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Professor Roy Green
Chairman
Queensland Competition Authority
Level 27, 145 Ann Street
Brisbane, QLD, 4000

By email: electricity@qca.org.au

Dear Professor Green,

CANEGROWERS submission to QCA Regulated Retail Price Determination 2018-19

Thank you for the opportunity to make a submission to QCA's regulated retail electricity price determination review for 2018-19.

CANEGROWERS has worked closely with the QCA, AER, DEWS, Ergon and has engaged expert advice to understand the regulatory pricing framework and the factors driving electricity prices unsustainably higher across Queensland, particularly in Ergon's distribution network. Our objective is to ensure electricity prices are set in a way that provides performance incentives for all in the electricity supply chain to efficiently and effectively deliver electricity to all customers.

We acknowledge and endorse the submission to the review made by the Queensland Farmers Federation (QFF). Like QFF, CANEGROWERS is particularly disappointed at the inappropriately short timeframes to respond to such an important review. A review that will impact the cost of production across Queensland's intensive agricultural industries.

In June 2017, the QCA's revised final retail price determination reflected the impact of the government's decision to remove charges for the Solar Bonus Scheme from network prices, over the three years through to 2019-20. The Queensland government's subsequent decision to direct Stanwell Corporation to undertake strategies to place downward pressure on wholesale electricity prices means the generation (G) component of the regulated retail price QCA determined for 2017-18 is higher than Ergon's actual power purchasing cost. This is delivering Ergon a windfall revenue gain in 2017-18.

CANEGROWERS supports the continuation of transitional tariffs and the application of lower network prices in the calculation of proposed retail tariffs in the Ergon network. However, we have several concerns with the draft determination and ask the QCA to take these into account in making its final determination.

Flawed application of the N+R framework

In its response to the 2017-18 draft determination, CANEGROWERS identified flaws in QCA's application of the Energex network costs to the Ergon network. We also expressed concern that the retail cost allowance provided by QCA is excessive.

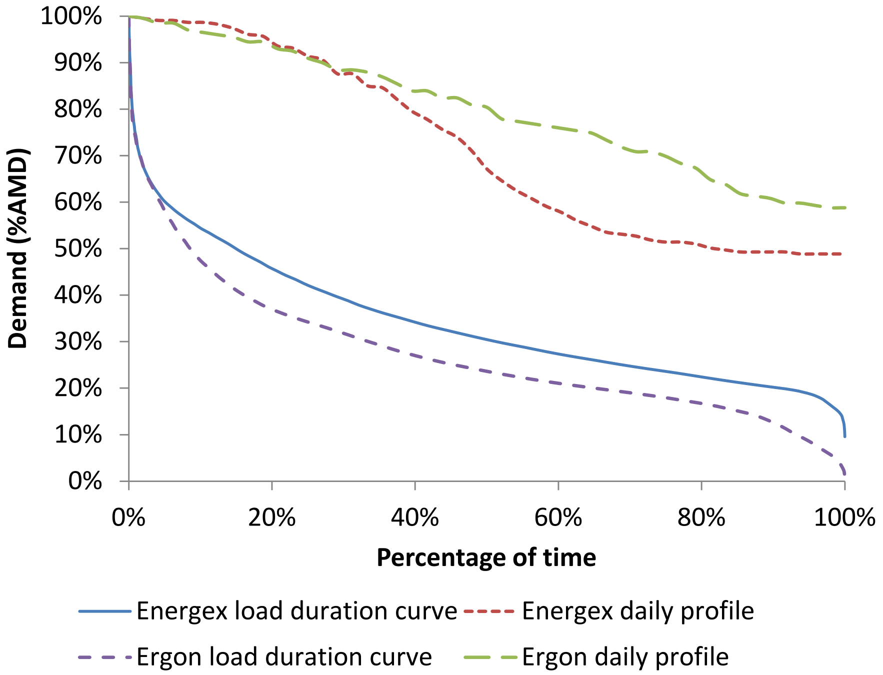
<u>Network</u>

In calculating the underlying cost structure, QCA has taken Energex network costs and applied these to the Ergon network. This process means that no account has been taken of the fact that many of the costs in the Energex area do not apply in the Ergon area. A significant factor is that the Energex load profile is "peakier" than the Ergon load profile[1] (chart). This means that the cost of energy to Energex is higher than that faced by Ergon.

