COTTON AUSTRALIA

Advancing Australian Cotton

Mr Warwick Anderson,
General Manager,
Australian Energy Regulator,
GPO Box 520,
Melbourne, Vic, 3001

Electronic submission: EnergyQueensland2020@aer.gov.au

15-1-2020

Dear Mr Anderson, ***RE: Draft Decision -Ergon Energy Distribution Determination 2020 to 2025***

Cotton Australia is the peak industry body representing Queensland's cotton growers and cotton ginners (first-stage processors). In a normal (non-drought affected year) the Queensland industry contributes between $700 million and $1 billion (farm-gate) to the Queensland economy, employing approximately 4000 Queenslanders, many of them in regional communities spread from Dirranbandi and Mungindi in the South-West, to Emerald in Central Queensland, and more recently in north Queensland communities such as Mareeba and across the gulf catchments.

Many of our growers, and all of our ginners, have a very high reliance on electricity, and therefore are deeply invested in the Australian Energy Regulator (AER) making a sound revenue determination for the 2020 to 2025 period, and ensuring there is a suitable suite of tariffs.

Cotton Australia would like to acknowledge the work of the AER and Energy Queensland –Ergon (EQE) for the spirit in which they have undertaken this Determination process and in particular the efforts to try to ensure adequate and genuine consultation.

However, Cotton Australia also has to report that it remains disappointed, that despite genuine efforts at consultation and reporting by both the AER and EQE; as an industry we still have no real visibility as to the structure of proposed tariffs, pricing and the likely cost impacts on our stakeholders.

In part, this is due to the multi-stage approach to the overall process, but also, due to the disconnect between "retail speak" and "network speak".

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Electricity users, like the members of the cotton industry, on the whole have a good working knowledge of retails tariffs and the impacts they have on their electricity bills, but little, if no understanding of the underlying network tariffs.
Therefore, until Cotton Australia, and its growers and ginners, can actually see proposed/final retail tariffs, it is very difficult to comment on the proposed tariff structures.

Cotton Australia calls on the urgent assistance of the AER, Ergon Network and Ergon Retail to provide meaningful data on draft retail tariffs, so as to allow for genuine analysis prior to this Determination process being finalised.

Cotton Australia is an active member of the Queensland Farmers Federation (QFF), acknowledges its long-term commitment to electricity pricing reform, and endorses its submission to the draft Determination (for clarity – while Cotton Australia and QFF largely have a united view on electricity pricing and tariffs, if there is any inconsistency between QFF submission and Cotton Australia's, then the view of Cotton Australia is the view expressed in the Cotton Australia submission)

General Comments

The Queensland cotton industry shares the same overall concern of all electricity consumers in Queensland, and indeed Australia –put simply – the massive price increases in electricity over the past 15 years is unsustainable, has priced electricity out of some energy situations, has caused considerable financial hardship for many consumers, and has damaged Australia's international competitiveness.

Cotton Australia does acknowledge that over the past 2-3 years there has been some modest reversal in electricity prices, and this has been very much welcomed, but must continue.

Cotton Australia believes all stakeholders want to see further, and significant reductions in electricity prices, while maintaining reliability and safety, and it congratulates the AER and EQE in driving this Determination process in that general direction.

However, from the late 2000's till 2018, Queensland electricity prices increased in the order of 100%, while the cumulative CPI over that period was just 25%. Therefore, the modest reductions over the past couple of years should not be viewed as a job completed, but one that has just begun.

Given the very large number of stakeholders, many with far greater electricity pricing expertise than Cotton Australia, that are actively participating in this Determination, Cotton Australia does not intend to

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comment extensively on either the AER draft Decision or the Energy Qld Response, but will concentrate on detailing two specific aspects of our industry, and why we have no confidence at present, that this process has effectively addressed them.

This submission will provide detail on the unique issues facing irrigators (in particular water harvesters) and those faced by the very seasonal cotton ginning industry, and why there must be tariffs that recognise these unique features.

We request that the AER consider the information provided, and then test the proposed tariffs suites against these two user industries. It is Cotton Australia's contention that the application of the proposed tariffs (as we understand them) will simply accelerate the trend of these users of seeking ways to reduce reliance on, or even exit, the grid.

It is Cotton Australia's understanding that the National Electricity Rules do not allow for the pricing of network charges to increase to the point where it is no longer economic for users to remain on the grid.

Cotton Australia does note some support for our position in the AER Draft Decision on page 41:

"We consider Ergon Energy's proposed application of its long run marginal cost methodology is not appropriate for its economic circumstances given the presence of excess capacity and expectations of minimal peak demand growth in the foreseeable future. Instead, we consider Ergon Energy should transition its tariffs towards its long run marginal cost estimates."

