COTTON AUSTRALIA

Advancing Australian Cotton

Queensland Competition Authority
GPO Box 2257
Brisbane Qld 4001
Email: electricity@qca.org.au

28-2-2014

Re Submission on Regulated Retail Electricity Prices for 2014-15

Thank you for the opportunity to provide this brief submission on the Draft Determination *Regulated Retail Electricity Prices for 2014-15*.

Cotton Australia represents the interests of Queensland's cotton producers and ginners, and is also a member of the Queensland Farmers Federation (QFF). In addition to this submission Cotton Australia endorses the submission lodged by QFF.

Cotton Australia cannot support the draft determination's increase of 16.3% for the main tariffs used by irrigators (T62, T65 & T66). While it is clear that the QCA has undertaken a detailed assessment of actual and theoretical costs in making its determination, it is highly concerning that it can calculate double digit increases year-on-year.

While some spikes in costs inconsistent with CPI maybe understandable, 14 years of price increases far above CPI strongly suggests that either the pricing mechanism is flawed or the electricity sector is highly inefficient or a combination of both.

Since 2014 irrigation tariffs have risen by approximately 270%, while according to the Reserve Bank of Australia's inflation calculator cumulative inflation from 2000 to 2013 was 44.8%, averaging 2.9% per annum.

It is essential that the QCA "reality checks" its assumptions and calculations prior to making its final Determination.

Cotton Australia is aware that it is not specifically within the Ministerial Delegation to the QCA for it to consider the impact on the profitability and sustainability of the industries that utilise electricity. However, it seems bizarre that the QCA must take into account "the effect of the price determination on competition in the Queensland electricity market", yet not into account of the impact of the prices on the profitability of the enterprises that use electricity, and possibly more importantly the anticipated changes in demand and consumption that will result from higher prices.

The Queensland electricity sector in general, and the rural user sector in particular, has already commenced an electricity use "death spiral".

COTTON AUSTRALIA
Advancing Australian Cotton

More and more consumers are either going fully or partially "off-grid", in many cases enjoying overly generous subsidies (such as the Solar Feed-in Tariff Bonus). These subsidies are funded by remaining grid customers, who also face ever-increasing prices, so that the overall revenue requirements of the network and retail sector can be serviced, further incentivising consumers to leave the grid, and feeding the "death spiral".

Within the cotton industry significant numbers of growers are actively investing in solar and other alternative energy sources so they can either go completely "off-grid" or reduce their dependence on the "grid supply".

While these growers are acting in the best interests of their own businesses, their actions are putting further pricing pressure on those growers who remain on grid.

Cotton Australia is aware of analysis done by Canegrowers which clearly shows a long-term reduction in demand that can be linked to the period of significant price increases.

Cotton Australia urges both the QCA and the Queensland Government to undertake more extensive evaluation of the Canegrowers data to test the premise that electricity price reductions would actually stimulate demand, and lead to increase revenue for the electricity sector, while providing a more affordable supply for consumers such as irrigators.

The current pricing model is simply not working.

Cotton Australia would like to make the following specific points on the QCA Draft Determination.

Dealing with Carbon Uncertainty (p iv)

Cotton Australia calls for the QCA to ensure the process is in place for the full benefit of the removal of the Carbon Tax to be passed through to all consumers immediately upon its removal. Given the issue QCA has raised about its inability to change retail prices mid-year without a specific delegation from the Minister, Cotton Australia calls on both the Minister and the QCA to ensure adequate arrangements are in place to ensure the carbon cost component is removed, should the Carbon Tax be repealed post July 1, 2014.

Cotton Australia calls on the QCA to amend its draft determination, so that the full impost of the carbon tax is removed from the transitional once the Carbon Tax is repealed.

Cotton Australia does not accept the QCA argument for a 10% floor for transitional tariffs, as a means of closing the gap between the transitional tariffs and what QCA deems to be "cost reflective prices" for these tariffs.

The QCA must recognise that the Carbon Tax was a Federally imposed tax, and its expected removal should not be used as a method of increasing the cost of these transitional tariffs.

Any Determination that does not fully pass on the benefit of the expected removal of the Carbon Tax will be vigorously opposed by the Cotton Industry.