Loading Ergon customers with costs that may exist in the Energex network but do not exist in the Ergon network, as QCA has done in previous determinations, may reduce the cost of the UTP to government. However, it does not promote competition in the Queensland retail electricity market or set a framework for all electricity industry participants that promotes efficient, economical and environmentally sound supply and use and is inconsistent with the network pricing objective (6.18.5(a)), which states:

"The tariffs that a Distribution Network Service Provider charges in respect of its provision of direct control services to a retail customer should reflect the Distribution Network Service provider's efficient costs of providing those services to the retail customer."

Ergon & Energex Load Duration Curves and Daily Load Profiles



Source: Sapere analysis of the Energex and Ergon DAFR and zone substation interval data[1]

CANEGROWERS recommends the QCA calculate prudential costs based on the Ergon NSLP, <u>not</u> the Energex NSLP.

<u>Retail</u>

The ACIL Allen bottom-up methodology supported by benchmarking for calculating retail cost allowance in regional Queensland, carries forward previous excessive retail cost allowances in real terms.

CANEGROWERS raised concerns with the ACIL Allen methodology last year. These concerns remain. The methodology:

i. does not provide a basis for estimating efficient retailer costs under conditions where a large portion of observed electricity prices incorporate substantial "residues", or excess

[1] Sapere Research Group (2017), Evaluation of electricity distribution tariff structure proposals submitted by Ergon and Energex, report prepared for CANEGROWERS, September.

margins, over and above efficient retail costs. It amounts to incorporating non-existent costs in notified prices.

ii. includes significant competition costs (customer acquisition and retention costs) that are in fact not incurred by Ergon Retail, where retail competition is not viable and does not occur for <100MWh customers.

In the preliminary report for its Retail Electricity Pricing Inquiry the ACCC also expressed concern over the adverse impact of excessive retail costs and margins on electricity prices. To this end, CANEGROWERS understands the ACCC is gathering cost information from retailers. It is scheduled to report to government on 30 June 2018.

The onus should not be on consumers to provide evidence that retail margins are too high. It is the role of the regulator to determine the costs of providing retail service and have these reflected in retail prices.

Before making its retail price determination for 2018-19, CANEGROWERS recommends QCA liaises closely with the ACCC to develop a full understanding of electricity retail costs and margins.

Retail prices in SEQ are below Standing Offer prices

The government's objective in endorsing the 50/50 joint venture between the government owned CS Energy and Alinta Energy to supply electricity to residential and small commercial and industrial customers within the Energex distribution area was to lower retail electricity prices in south-east Queensland by stimulating competition.

Alinta Energy and CS Energy have built a significant customer base from the new arrangement and, with other retailers responding to the competition, the deal is delivering retail prices up to 25% below the standing offer price to customers across the Energex network.

That CS Energy and Atlinta Energy continue to be profitable under the two-year deal shows that the generation and retail costs QCA uses to set Ergon prices are far too high, significantly overstating efficient costs.

CANEGROWERS recommends QCA take account of the Queensland government endorsed retail price offerings in SEQ and applying the uniform tariff policy deliver the same retail price outcome across the Ergon distribution area.

Large-scale Generation Certificate (LGC) prices

In the determination for 2017-18 QCA increased the allowance for LGCs in its prices by a punitive 49.9%.

The methodology relied on by QCA appears to assume Ergon retail is a marginal retailer with no long-term offtake contracts in place and no investments in renewable energy capacity. In the context of the Queensland government's policy push towards renewables it is likely that an efficient prudent retailer, such as Ergon Retail, with evergreen customer contracts would actively manage this exposure by being long on investment with respect to renewables.

As CANEGROWERS foreshadowed in its response to last year's draft determination, the allowed LGC price increase does not take account of Ergon's management of its Large-scale Renewable Energy Target (LRET) and Small-scale Renewable Energy Scheme (SRES) certificates and is delivering windfall trading gains to Ergon at the expense of consumers.

CANEGROWERS recommends the QCA calculates the LGC component of prices based on the behaviour of an efficient long-term incumbent retailer.

Conclusion

The large increases in electricity prices over the past decade has significantly outstripped the price increases that have occurred in other sectors of the economy. In the trade exposed agricultural sector, it is not possible to pass the associated cost increases on to consumers and, with narrow operating margins, farmers are struggling to absorb the increased costs. They are responding by making investments in energy saving or alternative generation technologies. These behind the meter investments, although a rational response to the adverse electricity price environment are not in all circumstances economically efficient and detract from other investments directed at improving on farm productivity and the efficiency of farm operations.

As the ACCC notes, electricity price increases have diminished the international competitiveness of Australian business over the past decade. To stop this bad situation becoming worse we recommend the QCA consider the points raised in this submission.

Yours faithfully

Dan Galligan
Chief Executive