CANEGROWERS
Suite 701, Level 7
201 Charlotte Street
T 07 3864 6444 **F** 07 3864 6429
GPO Box 1032 Brisbane Qld 4001

Queensland Cane Growers Organisation Ltd
ABN 94 089 992 969

14/04/2023

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

Lodged: www.qca.org.au/submissions/

Dear Mr Millsteed

Regulated Retail Electricity Prices for 2023-24

Thank you for the opportunity to provide input to Queensland Competition Authority's (QCA's) draft paper for the Determination of Regulated Retail Electricity Prices in regional Queensland for 2023-24.

Queensland Cane Growers Organisation Ltd (CANEGROWERS) is a not-for-profit public company with the sole purpose of promoting and protecting the interests of sugarcane growers since inception in 1925.

Representing over 70per cent of Australia's sugarcane growers, CANEGROWERS is the peak body for the sugarcane industry. With 13 district offices in Queensland, our strong regional presence ensures that services and advocacy are provided in local communities as well as at the highest levels of industry and government decision-making.

CANEGROWERS is also a member of Queensland Farmers' Federation (QFF) and endorses QFF's concurrent response to the Queensland Competition Authority's (QCA) draft determination.

In making this submission, CANEGROWERS is cognisant of the limited powers that the QCA has over the underlying policies which govern the pricing mechanism that the QCA is charged with administering. The most common response to proposed changes, critiques, and comments in submissions is that these are not within the scope of the review nor within the framework for setting notified prices. Similarly, for comments related to network charges, the traditional response has been that QCA cannot alter network tariffs. The QCA is also unable to exert any influence on customer affordability as notified prices are modelled on the cost of supplying customers in SEQ and applied in accordance with the Uniform Tariff Policy. Therefore CANEGROWERS is increasingly frustrated along with our other agricultural stakeholders at the time, and expense of engaging in a process where no organisation takes ownership for solutions. Despite this, CANEGROWERS will continue to participate in this process in order to include our views on the public record and to ensure concerns and needs of growers who rely heavily on affordable energy are heard. In doing so, we join QFF in voicing our concerns that increasing prices in electricity and water will have on the agricultural sector whose farmers are generally price-takers, and also in requesting that QCA seeks direction from the government to extend the scope of review, for meaningful consultation with stakeholders.

Queensland sugarcane industry context

Over 85% of the sugar produced in Queensland is exported. Unlike many of our global competitors we are unsubsidised and fully exposed to the fluctuations in the world sugar market. The Queensland sugar industry relies heavily on irrigation. Electricity used in that task is a major input cost that affects the international competitiveness of irrigators across the sugar industry and in other agricultural industries across the state. The profitability of sugarcane can vary depending on a range of factors such as weather conditions, crop yields, input costs, and market prices. With electricity accounting for approximately 20% of the direct growing cost (before harvesting costs) for an irrigated producer, profitability can be heavily affected by tariff levels, as well as the suitability of tariffs to operational requirements. This can be exacerbated in seasons impacted by El Nino conditions, such as that which is forming in the current season.

Business viability risk extends beyond individual farmers. As sub-economic properties fall out of cane production, the viability of the mill itself is challenged since the milling cost is affected to a large degree by the total volume of cane crushed. Once the minimum threshold has been reached it can be extremely difficult to recover. The most recent example of this has been the closure of the Maryborough mill. While not directly attributable to energy costs (many factors had eventually led to the reduction of cane supply), this is an example of the potential collective outcome from individual decisions. Individual decisions based on economic drivers such as energy costs can lead to reduced productivity (e.g., less yield from less irrigation) in a bid to optimise individual business profitability, which collectively can impact on overall mill commercial viability.

The Queensland Government has been providing a “cost of living” rebate (or dividend) of $175 reduction on power bills. This subsidy is provided to residential consumers but there has been no relief for primary producers and/or small businesses. There seems little reason why the QCO and the Qld Government should not explore all options to reduce electricity bills to farmers who are the back bone of the agricultural industry and worth more than 20bn to the State.

The current regimented approach to setting prices causes disengagement from government on how tariffs and pricing equity can be improved in conjunction with water pricing. While QCA have developed additional tariff options in recent years, seasonal use agricultural tariffs that are more reflective of the sector’s needs are required. Time-Of-Use (TOU) tariffs have been helpful, but are not always applicable to growers due to existing irrigation investments and seasonal crop requirements. An affordable tariff is one that has a ceiling of 16 cents per kilowatt hour (excl GST). This is based on a network charge (N) not exceeding eight cents and a retail charge (R) not exceeding eight cents. This needs to at least be available during the critical growth stages of the crop, such as during summer months. This should be considered as part of a broader reform agenda that ensures the process is better prepared for the rapid changes envisaged within the Queensland Energy and Jobs Plan.

Energy charges

Like QFF and many representative groups, CANEGROWERS is keen to ensure the state's irrigators have access to competitively priced electricity tariffs that take account of the fact that irrigators are typically low-cost users of both electricity network capacity and volume weighted average wholesale electricity prices.

