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GM/DM/GG028

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Kim Wood
Principal Commissioner
Queensland Productivity Commission
PO Box 12112
George Street QLD 4003

Dear Commissioner Wood

Thank you for the opportunity to make a submission on the Commission's Electricity Pricing Inquiry Draft Report dated 3 February 2016.

AgForce is the peak lobby group representing the majority of beef, sheep & wool and grain producers in Queensland. AgForce exists to ensure the long term growth, viability, competitiveness and profitability of these industries. Our members provide high-quality food and fibre products to Australian and overseas consumers, manage more than half of the Queensland landscape and contribute significantly to the social fabric of rural and remote communities.

Electricity expenditure represents a relatively small, (1.4% to 1.7% of total cash costs[1]) but significant component in our members' enterprise cost structure, with rising energy costs a contributor to the ongoing terms of trade pressures faced by primary producers and to product costs to consumers. Broadacre irrigators use a relatively greater amount of electricity for the pumping of water, which varies with seasonal conditions. The key issues for AgForce within the report include:

- increasing retail competition in regional Queensland
- rural and regional industry tariffs
- managing electricity cost increases impacting our members
- the role of local service providers in rural and remote areas.

In responding to tariff structure adjustments, cost drivers of energy efficiency improvements and demand management, farmers need to understand how proposed electricity reforms will apply to their individual enterprises. This includes any changes to pricing structures over time and how they can practically assess those impacts, understand their response options and how they will fund those responses.

While transitional pricing schemes have been developed to drive electricity use change, there is no clear accompanying transition plan to manage on-farm and community-level economic and social impacts. It is unclear how competition in the marketplace or alternative service providers outside of South East Queensland will develop, or how effective that competition will be in containing or putting downward pressure on prices. The draft Report's treatment of the Community Service Obligation (CSO) and Uniform Tariff Policy (UTP) introduces uncertainty about how or if governments might

[1] ABARES AgSurf data, http://apps.daff.gov.au/AGSURF/, accessed February 2016.

continue these programs in future, particularly in isolated areas where alternative generation and distribution systems could occur.

Until some of these uncertainties can be removed, there will be an understandable reluctance for farmers and graziers to actively engage and make decisions and investments in the lead-up to the current 2020 cessation of transition and obsolete tariffs, making that transition potentially more disruptive.

Our submission will focus on responding to the conclusions and draft recommendations concerning these issues and to further inform the Commission's Final Report due on 31 May 2016.

Increasing Retail Competition in Regional Queensland

According to the draft Report, retail competition in regional Queensland remains immature, apparently due in part to barriers including the design of the CSO supporting the UTP. The UTP's general objectives are to support economic development in regional Queensland and to achieve equity and fairness in electricity prices for regional Queenslanders. From the draft report (p150) the average subsidy for a household from the CSO is around:

- $464 per annum for a customer in Ergon Energy's East Zone
- $2,220 per customer in Ergon Energy's West Zone
- $15,000 per customer in Ergon Energy's isolated networks

Without the UTP, electricity prices for residential customers in regional Queensland would be between 30% (regional) and 140% (western or remote) higher, with associated social and economic impacts.

Since 2006–07 Queensland's electricity prices have increased in real terms by 87%, largely driven by escalating network costs (82% of that increase), plus the Solar Bonus Scheme and the Australian Government's Renewable Energy Target (RET). If rising network costs are the greatest contributor to recent price rises it is unclear how extra retail competition in the Ergon area will put significant downward pressure on prices, particularly for small or remote customers[2].

Governments have a role to play in the provision of reliable and affordable essential services, including electricity supplies. The Queensland Government has stated that it is committed to retaining the UTP for regional Queensland however, the draft Report does explore measures that would see a dilution of the CSO, including; removing the UTP from large users such as abattoirs, cotton gins and sugar mills (with flow-on cost implications for producer suppliers); changing the base for price setting to the more highly priced Ergon Energy East pricing zone, transmission region 1 (EZTR1) rather than the current South East Queensland and releasing more detailed information on recipients to allow for public discussion (presumably in larger urban population centres) on whether the subsidy is 'socially equitable' or not.

AgForce does not support progressing any policies that reduce equity and fairness in electricity pricing for all Queenslanders, including those living in regional, rural and remote areas.

Rural and Regional Industry Tariffs

Historically, transitional and obsolete tariffs have been set at levels not based on the cost of supply, even with the UTP moderating prices. About 35,500 electricity connections in regional Queensland are still on tariffs that have been classified as transitional and obsolete, of which 17,400 (49%) are for farming and irrigation purposes. These tariffs are to be phased out to standard tariffs by 2020. While around 25% of customers would be better off on standard tariffs according to the draft Report, cost increases of over 50% are also possible for some irrigators (ie, 28% of small customers on Tariff 62, 19% of those on Tariff 66).

The draft Report identifies that one of the key challenges for network businesses is ensuring that electricity tariffs continue to send signals to customers about the actual costs of a permanent connection to the network and of using the network at peak periods. Presently there has been a

[2] Likewise the draft report (p 124) also acknowledges the role of network costs in driving recent price increases but in the context of retail price deregulation in SEQ.

transition price path developed to send these signals, but no clear transition program for primary producer users of transitional and obsolete tariffs.

