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Submission

31 May 2019

Mr Warwick Anderson
General Manager - Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Via email EnergyQueensland2020@aer.gov.au

Dear Mr Anderson

Re: Energy Queensland (Ergon and Energex) Regulatory Proposal 2020-25

The Queensland Farmers' Federation (QFF) is the united voice of intensive, semi-intensive and irrigated 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 farmers 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)
- Queensland Chicken Meat Council (QCMC)
- 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.

QFF welcomes the opportunity to provide comment Energy Queensland (Ergon and Energex) Regulatory Proposal 2020-25. We provide this submission without prejudice to any additional submission from our members or individual farmers.

Background

Irrigation electricity tariffs in Queensland have risen a minimum of 136 per cent over the past decade, and for some more than 200 per cent, while CPI increased by just 24 per cent over the same period. It is unacceptable that the price of electricity over the last 10 years has increased about 10 times the rate of inflation. This critical input for intensive, semi-intensive and irrigated agricultural farm businesses has now become a major cost, which has eroded business competitiveness, profitability and even viability.

Farming businesses already struggling to cope with unsustainable electricity price increases will be unable to continue operation post 2020 when these specific 'non-cost reflective' irrigation and small business tariffs are withdrawn by the Queensland Government. Businesses need certainty to plan, manage future input costs and develop strategies.

At the end of 2016, there were about 42,000 regional businesses currently on eight different tariffs classified as transitional or obsolete. About 17,400 of these connections are for farming and irrigation purposes[1,2]. Despite repeated requests by QFF for an accurate update on the number and location of these farming businesses, the Queensland Government has not provided this information. These businesses are uncertain what tariff structures will be available to them post 30 June 2020.

The impacts of rising electricity prices are negatively impacting Queensland's irrigation sector, with a growing number of producers switching to dryland farming practices as the price of electricity has already become unsustainable. Electricity costs are resulting in a steady decline in the number of irrigation businesses as well as reducing productivity across the sector.

Negative impacts associated with the unsustainable increase in electricity prices are well documented[3]. In response to price increases, farming businesses have been installing energy efficiency measures and renewable energy and, in many cases, simply reducing demand. However, much of the gains made have been diminished by the increasing electricity costs.

Despite a detailed response from QFF to the Queensland Productivity Commission (QPC) in March 2016 (see https://www.qff.org.au/wp-content/uploads/2017/04/QPC-electricity-pricing-inquiry-draft-report-11032016-FINAL.pdf) outlining the urgent need for a detailed and supportive 'transitional program' for the agricultural customers on transitional and obsolete tariffs, more than three years on there has been little action taken. The ability for these customers (up to 17,400) to now adjust in a 12-month period when many still have no usage data (via smart meters) to make tariff selection choice is unreasonable.

Queensland's irrigation sector is heading towards a 'perfect storm', with no one accepting accountability for the pervasive uncertainty as 30 June 2020 approaches; as transitional tariffs are withdrawn by the Queensland Government and new network tariff structures (and corresponding retail tariff prices) still remain unknown.

Timing

The Tariff Structure Statement (TSS) proposal submitted by Energy Queensland on 31 January 2019 did not include important details, particularly relating to tariff structures for the regulatory period 2020-25. On 2 May 2019, Energy Queensland provided additional information, including detail regarding network tariffs, tariff structure and assignment arrangements, along with some impact analysis for domestic

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[1] Queensland Productivity Commission. (2016). Electricity Pricing Inquiry 2016. Chapter 10: Rural and Regional Industries – Transitional and Obsolete Tariffs

[2] Queensland Government (2016), Queensland Government response to the Queensland Productivity Commission Electricity Pricing Inquiry, November 2016

[3] Australian Farm Institute. (2018) Research Report: The Impacts of Energy Costs on the Australian Agriculture Sector

customers. Tariff structures for business customers were submitted to the AER on 17 May 2019. QFF (and its members) received this information on Monday 20 May 2019.

