

Submission

National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014

Australian Energy Market Commission

131219

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 associations, food and fibre groups, irrigation corporations and community groups from the rice, cotton, dairy and horticultural industries.

This submission represents the view of the Members of NSWIC in respect to the Australian Energy Market Commission's consultation paper on the *National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014*. However, each Member reserves the 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.

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General Comments

NSW Irrigators' Council appreciates the opportunity to provide comment to the Australian Energy Market Commission's consultation paper on the *National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014*.

Electricity has become a major input factor for irrigated agriculture as more irrigators have undertaken structural adjustments on farm to remain competitive. These structural adjustments have resulted in productivity gains and increased water efficiencies but have caused overall electricity use to rise in irrigation. Greater electricity use and a rise in electricity charges have caused considerable financial hardship for irrigators who have seen their profit margins diminish significantly.

The trade-off between water efficiency and energy intensity has been extremely difficult to reconcile in irrigated agriculture and as a consequence many irrigators have found it unviable to continue using their energy intensive irrigation equipment. The loss in terms of efficiencies and output has been immense.

Overall electricity costs have been a major concern, but network charges in particular have been detrimental for irrigators in NSW. A study undertaken by NSWIC has shown that between 55 and 65 per cent of an irrigator's electricity cost results from network charges.

While the costs associated with network charges have been detrimental for irrigators, the lack of transparency in network tariffs and the complexity of the pricing system has also been a significant concern to NSWIC. The current system does not provide irrigators with an opportunity to engage effectively with distribution network service providers (DNSPs) resulting in confusion around tariff structures and associated charges as well as giving irrigators ineffective price signals.

For that reason, NSWIC welcomes the Australian Energy Market Commission's rule change proposal which would allow customers - especially irrigators - to have an opportunity to effectively engage with (DNSPs) on the current tariff structure and the level of the associated charges. In addition, we strongly support the SCER proposal to establish network prices which are cost reflective and provide efficient pricing signals to consumers.

Specific Comments

NSWIC acknowledges that the AEMC will assess the rule change proposal against the National Electricity Objectives (NEO). As the NEO states;

"The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity (...)"¹

Comparing this objective with the existing network tariffs and the level of current charges, NSWIC believes that the current rules have not served in the interest of electricity consumers - particularly irrigators - in NSW. To serve the interest of irrigators, the rules need to ensure that irrigators are able to utilise their on-farm irrigation equipment effectively. This has unfortunately not been the case as rising costs and ineffective tariffs have caused the use of the irrigation equipment to become prohibitively expensive. As such, some irrigators have reverted back to less efficient irrigation techniques.

While the NEO prescribes, that there must be an efficient investment in (...) electricity services, NSWIC believes that efficiency considerations must be broadened to include efficiency considerations of customer's capital investment. Given the structure of the current charges, customer's capital investment cannot be utilised efficiently and NSWIC believes this is a significant regulatory gap.

NSWIC submits that the AEMC must take efficiency issues of consumers - particularly irrigators - into consideration when making a decision about the proposed rule changes.

Transparency

As the consultation paper outlines, the DNSPs currently have considerable power over the structure of network tariffs and the level of the associated charges. Since little consultation takes place between the DNSPs and customers, many irrigators in NSW are ill informed about the current tariff structure and the level of the associated charges. In many cases, the only interaction individual irrigators have with DNSPs is through their monthly electricity bills that state the dollar amount of their network costs.

As such, NSWIC believes that the current rules are ineffective in providing customers with sufficient information on the structure of network tariffs and the level of the associated charges.

NSWIC submits that the AEMC must address transparency issues as part of the rule change proposal in order to allow customers to gain a better understanding of the current network tariff and the level of the associated charges.

¹ AEMC Consultation Paper

Tariff Structure

Many irrigators have recently been moved to a demand driven network tariff without any consultation or explanation as to why such a change was necessary. Such a transfer has often been detected upon the receipt of an electricity bill that included the new network charges. The lack of consultation as well as the complexity of the current electricity pricing structure, has made it nearly impossible for irrigators to choose a suitable tariff structure. NSWIC believes that such a process is neither effective nor efficient.

In addition, the current irrigation network tariff (BLND3AO) offered by Essential Energy does not suit the needs and requirements of irrigated agricultural producers in NSW. In particular, the significant charges associated with peak and shoulder demand as well as daily access charges do not suit the electricity usage pattern of irrigators.

Irrigators are not a homogenous group in relation to electricity use and we therefore need a range of irrigation tariffs that better suit the needs and requirements the industry in NSW. These irrigation tariffs must include the following characteristics;

- There must be a positive correlation between the network tariff charges and the electricity usage pattern of irrigators. If there is a decrease in use or a modification in the time of use towards shoulder and off-peak time periods, then this must trigger an overall decrease in prices for network charges.
- The irrigation tariffs 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.
- The tariffs must allow for an efficient use of electricity related equipment on farms.
- The tariffs must allow for optimal water application that best assists plant growth.
- 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.

NSWIC submits that a range of irrigation tariffs must be implemented that suit the needs and requirements of irrigators in NSW. These irrigation tariffs must be based on the electricity usage patterns of irrigators and fulfill the requirement above.

Consultation

Irrigators primarily engage with their electricity retailers to obtain information on their electricity contracts and costs. Due to the different responsibilities of electricity retailers and DNSPs, many irrigators have little success in finding further information about their network charges. As such, NSWIC considers it even more important that adequate stakeholder consultation is put in place that allows consumers to engage with the DNSPs.

NSWIC submits that the consultation process between DNSPs and consumers must be strengthened in particular in respect to the DNSPs' pricing proposals.

Pricing

NSWIC considers it absolutely vital that consumers are provided with the opportunity to directly engage with the DNSPs on the network tariff pricing. The current charges associated with the 'irrigation tariff' offered by Essential Energy are detrimental for irrigators around the states and not suitable for the current usage pattern of irrigators.

NSWIC submits that consultation between consumers and DNSPs must include discussion on network tariff pricing.