



QUEENSLAND FARMERS' FEDERATION

Primary Producers House, Level 3, 183 North Quay, Brisbane QLD 4000
PO Box 12009 George Street, Brisbane QLD 4003
qfarmers@aff.org.au | 07 3837 4720
ABN 44 055 764 488

Submission

15 January 2018

Professor Roy Green
Chair
Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

Online submission: www.qca.org.au/submissions

Dear Professor Green

Re: Interim Consultation Paper – Regulated Retail Electricity Prices for 2018-19 (Queensland Competition Authority, December 2017)

The Queensland Farmers' Federation (QFF) is the united voice of intensive agriculture in Queensland. It is a federation that represents the interests of peak state and national agriculture industry organisations, which in turn collectively represent more than 13,000 primary producers across the state. QFF engages in a broad range of economic, social, environmental and regional issues of strategic importance to the productivity, sustainability and growth of the agricultural sector. QFF's mission is to secure a strong and sustainable future for Queensland farmers by representing the common interests of our member organisations:

- CANEGROWERS
- Cotton Australia
- Growcom
- Nursery & Garden Industry Queensland (NGIQ)
- Queensland Chicken Growers Association (QCGA)
- Queensland Dairyfarmers' Organisation (QDO)
- Burdekin River Irrigation Area Irrigators Ltd (BRIA)
- Central Downs Irrigators Ltd (CDIL)
- Bundaberg Regional Irrigators Group (BRIG)
- Flower Association
- Pioneer Valley Water Cooperative Ltd (PV Water)
- Pork Queensland Inc.
- Queensland Chicken Meat Council (QCMC)
- Queensland United Egg Producers (QUEP).

QFF welcomes the opportunity to review and provide comment on the Queensland Competition Authority's (QCA) 'Interim Consultation Paper – Regulated Retail Electricity Prices for 2018-19, December 2017' (consultation paper). QFF provides this submission without prejudice to any additional submission provided by our members or individual farmers.

The united voice of intensive agriculture



QFF represents Queensland's intensive agricultural industries. Businesses across this sector use energy (including grid electricity) for irrigation, forced-air and hydro-cooling, medium and long-term refrigerated storage of fresh produce, the production of hot water, on-site food processing and packaging, milking, through to heating/cooling and ventilation essential for animal welfare. There are also energy requirements used in the ancillary activities and support operations for primary agriculture including, but not limited to, offices, worker accommodation, motor-vehicle workshops and the production of organic and inorganic fertilisers.

Timeframes

The timeframe provided to review and provide submissions on the consultation paper is not appropriate and disappointing. The delegation was signed on 18 December 2017 and received by the QCA on Friday 22 December 2017. Critical stakeholders such as QFF, only received notification by email after close of business on 22 December 2017 – the day most businesses closed for the Christmas period.

The interim consultation paper states that “Public involvement is an important element of the decision-making processes of the Queensland Competition Authority (QCA)”. Most offices/organisations had a mandatory shut-down period between Monday 25 December 2017 and Tuesday 2 January 2018, with many key personnel extending holidays after this time.

Given the complexity of the issues discussed in the consultation paper and levels of stakeholder concern, a consultation window of 10 working days over a holiday period is poor. As such, QFF has not been able to secure input to, or review of this submission by its members which directly represent over 13,000 intensive agricultural producers across Queensland.

2017 in review

QFF was encouraged by the focus on electricity prices during 2017. This focus included a significant number of studies and reviews of available data, all of which concluded that electricity prices are unsustainable. However, to date, there has been no definitive action to deliver much needed price relief and/or apply downward pressure on electricity prices.

The Energy Security Board

The Energy Security Board published its first Health of the National Electricity Market Report in December 2017. This follows recommendations made by Dr Finkel in his independent review into the future security of the NEM published in June 2017.

The Board reported *‘that the National Electricity Market (NEM) is not in the best of health. The three immediate symptoms are:*

- ***electricity bills are not affordable***
- *reliability risks in the system are increasing; and*
- *future carbon emissions policy is uncertain.*

The Board also noted that retail electricity prices have increased by about 80–90 per cent in real terms over the last decade and that affordability is a major concern. Customers report ‘bill shock’ and in the ‘last two years electricity costs have doubled, or in some cases trebled for business customers’.

The Australian Competition and Consumer Commission (ACCC)

The ACCC's Retail Electricity Pricing Inquiry: Preliminary Report, tabled in October 2017, stated that **'Australia has an electricity affordability problem'** and that **'price increases over the past ten years are putting Australian businesses and consumers under unacceptable pressure'**.

