CANEGROWERS
Isis

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The Chairman
Queensland Competition Authority
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electricity@qca.org.au

Dear Sir

Re: Draft Determination
Regulated Retail Electricity Prices 2013-14

CANEGROWERS Isis is the local organisation representing sugarcane growers supplying the Isis Central Sugar Mill near Childers. The Isis Central Sugar Mill is grower owned and therefore the sugarcane growers, for whom CANEGROWERS Isis acts, have a large investment not only in primary production but also in manufacturing. The future viability of the Isis sugar industry is dependent on having access to a reliable electricity supply, in peak and off-peak periods, at affordable prices.

Opening Comments

While accepting the Authority has followed the Delegation and Terms of Reference in arriving at the draft determination for regulated retail electricity tariffs (1 July 2013 to 30 June 2014), CANEGROWERS Isis disputes most strenuously the Authority's finding that a 17.5% increase in irrigation tariffs is necessary.

We cannot accept the notion that a 100% increase in Year 1 was warranted if the obsolete irrigation tariffs were immediately moved to an alternative cost-reflective tariff. Further, we do not accept the proposal of seven (7) years is the timeframe that customers on Irrigation Tariffs 62, 65 and 66 could transition to cost-reflective Tariff 22. Our growers hope to recoup the investment in irrigation infrastructure over 30 years.

CANEGROWERS Isis questions why prices need to be cost-reflective, given that electricity is a government utility.

If the Authority cannot be convinced to alter the draft determination and the 17.5% increase stands, together with the foreshadowed move to cost-reflective tariffs will result in the sugar industry entering a death spiral. Once that process starts then the flow-on effect will have catastrophic repercussions for regional sugar towns and Queensland as a whole. This is not just make believe stuff, this is reality.

The costs of complying with the Queensland Government's Solar Bonus Scheme and the 44cents/kwh feed-in tariff should not be a component of electricity prices borne by consumers. The Solar Bonus Scheme as an initiative of the Queensland Government was to encourage people to transition to renewal energy for climate change/environmental benefits. To make distributors and ultimately electricity consumers responsible for all the costs of the Solar PV scheme is simply bad policy. The Authority should be challenging bad policy that deliberately shifts responsibility for the cost of government initiatives i.e. the Solar PV scheme that have obviously become oversubscribed back onto the distributors as a pass-through to consumers, when the generation cost of electricity is 6.7 cents/kwh.

Likewise, the provision of allowances such as Headroom and CARC has no validity in this determination. In 2012-13, the Authority introduced an allowance to act as an attractant to encourage more retailers into the market in the hope of driving down prices. For consumers serviced by Ergon Energy, there is no guarantee that this will happen. The suggestion that notified prices must be kept high to encourage (force) customers to exercise market choice and seek out the best deal in the competitive market is nonsense. The allowance for headroom therefore is nothing more than a subsidy to current retailers and should be abolished.

The move away from long established night-time irrigation tariffs to new cost reflective tariffs, envisaged by the Authority when setting notified prices annually, will ultimately lead to the collapse of farming operations due to the unaffordability of electricity for irrigation. As marginal costs increase, production will fall and the viability of the farm, the sugar mill, service providers to industry, employment, and the regional economies become questionable.

Network Costs

CANEGROWERS Isis is greatly concerned over the valuations (and what is valued) placed on the transmission and distribution network asset base. Some of these network assets were paid for by rural (remotely located) customers over a 30-year timeframe. Not all current assets are new, a lot are old and we have no idea how the valuations are set. A further complication of the current system is the higher the asset is valued, the greater the return generated in Queensland for Powerlink, Energex and Ergon Energy.

Given the rate of return is set at 9.7% of the weighted average cost of capital, this number is much greater than the current Government Bond rate or the Reserve Bank official cash rate of 3%. Therefore, it begs the question why is the ROR set at such a high number.

These N costs have been estimated to represent around 50% of the final cost of electricity as a straight pass through to customers.

The ROR on assets is to provide for the opportunity cost of capital, i.e. the value foregone for the next best alternative. We do not believe that it should be included in the Network costs. The electricity grid is an essential part of the nation building programme that this country has engaged in for generations. The wealth created is taxed by both state and federal governments, which provides a return on their initial funding. There are many types of government expenditure for which ROR is not considered appropriate. Public health, education, law and order, defence, etc. are regarded as being necessary for civilised society to function but without electricity none of these services are possible in today's world. Hence there are no opportunity costs as there is no alternative due to the State's inability to function without electricity. ROR cannot be regarded as a legitimate cost. If these N entities were set up to mimic private enterprise to operate on a commercial basis only the actual borrowing costs would be applied.

