CANEGROWERS

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Mr Charles Millsteed
Chief Executive Officer
Queensland Competition Authority
GPO Box 2257
Brisbane QLD 4001

Via email: charles.millsteed@qca.org.au

Dear Mr Millsteed

Regulated retail electricity prices: 2020–21

Thank you for the opportunity for CANEGROWERS to comment on the draft decision the Queensland Competition Authority (QCA) issued as part of its regulated retail electricity price determination 2020–21.

Representing around 75 per cent of Australia's sugarcane growers, CANEGROWERS is the peak body for the industry in Australia. The Queensland sugarcane industry relies heavily on irrigation. The cost of the electricity used in that task is threatening the international competitiveness of farmers in our industry and in other agricultural industries across the state.

CANEGROWERS is also an active member of Queensland Farmers' Federation (QFF) and endorses the concerns raised by QFF in its response to the draft decision.

Like QFF and many others, CANEGROWERS is deeply concerned about the approach QCA has adopted in relation to Energy Queensland's revised Regulatory Proposal and Tariff Structure Statement 2020-25.

For the reasons outlined below, in making its final regulated retail price determination for 2020-21, ***CANEGROWERS calls on QCA to:***

1. ***Report a suite of cost reflective agricultural tariffs and to ensure those notified prices do not exceed the equivalent Default Market Offer (DMO) prices for residential and small business customers for 2020-21 published by the AER on 30 April;***
2. ***Pass on reductions in network and energy charges to all tariffs including the so called transitional obsolete tariffs, capping these tariffs at 16c/kWh, 8+8 (N+R);***
3. ***Revise its cost of energy calculations to take account of the sharply lower global cost of energy;***
4. ***Calculate cost-reflective retail tariffs based on the actual network cost savings embedded in Energy Queensland's TSS;***
5. ***Make the proposed load control tariffs available as both primary (standalone) and secondary tariff options from 1 July 2020;***

6. ***Take account of irrigators' ability to pay when determining final retail electricity prices for regional Queensland;***
7. ***Remove jurisdictional charges from the cost base on which the retail margin is calculated; and***
8. ***Recommend to the Queensland Government that the SFIT scheme continue to be funded from general revenues.***

Cost reflective tariffs

Recognising that the timing of decisions made by the Australian Energy Regulator (AER) may present some challenges to the QCA's usual timeframe for the determination of regulated retail prices, the delegation provides QCA with flexibility 'in terms of both timing and price setting methodology to manage this risk'. The delegation makes specific mention of obsolete tariffs and the new (network) tariffs being proposed by Ergon to the AER that are more suited to the needs of those customers than standard business tariffs. The delegation also makes specific mention of the government's commitment 'to delivering lower electricity bills'.

Despite this clear direction and Energy Queensland's close work with the agricultural sector to develop a suite of network tariffs suitable for the development of a suite of retail electricity tariffs designed to meet the needs of Queensland's food and fibre producers, it is disappointing that in preparing the DRAFT Determination QCA has chosen not to report an indicative retail tariff schedule based on the revised Tariff Structure Statements (TSSs) Energy Queensland submitted to the AER in December 2019 for both its Energex and Ergon Energy networks. CANEGROWERS has received a briefing from senior officials in both AER and Energy Queensland that QCA has been advised of the AER's support, subject to certain caveats, of the revised Energy Queensland TSSs. We also understand that the reductions in network tariffs are likely to exceed the X-factor used by QCA in its draft determination.

With so much uncertainty surrounding electricity pricing, the QCA's publication of an indicative schedule of retail tariffs for agricultural use from 1 July 2020 would have been informative ahead of the final retail price determination.

In making its final determination, CANEGROWERS calls on QCA to report a suite of cost-reflective agricultural tariffs and to ensure those notified prices do not exceed the equivalent Default Market Offer (DMO) prices for residential and small business customers for 2020-21 published by the AER on 30 April.

Price reductions for all – except agriculture

Recognising the decline in wholesale energy costs, a forecast of significant reduction in environmental costs and a reduction in network tariffs, AER set DMO prices for south-east Queensland for 2020-21 ranging from 3.9 to 6.0 per cent below those set for 2019-20.

In its draft determination, QCA reports an expected reduction in network and energy costs to result in a reduction in retail tariffs for small business of between 4.8 and 6.7 per cent for 2020-21.

In contrast, QCA has left prices for so-called obsolete tariffs, including agricultural tariffs (T62, T65 and T66), unchanged despite the forecast reductions in cost and the establishment by Energy Queensland of network tariffs to support the development of cost reflective retail tariffs that recognise agriculture's energy use across the state.

Retail electricity prices for agriculture in regional Queensland should be no more than 16c/kWh, being 8c/kWh for the network and 8c/kWh for the retail component.

CANEGROWERS calls on QCA to pass on reductions in network and energy charges to all tariffs including the so-called transitional obsolete tariffs, capping these tariffs at 16c/kWh, 8+8 (N+R).

