Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

via the website:
www.aemc.gov.au

3 November 2016

Dear Sir / Madam,

Re: Draft Rule Determination - National Electricity Amendment (Local Generation Network Credits (LGNC's) Rule 2016

The New South Wales Irrigators' Council (NSWIC) and Cotton Australia appreciate the opportunity to comment on the consultation paper *National Electricity Amendment Rule 2016.*

Our organisations have been briefed by the Institute of Sustainable Futures (ISF) regarding the modelling undertaken as part of the rule change proposal. We note that ISF and AECOM (on behalf of the AEMC) have taken considerably different approaches to modelling LGNC's including the scale of embedded generation being modelled – ISF excluded household solar PV from their analysis whereas these systems were included within AECOM's modelling. As such it is difficult to draw direct comparisons regarding the legitimacy of the current rule change, and the potential benefits that may result from deferred network investment where LGNC are paid.

We note that the modelling undertaken by ISF differed from the rule change initially proposed by the City of Sydney, Property Council of Australia (PCA) and Total Environment Centre (TEC). However we believe that this has arisen as a result of further study and analysis by the ISF to make LGNC possible, rather than a dismissal of the fundamental principles of the rule which encourages generators to become a part of the electricity system rather than moving off grid. We believe that the challenge of consistently throughout a rule change represents an ongoing challenge to the 'rule making' and regulatory process.

Under the current methodology for a rule change proposal, those individuals or organisations that aren't DNSP's, retailers or TNSP's remain at a significant disadvantage when proposing rule changes. Organisations like City of Sydney, PCA and TEC are driving change in the interest of consumers however they often lack the data to be able to build their case for a rule change from the outset. While the DNSP's, retailers and TNSP's continue to propose rule changes that are in the business interests of electricity providers, clearly the engagement of those outside the 'traditional' stakeholders circle flags the significant issues facing the national electricity market. NSWIC and Cotton Australia supports the efforts of the City of Sydney, PCA and TEC and encourages the AEMC to consider the underlying issues presented in the rule change rather than the 'exact' rule change itself.

NSWIC and Cotton Australia does not support the rule change in its current format. Our organisations have reservations with both the ISF and AECOM modelling. However, we believe that the AEMC should play a more active role in modelling the potential of embedded generation, beyond that which has been proposed through the rule change. This is particularly important given that a localised distribution agenda is being driven by the networks as demonstrated in Essential Energy Tariff Structure Statement. We believe that without consideration of the holistic impact of technology, consumers will be locked in to unworkable tariff structures. Our organisations specifically wish to highlight that current modelling has not considered the role of storage within small / medium / large scale embedded generation. Given the penetration of solar PV, that has already had a measurable impact on the network, our organisations would support an investigation of the loss of consumers to the grid.

The AEMC is firmly in support of non-network solutions such as demand based responses as a mechanism to defer investment in the network. Cotton Australia and NSWIC wish to highlight that in many cases, our members simply cannot avoid or shift the demand they place on the network.

Assessment of electricity bills amongst irrigators has revealed price increases of 300% over the last NSW network determination period (2009–2014); a cost that cannot be offset as irrigators are price takers in international commodity markets, with no ability to dictate commodity returns. Benchmarking costs for cotton have indicated that energy was the second highest cost of production, with electricity representing the most substantial movement in costs - outstripping the consumer price index many times over. Irrigators are a vital part of rural communities and responsible for a significant proportion of economic activity and employment within many irrigated agriculture dominant communities.

Based on conversations NSWIC and Cotton Australia have had with our members, to assess further impacts associated with the transition of consumers from volumetric to demand based tariffs, we have heard feedback that irrigators are actively looking for most cost effective alternatives to electricity. Our members, who have often invested several hundreds of thousands of their own funds in electricity poles and wires, are considering leaving the network entirely, stranding the network assets due to the demand charges being incurred. Clearly this represents market failure in the National Electricity Market, and requires ‘good regulation’ to avoid these larger consumers leaving the grid.

The dynamics at play within the electricity market requires assessment. As the ever increasing electricity prices force our irrigators off the grid, we need to be aware of what impact this will have on those consumers that do not have any choice to avoid the increasing proportion of network costs they ‘must’ bear under the current regulations.

We believe that at this point in time, there is no roadmap for the National Electricity Markets in to the future. The lack of a future-proofing strategy leaves the entire market vulnerable to change. One of the key drivers to price within the network is the regulated asset base, which is inflated due to well-documented overinvestment in the network based on demand forecasts that never materialised. The predictability that such a movement towards energy efficiency and penetration of solar PV could never have been predicted is ongoing, however if our members and the broader consumer based are to have the ability to access realistic prices for electricity, write-off of underutilised investment may be required.

Cotton Australia and NSWIC also hold serious concerns regarding the alternative rule change proposed by the AEMC. We believe that changes to what is included in the Distribution Annual Planning Report should not require a rule change by the AEMC, and may generate additional costs for the network with little return for the rule maker.

The network companies currently provide information to the ISF under the Network Opportunity Mapping project which allows for the provision of public mapping of network constraints, planned investment and potential for decentralised energy resources that are made freely available through the National Map. There is insufficient justification made by the AEMC in its draft determination for duplicating these efforts.

We also do not believe that the alternative proposal made by the AEMC addresses the concerns that have been raised by the proponents of the rule change including movement of customers of the grid and a search for an alternative solution that will assist in keeping grid energy viable.

Our growers, irrigators and residential consumers have choice regarding the most suitable energy mix like never before. The monopolistic behaviour of networks can no longer apply, the National Electricity market must adjust, as must the entire rule and regulatory framework which supports the system.

Should you have any questions regarding our submission please do not hesitate to contact Felicity on 02 9669 5222 or FelicityM@cotton.org.au or Stefanie on 02 9251 8466 or stefanie@nswic.org.au.

Sincerely,

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Cotton Australia

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