The ACCC report concluded that **'network costs were proportionally more significant in Queensland (and NSW) than other states'** and **'network revenue increased the most in Queensland (and NSW), peaking respectively at 200 per cent (in 2015) and 190 per cent (in 2013) relative to 2006 revenues'**.

Furthermore, Queensland and South Australian customers experienced a continuous increase in network costs from 2007-08 to 2014-15 while between 2015-16 and 2016-17, **NEM spot prices increased by 60 per cent in Queensland (which was the highest increase)**.

In its report, the ACCC also noted the effect that large generators can have on a market, illustrating the Queensland Government's direction to state-owned Stanwell Corporation in June 2017 to offer more capacity in the NEM and alter its bidding strategies to put downwards pressure on wholesale prices. Thirty-seven per cent of electricity dispatched in Queensland in 2016-17 was generated by Stanwell Corporation.

The intervention achieved immediate impacts in the market. Before the direction to Stanwell Corporation, futures contracts for the 2017-18 summer months in Queensland were trading at around \$120 per MWh. Following the direction to Stanwell Corporation, those futures prices dropped to around \$100 per MWh and have remained consistent since.

Review of the consultation paper

Transitional Arrangements

QFF notes that the Queensland Government has committed to the transitional and obsolete tariff classes (in particular, T62, 65 and 66) until 2020 – so it is disappointing to see the QCA consultation question seeking responses regarding the potential premature removal of these tariffs in 2018-19 (see p. 20).

QFF strongly supports continued access to the transitional and obsolete tariffs for all Ergon/Regional customers. These tariffs continue to provide the best-value option for many businesses. On-farm (level 2) audits conducted over the past two years as part of the Energy Savers Program have continued to identify that the transitional and obsolete tariffs are preferential over other available tariffs. Audits have also recommended that several agricultural businesses move onto the transitional tariffs, after identifying financial savings. Details of these audits and subsequent reports, including auditor recommendations, are available upon request.

QFF maintains the importance of preserving these tariff classes beyond 2020 and does not agree with the Queensland Government's position that the transitional period for current irrigation and small business tariffs should not be extended beyond 2020.

Research and tools to assist irrigators and small businesses currently using transitional and obsolete tariffs is nascent at best; and targeted media around their impending removal has not commenced.

QFF and its members have been actively working with the former Department of Energy and Water Supply and Ergon to collect data and develop tools to permit businesses to make an informed transition to other tariffs post 2020. However, this work has been delayed by Cyclone Debbie, regulatory issues (such as categorisation of CT meters), inadequate mobile phone coverage, as well as limits set by Queensland Treasury to the size and design parameters of the trial program. As a result, data and analysis from this trial (171 smart meters to inform farmers of when and how they are using electricity plus nine tariff participants) is only now being collected and will not provide sufficient insight across seasonal and climatic patterns to provide the required insight or business confidence.

Businesses need more time to transition from the transitional and obsolete tariffs and Ergon Retail require more time to analyse the available data and design suitable future tariffs.

Outcomes

QFF reiterates its deep concern about the implementation of current and future electricity prices. We consider that the process for electricity price reform is flawed and needs a complete review. QFF continues to question the QCA process for annual tariff setting. We believe that ongoing annual determinations will continue to undermine investment confidence within the agricultural and rural business sector.

Electricity prices in Australia are higher than overseas jurisdictions¹, disadvantaging commodity exports on the global market and leaving agricultural producers heavily trade-exposed. As Queensland's electricity costs rise, the viability of intensive agriculture is being eroded.

For example, Queensland agriculture is the second largest user of water and has the second largest number of irrigated agricultural businesses in Australia. Considering sources of agricultural water, Queensland is the largest user groundwater and recycled/recaptured water resources. The amount of energy and, in turn, the financial cost of using these sources of agricultural water is higher than utilising surface waters.

Irrigation electricity tariffs in Queensland have risen over 136 per cent over the past decade (Attachment 1), and post-2020 this rise will be unsustainable with the withdrawal of these specific, 'non-cost reflective' (and thus transitional) irrigation tariffs. Electricity is fundamental to our economy and way of life, so it is important to note that over the same 10-year period, CPI increased by just 24 per cent.

There are about 42,000 electricity connections for businesses in regional Queensland. Almost a third of regional business connections are on eight different tariffs classified as transitional or obsolete. Almost half of connections are for agricultural purposes².

The impacts of rising electricity prices are clearly eroding Queensland's irrigation sector, with a growing number of primary producers switching to dryland farming practices as the price of electricity has already become unsustainable for many businesses. Queensland is experiencing a steady decline in the number of irrigation businesses (Table 1) as well as reducing productivity across the sector.

