

Submission

Department of Industry and Science

Energy Division

**Review of Governance Arrangements for Australian Energy
Markets**

Issues Paper

150506

Introduction

NSW Irrigators' Council (NSWIC) represents more than 12,000 water access licence holders across NSW. These licence holders access regulated, unregulated and groundwater systems. Our Members include valley water user associations, food and fibre producers, irrigation corporations 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 *Review of Governance Arrangements for Australian Energy Markets - Issues Paper*. However, each Member reserves the 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.

Contents

Introduction	3
Executive Summary	4
Specific Comments	7
1. Institutional Structure, Scope and Mandate	7
2. Australian Energy Regulator	7
3. Australian Energy Market Commission	9
4. Australian Energy Market Operator	10
Conclusion	10

Executive Summary

The NSW Irrigators' Council (NSWIC) appreciates the opportunity to provide comments to the Review of Governance Arrangements for Australian Energy Markets. Due to the short consultation timeframe, NSWIC will not provide specific responses to the 46 questions outlined in the Issues Paper but will comment on broader issues relating to the regulatory framework and the electricity pricing structure.

While NSWIC acknowledges that the primary task of the Panel is to review whether there are ways to improve the governance arrangements of the Australian Energy Markets, NSWIC will only focus on those issues in the electricity market that are of concern to its Members.

It is NSWIC's hope that the issues that are raised in this review are examined in conjunction with other reviews which have recently been completed:

- Competition Policy Review;
- Energy White Paper;
- Agricultural Green Paper;
- Senate Inquiry into the management of network businesses.

Electricity has become a major input factor in irrigated agriculture as more irrigators have upgraded their 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' energy 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 of the escalating electricity costs, many irrigators have taken drastic measures, including locking off their pumps or reverting back to more water intensive irrigation practices like flood irrigation. The impact in terms of efficiency and productivity losses are immense.

Some irrigators have experienced electricity cost increases of up to 300 per cent over the last five years and these cost increases have not been matched with productivity gains or improvements in international commodity market prices. While the main driver of the increasing electricity cost has been the regulatory approval of inflated capital investments put forward by the network providers, other factors such as the carbon tax and the renewable energy target charges have also had a bearing on retail charges. However, it is the Council's contention that the regulatory structure for the network price determination is fundamentally responsible for the overall price increase.

Overall, the current regulatory structure for electricity pricing is highly complex, multi-layered and not transparent for customers and stakeholder representative bodies. Complexity in particular arises due to the various bodies that are responsible for assessing and determining different components of electricity charges and tariffs. Such a multi-layered regulatory approach causes information to be widely dispersed and not easily accessible for consumers who aim to gain a better understanding of how prices are derived and the reasons behind the recent price increases.

NSWIC has been involved in the Agricultural Industry Taskforce since its inception and has joined other agricultural representative organisations in providing submissions to a range of reviews related to electricity pricing. If relevant, NSWIC has appended these submissions.

Compliance with Consultation Expectations

In March 2009, in response to the growing number and complexity of consultation processes, NSWIC adopted a policy outlining the expectations of industry in this respect. The policy is appended to this submission. All consultation processes in which NSWIC participates are evaluated against this policy.

Our policy requires consultation to proceed through five stages.

(i) Identification of problem and necessity for change

Satisfactory. NSWIC has highlighted on multiple occasions that there is a need for a review of the governance arrangements for Australian Energy Markets.

(ii) Identification of solutions and proposed method for implementation

Unsatisfactory. The document does not outline any possible solutions to previously raised concerns by stakeholders.

(iii) Summary of submissions, identification of preferred approach

Unsatisfactory. Despite the reference in the Terms of Reference (ToR) that the process should be 'highly consultative', stakeholders are only given a week to respond to a very complex issue.

(iv) Explanation of interim determination and final feedback

Not Applicable.

(v) Publication of final determination

Not Applicable.

Overall, NSWIC would like to put on record that the communication around this review has been extremely poor and the review timeline is far too short for a member based stakeholder organisation - like NSWIC to adequately respond. In addition, NSWIC is extremely disappointed that the Issues Paper has been delayed because this has shortened the consultation timeframe even further.

The Review Panel's suggestion to hold three workshops during the week of the Federal Budget release suggests that it has no comprehension of the staff resources available to agricultural peak bodies - it is simply unreasonable to expect bodies like NSWIC to give proper regard to the Budget and the Review Panel's workshop in the same week.

Specific Comments

Due to the short consultation timeframe, NSWIC will provide only a brief submission to governance structure and bodies outlined in the Issues Paper.

1. Institutional Structure, Scope and Mandate

Despite the Issues Paper's attempt to disentangle the regulatory structure of the Australian Energy Markets, NSWIC continues to hold the view that the current governance structure is highly complex and provides little opportunity for individual consumers or stakeholder representative bodies to engage effectively with the three entities that are the focus of this review: Australian Energy Regulator, Australian Energy Market Commission and the Australian Energy Market Operator.

