



COTTON
AUSTRALIA

Advancing Australian Cotton

6 August 2018

Mr Sebastian Roberts
General Manager, Networks
Australian Energy Regulator
PO Box 520
Melbourne VIC 3001
Submitted via NSW2019-24@aer.gov.au

AER's Issues Paper: NSW Electricity Distribution Determinations

Dear Mr Roberts,

Thank you for the opportunity to comment on the NSW Electricity Distribution Determinations Issues Paper.

Introduction

Cotton Australia is the key representative body representing cotton growers and ginners. Australia's cotton growing industry supports about 1,436 cotton farming families in NSW, Queensland and now into Victoria. These 152 Australian regional communities in 2015/16 produced around 3.8 million bales from 473,000 hectares, worth \$1.3 billion.

Energy along with water are key inputs to cotton production and come with operational challenges. Structural on-farm adjustments have seen significant improvement in water efficiency using pressured delivery with a typical irrigation system tending to exceed 160,000kWh in consumption. Time of operation is driven by the need of the crop and weather patterns, limiting scope to adjust energy patterns to minimise costs as an on-farm electricity demand.

With 60% of the growing area being covered by Essential Energy's northern and southern distribution networks the 2019-24 Regulatory Proposal directly impacts the profitability of a significant portion of Australia's cotton production.

Cotton Australia will therefore limit its comments to Essential Energy's proposal.

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General observations:

As an industry body we have continually expressed our disappointment with the lack of results that we continue to see despite our active engagement with these consultation processes. Through these processes, we like many other rural and agricultural industry groups, raise the same concerns submission after submission. However, we remain optimistic that the concerns raised in this submission and other industry group submissions will be acted upon positively.

Cotton Australia has engaged in good faith and with the expectation of positive action on electricity prices for our members. We have taken every opportunity to be an active participant that is heavily engaged in the consultation process relating to energy for our members in both New South Wales and Queensland. Specific to New South Wales members' needs: we have consistently responded to Essential Energy's tariff proposals and are a member of Essential Energy's Customer Advisory Group.

From participation in the Customer Advisory Group we have heard firsthand how the principle of "Ring Fencing" to ensure competition can be problematic to implement in rural Australia. For instance a fault is logged but those attending not only need to identify source of the problem but also who may be the appropriate entity to resolve it and therefore who will pay for the work. All this takes time, possibly several phone calls and is likely to result in different service technicians being required to travel out from town to price the job let alone undertake repair. Such a delay will cause undue stress for the remote or rural household but it can also impact the annual income of their business: spoilage of stored produce awaiting collection (dairy items) or a reduced harvest due an inability to irrigate at a critical time (fruit, nuts, cotton) or inability to refill stock watering points (stressed stock).

Cotton Australia notes that AER has in the final Framework & Approach 'recognised that some customers are particularly vulnerable to loss of electricity supply', making provision for Ausgrid to rectify simple faults relating to life support customers. Also that AER has observed in this Issues Paper: 'Competition is less prevalent on the Essential Energy network as it operates across remote and rural areas' (p57).

A solution to this would be AER reviewing the definition of 'vulnerable' so that it includes giving consideration to the geographical isolation of a customer 'whose health and safety [or the viability of their business operations] may be placed at risk if they are required to source restoration services from contestable markets'. To put it simply, the first responder attending a call out that is more than so many kilometres from the nearest town is able to resolve the issue, while maintaining in metropolitan areas the Ring Fencing Guideline requirements.

Regarding electricity pricing structures and tariffs it is Cotton Australia's view that these need to address our industry as well as other irrigation and agricultural groups specific concerns. We consider it essential that an important part of addressing rising and unsustainable electricity prices is creating affordable, simplistic, reasonable and predictable pricing. Also that this should occur through reformed tariff structures that truly and accurately reflect the cost of consumption.

We note that the cost has been confirmed by the Australian Competition and Consumer Commission in its 2017 inquiry into retail electricity pricing.¹ Industry benchmarking costs for the cotton industry indicates that energy was the second highest cost of production, with electricity representing the most substantial increase in costs – outstripping the consumer index many times.

¹ <https://www.accc.gov.au/publications/accc-retail-electricity-pricing-inquiry-preliminary-report>

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Irrigators and ginning operator's electricity use is dictated by variations in weather and crop water requirements and seasonal harvest market demands of customers, respectively. This means a grower's use of electricity is inelastic in nature. For a grower to be successful and viable as a business they cannot govern their electricity use according to different electricity price signals such as network demand or seasonality-structured tariffs.

Similarly, ginning operators are held to the behest of customer demand at harvest time. As a practical example, a gin operates for approximately 4 months a year. Ginning operators would like to be able to test run their operations and machinery to 'blow out the cobwebs'. However, for that operator to simply 'turn the switch on' it may cost up to \$50,000 as the tariff structure is based on demand-based tariffs for that time period as opposed to consumptive based tariffs spread across that entire billing period.

Essential Energy's 2019-24 Draft Regulatory Proposal

Specific to the Essential Energy's proposal Cotton Australia would also like to take this opportunity provide a few additional comments.

- Primary producers who have been on one of the now obsolete network distribution tariffs and who have not yet installed an interval meter would have very little understanding about what the change would mean for them financially.
- Irrigators have no choice in their tariff assignment as many irrigation business are classified as large electricity consumers.
- Cotton Australia is still of the view that the current charging mechanism for the capacity charge component does not align with irrigators operation and unfairly penalises primary producers in the form of higher charges and greater costs.
- Similarly Cotton Australia members will be concerned that future price increases occur while Operating and Capital expenditure falls.
- Consequently, we reiterate previously raised concerns regarding the weighted average cost of capital (WACC), a key driver of Essential Energy's future revenue allowance. That is, the calculations provided by Essential Energy of 6.34% weighted average rate of return is far too high.
- That based on the problematic nature of the Ring Fencing Guideline in regional and remote areas (as outlined on page 2 above) AER supports Essential Energy's proposal to create the alternative control services category for its network only.

Conclusion

As a final observation, the Australian cotton industry is a highly mechanised sector that is renowned for being an early adopter of technology that is willing to be part of the energy solution. For that reason, Cotton Australia has partnered with NSW Irrigators' Council and the Queensland Farmers' Federation to commission research into options to provide better access to, and more affordable, energy for farmers in Queensland and New South Wales.

The project also investigates the potential for renewable technologies to be better integrated with existing grid networks and complement other energy projects led by the agricultural sector. It is funded by an Energy Consumers Australia grant and the results will be available in the second half of 2018.



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The cotton industry and rural consumers more broadly should not be penalised for having a forward looking disposition. Our members just want access to affordable and reliable energy that has a low emission profile in order to continue to grow sustainable cotton.

To that end, Cotton Australia would welcome AER undertaking a discreet investigation into the impact of demand based tariffs on irrigation and ginning business. We would be able to assist by providing site visits, as well as being available to further discuss the issues raised in this submission; my contact details are below.

Yours sincerely,

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