COTTON AUSTRALIA

Advancing Australian Cotton

15 April 2019

Queensland Competition Authority
GPO Box 2257
Brisbane QLD, 4001

Draft Determination – Regulated Electricity Prices 2019-20

Dear Sir/Madam,

Cotton Australia welcomes the opportunity to provide comment on the Queensland Competition Authority's ('QCA') Draft Determination – Regulated Retail Electricity Prices for 2019-18.

This submission will address the following issues and make the following recommendations:

- **Transitional & Obsolete Tariffs**

  - ***Recommendation 1:*** *Transitional and obsolete tariffs should be pegged to standard business tariffs, and therefore enjoy the same reduction. If the QCA deems this is not possible, they should be reduced applying the same formula in the inverse as has been used to escalate in the past.*

  - ***Recommendation 2****: Large users currently able to access transitional volume-based tariffs, should be allowed ongoing access to volume-based tariffs rather than being forced to migrate to demand-based tariffs under the following conditions:*
    - *There is no customer-initiated request to upgrade supply to the metering point;*
    - *Ownership of the property remains with the original tariff holder;*
    - *Demonstrated effort by Ergon and the customer to compare tariffs and there is evidence that remaining on a volume-based tariff is the most cost-effective option.*

  - ***Recommendation 3:*** *All customers currently on transitional and obsolete tariffs should receive clear tariff comparisons on each bill. Each bill should provide three alternative tariff comparisons.*

  - ***Recommendation 4:*** *That the QCA must make specific recommendations to the Minister on how customers who will be significantly worse off when access to transitional and obsolete tariffs cease, should be managed so that electricity remains an affordable option for their businesses. A possible approach is that outlined in Recommendation 2.*

- **Headroom Charge**
  - ***Recommendation:*** *The 5% headroom charge imposed on tariffs should be removed.*

- **General Recommendation:** *The Government extend its three-year commitment to remove the cost of Solar Feed-in tariff from the regulated price and fund it from general revenue.*

Background

Cotton Australia is the peak national body representing cotton growers and ginners. While, Queensland's cotton production is highly variable, the State's 600 growers often produce between 1 million and 1.5 million bales each year. The value of that production ranges between $500 million and $900 million (including the value of cotton seed) farm gate annually. Our growers in Queensland reside throughout South-West and Central parts of the state. Energy and water are the key inputs for our industry's production.

Cotton Australia is an active member of the Queensland Farmer's Federation ('QFF') and endorses its submission regarding this Draft Determination. If there are any perceived inconsistencies in position between organisations, the position expressed in this submission is that of Cotton Australia's.

While Cotton Australia welcomes the opportunity to provide comment, we remind the QCA of our engagement and submissions made over the last eight years. The response by the QCA to our engagement regarding the previous Draft Determinations to date has been disheartening.

Cotton Australia are active participants and heavily engaged in consultation processes relating to energy. We have consistently responded to QCA discussion papers and have engaged fully with the Australian Energy Regulator ('AER') revenue determination for Ergon in addition to the Queensland Productivity Commission ('QPC') Electricity Pricing Inquiry.

We are currently involved with the Queensland Energy/AER Tariff Structure Statement process, and an active member of the Agricultural Forum, established by Energy Queensland.

It is disappointing that despite our active engagement with consultation processes we are failing to see our concerns be heard. Cotton Australia has engaged in good faith and with the expectation of positive action on electricity prices in regional and rural Queensland. The QCA has a legislative mandate to set a framework for all electricity industry participants that promotes efficient economical and environmentally sound supply and use[1]. We urge the QCA to diligently consider Cotton Australia's recommendations to address our industries concerns around economic and environmental electricity use.

We do welcome and recognise the current downward trend for electricity prices, as highlighted in the Authority's draft report, however, we remain very concern that the Authority and Government have failed to adequately address the impact that the removal of obsolete and transitional tariffs will have on our irrigators and cotton ginners, who in many cases are facing price increase in excess of 100% and up to 300%.

