

Submission

Australian Energy Market Commission

Draft Rule Determination -

National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014

141015

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Introduction

The NSW Irrigators' Council (NSWIC) represents more than 12,000 water access licence holders across NSW. These licence holders access regulated, unregulated and groundwater systems. Its Members include valley water user associations, food and fibre producers, irrigation infrastructure operators and commodity groups from the rice, cotton, dairy and horticultural industries.

This submission represents the views of the Members of NSWIC with respect to the Australian Energy Market Commission *Draft Rule Determination - National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014*. However, each Member reserves its right to independent policy on issues that directly relate to their areas of operation, or expertise, or any other issues that they may deem relevant.

Executive Summary

NSWIC would like to make the following recommendations to the draft rule determination;

NSWIC request that the AEMC assesses and provides further information on the impact cost reflective network tariffs would have on regional and remote customers.

NSWIC submits that the AEMC must amend the draft determination to ensure that customers financial viability is taken into consideration and DNSPs are not faced with the prospect of holding stranded assets in regional NSW.

NSWIC submits that a process must be established that monitors and determines the implementation costs of the proposed rule change. This process must ensure that any resulting costs are equitably distributed across consumers.

NSWIC submits that the AEMC reassesses the timeframe for the annual network pricing proposal by the DNSPs and consult with the energy retailer whether the proposed timeframe is sufficient to adequately consult with their customers.

NSWIC submits that rule change must determine a methodology and checklist that DNSPs follow when setting their LRMC approach to ensure some level of consistency between the DNSPs.

NSWIC submits that the rule change must ensure that consumers are not disadvantaged by the choice of the DNSPs to determine their own LRMC approach.

NSWIC requests that the Consumer Impact Principles is amended to include equity consideration by the DNSPs and regulators to ensure that electricity customers in regional and remote areas who have limited capacity to adjust their electricity use are not faced with unsustainable price increases.

NSWIC submits that the proposed rule change on consultation must be broadened to ensure that future consultation is more meaningful and accessible to customers.

General Comments

The NSW Irrigators' Council (NSWIC) appreciates the opportunity to provide further comments to the Australian Energy Market Commission's Draft Rule Determination for the *National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014*.

As we highlighted in our previous submission to the consultation paper, electricity has become an important input factor in irrigated agriculture as more irrigators have upgraded on-farm equipment to conserve water and remain competitive. These structural adjustments have led to productivity gains and water savings however they have also caused irrigators' electricity use to rise. Greater use of electricity and a rise in associated charges have significantly impacted irrigators' profitability and have led to financial hardship in some cases.

The trade-off between water efficiency and energy intensity is extremely difficult to reconcile in irrigation and as a consequence many irrigators have taken drastic measures (including locks on their pumps) and reverted back to water-intensive production methods to reduce their electricity use. The impacts in terms of efficiency and productivity are immense and continuously increasing.

Irrigators' main concern is the exponential increases in electricity costs. Many food and fibre producers in the state have experienced electricity cost increases of up to 300 per cent over the last five years. The main driver of this cost explosion is network charges. These network charges make up between 55 and 65 per cent of an irrigator's electricity costs according to a study conducted by NSW Irrigators' Council and Cotton Australia. Given the proportional weight of network charges in an irrigator's electricity bill, it can have a significant influence on an irrigator's production behavior and ultimately profit outcomes.

Aside from the cost pressures through network charges, irrigators find it extremely difficult to understand and respond to these charges. There is a severe lack of transparency around network charges and the complexity of the network tariff structure is immense. The Council does not believe that the current tariff framework (and the display of charges on an electricity bill) provides irrigators with an opportunity to actively engage with the distribution network service providers (DNSPs). Irrigators rarely engage with the DNSPs directly and have very little understanding on how their tariffs are structured or how their charges are derived. For that reason, the Council does not believe that irrigators are provided with an effective price signal that would incentivize them to change their electricity usage behaviour or implement adequate strategies to reduce their costs.

For that reason, NSWIC welcomes the AEMC's review of the regulation that guides DNSPs' network tariff setting. We envision that the proposed rule changes will provide irrigators with better and easier to understand information about the tariffs and charges and also enable them to effectively engage with the DNSPs on their current tariff structure and charges. Whilst NSWIC believes this is a positive development, we are concerned about several aspects of the draft rule determination. In particular, the Council is concerned that the proposal to enforce cost reflective tariffs could lead to unsustainable price increases for irrigators. Irrigators across NSW are already struggling with rising network costs and are deeply worried about the effect of the DNSPs pricing proposals to the Australian Energy Regulator. Essential Energy's pricing proposal requests a \$1 billion dollar increase in its overall revenue requirement in the next regulatory period, which suggests to irrigators that network charges are likely to rise further. This development combined with cost reflective tariff that might raise network charges in regional and remote

areas to a level that forces irrigators to 'switch off' or go 'off grid'. The result for food and fibre production and for the DNSPs could be detrimental as both are potentially left with a large number of stranded assets.

