



Office of the

Minister for Energy and Water Supply

Ref: EWS/005069

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1 July 2014

Mr Neil Laurie
The Clerk of the Parliament
Parliament House
George Street
BRISBANE QLD 4000

Neil

Dear Mr Laurie

I refer to your letter of 4 June 2014 enclosing copies of Petition No. 2257-14 and 2269-14 lodged in the Queensland Legislative Assembly.

The Petitions draw to the attention of the House the plight of Queensland's cane farmers and irrigators, and their calls for an immediate 33 per cent reduction in the farming and irrigation electricity tariffs – Tariffs 62, 65 and 66.

The Newman Government recognises electricity price increases experienced by all Queenslanders over the last decade are totally unacceptable. That is why the Government is putting the entire electricity supply chain under the microscope to identify challenges and opportunities, targeting efficiencies to ensure Queenslanders are getting the most cost-effective supply of electricity possible, and, importantly, unlike what has happened in the past, we are using all the work we have done with Queensland residents, businesses, as well as community and industry leaders, to develop a strong plan for a brighter energy future for Queensland.

Sadly, while this Government is taking significant steps toward stabilising future electricity prices, which have more than doubled over the past decade, there is no quick fix. Indeed, the biggest challenge facing this Government is how to end the increasingly high electricity prices that have followed Labor's 2004 electricity crisis. For example, the decade of unsustainably-high price increases – caused by Labor's reckless "blank cheque" (i.e. "gold-plating") and political intervention in the market (i.e. bias against coal, ALP-union patronage and the introduction of other economically-irresponsible policies like the carbon tax, the solar bonus scheme and the renewable energy target) – were locked-in to the future cost of supply by Labor governments and are still the biggest cost driver for current and future electricity prices.

This Government wants a fair system for all. That is why, through the *Electricity Act 1994*, I delegate the power to set regulated retail electricity prices to the Queensland Competition Authority (QCA). Under this delegation, the QCA is required by law to set regulated prices that reflect the costs of supply. However, the tariffs currently used by farmers and irrigators do not pass through these supply costs. Thus, the price increases by the QCA in its 2014-15 final determination are consistent with the long-term approach of moving these transitional tariffs to more cost-reflective prices. Petitioners can access a copy of the QCA's final determination for 2014-15 electricity prices on its website at: www.qca.org.au/getattachment/25696fbc-b4ed-42c4-8d16-fd3efddb563e/Final-Determination.aspx

Pricing electricity without regard to supply costs places upward pressure on the Community Service Obligation (CSO) payment that subsidises the electricity prices charged by Ergon Energy (Ergon), which provides electricity in regional Queensland. This Government subsidy, which is budgeted to cost Queensland tax-payers \$662.4 million in 2014–15, ensures that where possible, customers on regulated prices in regional Queensland pay no more for their electricity than customers in Brisbane.

At the moment, the transitional farming and irrigation tariffs are actually set below the cheaper cost of supplying electricity in South East Queensland. These tariffs are not currently based on a specific network charge, nor do they accurately reflect the other generation, green-scheme and retailer costs of the electricity supply chain. Residential and many business customers in regional Queensland do not receive this extra level of subsidy. This situation is difficult to sustain and the QCA plans to phase out the transitional tariffs by 1 July 2020, when irrigators must move to more cost-reflective tariffs.

I am pleased to advise the Government is also working with key stakeholders to ensure electricity tariffs are appropriately structured in the future. However, as part of this work, Ergon has advised that it is unlikely to be able to develop a cost-reflective food and fibre tariff that aligns with the consumption characteristics of farming and irrigation customers. This is because Ergon's analysis indicates these customers have a wide range of consumption characteristics reflecting different irrigation technologies, operating regimes, local climate, water availability and even commodity prices.

Farming and irrigation electricity consumption has also varied greatly in recent years, despite rising electricity prices. This demonstrates that reducing the current tariffs cannot guarantee that farming and irrigation consumption would increase while having zero net-impact on the CSO, as CANEGROWERS claim would happen. The QCA advises that the proposal could increase the public subsidy for these customers though the Government's CSO payments from \$32 million in 2013–14 to at least \$82 million in 2014–15. Petitioners can access a copy of the QCA's analysis on its website at: www.qca.org.au/getattachment/91e63b86-a3f9-4b6b-b2db-cdad71d8f8b/Canegrowers-proposal-for-lower-irrigation-tariffs.aspx

I understand the difficulties faced by agricultural producers but cannot single out a particular group for preferential treatment when all Queenslanders are indiscriminately being impacted by electricity price rises locked into the cost of supply by the previous government. This is particularly the case when the Government already heavily subsidises electricity prices and provides other drought assistance measures in regional Queensland. In addition, most other states and territories do not offer dedicated farming or irrigation electricity tariffs. Importantly, those that do, offer rates that are similar to general business tariffs and are not heavily subsidised.

I am pleased to advise petitioners that my department is working with the Department of Agriculture, Fisheries and Forestry, Ergon Energy and the Queensland Farmers Federation to develop an initiative aimed at addressing the rising costs of water and energy. This initiative is likely to focus on reducing demand for electricity and using electricity more efficiently, both on farms and across all parts of the irrigation supply system. The first phase of this project involves energy audits of a number of irrigators across Queensland to develop recommended actions and case studies, which would then be shared across primary industries relying on irrigation. Once the details are finalised, it is expected that an official announcement will be made setting out the details of this initiative.

Finally, over the long-term I can assure the petitioners that key reforms are being implemented by the Government, as per the recommendations of the Commission of Audit, Interdepartmental Committee and Independent Review Panel on Network Costs that will put downward pressure on future electricity prices. These reforms include reducing network costs and examining ways to introduce greater competition into regional areas, which are also key concerns of agricultural industry groups. However, unlike scrapping the carbon tax, these reform measures will not provide immediate relief from electricity cost pressures because the increases that all customers have been experiencing were built into the supply system over many years.

The Newman Government is determined to ensure that the policy reforms underway deliver equitable and stable electricity prices for all consumers over the long-term.

I trust this information is helpful and thank you for bringing the petitioners' concerns to my attention.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Mark McArdle', with a stylized flourish at the end.

Mark McArdle MP
Minister for Energy and Water Supply