QUEENSLAND FARMERS' FEDERATION

QFF MEMBERS

CANEGROWERS

Cotton Australia

Growcom

Nursery & Garden Industry Queensland

Qld Chicken Growers Association

Qld Dairyfarmers' Organisation

ASSOCIATE MEMBERS

Queensland Chicken Meat Council

Flower Association of Queensland Inc.

Pork Queensland Inc.

Fitzroy Food & Fibre Association

Pioneer Valley Water Co-operative Limited

Central Downs Irrigators Limited

Burdekin River Irrigators Area Committee

Emerging Primary Industries Groups

- Australian Organic
- Queensland Aquaculture Industries Federation

3rd March 2014

Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001
Email: electricity@qca.org.au

Re: Submission on Regulated Retail Electricity Prices for 2014-15

Thank you for the opportunity to make a submission on the Draft Determination.

The Queensland Farmers' Federation is the peak rural body representing intensive agriculture, which contributes around half of the State's $14 billion in agricultural product. Our members include CANEGROWERS, Growcom (Queensland Fruit & Vegetable Growers), Queensland Dairyfarmers' Organisation, Cotton Australia, Nursery & Garden Industries Queensland and Queensland Chicken Growers Association. Our members are highly dependent on electricity for irrigation, refrigeration and packing operations. QFF provides this submission without prejudice to any additional submissions provided by our members.

QFF does not support the draft determination increase of 16.3% for carbon-inclusive irrigation tariffs (Tariffs 62, 65 and 66) or the increases proposed for tariffs covering on-farm refrigeration and packing. If the carbon tax is removed, a lesser increase of 10% is proposed which is well above actual cost increases. QCA is proposing this 10% cap to prevent an increase in the subsidy involved in continuing with transitional prices. QFF supports QCA's decision not to catch up lost revenue resulting from the imposition of the 10% price cap in 2013-14. However, a 10% increase in 2014-15, which is well above cost increases, is not supported given the impact that increasing electricity prices are having on irrigation demand.

Canegrowers' analysis of the impact of the proposed price increases to date shows a drop in consumption and a resultant drop in revenue from irrigation tariffs. This analysis will be included in their submission. Pioneer Valley Water Cooperative Limited has advised that despite a 50% drop in rainfall for the scheme in October to December 2013, water use has dropped by over 50% compared with use over the same three month period in 2002 when low rainfalls were also recorded. The cost per megalitre of electricity in 2013 is double the 2002 cost.

QCA provides analysis in their report of the potential for customers with transitional tariffs to move to regulated tariffs and further recommends retention of transitional tariffs for the remaining six year term. This decision is supported but QFF is focused on the adverse impact of transitional or regulated tariffs on irrigation farming. The choice for farmers is to reduce irrigation and cope with the risk of potentially significant reductions in productivity or to make significant investments to improve the use of electricity or other energy sources on farm. Either way there is a reduction in demand and in revenue in the short to medium term with resultant increases in electricity prices. The transition periods may not be sufficient to allow farmers to adjust to ‘cost reflective’ tariffs where the costs of modifying practices, systems or machinery to suit the new regime are prohibitive. Furthermore, the practice of releasing tariffs on an annual basis makes effective business planning difficult and informed investment decisions impossible. We would prefer to see a longer window for projections to enable business decisions to be made with confidence.

Also, there is little chance that current trends in electricity prices will change significantly as key cost pressures remain including continuation of the solar bonus scheme, security standards, financial returns to the State Government and inducements for retail competition. In addition, a growing redundancy of assets must be paid for but there is the possibility of a reduction in the weighted average cost of capital in the AER 2015 network review.

QCA currently does not have a brief to investigate the perverse outcomes of increasing electricity prices, such as interactions with other government policies, potentially increasing peak network demand, or driving consumers to switch to more emissions-intensive energy sources for irrigation (e.g. diesel).

The cost of the electricity price increases will be a huge burden for the Queensland agricultural sector, which is already facing diminishing terms of trade and has no ability to pass on escalating costs. The cost rises are a serious threat to the State Government’s plans of doubling of agricultural production by 2040.

QFF supports Canegrowers’ call for a reduction in the retail price of electricity for irrigation tariffs in 2014-15 to encourage greater utilisation of electricity on-farm thereby boosting overall demand and increasing revenue. This proposal warrants urgent investigation by the State Government and QCA.

QFF also recommends an investigation into how investment in energy efficiencies on farm could be rewarded, rather than penalised, to maintain revenue targets. The demand management incentive scheme being investigated by AER as part of the review of Ergon Energy and Energex network costs provides for an allowance for expenditure on improvements in distributer’s revenue allowance for each year of a regulatory period. It is also proposed to compensate distributers for any foregone revenue as a result of demand management initiatives but this proposal will only be developed during the next regulatory period and only if changes are made to national regulatory rules. Also requiring attention is the question about consumer’s willingness to pay for the costs of demand management. In some rural areas there may not be a demand management option available to allow existing irrigation farming to successfully adjust to rising energy costs.

It would appear that rural areas could benefit significantly from improved demand and supply management. Opportunities to defer demand, reduce demand during peak demand periods and provide adequate tariff incentives for off peak use warrant investigation to achieve tariff outcomes that are suited to the irrigation sector. In particular, there are two issues that warrant attention. Firstly, rural areas have developed a significant reliance on electricity supply yet rural electricity networks have very limited capacity. Ergon advises that demand in many of the irrigation areas has reached levels where investigations into additional energy supply and/or alternative demand management options are warranted. In addition, adaptation to increases in regulated pricing will impose significant on-farm infrastructure upgrade costs, for example, in upgrading meters and meter installation.

Secondly, irrigators and water suppliers manage the variability of water supply via on-demand pumping. This is directly linked to the demand for, and supply of, energy including time-of-use and intensity of demand on the network. The relationship between water and energy cannot be overlooked in structuring tariffs.

QFF continues to oppose the approaches developed to encourage competition in the south east including provision for customer acquisition and retention costs and the head room charge. As the implementation of tariff reform shifts to regional Queensland these costs are not justified for rural areas where there is a limited prospect of successfully introducing completion.

QFF is concerned about the growing evidence that increasing electricity costs are forcing farmers to curtail irrigation. There is a substantial risk that this practice will result in substantial crop losses particularly in cane growing areas with the failure of the summer wet season.

For further information related to this submission, please contact QFF Policy Officer Ian Johnson on (07) 3837 4747.

Yours sincerely

D Galligan

Dan Galligan
Chief Executive Officer