CANEGROWERS Isis also has a problem with the consumption forecasts, as we believe these forecasts are over optimistic that leads into over investment in the network and therefore generates greater dollar returns on that investment. There is an incentive to be over optimistic but no penalty to address over optimism or over investment.

Most of Queensland's irrigation schemes were established a long time ago and we suggest there hasn't been any further capital investment in infrastructure to supply electricity for irrigation in over two decades. When this infrastructure was installed irrigators were required to sign guarantees giving certainty to Ergon Energy that they would recover the cost of such infrastructure. There was no risk to Ergon Energy.

We refer to Clause 6.1 of the draft determination, in particular, the quote "*The Queensland Government suggested that anticipated future decreases in network charges could allow for a smoothed price path, thereby enabling larger increases to be postponed to the end of the Delegation period.*" While the Authority was referencing the re-balancing of Fixed and Variable Charges in Tariff 11, the same applies equally to Irrigation Tariffs where someone has decided to make obsolete irrigation tariffs cost-reflective.

We believe the government was referring to the 7 recent and on-going reviews and the uncertainty over how much the level and structure of notified prices may have to change over the next several years. It is not inconceivable that the level and structure of network charges could change to such an extent that any price path set by this determination may 'over' or 'under' shoot the eventual cost-reflective tariffs after completion and implementation of these reviews. Any over payment now will never be recouped by consumers in future price determinations.

We suggest that price increases should be quarantined for the first 3 to 5 years of a 12-20 year transitional arrangement.

Finally on this matter, we simply say that high electricity costs will make irrigation unaffordable, leading to sustainability issues for primary producers dependent on remaining competitive in the world market environment. The consequence of high electricity prices will be stranded assets for both the network and farmers in irrigation areas.

Head Room Allowance

CANEGROWERS Isis says as there is no competition outside South East Queensland the inclusion of a headroom allowance (5%) is irrelevant and should not be included in setting prices of retail tariffs. It is an extra cost for the consumer and extra revenue for the retailer that is not justified. The QCA acknowledge *"an explicit allowance for headroom in notified prices provides a "free kick" for those retailers with large numbers of non-market customers, and supposedly those customers able to access a market contract can avoid this additional cost".* Deliberately inflating notified prices as a measure to encourage (force) customers to exercise market choice and seek out the best deal in the competitive market cannot be justified. This is just another cost impost borne by consumers that is simply not acceptable.

Transitional Period

CANEGROWERS Isis suggests the transitional period of 7 years for customers on the purportedly obsolete tariffs to move to the alternative cost-reflective tariffs is too short a timeframe. A transitional timeframe of 12 to 20 years will be necessary to allow primary producers time to invest in the necessary capital infrastructure to move to the replacement tariffs and recoup the cost of that investment over this timeframe.

Farmers have made large capital investment in irrigation infrastructure that suits their operations at the lowest cost utilising the time-of-use tariffs offering lower charges for night-time (off-peak) use. In fact, in the Isis cane supply area the entire irrigation scheme including both government and grower-owned assets were designed, commissioned and operate on these (obsolete) off-peak tariffs. The capital infrastructure must be capable of delivering maximum volumes of water to meet crop water requirements within a 12-hour timeframe at night to help equalise the demand across the network.

Some innovative farmers have been experimenting and making heavy capital investment in irrigation system change. For example, an Isis grower recently spent in round numbers $400,000 converting from high pressure water winch to low pressure Centrepivot irrigation on two-thirds of the farm. Converting the whole will cost an additional $200,000. He made these changes before becoming aware of the changes in electricity pricing announced by the Authority.

The Authority, by making existing irrigation tariffs obsolete and by providing a timeframe of 7 years only to move to an alternate cost-reflective tariff, has left the grower wondering if he has invested his money for nought.

Primary producers who have invested in infrastructure based around the previous tariffs need time to adjust before the proposed tariff changes impact negatively their bottom line. An adjustment (transitional) period of a minimum of 12 but up to 20 years would allow for a smooth transition from the current infrastructure to more energy efficient infrastructure, which as you can imagine will require a whole-of-farm change involving extensive capital investment.

