CANEGROWERS

190 Edward Street (GPO Box 1032)
BRISBANE QLD 4001
T: 07 3864 6444 F: 07 3864 6429
enquiry@canegrowers.com.au
www.canegrowers.com.au

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Ian McLeod
Chief Executive Officer
Ergon Energy

By email: ian.mcleod@ergon.com.au
futurenetworktariffs@ergon.com.au

Dear Ian

CANEGROWERS response to Tariff Implementation Report

Thank you for the opportunity to respond to the findings of Frontier Economics' *Tariff Implementation Report*. Developing a suite of network tariffs for specific use in irrigated cropping systems required for food and fibre production is vital to ensure the viability of irrigated agriculture in Queensland.

It is a concern that Frontier Economics has not responded many of the issues CANEGROWERS raised in its submission and in meetings with you and your team. Of particular concern is the lack of weight Frontier Economics has placed on the impact of the proposed tariff structures on consumer demand for electricity and the likely longer term consequences for Ergon's business, both in terms of asset utilisation and total revenue. This is reflected in the report's cursory acknowledgement of the impact of electricity prices on export oriented businesses and failure to link falling demand for electricity to rapidly rising electricity prices.

Irrigators using the existing suite of tariffs (T62, T65, T66) are caught in a cost price squeeze. Sugar prices have fallen sharply, 25% since mid-October 2013 and the upward electricity price spiral of recent years is expected to continue. In this environment, irrigators are seeking to avoid the impact of rising electricity prices by changing practices to improve their energy use efficiency: some are using alternative sources of energy; some are simply reducing the amount of water they apply to crops; and some farmers are not irrigating at all. Consequently, demand for electricity from across all irrigation tariffs is falling at an accelerating rate. Every price increase to irrigation tariffs over the last several years has reduced Ergon's total revenue take from the irrigation community.

As well as being unsustainable from an irrigator's perspective, the price increases are not helping Ergon meet its revenue targets and call into question the sustainability of current network pricing strategy from Ergon's own perspective. CANEGROWERS is concerned that without the introduction of dedicated network tariffs for irrigated cropping systems that reduce the effective price of electricity for irrigators, irrigated agriculture in Queensland will contract, no-longer being economically viable for some.

CANEGROWERS regards Ergon's Tariff Review as an opportunity to recognise irrigators as a separate class of users, independent of the ICC, CAC and SAC classes and encourages Ergon to develop a suite of network tariffs for electricity used for irrigation in food and fibre production. Irrigation tariffs would enable monetization of the benefits off-peak and base load irrigation can provide to effective network load management. The tariffs would also recognise the lower cost of supply per kWh compared to other users who are more heavily embedded in the network and have not made significant capital contributions to the development of the network. The Frontier Economics report neither acknowledges nor investigates these opportunities.

CANEGROWERS strongly supports the development of a suite of tariffs for electricity used for irrigation in food and fibre production. Efficiently designed irrigation tariffs will encourage increased network use in off-peak times, expand the productive capacity of Queensland's agricultural sector and play an integral role in delivering the Queensland Government's vision of a 4-pillar economy. Tariff reform is in the interests of Ergon, the Queensland Government and irrigators alike.

As we have discussed, CANEGROWERS is committed to working with Ergon on the development of a suite of network tariffs suitable for use in irrigated cropping systems.

Please include CANEGROWERS in further deliberations regarding the Ergon Network Tariff Review. If you have any further questions, please do not hesitate to contact me on (07) 3864 6444.

Yours faithfully,

Warren Males
Head – Economics