Furthermore, the tiered overview that is provided in the Issues Paper does not provide a clear picture on the roles and responsibilities of these three entities. NSWIC understands that such a task is complex, however without a full understanding of the roles and responsibilities of each of these entities, it is difficult to assess who consumers should approach if they feel the system is not working. There is a lack transparency and clear delineation of responsibilities which makes it virtually impossible for NSWIC and its members to fully engage.

NSWIC has raised the issue of complexity and lack of transparency of the existing regulatory framework in the Council's policy 'Energy Policy - Electricity Tariffs and Charges' which is appended to this submission.

2. Australian Energy Regulator

NSWIC understands that the Australian Energy Regulator (AER) applies the rules that are set and administered by the Australian Energy Market Commission (AEMC) in the determination process for NSW's distribution networks.

If NSWIC's understanding is correct, the Council is concerned that the AEMC rules are focused too strictly on economic regulation without sufficient consideration of consumer impacts and NSWIC feels that this is in conflict with the objectives of the National Electricity Objectives and must be reviewed.

Secondly, the Council questions whether the AER has sufficient scope and regulatory oversight to adequately undertake the current distribution network pricing determination under the AEMC rules.

Propose-Response Model

As we have outlined in our submission to the *Senate Inquiry into the Performance and Management of Network Companies*, NSWIC is concerned about the 'propose-respond' model that is adopted in the National Electricity Market. It is our understanding that this model was proposed by the network businesses and adopted by the AEMC and thereafter formalised in the National Electricity Rules.

NSWIC believes that the 'propose-respond' model creates a significant advantage for network businesses relative to the regulator. It effectively places the onus of proof on the

regulator to demonstrate that the businesses' proposals are wrong. While the AER is free to ask questions during the reviews and seek information, it is not free to set the agenda as it has been established through the businesses' proposal and the regulator is therefore limited in how it might respond to those proposals and conduct its review accordingly.

This 'propose-respond' model provides an opportunity for the network businesses to inundate the regulator through the weight of material that they provide for review. During the most recent determination, NSW regional network provider Essential Energy lodged over 40,000 pages of information to the AER in support of its submission.

This 'propose-response' approach jeopardises the regulator's ability to respond effectively and also undermines consumer's participation in the process and makes it difficult to fully critique the network's pricing proposal. The fact that the regulatory framework for network determinations has come to this reflects a serious breakdown in trust and regulatory authority.

NSWIC submits that this model be changed and a standard procedure is introduced that leaves it to the regulator to ask whatever questions are needed to understand network pricing proposals.

This subtle, but critically important change, has major implications in placing the onus of proof on the network and not on the regulator to refute the network's proposals.

Regulated Asset Base

NSWIC has raised in a number of its submissions our concerns about the size and growth of the NSW's regional network's regulated asset base (RAB). While an evaluation of the efficiency and usefulness of Essential Energy's RAB is currently outside the AER's control, NSWIC believes that the future sustainability of network charges are crucially dependent on the size and future growth rate of the network's RAB.

NSWIC points out that the AER draft decision shows that Essential Energy's RAB will double by 2019 (compared to 2009) - in a trend is simply not sustainable. Given the low customer density in regional NSW, the costs associated with maintaining such a large network will make it prohibitively expensive for irrigators to utilise electricity on farm. The effect will be that a large number of irrigators will leave the network and source alternative production inputs and methods (including diesel and renewable energy sources) - leaving remaining consumers facing exponential growth in charges.

In order to avoid such a scenario, NSWIC submits that the regulatory structure must enable a re-evaluation of the distribution network's existing RAB according to a 'used and useful' test. Assets found to be not utilised should be excised by the regulator from the related RAB and thereafter be excluded from the determination process.

NSWIC recommends a rule change to be initiated through the AEMC that would include a clause similar to the National Gas Rules (85(1)) into the National Electricity Rules. At this point in time, clause 11.56.5 of the NER precludes the AER from conducting an analysis of the network's RAB.

Weight Average Cost of Capital

NSWIC raised previous concerns in its submissions to the AER and the Senate Inquiry about the method underlying the network's determination of the weighted average cost of capital (WACC). The determination of the WACC - an issue largely, but not completely, within the AER's discretion - is based on what the AER calculates to be the WACC of a 'benchmark efficient network service providers'. This calculation is, by its design, meant to be removed from reality and not reflective of the actual cost of capital.

NSWIC believes the AER's support of this 'benchmark efficient' approach to the calculation of the cost of debt and equity represents a failure of the current regulatory systems and cites the AER's acceptance of many of the network businesses' claims despite the absence of compelling evidence that the claimed costs have been actually incurred.

NSWIC submits that the method for determining the WACC is changed to more accurately reflect the network businesses' actual cost of borrowing.

Determination Timeframe

Finally, the five-year determination timeframe does not provide the AER with a recourse to correct or amend their determination if gross errors in demand forecasting or infrastructure needs are subsequently identified. On the contrary, the network businesses have access to an appeal process that allow them to challenge the regulator's determination. This is an unfair and unequal system that needs to be reviewed.

