18 January 2016

BUNDABERG REGIONAL IRRIGATORS GROUP
REPRESENTING MEMBER IRRIGATORS IN THE BUNDABERG IRRIGATION AREA

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Chair
Queensland Competition Authority
Level 27, 145 Ann St
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By email: Electricity@qca.org.au

Dear Sir

BRIG Submission to QCA Regulated Retail Electricity Prices for 2016/17

The Bundaberg Regional Irrigators Group (BRIG) was established to represent irrigators in the Bundaberg district across a range of commodity groups including sugar cane, grain and horticulture. We are a member of the National Irrigators Council (NIC) and the Agriculture Electricity Taskforce.

BRIG members farm on approximately 36,000 hectares and use an estimated 1,100 irrigation pumps and associated distribution systems to irrigate a variety of crops in the Bundaberg Regional Council area. A significant percentage of these systems (circa 90%) are powered by electricity.

We would like to again acknowledge and thank the QCA for their invitation to provide another submission on the Regulated Retail Electricity Prices.

Rapidly rising electricity prices are having a severe impact on the costs faced by our members and irrigated agriculture in general. Many irrigators have turned off their pumps and seen production plummet, while households and small business have cut their budgets to the bone or simply run up debt.

Right now, rural and regional Queensland is in crisis as a result of electricity prices.

The electricity pricing system is clearly broken. The balance between fair electricity prices and profits is well and truly non-existent.

It is simply outrageous that 30% of the retail price is now required to meet the networks return on assets.

These returns far exceed those of Australia’s best-performing ASX50 entities, despite Ergon being a “zero risk” business.

It is also the least efficient distributor in Australia’s National Electricity Market (NEM).

A 33% reduction in the 2015/16 gazetted tariffs is not only possible, but absolutely essential for Queensland’s future prosperity.

The pricing system for Queensland's electricity system is flawed and broken.

We note that the QCA must accept the N component in the N + R build-up as allowed by the AER for Ergon and Energex and the only discretion available is whether ERGON's or ENERGEX's N charge is used. We also acknowledge that the N component is in the vicinity of 50% of an irrigator's electricity bill.

We would like to draw the following to QCA's attention:

> Since 2009 we have recorded the world's highest increases in electricity prices.
>
> We are now paying 93 per cent more than we were in 2009 (CPI increase over this period was 15.0 per cent) **for exactly the same service and level of reliability.**
>
> It is clear that the electricity price increases are adding significantly to the cost of irrigated agriculture and is destroying demand for electricity.
>
> The escalation of the size of the RAB is the main cause of the escalation of electricity prices.

We would appreciate QCA's consideration of this when referring to "cost reflectivity".

We would also suggest that the QCA investigate the impact of the Queensland Energy Companies who are gaming the system to maximise their profitability. We point to **www.afr.com,** Tuesday 20 October 2015 Energy regulator bans false bidding (Copy Attached Annex 1).

"Australia's electricity system now has an installed asset base, well in excess of requirements." Hugh Grant

The Regulated Asset Bases (RABs) - the valuation of the electricity networks' past investments, are grossly inflated due to unnecessary and inefficient investments, and a flawed asset valuation methodology.

Australian electricity consumers are already funding a significant level of "stranded assets".

The networks receive guaranteed returns on their past investments (RABs) - returns which are currently driving around 70% of their prices.

*Whilst the recent regulatory rule changes have provided the AER with marginally more power to scrutinise future "gold plating", they do **not** allow the AER to address **past** gold plating.*

To seriously address Australia's unsustainable electricity prices it is imperative that the networks' Regulated Asset Bases (RABs) are re-valued to more appropriate levels" ***("Hugh Grant's Submission to the Senate Inquiry into the Performance and Management of Electricity Companies, December 2014")***

It is BRIG's view that the manner in which the RAB is managed is a classic case of the sunk cost fallacy.

That is, the continued inefficient use of resources so that previous resources allocated to an inefficient decision are not wasted.

"We were asked to advise on the design of a tariff applicable to irrigators in Australia" Bruce Mountain CME

Please find attached a report prepared by Mr Bruce Mountain of CME for the National Irrigators Council. (Copy attached Annex 2)

Whilst the report covers all of the NEM States there is considerable data and information on Ergon and Queensland that we hope will be of assistance to QCA.

We specifically requested Mr Mountain to design a generic tariff applicable to irrigators in Australia. This is outlined on pages 8 & 9 of the report. Mr Mountain has suggested that peak rates should only apply for limited intervals and no longer than 3 hours. This period of time is sufficient to signal the cost of peak demand and therefore make tariffs cost reflective. An unnecessarily long peak period is counterproductive as it limits the options available to consumers to respond positively. Furthermore the resulting tariff structure cannot be said to be cost reflective.

Mr Mountain's advice on demand charges is also critical for agriculture. Irrigators make complete use of every off peak hour. However irrigation is not required every day and so demand charges can result in steep increases in electricity costs.

Ensuring that the peak window is no wider than necessary and using volumetric charges rather than demand charges will go a long way towards delivering a much more equitable outcome for irrigated agriculture.

Network investment over the past decade has been driven by urban and industrial demand, not the needs of irrigators. Truly cost reflective pricing would take account of the different pressures different user groups place on the network.

The 44c solar feed in tariff has created massive cross subsidisation between those who receive it and those who don't.

How this charge is collected is entirely at the discretion of the Queensland Government. In a move that has largely gone unnoticed the solar bonus scheme charge has doubled from 2014/15 following a decision to collect two years worth of costs rather than one. The solar bonus scheme now makes up a massive 9% of our retail bill.

QCA has previously recommended that it would be appropriate to fund this from general revenue.

WHAT CAN QCA DO TO ASSIST

- Recommend a rule that would enable irrigators, and all farmers, who are large users of electricity, to be a separately classified class of customer alongside business and households;

- Recommend implementation of volume based food and fibre tariffs, reflecting agricultural power use patterns on the network in terms of base load and off-peak use and including worthwhile time-of-use incentives for agricultural businesses during off-peak periods and over weekends;

- Recommend revaluing the regulated asset base of network businesses to remove the impact of historic over investment from the underlying cost base;

- Recommend promotion of increased competition in the electricity market (Allocation of CSO to the network);

- Recommend funding the SFIT from general revenue.

In conclusion we do not wish to have irrigated agriculture leaving the grid, however, current prices are too high to continue to sustainably use grid delivered electricity for sugarcane irrigation.

Unless electricity prices are reduced by at least 33% we are in danger of having dams full of water and no one able to afford to draw on them.

Please call should you require further information or clarification.

Yours sincerely

Dale Holliss
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