



26 October 2016

Chris Pattas
General Manager
Networks (Investment and Pricing)
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001
via email: NSWtss2016@aer.gov.au

Dear Sir / Madam,

RE: Essential Energy Tariff Structure Statement

The NSW Irrigators' Council (NSWIC) and Cotton Australia appreciate the opportunity to provide feedback regarding the Essential Energy Tariff Structure Statement (TSS). We have reviewed the TSS documents, and Explanatory Notes by Essential Energy. Our submission to the revised TSS follows on from previous engagement with both Essential Energy and the Australian Energy Regulator (AER) via stakeholder consultation and focus groups, written submissions to Essential Energy and the AER and appearance at the TSS public forum in April 2016.

In broad, we wish to reiterate our deep concerns about the proposed wide-scale roll out of demand based electricity tariffs which significantly impacts irrigators' productivity and profitability. Many of our members who have recently received a letter from Essential Energy informing them of the proposed tariff reassignment have indicated that this process will force them off the grid and on to diesel generation as a doubling and tripling of their electricity costs is simply not sustainable. We ask the AER to be mindful of the impact of demand pricing regime on irrigated agriculture as it may ultimately lead to in many growers and irrigators walking away from the grid supplied energy due to the significant costs imposed – clearly this is an outcome that is not in the broad interest of electricity consumers.

After our assessment of Essential Energy's revised TSS proposal we have identified several outstanding concerns including:

- Issues with tariff reassignment process
- Ongoing concerns regarding consumer awareness of price impacts because of transitioning to demand based tariffs
- Lack of clarity regarding the transition to smart metering technology
- Continued concerns regarding a shift towards a high fixed charge component for Essential Energy Tariffs; and

- Promotion of solar PV to offset the shift to demand based charging.

We have outlined each of these issues under broad headings for the consideration of the AER Essential Energy TSS Review Team.

Issues with the tariff reassignment process

Essential Energy has proposed a tariff reassignment process which appears to primarily inform retailers of tariff reallocations instead of directly engaging with impacted consumers.

The tariff reassignment proposal also appears to allocate veto powers to the retailer. It is unclear whether the tariff reassignment process will provide equal powers of veto to tariff reassignment between consumers and retailers – this should be clarified. NSWIC and Cotton Australia strongly support our growers and irrigators maintaining the right to veto over any tariff reassignment process.

Where tariff reassignment is to occur, we would like to highlight the importance of informing both consumers and retailers of tariff changes, and using retailers as a communication channel to inform consumers of tariff changes. The process of tariff reallocation could be more clearly communicated to growers and irrigators including any potential tariff reassignment associated with changes in consumer behaviour i.e. lowering electricity network demand and consumption may result in a grower / irrigator being moved off a demand based tariff.

The process for tariff reassignment in Section 2.2 could be more clearly communicated to growers, irrigators and consumers more broadly, as we believe that communication of tariff reassignment will have a material impact on electricity consumption choices.

Ongoing concerns regarding transitioning of customers to demand based tariffs

Our organisations are particularly concerned about the tariff reassignment process. An initial estimate by Essential Energy indicated approximately 180 irrigators will be impacted by a move to either a demand based tariff or time of use tariff. Irrigators will be allocated tariffs as follows:

- Essential Energy customers consuming than 160 MWh will be moved on to a demand based tariff
- Essential Energy customers consuming between 100 and 160MWh will be moved on to a time-of-use tariff

Due to the exposure of some of our larger growers and irrigators to demand based charges, we estimate that the tariff reassignment project, particularly for those placed on demand tariffs, will lead to a doubling or tripling of bills with no associated change in energy consumption. Given our members are price takers, there is no ability to pass on these price increases. These additional costs of production therefore result in a reduced bottom line profit for our growers and irrigators, limiting their ability to reinvest back in to their business and continually drive productivity and profitability.