NSWIC submits that the AER must be given an opportunity to correct a determination in case gross errors are identified.

3. Australian Energy Market Commission

Since the onset of the regulatory reform process, NSWIC has been involved in a number of rule change requests that have been brought to the Australian Energy Market Commission (AEMC). NSWIC noticed that the process is extremely complex and the duration for the reviews are excessively long. Due to the time lag between a rule change application and the initiation of the AEMC process, it is difficult for stakeholders to keep abreast of all the different issues.

In addition, NSWIC has found that many of the rule change requests have led to further tightening of the economic regulation of the National Electricity Rules without considering consumer impacts. This has been particularly evident in the recent rule change request relating to Distribution Network Pricing Arrangements. The Council has made a submission to this review highlighting the issues for rural consumers if the AEMC was to implement 'cost reflective' tariffs. At the public forum held in Sydney it was mentioned that the AEMC only has a mandate to look at efficiency and not equity issues and hence customer impacts were not directly considered as part of the rule change request.

Furthermore, NSWIC is keen to understand how this review will incorporate the findings of other recently completed reviews, including the Energy White Paper Review and the Competition Policy Review chaired by Professor Ian Harper. In both final reports, a

recommendation was made to establish a new 'Pricing and Access Regulator' which would assume the responsibilities that are currently under the jurisdiction of the AEMC. The Council would like to understand the development and changes resulting from these reports and the implications they might have on the functions and responsibilities of the AEMC. While the Council does not have a predetermined view on the proposed new regulator, it does not support another layer of regulation and any possible duplication of functions and responsibilities.

4. Australian Energy Market Operator

While NSWIC has only had limited interactions with the Australian Energy Market Operator (AEMO), there is concern within the NSWIC membership about the Australian Energy Market Operator's previous electricity demand forecast for the 2009-14 period which informed the AER's price determination for NSW's regional distribution network, Essential Energy. The incorrect forecast directed the AER to approve a higher than necessary capital expenditure allowance and the operating expenditure schedule resulted in higher, but unnecessary, costs for customers.

NSWIC submits that the role and forecasting responsibilities for the Australian Energy Market Operator should be reviewed and its demand forecasting is independently verified.

Conclusion

The current regulatory structure and pricing framework for electricity is complex and extremely difficult to understand for individual consumers and stakeholder representative bodies.

While a range of improvements can be made to increase the transparency and effectiveness of the current system involving three organisations (Australian Energy Regulator, Australian Energy Market Commission and the Australian Energy Market Operator), it will be important to consider whether the current structure still serves an electricity market that is continuously evolving and moving towards new energy sources. With the emergence of new technology, the existing (and in some instances archaic) structure might not be the most optimal framework for regulating energy providers and serving energy consumers.

NSWIC recommends that this review considers the development of Australia's future energy landscape before making recommendations on the current governing arrangements for the National Energy Market.



Tel: 02 9251 8466
Fax: 02 9251 8477
info@nswic.org.au
www.nswic.org.au

Consultation

The Expectations of Industry

090303

Andrew Gregson
Chief Executive Officer

Introduction

NSW Irrigators' Council (NSWIC) represents more than 12,000 irrigation farmers across NSW. These irrigators are on regulated, unregulated and groundwater systems. Our members include valley water user associations, food and fibre groups, irrigation corporations and commodity groups from the rice, cotton, dairy and horticultural industries.

This document represents the views of the members of NSWIC. However each member reserves the right to an independent view on issues that directly relate to their areas of operation, or expertise, or any other issues that they may deem relevant.

Executive Summary

This document sets out the consultation process that the irrigation industry expects from Government on policy matters affecting the industry.

Specifically, the industry expects that the contents of this document inform the consultation process with respect to preparation of the Basin Plan by the Murray Darling Basin Authority.

Background

Industry has been critical of consultation processes entered into by both State and Commonwealth Government entities in the change process with respect to water policy. Irrigators have significant sums invested in their businesses, all of which are underpinned by the value, security and reliability of their primary asset – water.

Irrigators recognise the imperatives for change and are content to provide advice on policy measures to ensure effective outcomes for all involved.

In light of these two factors, it is not unreasonable that irrigators request adequate consultation.

Recent consultation efforts have ranged from excellent to woeful¹. Irrigators believe that a method of consultation should be determined prior to the commencement of a policy change process. To that end, this document sets out the methods which we believe are acceptable and ought be adopted by Government both State and Commonwealth.

In particular, this document aims to inform the Murray Darling Basin Authority in its work developing the Basin Plan.

¹ See case studies later in this document.

Forms of Consultation

We consider two forms of consultation to be acceptable – Direct and Indirect. The preferred option will be dictated by circumstances.

Direct Consultation

This method involves engaging directly with affected parties, together with their representative organisations. As a default, it ought always be considered the preferred method of consultation.

Irrigators acknowledge that practical exigencies must be considered to determine if Direct Consultation is possible. Such considerations will include:

- The number of affected stakeholders (the smaller the number, the more ideal this method);
- The timeframe available for implementation (the longer the timeframe, the more ideal this method)²; and
- The geographical distribution of stakeholders (the closer the proximity, the more ideal this method).