While Cotton Australia welcomes the above view, it is concerned about the appropriateness of, and what exactly "transitioning" may mean. In the examples to follow, it will be demonstrated that a slavish adherence to demand based tariffs is simply not appropriate for our industry, particularly in the case of existing connections, as opposed to potential new connections which may increase the demand on the system.

Cotton Ginning

Cotton ginning is the first stage processing of the cotton crop, and the only processing stage undertaken prior to export. It involves the separation of the cotton lint from the cotton seed, and the removal of any trash. The end product is baled cotton lint, and cotton seed.

Cotton gins are typically located within approximately a 50km radius of where the cotton crop is produced, and there are ten or eleven scattered through-out the cotton producing areas of Queensland.

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Cotton ginning is highly seasonal, with the length of active cotton ginning directly proportional to the amount of cotton grown in any given year.

Typically, a cotton gin might operate for approximately four months in a year, but under current drought conditions some gins in Qld operated only for a matter of weeks during the last ginning season, and this will repeat itself during the coming severely drought affected ginning season, with the distinct possibility of some gins not operating at all.

During large production years, cotton gins during the ginning season typically operate seven days per week, 24 hours per day, but during smaller seasons cotton ginners may opt for shorter working days and working weeks.

During the non-ginning period, the gins go through extensive maintenance, in readiness for the next ginning season.

A cotton producer does not get paid till the cotton is ginned, so ginning companies are under pressure to complete ginning as quickly as possible.

The ginning season in Qld varies significantly from cotton producing area to cotton producing area. For example ginning in the Central Highlands may commence in February and extend through, although not continuously, till August, while at St George, ginning will typically commence in late March or early April, running through till August or September..

The actually ginning process is relatively energy intensive, and most gins in most seasons fall into the Ergon Large Customer designation, although at least one is ICC.

The Issues

In Queensland there are three major tariff issues that are facing ginners, and leading to the electricity cost component of ginning being up 200% to 300% higher than in New South Wales.

1. Demand Based Tariffs and the way they are calculated – In Qld a number of gins are on Tariff 44 or 45. These tariffs have both a significant daily connection charge, and a significant demand based charge that is calculated on the highest recorded demand in any 30 min period in the month. This has two impacts, in the non-ginning period, when minimal power is used, (for maintenance, lightening and office) cotton gins are still incurring monthly electricity charges in the order of $16,000 to $17,000. These charges are far in excess of what they would pay if they were able to access a consumption based tariff during the non-ginning period.

Gins were previously able to swap tariffs during the year, allowing them to access a consumption based tariff such as 22L during the non-ginning period. ***This is no longer allowed, but Cotton Australia calls for the return of this option.***

Under the current arrangements, and with the extensive drought minimising actual ginning period, it is quite possible for a gin to incur a $200,000 plus electricity bill, without producing one bale of cotton.

2. Related to the above, the Demand Based Tariffs utilising the Maximum Demand in any 30 minute period in the month, leads to otherwise irrational management decisions during the ginning season. To minimise electricity costs gin managers regularly choose to start ginning on the first day of the calendar month, and when the cotton supply allows it, gin 24/7 for the whole of the month so as to minimise the average cost of electricity per bale.

   While this can minimise electricity charges, by maximising consumption during the calendar month, off-setting some of the impact of the demand component, it hampers the better holistic management of the cotton ginning process.

   For example, unginned cotton might be stockpiled in the gin towards the end of March, and should be ginned so the grower can be paid, but the monthly demand charge (approximately $50,000) for some gins, dictate that the management must delay ginning till the first of the month.

   For safety reasons it may be more prudent not to operate 24/7 during the month, and spread ginning over a longer period, but if ginning extends into additional months, additional demand charges are incurred.

   Gins have stated that they would like to have the economic option of "test running" the gin, by ginning for several days in the month prior to ginning fully commencing, allowing any problems to emerge and be rectified, but again this is uneconomic due to the imposition of the monthly demand charge.

   In NSW cotton ginners have access to an average daily demand charge, which applies the demand charge only to those days that the gin is operating, and this is a far more equitable way to manage demand, and allow for holistic management of the ginning process. ***Cotton Australia calls for the introduction of a similar tariff for Queensland ginning companies.***

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A ginning company that operates in both south-west Qld and north-west NSW, has calculated that it's per bale electricity costs in Qld are two to three times higher than in NSW.

Because it values its role in regional Qld communities, this company remains ginning in Qld, but the simple truth is that it would be more economic for it to freight cotton from south-west Qld into NSW for ginning.

3. Seasonal Time of Use Tariffs – One Qld ginning company, that has a gin in Central Qld, was encouraged several years ago to migrate to the Seasonal Time of Use Demand Tariff 52 C. This tariff applies a punitive demand charge for use in February. For the gin to start in February, it will incur a demand charge of approximately $250,000.

