

Issue: The **high cost of electricity** in irrigation is undermining the competitiveness of irrigated sugarcane production.

$cost = price \times quantity$

To reduce the quantity used, efficiency can be increased

WORKSTREAM:

Energy efficiency & demand management

- System upgrades
- Scheduling (BMP)
- Irrigation scheme improvement

Different customer groups have different tariffs to reflect the different costs of supplying energy.

The QCA has delegated authority to regulate retail electricity prices every year. These prices appear in the "gazette" – the schedule of different prices

The QCA is legally obliged to follow its delegation from the Minister for Energy.

The delegation states that the QCA must develop and regulate retail tariffs on the N+R methodology.

WORKSTREAM:

RETAIL Prices 2014-15 T62 / T65 / T66 (only)

- Increasing prices will reduce revenues
- 15% reduction in price will maximise revenues
- 33% reduction will be revenue neutral

Queensland Competition Authority (QCA)

Irrigation tariffs are "transitional" because they have no AER approved network tariff (N).

Transitional arrangements will expire in 2020.

Transitional tariffs:
T62 / T65 / T66

Minister for Energy can change his delegation to the QCA for 2015-16 and beyond

Minister for Energy has discretion over pricing of transitional tariffs in the gazette, but not structure of transitional tariffs.

The QCA uses the AER approved network tariff (N) as a pass-through – it is assumed this cost is "cost reflective".

The QCA only regulates the retail and energy costs of the retail tariffs.

WORKSTREAM:

Market reform

- 30-year energy strategy
- Metrology procedures
- Retail competition in regional QLD
- Reliability standards
- Solar Feed-in tariffs
- Redundant assets
- Next QCA delegation
- Federal Energy White Paper
- Split cost of capital (WACC)

Cost reflective tariffs:

$N + R$

The R component is not 100% cost reflective, but not to the fault of the QCA.

Retail:

Ergon Retail is the monopoly retailer outside South East QLD.

To introduce retail competition in regional QLD, the QLD Government must change how it applies the Uniform Tariff Policy (UTP). This work is already underway.

Energy:

The estimated cost of wholesale energy does not reflect differences in peak and off-peak prices in the National Energy Market (NEM).

To fix this issue, the QLD Government must change its policy on "metrology procedures" and notify the Australian Energy Market Commission (AEMC).

The AER regulates transmission and distribution networks in Queensland.

Australian Energy Regulator (AER)

FIRST:

Every 5-years, the AER sets the allowed revenues for networks.

Higher revenues = higher prices in the 5-year period.

WORKSTREAM:

AER Regulatory Reset 2015-20

- Size of allowed revenues
- Demand forecasts
- Future Capex
- Future Opex
- Benchmarking

SECOND:

Every year, the AER approves network tariffs. Different tariffs are designed to reflect the different cost of supplying types of customers

The AER only approves network tariffs – they first must be proposed by networks

IMPORTANT:

The AER's allowed revenues are always inflated. The AER is bound by the "National Electricity Rules" which prohibit the AER from examining networks' true cost of supply.

Changing how the AER applies these rules is a policy decision for the QLD Government as the network owner.

The AER must allow networks to receive the "market" cost of debt and a high-risk equity allowance, instead of the "real" QLD Treasury cost of debt.

The full costs of the 44c/kWh Solar Bonus Scheme is included in the allowed revenues and passed on to consumers.

The AER cannot optimise the Regulated Asset Base or prudence of past investments, especially investments made to meet the N-1 reliability standard

Ergon Energy

1. Customer Class:

Network tariffs are developed according to customer class.

There is a strong case for irrigators to be a separate customer class – primarily due to connection type, metering requirements, consumption profile and low reliability needs.

2. Cost Allocation Methodology (CAM):

Network tariffs specifically for irrigation need to reflect the cost of supplying energy to irrigators.

To find the real cost, there is an AER approved CAM that allocates the cost of supply between customer classes. The CAM allocates the construction/replacement and maintenance of different assets to different customer classes and how/when these customer classes use energy.

It is generally accepted the real cost of supplying irrigators is below what is recognised as the current cost of supply.

3. Tariff development:

Tariffs are a mechanism to charge customers based on their use of the network. The primary purpose of tariffs is to collect revenues to cover the costs of supply (identified in the CAM process).

Efficient tariffs are designed to collect revenues while maximising consumption, by taking into account both the cost of supply and consumer capacity to pay.

WORKSTREAM:

Irrigation network tariffs

- Cost Allocation
- Tariff development
 - Base load (flat load)
 - Time-of-Use