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Submission

11 October 2018

Energy Queensland
PO Box 1090
TOWNSVILLE QLD 4810

Via email: ourdraftplans@energyq.com.au

Dear Sir/Madam

Re: Energy Queensland (Our) Draft Plans 2020-25

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 first draft of Energy Queensland's Draft Plan 2020-25 (the plan). QFF provides this submission without prejudice to any additional submission provided by our members or individual farmers.

General Comments

Overall, QFF is disappointed that the expected efficiencies from merging Ergon and Energex into a single organisation (Energy Queensland) have not materialised, and the current low cost of capital has not been taken in to account. A critical issue maintaining a high-pricing structure is the excess historical capex identified in both the ACCC report and Grattan Institute reports. While QFF notes the write-down of the regulated asset base (RAB) is a political decision, it is in the interest of all electricity consumers to have greater transparency and potential alleviation of these costs.

QFF is still not clear as to how sensitive the predicted prices are to changes in the cost of debt or forecast demand. For example, SA network charges rose 8% due to falls in demand. The AER's Framework and Approach (F&A) paper for the Queensland distributors[1] selected a revenue cap for Standard Control Services, under which shortfalls in demand are recovered through increased prices on remaining units of consumption. QFF understands from the Deep Dive sessions that EQ has not undertaken any sensitivity analysis. It is critical that this occurs given the likelihood of changes to the cost of capital and debt, and the rising uncertainty associated with future forecasting.

QFF would like to see further articulation of peer-to-peer trading opportunities. For example, the enabling of peer-to-peer trading of electricity fed into the grid by solar, and more specifically for the agricultural sector, more bioenergy opportunities between farms and agri-processors.

QFF notes that the Queensland Government has been absorbing costs of natural disasters in relation to damage to the network infrastructure. QFF does not believe that this is sustainable given the increasing number and scale of disaster events. While the Deep Dive session concentrated on a self-insurance versus insured model, one option presented is to have a direct pass-through in prices to electricity consumers – this is not sustainable or a price element than many businesses can absorb without planning. QFF seeks further clarity around the insurance options analysis including the associated recovery times for vital infrastructure. Some QFF members are highly sensitive to the disruption caused by electricity outages, such as when this causes animal welfare issues for intensive and semi-intensively farmed animals – an uncompromising issue.

Finally, throughout the Deep Dive sessions, there was concern and a lack of consistency regarding the costs of the ICT systems across both the Energex and Ergon networks. The ICT program costs appear to be high compared to other networks at $400m over five years for both entities (around $90m/year). QFF considers that ICT is an area where synergies between the two network businesses would realise cost-efficiencies. QFF also notes that originally, ICT costs were proposed to depreciate over 5 years, then depreciation over 10 years. This has an effect of increasing tariffs in 2020-25, which has been argued to be 0.1% uplift in final prices.

QFF therefore asks for more detailed information regarding the prudency of the ICT investment including an options analysis and clearly defined benchmarking against other networks. This is particularly important given the Power of Choice legislation into Queensland. There was no information as to how the rollout of digital meters impacted ICT systems or costs to both opex and capex. For example, Energex has stated that it will need to monitor 20,000 data points but that this will decrease with the rollout of smart/digital meters, reducing costs associated with manual readings.

Demand Management

Customers who reduce their energy demand and consumption should see a proportionate reduction in their energy bill. Customers expect that their network businesses will continuously innovate to improve the efficiency and asset utilisation of the network to put downward pressure on network prices.

[1] https://www.aer.gov.au/communication/public-forum-on-the-preliminary-framework-and-approach-for-qld-electricity-distributors

QFF was disappointed to see such a minor allowance for Demand Management (DM), especially given the evidence on the low the apparent costs of DM are compared to network expansion. Overall, there seemed to be little consideration on leveraging the Demand Management Incentive Scheme (DMIS). QFF appreciates that network regulatory incentives by and large, are biased against DM. However, in plausible cases, DM has a higher customer benefit but lower NSP profit than network capex. Therefore, deferred capex is not required to justify DMIS projects. Noting the guidance on net benefit tests for small projects which demonstrates that DM benefit for customers is based on: (a) reduced expected customer energy at risk using the expected probability of energy shortfall; and (b) the value of customer reliability.

DMIS provides strong incentives for distribution network businesses to transition to a decentralised and decarbonised future by achieving greater efficiency and asset utilisation.

