CANEGROWERS
ISIS

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Mr Sebastian Roberts
General Manager – Networks Branch
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

By email: QLDelectricity2015@aer.gov.au

Dear Mr Roberts

AER DRAFT DETERMINATION : Ergon Energy and Energex – Network Distribution Resets 2015-2020

Whilst this submission is lodged after the closing date (Friday 3 July), I trust that it can be received and considered by the AER.

CANEGROWERS Isis is the local organisation representing 200 sugarcane growers supplying the Isis Central Sugar Mill near Childers. The Isis Central Sugar Mill is grower owned and therefore the sugarcane growers, for whom CANEGROWERS Isis acts, have a large investment not only in primary production but also in manufacturing. The future viability of the Isis sugar industry is dependent on remaining profitable, whilst competing in an uneven world market environment because 90% of Australia's sugar production is sold overseas.

On behalf of our members we wish to point out the significant impact electricity prices are having on our international competitiveness in the world market. Our district is heavily reliant on irrigation and our dependence on large kilowatt motors, both on-the-farm and within the district irrigation scheme, has meant the cost of electricity has risen from 10% of our gross revenue to 25% of gross revenue in the last 7 years.

Whilst we applaud the reduction in the WACC due mainly to lower interest charges, we must express our strong disappointment in the AER draft determination for not changing the methodology used to calculate the WACC.

Flawed application of Regulated Framework

The AERs continued use of flawed methodologies results in over generous WACC because of an excessive risk free rate, market risk premium at the top end of allowable range and a cost of debt which is based on a debt risk premium 2.5 times the IPART margin. This methodology needs drastic change because the continued adoption of it makes industries which are heavily dependent on electricity use for export production becoming internationally uncompetitive. This is currently the case here in the Isis sugar industry.

We recommended in our previous submission that Helm's Split Cost of Capital approach should be applied in calculating the WACC and we still believe this is the most appropriate methodology. It is gradually being adopted in the UK and in other jurisdictions leading to a reduction in prices.

Basically, it removes any market risk premium for the equity component in the WACC as it correctly assumes that the Regulator (AER) has a duty to ensure the entities are adequately financed. It also provides a larger rate of return for Capex and Opex as it recognises that there is a higher risk associated with these two functions.

Demand forecasts

To compensate for the over design in the system due to overly optimistic demand forecasts, we submit the value of the RAB must be written down significantly (as a minimum by an amount equivalent to the size of the over-forecast error) if our industry is to remain internationally competitive.

Renewable energy sources

While we applaud the tranisition to renewal energy sources, we believe the subsidies should not be borne by electricity users but by a general levy on all tax payers. The solar bonus scheme costs affect us disproportionately due, in our case, to our large energy consumption and inability to access the benefits of the scheme.

The Energex and Ergon collection of all charges for the Solar Bonus Scheme are having a significant effect on our industry at a time when we need the full pass through of revenue cap price reductions as determined by AER.

In conclusion, we trust that these comments can be considered prior to the final determination.

Yours faithfully

W M Stanley.

Wayne Stanley
MANAGER