COTTON AUSTRALIA

Advancing Australian Cotton

13 January 2020

Regulated retail electricity prices for2020-21
Queensland Competition Authority
GPO Box 2257
BRISBANE, QLD, 4001

Lodgement: www.qca.org.au/submissions

Dear Sir/Madam

Re: QCA Interim Consultation Paper – Regulated Retail Electricity Prices for 2020-21.

Cotton Australia is the peak body representing the cotton growers and cotton ginners of Queensland, and across Australia.

For many cotton growers, and for all ginners, electricity is a very significant cost, and therefore we have a keen interest in regional electricity pricing.

All Queensland cotton growing and ginning occurs outside of south-east Queensland, within the area covered by regulated retail electricity pricing.

Cotton Australia welcomes the opportunity to submit on the Interim Consultation paper, but notes that this submission will be brief.

Cotton Australia has submitted extensively over the past decade to this annual process, and refers the Authority to all previous submissions. Cotton Australia is disappointed that so many of the issues that were relevant at the start of the decade remain relevant at the close of the decade.

Cotton Australia notes that this Determination is also somewhat different, with no real clarity around the structure of future network tariffs as this process begins. Cotton Australia, its growers, and it ginners can't help but feel that they are participating in this process with one hand tied behind their backs.

Cotton Australia realises that the Ergon/AER Revenue Determination and Tariff Structure Statement processes are outside the QCA's control, and that it too must be finding this current process more difficult than usual.

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This submission will provide comment on a small number of key issues.

Cotton Australia is an active member of the Queensland Farmers Federation (QFF) and endorses its submission. However, should there be differences in views expressed in the two submissions, the view of Cotton Australia is the view outlined in this submission.

Summary of Recommendations

- That the QCA ensures that existing Large Irrigation and Farming connections have an option to retain an affordable consumption based tariff (over and above the proposed Interruptible tariff).
- That the QCA does all in its power to ensure tariffs and prices that can be accessed by the cotton ginning are flexible enough to accommodate the seasonal nature of ginning, and allow different tariffs for the ginning season and the maintenance period.
- That the QCA works with the networks to ensure cotton gins, and other similar industries, have access to demand based tariffs, that provide better flexibility and are not locked rigidly into a calendar month cycle.
- That the QCA must make specific efforts to ensure potential ICC customers are fully consulted on the implications of any change in status.
- There should be no application of the 5% "headroom" charge.
- Any solar rebates/incentives provided by the government should be funded through consolidated revenue and not through electricity charges/revenue.
- Any reduction in electricity costs must flow through to obsolete and transitional tariff users.

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General Comments

Lack of Clarity Around Tariff Structures

As mentioned above, Cotton Australia is very frustrated that we are entering this consultation process without any clear understanding of the structure of the tariffs that will be available from July 1, 2020, and therefore it is particularly difficult to comment on the pricing aspects.

Cotton Australia, appreciates that the delays in finalising the Ergon Energy/AER Price Determination and Tariff Structure process must also be frustrating to the QCA, and is also outside its control.

Cotton Australia is also of the view that the AER must get it right, and is currently not confident that the Revised EQ-Ergon submission is as good as it should be, and if accepted as submitted will lead to cotton producers and ginners continuing to reduce their reliance on grid distributed electricity, and in many cases exiting the grid completely.

Cotton Australia will be submitting its concerns to the AER, and can envisage further delays, particularly around the Tariff Structure process, if the AER chooses to consider, investigate and act on our concerns.

Given the above, Cotton Australia respectively suggests that the QCA will have to be much more flexible in its consultation approach during this Determination, when compared with previous Determination, so as to allow for the consideration of new information as it flows out of the Revenue Determination and Tariff Structure Statement processes.

With regards to Cotton Australia's specific concerns regarding the potential tariff suites to be offered from July 1, 2020, resulting from the TSS process, it will provide QCA with a copy of its submission to the AER (once it is lodged later this week).

However, QCA should be largely aware of our issues, as we have raised them in all previous submission to the annual QCA price determination over the past decade, and they are summarised as follows:

- *Transition from the Obsolete Farming and Irrigation Tariffs to Large Customer (Demand Based) Tariffs*

  The existing suite of Farming and Irrigation Tariffs are largely consumption based, and available to both small and large customers who qualify for the tariffs. With the loss of these tariffs, irrigators who use more than 100Mw/h per year will be forced to migrate to a demand based tariffs.

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These tariffs come at a punitive financial penalty to irrigators (in particular water harvesters). Our modelling has shown increases in the order of 200 to 300%. The relative brief opportunities to pump, and the episodic nature of the events, mean that the daily connection charges and demand changes dominate the costs, making grid electricity far more expensive than alternatives, and leads to a grid exit.

It is accepted that the proposed establishment of a "T34" Dynamic Interruptible Load Tariff , may provide an alternative, however, details and pricing remain unclear and in some instances the "Interruptible" nature will pose too high a risk for the irrigator.

As previously advised on many occasions Cotton Australia accepts to some extent the argument that Demand Based Tariffs better reflect the cost of providing new infrastructure to meet demand, but remains adamant that developing a pricing regime that will force long-established existing connections off the grid, make no sense for those connections, the network, the government and indeed the wider community.

