

11 May 2018

Energy Queensland Limited
General Manager Regulation and Pricing
GPO Box 1461
NEWSTEAD QLD 4006

Network Tariff 2020-25 Customer Consultation Issues Paper April 2018

Dear Energy Queensland,

Cotton Australia welcomes the opportunity to provide feedback to Energy Queensland on the network tariff reform consultation paper.

Background

Cotton Australia, is the peak national body representing cotton growers and ginnerers. While, Queensland's cotton production is highly variable, the State's 600 growers often produce between 1 million and 1.5 million bales each year. The value of that production ranges between \$500 million and \$900 million (including the value of cotton seed) farm gate annually. Our growers in Queensland reside throughout South-West and Central parts of the state. Energy and water are the key inputs for our industry's production.

Cotton Australia, is an active member of the Queensland Farmer's Federation ('QFF') and endorses its comments regarding this consultation paper. If there are any perceived inconsistencies in position between organisations, the position expressed in this submission is that of Cotton Australia's.

Cotton Australia are active participants and are heavily engaged in consultation processes relating to energy. We have consistently responded to QCA discussion papers and have engaged fully with the Australian Energy Regulator ('AER') revenue determination for Ergon in addition to the Queensland Productivity Commission ('QPC') Electricity Pricing Inquiry.

It is disappointing that despite our active engagement with consultation processes we are failing to see our concerns be heard. We are hopeful that the concerns raised in this submission and other Irrigator based customers are understood. Cotton Australia has engaged in good faith and with the expectation of positive action on electricity prices in regional and rural Queensland.

General Commentary

The energy network and the way it operates is changing. The way electricity pricing is structured needs to be addressed. Cotton Australia submits that an important part of addressing rising and unsustainable electricity prices is creating affordable, simplistic, reasonable and predictable pricing through reformed tariff structures.

The Cotton industry like many other irrigation reliant industries are struggling to cope with unsustainable electricity prices in Queensland. Cotton gins and growers have been actively engaged in government

initiatives to mitigate their rising electricity prices. Many have installed and adopted energy efficiency measures and invested in renewable energy technology such as solar. However, in many cases these proactive measures have been nullified by constant rising electricity costs¹, with no recourse insight.

Cotton Australia's position has not changed from previous submissions made around pricing and tariffs in Queensland. Of particular concern for our industry is the 'non-cost reflective' tariffs or transitional and obsolete tariffs set to expire in 2020. The financial effect on our industry once the proposed 2020 transitional tariff period expires will be crippling. Cotton Australia, anticipates that some growers face increases of 300% on their bills if they are forced to move to demand-based tariffs. This will force our growers, your customers, off the grid and into alternative energy sources such as diesel. This is already occurring. This result is unused infrastructure and a loss of revenue to the retailers and networks - a lose, lose situation for all stakeholders.

This working group and consultation process is a positive move by Energy Queensland to address this important issue. It will hopefully highlight and prepare a pathway which will allow severely impacted users to remain on the grid and entice those who have left back on. Cotton Australia, reiterates its position that current users should be able to access consumptive based tariffs and this should be maintained and improved into the future, beyond 2020.

Overarching Principles to develop network Tariffs

Cotton Australia overall is supportive of the proposed network tariff framework strategy; Tariff Education Dynamic Incentives Information ('TEDI'). These four proposed approaches to developing a new network tariff strategy for 2020-25 are good. However, Cotton Australia submits that it will be the practical implementation of these approaches through the tariffs that will prove whether those approaches have practical positive impact.

A practical recommendation that Cotton Australia has made in relation to the Information approach is that Energy Queensland redevelop their tariff comparison tool available through websites, to assist transitional tariff users. So that users can decide what is the most cost-effective tariff (in preparation for the loss of Transitional Tariffs in 2020). Cotton Australia submits that the easiest and most direct way to actively compare tariffs would be for Ergon to provide a tariff comparison attached to each bill. This directly provides the information to the customer and gives the power and Information to that user for them to make strategic decisions. This could be illustrated through a table that provides three alternative tariff structures relative to the current tariff the user is on.

Cotton Australia is also supportive of the Dynamic Incentives approach. The more information available to Energy Queensland the more scope there is to understand the issues our industry and other customers face. A practical solution would be to provide greater incentives to move to smart metering and submits that this should be fast tracked. The more customers with smart metering technology, equates to more data. The more data available can be used to inform more decisions around pricing and demand levels.

¹ Farm Online National, *Taskforce warning over lack of affordable electricity network*
<<http://www.farmonline.com.au/story/4663393/farmers-take-pulse-of-power-price-pain/>>

The approach to tariffs for the 2020-25 network strategy is in theory sound and Cotton Australia supports it. However, the approach needs to go beyond theory and have a positive practical impact on customers, especially for those in rural and regional areas who are on transitional and obsolete tariffs.