Energy costs

The Australian coal and energy sector has seen the cost of electricity generation fall sharply since the onset of the COVID-19 pandemic. This reflects global reductions in prices for oil, coal and LNG as consumers and businesses modify their behaviour. Occurring since ACIL-Allen has prepared is cost of energy report, this new price environment is not reflected in the draft determination.

CANEGROWERS calls on QCA to revise its cost of energy calculations to take into account the sharply lower global cost of energy.

Network prices

In its draft determination QCA has chosen to use a price indexation approach to determine the N component for existing small customer retail tariffs, applying the AER's nominal X-factor adjusted by the Energex specific CPI, rather than proposed network tariffs. The QCA approach is flawed because it does not:

- take account of the significant work Energy Queensland has undertaken with customers to reduce costs and to develop and design new network tariffs;
- reflect the significant reduction in network charges contained in the Energy Queensland's revised TSS, nor does it take account of the further reductions in network costs flowing from the reductions in interest rates that have occurred since December 2019.

Taken together, the cost reductions and lower interest rate environment will result in a sharp reduction in both the transmission and distribution elements of the N component of cost-reflective retail tariffs. The reduction is likely to be larger than that allowed for in the X-factor approach.

CANEGROWERS calls on QCA to calculate cost-reflective retail tariffs on the basis of the actual network cost savings embedded in Energy Queensland's TSS.

Load Control Tariffs

CANEGROWERS work with Energy Queensland, discussions with the AER, meetings with the Queensland Government and successful trials of a control load tariff in agriculture indicate there is widespread support for the permanent introduction of such tariffs as both primary (standalone) and secondary tariff options from 1 July 2020.

We understand QCA has been made aware of this development and received the full terms and conditions of the proposed new load control tariffs since the publication of the draft determination. With the uncertainties removed, there is no apparent reason for the QCA to delay the introduction of the new tariffs for both large and small customers from 1 July 2020.

Energy Queensland sees value in the use of a control load tariff across its Ergon network because it will help optimise supply at an affordable level, particularly where it has dynamic load control capability.

CANEGROWERS calls on QCA to make the proposed load control tariffs available as both primary (standalone) and secondary tariff options from 1 July 2020.

Ability to pay

World sugar prices are at their lowest levels in several years. The adverse sugar market conditions can be attributed to two main factors:

1. The price depressing impact of subsidised surplus sugar production in India receiving further subsidies to be exported.
    - India's sugar subsidies are in violation of its WTO commitments. With full industry support, the Australian government together with Brazil and Guatemala is challenging the validity of India's sugar subsidies in the WTO. The COVID-19 pandemic has delayed that case and a result is not expected until the second quarter of 2021.
2. The price depressing impact of the COVID-19 pandemic.
    - The principal impact has been demand destruction for oil, ethanol and sugar as a result of 'stay-at-home' policies and a price collapse for each commodity. The sugar market impact has been exacerbated by the weakening of Brazil's currency, low demand for ethanol which is causing a dramatic switch in Brazil's production mix from ethanol to sugar.

The combined effect is that in the sugar industry, irrigators' capacity to pay is also at its lowest level in several years and many irrigators are looking for and investing in alternatives to grid supplied electricity.

In accordance with the QCA Act, CANEGROWERS calls on QCA to take account of irrigators' ability to pay when determining final retail electricity prices for regional users.

Retail costs

QCA calculates a fixed component and a variable component to the calculation of retail costs. The variable component is calculated as a percentage of variable N+G charges. The inclusion of jurisdictional charges in the variable cost base on which the retail margin in regional Queensland is calculated will deliver a small windfall gain to retailers at the expense of consumers.

CANEGROWERS calls on QCA to remove jurisdictional charges from the cost base on which the retail margin is calculated.

Solar bonus scheme

Electricity consumers across Queensland continue to be disadvantaged and the international competitiveness of Queensland's traded goods sector impaired by the reinstated requirement to finance Queensland's solar feed-in tariff (SFIT) scheme from network revenues.

In accordance with the QCA Act, CANEGROWERS calls on QCA to identify and draw to the Government's attention the negative impact the requirement to finance Queensland's SFIT from network revenues has on Queensland's irrigated agriculture sector's ability to pay and recommend to the State Government that the SFIT scheme continue to be funded from general revenues.

Conclusion

The uncertainties in Energy Queensland's regulatory proposal and TSS for 2020-25 are now largely resolved. Senior AER officials have briefed CANEGROWERS and Energy Queensland officials on the broad parameters of its forthcoming decision.

Enabling the sugar and other agricultural industries across the state to build on their underlying strengths, invest and expand their activities within a stable, business-enabling policy framework is the best way to drive the economic growth and the development of rural and regional Queensland. This is even more important as Queensland emerges from the economic impact of COVID-19 control measures.

The decisions CANEGROWERS is calling on QCA to make in its final price determination will provide lower retail electricity tariffs and much needed policy certainty from 1 July 2020.

Yours faithfully

Dan Galligan
Chief Executive

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