

Submission

Australian Energy Market Commission

Review of Competition in the Retail Electricity and Natural Gas Market in NSW

Stefanie Schulte
Economic Policy Analyst

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Introduction

NSW Irrigators' Council (NSWIC) represents more than 12,000 water access licence holders in NSW. These water license 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 horticulture industries.

We welcome the opportunity to comment on the Australian Energy Market Commission's (AEMC) Draft Report *"Review of Competition in the Retail Electricity and Natural Gas Markets in NSW"*. As an expert in water resource management, we will only comment on those aspects of the Draft Report that directly relates to our constituency.

Electricity is a vital input into irrigated agriculture and our Members are greatly concerned over the future electricity price path development in NSW. The exponential increase in electricity costs over the last decade has significantly constrained 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 AEMC to thoroughly consider the impact of further market deregulation on customers in the NSW electricity market.

This submission represents the views of the Members of NSWIC to the Draft Report - *"Review of Competition in the Retail Electricity and Natural Gas Markets in NSW"*. 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.

General Comments

We have seen considerable price increases for electricity in NSW over the last 10 years. The recent IPART report¹ has highlighted that *"regulated retail electricity prices have doubled in real terms since 2002/03, with most of the increases occurring after 2007/08"*. Such price spikes have significantly impacted irrigators as they have become more energy dependent in recent years. Large investments in energy intensive irrigation equipment on-farm have led to higher energy usage 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 conservationist policies by both state and federal policy makers. The results of the capital investments have shown that significant water savings can be achieved, however at a cost of higher energy usage. The cost associated with higher energy usage, has often caused overall production costs to increase and has made irrigators more vulnerable to large price fluctuations.

Without sufficient alternatives to substitute away from electricity use 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 have found themselves caught between two competing policy objectives - greater water savings and lower carbon emissions. Such an outcome is unsustainable for irrigated agriculture in the long run.

Furthermore, the greater dependency on electricity has meant that irrigators are more vulnerable to the exercise of market power by individual retailers. While competition in the NSW electricity market remains unequal, NSWIC strongly urges the AEMC to take account of this vulnerability when advising the NSW Government on further deregulation of the NSW electricity market.

¹ IPART, Draft Report - Review of regulated retail prices for electricity 2013 to 2016 - April 2013
http://www.ipart.nsw.gov.au/Home/Industries/Electricity/Reviews/Retail_Pricing/Review_of_regulated_electricity_retail_prices_2013_to_2016

Specific Comments

NSWIC would like to make the following specific comments to the AEMC Draft Report "*Review of Competition in the Retail Electricity and Natural Gas Markets in NSW*";

Competition

While NSWIC agrees that increased competition can benefit customers in many ways, we remain concerned about the unequal level of competition in the NSW electricity market and the amount of information that is easily available to customers to allow them to make informed decisions about their optimal electricity tariffs.

As the draft report has highlighted, competition in rural areas remain less effective than in urban areas and as such NSWIC submits that care must be taken to not prematurely deregulated the NSW electricity market if insufficient competition exist.

Furthermore, NSWIC emphasizes that the draft report has noted that "*monitoring should be accompanied by a power to reintroduce price caps if competition is found to be no longer effective.*" This highlights that the degree of competition in the NSW electricity market is not yet stable and could easily revert back to a situation where competition is less than optimal in which case regulation of the market will be necessary to ensure the protection of all consumers from market power.

Finally, the report mentions that a deregulation of the NSW electricity market will lead to more options and services for customer. While this might be correct for the electricity usage component of a particular electricity tariff, this does not apply to the fundamental problem of demand charges. Demand charges are regulated federally and electricity retailers have limited opportunities to adjust those (even if further deregulation takes places). Demand charges are the largest driver of electricity cost increases in recent years and as those charges are not regulated by NSW's regulator IPART. As such NSWIC cannot see how deregulation will assist customers in respect to the large costs associated with demand charges.

Price Cap

As the level of competition between urban and rural NSW remains unequal, we do not agree with the AEMC's assessment that the price cap should be removed uniformly across the state. Unless further measures are taken to enhance competition in rural NSW, we urge the AEMC to consider the impact further deregulation might have on rural electricity customers.

