QUEENSLAND FARMERS' FEDERATION
Primary Producers House, Level 3, 183 North Quay, Brisbane QLD 4000
PO Box 12009 George Street, Brisbane QLD 4003
qfarmers@qff.org.au | 07 3837 4720
ABN 44 055 764 488

Submission

15 January 2020

Mr Warwick Anderson
General Manager - Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra
ACT 2601

Via email: EnergyQueensland2020@aer.gov.au

Dear Mr Anderson

Re: Energy Queensland (Ergon and Energex): An Overview- Our Revised Regulatory Proposals and Revised Tariff Structure Statements 2020-25 (December 2019)

The Queensland Farmers' Federation (QFF) is the united voice of agriculture in Queensland. It is a federation that represents the interests of peak state and national agriculture industry organisations, which in turn collectively represent more than 13,000 farmers across the state. QFF engages in a broad range of economic, social, environmental and regional issues of strategic importance to the productivity, sustainability and growth of the agricultural sector. QFF's mission is to secure a strong and sustainable future for Queensland farmers by representing the common interests of our member organisations:

- CANEGROWERS
- Cotton Australia
- Growcom
- Nursery & Garden Industry Queensland (NGIQ)
- Queensland Chicken Growers Association (QCGA)
- Queensland Dairyfarmers' Organisation (QDO)
- Australian Cane Farmers Association (ACFA)
- Pork Queensland Inc.
- Queensland United Egg Producers (QUEP)
- Queensland Chicken Meat Council (QCMC)
- Bundaberg Regional Irrigators Group (BRIG)
- Burdekin River Irrigation Area Irrigators Ltd (BRIA)
- Central Downs Irrigators Ltd (CDIL)
- Fairbairn Irrigation Network Ltd
- Mallawa Irrigation Ltd
- Pioneer Valley Water Cooperative Ltd (PV Water)
- Theodore Water Pty Ltd

QFF welcomes the opportunity to provide comment on Energy Queensland (Ergon and Energex) Revised Regulatory Proposals and Revised Tariff Structure Statements 2020-25 (December 2019). We provide this submission without prejudice to any additional submission from our members or individual farmers.

Background

Irrigation electricity tariffs in Queensland have risen a minimum of 136 per cent over the past decade, and for some more than 200 per cent, while CPI increased by just 24 per cent over the same period. It is unacceptable that the price of electricity over the last 10 years has increased about 10 times the rate of inflation. Electricity is a critical input for intensive, semi-intensive and irrigated agricultural farm businesses and has now become a major cost, which has eroded business competitiveness, profitability and even viability.

Rising electricity prices are negatively impacting Queensland's irrigation sector, as some irrigation systems are becoming uneconomic[1]. Increasingly producers are seeking alternative energy sources to provide a reliable and more cost-effective way of energy delivery that will allow them to continue production without switching to dryland farming but are also economically viable. This not only puts added pressure on producers to seek alternative energy resources, but also the associated costs of implementing them. Critically, this has resulted in several businesses disconnecting from the grid or, at best, reducing their usage of the grid by sourcing a proportion of their 'electrons' from elsewhere.

QFF notes that the Tariff Structure Statements (TSS) do not link the challenges faced by the Ergon and Energex networks in meeting the high growth of customer-owned distributed energy resources and how new tariffs are intended to address this energy future. Indeed, during the extensive consumer consultation process, direct questions were posed to Energy Queensland regarding their future objectives/vision for their networks with regards to utilisation rates, distributed energy resources, the design of micro-grids etc.

QFF remains cautious about the high penetration of renewable energy assets (mostly solar) and non-renewable energy assets (diesel generators) on-farm throughout Queensland. Queensland's agricultural sector is one of the largest consumers of Clean Energy Financial Corporation loans for the purchase of energy efficient technologies and renewable energy systems[2]. Growth in these assets has been driven by increasing grid-supplied electricity costs, lack of trust in the network provider and retailers, decreased reliability in some areas, aggressive marketing by technology providers and, more recently, the offer of interruptible/load control electricity tariffs. Whilst QFF acknowledges that current diesel generation is more reliable and cheaper than grid-supplied electricity for some primary producers, we are concerned that a future price of carbon will simply move the stranded assets from the network (essentially the poles and wires) to on-farm (the diesel generators). QFF is also mindful that lower utilisation rates in the Ergon network will see the cost of maintaining the network increase per user, potentially leading to increased costs or service disconnections for some customers on the network. Such an outcome is most likely to negatively impact those that can least afford it, leading to concerns around future equity and customer vulnerability.

