



# CANEGROWERS

190 Edward Street (GPO Box 1032)  
BRISBANE QLD 4001  
T: 07 3864 6444 F: 07 3864 6429  
E: [enquiry@canegrowers.com.au](mailto:enquiry@canegrowers.com.au)  
W: [www.canegrowers.com.au](http://www.canegrowers.com.au)

8 November 2012

John Hall  
Chief Executive Officer  
Queensland Competition Authority  
GPO Box 2257  
Brisbane QLD 4001

By email: [electricity@qca.org.au](mailto:electricity@qca.org.au)

Dear Mr Hall

## **Regulated Retail Electricity Prices 2013-14**

Thank you for the opportunity to make a submission to QCA's 2013-14 Electricity Price Determination inquiry.

Like most regional and rural electricity users, CANEGROWERS and its members are very concerned about rapidly escalating electricity prices. Driven by a poorly designed and failing electricity price framework that rewards over investment in networks and discourages an efficient approach to demand management, network costs and electricity prices are spiralling higher.

### **Recommendations**

CANEGROWERS recommends:

1. The removal of headroom in notified electricity prices for agricultural users on Ergon's distribution system.
2. The introduction of network tariff structures that recognise agriculture's contribution to base load and off-peak power use and place the burden of increased network investment to meet critical peak demand on those users that drive the peak.
3. QCA draws attention to the shortcomings in Queensland's electricity regulatory framework and recommend an approach that requires Energex and Ergon to meet binding productivity targets for the distribution and transmission of electricity.
4. Retention of agricultural irrigation tariffs.
5. Transitional arrangements for agricultural irrigation tariffs be extended until Ergon and Energex adjust and harmonise their network tariff structures to include provision for agriculture.
6. Demand management structures be strengthened through the introduction of worthwhile tariff differentials for peak and off-peak use.
7. The development of structures that enable all agricultural irrigation enterprises to remain on small business time-of-use tariffs.

### **Effect of QCA Price Determinations on QLD Retail Electricity Retail Price Competition**

In rural and regional Queensland there is very little, if any, competition in the retail electricity market. Outside south-east Queensland, with Ergon the network operator and sole retail supplier, users pay the QCA notified price under each tariff line.

In regional Queensland, the headroom QCA allows on notified prices to provide opportunity for retail competition becomes an additional charge faced by users unable to benefit from effective price competition. Without effective competition, the headroom for competition

QCA allows in its price structure results in higher prices and revenues for Ergon than would otherwise result.

### **N+R Cost build up**

The Ministerial Delegation states in paragraph 5 of the terms of reference that “QCA must use the Network (N) plus Retail (R) cost build up methodology”, where N is treated as a pass-through and R is determined by QCA.

With these words, the Ministerial Delegation heavily constrains the range of prices that QCA can determine. Although so constrained on prices, the Ministerial Direction and terms of reference do not constrain the QCA’s lines of inquiry or ability to identify shortcomings in Australia’s electricity regulatory framework that mean electricity prices will be higher than necessary. Term of reference 4, enables QCA to “have regard to any other matter that QCA considers relevant”, in making its determination.

Flaws in the regulatory process that must be identified include:

- i. Rules that require the Australian Energy Regulator (AER) to accept any “reasonable” network investment proposal and where amendment is necessary to make the “minimum amendment necessary” to enable investment proposals to be approved.

Because what constitutes “reasonable” covers such a wide canvass, these rules effectively reduce the AER’s role to that of a “rubber stamp” approving network investment proposals. The rules do not increase the network’s economic efficiency.

- ii. Rules that guarantee network service providers an inflated rate of return on their investments in the name of “competitive neutrality”.

Although able to borrow at favourable rates through the Queensland Treasury Corporation, Ergon and Energex are able to price their network investments on the basis of a weighted average cost of capital (WACC) that reflects the cost of borrowings, notional tax status and investment risks they would face if operating in a competitive market. As state owned natural monopolies, they do not face competition from the private sector in the provision of network services. In these circumstances, application of competitive neutrality principles adds costs without delivering additional benefits.

- iii. Rules reward inefficiency rather than drive productivity improvements.

