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24th February 2014

General Manager, Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Email: QLDelectricity2015@aer.gov.au

Dear Mr Anderson,

Thank you for the opportunity to provide a submission on the Preliminary Positions Paper – Framework and approach for Energex and Ergon Energy. Irrigation farmers are concerned about the impact increasing electricity prices is having and will have on their enterprises. The regulatory control period 2015 to 2020 covers the remainder of the transition period that QCA has provided for tariffs that involve irrigation enterprises.

QFF submissions to date on electricity prices have continued to raise concern about the capacity of irrigation farmers to adjust to the implementation of regulated tariffs over the period to 2020. It is difficult to see how the procedures and approach outlined in the Positions Paper will drive the implementation of efficiencies by distributors that will flow through to improved tariff outcomes during this coming regulatory period. It is expected that irrigation farmers will have to cope with electricity prices during this regulatory period which reflect costs but not efficient costs.

QFF submits the following comments on key sections of the paper:

Classification of distribution services

The classification framework to determine the need and scope for regulation is adequately described. The system will maintain a significant level of regulation as most services provided by the network distributors will be subject to direct controls. It is not considered that there will be much opportunity to open competition in metering services in rural areas in the short to medium term.

Control mechanisms

AER favours continued implementation of a revenue cap for all key services with a price cap for metering services. A revenue cap reduces the risk to the distributors of under-recovery of revenue. However for irrigation farmers face highly variable water supply conditions and the costs of electricity to access this variable water supply. It is expected that the cost of improved metering will be a significant impediment to the introduction of efficient pricing structures.

Incentive schemes

QFF supports the concepts of providing incentives to improve levels of service and implement efficiencies to reduce operating and capital costs. It is understood also that the various incentive schemes are designed to work together. For example the Service target performance incentive scheme seeks to safeguard service quality which could be adversely affected by programs to reduce operating or capital costs.

The question remains however about the time it will take for the benefits of these schemes to impact on prices. It appears that at a five year regulatory period is required at least to see any benefits start to flow through to customers. There is also some doubt about how rural customers would benefit given transition periods and impediments that may exist to the distribution of incentive program benefits.

It would appear that rural areas could benefit significantly from improved demand and supply management. Opportunities to defer demand and or flatten peak demand periods could have significant implications for future prices. The demand management incentive scheme provides for an allowance for improvements in each distributor's revenue allowance for each year of a regulatory period. It is proposed also to compensate distributors for any foregone revenue as a result of demand management initiatives. However, this measure is only to be developed during the next regulatory period and only if changes are made to national regulatory rules.

Without some form of compensation for foregone revenue, electricity customers on regulated tariffs now and in the future will have to fund the demand management adjustments to distributor's annual revenue each year. The time delay and cost burden may significantly impede the implementation of important demand management opportunities particularly over the next regulatory period.

QFF has no comments at this stage on the expenditure forecast guideline, treatment of forecast depreciation and the jurisdictional and legacy issues.

Yours sincerely

A handwritten signature in black ink, appearing to read 'D. Galligan', with a stylized flourish at the end.

Dan Galligan
Chief Executive Officer