Both Ergon and Energex have highlighted that through the initial regulatory proposal period, matters arising from stakeholder engagement have been incorporated in this revised regulatory proposal. Many stakeholder issues have been addressed through the revaluation of tariffs as documented, including issues on affordability, predictability, targets to manageable customer impacts, and simplicity. However, simplicity in pricing has not been achieved to date.

Resource Commitments

QFF is aware of maintenance and operational issues associated with Queensland's power related infrastructure (poles and wires), including line failures. With the incidence and intensity of natural disasters on the rise, it is paramount that both Ergon and Energex utilise the revenue allocated to the

[1] Australian Farm Institute. (2018) Research Report: The Impacts of Energy Costs on the Australian Agriculture Sector

[2] Davis, G. Farmers Continue to Embrace Solar. Sustainability Matters. April-May 2019. Vol 12. No.3. Pp32-33

required maintenance of the network. Allocating revenue is a necessary requirement in these reports, however, the obligations beyond this has not been policed or enforced with energy users experiencing continual increases in pricing, without demonstrated evidence to support it. In Ergon's and Energex's current submissions, it is clearly outlined that their operating expenditure covers the maintenance of the network and day to day operation.

Energex has stated that they will be reducing their overall running costs for the 2020-25 regulatory period, whilst Ergon will be increasing their costs for the same period. Ergon has stated that safety issues relating to an increase in pole failure rates and increased clearance to ground/clearance to structure, defects have come to light, which require immediate remediation. Ergon needs to rectify these areas where defects have been identified immediately in respect to their compliance and safety obligation.

QFF notes that significant amounts of revenue have been allocated to repair and maintain the Ergon network in previous revenue determination processes, yet some of these funds were unspent, reverting presumably to their financial stakeholder (the Queensland Government). As such, these necessary repairs must be funded from consolidated or other revenue, given that consumers have already paid for this work to be undertaken. The catastrophic impacts from the Tubbs Fire in 2017 which burned 36,807 acres from Napa County to suburban Santa Rosa, killing 22 people; which was caused by a spot fire ignited by the failure of a line owned and operated by California's Pacific Gas & Electric company highlights the increasing risks of not maintaining power lines adequately.

Tariffs

QFF acknowledges the commitment and work undertaken by the Energy Queensland team to develop a suite of suitable new tariffs that may be utilised by irrigators, different types of primary production and other businesses. This includes the acknowledgement of interruptible load tariff products for both large and small electricity users where appropriate (noting that interruptible load products are not suitable for all irrigators or primary producers; and were already widely adopted by some primary producers in the Energex region).

QFF welcomes Energy Queensland's commitment to decrease electricity prices for all customers. However, with the change in tariffs and delays to the network tariff pricing process, primary producers still have no clarity on the final retail tariff prices and tariff design that they will be offered. As such, it is difficult for producers and their advocates to verify or quantify any potential savings stated.

The volume of electricity required and associated charges to make production viable, is having and will continue to have a significant economic impact on producers. The economic viability of utilising grid provided electricity, without a clear and concise price structure, makes it hard for farmers and irrigators to plan for the future.

Indeed, QFF notes some issues with the new network tariff prices, in particular the significantly higher daily charges for the Ergon demand tariffs for large NMIs compared to the equivalent Energex network tariff charges. These increases have not been explained and seem to negatively impact large regionally-based businesses. To add to this complexity, the Seasonal Time of Use Demand will be billed on kW whereas the others will be billed on kVA making it difficult for customers and advocates to make a clear comparison.

Encouragement by Ergon and Energex to promote electricity consumption and network utilisation outside peak times will reduce costs to some consumers that have flexibility. A major issue for many primary producers is that electricity usage is intrinsically connected to the need to pump water, animal welfare measures or crop requirements. Some producers will be unable to change production or irrigation times due to licencing requirements, farm design, extreme weather events or other factors beyond their control. As such, QFF reiterates the need to have a suitable suite of tariffs offering flexibility to all business users.

Ongoing Pricing

Whilst QFF welcomes the predicted falls in revenue and network prices, there is still a level of concern around the sustainability of these savings into future regulatory periods. A major proportion of the decreasing revenue is due to one-off factors around the Ergon/Energex merger benefits and, most significantly, a falling weighted average cost of capital.

From the revised documents it is evident that Ergon customers are particularly exposed given the proposed large rise in the regulated asset base per customer in 2020-25. Inevitably, global interest rates will rise along with the cost of capital. This leaves great uncertainty and concern on where network costs and electricity prices will move post 2025.

If you have any queries about this submission, please do not hesitate to contact Ms Sharon McIntosh at [redacted].

Yours sincerely

[redacted]

Dr Georgina Davis
Chief Executive Officer