



Pioneer Valley Water Co-operative Limited

A co-operative formed under the *Cooperatives Act 1997*

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Queensland Competition Authority
GPO Box 2257
BRISBANE Q 4001

Submitted via: www.qca.org.au/submissions

Dear Sir/Madam

Re: Regulated Retail Electricity Prices 2019-20

This submission is in response to your Interim Consultation Paper of December 2018, which includes the Terms of Reference set down by the Minister for Natural Resources, Mines and Energy for the determination of regulated retail electricity prices in Queensland for 2019-20.

Following on from our submissions to previous electricity price determinations we will focus on electricity costs incurred by irrigation water service providers and individual farmers in accessing and applying water for irrigation. It remains our very strong view that **tariffs must be developed that recognise the specific requirements of irrigation** as an integral part of meeting the goals, and particularly G8 through G10, espoused within *The Queensland Plan* for regions as a foundation for the future of Queensland.

Background

Pioneer Valley Water (PVWater) has been an irrigation water service provider since completion of the Teemurra Dam Project in 1997. The project was undertaken with an 80-year infrastructure outlook, and with a view to both drought-proofing local urban and agricultural sectors and to ameliorating historic regional community impacts associated with fluctuating agricultural productivity. Reticulation schemes (Palmyra, Septimus and Silver McGregor) within the project were designed to simultaneously encourage efficient use of the water resource *and* flatten the demand profile of the electricity network. Importantly, this was achieved at both a scheme and farm level through matching infrastructure design with price-signalling within *electricity tariffs suited to supplementary irrigation*.

In development of the project, the Queensland government approached farmers in the Pioneer Valley, encouraging uptake of allocation and subsequent investment in on-farm irrigation infrastructure. The approach to farmers included indicative fixed and usage price components encompassing the subsidised costs of electricity. There is a tacit and moral implication in any such approach, particularly by a government body, that the economic principles underpinning initial pricing will continue within forward pricing. This was the not unreasonable expectation of the Pioneer Valley irrigation community when making critical business investment decisions concerning a long-term commitment to support the Teemurra Dam Project. This support has taken the form of both initial uptake of allocation, and on-farm investments in irrigation infrastructure to make productive use of that allocation.

Impacts of recent electricity pricing increases

Pricing for electricity has since remained within the purview of the Queensland government through its ownership of the relevant government owned corporation. Despite this, under tariff arrangements designed to transition towards cost reflective pricing, the rate of increase in electricity prices to irrigators has far and away exceeded that of every other input associated with irrigation, almost doubling as a percentage of the overall water charge applicable in each of the above-mentioned reticulation schemes (refer Table 1), and placing enormous pressure on the budgets of water service providers and individual irrigators alike.

Table 1 - Average Electricity Price Increases (compounding) 2007/08 to 2018/19

Irrigation Area	Year	Electricity (\$/MI)	Average Annual % Increase Since 2008	Usage Charge (\$/MI)	Electricity as % of Water Usage Charge	Total Charge (\$/MI)	Electricity as % of Total Water Charge	Electricity price increase as % of Total Water Charge increase
Palmyra	1/07/2007 - 30/06/2008	11.10		20.10	55.22%	65.60	16.92%	80%
	1/07/2018 - 30/06/2019	27.02	8.43%	33.46	80.75%	85.47	31.61%	
Septimus	1/07/2007 - 30/06/2008	18.50		29.95	61.77%	85.45	21.65%	91%
	1/07/2018 - 30/06/2019	45.31	9.37%	54.55	83.06%	114.78	39.48%	
Silver-McGregor	1/07/2007 - 30/06/2008	14.75		23.90	61.72%	69.70	21.16%	94%
	1/07/2018 - 30/06/2019	36.53	9.24%	43.28	84.40%	92.99	39.28%	

*Increases in electricity prices shown here represent around 145% in eleven years and translate to around \$155,000 p.a. to the farmers in these schemes (based on 50% allocation usage). It should be noted that the increases in electricity costs shown are to deliver water to the farm gate and **do not include on-farm electricity cost increases for application of irrigation water to the crop.***

These ongoing significant price increases have been part of a strategy implemented by successive Queensland governments', to transition the agricultural sector towards "cost recovery" for electricity. This strategy:

- disregards the predication that subsidising electricity costs enables productivity gains required by agricultural businesses to compete in a sector where commodity returns are dictated by world markets; and
- fails to recognise that irrigation schemes were constructed to support the regional economy on the back of increased productivity, were never intended to recover input costs, and would not have proceeded on a cost recovery basis.