Indirect (Peak Body) Consultation

This method involves engaging with bodies that represent affected parties. NSW Irrigators Council is the peak body representing irrigators in this state. The National Irrigators Council is the peak body in respect of Commonwealth issues.

Irrigators acknowledge that there will be occasions on which consultation with peak bodies is necessary for practical reasons. Such reasons may include:

- An overly large number of affected stakeholders;
- A short timeframe (not artificial) for implementation;
- A large geographic spread of stakeholders; and
- An issue technical in nature requiring specific policy expertise.

This form of consultation requires some specific considerations that must be addressed in order for it to be considered acceptable;

² Although note specifically that artificial timeframes, such as political necessity, will not be well received by irrigators.

- Timeframes

Indirect Consultation is, in essence, the devolution of activity to external bodies. That is, the task of engaging with affected stakeholders to assess their views and to gather their input is “outsourced” to a peak body. That peak body cannot operate in a vacuum and, as such, must seek the views of its members lest it become unrepresentative. Dependent on the nature of the issues and the stakeholders, this may take some time. It is vital that peak bodies be requested to provide advice on necessary timeframes prior to seeking to engage them in an Indirect Consultation model.

- Resource Constraints

Peak bodies do not possess the resources of government. In most instances – and certainly in the case of irrigation industry peak bodies – their resources are gathered directly from members and hence must be well accounted for.

Peak bodies engage in a significant range of issues and activities, many of which feature their own time constraints.

Prior to commencing the consultation process, discussions with peak bodies must be held to ensure that the needs of stakeholders with respect to resourcing and timeframes are respected. This may include ensuring that consultation does not occur during times of known peak demand; coordination with other government agencies to avoid multiple overlapping consultation processes; and coordination with peak bodies existing consultation mechanisms (for example, NSWIC meeting dates are set annually and publicly available. These are an ideal forum for discussion as they provides access to key stakeholders with no additional cost to stakeholders).

Stages of Consultation

Irrigators believe that a multi-stage consultative model, in either the Direct or Indirect applications, is necessary.

(i) *Identification of problem and necessity for change*

Irrigators are wary of change for the sake of change. In order to engage industry in the process of change, an identification of its necessity is required. This should take the form of a published³ discussion paper as a minimum requirement.

(ii) *Identification of solutions and method for implementation*

With a problem identified and described, a description of possible solutions together with a proposed method of implementation should be published.

³ We accept that “published” may mean via internet download, but require that hard copies be made available free of charge on request.

It is imperative that the document clearly note that the proposed solutions are not exhaustive. The input of stakeholders in seeking solutions to an identified problem is a clear indicator of meaningful consultation.

It is likely, in practice, that steps (i) and (ii) will be carried out concurrently. This should take the form of a document seeking written submissions in response. The availability of the document must be widely publicised⁴. The method for doing so will vary depending on the method of consultation. As a threshold, at least 90% of affected stakeholders ought to be targeted to be reached by publicity.

(iii) *Summary of submissions, identification of preferred approach*

Subsequent to the closing date, a document ought to be published that summarises the submissions received in the various points covered. It must also append the full submissions.

Acknowledgement of a consideration of the weighting of submissions must be given. As an example, a submission from a recognised and well supported peak body (such as NSWIC) must be provided greater weight than a submission from a small body, an individual or a commercial body with potential commercial interests.

There are no circumstances in which submissions ought to be kept confidential. Whilst we recognise that identification of individuals might be restricted, any material on which a decision might be based must be available to all stakeholders.

The document must then identify a preferred approach, clearly stating the reasons why that approach is preferred and why alternate approaches have been rejected.

Where the need for change has been questioned by submissions, indicating that a case has not been made in the opinions of stakeholders, further discussion and justification of the necessity must be made in this document.

(iv) *Explanation of interim determination and final feedback*

The document prepared in stage (iii) must now be taken directly to stakeholders via forums, hearings or public discussions. All stakeholders, whether a Direct or Indirect model is chosen, must have an opportunity to engage during this stage.

The aim of this direct stage is to explain the necessity for change, to explain the options, to identify the preferred option (together with an explanation as to why it is the preferred option) and to seek further input and feedback. Further change to a policy at this point should not, under any circumstances, be ruled out.

(v) *Publication of final determination*

Subsequent to stage (iv), a document must be published summarising the feedback received from that stage, identifying any further changes, identifying

⁴ Regional newspapers, radio stations and the websites of representative groups and infrastructure operators are useful options in this respect.

why any particular issues raised across various hearings at stage (iv) were not taken into account and providing a final version of the preferred solution.

What Consultation Is Not

“Briefings” after the fact are not consultation (although they may form part of the process). Stakeholders will not be well disposed to engagement where prior decisions have been made by parties unwilling to change them. Briefings in the absence of consultation will serve to alienate stakeholders.

