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4 January 2013

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

By email: electricity@qca.org.au

Dear Sir/Madam

Re: Transitional Issues – Regulated Retail Electricity Prices 2013-14

Reference is made to the Consultation Paper relating to Transitional Issues pertaining to Regulated Retail Electricity Prices for the 2013-2014 period.

We advise that our organisation represents approximately 100 sugar cane growers in the Burdekin, accounting for between 1.6 million to 2 million tonnes of cane grown in this district, with an average size farm of approximately 20,000 tonnes.

Set out below are our organisation's views to some of the matters raised on page 10 of the Consultation Paper.

How should the Authority determine whether transitional arrangements are necessary for each obsolete tariff? What would be considered a "significant" price impact?

The Queensland Competition Authority (QCA) in its draft Determination Paper released March 2012 pertaining to Regulated Retail Electricity Prices for the 2012-13 period (refer to page 83) based its comments in relation to farming and irrigation tariffs (Tariffs 65, 66, 67 and 68) upon "typical" consumption levels of 4,790 kWh for Tariff 65, 9,910 kWh for Tariff 66 and 2,520 kWh for Tariff 68. The manner in which the "typical" annual consumption was ascertained was not explained. Further, the QCA determined that usage of Tariffs 65 and 68 are low, and therefore "dollar impacts are modest", in comparison Tariff 66 customers were likely to experience "more significant in both percentage and dollar terms (337% or $10,320 per annum)" increases.

Unlike other sugar cane growing regions of Queensland, growers in the Burdekin irrigate the crop all year round, and consequently their annual consumption use of electricity is substantially higher than the "typical" consumption levels of electricity by irrigators referred to in the QCA March 2012 Report.

By way of example, please find ***attached*** a copy of an email dated 6 December 2012 from Ergon Energy to our organisation's member. This email summarises for the grower his use of electricity for four pumps on his farm, the existing cost to him under obsolete Tariffs 65 and 65, and a comparison of

anticipated increase in electricity costs should the tariffs for each of the four pumps change from the obsolete tariffs to a replacement tariff. This grower is a small grower, growing approximately 10,000 tonnes of cane. The grower's current annual usage of electricity for the existing four pumps is substantially higher that the QCA's "typical consumption levels" as can be seen from the following summary:

Pump 1	Tariff 65	19,939 kWh
Pump 2	Tariff 65	37,542 kWh
Pump 3	Tariff 66	48,064 kWh
Pump 4	Tariff 66	36,201 kWh

It is evident from Ergon Energy's calculations, particularly in relation to loss of Tariff 66, that the grower will be paying substantially higher electricity costs. The difficulty for the grower is assessing the likely cost increase of a replacement tariff from the cost of electricity based upon an obsolete tariff. Ergon Energy has attempted to do so, however, it is noted that it has also put some provisos on its calculations. This uncertainty is of major concern to growers.

Matters to be considered by the QCA in relation to transitional issues should include:

(a) The length of the transition period must be commensurate with the impact of the increased cost of electricity on the grower's viability. A grower is a "price taker" and therefore cannot pass along increases in input costs to the customer. Should the cost of electricity detrimentally impact the grower's cash flow (having regard to the manner in which growers receive remuneration by the incremental advance payment system that is determined by Queensland Sugar Limited and the miller) and ultimately the grower's viability, then –

    i. The retail pricing structure must be reviewed and there must be a moratorium on removing the obsolete tariffs until such time as the review is completed. The viability of sugar cane farming, particularly as the Burdekin region is reliant upon the revenue generated from the Sugar Industry, must be protected.

    ii. There should be a lengthy (greater than ten years) transitional period to provide the grower the maximum opportunity to make other efficiencies in their farming practices to be in a position to then absorb the cost increase.

(b) Certainty of the likely cost increases of moving to a replacement tariff. Certainty of the cost of electricity is absolutely necessary (as electricity is a substantial cost for growers) for cash flow and budgets, particularly given the manner in which a grower is paid via the incremental advance payment system.

(c) Once a grower makes the election to change to a replacement tariff, the decision cannot be reversed by the grower as he/she no longer has access to the obsolete tariff. A grower should have a reasonable period of time to make informed decisions regarding the most appropriate tariff for the grower's circumstances.

(d) A reasonable period of time to make capital improvements (purchase a smaller/larger pump etc.) to enhance any benefit, or reduce any cost, of the change to a replacement tariff.

(e) The working life of a pump and motor is in the order of 15 years (report of the Department of Primary Industries 1977). A grower has incurred capital costs of structuring his irrigation system on his farm and the length of the transitional period should be such so that the grower is not further burdened and allows the grower to obtain the maximum benefit from existing capital investment on his farm.

Are there any non-financial reasons why obsolete tariffs should be retained or other transitional arrangements put in place?

Farming and Irrigation Tariffs (tariffs 65, 66, 67 and 68) and other obsolete tariffs (for example, tariff 62) should be retained indefinitely. We repeat and rely upon the matters raised above.

Further, the obsolete tariffs recognise that there is a substantial benefit to the network for growers/primary producers to irrigate during off-peak periods. The difference in cost between peak and off-peak supply provides an incentive to growers to irrigate outside of certain hours. The replacement tariffs reduce any such benefit or incentive.

There is no competition in the retail electricity market in North Queensland. A grower has only one retail supplier, Ergon Energy and a grower has no opportunity to benefit from price competition.

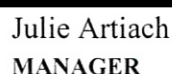
As stated above, a grower is a "price taker" and must itself absorb input cost increases. A substantial input cost to a grower is the cost of water. A grower in the Burdekin "purchases" water from the North and South Burdekin Water Boards and Sunwater. These statutory bodies themselves incur electricity costs in supplying water to growers, the costs of which are passed on to, and recuperated from, the grower.

It is incumbent upon the Queensland Government to ensure that primary producers in regional Queensland are financially viable. The Burdekin's (comprises the towns of Ayr, Home Hill, Brandon and Giru) predominant industry is the sugar industry. The health and prosperity of the Burdekin community is reliant upon sugar cane growers being financially viable. The structure of electricity tariffs, including farming and irrigating tariffs, must ensure that the cost of electricity is not prohibitive to the operation of primary production in regional Queensland.

Conclusion

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

Yours faithfully
PIONEER CANE GROWERS ORGANISATION LTD



Julie Artiach
MANAGER