

Queensland Competition Authority  
GPO Box 2257  
Brisbane Qld, 4001

20-4-2016

Dear Mr Hindmarsh,

**Re: Draft Determination – Regulated Electricity Prices 2016-17**

Cotton Australia welcomes the opportunity to respond to the Authority's Draft Determination – Regulated Electricity Prices 2016-17.

This submission makes the following recommendations:

- *The “headroom” component of all tariffs be removed.*
- *That the QCA, prior to finalizing this year's determination write to the Minister and request that the delegation be changed from identify standing offers as the reference point for small regional customers, to the average discounted offer.*
- *That Transitional Tariffs should remain available to existing users, using existing capacity, and there should be no further “escalation of these tariffs*

Cotton Australia is the peak national body representing cotton growers and ginners. While Queensland's cotton production is highly variable, the State's 600 cotton growers often produce between 1,000,000 and 1,500,000 bales each year worth somewhere between \$500,000,000 and \$900,000,000 (including the value of cotton seed) farm gate.

Cotton Australia is an active member of the Queensland Farmer's Federation (QFF), and endorses QFF's submission to this Draft, although should there be any perceived inconsistency in position of the two organisations, the position of Cotton Australia is the position expressed in this response.

While in the opening paragraph Cotton Australia welcomed the opportunity to respond to the draft determination, the truth of the matter is Cotton Australia is very disheartened with the process of setting regulated electricity prices in Queensland.

For over five years now Cotton Australia has vigorously engaged in the electricity price setting process, including responding to QCA discussion papers and draft determinations, full participation in the Australia Energy Regulator (AER) revenue determination for Ergon, full participation in the Queensland Productivity Commission (QPC) Electricity Pricing inquiry, and direct engagement with both State and Federal politicians.

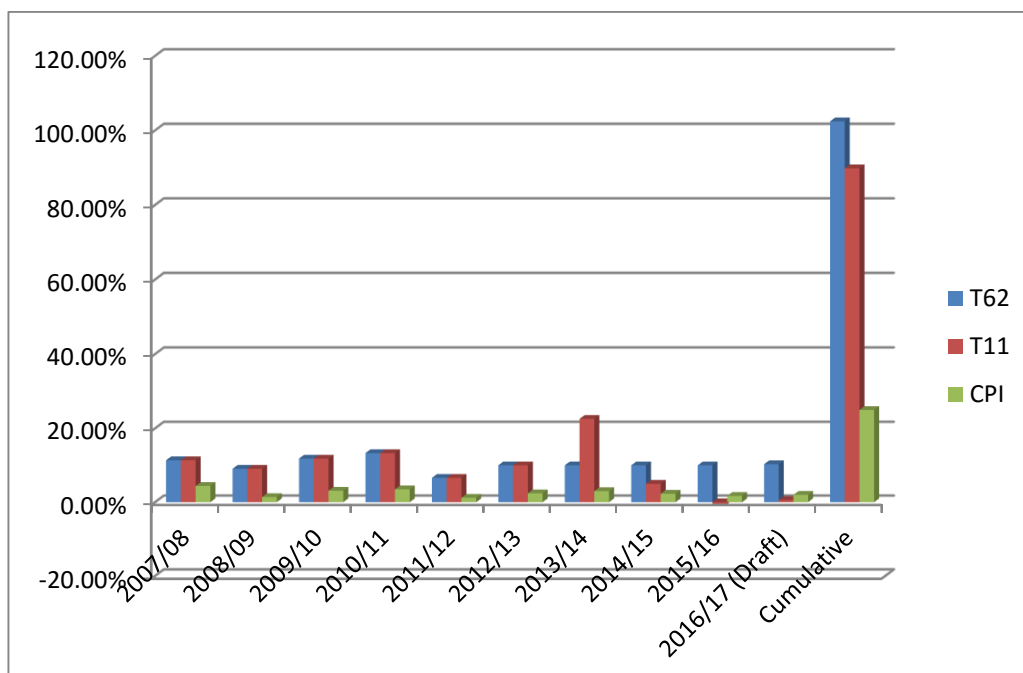
Despite all this, very little has changed and once again growers are faced with double digit price increases. To be honest, the Draft Determination stunned Cotton Australia, primarily due to an

expectation that following the AER Determination last year we could expect a period of price stability.

As the following graph shows electricity prices since 2007/08 have increased at a rate approximately four times that of inflation and double-digit increases have been the norm regardless of which political party is in power.

Cotton Australia acknowledges that there are circumstances that could cause power price increases to significantly diverge from the standard measure of inflation. However, Cotton Australia very strongly asserts that such divergence over a decade indicates a fundamental flaw in the price setting mechanism.