The current cost of electricity is in many cases already prohibitively high. Should any further price increases materialise (as a result of further deregulation and the exercise of market power), then these price increases will be unsustainable for many irrigators across the state. The direct impact will be output and revenue losses for both individual irrigators and their communities.

Customer engagement

NSWIC concurs with the AEMC's recommendation to introduce measures that would make it easier for customer to engage with the market, receive information and compare offers.

NSWIC is confident that appropriate technology and necessary information is already available, however there appears to be a lack of willingness to provide customers with easy to understand information. Consolidation of information - both general and stakeholder specific - would assist in this matter and would allow electricity users to make more informed decisions.

A further problem with customer engagement lies in the fact the various component of an individual's electricity bill are regulated by different entities and hence the information is widely dispersed. The consolidation of this information will be useful and necessary to further engage customer in the decision making process.

Additionally, the existence of over 100 unique electricity tariffs highlights the complexity of the electricity market and shows how difficult it is for individuals to compare offers. Coupled with the existence of contract switching cost, the large number of available tariffs make it close to impossible for individuals to compare all offers available.

Network Costs

For irrigators, the main drivers of electricity costs are network charges, especially in the form of demand charges. These demand charges have added significantly to the overall cost increases in recent years despite the fact that energy related equipment on-farm is often only used for a short time period. NSWIC remains of the opinion that such outcomes are inequitable and do not allow for an efficient and effective use of energy related equipment on-farm.

Furthermore, NSWIC remains concerned that the NSW regulator IPART is unable to assess the efficiency and cost effectiveness of the transmission and distribution networks. Without scrutiny from NSW's regulator, we are concerned that these charges are not necessarily cost reflective. NSWIC continues to advocate for a consolidation of regulation for the NSW electricity market so that all charges can be assessed and reviewed.

Finally, NSWIC would like to point out that whilst IPART has forecasted that network charges are forecasted to be lower in the following years, the current level of network charges are already prohibitively high. With the current per unit cost for network charges, any further increases could be detrimental for the sector.

Demand Forecasting

With the recently released National Electricity Forecasting Report by the Australian Energy Market Operator, NSWIC would furthermore like to highlight that demand forecast figures have decreased slightly in NSW. In light of this fact, we urge the AEMC to consider the impact such lower demand forecasts will have for the cost recovery process of individual retailers and the possible implications for overall electricity prices. If a reduction in

demand leads to greater cost pressures on retailers, then this could possibly have a negative impact on overall competition in the NSW electricity market.

Farm Business Tariffs

In order to address this input cost problem and enable irrigators around the state to use their on-farm irrigation equipment most optimally, NSWIC strongly recommends the introduction of specific farm business tariffs that are tailored to the water needs and production requirements of irrigators in NSW. These tariffs should;

1. Provide monetary incentives for irrigators to switch to "Shoulder" and "Off-Peak" electricity use. For this purpose, the unit cost for shoulder and off-peak electricity use must be offered at a significant discount to 'peak' electricity use. Additionally, the energy network component should be adjusted downwards in line with the unit costs for the energy use component.
2. Tailor, "Peak", "Shoulder" and "Off-Peak" time periods to the operational requirements of irrigators in NSW. As not all plants require water at identical time periods, the tariffs must broadly align the timeframes for "Peak", "Shoulder" and "Off-Peak" with the water requirements of plants.
3. Incorporate demand capacity charges that are tailored to the specific farm operations and equipment used on-farm. In particular, the demand and capacity charges must be based on the kVA loading and duration of use.
4. Allow for an efficient and cost effective consolidation of energy related equipment on-farm. This includes wires, poles and metres.
5. Incorporate a price cap that limits year-on-year price increases by CPI.

Overall, the tariffs must not discourage irrigators from participating in national and state water efficiently and land care programs and/or from utilising technologies and infrastructure that contribute to the national goal of increased food and fibre production.

While NSWIC is aware that the AEMC has no mandate to impose particular tariff arrangements, we would urge the AEMC to consider endorsing such measures to optimise electricity usage in irrigated agriculture across NSW.