Ministerial Delegation (p 9)

While the QCA may reasonably argue that the Delegation does not specifically require it to take into account the effect their pricing Determinations may have on future demand and therefore the "Death Spiral" referred to earlier in this submission, Cotton Australia does contend that the latitude provide by Section 90 (5) (b) Electricity Act gives the QCA the power to fully consider these impacts, and take them into account when making its Determination.

Cotton Australia calls on the QCA to undertake comprehensive analysis of the elasticity or otherwise of electricity demand, and fully consider the results of this study prior to making its final Determination.

Small Business and Unmetered Supplies (p 13)

Cotton Australia repeats its call for the introduction of specific Food & Fibre tariffs that reflect the load profile and use patterns of irrigators and other primary producer users.

While the current transitional tariffs are adequate in this regard, the tariffs that primary producers are being transitioned to, are for the vast majority of primary producers unsuitable, and if forced to adopt them, would put in considerable jeopardy the Queensland Government's agriculture strategy to double production.

While Cotton Australia can accept that the QCA is technically correct that it cannot examine network costs, and can only pass them through, this represents a major flaw in the pricing process. It is ridiculous that the body charged with setting Queensland's retail electricity prices does not have the power to interrogate the veracity and prudency of a cost that represents 50% of its final charges.

Cotton Australia calls on the Queensland Government to initiate a complete review of all the factors that contribute to electricity pricing in this State, and the impact that electricity pricing is likely to have on all sectors of the Queensland economy.

COTTON AUSTRALIA
Advancing Australian Cotton

Network Charges for Very Large Customer (p 15)

While Cotton Australia has long been concerned about the quantum of charges, it welcomes the decision of the QCA to maintain its approach for setting tariffs for Very Large Customers.

Cotton Australia would strongly oppose any move towards site specific network charges for Very Large Customers, as it would have a massive impact on the economic sustainability of essential operations such as cotton ginning.

Implementing the Benchmarking Approach (p30)

Cotton Australia is concerned about the QCA decision to allow the $3.80 component per customer for late payment. While Cotton Australia may not have a full understanding of the legal framework around this issue, it does not seem right that all customers should have to foot the bill for the cost of late payments caused by a few.

Cotton Australia calls for a mechanism to be put in place to ensure that customers who make timely payments are not incurring cost caused by the late payments of others.

Customer Acquisition and Retention Costs (p31)

Cotton Australia believes that the cost of customer attraction should be seen as a capital cost, one that must be incurred by a business to grow the business, and not viewed as an operating cost.

Further, Cotton Australia can see no justification for a Customer Acquisition and Retention Cost to be applied to Ergon's tariffs as it remains the case that there is no evidence of any real opportunity for competition. While Cotton Australia is generally supportive of competition, the value and impact of the Uniform Tariff policy is much greater, and unless and until the benefits of the UTP can be maintained in a way that also allows the development of true competition then these costs are unjustified, regardless of the QCA view as to whether they are operational or not in nature.

Competition consideration (p37)

Cotton Australia opposes the continuation of the "headroom" charge, primarily on the basis that it is unjustified cost for small business and residential customers in the Ergon area, where as explained above there is not currently an atmosphere conducive to effective competition, and secondly because the evidence presented by QCA seem to be inconclusive as to whether the "headroom" charge has done anything to foster greater competition in either South-East Queensland or for large customers in the Ergon area.

COTTON AUSTRALIA
Advancing Australian Cotton

The shear concept of a "headroom" charge fails the consumer reality test. It is akin to any retailer putting up prices by 50% one day, so they can advertise a 33% off sale the next.

Transitional Arrangements for Obsolete and Transitional tariffs

Cotton Australia welcomes the QCA decision not to seek to recover the 10% plus increase in tariffs that irrigators would have faced, if the government last year had not made the policy decision to cap the increase to 10%. Cotton Australia concurs with the reasoning of the QCA in adopting this position.

However, Cotton Australia remains very concerned about the QCAs approach to transitional tariffs. While Cotton Australia appreciates the seven-year transitional period, as opposed to the one-year originally put in place (2012), the fact of the matter is that the tariffs being transitioned to are not suitable for the vast majority of irrigator users.
Broadly speaking, cotton grower irrigation electricity-use profiles fall into three categories and the new tariff structures will impact on these categories differently.

