



11.05.2023

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
By email: AERresets2024- 29@aer.gov.au

Dear Madam or Sir,

Essential Energy - Determination 2024–29

Thank you for the opportunity to comment on the Australian Energy Regulators Issue Paper concerning Essential Energy's electricity distribution determination 2024–29.

INTRODUCTION

Cotton Australia's members are both cotton growers and ginning businesses that process the harvested cotton lint. Notably, 90% of cotton operations are family farms that also grow other crops like sorghum, soybeans, wheat, and have livestock. While cotton production does vary considerably from season to season the crop generates for the annual national economy between \$1.5 billion and \$3.5 billion.

NSW production is a significant contributor to this figure as our 900 NSW based members usually contribute two thirds of annual production. Given that energy is a key input cost, Cotton Australia greatly values membership of Essential Energy's ("Essential") Customer Advisory Group (CAG) and the advocacy opportunities that provides.

It is within that context Cotton Australia actively engaged in the proposed tariff discussions that Essential held with the CAG. We also opted to participate in both the Pricing Collaborative Collective (PCC) and the Stakeholder Collaboration Collective (SCC) discussions.

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RESPONSE TO THE ISSUE PAPER'S QUESTIONS

Questions

1. What are your views on our assessment of Essential's proposal – are there any aspects of the proposal that require deeper or less review?
2. Do you consider that we should accept Essential's proposal at the draft determination stage?
3. Do you think Essential's consumer engagement meets the expectations set out in the Handbook in delivering a consumer-centric proposal? Please give examples.

Like other rural and regional stakeholders consulted by Essential, Cotton Australia considers the energy imperatives to be: affordability and reliability plus resilience of the network whilst maintaining safety and security of supply. We readily acknowledge that Essential has put considerable effort into addressing these pricing principles at the same time as trying to find solutions that incorporate new technology and deliver a collective benefit for all.

Furthermore as a geographically dispersed business, Essential Energy's staff live and work within our communities and are often among first on the scene at times of natural disasters and calamities where power is disrupted. Their ability to be on the ground quickly and draw on other regional team members to respond to outages, be that from a storm event or larger scale such as floods or fire, has earned within regional communities a sense of respect for the workforce as community members willing to 'step up' and respond to the issue at hand.

For the NSW communities ravaged by the 2020 fires for example, having the power restored quickly and safely meant that the local water and sewage systems could operate, or the internet and mobile phone services could be restored. For stranded holiday makers it also meant that there was power to operate auto teller machines to access money or power for the service stations to provide fuel for vehicles. There was also a lot of media coverage at the time documenting the high level of expectation within affected communities that restoration of power, water and telecommunications needed to be prompt to enable stranded visitors to be accommodated and then have access to fuel to leave the community when safe.

Learnings from being part of the early responders and then longer term community recovery work has indeed informed the communication and discussion materials prepared for the resilience discussions with stakeholders and focus groups conducted while Essential was preparing its proposal. In particular, the possible technical solutions and costs were canvassed such as strategic deployment of Stand Alone Power Systems or composite poles and other infrastructure modifications as well as their speed of roll out.

On the issue of the pricing specific to our members there is a considerable point of distinction between agribusinesses and small or family operated businesses. While members of Cotton Australia will have an annual energy consumption comparable to that of a retail centre or a golf course, their operations and energy needs are subject to seasonal variation, as well as climatic events increasing or decreasing energy consumption (droughts triggering rural downturn). Adding further complexity is that these periods of high energy demand can't be avoided, consequently members incur considerably large demand charges. This is quite different to retail and golf clubs although they have the majority of their energy use in non-peak periods they are able to shutdown overnight or on weekends thereby spreading the cost of their energy across the year.

Consequently, Cotton Australia's involvement in the PCC and SCC enabled us to raise the missed opportunity of exploring more agribusiness specific tariffs, particularly in light of the tariff discussions about the advent of smart metering and two way flows of energy. To Essential's credit they set up an internal working group to separately investigate options for customers with seasonally large energy consumption. (Essential's investigation confirmed the energy consumption point of difference mentioned above.) Furthermore, despite the draft pricing proposal being lodged, Essential has continued to explore with us opportunities for developing a future High Voltage tariff trial for seasonally large energy consumers.

Question

4. Do you have views on Essential's proposed new asset class for Distributed Energy Resources as set out in its 2024–29 proposal?

Our response to Question 4 also flags an aspect we consider AER should more deeply investigate (as per Question 1)

Courtesy of a recent Federal Govt Regional and Remote Communities Reliability Fund grant Cotton Australia has separately explored the feasibility of Distributed Energy Resources (DER) for irrigated agriculture. We also saw the grant as an opportunity to explore how agriculture could be part of the energy solution because so many of our members are within NSW and Qld Renewable Energy Zones (REZs).

The two-year feasibility study indicated that microgrids can enhance the competitiveness of agricultural industries using irrigation by optimising energy consumption and generation across multiple sites. Notably, there were two pre-conditions to this, firstly being able to meet the capital outlay. Secondly, maintaining the site(s) connection to the local network to exchange energy between farm sites or even sell to other local users in the months where irrigation is not required.

Given these insights the AER's review of Essential's proposal rightly identifies that the REZ projects under the NSW Infrastructure Roadmap will influence its operating conditions during 2024-29. Cotton Australia notes this Roadmap is being driven by the NSW Government who are also Essential's number one shareholder. So far, the Roadmap has been delivered by a rather large black box of assumptions, the outcomes of which suggest consumers will continue to be on the receiving end of the cost arising from this transition, let alone the physical impacts for communities hosting the new infrastructure and Zones.

Cotton Australia therefore requests that the AER applies deeper review to the magnitude of impacts not just in relation to DER but also the REZs themselves as well as this Roadmap specific to regional and rural users. We would also encourage AER to elicit from the recently elected Minns' Government any additional information particular in relation to how they will be basing their financial and policy implications for the continuation of the Roadmap's transition.

Specific to DER, we remain very supportive of work to remove regulatory and cost barriers to integration of distributed energy sources and for sharing of power via micro-grids. Cotton Australia recognises that there are network issues that may require new infrastructure. We would want to ensure that any investment in this area is reasonable, cost effective and with returns to investors that reflect a realistic rate of return not the current inflated returns. As taxpayers/energy consumers who have previously invested in the existing network, our concerns about stranded assets remain real.

Regarding the remainder of the questions posed by AER, as members of the Agricultural Industries Energy Taskforce we have gone on the record many times in numerous AER submissions to raise our concern about the methods and weight given to both the RAB and WACC. We continue to hold these concerns and therefore have limited our response to the first four of 26 questions raised in the Issues Paper.

CONCLUSION

In closing we reiterate the sentiment observed by AER's Consumer Reference Group in its 2022 *Response to the AER's Draft Rate of Return Instrument*. That is, when the AER is exercising its regulatory judgement Cotton Australia encourages it to consider the consequence of the AER's proposed decisions, and to actively avoid ones "that give the benefit of the doubt to networks in the form of a higher rate of return than is otherwise justified".

Cotton Australia would welcome an opportunity to further discuss with Essential Energy issues raised in this submission. Please do not hesitate to contact me on [REDACTED] or [REDACTED].

Yours sincerely,

[REDACTED]

Jennifer Brown
Policy Officer
Cotton Australia