**Figure 1 – Tariff 11 and Tariff 62 Price Rises vs CPI**



Cotton Australia recognises that only some of the blame rests directly with the QCA, and to a very large extent it is limited by the delegation it receives.

However, Cotton Australia believes that QCA does have a responsibility to publicly comment on the deficiencies of the price setting process, and provide recommendations to government for reform.

Cotton Australia believes the key reasons for rampant power price increases include:

- A stubborn adherence by the QCA in maintaining the inclusion of the “headroom” charge.

- Setting the Uniform Tariff Policy base as the South-East Queensland standing offer level, rather than a level that reflects the average discounted offer provided by South-East Queensland retailers.
- Inefficient network expenditure, as evidenced by Ergon's system utilisation rate of approximately 42% (Energex is even lower).
- An artificial valuation process for the Regulated Asset Base of networks and distributors that has led to grossly inflated asset bases that are subject to a guarantee rate of return.
- Poor government policy that has largely levied the cost of renewable energy projects on those that remain loyal to grid-based electricity.
- Poor interface between government policy and the markets, which have resulted in steeply increasing energy costs for electricity pricing, while other energy supplies are at historically lower prices (petrol, diesel, and coal).
- Massive profit gouging by the government from state owned transmission company Powerlink, as evidenced by recent revelations.

Cotton Australia acknowledges that the QCA only has only a direct influence on a relatively small number of these factors, and Cotton Australia provides further input on these below.

## Specific Issues

### *Headroom Charge*

Cotton Australia has consistently argued for years that the application of a "headroom" onto Ergon's network tariffs to supposedly enhance a competitive environment is ridiculous, and once again we call for the immediate removal of this tariff component.

The addition of a "headroom" charge is no more ethical than a supermarket marking up prices by 5% one day so it can offer a 5% "sale" the next day.

With the deregulation of the South-East Queensland Retail Price, the justification for maintaining "headroom" because Ergon Residential/Small Business Tariffs are based on SE QLD Tariffs is even more flimsy.

**Recommendation:** *The "headroom" component of all tariffs be removed.*

### *SE Standing Offer*

Cotton Australia acknowledges that QCA's Ministerial Delegation directed it to base Ergon's Small Customer Tariffs on Standing Offers in Qld.

However, Cotton Australia believes it would be more appropriate to base the tariffs on the average discounted offers available to the SE Qld electricity consumer.

The decision to base on “standing offer” disadvantages regional Queenslanders and can be seen a step away from the principal of the Uniform Tariff Policy. It is clear that the majority of South-East Queenslanders can access electricity at less than the “standing offer” rate.

**Recommendation:** *That the QCA, prior to finalizing this year’s determination write to the Minister and request that the delegation be changed from identify standing offers as the reference point for small regional customers, to the average discounted offer.*

### **Transitional Tariffs**

Cotton Australia continues to strongly oppose the QCA’s position on the transitional tariff period, and is very concerned that the QCA does not appear to recognise the crippling effect that the combined loss of access to transitional tariffs and the forced transition on to demand base tariffs will have on some users.

Cotton Australia stands by its claims that this move will see some users face increases of 300%, and they will have no choice but to exit the grid, which will result in a loss of revenue to the retailers and networks, and otherwise unnecessary capital expenditure for the users.

Cotton Australia does agree that some users would be better off changing from transitional tariffs straight away, and in this area strongly endorses the QFF submission calling for a dedicated program to help users make the transition.

However, Cotton Australia also remains firm in its belief that transitional tariffs should remain available to existing users, utilising their existing line capacity, and transitional tariff escalation must cease..

**Recommendation** *That Transitional Tariffs should remain available to existing users, using existing capacity, and there should be no further “escalation of these tariffs.*

### **Energy Costs**

Cotton Australia does not have the specific expertise to critique in detail the ACIL Allen’s Energy Cost reports and the conclusions drawn from it by the QCA.

However, Cotton Australia notes that the significant contraction in the world economy has resulted in historically low prices for energy sources such as coal, petrol and diesel.

Cotton Australia believes the QCA report needs to fully recognise that our electricity sector is not benefitting from these reductions, primarily due to government policy that has led to a significant shift to renewables and other lower carbon energy sources, despite higher costs.

Cotton Australia is also dismayed by the assertion that some of the higher energy costs are associated with increasing demand as the Curtis island CSG Trains come on stream.



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While these units no doubt have increased demand, it is not as if their commissioning is a surprise, and there had been plenty of time for generators to much supply with demand and therefore offer stable prices.

For further information on this submission please contact Michael Murray, 0427 707868 - [michaelm@cotton.org.au](mailto:michaelm@cotton.org.au).

Yours sincerely,

Michael Murray,  
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Cotton Australia