Large Users: Typically, these are larger users with a high reliance on supplemented, unsupplemented and overland flows. When water is available in the river at levels that satisfy their licence requirements, they activate their pumps, and will pump 24hrs a day, seven days per week while the water is available.

However, the reality is that months, and sometimes years, may pass with no pumping, and when pumping is activated it may be for as little as day, could extend to several days or even weeks, but would very rarely extend to a month of continuous pumping. Therefore, there is normally no opportunity to effectively balance out the high demand charge component, against the lower usage charges.

Typically they use large capacity pumps, which do have relatively high electricity requirements.

Their usage profile can be summarised as relatively high demand requirement, highly climate dependant, and episodic usage. The St George Case Study in Section 3 covers Large Users.

24hr Users: Typically these are users with smaller water licences than the larger users described above, who use electricity not only to draw water from their primary source be it river, bore or overland flow, but may also use electricity to power irrigation systems such as drip irrigation, centre pivot irrigators or recycling pumps.

When they pump, they tend to pump for 24hr periods, and their usage is a little more predictable that the large users describe above, but still with significant variability, primarily related to season conditions.

Their usage profile can be summarised as medium demand requirement, broadly predictable, but still subject to significant climate induced variability.

Off-Peak: Usage is similar to the 24 Hour users described above, except these users have invested in higher capacity infrastructure, allowing them to operate primarily during off-peak/shoulder periods, such as nights and weekends.

Their usage profile can be summarised as having a higher peak demand per hectare irrigated (when compared with 24hr users), broadly predictable, but subject to significant climate induced variability and a high preference for off-peak/shoulder use.

Off-peak usage is also favoured by many growers for their recycling pumps.

It is imperative that suitable tariffs that reflect the above usage patterns are available to irrigators, and quite simply Tariffs 22, 44, 45 and 46 do not meet those requirements.

To put is simply, irrigators, including cotton growers, need access to tariffs that prices electricity in harmony with their usage patterns.

In particular the demand based tariffs that QCA believes larger users should transition to, are completely inadequate and not cost effective for flood harvesters who need relatively large amounts of electricity, for short-periods of time, at largely unpredictable intervals.

Cotton Australia is appalled by the data provided by Ergon on potential bill impacts for customers being transitioned from the current farming and irrigation tariffs to the demand based tariffs.

Last year Cotton Australia has a number of irrigators in the St George district provide it with data, supplied by Ergon, on the impact of changing tariffs, and the results are considerable different to the aggregated data provide by Ergon and included by the QCA in Appendix D.

A number of typical examples are reproduced on the following pages.

It is clear that if faced with these tariff structures and associated electricity price increases, the growers will have no option to switch to alternative energy sources such as diesel, which will not only lead to a requirement for massive investment on the behalves, but will also see the 33KVA line completely un-utilised, and Ergon receiving no return from its installed infrastructure.

Note that the increase costs are in the order of 400%, many times higher than the impacts presented by Ergon in Figure 20.

COTTON AUSTRALIA
Advancing Australian Cotton

Date	kWh	44	45	46	65	% Night	kWh/day	Days
27/09/2011	17494	$ 21,711.19	$ 20,854.60	$ 40,554.26	$ 3,979.56	48%	182.23	96
23/06/2011	27495	$ 21,859.45	$ 21,065.42	$ 40,116.67	$ 6,371.22	44%	298.86	92
23/03/2011	51623	$ 23,486.88	$ 22,834.38	$ 42,531.21	$ 11,655.01	48%	567.29	91
22/12/2010	9642	$ 18,493.32	$ 17,834.84	$ 37,230.90	$ 1,713.33	89%	107.13	90
23/09/2010	3891	$ 18,208.14	$ 17,535.03	$ 37,362.11	$ 1,000.75	33%	42.29	92
23/06/2010	0	$ -	$ -	$ -	$ -	0%	0.00	0
23/06/2010	0	$ -	$ -	$ -	$ -	0%	0.00	0
23/06/2010	0	$ -	$ -	$ -	$ -	0%	0.00	0
23/06/2010	0	$ -	$ -	$ -	$ -	0%	0.00	0
23/06/2010	0	$ -	$ -	$ -	$ -	0%	0.00	0
23/06/2010	0	$ -	$ -	$ -	$ -	0%	0.00	0
23/06/2010	0	$ -	$ -	$ -	$ -	0%	0.00	0
Low Voltage	**110145**	**$ 103,758.98**	**$ 100,124.27**	**$ 197,795.16**	**$ 24,719.86**	**Average**	**238.93**	**461**

Current Tariff	**65**	
Possible Savings		**%**
44	**-$ 79,039.12**	**-76.2%**
45	**-$ 75,404.41**	**-75.3%**
46	**-$ 173,075.30**	**-87.5%**
-	-	**0.0%**
-	-	**0.0%**

* Please check the tariff conditions to ensure that you understand, accept and agree to those conditions.