There can be no doubt at this point that the cost recovery model for electricity into the agriculture sector has failed water allocation holders in the Pioneer Valley (and elsewhere), where pricing increases have:

- overseen a curtailing in irrigation practices, moving away from a crop promotion basis to one of crop survival (refer Table 2), reversing productivity gains required to offset the additional fixed costs to farmers associated with allocation uptake;
- caused changes in irrigation methodologies, moving away from high-pressure irrigation (making efficient use of the natural resource and of electricity infrastructure) towards less efficient low-pressure practices;
- overseen the demise of the regional water market, with water allocations now seen as a deterrent to farm transfers, and many entitlement holders regarding their allocations as a financial burden rather than as an asset. Farmers literally cannot give their allocations away.

The data in Table 2 (next page) illustrates the stark decline in allocation usage for irrigation, comparing the percentage of available allocation applied by irrigators in years with similarly dry conditions and with similar (full) allocation availability, twelve years apart.

Table 2 - Decline in Allocation Usage 2002/03 to 2014/15

Year	Rainfall (mm)	% Allocation Available	Palmyra % Available Allocation Used	Septimus % Available Allocation Used	Silver McGregor % Available Allocation Used	All PVWater Schemes % Available Allocation Used
2002/2003	958	100%	90%	96%	54%	89%
2014/2015	906	100%	33%	54%	16%	34%

We note that the above outcomes precede the predicted step increase in electricity prices of between 60% and 140% on current pricing modelled (by Ergon) for the above irrigation schemes from 01 July 2020. We note also within the Minister's Delegation to QCA the Queensland government's commitment to assist customers in negotiating this step increase by "delivering a range of programs including the \$20 Million Business Energy Savers Program". We advise that while PVWater has made application (unsuccessfully) to take part in this program, previous investigation into scheme efficiency has indicated cost prohibitive re-design and re-construction of scheme infrastructure would be required to *attempt* to impact the magnitude of additional cost increase modelled.

We note also that Energy Queensland is in the process of revising network tariff design looking towards 2020-25, and that Ergon Energy has flagged the potential for introduction of "time of use" and "control load" tariff products. Consultation in relation to these network tariffs has failed to include modelling of outcomes through retail products to the consumer, and on current information we do not feel that they will suit the practical operational requirements of irrigation at either the scheme or farm level.

While this pricing step is still in the future, we encourage the QCA to seek early discourse with Energy Queensland, Ergon Retail, the Queensland government and the Australian Energy Regulator regarding the development and translation of network tariffs through to realistic retail tariffs for the agriculture sector. Discussions should include examination of spare network capacity in the face of the proposed introduction of demand-based tariffs. We need a return to pricing policies for electricity that adequately consider affordability, underpinning sustainable regional economic growth and the social health of regional communities, through:

- abandonment of the "cost recovery" model adopted for agriculture by Queensland state government owned corporations. This is particularly critical in relation to *supplementary* irrigated agriculture where the ability to disseminate fixed costs is severely restricted; and
- development and implementation of separate appropriate and affordable electricity tariffs (16c/kWh to the consumer) for the agricultural sector, promoting efficient use of both the water resource *and* of electricity network infrastructure.

In the interim, we need breathing space. We need historic pricing increases introduced under transitional arrangement unwound. **It cannot be emphasised enough that without intervention in the existing pricing arrangements, irrigated agriculture in the Pioneer Valley is at serious risk.**

Please feel free to contact PVWater to discuss any aspect of the information presented here, or to seek additional details. We look forward to participating in the proposed QCA workshop.

Yours sincerely,



Greg Dawes
Manager / Co-operative Secretary