Our key requests therefore in relation to the tariff reassignment project are:

- to avoid the transition of growers and irrigators to demand based tariffs
 - demand based tariffs severely impact our irrigators and growers who may only turn their pumps on for a period of two days but are charged for their peak period of use

for the entire month despite having no further volumetric consumption. The introduction of demand based pricing has been responsible for the 300% increases in electricity pricing over the previous five years and is forcing many of our growers to consider switching off their electric pumps to avoid these unsustainable price increases.

- to support transitional tariff arrangements for customers impacted by the move to demand and time of use based tariffs
 - NSWIC and Cotton Australia were encouraged to see the Essential Energy has supported a gradual introduction of demand based tariffs over a five year period in recognition of the price shock which would otherwise impact growers / irrigators
- to improve notification of impacted customers affected by the tariff migration
 - letters were sent out to impacted customers 12 months ahead of the tariff transition process that is due to come into effect on 1 July 2017. Based on discussions with our members, and via participation in focus groups with impacted customers, it has become clear to our organisations that the ramifications of these changes have not been fully understood by customers. Our organisations have suggested Essential Energy liaise closely with retailers to ensure that customers are notified through the one document that customers thoroughly know – their bill. We will continue to advocate this position and ask for the AER's support given these changes are much broader than the irrigation / agriculture community.
- to allocate resources to help growers and irrigators understand the impacts on their bills
 - actual information provided to impacted customers was extremely limited, with feedback obtained from our organisation indicating that growers / irrigators are keen to find out actual dollar impacts of the tariff transition. We understand that the information that can be provided by the networks would only be indicative, however such numbers may assist businesses with forward planning.
- provide correct / realistic information to growers and irrigators
 - the TSS document suggests that our membership can approach OEH for assistance with energy efficiency on farm audits to drive lower overall energy consumption. However based information obtained from the Energy Efficiency Business Unit it is our understanding that funding under the program has been exhausted. We also note that the TSS explanatory notes advocate for the installation of solar panels as a means to offset the tariff changes being brought forward. Information derived through the on farm audit program carried out by OEH / NSWIC and Cotton Australia indicated that solar panels are not always the best solution to driving down energy consumption due to their high capital cost and resulting extended payback periods. While these dynamics are constantly shifting due to reduced PV panel costs and increased efficiency; continued availability of RET funding; and improved technology to make best use of solar generated energy – suitability of such an investment must be determined through a feasibility study as solar may not represent a viable solution in

all cases. We are not supportive of a broad brush recommendation for the installation of solar and such information being disseminated to our members.

- to provide an avenue for growers to transition off demand based tariffs where electricity consumption drops below the ‘trigger’ levels of 100 MWh and 160 MWh
 - the potential for such a transition to occur remains unclear. Our organisations highly encourage transparency in this area in recognition that material changes by large users will impact on future capital expenditure by the networks.

We additionally wish to highlight that despite attempts to obtain *Attachment 2 – Indicative NUOS Pricing Schedule* of the Essential Energy TSS, we were not able to receive a copy of this documentation. Our organisations believe that we would have found this document helpful in providing commentary on the tariffs to be applied under the tariff change project.

Many of the issues highlighted above were outlined to Essential Energy early in the consultation period. We have attached the letter sent to Essential Energy in August 2016 for the consideration of the AER as an addendum to this submission.

Lack of clarity regarding allocation of costs under the smart metering proposal

The transition of metering technology to meter contestability will commence on 1 December 2017 which falls within this TSS period. However despite this significant change, there is little discussion around cost allocation of the roll out of smart meters or how changes to metering technology will impact on charging windows for time of use tariff customers. Our organisations seek clarity on this matter, particularly in relation to small business users which under the current TSS proposal will face one peak window period operating from 7am to 10pm on weekdays. Under such a wide tariff window there will be limited opportunity for customers to change their energy use behaviour according to electricity consumption price signals.

