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Professor Roy Green
Chairman
Queensland Competition Authority
Level 27
145 Ann Street
BRISBANE QLD 4000

By email: electricity@qca.org.au

Dear Professor Green

Draft Determination - Regulated Retail Electricity Prices for 2016/2017

Reference is made to the Authority's Draft Determination Report of Regulated Retail Electricity Prices for 2016/2017 released March 2016.

We advise our organisation represents sugar cane growers in the Burdekin. We have confined our comments to the irrigation tariffs.

Having regard to the Draft Determination we make the following comments.

Increase of Transitional Tariffs

We note the QCA's draft decision on transitional tariffs, in particular Tariffs 65 and 66, prescribes an increase of 10.3%, which the QCA notes is in line with the increase recommended for standard business tariffs and includes *"an escalation factor of 1.1 to limit charges for transitional and obsolete tariffs falling further below cost in dollar terms."*

The QCA's opinion that transitional tariffs are well below cost appears incongruous with the following statements made by the QCA in its draft determination:

1. 92.1% of customers would experience less than a 10% increase if they changed from Tariff 66 (a transitional tariff) to Tariff 22A (refer to Table 13 page 49).
2. 73.9% of customers would experience less than a 10% increase if they changed from Tariff 65 (a transitional tariff) to Tariff 22A (refer to Table 13 page 29).
3. Approximately 38.5% of Ergon Retail's customers would experience a reduction in cost of electricity if its customers changed from Tariff 65 to Tariff 20 (refer to Figure 23 page 80).
4. Approximately 61% of Ergon Retail's customers would experience a reduction in cost of electricity if its customers changed from Tariff 65 to Tariff 22A (refer to Figure 24 page 81).
5. Approximately 51% of Ergon Retail's customers would experience a reduction in cost of electricity if its customers changed from Tariff 66 to Tariff 20 (refer to Figure 26 page 82).
6. Approximately 73% of Ergon Retail's customers would experience a reduction in cost of electricity if its customers changed from Tariff 66 to Tariff 22A (refer to Figure 27 page 82).

Thus, the QCA's statements supports the proposition that the majority of irrigators would pay less if they changed to Tariffs 20 or 22A or limited to an increase of less than 10%. Consequently, there is no evidence to support the QCA's contention that the irrigation tariffs are below cost and warrant an escalation factor.

Retention of Transitional Tariffs for 7 years

We remain of the view that the transitional tariffs (previously referred to as obsolete tariffs) should be retained for longer than the remaining 4 years.

The Authority's rationale for retaining the transitional tariffs for only 7 years (from 2013) was based upon the Australian Taxation's Office's depreciation schedule for irrigation pumps of 12 years and an assumption was made that the period of depreciation was already running (ie the irrigation pumps were purchased within the preceding 5 years) and the QCA determined that an arbitrary 7 years was therefore reasonable.

However, we are of the opinion that the QCA understated, or failed to appreciate, the following in its decision making process:

1. An irrigation pump is not replaced merely because the irrigation pump can no longer be depreciated for tax purposes. It is not unusual for irrigation pumps to be utilised for periods up to 20 years.

2. The above is supported by the Queensland Department of Primary Industries (as it then was) published manual for primary producers (1977) which stated that the working life of a pump and motor was in the order of 15 years.

3. There is substantially more infrastructure than just the irrigation pump used to irrigate sugar cane. Depending on the capacity and age of the power pole, transformer and meter, changing the irrigation pump and motor often entails also upgrading, or moving the location of, the power pole, transformer and meter. This is at considerable expense to the grower. From enquiries we have undertaken, Ergon Energy has been charging growers in the vicinity of $10,000 and $20,000 to relocate a power pole and upgrade the transformer and meter.

4. Further, the capacity of ancillary infrastructure, such as pipes, may need to be replaced to be able to utilise different pumping capacities.

5. A small grower who grows approximately 10,000 – 12,000 tonnes of cane will utilise between 5 and 8 pumps to irrigate the whole of his/her farm. Often all pumps are on the same tariff. Very few growers have the financial resources to alter the whole of their irrigation infrastructure in the remaining life of the transitional tariffs (ie 7 years).

6. The Authority's Draft Determination Report for Regulated Retail Electricity Prices 2012-13 (refer to page 83 of the report) made the rather bold and questionable statement that Tariff 66 had to increase by some 337% to be cost reflective. This raised the false innuendo to the State Government that irrigators were paying little, if anything at all, for electricity (which we refute). We note with interest that the Authority has not made similarly bold statements in the current Draft Determination Report. We remain of the opinion that the Authority's methodology has been flawed and must be reviewed.

The QCA's premise for making the irrigation tariffs obsolete was that they were significantly below being cost reflective. We reiterate that the QCA's statements do not support this contention. Thus there should be no impetus to remove the irrigation tariffs.

Electricity is an essential service

Electricity is an essential service and the QCA noted that an objective of the *Electricity Act 1994* was to set a framework that promotes economical electricity supply. Irrigation tariffs have literally doubled over the last eight to nine years. However, there seems to be little incentive for Ergon to reduce its cost structure where there is a hundred percent cost recovery from its customers. The QCA has, in its draft determination, failed to give consideration to the issue of whether the cost structure has become uneconomical for industry and consumers. What strategies are going to be implemented to ensure that the cost of electricity does not double of the next eight to nine years? The QCA's draft determination is silent on this issue.

It is incumbent upon the Queensland Government to ensure that primary producers in regional Queensland are financially viable. The structure of electricity tariffs (N + R) must be reviewed to ensure that the cost of electricity is not prohibitive to the operation of primary production in regional Queensland.

Please do not hesitate to contact the writer should you have any queries regarding the contents of this correspondence.

Yours faithfully
PIONEER CANE GROWERS ORGANISATION LTD

Julie Artiach
MANAGER