Current network charges reflect the behaviour of a monopoly supplier manipulating the regulatory framework within which it operates. Network efficiencies are lower and costs higher than a well regulated system designed to mirror the service standards, cost structures and price level would deliver.

The regulatory framework must require Energex and Ergon to meet binding productivity targets for the distribution and transmission of electricity.

The combined effect of this regulatory failure is inefficiency in service delivery, high operating costs, over investment in infrastructure and, through higher prices, a series of very significant transfer payments from electricity users to Government.

The regulatory framework as applied to Queensland’s electricity sector has failed the state economy. The benefits do NOT outweigh the additional costs.

### **Uniform Tariff Policy and “Obsolete Tariffs”**

The N + R cost build up framework combined with the government’s uniform state tariff policy introduces another flaw into the regulatory pricing framework and highlights the need for greater coordination between Energex and Ergon in the development of their network tariff schedules. The Energex network tariff structure used by the QCA in its 2012-13 price determination does not include agricultural irrigation tariffs. Without a network tariff to base its price determination on, QCA ruled the irrigation tariffs obsolete.



From a user's perspective, agricultural irrigation tariffs are NOT obsolete. These tariffs are popular amongst irrigators and are widely used. Their deemed obsolescence reflects a failure of the regulatory framework, not a lack of commercial value in the agricultural irrigation tariff.

### **Transitional arrangements**

Recognition in the terms of reference of the need to retain transitional arrangements for so called obsolete tariffs is welcome.

Electricity for agricultural irrigation water use provides both base load and off-peak network use. It does not contribute to the network's critical peak load. CANEGROWERS is working closely with Ergon and Energex to have this recognised in both company's network tariff schedules and overcome this failure of the regulatory framework.

### **Time-of-Use (TOU) pricing**

CANEGROWERS is a strong advocate for tariff structures that recognise primary producer usage patterns (base load and during off-peak periods, principally for crop irrigation) and the important role worthwhile tariff differentials for peak and off-peak use have in network demand management. A strength of the current terms of reference is that it requires QCA to take account of the impact time-of-use tariffs might have on network demand management. This will enable QCA to investigate and differentiate between core network use (base load and off peak such as agriculture) and critical peak use (a major driver of network investment).

TOU pricing is essential for demand management if lowest generation and transmission costs are to be achieved. Appropriate metering is already in place for existing agricultural irrigation tariffs. The original design of irrigation tariffs was to maximise use of off-peak power and in this respect the tariffs were ahead of time. They can't be regarded as obsolete, as network demand management is more important today than it was when the irrigation tariffs were first established.

Establishing a worthwhile price difference between peak and off-peak use would recognise the import role demand management plays in an efficient electricity market. Irrigation pumps provide both base load and off-peak network use. They do not contribute to the network's critical peak load.

### **Large users**

The 100MW threshold used to differentiate between tariffs for small and large businesses is arbitrary and does not make adequate allowance for irrigation operations which must cope with seasonal changes. For larger irrigation farms electricity use can, in recent drought years, use more than 100MW. For these users, Ergon is seeking a switch shift to large business tariffs. Such a shift switch would bring substantial cost increases and no access to time of use tariffs.

QCA could consider the impact of the threshold on agricultural irrigation users under terms of reference 4, 5.b and 5.e(ii).

### **In pursuit of productivity**

In the highly competitive world sugar market, prices are not determined on a regulated cost reflective basis. Cane growers and the sugar millers they supply do not have an ability to pass cost increases onto final consumers. Unless offsetting productivity gains can be achieved, all input price increases flow directly to the growers' bottom line, reducing income and profitability throughout the industry. This exacerbates the combined effect of the commodity price downturn and currency appreciation on producer incomes.

To enable the sugarcane industry to compete internationally it is important that regulated prices are set at the level that would result from the forces of a competitive market. Such a price outcome would be consistent with the Australian Government's agricultural policy and the Queensland Government's long term vision of doubling food production by 2040.

Current network charges, reflecting the behaviour of a monopoly supplier manipulating the regulatory framework within which it operates, are far higher than the prices a competitive market would deliver.

A revised regulatory framework that requires greater coordination between Energex and Ergon in the development of their network tariff schedules and both demand and supply factors to be considered in the electricity price determination process will contribute to more efficient price outcomes.

Yours sincerely



Warren Males  
Head-Economics