CANEGROWERS welcomes the addition of Tariff 22C (and 12C), which better incentivises off-peak night-time usage, though we believe that there could be further reduction of the daytime off-peak rate that would better reflect the higher supply of low-cost solar and wind power during those times as stated within the Minister's delegation. This should at least match or better the flat tariff rate of interruptible supply Tariff 34.

There have been many factors driving higher wholesale prices for electricity. It is concerning that consumers are paying for the capital and maintenance costs of generating assets and in doing so, effectively reducing the investment risk thereof, but suffer the consequences of mechanical failures and outages of coal-fired power stations (e.g., Callide C and Kogan Creek), while still paying for capital costs through the Regulatory Asset Base (which includes power stations) while they are offline. And subsequently paying "penalty" wholesale energy prices at the same time. With the scheduled decommissioning of coal-fired power stations, CANEGROWERS is concerned that this could become a more regular occurrence due to deferred or sub-optimal maintenance, leading to a cycle of rising wholesale energy prices caused by supply limitations. Ever further the state Government has established policies around solar and wind generation and the roll out of EVs that will put even higher demands on the traditional network and in turn those who pay for it.

Large customer threshold

As CANEGROWERS has previously raised, large users who were previously using obsolete tariffs (T62, T65 and T66), unable to access the new transitional retail tariffs (T62A, 65A and 66A) or other small business tariffs after 30 June 2021, were forced to switch to large business tariffs. This switch resulted in a significant jump in the daily fixed charge, which has been highly detrimental to the profitability and productivity of those businesses. An adjustment to the large customer threshold would help to alleviate this situation.

CANEGROWERS notes that Queensland legislation in combination with National Energy Retail Regulations establishes 100MWh as the annual consumption threshold for large customers. Understanding that the level of this threshold is a policy decision for the Queensland government, we call on the QCA to recommend to the government to review this threshold. CANEGROWERS view is that the threshold should be set at 160MWh per annum which better aligns with a more consistent (relative to other benchmarks) definition of a large business.

Network (N) component prices and competition

CANEGROWERS remains concerned that Energy Queensland's customers in regional Queensland who use the Ergon network are restricted in their access to competitively priced electricity. We have worked with different retail (including solar) providers to explore what is possible within the current regulatory framework to address this issue. A limitation to what can be achieved in competitive pricing is the cost of network access. Irrigation principally occurs on non-congested parts of the Ergon distribution network, and irrigators have capacity to increase their usage and reduce underutilised network capacity and generation (e.g., solar and wind) at off-peak times, but will only respond and invest with the right price signals (including tariffs which reflect the seasonal nature of usage in agriculture). Central to this is for network charges to also reflect the impact of the Community Services Obligation payment which is provided expressly for this purpose. To support the development of retail competition in the regional Queensland electricity market, as well as to bring the possibility of microgrids a step closer to being a feasible opportunity, CANEGROWERS renews its call for QCA to recommend to government that the CSO paid to Ergon Retail to implement the State's uniform tariff policy be redirected to Ergon Network and reflected in regional network tariff pricing.

Best practice evaluation framework

QCA acknowledged the potential benefits of ex-post analysis, however, they stated that retailers costs are commercial in confidence, but also explained that the process only provides a benchmark and that differences would exist for standalone retailers. CANEGROWERS believes that confidentiality can be achieved through a process with suitable confidentiality agreements in place, and publishing reports on a no-names basis using averages and range/variance information. The purpose is indeed to provide a benchmark where reasons for deviations could be explained and considered, and over time would assist both the QCA and regional users gain better insight into the effectiveness of the N+R framework.

Query on examples of cost changes for typical customers

CANEGROWERS would like to query the information/values portrayed in Figures 4.2, 4.6 and 4.8 for Tariff 44. The series of charts show the increases in Tariff 44 to be $546, $5616 and $409 for network, energy and retail costs. Comparing the sum of these component increases ($6571) with the increase indicated in Figure 2.3 ($6179), this suggests that "Other costs" value is a negative cost.

Conclusion

As an industry association CANEGROWERS runs its business on the basis of the voluntary contributions of our members. As an organisation we have invested significant intellect, capital and time into advocate the serious and increasing pressures irrigated producers are under to try and maintain profitability when the cost of electricity is a significant inhibitor to increasing crop productivity. The future of the cane industry is strong with increasing demands for biomass as a feedstock for a range of bioenergy and sustainable aviation fuel projects. This feedstock demand will not be met unless irrigators get access to reliable low cost electricity that encourages irrigation. We welcome the opportunity to make this contribution and encourage the QCA to take on board and respond to the recommendations made in good faith.

Please do not hesitate to contact Chris Gillitt, CANEGROWERS Manager – Farm Business Resilience, if you require further information.

Yours faithfully,

Dan Galligan
Chief Executive Officer