QUEENSLAND FARMERS' FEDERATION
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Submission

26 April 2016

Mr Chris Pattas
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Dear Mr Pattas,

RE: Issues paper - Tariff Structure Statement proposals

Thank you for the opportunity to provide comments on the AERs Issues Paper on Tariff Structure Statement Proposals.

The Queensland Farmers' Federation (QFF) collectively represents primary producers in Queensland's intensive agriculture industries: sugarcane, cotton, horticulture, dairy, nursery production, chicken meat, flowers, eggs and pork. We also represent local irrigator groups and emerging industry groups such as organics and aquaculture. QFF engages in a range of economic, social, environmental and regional issues of strategic importance to the growth, profitability and sustainability of the sector.

As outlined at the briefing in Brisbane on 13th April QFF has a limited capacity to provide comment on the Tariff Structure Proposals provided by the AER as the impact of the introduction of demand based structures are likely to vary significantly across agriculture sectors and farming businesses with varied farm management systems. In addition there is a lack of data across farming systems regarding patterns of use on seasonal and daily basis to analyse the different demand options.
QFF made submissions to both Ergon Energy and Energex last year in regard to their demand tariff proposals to the AER. These submissions are attached and highlight concerns we have on the introduction of demand based tariffs.
In particular, these submissions make comment on some of the questions raised in the Issues paper including proposals allowing voluntary opt in to demand based tariffs and disadvantages of using times, days and months of anticipated constraints on network assets to set charging windows for demand tariffs.
QFF does not have the data and analysis available to provide adequate advice on other questions raised by AER in this section of the paper including:

- Ergon Energy's proposal to have a minimum level of demand in demand based tariffs instead of a direct fixed charge component
- Advantages and disadvantages of calculating a demand tariff based on a single 30 minute maximum demand period as opposed to the average of the four highest days

- Advantages and disadvantages of incorporating seasonal variations in tariff components

Issues are also raised by AER in regard to the impacts of Queensland tariffs. The following comments are provided:

- There has been no effective analysis undertaken by either Ergon or Energex on the impact of their proposals for the rural sector. QCA undertakes a broad based analysis for each annual tariff setting process.
- As outlined in our submissions to both networks it is not expected that rural consumers will be quick to take up demand based tariffs. At this stage there would be few rural consumers that would have an understanding what demand tariffs were given the confusion and poor transparency of the current tariff setting process.
- QFF does not expect that retailers will be keen to compete in the rural market place which will mean that most of the contact in this sector will remain with Ergon retail.

In regard to transition methods there has not been adequate consultation or time allocated to informing the rural sector about demand tariffs. QCA has implemented a transition program from transitional and obsolete tariffs but this program fails to inform consumers of demand based tariffs as currently being considered by the networks and AER.

The following comments were submitted to QCA in response to their draft Regulated Electricity Prices for 2016-17:

> 'In particular, QFF has reservations about the transitional tariff arrangements which are to be removed in 2020. QCA sees the transitional period as allowing customers sufficient time to transition to standard business tariffs 'and to recoup some of the investments made to suit the level and structure of transitional or obsolete tariffs.'
> This approach fails to take into account that the standard business tariff continues to change through upward movement of costs and the structure of tariffs. As outlined in our submission to the QLD Productivity Commission Inquiry (see attached) farmers are poorly informed about 'transition' to new tariffs. We have transitional and obsolete tariffs but we don't have a transitional program which helps farmers understand their daily and seasonal demand patterns and provides adequate forward cost analysis to help decision making about options for future energy supply.
> Overall, the regulated tariff assessments being conducted by QCA are not cost reflective and are providing no encouragement for the implementation of energy use efficiencies. Hugh Grant from the Australian Energy Regulator's Consumer Challenge Panel continues to question the excessive valuation of assets held by Ergon Energy, Energex and Powerlink which is driving large dividend returns to the Queensland Government.
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> QFF has little further to submit in regard to this determination where there seems to be little prospect of a change of direction in regard to the assessment of annual tariffs. The QCA approach has authorised increases in electricity prices over the past seven years of over 90%. Analysis conducted for this Draft Determination indicates that contrary to recent media statements by both the Premier and the Energy Minister, there is a great risk that electricity prices will be anything but stable over at least the next four years. QFF expects that electricity prices will continue to increase annually to 2020 and beyond. The QCA analysis highlights a range of factors that support this conclusion including:
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> - Costs associated with the need to upgrade meters to suit new tariff options
> - Energy costs are expected to remain volatile
> - Retail cost are expected to increase to cover the costs of introducing more retail competition in rural and regional QLD

- Adjustments that will be required to base regulated tariff assessment on Ergon's costs rather than the Energex cost benchmark
- Delay in achieving the benefits of energy distribution efficiencies expected as a result of tariff reform
- Additional cost increases to fully implement seasonal demand based tariffs
- Likelihood of increased fixed charges in response to declining demand driven by higher electricity costs
- Likelihood that the Qld Government will cap or seek to reduce the annual subsidy paid to maintain tariff protection under the Uniform Tariff Policy

> At this late stage in the transitional process farmers need to carefully consider the likelihood of further annual increases of at least 10% in transitional tariffs to 2020 and beyond. To make a transition under this scenario it would be expected that farmers will investigate their options to reduce their dependency on supply from the grid. QFF questions whether this is the best outcome for a transition electricity tariff program for the rural sector in Queensland. In addition some consideration must be given to the short to medium term impacts that will be felt on productivity in the sector as investment is diverted from production to replacing electricity supply from the grid'.

QFF would propose that the rural sector needs to be better informed about new tariffs and their impacts and costs of alternative supply options. Information restricted to tariffs designed to shift and shape demand must be complemented with information on supply based alternatives that may suit farm development and productivity improvement.

Yours sincerely,

Ruth Wade
CEO