Shift towards a high fixed charge component for Essential Energy Tariffs

Our organisations remain concerned regarding the shift towards a high fixed charge component for the recovery of residual costs or recovery of historical network costs. We believe that this charging mechanism does not encourage a change in electricity consumption as high upfront costs fail to provide an effective price signals to customers. While we note that the move towards declining block tariffs has been reversed by the networks, the shift towards a high fixed charge component within network charges remains. Given the considerable investment that has been made by customers across the network to reduce their electricity charges via installation of capital infrastructure e.g. PV panels and energy efficiency measures, we believe that pricing incentives will be removed under a higher fixed charge pricing scheme.

Consistent with our previous submission on the Essential Energy TSS Cotton Australia and NSWIC believe that the current TSS proposed by Essential Energy continues to be inconsistent with the requirements of the rules outlined in both (g)(3) and (h)(3) which states that consumers need to be able to *mitigate the impact of charges in tariffs through their usage decisions*. Where consumers pay the same fixed network charges regardless of their electricity consumption, consumers will be left with little ability to manage their future costs.

Promotion of solar PV as a means to offset the shift to demand based charging

At several points throughout the Essential Energy TSS proposal, solar PV is being promoted as a mechanism to reduce energy consumer below the 160 MWh trigger where consumers may be shifted to demand based tariffs. This is highly presumptuous proposal as such installations require considerable investment by growers and irrigators. Depending on the nature of irrigation set-up on farm a solar installation may result in unfavourable payback periods. This particularly occurs where irrigation pumps are used seasonally, meaning pay back for the entire installation must take place during this production period, or where pumping is dependent on allocation of water licences i.e. river based pumping. It also remains a concern where energy generated under such systems is not able to be fed back in to the grid, resulting in limited current potential usage for such energy sources.

As an organisation we are quite surprised to see the networks promoting such a considerable investment where rules around embedded generation remain in place.

Summary

NSWIC and Cotton Australia remain highly concerned about the transition of our members to demand based tariffs being conducted under this TSS through the banner of the 'long run marginal cost' tariff recovery project. The transition of our members to a demand based tariff will severely impact on the productivity and profitability, and may ultimately result in those who currently use electricity walking away from the grid and a suite of stranded assets for Essential Energy.

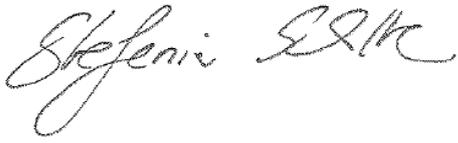
NSWIC and Cotton Australia believe that the tariff change project, and efforts taken to communicate the impact of transitioning to demand based tariff to consumers, has been ineffective to date and we encourage the networks to leverage retailers' relationships with consumers to ensure that growers and irrigators are aware of the prices change impacts of this transition.

If demand charges continue to be pursued by Essential Energy and permitted by the AER, our organisations are highly supportive of the introduction of transitional tariffs for this group of customers, without which our members will be subject to substantial price shock.

Our organisations remain highly concerned regarding the networks pursuing a high fixed cost component of tariffs which we believe are contrary to the rules of the National Electricity Market which state that consumers should be able to mitigate the impact of charges in tariffs through their usage decisions. Where a high fixed charge component exists, we believe consumers won't receive the necessary price signals to change electricity consumption behaviour. This will have flow on impacts for future network investment. We also believe these changes will have substantial impacts on those consumers who have already made investments to reduce their reliance on the grid through alternate energy sources such as solar PV panels and energy efficiency measures.

We look forward to the response of the AER to the revised Essential Energy TSS that will deliver a fair pricing schedule for growers and irrigators that does not limit their ongoing productivity and profitability. We would be more than happy to provide additional details to the regulator should this be required and can be contacted via email (felicity@cotton.org.au; stefanie@nswic.org.au) or phone (02 9669 5222; 02 9251 8477).

Yours Sincerely,

Handwritten signature of Stefanie Schulte in cursive script.

Stefanie Schulte
Policy Manager
NSW Irrigators' Council

Handwritten signature of Felicity Muller in cursive script.

Felicity Muller
Policy Officer
Cotton Australia