



QUEENSLAND FARMERS' FEDERATION

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Submission

18 January 2019

Attention: Adam Liddy/Leigh Spencer
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Lodgement: www.qca.org.au/submissions

Dear Sir/Madam

Re: QCA Interim Consultation Paper – Regulated Retail Electricity Prices for 2019-20

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)
- Flowers Australia
- 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)
- Theodore Water Pty Ltd
- Queensland Chicken Meat Council (QCMC).

QFF welcomes the opportunity to provide comment on the Queensland Competition Authority Interim Consultation Paper – Regulated Retail Electricity Prices for 2019-2020 (December 2018). We provide this submission without prejudice to any additional submission provided by our members or individual farmers.

The united voice of intensive agriculture



Timing of Interim Consultation Paper

QFF notes that it is difficult to make comment on the structure and options for Retail Electricity Prices 2019-2020 when the exact format of the network tariffs going forward is unknown and, there has in fact been, recent amendments to primary and secondary tariff outcomes due to trials undertaken between the agricultural sector and Energy Queensland.

QFF finds it strange that the QCA is 'required to consider reclassifying transitional tariffs as obsolete tariffs in 2019-20' (p.7) as this appears to pre-empt what might be contained in the forthcoming Energy Queensland Regulatory Proposal (RP) and Tariff Structure Statements (TSS) 2020-25 for the Ergon Energy and Energex Networks.

QFF has been actively engaged with Energy Queensland in the development of its RP and TSS to understand the regulatory pricing framework and the factors driving electricity prices unsustainably higher across Queensland, particularly in Ergon's distribution network. This has allowed sufficient narrative for the advocacy bodies to understand the key objectives and intent inherent in the 2020-25 plans, with sufficient depth in quantitative information to allow effective and informed comment and questioning by an informed consumer advocate or other interested stakeholder.

From this advocacy, QFF understands that Energex retail customers will receive a nominal 8% fall in the network component of their bill in 2020-21, the first year of the new regulatory period. The corresponding reduction for Ergon residential customers is also 8% because of the way in which the Uniform Tariff Policy (UTP) is applied in setting retail prices in regional Queensland. Without the UTP the fall in the network component would be only 1%. Energex business customers get a similar 7% fall in the network component of their bill in 2020-21. However, business customers connected to Ergon Energy's network which are not supplied by Ergon Energy Retail do not benefit from the UTP and hence will see no change in their prices in 2020-21 even with the fall in the weighted average cost of capital (WACC). The network tariffs form a critical component of the retail tariffs, thus QFF is unable to respond specifically to the QCA Interim paper until more information is available and the Australian Energy Regulator's (AER) decision is finalised.

Both Energex and Ergon observe (see p. 9 in their Network Tariff) in tariff plans for 2020-25 seek to respond to three concerns raised by its customers during engagement:

1. Customers support tariff reform and greater cost reflectivity, but remain concerned about customer impacts and transition
2. Customers expect us to demonstrate competitiveness of network supply where customers have a choice (e.g. off grid, edge-of-grid solar/diesel), and
3. Customers expect us to ensure equity of access to electricity.

Whilst Energy Queensland has heard these concerns from stakeholders, particularly the need for a gradual transition to full cost reflective pricing, EQ's summary about the need for change is noted¹:

"This means our current network tariffs, which were developed at a time when these advances in technology and customer expectations had not yet emerged, no longer suit the changing needs of our customers and of our network. In particular, the current tariffs (largely developed in the early 1990s) include cross subsidises which can lead to inefficient use of the network. We therefore need to review our existing tariff suite and introduce new network tariffs that are better suited to this new environment and are sufficiently flexible to accommodate future changes in customers' expectations, market developments and new technologies."

¹ Energex and Ergon Network Tariff Summary p. 7

QFF reiterates that we do not yet know what these tariff structures look like. As such, QFF suggests as a minimum the continuance of existing transitional and obsolete tariffs until the AER process is finalised and there is certainty around new network tariff structures.

QFF has made a number of submissions pertaining to future tariff considerations and issues impacting tariff pricing including but not limited to:

- <https://www.qff.org.au/wp-content/uploads/2017/04/20180720-QFF-submission-to-EQ-re-Energex-and-Ergon-Energy-Network-Tariffs-2020-25-WEB.pdf>
- <https://www.qff.org.au/wp-content/uploads/2017/04/20180723-QFF-submission-addendum-to-EQ-re-Energex-and-Ergon-Energy-Network-Tariffs-2020-25-WEB.pdf>
- <https://www.qff.org.au/wp-content/uploads/2017/04/20180514-QFF-submission-to-EQ-re-Network-Tariffs-2020-25-WEB.pdf>

Concerns

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. With the current uncertainty surrounding electricity prices, farmers are making long-term infrastructure decisions, some of which include the removal of critical farming infrastructure from the electricity network. This may not be the right decision for the business in the medium term should electricity prices stabilise or reduce and may cause unintended consequences such as increased liability under future carbon schemes. However, industry cannot deal with the level of current uncertainty, and where possible, are taking steps to eliminate future uncertainties.

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.

Technological change and the falling cost of capital have introduced opportunities for new technologies; not least demand management 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 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”².

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 approach actually appears to be accelerating 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.

² Mr Darren Busine, Acting Chief Executive Officer, Energex Limited, Select Committee on Electricity Prices. Proof Committee Hansard, 3 October 2012, p. 27.



QFF also note the adverse impact of high electricity prices on the price of irrigation water in Queensland is likely to be exacerbated (both on-farm and through irrigation water prices). The Queensland Government has instructed the QCA to include electricity prices in the calculation of regulated irrigation water prices in the concurrent QCA Irrigation Pricing Review 2020-24.

If there are any queries about this submission, please do not hesitate to contact Dr Georgina Davis at georgina@qff.org.au.

Yours sincerely

Travis Tobin
Chief Executive Officer