CANEGROWERS

FACT SHEET:
SERIES

Response to QCA claims of "cost reflectivity" and application of the CSO to irrigators

Retail Prices 2014-15

In May 2014, CANEGROWERS started advocating for a 33% price cut to retail irrigation tariffs, T62, T65 and T66. The proposed price cut is designed to short-circuit the pricing death spiral, by lowering the price to irrigators, allowing them to use more electricity to power their irrigation systems and grow more sugarcane. The proposal was also revenue neutral to both Ergon and the Queensland Government.

In response to the CANEGROWERS proposal, the Queensland Competition Authority (QCA) said that irrigators are already supplied well below the "cost reflective" rate and the CANEGROWERS proposal would drastically expand subsidies to irrigators under the Community Service Obligation (CSO).

To analyse the validity of the QCA claims, CANEGROWERS called on an independent, energy sector export, Bruce Mountain from CME. The highlights of his findings are presented in this factsheet.

▸ *Are irrigators being supplied at well below cost?*

NO. In 2013/14, Ergon's average allowed revenue was 8.3c/kWh. Over the same period, irrigators on Tariffs T62, T65 and T66 paid an effective network charge of 11.4c/kWh. This means irrigators paid a higher effective price than Ergon's average allowed revenue per kWh. Further, in 2013/14, average consumption on T62, T65 and T66 was 18.2MWh, per irrigator. This consumption was above the Ergon average annual consumption of 15.5MWh per customer.

Combining the higher average price and higher average consumption, irrigators are paying 38% more in network charges than an "average" Ergon customer.

▸ *Would CANEGROWERS proposal to cut prices by 33% increase the CSO?*

NO. Bruce Mountain was asked to comment on the CANEGROWERS proposal. His clear view is that the proposal is "well founded economically".

The CANEGROWERS proposal to cut prices by 33% is based on the fact a very high proportion of the costs to provide electricity (network, generation and retail) are fixed, despite the volumetric structure of tariff prices. Of particular relevance is the AER approved network revenue caps, which account for over 50% of a typical bill and are set independent of consumption.

CANEGROWERS analysis of Ergon's irrigator consumption data from 1997/98 to 2012/13 showed consumption had fallen by more than 50%. Analysis suggests a price cut of 33% is revenue neutral, as consumption will, on average, increase by 48% per year.

Higher consumption means a lower network charge is required. This in turn requires a lower CSO.

Both of the QCA's main claims have been refuted

A five-step approach

While this factsheet focusses on retail prices for 2014-15, CANEGROWERS is actively involved in all areas of the electricity pricing reform. The five key components of our strategy to get the best result for irrigators are:

Retail prices 2014/15	**Network tariff reform**	**AER Regulatory Reset 2015–20**	**Energy market reform**	**Energy efficiency and demand management**

Factsheets for forthcoming issues will be provided by CANEGROWERS as they are announced.

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Retail Prices 2014-15

Are Ergon network prices "cost reflective"?

NO. Ergon tries to justify its high network prices by saying it has the lowest customer density in the National Electricity Market (NEM). However, Ergon fails to mention that it has the highest energy density in the NEM. Energy density is a far more important indicator for price because consumers are charged on a ¢/kWh basis, not on a ¢/customer basis. This may explain why Ergon has the highest profit per customer – of all network providers – in the NEM.

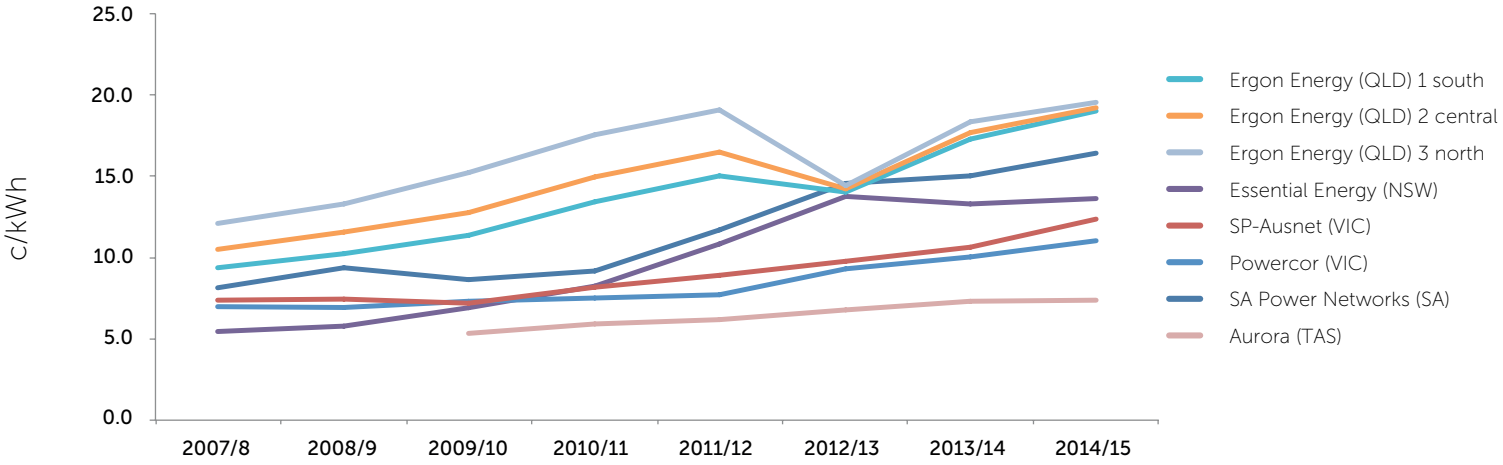
Bruce Mountain's analysis shows:

1. *Ergon's revenue/connection is far higher than any other Australian DNSP*
2. *Ergon customers have the highest average consumption in the NEM*
3. *Ergon has a very much higher RAB/connection than all other DNSPs*
4. *Ergon has the second highest operating costs/connection*
5. *After payment of the CSO, Ergon is by far the most profitable government owned DNSP*

Using the average consumption profile of Ergon irrigators, the CME Report compares what irrigators would have paid on Ergon tariffs relative to other comparable DSNPs in the NEM (see the graph below).

QLD irrigators were charged the "cost reflective" rate in Ergon's zone 1 (south), 2 (central) and 3 (north). They would consistently pay more than another irrigator in the NEM.

Average prices of rural networks



Ergon's network is primarily made of very cheap technology, commonly used by rural network providers – 99% of Ergon's network is overhead and 45% of the overhead wire is Single Wire Earth Return (SWER). Ergon's network is not dissimilar to other rural network providers such as Aurora (Tas), SP-Ausnet (Vic), Powercor (Vic) and Essential Energy (NSW) – who all have significantly lower network charges. The similarity of the technology and the large disparity in prices shows that Ergon's network prices are not "cost reflective".

Big Industry – Big Impact

- *World's third largest exporter of sugar (80% of Australian sugar is exported).*
- *$2 billion value to the Queensland economy (to the annual Gross State Product).*
- *Second largest agricultural commodity in Queensland.*
- *15,600 jobs directly, and 70,200 indirectly, accounting for 15% of employees in coastal Queensland.*
- *$7 billion in land and $4 billion in infrastructure assets controlled by the industry.*

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Canegrowers is the peak representitive body for Australian sugarcane growers. Representing some 80% of growers, CANEGROWERS ensures growers needs are represented at the highest possible level of industry and government decision making. For more information visit www.canegrowers.com.au.