Invitations to attend sessions with minimal notice (less than 10 days) is not consultation. Consideration must be given to the regional location of parties involved, together with the expenses and logistical issues of travel from those regions.

Case Study One

Australian Productivity Commission (Review of Drought Support)

Getting it Right

During 2008, the Australian Productivity Commission commenced a review of Government Drought Support for agriculture. The review commenced with the publication of a document to which submissions were sought. A significant period of time was allowed for submissions.

Subsequent to the close of submissions, a draft position was published which took into account written submissions that were received, identified issues raised in submissions and identified a number of changes considered subsequent to submissions.

The Commission then engaged in a large series of public hearings in areas where affected stakeholders were located. Parties were invited to provide presentations in support of their submissions. Parties who had not lodged written submissions were also welcome to seek leave to appear. The meetings were open to the public, who were also given the opportunity to address the hearing.

A series of “round tables” in regional areas was conducted with identified and self-disclosed stakeholders. These meetings gave those who were unable or unwilling to provide presentations in public the opportunity to have input. At the same time, no submissions were kept confidential, the Commission recognising that the basis for its determinations must be available to all.

Importantly, present at the hearing were three Commissioners. It is vital that the decision makers themselves are available to stakeholders, rather than engaging staff to undertake this task.

We understand that a final publication will be made available in 2009.

Case Study Two

CSIRO (Sustainable Yields Audit)

Getting it Wrong

In early December, CSIRO (in conjunction with a number of other Government entities) conducted a regional “consultation” series with respect to the Sustainable Yields Audit. The series was, in our opinion, ill-informed, poorly organised, poorly executed and poorly received.

In late November, CSIRO sought advice from NSWIC over the format and timing of the series. We provided advice that:

- The series did not cover sufficient regional centres to engage all stakeholders. In particular, Northern NSW had not been included;
- The series should not be by invitation, but should be open to all comers given the implications not only for irrigators but for the communities that they support;
- Ninety minutes was vastly insufficient to cover the depth and breadth of interest that would be raised by attendees; and
- That the timeframe between invitation and the event was insufficient.

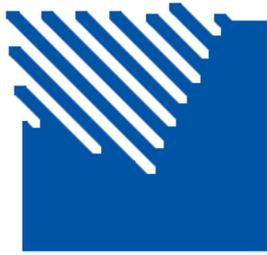
None of that advice was adopted.

Invitations were sent to an undisclosed number of stakeholders who had been identified by an undisclosed method. In the short space of time available to advise attendance, CSIRO threatened to cancel a number of sessions on the basis of low responses. Given the limited notice and invitation list, NSWIC became aware of a number of stakeholders who wanted to attend but were unable to.

During the sessions, information was presented as a “briefing” despite being described as consultation. As such, extremely limited time was available for questions to be addressed – a key feature of consultation. Moreover, where information that was presented was questioned, a defensive stance was taken – a key feature of lack of willingness to engage stakeholders in a consultative fashion.

In particular, NSWIC is particularly concerned at the lack of willingness to engage on factual matters contained within the report. Where glaring inaccuracies were pointed out, defensiveness was again encountered. In several instances, inaccuracies that had been advised by stakeholders were perpetuated in later documents.

Further, several presenters were clearly not aware of the full range of detail surrounding the matters that they discussed. It is imperative that those seeking feedback on a subject understand that subject in depth prior to commencing consultation.



NSWIC
NEW SOUTH
WALES
IRRIGATORS'
COUNCIL

PO Box R1437
Royal Exchange NSW 1225
Tel: 02 9251 8466
Fax: 02 9251 8477
info@nswic.org.au
www.nswic.org.au
ABN: 49 087 281 746

Energy Policy

Electricity Tariffs and Charges

130308

Stefanie Schulte
Economic Policy Analyst

Introduction

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Executive Summary

This document sets out the policy of NSWIC in respect to the setting of electricity tariffs and charges in NSW, including the regulatory framework and the level of competition we envision to exist in the NSW electricity market. We believe that the criteria outlined below will initiate a movement to more cost-reflective and efficient electricity prices in the state.

While providing a background on the development of electricity prices, and the impact they had on irrigated agricultural production, this document is designed to address the principles that must be considered when designing and implementing a suitable framework for electricity price setting in NSW.

This policy document was prepared in response to a motion that was accepted by Council in March 2012;

The NSWIC undertake a scoping study of:

- 1. The impact of energy pricing on water efficiency programs;**
- 2. The avenues to influence energy prices and the structure of charges.**

Then report to Council to enable a decision on whether NSWIC should put resources into attempting to influence energy charges.

While NSWIC has dedicated extensive resources in the pursuit of answering the two aspects of the scoping study, this policy document will inform Council on the last component of the motion.

We have analysed the regulatory framework guiding electricity prices and have assessed the resulting impact on irrigated agricultural producers. With the obtained information, we have prepared a submission to the Senate Select Committee on Electricity Prices and provided two Briefing Papers to Members which are appended to this policy.

