

16 November 2015



Ms Tanya Homan
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Queensland Productivity Commission
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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.

AN INSIDER'S STORY

EXCLUSIVE
Did Energex
conspire to
inflate
power bills

ELEC
TRICKERY

KELMENY FRASER

Cally Wilson, an Energex treasury analyst who quit on Monday, has told *SMH* that her allegations, said she was asked to manipulate data as the State Government-owned energy company looked at ways to boost revenue. The allegations come after years of spiralling household power prices, with electricity bills doubling in the past six years.

Ms Wilson (pictured) said the incident took place as Energex, which has more than 1.3 million customers, was preparing a proposal to the Australian Energy Regulator, which oversees how much the company can charge householders.

"Energex were looking at tactics ... to ensure revenues also remained high," Ms Wilson claimed. An Energex spokesman disputed Ms Wilson's version of events, saying it was on the basis for a corporate plan and not the company's revenue bid.

REPORTS P4-5

ENERGEX bosses examined how to artificially drive up household power prices after warnings of a "death spiral" in revenue, a whistleblower has claimed.

DOUBLE STING IN POWER CHARGE

EXCLUSIVE
KELMENY FRASER

ENERGY companies are slugging struggling Queenslanders millions of dollars to discover how to charge more for their power.

State-owned Energex and Ergon have spent a fortune hiring consultants and experts over the past year or more to compile a persuasive case for the Australian Energy Regulator to raise network charges.

And the costs of the exercise are passed back to households and businesses through their bills.

Energex CEO Terry Effeney this week referred to the expert advice in defending its proposal for a higher rate of return on investment than the AER guidelines advised.

"I hope you are now convinced that ultimately it is the AER who sets the decisions here," Mr Effeney said in a response to a question from *The Sunday Mail* at a forum.

The power businesses have proposed network price rises of just less than inflation over the next five years in their latest revenue bids to the AER.

While they claim it will offer price relief to households, consumer advocates argue it will "lock in" exorbitant price rises at a time when bills should be dropping.

Ergon's revenue bid has cost \$6 million to prepare. Energex did not reveal the cost of its revenue bid, but industry experts estimated it would have cost at least \$8 million.

The Major Energy Users lobby group has argued for a change to the process, arguing the AER is at a disadvantage in trying to disprove the arguments put forward by the power corporations.

"The (companies) have every incentive to overstate their needs and attempt to 'game' the regulator," the group argues in a submission to a Senate inquiry into electricity pricing.

"(They) have much more information available to them than the AER can access in the time available to complete the revenue review," it continues.

AER chairwoman Paula Conboy assured it would be "looking under the covers and kicking the tyres" of the revenue bids. The AER has taken a scalpel to revenue bids in NSW.

The Queensland revenue bids could soon be countered by a new alliance of power users being put together by lobbyist SAS Group, which has applied for grants for the move. If successful the grants would ultimately be funded by the power industry.

"We wouldn't be giving them an easy time," SAS consultant Jonathan Pavetto said.

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.

Water Year	Historical Annual Water Use		Rainfall (mm) - July-June (Bundaberg airport)
	Announced Entitlement (Megalitres)	Metered Use (Megalitres)	
2004/05	54500	26000	966.8
2005/06	50400	26600	1004.2
2006/07	50600	37000	713.8
2007/08	46400	18300	1235.8
2008/09	59500	22500	1075.1
2009/10	62300	18400	1027.5
2010/11	59900	22600	1566.6
2011/12	60000	25000	1173.2
2012/13	60300	28200	1274.8
2013/14	60500	43700	543.6
2014/15	59900	18400	632.2

Optimisation of Ergon's profitability is not in the interests of Queensland's Electricity Consumers.

"Australia's electricity system now has an installed asset base well in excess of requirements."

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;