We urge the AEMC to seriously consider the impact of this cost reflective tariff rule change proposal and thoroughly assess what the outcomes will be for regional and remote areas of NSW. We understand that the proposed Consumer Impact Principle would guard against instant price increase as a result of these rule changes, however even steadily progressive price increase year-on-year would eventually lead to the same outcome, albeit at a slower rate. As such, NSWIC requests that the AEMC considers amending the Consumer Impact Principle to ensure that such a detrimental outcome will not arise as a result of the rule change.

Alternatively, we believe that a Regional Australia Community Service Obligation (CSO) must be implemented to address the inequitable costs burden of providing electricity to regional Australia compared to urban and semi-urban Australia. A CSG would have the benefit of providing support for regional Australian communities, prevent the crippling of food and fibre production and mitigate the 'death spiral' in regional Australia. Such a CSO must be committed by the State Government

Specific Comments

NSWIC would like to make the following specific comments to the draft rule determination;

1. Cost Reflective Tariffs

NSWIC is deeply concerned about the proposed rule change to enforce cost reflective tariff setting. As the draft determination outlines;

Each network tariff should reflect the efficient cost of providing services to consumers assigned to the tariff.

The 'services' that the DNSPs provide to irrigators in regional NSW usually carry a significant cost due to the remoteness and the low customer per area ratio. Given these conditions, NSWIC is seriously concerned that the proposed rule change could lead to significant increases in the network charges for irrigators who are already struggling with rising network costs. It must be remembered that irrigators are utilising electricity for food and fibre production. Through their activities they are a major contributor to Australia's GDP and a major source of employment for regional Australia. As such, their electricity use should be evaluated in a broader context of irrigators' contribution to the Australian economy.

The recently released Federal Energy White Paper (Green Paper) also acknowledged the vulnerability of irrigators;

Some consumers are not in a position to change their electricity consumption patterns in response to price signals. Other examples reflect personal or business needs (...) agricultural businesses such as irrigators where the time of electricity use is not flexible. Both the pattern of daily use and overall use will affect the cost implications of cost-reflective tariffs on such consumers¹.

Irrigators electricity use is driven by the water requirements/needs of a particular crop and hence very inflexible. In addition, water use is highly regulated in NSW and can restrict the timeframe when irrigators can use water and therefore electricity. Such 'external' constraints are of importance as electricity use can often not be altered (despite of various price signals).

The cost implications that the proposed rule change carries could lead to a devastating outcome for the industry who will find it increasingly difficult to service these electricity costs. There is a severe risk that many irrigators will find that the increasing cost of electricity renders their operation unsustainable with the effect that many irrigators will be forced to 'switch off' or go 'off grid'. Both results would be suboptimal for both irrigators and the DNSPs as both would be left with a shrinking revenue and an increasing number of stranded assets.

The Council does not see how this rule change proposal would lead to a sustainable outcome for Essential Energy or regional NSW customers. To ensure a sustainable outcome, the rule change should incorporate incentives for DNSPs to design future tariffs

¹ Energy White Paper (Green Paper) p.30

and charges in ways that won't discourage irrigators from adopting new technologies or striving for greater efficiencies and that won't render their businesses unsustainable².

NSWIC urges the AEMC to seriously consider the impact this rule change proposal would have on customers in regional and remote areas.

NSWIC request that the AEMC assesses and provides further information on the impact cost reflective network tariffs would have on regional and remote customers.

NSWIC submits that the AEMC must amend the draft determination to ensure that customers' financial viability is taken into consideration and DNSPs are not faced with the prospect of holding stranded assets in regional NSW.

2. Costs of Implementation

NSWIC understands that the draft rule change proposal constitutes a significant change to the DNSP's obligation under Chapter 6 of the National Electricity Rules (NER). While the Council believes that many of the proposed changes will lead to more efficient and transparent tariff setting, we are concerned that the implementation costs are high and will be passed onto consumers.

It is not clear from the draft rule change determination how high these costs are likely to be and who will be asked to pay for them. If these costs are ultimately passed onto customers through network charges, the Council believes that the draft rules should specify the AEMC's expectation on how high these implementation costs should be and suggest a process of how these costs are recovered between customers. In addition, NSWIC believe it is important that the AEMC or the AER ensures that the costs are efficient and the cost distribution methodology is equitable among all customers.

NSWIC submits that a process must be established that monitors and determines the implementation costs of the proposed rule change. This process must ensure that any resulting costs are equitably distributed across consumers.