   Due to changes in varieties, rules and climate, cotton is now ready for ginning February; and the ginning companies are under enormous pressure from growers to gin, but it comes at a huge demand charge cost. The cost is exacerbated, as usually there is not enough cotton to allow for a month of continuous operation.

   In all cases above, these gins are long-term customers, whose connections and connection investments where made long ago, and it appears difficult to sustain the need for Long-Run Marginal cost recovery.

The solution

- ***Restore the ability to switch between a demand based tariffs, and a consumption based tariff, depending on whether the gin is operating or in maintenance mode.***
- ***Introduce an average daily demand tariff as available to NSW cotton ginners***
- ***Remove the seasonal time of use demand tariff, or make it easier for a cotton ginning company to select a more suitable tariff***

Water Harvesting

Water harvesting is when a licenced water extractor (irrigator) has a right to take water out of a river or stream when certain flow conditions are met. Typically the flow conditions are a certain height or flow rate at a designated river gauge.

The flows are generated by rainfall events, and a pumping event may last as little as a day, or on occasions extend for a number of weeks. Typically a flow event is most likely to range from a couple of days to around a week.

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Flow events may occur a number of times during a year, or in drought conditions it may be 18 months or two years between events.

In summary, water harvesting (pumping opportunities) are highly episodic and unpredictable, and Cotton Australia acknowledges that that makes water harvesters difficult/"lumpy" customers for networks and electricity suppliers.

That being said the vast majority of water harvesters who rely on electricity are long-term customers, where the investment in the networks was mad long ago, often at the specific encouragement of the networks, who in some instances installed special lines along river systems to service river pumpers.

In Qld these users, whether they are technically Large or Small Customers have been able to access the largely consumption based Tariffs 62 and 65, or in some cases the quasi demand tariff 66.

Due to the Qld Drought subsidy Tariff 66 is preferred during drought, or by irrigators with a more consistent demand. Most water harvester normally choose the consumption based Tariffs 62 or 65.

With the designation of these Tariffs as Obsolete, customer designated as Large will be forced to migrate to Demand based Tariffs such as the current T 44 or 45.

In modelling the impact, Cotton Australia has found that irrigators will be faced with bill increases anywhere from 150% to 300%. The wide variance in impact primarily reflects the season differences in pumping opportunities.

If seasonal conditions/river flows allow for longer pumping events, the impact is less, but in seasons with just short events, the impacts are much greater.

For example a pumping event that might start on August 31 and cease on September 1, would see the irrigator incur two months of demand charge, but have just two days of pumping to offset that charge against the lower consumption charge associated with T44 or T45.

Conversely, if an event started on September 1, and flow conditions allowed for 30 days of pumping, then the impact would be much, much less.

Water Harvesters have a clear choice as to whether to rely on diesel or electricity, and if they do not have access to either an average daily demand charge Tariff (as discussed) or continued access to a largely consumption based tariff , they will convert to diesel.

While it is arguable whether diesel or electricity is more economic for pumping water on a 24/7 basis, there is no doubt the impact of a demand charge on episodic use like water harvesting, makes electricity uneconomic.

Forcing water harvesters to exit the grid is a perverse outcome for all stakeholders. The irrigators will have to invest in diesel technology (but the saving are so great it is worthwhile), the network will lose customers and through-put, the electricity costs for all other users will have to rise to make up the revenue cap shortfall, and in Qld it is likely that the government will have to contribute more to the Community Service Obligation (CS0) so as to maintain its Uniform Tariff Policy (UTP).

Cotton Australia acknowledges EQE intention to introduce a Large Customer Interruptible Dynamic Load Tariff nominally designated as Tariff 34. This will be a consumption based tariff available to Large Customers however it will be a dynamic interruptible tariff, and therefore may prove unsuitable for water harvesters who make take the view that the risk of interruption is too high. In general, water harvesters must be able to pump when their licence conditions allow it.

The solution

- ***Ensure water harvester and irrigators, including large customers, have the option of a reliable, non-interruptible consumption based tariff.***
- ***Introduce an average daily demand tariff, which would be more flexible for episodic users such as water harvesters.***

Cotton Australia recognises that there may be a case for different tariff options for existing customers' vs new connections. The argument of Long Run Marginal Cost recovery should not apply to existing growers where the investment in the networks was made long ago.

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Cotton Australia appreciates the opportunity to make this submission, and would welcome the opportunity to discuss these issues with the AER in more detail, and would be happy to co-ordinate a briefing with cotton ginners and/or water harvesters.

For further information please contact Cotton Australia, General Manager Michael Murray – [redacted] or [redacted].

Yours sincerely,

[redacted]

Michael Murray,
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Cotton Australia

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