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

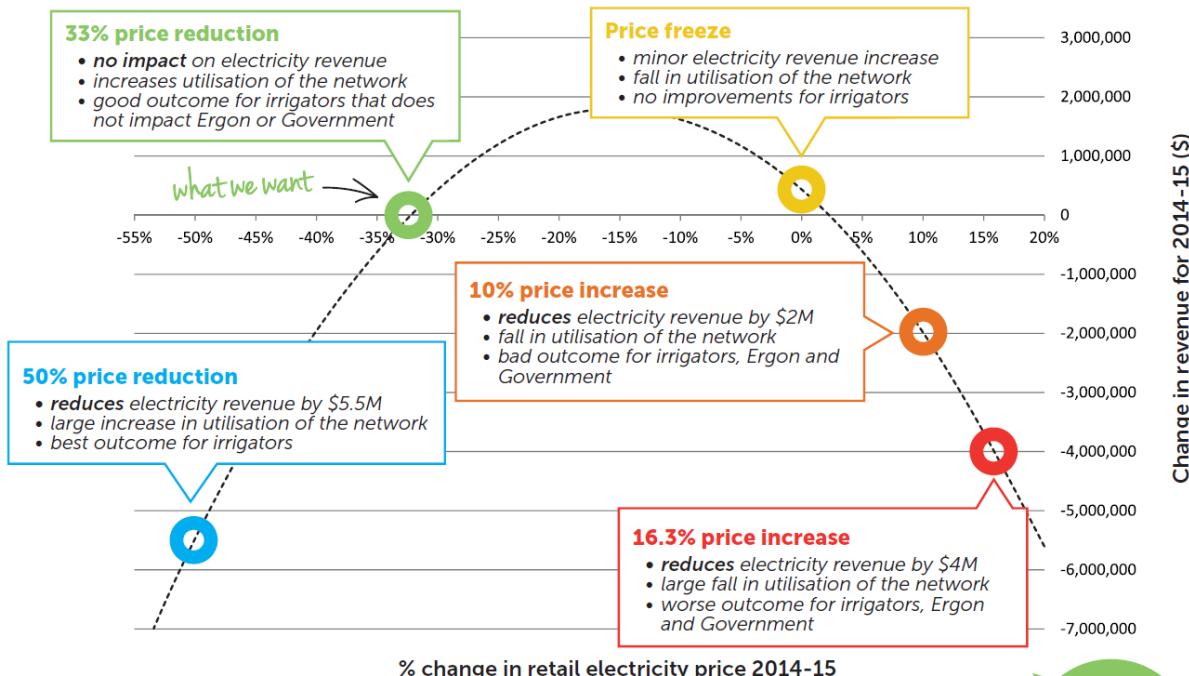


Solutions for the 2014/15 electricity prices

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.

Retail Prices 2014-15

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



► 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.

PTO to see what the change in price means for consumption and revenue 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.

A five-step approach

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 2015-20

Energy market reform

Energy efficiency and demand management

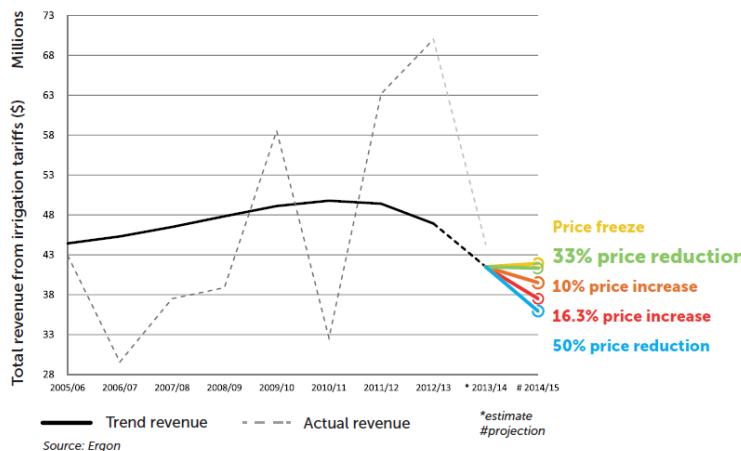
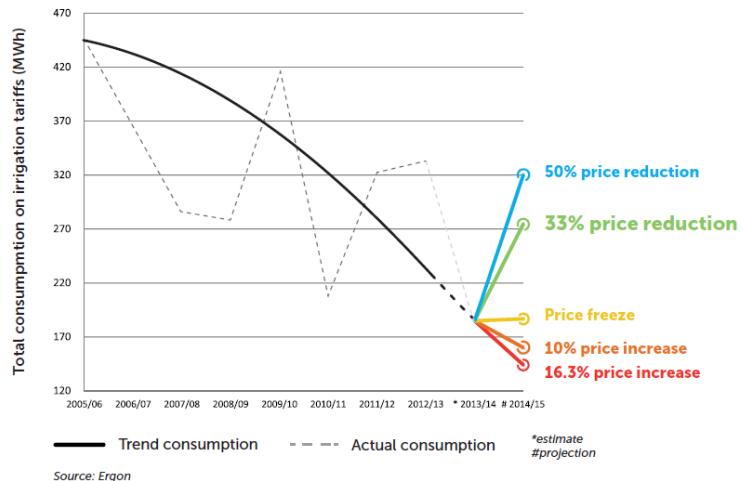
Factsheets for forthcoming issues will be provided by CANEGROWERS as they are announced.

**Retail Prices
2014-15**

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.**

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 70,200 indirectly, accounting for 15% of employees in coastal Queensland.
- \$7 billion in land and \$4 billion in infrastructure assets controlled by the industry.


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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.