NSWIC
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Submission to

Australian Energy Regulator

Draft Expenditure Forecast Assessment Guideline for Electricity Transmission

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Introduction

NSW Irrigators' Council (NSWIC) represents more than 12,000 water access licence holders across NSW. These water licence holders access regulated, unregulated and groundwater systems. Our Members include valley water user association, food and fibre groups, irrigation corporations and community groups from the rice, cotton, dairy and horticultural industries.

This submission represents the views of the Members of NSWIC with respect to Australian Energy Regulator (AER) *Better Regulation - Draft Expenditure Forecast Assessment Guidelines for Electricity Transmission and Distribution.* However, each Member reserves its right to independent policy on issues that directly relate to their areas of operation, or expertise, or any other issue that they may deem relevant.

General Comments

We appreciate the opportunity to provide comment to the Australian Energy Regulator (AER) *Better Regulation - Draft Expenditure Forecast Assessment Guideline.*

Electricity is a vital input into irrigated agriculture and our Members are greatly concerned over the future electricity price developments. The exponential increase in electricity costs over the last decade has significantly constraint irrigators, changed business operations and has led to considerable inefficiencies in the utilisation of energy related equipment on-farm. Any further price increases will be detrimental to the sector and we urge the AER to thoroughly consider the impact during further determinations of NSW Transmission Network Service Providers (TNSPs) and Distribution Network Service Providers (DNSPs) will have on the sector.

Large investment in energy intensive irrigation equipment on-farm has led to increased energy use and added significantly to overall input costs. These large capital investments on-farm were necessary for many irrigators to remain financially viable and competitive, especially in light of large scale water conservation policies by both State and Federal policy makers. The results of the capital investment have shown that significant water savings can be achieved, however this comes with significantly higher energy usage.

Without sufficient alternatives to substitute away from electricity in the short term, irrigators are very vulnerable to future electricity price increases. The cost of electricity has a direct impact on the revenue and profit margins in irrigated agriculture as irrigators are generally price takers in domestic and international markets. With increasing input costs and no adjustment mechanism to amend revenue, irrigators are continuously asked 'to do more with less and pay more for it'. Such an outcome is unsustainable for irrigated agriculture in the long run.

As the AER's *Draft Expenditure Forecast Assessment Guideline for Electricity Transmission* states, the National Electricity Law (NEL) requires the AER to perform its functions to *"promote efficient investment in, and efficient operation and use of, electricity services for the long term interest of consumers of electricity (...)".* The development of higher electricity prices in NSW is unsustainable for irrigated agriculture and we urge the AER to consider this for the next determination of TNSPs and DNSPs in NSW.

Specific Comments

NSWIC would like to make the following specific comments to the AER's Better Regulation Draft Expenditure Forecast Assessment Guideline for Electricity Transmission;

AER Regulatory Responsibility

NSWIC is concerned that the proposed guidelines are not significantly different from what was applied in previous years[1]. Given the considerable increases in network charges over the last decade, we believe that the current regulatory framework has not functioned in the short- or long-term interests of consumers. As such, NSWIC considers it necessary that the AER changes the way in which it regulates Australia's electricity networks (transmission and distribution) if it is to meet its regulatory obligations under the NEL.

We believe that in the absence of a competitive market, the AER must attempt to mirror such a market environment. However, the current Draft guidelines do not allow for such a condition to occur and do not provide for any mechanism that would mitigate further price increases. For this reason, we believe that more must be done to protect consumers and avoid large returns to be channelled back to network owners at the expense of consumers.

Expenditure Forecast

NSWIC believes there is a large divergence between the recent demand forecasts and allowed revenue for Network Service Providers (NSP). This misalignment has, in the view of NSWIC, led to significant price increases to balance any shortfalls in allowed revenue. This is of particular importance since those price increases have been disproportionally born by individuals and industries that have an inelastic demand for electricity - which includes irrigators.

Hence any further reduction in demand from consumers with an elastic demand (i.e. households) coupled with a revenue cap approach to network regulation, will cause cost pressure for irrigators who will be left with covering the gap.

As such, NSWIC considers it important that the proposed benchmark reports are used for a periodic reassessment of CAPEX against annual revised demand figures. This will ensure that the margin of error in demand forecasts will be significantly lower, which will protect consumers from inefficient CAPEX.

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[1] AER, *Better Regulation, Draft Expenditure Forecast Assessment Guidelines for Electricity Transmission and Distribution*, p. 7

Burden of Risk

NSWIC is concerned that the Draft Guidelines allocate the majority of demand forecasting risk to consumers. We are unable to find evidence in the Draft Guidelines that would address this issue.

As it is NSWIC's understanding that the AER is instructed to draft regulatory guidelines that are in the long term interests of consumers, we submit that the Draft Guidelines are reconsidered to appropriately distribute risk resulting from demand forecasting errors.

Efficiency Dividend

NSWIC considers it absolutely imperative that the Draft Guidelines incorporate an efficiency dividend requirement for TNSPs and DNSPs.

As such, we submit that the Draft Guidelines are amended to include a regulated efficiency dividend for OPEX and CAPEX.