3. Timing of the Rule Change

NSWIC welcomes the proposed earlier timeframe for submissions of the annual network prices by the DNSPs. The Council believes that the current timeframe is too short to enable consumer to meaningfully engage with the DNSPs or their retailer on the proposed charges and tariff structure. Given that retailers are generally the first point of contact for irrigators, the Council questions whether the proposed earlier timeframe is early enough to provide retailers with sufficient time to understand and assess the annual pricing proposal by the DNSPs. Should the timeframe be insufficient, the Council believes the proposed earlier timeframe would be ineffective and not achieve greater understanding and consultation with customers.

NSWIC submits that the AEMC reassesses the timeframe for the annual network pricing proposal by the DNSPs and consult with the energy retailer

² http://www.nswic.org.au/pdf/policy_documents/130308%20-%20Energy%20Policy.pdf

whether the proposed timeframe is sufficient to adequately consult with their customers.

4. Long-Run Marginal Costs

NSWIC acknowledges that the proposed rule change in regards to long-run marginal costs (LRMC) is a minor wording adjustment, however we believe that it will carry a significant implication on how the DNSPs will set their network tariff in the future. As the draft rule determination provides significant flexibility for the DNSPs to choose their preferred methodology to determine their LRMC, we are unsure of the exact impacts this rule change proposal will have on consumers. The Council is concerned that the flexibility which is provided to the DNSPs could lead to 'cherry-picking' of every DNSP's preferred methodology and might not be in the best interest of customers.

Furthermore the Council is concerned that the flexibility on choosing a LRMC approach could reduce the transparency and clarity of network charge setting as every DNSP is likely to have a slightly different approach to setting their methodology.

NSWIC submits that an LRMC rule change must determine a methodology and checklist that DNSPs follow when setting their LRMC approach to ensure some level of consistency between the DNSPs.

NSWIC submits that the rule change must ensure that consumers are not disadvantaged by the choice of the DNSPs to determine their own LRMC approach.

5. Consumer Impact

While NSWIC welcomes the recognition that consumer impacts must be managed and price volatility in annual network charges must be minimised, the Council is concerned that the draft rule change proposal does not address irrigators' concern about continuously escalating electricity costs. Even though yearly price volatility is a concern to irrigators in NSW, the important issue is current price levels and the prospect of further price increases.

The Council does not see how the draft rule change will address this serious concern. We acknowledge that the question of overall revenue requirement is an issue for the Australian Energy Regulatory to assess and determine, however the Council believes that the AEMC has an obligation to consider the impact that such a pricing principle can have on regional and remote customers.

The AEMC acknowledged in the draft determination that prior to the rule change request, the existing rules did not specify any consumer impact principles. To suggest that yearly price volatility is the only aspect of 'consumer aspects' that should be addressed in this rule change proposal fails to capture the primary concern of consumers that network tariffs are already too high and customers already struggle to service the current costs.

The requirement for energy by irrigators is largely determined by crop watering needs and as such there is little to no scope for them to adjust their electricity usage pattern; as such, irrigators are extremely vulnerable to further network charge increases in the future.

NSWIC requests that the Consumer Impact Principles are amended to include equity consideration by the DNSPs and regulators to ensure that electricity customers in regional and remote areas, who have limited capacity to adjust their electricity use, are not faced with unsustainable price increases.

6. Consultation

While NSWIC welcomes the attempt of the AEMC to improve the engagement between DNSPs, retailers and customers, we urge the AEMC to ensure that the consultation process is also accessible to customers. As the Council has recently experienced in the DNSPs revenue determination process, the amount of information that is prepared and passed on to the AER by the DNSPs is enormous and very few (if any) customer would have the incentive to actively engage in the process. The Council believes that the rule change proposal should be broadened to include not only more consultation but a requirement that the consultation on the TSS and annual tariff charges is meaningful and accessible to customers. The Council believes this could be achieved through more tailored information that is made available to specific customers classes and a more obvious and visible point of contact for customers to inquire with the DNSPs and the regulator on any specific questions.

NSWIC submits that the proposed rule change on consultation must be broadened to ensure that future consultation is more meaningful and accessible to customers.

Conclusion

NSWIC has welcomed the rule change proposal that would see network tariffs and charges be more thoroughly scrutinized. We also appreciate the attempt to engage customers more frequently in the network tariff setting. Despite these positive changes, we have however identified a number of serious concerns with the current rule change proposal which we believe need to be addressed urgently to ensure that the rule change will not lead to unintended and perverse outcomes for customers and DNSPs.

The Council believes that without flexibility and equity embedded into the rule change, cost reflective tariff setting has the potential to unfairly disadvantage electricity consumers in regional Australia, despite the jurisdictional obligations and consumer impact principles.

NSWIC believe it will be important to continuously engage with stakeholders to ensure that the rule changes will lead to a better and more transparent network tariff framework outcome.