QFF thanks the AER for extending the due date for submissions to Energy Queensland's (EQ) regulatory proposals from 16 May 2019 to 31 May 2019. However, this has meant that QFF and its members have had insufficient opportunity (around eight business days) to review the tariff structure statement (for business tariffs) submitted by EQ to the AER.

Resource Commitments

To date, QFF and many of our members have committed significant resources to the revenue proposal process, including the design of future tariffs post 30 June 2020 (Table 1). As an example, one of QFF's regionally-based member organisations have spent over $30,000 to date to attend meetings (flights, accommodation etc.), acknowledging the significance of the impacts from the process on the farmer members in their region.

Table 1: QFF Adviser input into EQ (Ergon and Energex) RP and TSS (and related processes) - 1 April 2018 to 1 April 2019

Council (half-day)	RP-TSS (full days) including 'Deep Dives'	Agricultural Forum (half day)	Individual Sector Meetings on TSS (attended by QFF)
2018			
	5 April		
9 May	11 June		
	25 June		
	27 June		
	4 July		
	5 July		
14 August	1 August	9 August	
	5 September	26 September	
	7 November	15 November	
2019			
18 February	4 February	5 March	18 March
	1 March		21 March
			26 March
1.5 Days	**11 Days**	**2 Days**	**0.6 Days**

While QFF appreciates the opportunity to participate in the processes, it does not receive any specific government funding for advocacy in the energy sector and therefore funds these activities 'at cost' to other services and advocacy work. Noting that the pace of reform and consultation across the energy sector is significant, with QFF completing an average of 25 submissions annually in the 'energy' area (see https://www.qff.org.au/advocacy/submissions/).

QFF acknowledges the participation and assistance of the Consumer Challenge Panel (CCP) in the current process. With limited resources, we are dependent on the CCP for technical reviews.

Specific Feedback

It appears that the information EQ supplied to the AER on 17 May 2019 is incomplete. It is not clear to QFF what the N-values are across all of the proposed tariffs. There is also limited indication of customer impact, particularly as businesses understand retail values – as opposed to network values. At this point, no modelling has been provided to indicate retail tariff values making it difficult to model impacts to both small and large businesses.

QFF welcomes the continuation of some small business tariffs including the transitional load tariffs. QFF also acknowledges and wishes to commend the significant amount of design work and consultation by EQ to develop a suite of proposed business tariffs which represent the diverse nature of the agricultural sector and other business sectors across Queensland.

Specific Issues – Access to Data

QFF notes that many small business owners do not feel that they have the time or knowledge to critically review the retail market electricity offerings. And while retailers will publish their contract offers online and on the AER's independent price comparator website (Energy Made Easy), the rate of 'retailer switching' for both business and residential customers has not been as high as anticipated. Indeed, active engagement requires a minimum understanding of consumptive electricity use and for some business tariffs, the time and load associated with that use. QFF is concerned that the new tariffs and significant tariff changes will increase the level of confusion.

Research by the AEMC indicates that awareness of Energy Made Easy and other platforms is low. QFF remains critically concerned about the level of information available to and the understanding amongst many small business owners with regards to their electricity consumption and pattern of consumption (based on existing tariffs, let alone the proposed tariffs).

Small and Large Customer Threshold

QFF has been strongly advocating that the Queensland Government increases the small business customer threshold from 100 MWh per year to 160 MWh per year. QFF challenges the proposition that a small business[4] (outside the professional and service industries) will only consume 100MW or less per annum. Certainly, under all definitions of a small business[4] for the intensive agricultural sector, electricity consumption will be in excess of 100MW. QFF has been verbally advised by EQ that the Ergon Retail area has around 2,000 NMIs (or sites) which fall into the 100-160MW threshold. Apparently, there is no visibility by EQ of businesses within the 100-160MW range for South East Queensland. This lack of data makes QFF sceptical that we understand or can even model the real impact of the proposed tariffs on businesses.

