



National Irrigators' Council

Level 2, NFF House, 14-16 Brisbane Ave
Barton ACT 2600

Ph: 02 6273 3637
ABN: 92133308326

30 January 2015

Mr Sebastian Roberts
General Manager, Network Regulation
Australian Energy Regulator
GPO Box 520
Melbourne 3001
AERInquiry@aer.gov.au

Dear Sir

Re: Submission to the AER SA Power Networks Regulatory Proposal (2015 – 2020)

The National Irrigators' Council (NIC) provides this submission to the current AER reset process in the determination of **SA Power Networks regulatory proposal 2015-2020**.

The prices irrigators receive for their food and fibre products are not matching the unfettered escalation in electricity prices. As price takers, irrigators operate on low margins and any small increase in input costs erodes profitability and competitiveness when they already operate in a tough international competitive environment.

The cumulative increases in electricity tariffs are a major causal factor and leaving many producers finding it unviable to irrigate using existing electricity infrastructure. Irrigated agriculture in Australia supports the sustainability of rural and regional jobs growth and underpins the social and economic wellbeing of many communities. The total gross value of irrigated agricultural production in Australia in 2012-13 was \$13.4 billion. *{Australian Bureau of Statistics}*

In some cases irrigators have been forced to go off-grid or leave the industry. The cotton industry for example, has experienced power bill increases in the order of 300% since 2000 (*CPI increase over this period was 43%*). If 10% of the irrigated cotton industry opted to leave the industry, this would represent a fall in Australia's export earnings of up to \$350 million per annum. If users opted to 'switch off' or leave the grid, there is risk electricity networks would be left with a lower revenue base and a higher number of stranded assets. Canefarmers in Queensland are now paying 107% more in electricity costs than they were in 2009 (*CPI increase over this period was 13.9%*).

The NIC played a key role in the formation of the Agriculture Industries Electricity Taskforce, a group of Australia's key agricultural industry organisations. The Taskforce was established to advocate for action on the crippling costs of electricity network charges on agricultural industries. Taskforce members include the National Irrigators' Council, National Farmers' Federation, the NSW Farmers' Association, Cotton Australia, NSW Irrigators' Council, Irrigation Australia Limited, NSW Dairy Connect, Queensland Farmers Federation, CANEGROWERS, Central Irrigation Trust (SA) and Bundaberg Regional Irrigators Group.

It is understood that Taskforce members may provide their own individual submissions to the AER electricity distribution reset process.

Taskforce members recently provided the attached submission to the current Senate Inquiry into electricity network companies. The submission responds in detail to the Inquiry's terms of reference with a particular focus on the need for a closer examination of the way electricity network companies have presented information to the Australian Energy Regulator (AER) in relation to:

- their weighted average costs of capital (WACC)
- the necessity for the infrastructure proposed
- network companies' regulated asset valuations, and
- actual interest rates claimed against actual borrowing costs.

Our key focus is on the **network charges imposed by electricity network companies**. Typically network charges represent around 50% of farmers' electricity bills, electricity usage making up less than 26%. The balance is in administration, environmental and other miscellaneous charges. While the removal of the Carbon Tax will reduce the environment component of bills, real electricity cost pressures will only be removed through genuine reform of network charges.

The Taskforce has identified a series of actions to be taken as part of a broader approach to remove distortions in the market and deliver a fairer system. These include closer examination of:

- the AER network price determination process including:
 - a change to the way the regulated asset base (RAB) is calculated, taking into account lower electricity consumption;
 - greater scrutiny of:
 - the weighted average cost of capital (WACC) presented by network companies;
 - the capital expenditure (capex) and operating expenditure (opex) presented by network companies;
 - the demand forecasts underpinning electricity network companies' proposals to the AER;
- the gold plating by network companies: *with under-utilisation of networks pushing up electricity costs for remaining users*;
- network companies' attempts to optimise profits;
- the performance of networks in relation to global benchmarks and actual service delivered.

The NIC, as part of the Agriculture Industries Electricity Taskforce, proposes a package of measures designed to improve the energy productivity of Australian irrigated agriculture. The measures include reform of network charging that would deliver in the order of a 30% reduction in electricity prices:

- implementation of volume based food and fibre tariffs, reflecting agricultural power use patterns on the network in terms of base load and off-peak use and including worthwhile time-of-use incentives for agricultural businesses during off-peak periods and over weekends;
- approval of a rule by the Australian Energy Market Commission (AEMC) that would enable irrigators, and all farmers, who are large users of electricity to be a separately classified class of customers alongside business and households;
- revaluing the regulated asset base of companies to remove the impact of historic over-investment from the underlying cost base;
- promotion of increased competition in the electricity market;
- funding for on-farm energy audits and incentives for best practice energy efficient measures;
- development and implementation of strategies to manage peak demand which will help to optimise the efficiency of regional network investment, such as incentives for farmers use of less power or rely more on back-up generators and renewable energy during periods of peak demand;
- linking capital expenditure (and regulated asset base) to network tariff customer classes;
- introduction of less generous formulas for calculating the weighted average cost of capital (WACC) for networks.

Network supplied electricity should remain a cost-effective energy source for food and fibre producers, many of whom have already focused on finding efficiencies in the use of electricity.

We commend our submission to you. Please do not hesitate to contact me for further detail in relation to this matter.

Yours sincerely



Tom Chesson
CEO

Attachments:

- A: Agriculture Industries Electricity Taskforce submission to the Senate Inquiry into the performance and management of electricity network companies*
- B: Central Irrigation Trust (SA) submission to the AER reset process*