CANEGROWERS
ISIS

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The Chairman
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

electricity@qca.org.au

Dear Sir

Re: draft Determination Regulated Retail Electricity Prices 2014-15

CANEGROWERS Isis is the local organisation representing sugarcane growers supplying the Isis Central Sugar Mill near Childers. The Isis Central Sugar Mill is grower owned and therefore the sugarcane growers, for whom CANEGROWERS Isis acts, have a large investment not only in irrigated primary production but also in manufacturing. The future viability of the Isis sugar industry is dependent on having access to a reliable electricity supply, in peak and off-peak periods, at affordable prices.

QUESTIONS FOR QCA

After reading the Executive Summary, QCA draft Determination Regulated Retail Electricity Prices 2014-15, it is prudent to ask and seek answers to the following questions –

1. Isn't it true that most customers in the Ergon Energy distribution area are unlikely to participate in full retail competition (FRC)?
2. Isn't it also true Ergon Energy customers, paying regulated retail electricity prices (notified prices), are paying prices higher than the prudent cost of generation, transmission and distribution?
3. Isn't it also true that "headroom allowance, retail margin allowance, solar bonus scheme and inflated WACC" are levies, not costs?
4. If QCA is taking customers on a journey to cost-reflective retail tariffs then why add "levies" such as headroom, retail margin, SBS and inflated WACC, instead of setting prices that encourage the retailer to achieve cost efficiency targets?
5. Can QCA answer reasonably that Ergon Energy is interested in achieving efficiency gains based on the current pricing methodologies?
6. Why would Ergon Energy seek efficiency gains when QCA methodology includes costs, efficient or otherwise, and levies (headroom, retail margin, SBS and inflated WACC) in determining the notional price of electricity?
7. What mechanisms are employed to ensure efficiency gains are met?
8. How can QCA justify increases of 16.3% for customers on transitional tariffs when such recommendations bear no resemblance to the Consumer Price Index?
9. How can customers who are reliant on world market prices for commodities, continue to absorb price increases, which have seen the retail price of electricity double in seven years?
10. Does QCA know or care that its draft determinations based on current methodologies are killing off irrigated agriculture in the Wide Bay Burnett Region?

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AFFORDABILITY

This year is a terribly bad year for our canegrower members as we have experienced the driest summer on record. The Weather Bureau's long range models suggest an El Nino event will develop over winter and spring. Despite having access to 100% of water allocations in 2013/14, the 2014 production will be substantially lower than in 2013.

Growers have had to irrigate non-stop through the summer and are now receiving their electricity bills. Dependant on farm size, electricity costs are ranging from $20,000 to $200,000 per farm for the last quarter. The growers have never seen bills as big as these previously. Many growers are asking how they can continue to farm given they have no opportunity to pass-through these horrendous electricity bills which are greatly impacting farm input costs.

The industry rule of thumb is 1ML (megalitre) of water invested produces up to an additional 10 tonne of sugar cane. An analysis of a typical grower's marginal costs can be summed up like this –

Electricity this season has cost him $90/ML or $9/tonne of sugarcane.
Water costs a similar amount $90/ML or $9/tonne of sugarcane.
Harvesting $8/tonne of sugarcane.
Fertiliser $4/tonne of sugarcane.
R&M for irrigation equipment (pumps, motors, winches & hoses) $1/tonne of sugarcane.
Labour to irrigate $2/tonne of sugarcane.
Weed control $2/tonne of sugarcane.
TOTAL cost $35/tonne of sugarcane.

Expected returns @ Sugar Price of $380/t IPS with a 14 CCS is **$34.80/tonne of sugarcane.**

The grower's marginal costs are above his expected returns and the aforementioned costs do not include rates, fuel, R&M other, insurance, interest, living expenses, labour inputs other, etc., etc.

Inflated electricity prices are leading to loss of outputs, not only for the farmer but for the entire economy. In the case of agriculture, the cost of electricity will stop a grower from making full use of irrigation, thereby limiting production and farm income.

Electricity prices are also, in part, being blamed for the closure of manufacturing industries such as Holden, Toyota and ALCOA. Particularly, in ALCOA's case, the cost electricity used in aluminium smelters is the reason why such companies are moving overseas to access cheaper electricity.

We mention the plight of these industries because we do not want our sugar mills and/or our farmers becoming casualties of ever increasing electricity prices.

THE PRICE OF ELECTRICITY IS NOT COST-REFLECTIVE

We have previously submitted, without success, that the electricity prices are not cost-reflective because the calculation contains such things as headroom allowance, retail margins allowance and carbon tax (comprising 17% of price) which are levies, not costs. The Weighted Average Cost of Capital (WACC) is 35% of the current price and the Solar Bonus Scheme is an additional cost, the level of which we are uncertain.

The calculation used to determine the N WACC is flawed. The concept of applying a WACC that would be appropriate for commercial undertakings is not satisfactory. In this case, the N RAB is owned and implicitly guaranteed by the government, thus ensuing there is no equity risk. Therefore, the risk free

cost of debt applied should be the QTC bonds rate. Although it is not part of the R component, we urge QCA to investigate the N WACC with a view to applying Helm's Split Cost of Capital approach, if not for 2014-15 then for the 2015-16 price review.

Network providers are not efficient under the way the WACC is calculated. The more they spend the more they are compensated under the current arrangement. AER & QCA are aiding and abetting these providers to remain uncompetitive. There is no pressure on them to reduce costs.

It is wrong, how many more businesses have to close the doors or relocate overseas before the rules are changed.

The N & R providers are not meeting any performance objectives. There are few competitors so there is little need to be efficient to reduce costs.

QCA should be recommending an investigation into the Network sector to determine the providers' efficiency and prudency of CAPEX, NOT simply adopting the N+R cost build-up approach where the N component is treated as a pass-through.

SOLAR BONUS SCHEME (SBS)

Although the SBS was an initiative of governments, it forms part of the calculation in determining regulated retail electricity pricing and as such we voice our strong opposition to its inclusion as a cost.

QCA has ignored our arguments in the past that the SBS, with its artificially high prices, should not be included in the determination of notified prices by any more than the average cost of normal electricity generation, plus efficient transmission and distribution costs.

Why do our grower members have to pay for the SBS when the scheme was clearly targeted at residential customers. Our members use electricity mostly at night and the electricity they use comes from power stations. It is also unfair because our members cannot participate in the scheme because no solar panel system will reliably supply our pumps at levels required to operate the 37 to 45 kilowatt motors and no electricity storage system can store sufficient power to be utilised at night.

The 44c/kW feed-in tariff for the SBS used in calculating the tariffs for irrigation customers is a subsidy our members are making for the benefit of residential customers. The disproportionate share of the SBS costs borne by irrigators, due to the energy demand required for irrigation, is unjust and delivers absolutely no benefit at all to our grower members.

CONCLUSION

In conclusion, we must say that CANEGROWERS Isis finds this process very frustrating.

The Queensland and Australian Governments in 1970 recognised our area needed to be drought proofed to guarantee sustainable agriculture. Consequently the Bundaberg/Isis Irrigation Scheme was built with the potential to supply 300,000ML of irrigation water annually. Today, the cost of electricity is making irrigation unaffordable.

The marginal cost of producing sugarcane under irrigation exceeds the gross income at current prices. Another 16.3% rise in electricity prices (recommended) is driving our members over the edge. The implications are that we won't have an industry.

QCA is not meeting the objective of cost-reflective pricing in a free-market environment. In a commercial environment the WACC would be quickly competed away to the cost of debt.

We look forward to QCA addressing our questions and providing a response.

Yours faithfully

Wayne Stanley
MANAGER