



QUEENSLAND FARMERS' FEDERATION

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Submission

28 May 2018

Mr Warwick Anderson
General Manager
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Via email: AERInquiry@aer.gov.au

Dear Mr Anderson

Re: Profitability Measures for Electricity and Gas Network Businesses: Draft Position Paper

The Queensland Farmers' Federation (QFF) is the united voice of intensive agriculture in Queensland. It is a federation that represents the interests of peak state and national agriculture industry organisations, which in turn collectively represent 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 farmers by representing the common interests of our member organisations:

- CANEGROWERS
- Cotton Australia
- Growcom
- Nursery & Garden Industry Queensland (NGIQ)
- Queensland Chicken Growers Association (QCGA)
- Queensland Dairyfarmers' Organisation (QDO)
- Australian Cane Farmers Association (ACFA)
- Flower Association
- Pork Queensland Inc.
- Queensland United Egg Producers (QUEP)
- Bundaberg Regional Irrigators Group (BRIG)
- Burdekin River Irrigation Area Irrigators Ltd (BRIA)
- Central Downs Irrigators Ltd (CDIL)
- Pioneer Valley Water Cooperative Ltd (PV Water)
- Queensland Chicken Meat Council (QCMC).

QFF welcomes the opportunity to provide comment on the 'Profitability Measures for Electricity and Gas Network Businesses: Draft Position Paper' following the AER's consideration of the submissions, including QFF's, to the November 2017 Discussion Paper. QFF provides this submission without prejudice to any additional submission provided by our members or individual farmers.

The united voice of intensive agriculture



QFF welcomes the AER's acknowledgement (page 2) in the Draft Position Paper that *reporting on the returns of the service providers will assist in the achievement of the National Electricity Objective and the National Gas Objective by making those returns and their drivers transparent.*

A key element in assessing potentials for efficiency improvement is to establish benchmarks for efficient operation. A standard definition of benchmarking is a comparison of some measure of actual performance against a reference performance. QFF believes that in order to drive customer-focused improvement in the natural monopoly activities for transmission and distribution, current incentive regulation must involve benchmarking or comparison of actual versus some reference performance.

QFF acknowledges that reporting on profitability measures will address some of the concerns of the electricity users in Queensland with respect to excessive profitability of service providers, particularly monopoly providers.

QFF notes the submission to the AER made by Energex and Ergon Energy (dated 8 December 2017), which stated support of the AER's intention to report on the profitability of regulated network businesses. This change in policy is welcomed, given Ergon's intervention to the Ausgrid, Endeavour Energy and Essential Energy, Limited Merits Review appeal against the (AER) proposed benchmarking process on the AER's 2014-19 revenue determination process for the New South Wales distribution networks.

The timing of this Draft Position Paper is critical for Queensland as we prepare for the next regulatory price path for Energy Queensland (Energex and Ergon Networks) and noting the release of Hugh Grant's report 'The Winners and Losers of the Monopoly Game: How the Queensland Government Profits from Queensland's Excessive Electricity Prices', April 2018¹. Trust in the networks, particularly the monopoly network in Queensland, for many electricity consumers is at an all-time low.

It is acknowledged that overly simplistic benchmarking may result in inefficient utilities making profits and efficient utilities not being able to recover their prudently incurred costs. Benchmarking will not address the unsustainable electricity prices in Queensland or the long-term financial returns from the networks that are many times the returns seen in other sectors of the Australian economy – it will merely highlight them. QFF notes the AER's most recent revenue determination decisions for Queensland's transmission and distribution networks which have accepted inflated OPEX proposals despite the AER's own benchmarking showing that the proposals were well above benchmarked efficient levels.

QFF recommends the submission made by the Agriculture Industries Energy Taskforce (dated 30 May) to the AER. QFF is a member of the Taskforce and fully supports the submission.

If you have any queries regarding this submission, please do not hesitate to contact Dr Georgina Davis at georgina@qff.org.au

Yours sincerely

Travis Tobin
Chief Executive Officer

¹ http://www.canegrowers.com.au/icms_docs/284654_the-winners-and-losers-of-the-monopoly-game.pdf.