We have identified that the regulatory framework for setting electricity tariffs and charges in NSW is highly complex, multi-layered and not transparent. Additionally, NSWIC is aware that the regulatory framework guiding electricity prices is currently in flux as a result of recently initiated state and federal policy reviews and inquiries aimed at determining the causes and potential solution to the recently escalating electricity prices.

In this context, this policy document sets out NSWIC main objectives and criteria for an adequate electricity tariffs and charges framework in NSW that is both efficient and cost-reflective.

NSWIC's main policy objective is to establish efficient and cost-effective tariff rates and charges that reflect current usage pattern, allow irrigators to use their on-farm infrastructure equipment optimally and give irrigators an incentive to expand their water use efficiency works where possible.

To achieve this objective, NSWIC will pursue the following:

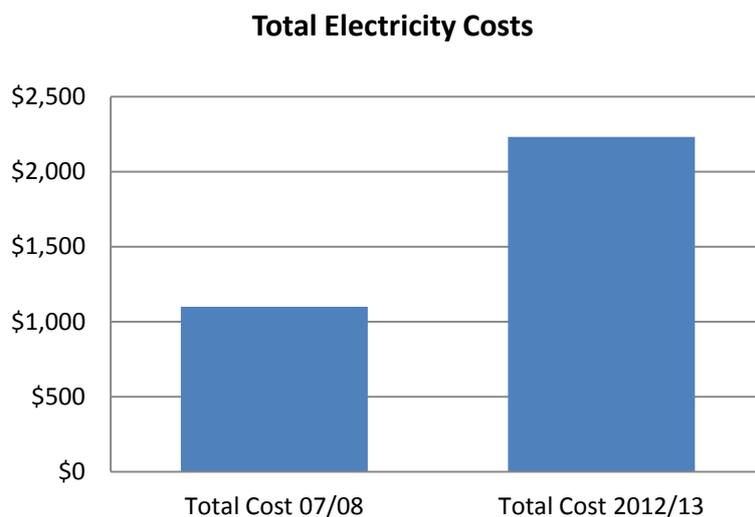
1. Lobby for a simpler and more transparent rules and regulations governing the setting of electricity tariffs and charges in NSW. Future regulation must have a clear defined objective, address all aspects of the current electricity costs and allow the NSW regulator to assess the efficiency and effectiveness of any proposed charges and tariffs.
2. Advocate for increased competition in the NSW electricity market to ensure a that price increases are mitigated and customers are offered better information, products and services.
3. The introduction of farm business *tariffs that address the specific needs and requirements of irrigators in NSW;*
 - I. *The tariffs and the associated charges must be positively correlated to the usage pattern of an individual irrigators. If there is a decrease in use or a modification in the use time pattern towards shoulder or off-peak time periods then this must trigger a decrease in overall prices for electricity.*
 - II. *The tariffs and the associated charges must be at levels that do not discourage irrigators from participating in national and state water efficiency and land care programs and/or from utilising technologies and infrastructure that contribute to the national goal of increased food and fibre production.*
 - III. *The tariffs must allow for an efficient use of energy related equipment on-farm. This includes wires, poles and meters.*
 - IV. *The tariffs must allow for optimal water application that best assists plant growth.*
 - V. *The tariffs must avoid perverse pricing outcomes, especially in the context of demand charges. Such demand charges must be tailored to the specific farm operation and the equipment used on farm.*

Background

Increased competitive pressure for water resources and a highly variable climate have led to significant structural changes in irrigated agriculture over recent years. Many irrigators have converted existing on-farm irrigation equipment to reduce their water use dependency. While initial studies indicate that the water savings achieved through these on-farm infrastructure investments have surpassed prior expectations, side effects have materialised in terms of higher energy usage. The costs associated with this higher energy usage has been the subject of ongoing debate and questions have been raised about the trade-off between water efficiency and energy intensity.

Retail Electricity Prices

The Independent Pricing and Regulatory Tribunal (IPART) is responsible for the regulation of one segment of the NSW retail electricity market⁵. As part of its regulatory obligation, IPART has monitored the development of retail electricity prices and has shown that over the past five years alone, regulated retail electricity prices in NSW have more than doubled in nominal terms and by around 79% in real terms. These price developments were caused by increases in network costs and 'green' schemes costs.



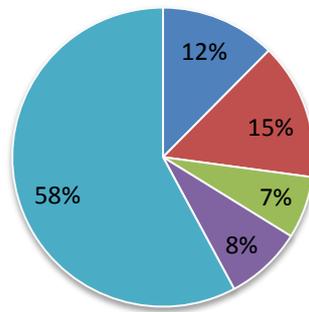
Data: Independent Pricing & Regulatory Tribunal

According to IPART, the rise in network costs, including the charges that electricity retailers must incur through using transmission and distribution networks to transport electricity to their customer's premises, have risen by around 58%. Furthermore, the compliance costs associated with state and federal 'green' schemes have increased retail electricity prices by around 15%. It must be highlighted that these two cost drivers are outside IPART's regulatory framework and had to be passed through by IPART in the last price determination.

