QUEENSLAND FARMERS' FEDERATION

DRAFT DETERMINATION - REGULATED RETAIL ELECTRICITY PRICES FOR 2016-17

20 APRIL 2016

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20 April 2016

Queensland Competition Authority
GPO Box 2257
BRISBANE Q 4001

Dear Sir,

RE: Draft Determination - Regulated retail electricity prices for 2016-17

Thankyou for the opportunity to make a submission on the draft determination.

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.

The QCA is proposing increases in regulated electricity prices for 2016-17 of between 9.3% and 13.6% (flat rate or seasonal time-of-use) for small business customers and 10.2% to 10.6% for large business customers. Further, farmers on transitional and obsolete tariffs face increases of between 10.3% and 11.5% if this draft becomes the final determination in May. The key reasons for these increases are rising energy and retail costs rather than network cost increases which has been the key driver for at least the last five years.

QFF is very concerned about the QCA process for annual tariff setting. We believe that this draft determination will undermine any hope in the farming and business sector that the current process for electricity tariff regulation can drive down costs and promote competition into the electricity sector. It is for that reason that we have suggested that the Queensland Government needs to take action immediately to review the QCA's conduct of the investigations.

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.

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:

- 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.

Yours sincerely,

CEO
Queensland Farmers' Federation