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Attention: Queensland Competition Authority

Re: Response – 2019-20 Draft Determination
2019 -20 Regulated Electricity prices for Regional Queensland

The Invicta Cane Growers Organisation (ICGO) appreciates the opportunity to present feedback to the Queensland Competition Authority (QCA) in relation to changes to regulate electricity prices for regional Queensland. Through participating in the Townsville consultation we identified a number of significant concerns and issues in relation to changes to this process. The sugar cane industry is facing a number of major adjustments to fixed pricing from different agencies that impact on electricity, irrigation and other processes. Each of these changes has the potential to cause major industry issues especially in relation to the cost of doing business and capability to produce product. ICGO on behalf of member growers in this region has been advocating for a considered and realistic approach to any changes along with a whole of Government awareness of these impacts. The QCA is currently considering these changes along with a major irrigation Price review for SunWater.

ICGO seeks to participate in any consultation process and provide a realistic snapshot of how a consistent focus on change is impacting local growers. The following issues have been identified through a review of the draft determination and recent participation in the Townsville stakeholder consultation process.

1. Current Tariffs

The majority of electricity costs associated with sugar cane growers in this region relates to irrigation. Currently tariffs 62, 65 and 66 are in place and are due to expire next year. During the recent consultation it was identified there is no replacement for these tariffs. Growers in this region will experience significant hardship if these tariffs are not replaced before expiry.

ICGO has provided in Appendix A to this submission a recent analysis on the cost of doing business for growers. In this analysis it is evident that electricity is a major component to irrigating and operations for cane growers. An analysis of this financial information indicates that any major increase in pricing will result in hardship and the potential for growers to move off grid and seek alternative sources of power. This increase has the potential to make farming operations under viable in this region. ICGO requests that the QCA review this financial analysis when undertaking this determination.

Replacement tariffs are required before the expiry of current arrangements. These tariffs are necessary to ensure that a cost-effective and efficient process is applied for all growers in this region. As indicated in Appendix A any increase in pricing is a concern to our organisation and members.

2. Off Grid Power Loading

A change in pricing regulation for irrigators in this region will result in a large number of growers utilising an off grid system. This can be achieved through solar, generators or other current systems currently available. There is the potential for growers to move off grid during the day and return to the grid at night. This will result in significant fluctuations in load and usage for this region. Previous experience in other locations indicates when this occurs the network struggles to meet requirements and often results in blackouts or brownouts. The use of off grid sources of power will result in an unstable power network for providers.

3. Watering Systems

Current systems in place with SunWater are for a 24 hour water ordering system. The QCA anticipates this process will continue. However a change in electricity tariffs may result in growers shifting to a 12 hour period for watering during the night. The current ordering system results in a steady draw on power from the grid. A change in this process will result in a significant draw over a 12 hour period. This will have impacts on the network and the capability to supply rural and regional customers with reliable and consistent power. Growers will seek to make changes based on the cost of electricity and most efficient method for utilising irrigation.

4. Water Overflow

An additional issue associated with compressing systems to 12 hours is the potential for overflow. This may result in a waste of water with excessive amounts provided within small periods. Water will run off into local creek systems and not be used efficiently.

5. Inefficient Network Usage

In the event that growers move off grid electricity suppliers such as Ergon Energy will have underutilised assets. Energy targets will not be met and result in an inefficient operational model. This has the potential to result in increased pricing to recover costs. Any additional capital costs will be passed on to users resulting in an increase in overall electricity pricing. As evidenced in Appendix A below any major increase in fixed cost for the supply of sugar will have a negative effect on growers and industry.

ICGO is an impartial and independent organisation committed to representing growers that deliver sugar cane to the Invicta Mill. Our organisation advocates on behalf of growers in this region as an important component to ensuring a fair and equitable platform through which our members can deliver their product. We put forward this submission to the QCA and seek to demonstrate a practical and relevant analysis of growers in this region.

In addition to the information provided above ICGO seeks to be included in any further consultation processes. We have advocated on behalf of growers in this region for a number of major changes to fixed pricing and can provide to the QCA an important perspective on the overall impact of these processes on our members.

ICGO appreciates this opportunity to put forward this information and looks forward to further discussion on how we can work collaboratively with Government to deliver outcomes.

Yours faithfully,

Michael Kern
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Enclosed:
Appendix A – Financial Analysis

Appendix A – Financial Analysis

Background

Invicta Cane Growers Organisation Ltd (ICGO) approached a number of cane growers from a variety of locations throughout the Burdekin Haughton region. From this process 12 growers volunteered to participate in the analysis based on the opportunity to maintain confidentiality of commercial in confidence financial information. The 12 participant growers had an aggregate tonnage of 260,000 tonne of cane produced representing approximately 8% of the annual Invicta Mill crush. The average tonnage produced per grower was 21,650 t. This number of participants represents 16% of the membership for ICGO.

For the purposes of this analysis the region has been separated into two distinct areas. Growers located within the Giru Benefited Area and the growers located outside of this area however within the Burdekin Haughton region. All growers selected are members of ICGO and supply sugar to the Invicta Mill. Participation in this analysis was voluntary.

Confidential data utilised as part of this analysis was gained from profit and loss statements as prepared for the year ending 2018 by accounting firms on behalf of each enterprise. Further information was gathered directly from growers around crop inputs. Additional information was sourced from the growers' production statements provided by Wilmar. Incorporated within this financial analysis are the following parameters:

- Expenditure and income data was analysed on a dollars per tonne produced basis
- Breakeven cost versus income was identified on the cost of production and income based on $380 per tonne of sugar and each individual farms' relative CCS
- Nominal value for salaries and wages was allocated based on $70,000 per owner unit of labour and $60,000 per unit of employee labour
- No allocation was made to principal debt reduction, capital expenditure and taxation including GST
- Nominal value of debt per enterprise was based on $50 per tonne, interest only at a rate of 6% per annum

The above statistical parameters were derived based on an aggregate between all 12 samples. This places the financial analysis on a production and income basis for sugarcane sold on the world market.

Summary

This overall summary provides an analysis of the financial viability and profitability of growers in this region based on current pricing. The data developed as part of this process is utilised as a baseline to further assess and analyse sensitivity to pricing fluctuations in any fixed pricing.

1.2.1 Aggregate: All participant Growers	**$/T**
Breakeven point:	$40.51
Income:	$37.79
Return:	($2.72)
	(Deficit per tonne produced)

Figures based on sugar price of $380 per tonne at an average 14.8 CCS units / 12 grower participants. Irrigation water cost averaged at $4.71 per tonne or 12% of the total cost. When electricity (pumping) is included the irrigation cost is calculated at $7.38 or 18% of total costs and 20% of income.

1.2.2 Giru Benefited Area (GBA) growers	**$/T**
Breakeven point:	$39.88
Income:	$35.74
Return:	($4.14)
	(Deficit per tonne produced)

Figures based on sugar price of $380 per tonne at an average 14.2 CCS units / 6 grower participants. Irrigation water cost averaged at $3.25 per tonne or 8% of the total cost. When electricity (pumping) is included the irrigation cost is calculated at $6.13 or 15% of total costs and 17% of income.

1.2.3 Aggregate: Other Growers	**$/T**
Breakeven point:	$41.17
Income:	$39.84
Return:	($1.33)
	(Deficit per tonne produced)

Figures based on sugar price of $380 per tonne at an average 15.4 CCS units / 6 grower participants. Irrigation water cost averaged at $6.17 per tonne or 15% of the total cost. When electricity (pumping) is included the irrigation cost is calculated at $8.63 or 21% of total costs and 22% of income.