⁵ While IPART is only responsible for the determination of regulated retail electricity prices in NSW, the development of prices in the unregulated electricity market segment is positively correlated with the development in the regulated segment and hence IPART's result can be seen as a proxy measure for both market segments.

Electricity Cost Increase 2007/08 - 2012/13

■ Energy ■ Carbon ■ Other Green ■ Retail ■ Network



Data: Independent Pricing & Regulatory Tribunal

Electricity Prices and Irrigation

Studies on the impact of electricity prices on irrigated agricultural production are scarce, however an initial assessment by NSWIC has indicated a range of inefficiencies and input cost problems as a result of the recent price increases.

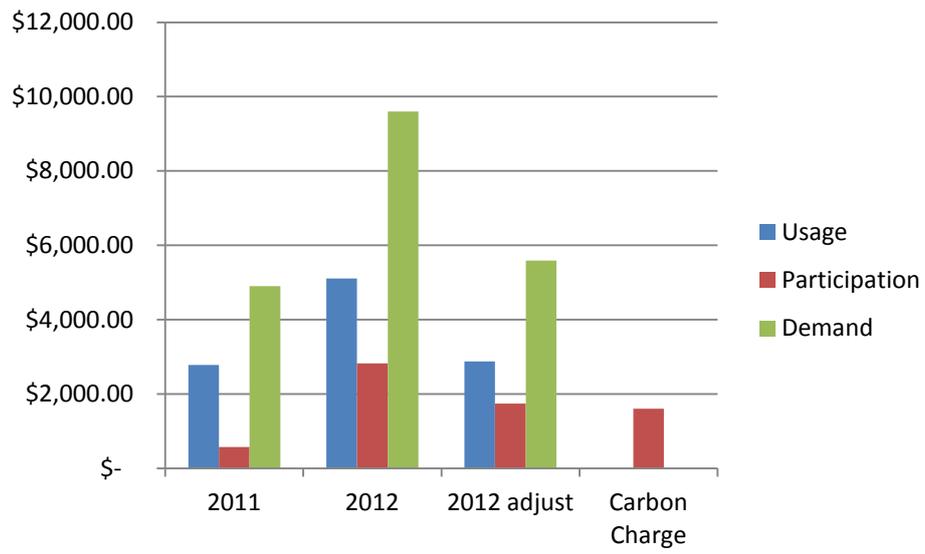
Whilst NSWIC analysis confirmed the results obtained by IPART in that network costs and charges associated with federal and state 'green' schemes are the main drivers of overall electricity price increases, the magnitude of the impacts are not necessarily comparable with IPART's results.

Data obtained from the Riverina region of NSW have shown that market participation charges have increased by around 203% in nominal terms over the period 2011 to 2012 alone (including the carbon charge). When excluding the carbon charge, electricity price have risen more moderately by 31% in nominal terms. Furthermore, network charges have contributed around 22% to overall electricity costs in the period 2011 to 2012. The rise in network charges are mainly driven by demand charges (both peak, shoulder and off-peak) that contribute around 50% of overall network costs. In comparison, the data showed that the usage component of the electricity bill only increased around 3.5% in the period 2011 to 2012⁶.

Some irrigation equipment has become prohibitively expensive to use as a result of the steep electricity cost increases. This has caused an underutilisation of the water saving irrigation equipment and has prevented the optimised application of water to crops.

Furthermore, irrigators in some areas of NSW have also observed perverse pricing outcomes as a result of consolidating their electricity distribution and metering equipment.

⁶ NSWIC acknowledges the difficulty of generalising the changes to irrigator's electricity costs given the diversity of each individual irrigation operation in NSW.



**2012 adjust assumes equivalent electricity usage as 2011*

Inefficiencies

- Regulatory environment

The current regulatory framework is highly complex, multi-layered and not transparent for customers.

Complexity arises due to the various regulators that are responsible for assessing and determining different components of electricity charges and tariffs. While charges associated with network costs and 'green' schemes are set at a federal level and then passed through to customers, the NSW regulator IPART is unable to fully assess the efficiency and cost-effectiveness of these tariffs and charges. Such a multi-layered regulatory approach causes a disconnect in the overall electricity price setting and hence makes the entire system prone to inefficiencies.

Furthermore, this multi-layered regulatory approach causes information to be widely dispersed and not easily accessible for customers who aim to gain an understanding of how prices are derived and reasons behind the recent price increases. Customers do not even have the opportunity to approach the NSW regulator IPART to query the reasons behind the overall electricity prices increases as not all charges and tariffs have been assessed and determined by IPART.

- Competition

NSWIC is concerned that the level of competition between energy retailers in urban and regional NSW is uneven. While competition in urban NSW is high, this same level of competition does not exist in rural NSW due to installed infrastructure and pre-existing contracts. The lack of competition in regional NSW needs to be monitored carefully before further consideration is given to the deregulation of the NSW electricity market.

NSWIC is aware that the Australian Energy Market Commission (AEMC) will make a recommendation to the NSW Government in September 2013 about the degree of competitiveness in the NSW electricity market and the possibility of future deregulation. However, NSWIC believes there is yet sufficient evidence that would prove that deregulation would benefit all customers in regional NSW.

