COTTON AUSTRALIA
Advancing Australian Cotton

Network Determination Review Panel
Australian Energy Regulator
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Canberra ACT 2601
By email: NSWACTelectricity@aer.gov.au

3 March 2014

Dear Review Panel

Cotton Australia welcomes the opportunity to comment on Essential Energy's transitional regulatory proposal. Together with NSW Irrigators' Council (NSWIC) and the National Irrigators' Council (NIC) we have met with Essential Energy to discuss this regulatory proposal, as well as options for improving the tariff structure for irrigators.

Cotton Australia is the key representative body for Australia's cotton growing industry. The cotton industry is a small but integral part of the Australian economy, worth over $2 billion in export earnings and employing 8 000 people. The industry's vision is: Australian cotton, carefully grown, naturally world's best. Cotton Australia works with industry to achieve this vision by providing a policy and advocacy role, research direction, stewardship and building our farmer's capacity in their own communities. We are proud of our efforts to ensure an efficient and sustainable cotton industry. Our 'myBMP' is a voluntary farm management system which provides self-assessment mechanisms, practical tools and auditing processes to ensure that Australian cotton is produced with in line with best practice.

In recent times, the cotton industry has made structural on-farm irrigation adjustments, which have seen significant improvements in water efficiency. However these new irrigation systems are also more energy intensive and often exceed 160,000 kWh. The timing of cotton farm irrigation is driven by the need of the crop and weather patterns. As such, there is limited scope for adjusting energy use patterns to minimize costs as on-farm electricity demand.

We are very concerned about the impact of increasing electricity network prices on the profitability of cotton farms. Despite relatively stable year-on-year electricity demand, our growers have seen their electricity bills triple since 2009. The increase is largely driven by increases in network costs, which comprise 55–65 per cent of a cotton grower's electricity bill and in most cases these costs are well over $100,000.

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Over 60% of Australian cotton is grown within Essential's northern and southern distribution networks. As such, Essential's transitional regulatory proposal directly impacts the profitability of a significant proportion of Australia's cotton production.

While Essential proposes a reduced capital and operating program compared to the previous regulatory period, we are concerned that the expenditure is too high. We recognize that the overall revenue requirement is only a 'placeholder' value in this transitional regulatory period, we are nevertheless concerned it may set the precedent for the subsequent regulatory stage. Further we do not consider the proposal contains sufficient justification for either the capital or the operating expenditure program.

We welcome the changes to the AER control mechanism. We acknowledge that revenue cap control mechanism provides a stronger incentive for networks to set efficient prices than the weighted average price cap advocated by the networks. We also acknowledge that any under or over spend in the expenditure program will be 'trued up' in the subsequent regulatory period. However, given the history of overinvestment by networks, we consider it unlikely that there will be an underspend to apply to the next regulatory control period and recouped by energy customers.

We consider that the asset management plans and investment cases that underpin Essential's future capital investment program should be made confidentially available to the AER to help guide decision making. Additionally, before the transitional proposal is approved, Essential should also be asked to demonstrate that recent network augmentations have been appropriately utilized before further capital expenditure is authorized.

In relation to the operating expenditure plan, we ask that Essential confidentially provide the AER with the forecasting models used to determine the cost for each expenditure category.

We acknowledge this information is commercially sensitive. However, we feel it is necessary to enable the AER to deliver a transparent approach to setting a revenue cap that genuinely reflects Essential's capital and operating requirements.

The revenue cap is expected to provide incentives for the networks to reduce costs (and therefore increase profit) by implementing demand side management. However, Essential's proposal offers little information on the types of demand management options under consideration for the regulatory period. Further, the AER's Stage 2 Framework and Approach acknowledges that rule changes

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required to facilitate 'incentives to pursue efficient alternatives to network augmentation' are still under consideration by the AEMC. We understand these changes are unlikely to be in place before the end of 2014, well after the network providers are required to submit proposals for the subsequent regulatory period.

We would also ask the AER to request more information from Essential on how it intends to implement a demand management scheme over the regulatory period.

Cotton Australia supports the AER's efforts to set a cost reflective revenue cap, however we remain concerned about how Essential sets tariffs for customers, particularly irrigators. We look forward to the approval of the AEMC's rules that will require networks to be transparent in setting pricing regimes.

Thank you again for the opportunity to comment on Essential's transitional regulatory proposal. Please do not hesitate to contact me on 02 9669 5222 or leahr@cotton.org.au if you wish to discuss this submission in more detail.

Yours faithfully

Leah Ross
Policy officer