Recommendation: That the QCA ensures that existing Large Irrigation and Farming connections have an option to retain an affordable consumption based tariff (over and above the proposed Interruptible tariff).

Tariffs for Cotton Gins

Cotton ginning is a very seasonal operation, with the timing and length of active ginning operations varying from region to region and season to season. When ginning (first stage processing), gins are relatively intensive users of electricity, and when in maintenance mode, they are very low level of users.

Up until a couple of years ago, ginning companies where able to switch tariffs during the year. Adopting a "demand based tariff" during the ginning season, and a "Small Business" tariff during the maintenance period.

Today, ginning companies are not allowed to swap during the year, and are paying punitive electricity bills (close to $20,000 per month) during the maintenance mode, with some indications that the new tariffs structures will push these costs even further.

While in a good season a cotton gin may gin for four to five months of the year, the crippling drought means this year some gins may not operate at all, other for just weeks, and some maybe for one or two months.

It is absolutely critical that cotton gins get access to cost effective tariffs that better reflect their usage patterns and allow flexibility.

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Recommendation: That the QCA does all in its power to ensure tariffs and prices that can be accessed by the cotton ginning are flexible enough to accommodate the seasonal nature of ginning, and allow different tariffs for the ginning season and the maintenance period.

The current tariff and pricing regime around demand based tariffs further restricts ginning companies due to the inflexible nature of "demand" determination.

In Queensland, "demand" is determined by the highest demand period in any half hour period during the month, and then applies the demand charge to the whole month.

Therefore ginners, seek as much as possible, to commence ginning at the start of a month, and gin 24/7 for the whole month. This approach is designed solely to minimise electricity costs, and actually compromises a whole range of other management decision/alternatives.

In NSW, cotton ginners have access to an average daily demand charge that only applies the demand charges on the days in the month the demand is incurred. Among other things, this does not restrict gins from operating on a strictly monthly basis, providing them with far greater management flexibility.

The economic impact of this is that total electricity charges per cotton bale ginned is two to three times less in NSW than Qld.

In southern Qld there is a very real risk that the ginning of Qld produced cotton will move to Northern NSW.

Cotton Australia is aware that Ergon has had some discussions with ginning companies around re-classifying them as Individually Calculated Customers (ICC), however at this stage these customers have no clarity as to whether or not they would better off.

Recommendation That the QCA works with the networks to ensure cotton gins, and other similar industries, have access to demand based tariffs, that provide better flexibility and are not locked rigidly into a calendar month cycle.

Responses to specific Consultation Questions

Question 1

Cotton Australia strongly supports the continuation of the Uniform Tariff Policy (UTP). However, Cotton Australia does not fully understand this consultation question with regards to changes that may result from the new tariff structures, and therefore requests that the QCA provide a more detail explanation.

Cotton Australia is of the view that the UTP for small customers should be based on the average electricity cost in South-East Qld, and not on any "Standing Offer" tariff rate.

Question 4

As mentioned above Cotton Australia is aware that Ergon Network has had some discussions with ginning companies regarding the possibility of being re-classified as ICC. From feedback Cotton Australia has received from the ginning companies, these discussions are preliminary, and the ginning companies have no real visibilities as to whether a re-classification is in their best interest or not.

Cotton Australia urges QCA to make specific efforts to consult directly with potential ICC customers and ensure they fully understand the implications of any change.

Recommendation That the QCA must make specific efforts to ensure potential ICC customers are fully consulted on the implications of any change in status.

Question 5

As acknowledged above, Cotton Australia does appreciate the difficult position QCA is in with regards to timing. However, as also covered above Cotton Australia is not satisfied with the existing suite of tariffs, and therefore is hopefully the AER process will result in a better suite of network tariffs.

We are also mindful that 2020-21 was meant to be a period where users would have the choice of both existing tariffs and the suite of new network tariffs, allowing for a period of review and comparisons before the loss of access to obsolete tariffs.

One way forward may be to use the proposed indexation method for existing tariffs, and delay by say three months the release of the new tariffs with pricing, which would at least give users nine months to consider and compare the new tariffs.

Question 9 Consistent with all previous Cotton Australia submissions we remain adamantly opposed to the application of a headroom charge. The reality is that for our producers there is no evidence of developing competition coming from its application; and the concept is flawed anyway – no different to a supermarket jacking up prices one day, so it can offer a discount the next!!

Recommendation There should be no application of the 5% "headroom" charge.

Question 10 Cotton Australia supports the revised dates for the expiration of obsolete tariffs provided the current multiple process underway result is a better suite of tariffs being made available to our industry. If this does not occur Cotton Australia reserves the rate to lobby for further extensions.

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Cotton Australia would also like to make clear the following two points:

1. It remains our industry's very clear position that any solar rebates/incentives provided by the government should be funded through consolidated revenue and not through electricity charges/revenue.
2. It is our industry expectations, that unlike the last two determinations, any reduction in electricity costs must flow through to obsolete and transitional tariff users. It is totally unacceptable that they bore higher than average cost increases while prices were rising, but have been given no relief during a period of falling prices.

Recommendation Any solar rebates/incentives provided by the government should be funded through consolidated revenue and not through electricity charges/revenue*.*

Recommendation Any reduction in electricity costs must flow through to obsolete and transitional tariff users.

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

Yours sincerely,

Michael Murray,
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