The overarching principles listed in the consultation paper also are a move in the right direction and in theory address a number of the issues regional and rural customers face.

- **Economic efficiency;**
- **Customer impacts;**
- **Flexibility;**
- **Fairness;**
- **Stability and sustainability.**

Cotton Australia although in principle agrees with the focus of the tariff structure principles believes the definitions of these needs to be expanded or adjusted to address our concerns. For instance the current definition provided for economic efficiency appears to be focused purely on the economic impact on Energy Queensland. The consultation paper and the working group committee has been developed for the purposes of enhancing outcomes for customers. That definition fails to consider the customer. As raised in the working group meeting for this topic in April, it should be amended to focus on customer 'affordability'. More consideration should be placed on creating economic efficiencies for the customer, which aligns with the purpose of this working group. That is an example of the deficiency in the definition of these principles.

Case for Fairer Tariffs

Cotton Australia accepts that it is fair and reasonable for demand-based tariffs to apply to new users. The concept of Long-Run Marginal Cost is to ensure the cost of investment is returned. However, it is economically irresponsible to force existing customers off the grid, where capital investment has already been made, in blind pursuit of market-based economics.

A perverse outcome of the current situation is irrigators being forced off the grid due to unsustainable pricing and turning to alternative energy sources. Cotton Australia, accepts that not all irrigators will be worse off on cost-reflective tariffs. However, the result of customers leaving the grid, should be a major concern for Government and its Government Owned Corporations. The concern for government is the 'death spiral'². Escalating prices encourage users to leave the network and invest in alternative energy sources. The flow on effect is unused infrastructure and further increased prices for those remaining on the grid, pushing more users off the grid³. Additionally, there is an environmental impact of increased emissions through transition to diesel pumps.

With the advancement of technology in alternative energy, climate change and rising cost of energy it is important that Energy Queensland consider these as baseline issues. Integrating new technology and

² QFF, *Reform Needed to Halt Grid 'Death Spiral'*, <<https://www.qff.org.au/blog/reform-needed-halt-grid-death-spiral/>>

³ Grattan Institute, *Down to the Wire: A sustainable electricity network for Australia* <<https://grattan.edu.au/wp-content/uploads/2018/03/903-Down-to-the-wire.pdf>>

utilizing existing infrastructure should be front of mind to mitigate rising costs. A key concern with regards to Tariffs generally for our industry is the removal of transitional tariffs or legacy tariffs after 2020. Some key points as an industry we think are crucial for customer satisfaction and engagement include predictability, simplicity, accessibility and affordability.

Cotton Australia accepts that it is fair and reasonable for demand-based tariffs to apply to new users, who are still to make an investment decision. The concept of Long-Run Marginal Cost is to ensure the cost of investment is returned. However, it is economically irresponsible to force existing customers off the grid, where capital investment has already been made, in blind pursuit of market-based economics.

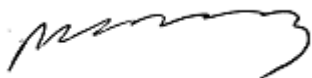
A perverse outcome of the current situation is irrigators being forced off the grid due to unsustainable pricing and turning to alternative energy sources. Cotton Australia, accepts that not all irrigators will be worse off on cost-reflective tariffs. However, the result of customers leaving the grid, should be a major concern for Energy Queensland. The concern for government is often referred to as the 'death spiral'⁴. Escalating prices encourage users to leave the network and invest in alternative energy sources. The flow on effect is unused infrastructure and further increased prices for those remaining on the grid, pushing more users off the grid⁵. Additionally, there is an environmental impact of increased emissions through transition to diesel pumps.

As an industry we accept that we represent a small number of the total customer base in Queensland. However, the users who will be affected will be severely adversely impacted on. Cotton Australia would welcome the opportunity to provide Energy Queensland a presentation around the impacts of not being able to access consumptive based tariffs into the future or alternatively introduce you to those customers who will be most impacted on.

Cotton Australia is supportive of Energy Queensland's active customer engagement around this issue and look forward to continuing to be an active participant into the future. This consultation process is a positive move forward to addressing the needs of our industry and the Queensland agricultural sector more broadly.

For further information on this submission please contact Michael Murray – michaelm@cotton.org.au or 0427 707 868.

Kind regards,



⁴ QFF, *Reform Needed to Halt Grid 'Death Spiral'*, <<https://www.qff.org.au/blog/reform-needed-halt-grid-death-spiral/>>

⁵ Grattan Institute, *Down to the Wire: A sustainable electricity network for Australia* <<https://grattan.edu.au/wp-content/uploads/2018/03/903-Down-to-the-wire.pdf>>



Advancing Australian Cotton

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