[1] Queensland Competition Authority, *Draft Determination: Regulated retail electricity prices for 2019-20*, page 3.

Specific Issues

Transitional & Obsolete Tariffs

Ceasing or Extending of Transitional & Obsolete Tariffs

We note the Queensland Government's opposition to extending any transitional period and their subsequent investment of $10 million to assist regional businesses transitioning into standard business tariffs. Although, Cotton Australia is supportive of this funding which QFF called upon in its submissions last year, it fails to solve the pricing problem that our growers face, now and beyond the transitional tariff period.

Cotton Australia's position has not changed from previous submissions relating to QCA's fixed transitional tariff period. The financial effect on our growers once the proposed 2020 transitional tariff period expires will be crippling. Cotton Australia, anticipates that some growers face increases of 300% on their bills, as was reflected in modelling by Ergon. This will force our growers, Ergon's customers, off the grid and into alternative energy sources such as diesel. This results in unused infrastructure and a loss of revenue to the retailers and networks - a lose, lose situation for all stakeholders.

It is essential that this Determination and the Queensland Government act now, to identify and prepare a pathway which will allow severely impacted users to remain on the grid.

Cotton Australia, reiterates its position that the QCA should maintain these tariffs into the future, beyond 2020, or as an alternative ensure that existing customers facing forced transition to demand based tariffs, have the option of continued access to volumetric based tariffs, where it is clearly demonstrated that it is in the customers bets interest.

Cotton Australia does support the recommendation of the QCA to close the "Obsolete/Transitional Tariffs". Allowing new customers access to these tariffs makes no sense, and is contrary to Cotton Australia's Recommendations 2 & 4.

Pegged Tariff Pricing

The QCA's approach that was adopted in 2015-16 to maintain transitional and obsolete tariffs at existing price levels while standard business tariffs are forecast to decrease is opposed. Cotton Australia submits that the QCA should adopt the method that the escalation factor applied to the pricing formula should be applied in reverse; the tariffs should be pegged. Whatever the calculated escalation factor for that year is, if it can be applied to bring the pricing level up, it should also work to bring the pricing down for all tariffs. For example; if business tariffs receive a 7% reduction, an escalation factor of 1.5 (applied in reverse) would result in a reduction for transitional tariffs of 4.66%. This approach is within the QCA's legislative ambit and is consistent with the Queensland Government's Uniform Tariff Policy (UTP). The UTP states that standard contract customers should pay no more for their electricity, regardless of their geographic location[2].

[2] Section 90AA(1) *Electricity Act 1994* (Qld) – *Ministers Delegation Terms of Reference (5)(b)*

To be absolutely clear, Cotton Australia's position has consistently been that transitional tariffs should not have escalation factors applied, and this remains the case. However, Cotton Australia acknowledges that the QCA have decided to apply escalation factors in the past, and at the very least, to remain consistent, they should be applied in reverse when price decreases occur.

> ***Recommendation 1:*** *Transitional and obsolete tariffs should be pegged to standard business tariffs. The formula used to forecast increases in tariff pricing should have the ability to be applied in reverse, if standard tariff pricing is forecast to decrease the transitional and obsolete tariffs should be decreased at the same comparative rate to provide a reduction.*

High Pricing and Abandoned Infrastructure

Cotton gins and irrigators have been actively engaged in government initiatives to mitigate their rising electricity prices. Many have installed and adopted energy efficiency measures and invested in renewable energy technology such as solar. However, in many cases these proactive measures have been nullified by constant rising electricity costs[3].

Cotton Australia accepts that it is fair and reasonable for demand-based tariffs to apply to new users. The concept of Long-Run Marginal Cost is to ensure the cost of investment is returned. However, it is economically irresponsible to force existing customers off the grid, where capital investment has already been made, in blind pursuit of market-based economics.

A perverse outcome of the current situation is irrigators being forced off the grid due to unsustainable pricing and turning to alternative energy sources. Cotton Australia, accepts that not all irrigators will be worse of on cost-reflective tariffs. However, the result of customers leaving the grid, should be a major concern for Government and its Government Owned Corporations. The concern for government is the 'death spiral'[4].