Demand kWh
181.00 Maximum
173.80 Average

COTTON AUSTRALIA

Advancing Australian Cotton

Date	kWh	44	45	46	62	% Night	kWh/day	Days
21/12/2011	160423	$ 95,422.25	$ 86,669.56	$ 85,340.82	$ 33,315.29	60%	1887.33	85
27/09/2011	2452	$ 24,842.45	$ 23,326.92	$ 38,798.88	$ 593.29	60%	25.54	96
23/06/2011	249871	$ 114,668.27	$ 104,858.88	$ 103,336.10	$ 51,875.60	58%	2715.99	92
23/03/2011	620620	$ 159,173.10	$ 149,177.96	$ 147,598.07	$ 124,545.00	60%	6820.00	91
22/12/2010	0	$ -	$ -	$ -	$ -	0%	0.00	0
22/12/2010	0	$ -	$ -	$ -	$ -	0%	0.00	0
22/12/2010	0	$ -	$ -	$ -	$ -	0%	0.00	0
22/12/2010	0	$ -	$ -	$ -	$ -	0%	0.00	0
22/12/2010	0	$ -	$ -	$ -	$ -	0%	0.00	0
22/12/2010	0	$ -	$ -	$ -	$ -	0%	0.00	0
22/12/2010	0	$ -	$ -	$ -	$ -	0%	0.00	0
22/12/2010	0	$ -	$ -	$ -	$ -	0%	0.00	0
Low Voltage	**1033366**	**$ 394,106.06**	**$ 364,033.32**	**$ 375,073.86**	**$ 210,329.18**	**Average**	**2838.92**	**364**

Current Tariff	62	
Possible Savings		**%**
44	**-$ 183,776.88**	**-46.6%**
45	**-$ 153,704.14**	**-42.2%**
46	**-$ 164,744.69**	**-43.9%**
-	-	**0.0%**
-	-	**0.0%**

* Please check the tariff conditions to ensure that you understand, accept and agree to those conditions.

Demand kWh

872.00 Maximum

693.75 Average

COTTON AUSTRALIA LIMITED – A.B.N 24 054 122 879
HEAD OFFICE: SUITE 4.01, 247 COWARD ST, MASCOT NSW 2020 P (02) 9669 5222 F (02) 9669 5511
TOOWOOMBA OFFICE: 115 CAMPBELL ST, TOOWOOMBA QLD 4350
NARRABRI OFFICE: LEVEL 2, 2 LLOYD ST, NARRABRI NSW 2390

www.cottonaustralia.com.au

COTTON AUSTRALIA

Advancing Australian Cotton

Date	kWh	20	22	41	62	% Night	kWh/day	Days
19/07/2012	585	$ 236.31	$ 227.25	$ 15,695.57	$ 160.60	77%	6.43	91
19/04/2012	30627	$ 6,857.12	$ 6,552.16	$ 20,184.11	$ 7,301.08	53%	312.52	98
12/01/2012	65570	$ 14,547.24	$ 13,775.53	$ 23,834.54	$ 14,361.45	61%	675.98	97
7/10/2011	487	$ 204.10	$ 195.73	$ 14,138.87	$ 129.08	84%	5.94	82
17/07/2011	0	$ -	$ -	$ -	$ -	0%	0.00	0
17/07/2011	0	$ -	$ -	$ -	$ -	0%	0.00	0
17/07/2011	0	$ -	$ -	$ -	$ -	0%	0.00	0
17/07/2011	0	$ -	$ -	$ -	$ -	0%	0.00	0
17/07/2011	0	$ -	$ -	$ -	$ -	0%	0.00	0
17/07/2011	0	$ -	$ -	$ -	$ -	0%	0.00	0
17/07/2011	0	$ -	$ -	$ -	$ -	0%	0.00	0
17/07/2011	0	$ -	$ -	$ -	$ -	0%	0.00	0
Low Voltage	**97269**	**$ 21,844.77**	**$ 20,750.66**	**$ 73,853.08**	**$ 21,952.20**			

Current Tariff	**62**	
Possible Savings		**%**
20	**$ 107.43**	**0.5%**
22	**$ 1,201.53**	**5.8%**
41	**-$ 51,900.88**	**-70.3%**
-	-	**0.0%**
-	-	**0.0%**

* Please check the tariff conditions to ensure that you understand, accept and agree to those conditions.