The plan should set out specific actions for Energy Queensland to increase access to incentives for DM and for customers to engage in market-based demand response programs. The Demand Management Plan Programs and Initiatives need to be more specific and incorporate the latest technologies and opportunities in demand management and response, such as recent initiatives by ARENA and AEMO that are delivering up to 200MW of network capacity through demand response for $35.7 million[2].

Security and Reliability

Farmers make immediate choices in response to shocks and longer-term decisions based on their expectations. Part of these expectations depends on prospects for transition to new energy sources and the impact of government choices with respect to tariff design.

Input prices provide valuable information for the formulation of government policies and programs aimed at promoting efficiency, stability, growth, and equity in the agricultural sector. Energy costs are of utmost concern not just to farmers, but to consumers who face these costs embedded in the price of their food.

QFF recognises that network assets are very long-life assets and the consequences of under-building assets can be catastrophic; and that there is a genuine need to replace ageing infrastructure. However, regulatory decisions and overinvestment in both generation and distribution infrastructure have been based on incorrect forecasts of rising demand; despite demand actually falling and all indications that it may fall further, particularly as larger users leave the grid.

QFF recognizes that while grid connections are not always reliable in rural and remote areas, they do provide ‘back-up’ power for farmers, their families and the broader community. A significant issue for agribusinesses, particularly processing, is the reliability of supply. Stakeholder feedback to QFF has highlighted the decreasing electricity-grid reliability experienced by many farmers and ancillary activities, such as processing and pumping of water. In some regional areas, reliability has been an ongoing issue and, in some case, is decreasing. Disruption in electrical supply results in processing down-time, and unnecessary wear and tear on machinery, reducing the life-span of critical assets and infrastructure including energy efficiency measures.

Despite the increasing costs of network infrastructure as a proportion of electricity costs, there is no corresponding increase in reliability. In other words, the standard of service is not commensurate with the cost. This factor is further informing decisions to go off-grid and impacting the long-term viability of the electrical distribution network in these regional areas, particularly as distributed energy storage opportunities present. Security and reliability have historically been a significant driver in electricity prices in Queensland and whilst consumers value reliability very highly, they may not wish to pay for it;

[2] https://arena.gov.au/blog/demand-response-3/

and with the increasing commerciality of off-grid generation technologies, the decision-making process to move off-grid for some is becoming more rationalised and more attractive.

Modelling undertaken by Energeia[3] has concluded that around 40 small towns, particularly those at the edge of the grid, will find it more cost effective within a few years to cut the main link and provide the power with local generation, principally solar and battery storage. A growing number of larger, regional towns will fit this category by 2025; subject to amendments to regulation to allow the true cost to be reflected. One of the biggest barriers to towns leaving the grid is the cross-subsidy paid to provide networks to regional towns. This is particularly visible in Queensland where in the Ergon network, the average network costs alone to regional towns amount to around 20c/kWh.

QFF recognizes the potential of a micro-grid model as a 'safety net' and cost-effective approach to increase the reliability of electricity supply above current grid levels and which can be accompanied by cost measure benefits of 'local energy trading system' – where utilities can provide customers with solar and storage and allow their output to be traded in a suburban network. Such approaches require significant changes in the way incumbent utilities (e.g. Ergon) manage their business models and will require networks to look to a more 'distributed' model. Centralised generation and retailers will also be impacted. As such, QFF suggests that there is significant opportunity for further investigation into the consequences for regional communities regarding these issues.

Technological change and falling cost of capital have introduced opportunities for DM technologies, decentralized solar power generation and battery storage, and diesel generation on many farms to reduce peak demand and therefore reduce demand for investment in increased network capacity.

QFF understands that whilst peak demand drives investment, aggregate demand is important for recovering costs because you recover over the total demand and that determines prices. Energex for example, has previously noted that "deteriorating network utilisation as total energy consumption has moderated and is forcing up network prices as the costs of providing, operating and maintaining the network are spread over a lower consumption base whilst maximum demand remains at record levels"[4].

The current policy approach attempts to use tariffs to achieve 'actual' change; however, this is a blunt instrument if not coupled with appropriately designed demand and supply-side policy. This may accelerate the take-up of off-grid or behind-the-meter technologies exacerbating the above consequence. QFF is concerned that the result will be higher fixed costs, which will further reduce the incentives for energy efficiency and demand management.