¹ CME (2012). Electricity Prices in Australia: An International Comparison. A Report to the Energy Users Association of Australia. Carbon and Energy Markets, March 2012.

² Queensland Productivity Commission. (2016). Electricity Pricing Inquiry 2016. Chapter 10: Rural and Regional Industries – Transitional and Obsolete Tariffs.

Table 1: Summary of Agricultural Water-Use Statistics for Queensland, Australia (Davis 2017 – data from various ABS sources)³

	2015-16	2014-15	2013-14	2012-13	2011-12	2010-11	2009-10
Area of holding (ha)	127,550,908	135,917,925	139,932,697	129,548,236	137,239,082	139,834,696	129,667,586
Number of agricultural businesses irrigating (no.)	5,416	7,622	7,461	6,685	7,572	8,023	9,402

Farmers are modifying their practices to adjust to water availability and climatic conditions as above-average temperatures and dry conditions in Queensland persist, along with increasing high prices for water and the electricity to pump that water. These are critical factors not only in water use and crop selection, but also in the ‘decision to plant’. This includes ‘selling off’ water allocations to recoup costs rather than cropping in a potentially ‘bad year’.

Queensland is experiencing increasing climate variability. We must therefore address electricity prices for irrigation, processing, animal welfare etc. if we are to ensure economic sustainability for Queensland’s intensive agricultural sector, and take advantage of agricultural expansion opportunities that will realise increased exports and ensure future food security.

According to the Australian Energy Regulator, there were 698 small business disconnections by Ergon Retail (regional Queensland) in 2016-17 – a substantial increase in the 384 disconnections recorded in 2015-16. Some of these disconnections have been agricultural and related businesses who could not pay their electricity bill. Irrigators’ decisions to utilise irrigation and therefore use electricity are driven primarily by crop water requirements and regulation governing water access (for example, water licencing conditions which may be based on specific times of the day through to flood levels in a riverine system). Due to these constraints, irrigators often have limited flexibility in their electricity use and cannot respond to different electricity price signals, such as peak versus shoulder electricity rates.

In response to price increases, farming businesses, including irrigators, have been installing energy efficiency measures and renewable energy, and in many cases simply reducing demand. Much of these gains have been diminished by the increasing electricity costs, whilst simply reducing demand has also come at a cost either through reduced productivity or farmers simply choosing not to plant a crop.

Many farmers are now weighing-up options to ‘switch-off’ efficient irrigation technologies or leave the grid, taking opportunities in advancing technologies and their reducing costs. However, due to irrigation demands, through to the need for continuous power to refrigerate produce, some have already installed hybrids of renewables and new diesel generation as they transition key infrastructure off grid. While diesel presents an attractive option given its relatively low-cost and high-reliability, there is future uncertainty on how diesel may be impacted by Australia’s obligation to manage carbon. This also leaves a legacy for those customers who are unable to leave the grid and may have to pay increasing costs into the future, thus compounding negative outcomes.

³ Davis, G. (2017). The Climate Change-Energy-Water Nexus and Its Impacts of on Australia’s Farming Sector. *The Impact of Climate Changes and Environmental Pollution on Our Life: The Question of Sustainability*. Eds. Albanaser Omran.

Additions to the Gazette Notice

QFF supports the addition of the EasyPay Rewards Scheme into the Gazette Notice. QFF is eager to determine if the scheme provides any real benefit for small customers, particularly non-residential small business customers. QFF has received feedback from the current Agricultural Trial and directly through its members that the eligibility terms and conditions are inappropriate for many farmers.

Farmers have fluctuating energy demand based on crop needs, growing seasons and climate factors coupled with non-regular cash-flow. As such, many farmers do not want to pay their bills monthly, fortnightly or weekly and there is little benefit to accept bill smoothing. For those farmers with significant electricity bills, there may be financial benefit to paying quarterly and maintaining cash flow.

Telecommunication services taken for granted in the cities are not the reality experienced in regional parts of the state. There are still significant black spot areas across regional Queensland so the mandated option for receiving bills electronically is flawed and immediately discriminates against those on remote properties or in black spot areas. It is worth noting that these properties are also unable to have smart meter and modem technologies installed so there are risks associated from estimated/potentially inaccurate billing.

Overall, the value proposition for signing up to the EasyPay Rewards Scheme (\$120 annual reward amount paid retrospectively) to a small irrigator with an annual electricity bill in excess of \$80,000 is limited.

If you require any further information regarding this submission, please contact Dr Georgina Davis at georgina@qff.org.au or on (07) 3837 4727.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Travis Tobin', written in a cursive style.

Travis Tobin
Chief Executive Officer