Solar PV

The inclusion of the Solar PV rebate scheme in the calculation of electricity pricing is bad policy and must be removed from the Authority's determination. The Solar PV system is a Queensland Government environmental matter and not one to be funded by electricity consumers.

The government set the rebate and set it high to encourage participation in the scheme. We do not believe the participation rates achieved were anticipated and we do not accept that electricity consumers should pay. There is no economic argument you can mount to charge electricity consumers for bad government policy.

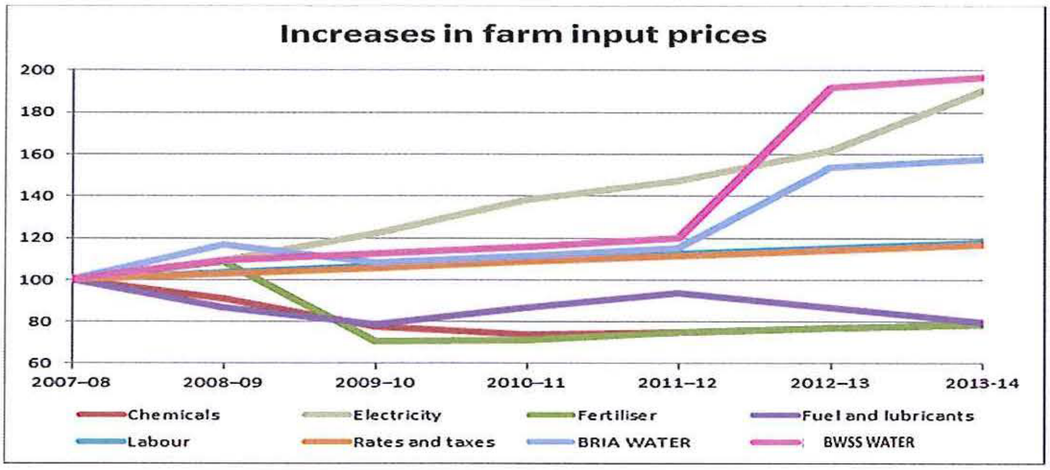
CANEGROWERS Isis supports a move away from fossil fuels to renewable energy, but the inclusion of the cost of both the Solar PV scheme and Carbon Tax in the Authority's determination results in a double whammy for electricity consumers.

The Authority must remove all costs (including network and generation costs) associated with the Solar PV scheme from the pricing determination to lower the price of electricity for all consumers. The Solar PV scheme as a government initiative should be funded by government like, for example, the Federal Government's Home Insulation Scheme or the Queensland Government's Climate Smart Home Service.

Sugar industry survival threatened

In trade exposed industries like sugar, the capital write down that the network owner should be absorbing is being passed back to electricity users. The higher the costs go the greater the risk of forcing a reduction in electricity consumption. For irrigated agricultural crops (e.g. sugar) any reduction in electricity usage means lower production is achieved hence lower levels of farm income. Next season, because farm income is lower, the farmer finds he has to cut back further on electricity expenditure, which means a further reduction in farm production and income and so on. It's the beginning of the death spiral for the sugar industry

The following table displays the increase in farm input prices, including electricity prices, over six years and shows a comparison in the range to some other farm costs, which cane growers have to absorb. Clearly the two highest commodities are those that the Authority is responsible for (electricity and water).



Australian cane growers need to remain competitive within the global sugar market. Our growers are price takers and do not have any opportunity to pass through cost increases and therefore have to absorb them. The world market price is currently around cost of production and prices greater than CPI cannot be absorbed.

In conclusion

The Authority through its determination is trying to have us accept that the underlying costs are accruing at around 14% per annum. There is nothing else in the Australian economy that accrues at this rate. It is absurd therefore to suggest that the notified prices recommended in the Authority's determination are sustainable. Electricity prices at these levels will damage the State and regional economies.

Australia already has the second highest electricity charges in the world behind Denmark. The Authority's new tariff pricing determination comes on the heels of a 90% increase in electricity charges over the last 7 years.

There are too many snouts in the trough and a whole new fresh approach to setting electricity prices in Queensland, and indeed Australia is urgently needed.

On behalf of our cane grower members we urged QCA to take into consideration growers' capacity to pay.

We trust that the Authority will examine the matters raised in this submission. We are willing to be consulted in the future to ensure our members receive the required consideration.

Yours faithfully

[redacted]

Wayne Stanley
MANAGER