Escalating prices encourage users to leave the network and invest in alternative energy sources. The flow on effect is unused infrastructure and further increased prices for those remaining on the grid, pushing more users off the grid[5]. Additionally, there is an environmental impact of increased emissions through transition to diesel pumps. QCA, has a legislative obligation outlined in Section 3(a) of the *Electricity Act 1994* (Qld) to promote economical and environmentally sound supply and use.

> ***Recommendation 2****: Large users currently able to access transitional volume-based tariffs, should be allowed ongoing access to volume-based tariffs rather than being forced to migrate to demand-based tariffs under the following conditions:*
> - *There is no customer-initiated request to upgrade supply to the metering point;*
> - *Ownership of the property remains with the original tariff holder;*
> - *Demonstrated effort by Ergon and the customer to compare tariffs and there is evidence that remaining on a volume-based tariff is the most cost-effective option.*

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3 Farm Online National, *Taskforce warning over lack of affordable electricity network* <http://www.farmonline.com.au/story/4663393/farmers-take-pulse-of-power-price-pain/>

4 QFF, *Reform Needed to Halt Grid 'Death Spiral'*, <https://www.qff.org.au/blog/reform-needed-halt-grid-death-spiral/>

5 Grattan Institute, *Down to the Wire: A sustainable electricity network for Australia* < https://grattan.edu.au/wp-content/uploads/2018/03/903-Down-to-the-wire.pdf>

Comparable Tariffs
Cotton Australia, proposes that Ergon and Government redevelop their tariff comparison tool available through websites, to assist transitional tariff users. So that users can decide what is the most cost-effective tariff (in preparation for the loss of Transitional Tariffs in 2020).

Cotton Australia submits that the easiest and most direct way to actively compare tariffs would be for Ergon to provide a tariff comparison attached to each bill. This could be illustrated through a table that provides three alternative tariff structures relative to the current tariff the user is on.

> ***Recommendation 3:*** *All customers currently on transitional and obsolete tariffs should receive clear tariff comparisons on each bill. Each bill should provide three alternative tariff comparisons.*

> ***Recommendation 4:*** *That the QCA must make specific recommendations to the Minister on how customers who will be significantly worse off when access to transitional and obsolete tariffs cease, should be managed so that electricity remains an affordable option for their businesses. A possible approach is that outlined in Recommendation 2.*

Headroom Charge

As previously submitted, Cotton Australia rejects the inclusion of a "headroom" charge under the auspice of enhancing a competitive environment. Cotton Australia has and will continue to call for the removal of this tariff component.

Cotton Australia's removal of the "headroom" charge is premised on two lines of reasoning:

1. The provision of a "headroom" charge is to allow retailers room to offer discounts, to help develop an atmosphere of competition. In the Ergon Network area there is no effective competition for the vast majority of users. Therefore, making the "headroom" charge redundant.

2. Competition should be funded by innovation and efficiency, not by artificial inflation of the price. The application of a 5% headroom charge is no different to a retailer increasing prices by 5% one day, so it can offer a 5% discount the next.

Further, there is a good argument to show that the use of the SEQ "standing offer" price to set the retail component is inflated by approximately 5% over the price accessed by the vast majority of users. The removal of the "headroom" component would bring the cost in line.

> ***Recommendation 5:*** *The 5% headroom charge imposed on tariffs should be removed.*

General Comments

Cotton Australia welcomed the move two year ago by the Queensland Government to remove the cost of the Solar Feed-in Tariff from the regulated price and fund it from general revenue. The previous arrangement actually penalized the people who were getting no benefit from the feed-in tariff. Cotton

Australia notes this was a three-year commitment, and it strongly recommends that this commitment is extended.

> ***Recommendation 6:*** *The Government extend its three-year commitment to remove the cost of Solar Feed-in tariff from the regulated price and fund it from general revenue.*

For further information on this submission please contact Michael Murray – michaelm@cotton.org.au or 0427 707 868.

Yours sincerely,

General Manager,
Cotton Australia