16 November 2015

Ms Tanya Homan
Executive Director
Queensland Productivity Commission
PO Box 12112
George Street
BRISBANE QLD 4003

By email: enquiry@qpc.qld.gov.au

Dear Ms Homan

Public Inquiry into Electricity Prices

The Bundaberg Regional Irrigators Group (BRIG) was established to represent irrigators in the Bundaberg district across a range of commodity groups including sugar cane, grain and horticulture. We are a member of the National Irrigators Council (NIC) and the Agriculture Electricity Taskforce.

BRIG members farm on approximately 36,000 hectares and use an estimated 1,100 irrigation pumps and associated distribution systems to irrigate a variety of crops in the Bundaberg Regional Council area. A significant percentage of these systems (circa 90%) are powered by electricity.

Rapidly rising electricity prices are having a severe impact on the costs faced by our members and irrigated agriculture in general.

The pricing system for Queensland’s electricity system is flawed and broken.

Since 2009 we have recorded the world’s highest increases in electricity prices.

We are now paying 96 per cent more than we were in 2009 (CPI increase over this period was 15.0 per cent) for exactly the same service and level of reliability.

It is clear that the electricity price increases are adding significantly to the cost of irrigated agriculture and is destroying demand for electricity.

Currently unsustainable electricity prices are hastening the change to alternative energy sources, threatening the viability of Ergon’s network investments and increasing the risk of electricity assets being stranded.

It is BRIG’s view that this is NOT in the long-term interests of Queensland.
Up until recently our irrigators have been a cornered demographic when it comes to utilizing alternative energy sources such as solar and we have had little option other to stay on the grid and pay or make the decision not to irrigate.

We have now reached the tipping point and are seeing some of our early adopter members making the decision to go off grid. Whilst this is perfectly rational for these individuals it creates a situation that is best described as **Negligent Economic Waste**.

**Electricity networks are natural monopolies.**

The network price setting process is deeply flawed. It is a one sided process that has no regard for impact on consumers or the wider economy.

Network management have worked out how to manipulate the rules to maximise revenue and profit.
For a business that has very high fixed costs there has been little interest from ERGON in stimulating consumption as a means of maintaining revenue while reducing prices. This is another adverse outcome of rules that guarantee revenue regardless of consumption.

Canegrowers Analysis Shows That Reducing Electricity Prices For Food And Fibre Producers By 33% Will Stimulate Electricity Demand, Increase Network Utilisation And Deliver Improved Financial Outcomes For Ergon And The State Government – While Delivering Price Relief To Irrigators.

(Annex 1: Solutions for the 2014/15 electricity prices Factsheet)

While consumers and the wider economy are enduring severe pain, networks are making record profits. Network businesses are the most profitable asset class on the ASX 200.

This profit gouging has a huge impact on irrigated farmers, many of whom are being forced to switch off the pumps because they can’t afford the electricity cost to run those pumps.

### Coastal Burnett Groundwater Management Area

<table>
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<tr>
<th>Water Year</th>
<th>Announced Entitlement (Megalitres)</th>
<th>Metered Use (Megalitres)</th>
<th>Rainfall (mm) - July-June (Bundaberg airport)</th>
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<tr>
<td>2014/15</td>
<td>59900</td>
<td>18400</td>
<td>632.2</td>
</tr>
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</table>

Optimisation of Ergon’s profitability is not in the interests of Queensland’s Electricity Consumers.
The Regulated Asset Bases (RABs) - the valuation of the electricity networks’ past investments, are grossly inflated due to unnecessary and inefficient investments, and a flawed asset valuation methodology.

Australian electricity consumers are already funding a significant level of “stranded assets”.

The networks receive guaranteed returns on their past investments (RABs) - returns which are currently driving around 70% of their prices.

Whilst the recent regulatory rule changes have provided the AER with marginally more power to scrutinise future “gold plating”, they do not allow the AER to address past gold plating.