QFF understands that 'small customer thresholds' are 160 MW in South Australia and 150 MW in Tasmania, with the ACT, NSW and Queensland setting them at 100MW. NSW did adopt the 160MW threshold when it introduced the NERL in 2011, but later changed the threshold to 100MW. Increasing the utilisation of the Ergon Energy Network above the current level of 39 per cent will alleviate the need for Ergon Energy Network to continue to rely on excessive fixed charges. This requires tariff reform to ensure that small business customers consuming between 100 and 160 MWh per year are not subjected to $/KW demand charges (sites classified as small are subject to more cost-effective charging structures than those classified as large).

QFF understands that it is common practice in many businesses to simply install a new NMI and shift demand as businesses approach the 100MW threshold. This is an unintended consequence of this arbitrary limit, increasing administrative burden and metering charges onto the businesses and the networks. It would appear to QFF that some of the proposed tariffs supplied to the AER on 17 May 2019, have a high fixed charge, and, as such will negatively impact those businesses with multiple NMIs.

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[4] 'Small business' is defined differently by regulators in Australia depending on the laws they administer. For example, ASIC regulates many businesses that are 'small proprietary companies', which means a company with two out of these three characteristics: • an annual revenue of less than $25 million • fewer than 50 employees at the end of the financial year, and • consolidated gross assets of less than $12.5 million at the end of the financial year. The Australian Taxation Office defines a small business as one that has annual revenue turnover (excluding GST) of less than $2 million. Fair Work Australia defines a small business as one that has less than 15 employees. Despite these differences, many regulators have informally adopted the definition of 'small business' used by the Australian Bureau of Statistics (ABS), which is a business that employs fewer than 20 people.

There are also a range of protections afforded exclusively to small customers under the NERL and the National Energy Retail Law (Queensland) Regulation 2014; and 'threshold' issues relating to the removal of the non-reversion policy which again only applies to and benefits small customers in Queensland.

QFF understands that by amending the small customer threshold to 160MW the total revenue requirement across both small and large customers will not change, just the number of customers allocated to each of the small and large categories, so there may be price changes for each group of customers too (all other things being equal). How this is distributed in the proposed tariffs is unclear at this time.

Historically, the real issue has been the significant 'step-up' in bills when customers move from the small to large customer category given the change to existing tariff charges. If the step was smoother, customers may not be so concerned (unless their metering is also an issue).

QFF therefore requests additional modelling of the new tariffs to understand the impact of the current 100MW threshold on businesses – in particular, the businesses (NMIs) currently operating within the 100-160MW range. It is QFF's desire that the proposed large-customer tariffs will alleviate the 'step-up' in bill impacts for the 100MW+ customers. If not, QFF will continue to advocate to the Queensland Government to increase the small customer threshold to 160MW, thus, also increasing protections for more businesses such as access to the non-reversion policy. A detailed review of the impacts of the proposed tariffs on businesses with multiple NMIs is also required, particularly where there are high fixed charges.

To summarise, QFF is unable to conclude if EQ's submission including tariff structures are capable of acceptance as further modelling of impacts is required; as is a realistic indication ($) of the retail tariffs which will be offered in both regional Queensland and South East Queensland. All business customers urgently need information about price paths, transitional arrangements and impacts. It is QFF's view that the TSS has focused on design, rather than modelling the information available to demonstrate real impacts to businesses – something that is particularly critical now.

QFF was very disappointed that the Queensland Government, through the Queensland Competition Authority Report released today[5], has decided not to extend the timing for the abolition of the transitional and obsolete tariffs; despite knowing that the EQ revenue proposal process is significantly behind schedule. Farmers and other businesses need a minimum of 18-24 months' notice of significant changes to business costs, as they sign future supply contracts and make investment decisions in new infrastructure.

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

[5] Queensland Competition Authority (2019). Final Determination on Regulated Retail Electricity Prices for Reginal Queensland for 2019-20.