



Mr Sebastian Roberts
General Manager - Networks Branch
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

QLDelectricity2015@aer.gov.au

3-7-2015

Dear Mr Roberts,

RE: AER Determination Ergon

Cotton Australia welcomes the opportunity to submit on the Australian Energy Regulators (AER) draft revenue determination for Ergon.

Cotton Australia is the peak body representing Australia's cotton growers and ginnerers, and is a member of both Queensland Farmers Federation and the Alliance of Electricity Consumers. Cotton Australia fully endorses the submissions made by these two organisations.

In addition Cotton Australia would like to make the following brief points:

- The draft Determination, and its adoption and implementation by the Queensland Competition Authority (QCA) in its 2015/16 Regulated Electricity Prices, fails the "common sense test". AER in its draft Determination trumpets a 27% reduction in the allowed revenue when compared to Ergon's proposal (\$6021.5 m vs \$8241.7 m) and a \$500 m reduction from Ergon's approved revenue for 2010-15 which was \$6.554m. However, the impact on Queensland power bills for residential customers is just \$132 over the five years. Similarly ridiculously small reductions were predicted for small business customers. These tiny savings have been confirmed by the recent QCA pricing with bills expected to either stay the same or decrease by up to 2%. Cotton Australia had been heartened by the AER's determination for Essential Energy in NSW, which has (subject to the tribunal challenge) delivered real savings to irrigation users, and cannot understand while a similar result has not been achieved in Queensland.
- Further to the above, Cotton Australia cannot understand how the reduction in the WACC from 9.72% to 5.85% could not have delivered a much more significant reduction in allowed revenue. Cotton Australia does understand that the RAB has continued to grow, and therefore has underpinned the allowed revenue, but does not accept that the allowed RAB is reasonable given that the network that it represents is significantly under-utilised. Cotton Australia calls on the AER to significantly review its CAPEX allowance for Ergon, to ensure all expenditure is justifiable, and that the Determination period will see a reversal in the trend of lower and lower system utilisation.

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- The allowed WACC should also be reviewed down so that it actually reflects the cost of borrowing by Ergon (a Queensland Government Corporation) and that the return on equity is comparable to the return on equity achieved by most Queensland Government corporations.
- Cotton Australia also calls on AER to re-assess Ergon's replacement CAPEX. Cotton Australia is concerned that the average age of Ergon's assets continues to fall, and this appears to be driven by excessive expenditure in this area. There should be clear guidance as to reasonable average and maximum age for distribution assets.
- Similarly, while we acknowledge that the AER has driven down the amount of OPEX requested by Ergon by approximately 10%, we believe the benchmarking work undertaken by the AER provides justification for significantly lowering OPEX further.

After a decade of double digit power price increases Cotton Australia remains convinced that this Determination provides the opportunity to reset the "electricity value proposition" in QLD, but the draft Determination despite its encouraging "headline" reductions has absolutely failed to provide this reset.

Cotton Australia calls on the AER in the strongest possible terms to use this opportunity to drive down the allowed revenue of Ergon.

If you would like further information please contact Michael Murray, General Manager – 0427 707868 or michaelm@cotton.org.au.

Yours sincerely,

Michael Murray,
General Manager,
Cotton Australia