QFF believes that targeted and appropriate demand management strategies can solve the energy tri-lemma of affordability, reliability and sustainability. It is imperative that the energy utilities support consumers to save energy and shift demand, instead of building expensive new energy supply. A further opportunity exists with the rapid change in hardware and software technologies that will provide direct access to the market for regional customers, particularly in constrained or fragile network areas. Peer-to-peer trading and virtual net metering will engage regional electricity customers in supply and demand matching opportunities with a potential additional revenue stream available to the networks. Such a model would offer the potential for customers to re-engage with the electricity networks as a 'transporter of electricity' paying a small amount for the use of the network and with actual localised demand capacity reflected in use-of-network charges.

[3] Energeia. (2013). Over the Edge: The Australian Outlook for Embedded Microgrids to 2027

[4] Mr Darren Busine, Acting Chief Executive Officer, Energex Limited, Select Committee on Electricity Prices. Proof Committee Hansard, 3 October 2012, p. 27

Other Comments

QFF is concerned about the increasing complexity of these regulatory processes, the limited discretion afforded to the regulator, coupled with the lack of engagement from some distribution businesses with consumers in the development of their revenue determination and other regulatory proposals.

As such, QFF strongly supports benefits of improved consumer engagement, not only for revenue determinations, but to ensure engagement is embedded into culture of all network businesses. QFF commends Energy Queensland for the approach it has taken but notes the resources required by advocacy groups to attend numerous Deep Dive sessions and respond meaningfully to the consultation.

QFF suggests that future engagement must include a component of education and ensuring minimum levels of understanding across all major stakeholder groups. The network industries have the resources to deliver this function. The Customer Engagement Handbook was developed in July 2016 by CSIRO and the Energy Networks Association as part of the Electricity Network Transformation Roadmap. The handbook identifies several engagement techniques to enable network businesses to make choices that reflect good consumer engagement, including but not limited to:

- Provide the opportunity for continuous learning and evolution of engagement activities;
- Strengthen relationships between energy networks, customers and consumer groups; and
- Support the use of performance measurement and indicator tools in engagement activities.

The last bullet point is particularly pertinent, and the handbook identifies meaningful performance measures, aims to promote consistency in metrics used across network businesses and activities, and is designed to assist in tracking their engagement performance over time.

The electricity transmission network providers and distribution networks have substantial internal expertise. Many also seek input and analysis from external consultants to 'strengthen their case' and respond to queries and challenges. Such costs are allowable operational expenditure, resulting in consumers also paying for the provision of expert advice (internal and external), and in the recent cases seen in NSW, any legal challenge to the AER's final revenue decision. Fortunately, Queensland's electricity distributors in October 2015 were directed by the Queensland Government not to appeal against a revenue ruling by the AER. The AER's final determination recommended Energex could charge customers $6.6 billion and that Ergon Energy could collect $6.3 billion through to 2020. While these determinations reflected 21.7% and 23.6% less than the initial regulatory proposals by Energex and Ergon respectively, QFF still strongly believes that the final approved determinations were still high and we remain concerned that the next determination will also include elements of excessive costs.

Without the necessary expertise, QFF is unable to challenge the figures provided in the revenue submission by the networks, or the draft and final AER decisions. Access to information also provides a further substantial barrier to real participation as a consumer advocate, and in relation to trust and transparency in the revenue determination process. While Energy Queensland has endeavoured to provide information in an open and transparent forum, QFF notes that there are still outstanding advocate questions from the Deep Dive sessions.

There is real added-value to facilitate permanent resources into advocacy bodies who can provide ongoing and consistent advice on the range of revenue determinations and other associated regulatory processes as they arise. This also then builds the knowledge-base across the advocacy sector and the electricity regulatory processes (at both state and national level). Funding is particularly critical for not-for-profit representatives where external training and education opportunities are often unavailable and where staff retention may be low.

For QFF members, electricity affordability and the increasing price rises is the 'priority energy issue'. Energy and water are inextricably connected in agricultural systems. Electricity prices in Australia are higher than overseas jurisdictions, disadvantaging commodity exports on the global market and leaving

agricultural producers heavily trade-exposed. As Queensland's electricity costs rise, the viability of irrigated agriculture businesses is being eroded.

QFF notes 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.

If you have any queries about this submission, please contact Dr Georgina Davis at georgina@qff.org.au.

Yours sincerely

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Chief Executive Officer