Pioneer Valley Water Co-operative Limited.
A co-operative formed under the *Cooperatives Act* 1997.
ABN 55 322 373 770.

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Reference: C10/015/10

28 February 2014

Queensland Competition Authority
GPO Box 2257
BRISBANE QLD 4001

By email to: electricity@qca.org.au

Dear Sirs

RE: Retail Electricity Price Regulation in Regional Queensland

This submission is in response to your Issues Paper of December 2013 which deals with proposals for review of the Uniform Tariff Policy in Regional Queensland.

We have provided a number of submissions in recent years to your electricity price determinations which detail the impacts of spiralling electricity costs of irrigation water supply and use on irrigation water service providers as well as individual irrigation farmers. It remains our very strong view that tariff reform must recognise the specific requirements for irrigation as part of meeting the Queensland Government's commitment to build agriculture as one of the four pillars of the economy.

Our previous submissions have clearly documented our serious concerns as to the future viability of our business and those of our customers if we are forced to transition to cost reflective tariffs as currently proposed. On this basis it is our very strong conviction that subsidies must remain for the irrigation sector particularly as we are sceptical that the current methodology of setting electricity provides the most cost effective outcome. We refer here to such matters as the excessive WACC currently provided for retailers and the number of separate agencies involved in setting parts of final tariffs for consumers.

Our comments herein relate specifically to Chapter 3 of your Issues Paper.

We note your comments that a move to a cost-reflective notified price from a uniform notified price would see a minimum increase of 30% in regional Queensland. This makes it vital for us to be provided with accurate information as what the "true" cost reflective price for our electricity is so that we can assess if we can remain viable at that cost or, alternatively provide some well-informed input into how subsidies should be applied.

Background

PVWater operates an irrigation water supply scheme at Mackay supplying to 250 customers for production of sugar cane. Total volume of water supplied within the scheme is up to 47,400 megalitres per annum and is delivered through four major pumping stations. The scheme involves pumping of water from the Pioneer River into smaller watercourses for delivery to customers as well one area where a network of pipelines and balancing storages are used to deliver directly to farm gates

An increase of over 50% in electricity cost over the last four years has placed enormous pressure on our operating budget and we are finding many of our customers now making conscious decisions to not irrigate or to pump only during off peak tariff periods due to the high cost. This is being reflected in declining overall water use in the PVWater scheme. Seasonal conditions have been dry and despite there being adequate water supply available, many sugar cane farmers are prepared to hold out for rainfall rather than use high cost electricity.

Reduced irrigation water application due to high electricity costs leads to decreasing agricultural production for the region at a time when Governments at all levels are striving for the opposite by including agriculture as one of the pillars of their economies.

<u>How should a subsidy be applied?</u>

It is our initial view that subsidy should be at the network level as it presents the best option to develop competition for retailers. Competition is intended to offer customers with options to obtain a service they require at the best price. However we would caution that with most of the population coastal based in regional Queensland, any competition may only develop in larger cities. It is unclear as to what impact competition might have on the cost of electricity to rural based irrigators.

Any costs associated with Ergon Retail restructure to a competitive entity should be met from dividends currently paid by Ergon.

<u>Setting notified prices</u>

If there is intent to base prices on actual supply costs then cost of supply in regional Queensland should be adopted. However, if Government is serious about encouraging population movement to regional areas, increasing electricity costs by 30% in regions will stifle those endeavours. Further any increases of that magnitude in electricity costs will continue the decline in electricity and irrigation water use in our scheme and consequent reduction in agricultural production.

It is our view that there should remain some connection to cost of supply in the south east for setting regional prices. Again it is difficult to make informed comment unless we are satisfied that the current levels of network and retail costs are efficient.

<u>Targeting subsidies</u>

We strongly contend that the irrigation sector must be considered as a specific area for application of a subsidy. We believe that this could be set at different levels – scheme operator and individual irrigator and we would not be opposed with the subsidy being paid directly to customers.

Yours sincerely

JR Palmer
<u>MANAGER</u>