prevailing market conditions in its final decision and by reference to the averaging periods that Powerlink nominated in its proposal.

QFF draws to the AER's attention the significant volume of literature about the 'utility of the future' where it is acknowledged that we must move away from providing electricity as a commodity to a structure where regulators and industry directly connect revenue requirements and earning to performance (including innovation and development of services) and not to expenditures.

QFF understands that Powerlink will be submitting a revised proposal in response to the AER's draft decision on 1 December which coincides as the due date for stakeholder submissions regarding the AER's draft decision.

As such, QFF will not at this time be providing a detailed response to the AER's decision on the various elements of Powerlink's initial proposal until it has also reviewed Powerlink's submission (also due on 1 December). This is as a direct result of the substantial resources required to review the documentation and provide a suitable analysis of the issues which impact QFF's stakeholders. QFF reserves its right to provide a detailed submission on Powerlink's revised proposal prior to the AER-advised deadline of 23 December 2016.

Yours sincerely

Travis Tobin
Chief Executive Officer