To date, few customers have elected to change from transitional tariffs. The draft report (p193) notes that Ergon has 'engaged' with about 2,000 customers with less than 100 moving to an alternative tariff, despite the estimate that 25% would be better off on standard tariffs.

Broadacre farmers and irrigators currently do not have the information they need on their electricity usage profiles to be able to make informed decisions about new tariffs. A key need is for the collection of reliable data at an individual primary producer level of the costs and benefits of tariff changes, rather than the current application of general averages which may not effectively address the variability of individual use profiles. Ergon's engagement process also needs to be improved, including providing designated agricultural producer call-in Help Lines.

AgForce agrees with Draft Recommendation 37 that meters capable of measuring charges for the relevant tariff options should be in place for farmers on transitional and obsolete tariffs. The lack of interval metering across both daily and seasonal time scales makes it very difficult or impossible for farmers, both small and large electricity users and graziers to assess the costs of various tariff proposals and make economically rational decisions.

The Government with Ergon Energy should provide incentives for small users such as funding the cost of new meters and their installation, given the potential for poor voluntary uptake due to the uncertainty as to whether that user will be better off on the new standard tariffs. Such assistance should not be predicated on a user having to move to a new standard tariff as this will also reduce uptake.

Recommendation: To assist farmers and graziers to make informed tariff changes the Government should fund the purchase and installation of meters delivering time and quantity of use information.

This assistance should be combined with the provision by Ergon Energy of ongoing information comparing different tariff impacts so producers can make informed choices over time (Draft recommendation 36). This will require practical provision of robust data on the full range of tariff options available, including demand tariffs across a range of industry-relevant use profiles and demands (eg, under and over 100MW, market and seasonal sensitivity analysis). Such an exercise will also enable identification of users that will be the most significantly impacted. Users should also be able to switch without charge between tariffs across the production year to reflect changing demand requirements and to best match the tariff combination most suited to their use profile.

Industry groups have a role, given funding and appropriate access to de-identified or consolidated use and tariff data, to assist in transitions by ensuring producers have the information they need to make the best tariff selection and energy use decisions. It could also include facilitating the development of a range of options for affordable capital investment and demand management approaches within each agricultural sector, including broadacre enterprises.

Ergon and industry groups should work together on collecting and providing robust information on a full range of tariff options and the implications of tariff and infrastructure changes to support producer decision-making.

Recommendation: Given the lack of metering, usage or tariff information, the 2020 transition timeframe target should be reviewed in 2017 on the basis of progress towards transitioning all involved users and to understand and respond to the motivators and barriers to tariff change.

Managing Electricity Cost Increases

The draft Report takes the approach that while cost-reflective price signals should flow to the consumer, those vulnerable to the full price of supply should be protected from the full impacts and helped to adapt. We welcome the recognition of price vulnerability of some users and support the extension (Draft recommendation 45) of the Queensland Government General Electricity Rebate Scheme to include Commonwealth Health Care Card holders. This includes Farm Household

Allowance recipients who can receive a hardship payment for up to a 3-year period in their farming career.

Vulnerable individuals eligible for electricity rebates and other assistance should include farmers and grazier Farm Household Allowance recipients.

AgForce supports the provision of a Queensland Government financial grants program to help significantly impacted businesses to adjust, as identified in Draft recommendation 38 and to assist in making capital investments for any infrastructure conversions required to improve energy use efficiency, manage demand where possible and reduce costs.

The grants program should be linked to and informed by the Government's provision of meters previously discussed and the Queensland Farmers Federation/Ergon audit programs to accurately identify those in need and likely effective approaches. There should also be a mechanism for further individuals to make a case for eligibility against set criteria (Draft recommendation 39).

A preliminary review should be undertaken after 2 years, of the effectiveness of the grants program in buffering vulnerable users from impacts. This should be against clearly defined agreed policy end points with supporting metrics and delivery standards.

Recommendation: A flexible financial grants program should be provided to help vulnerable businesses to adjust to more cost-reflective pricing and include assistance towards infrastructure conversions. It should initially be reviewed after two years.

Role of Local Service Providers in Rural and Remote Areas

In relation to electricity generation and supply in rural and remote areas where cost efficiencies exist, it is important that reliability and customer service standards are not diminished, relative to current supplies and that options do act to deliver electricity at a lower cost of supply than from the network or grid operating alone. The costs of electricity should also continue to be pegged to that of South East Queensland though the UTP and CSO arrangement wherever effective competition does not exist.

The Queensland Government has a role in encouraging the beneficial development of least cost, local supply options, but needs information supporting a robust cost/benefit analysis. For example, microgrid management may require smaller Local Governments to have access to the necessary technical and management skills to deliver these systems effectively. Given limited numbers of ratepayers and low rate bases, this need may have to be met through collaborative arrangements with other local service providers and local government areas.

Recommendation: Alternative approaches to supply in isolated areas should be investigated including incentives, reliability, service and pricing standards, and accompanied by the removal of any state-imposed or other barriers to third party supply.

If you have any questions regarding this submission or would like to arrange to meet with AgForce representatives, please contact Dr Dale Miller, Senior Policy Advisor, on (07) 32363100 or via email (millerd@agforceqld.org.au).

Yours sincerely

Grant Maudsley
President AgForce Queensland