Demand kWh

216.00 Maximum

COTTON AUSTRALIA LIMITED – A.B.N 24 054 122 879
HEAD OFFICE: SUITE 4.01, 247 COWARD ST, MASCOT NSW 2020 P (02) 9669 5222 F (02) 9669 5511
TOOWOOMBA OFFICE: 115 CAMPBELL ST, TOOWOOMBA QLD 4350
NARRABRI OFFICE: LEVEL 2, 2 LLOYD ST, NARRABRI NSW 2390

www.cottonaustralia.com.au

COTTON AUSTRALIA

Advancing Australian Cotton

Date	kWh	44	45	46	62	% Night	kWh/day	Days
21/09/2012	3251	$ 56,280.99	$ 50,351.69	$ 49,744.51	$ 564.34	87%	37.80	86
27/06/2012	39942	$ 99,336.55	$ 88,291.08	$ 86,456.90	$ 11,055.18	36%	434.15 4494.37	92 97
27/03/2012	435954	$ 150,065.83	$ 138,505.06	$ 136,592.61	$ 97,041.59	48%	1448.02	96
21/12/2011	139010	$ 116,053.72	$ 104,387.81	$ 102,438.57	$ 29,458.42	59%	0.00 0.00	0 0
16/09/2011	0	$ -	$ -	$ -	$ -	0%		
16/09/2011	0	$ -	$ -	$ -	$ -	0%		
16/09/2011	0	$ -	$ -	$ -	$ -	0%	0.00	0
16/09/2011	0	$ -	$ -	$ -	$ -	0%	0.00 0.00	0 0
16/09/2011	0	$ -	$ -	$ -	$ -	0%	0.00	0
16/09/2011	0	$ -	$ -	$ -	$ -	0%	0.00 0.00	0 0
16/09/2011	0	$ -	$ -	$ -	$ -	0%		
16/09/2011	0	$ -	$ -	$ -	$ -	0%		
Low Voltage	**618157**	**$ 421,737.09**	**$ 381,535.63**	**$ 375,232.59**	**$ 138,119.53**			

Current Tariff	**62**	
Possible Savings		**%**
44	**-$ 283,617.57**	**-67.2%**
45	**-$ 243,416.11**	**-63.8%**
46	**-$ 237,113.06**	**-63.2%**
-	**-**	**0.0%**
-	**-**	**0.0%**

* Please check the tariff conditions to ensure that you understand, accept and agree to those conditions.

Demand kWh

952.00 Maximum

COTTON AUSTRALIA LIMITED – A.B.N 24 054 122 879

HEAD OFFICE: SUITE 4.01, 247 COWARD ST, MASCOT NSW 2020 P (02) 9669 5222 F (02) 9669 5511

TOOWOOMBA OFFICE: 115 CAMPBELL ST, TOOWOOMBA QLD 4350

NARRABRI OFFICE: LEVEL 2, 2 LLOYD ST, NARRABRI NSW 2390

www.cottonaustralia.com.au

Cotton Australia recommends that QCA view their transitional arrangements as interim, and fully co-operate with all stakeholders in developing suitable Food and Fibre Tariffs.

As previously stated Cotton Australia calls for the complete pass through of the benefits of the removal of the carbon tax should that occur.

Submission ends

COTTON AUSTRALIA LIMITED – A.B.N 24 054 122 879
HEAD OFFICE: SUITE 4.01, 247 COWARD ST, MASCOT NSW 2020 P (02) 9669 5222 F (02) 9669 5511
TOOWOOMBA OFFICE: 115 CAMPBELL ST, TOOWOOMBA QLD 4350
NARRABRI OFFICE: LEVEL 2, 2 LLOYD ST, NARRABRI NSW 2390

www.cottonaustralia.com.au