To seriously address Australia’s unsustainable electricity prices it is imperative that the networks’ Regulated Asset Bases (RABs) are re-valued to more appropriate levels” (Hugh Grant Submission to the Senate Inquiry into the Performance and Management of Electricity Companies, December 2014)

WHAT CAN THE QPC DO TO ASSIST

- Recommend that the weighted average cost of capital be limited to a ceiling of 6%
- Recommend a rule that would enable irrigators, and all farmers, who are large users of electricity, to be a separately classified class of customer alongside business and households.
- Recommend implementation of volume based food and fibre tariffs, reflecting agricultural power use patterns on the network in terms of base load and off-peak use and including worthwhile time-of-use incentives for agricultural businesses during off-peak periods and over weekends;
- Recommend revaluing the regulated asset base of network businesses to remove the impact of historic over investment from the underlying cost base;
- Recommend promotion of increased competition in the electricity market; (Allocation of CSO to the network)
- Recommend linking capital expenditure (and regulated asset base) to network tariff customer classes;

"Australia’s electricity system now has an installed asset base well in excess of requirements.”
We thank the Commissioner Mr Kim Wood and commission staff for their time and interest during their visit to Bundaberg. We were very appreciative for the time allocated and the ability to present our situation to them.

In conclusion we do not wish to have irrigated agriculture leaving the grid, however, current prices are too high to continue to sustainably use grid delivered electricity for sugarcane irrigation.

Unless electricity prices are reduced by at least 30% we are in danger of having dams full of water and no one able to afford to draw on them.

Please call should you require further information or clarification.

Yours sincerely

Dale Holliss
Company Secretary
0417 009 236
Annex 1

Solutions for the 2014/15 electricity prices

CANEGROWERS calls on the Queensland Government to lower retail electricity tariffs for irrigation use (principally T62, T65 & T66) by 33% in 2014-15, exclusive of the carbon tax.

A 33% price reduction in 2014-15 is a revenue neutral solution for irrigation tariffs

- **33% price reduction**
  - no impact on electricity revenue
  - increases utilisation of the network
  - good outcome for irrigators that does not impact Ergon or Government

- **10% price increase**
  - reduces electricity revenue by $2M
  - fall in utilisation of the network
  - bad outcome for irrigators, Ergon and Government

- **50% price reduction**
  - reduces electricity revenue by $5.5M
  - large increase in utilisation of the network
  - best outcome for irrigators

- **16.3% price increase**
  - reduces electricity revenue by $4M
  - large fall in utilisation of the network
  - worse outcome for irrigators, Ergon and Government

% change in retail electricity price 2014-15

**Why a 33% reduction?**

**Queensland Government:**
- A revenue neutral solution for irrigation tariffs (T62, T65 & T66)
- No Government subsidy requirement
- Will significantly increase utilisation of Ergon’s network – an issue identified by the “Costello” Commission of Audit
- Will demonstrate real action to achieve the objectives in the Queensland Agriculture Strategy

**Ergon:**
- Will reverse the fall in utilisation across the Ergon network
- Will increase off-peak consumption from irrigation in key regional areas
- Will end the negative retail price spiral

**Irrigators:**
- Will provide much needed immediate price relief
- Lower prices will allow sugarcane growers to maximise the volume and value of cane production
- A large crop will result in security of cane supply for mills – guaranteeing thousands of “at risk” jobs in regional Queensland, while creating over one thousand more in 2014-15

The underlying electricity pricing framework is flawed. It does not take into account the impact of high prices on users or the wider Queensland economy.

While this factsheet focusses on retail prices for 2014-15, CANEGROWERS is actively involved in all areas of the electricity pricing reform. The five key components of our strategy to get the best result for irrigators are:

- Retail prices 2014/15
- Network tariff reform
- AER Regulatory Reset
- Energy market reform
- Energy efficiency and demand management

Fact sheets for forthcoming issues will be provided by CANEGROWERS as they are announced.
CANEGROWERS analysis of Ergon data shows a 33% reduction in price will increase consumption and maintain revenue from electricity use to the Queensland Government via Ergon.

**Impact of price change on electricity used for irrigation**

A 33% price reduction will increase electricity consumption...

**Impact of price change on revenue to Ergon**

...and maintain electricity revenue to Ergon and the Queensland Government. No subsidy is required to deliver the much-needed price relief.

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**Big Industry – Big Impact**

- World’s third largest exporter of sugar (80% of Australian sugar is exported).
- $2 billion value to the Queensland economy (to the annual Gross State Product).
- Second largest agricultural commodity in Queensland.
- 15,600 jobs directly; and 70,100 indirectly, accounting for 15% of employees in coastal Queensland.
- $7 billion in land and $4 billion in infrastructure assets controlled by the industry.

For more information:

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Queensland Cane Growers Organisation Ltd
ABN: 94 089 952 569
Canegrowers is the peak representative body for Australian sugarcane growers. Representing some 80% of growers, CANEGROWERS ensures growers needs are represented at the highest possible level of industry and government decision making. For more information visit www.canegrowers.com.au.