Due to a lack of competition, customers in regional NSW have limited choice about products, services and tariff rates provided by energy retailers.

- Tariff

Despite the existence of a large range of tariff rates in NSW, NSWIC does not believe there exist tariff rates that are specifically tailored to irrigated agricultural producers.

Irrigators have the ability to be flexible in their electricity usage and would prefer to minimise their input costs if possible, however this is currently not possible under the existing tariff structure. As market participation charges and 'green' scheme costs make up the majority of overall electricity costs for irrigators in NSW, usage

patterns seem to play a minor role in overall costs. Not only does current electricity usage contribute an insignificant amount to overall electricity costs, but the two are not necessarily positively correlated; i.e. a decrease in usage or a change in use pattern does not necessarily trigger a decrease in electricity prices.

Furthermore, the use of certain irrigation equipment triggers large increases in demand charges, even if the duration of use for this equipment is relatively short. This does not allow irrigators to fully utilise their irrigation infrastructure on farm which is clearly an inefficient outcome.

Additionally, the design of the current electricity tariffs do not allow for an efficient consolidation of necessary electricity delivery and metering equipment. Examples show that the consolidation of electricity meters between several farms has caused irrigators to switch from a franchise tariff to a contestable tariff with significantly higher charges.

Finally, some irrigators in NSW have suffered from agronomic and water use disadvantages as peak electricity rates during the day prevent an optimal application of water to plants at a time when the plant is most active.

Necessary improvements

NSWIC recognises that in the context of electricity price setting there are three separate components that could be improved upon. Each of these aspects should be given equal consideration in further discussions about future electricity price setting.

Objective:

The overarching objective should be to establish efficient and cost-effective tariff rates and charges that reflect usage pattern, allow irrigators to use their on-farm infrastructure equipment optimally and give irrigators an incentive to expand their water use efficiency efforts where possible.

Regulatory environment

The overall regulatory framework has to become more transparent, less complex and avoid an overlap between state and federal legislation. Transparency and simplification of legislation will allow individual customers, including irrigators, to obtain access to all necessary information and allow them to make informed decisions about their electricity usage. To avoid overlapping regulation also decreases the need of excessive compliance procedures and makes the whole process simpler and more transparent. NSWIC believes that the currently initiated state and federal reviews and inquiries provide an ideal platform to make further progress in this respect.

It must furthermore be possible for the state regulator to assess all components of electricity charges and tariffs. The efficiency and cost-effectiveness of those charges can simply not be guaranteed if several aspects of the overall electricity costs have to be simply passed through to consumers without regulatory scrutiny.

An optimal regulatory framework has to ensure that the existing regulation have a clear defined objective which has to be reflected in the setting of charges and tariffs. As such, the tariffs and charges have to ensure that the usage patterns are positively correlated to the electricity costs.

Competition

As competition generally drives efficiency and cost reductions, NSWIC strongly encourages further developments in this respect within the NSW electricity market. We also believe that further competition will foster the provision of more detailed information, better products and services and hence more cost-reflective and better targeted tariff rates for customers.

Farm Business Tariffs

NSWIC strongly supports the introduction of farm business tariffs that are designed for the specific needs and requirements of irrigators throughout NSW.

In principle, these farm business tariffs must fulfil the following three criteria;

- I. The tariffs and the associated charges must be positively correlated to the usage pattern of an individual irrigators. If there is a decrease in use or a modification in the use time pattern towards shoulder or off-peak time periods this must trigger a decrease in overall prices for electricity.
- II. The tariffs and the associated charges must be at levels that do not discourage irrigators from participating in national and state water efficiency and land care programs and/or from utilising technologies and infrastructure that contribute to the national goal of increased food and fibre production.
- III. The tariffs must allow for an efficient use of energy related equipment on-farm. This includes wires, poles and meters.
- IV. The tariffs must allow for optimal water application that best assists plant growth.
- V. The tariffs must avoid perverse pricing outcomes, especially in the context of demand charges. Such demand charges must be tailored to the specific farm operation and the equipment used on farm.

Other Matters

NSWIC strongly urges state and federal policy makers to expand the range of available options that would allow irrigators to decrease their electricity costs. One example could be the extension of the solar grant scheme to irrigators. While domestic peak consumption is at night and on weekends, irrigator's demand for electricity is often during the day which might therefore be a perfect fit for solar generators. An extension of the scheme would be a logical expansion of current policies that will see irrigation demand and power supply system constraints coincide.

Furthermore, in light of the continuous water recovery strategies by the Federal government, emphasis must be placed on the continuous need and benefits of further water saving infrastructure investment, together with a reminder that already implemented equipment must be used most efficiently.

The progress achieved in terms of water use efficiency measures must be recognised and rewarded by both policy makers and the electricity industry and further implementation of water saving infrastructure equipment must be fostered to increase the resilience and the productive capacity of irrigated agriculture in Australia.