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Electricity

Australian irrigators perform a vital role in feeding and clothing our nation and the world and make a major contribution to the rural communities and the national economy as a whole.

Australian irrigation produced a total gross value of irrigated agricultural production of $13.4 billion in 2012-13

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Position Statement

Statement ratified 1 October 2014

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Introduction

Electricity Prices have risen far in excess of CPI primarily due to the way tariffs are now calculated.

At present electricity prices for irrigators are not sustainable and many food and fibre producers are finding it non viable to irrigate using existing electricity infrastructure.

The National Irrigators' Council (NIC) has identified that the Network (N) component of the Network (N) plus Retail (R) electricity cost build up methodology is the major causal factor of unsustainability for Irrigators across Australia.

NIC Principles Relevant to this Policy Paper

- Irrigators must be fully and effectively engaged in the development of relevant policy.
- Irrigators expect Government policy to deliver triple bottom line outcomes.
- Regulatory and cost burdens of reform be minimised and apportioned equitably.

Key Messages

NIC is seeking significant reductions in electricity costs with the aim of ensuring that network supplied electricity remains a cost-effective energy source for irrigators. NIC seeks reductions in electricity costs through the following mechanisms:

- 30% from network charges
- 8% from the removal of the Carbon Tax.

NIC proposes that the Australian Energy Market Commission (AEMC) approve a rule that would allow irrigators to be a separately classified customer across Australia. Irrigators (and other network supplied electricity users) should not pay a disproportionate share of the cost of government policies that encourage alternative energy programs eg, the Carbon Tax, the Renewable Energy Target (RET) and solar feed in tariff.

NIC seeks a national suite of volume-based specific irrigation tariffs, reflecting irrigation demands on the network in terms of base load and off-peak use and including worthwhile time-of-use incentives for irrigation during off-peak periods and during weekends.

NIC will form coalitions with NSWIC, Cotton Australia, CANEGROWERS and other key groups to persuade the federal government and the AEMC to introduce specific irrigation food and fibre tariffs.

NIC will encourage state and federal governments and network providers to implement further measures to help reign in the unsustainable electricity prices. These may include:

- Implementation of volume based irrigation tariffs, reflecting irrigation demands on the network in terms of base load and off-peak use and including worthwhile time-of-use incentives for irrigation during off-peak periods and over the weekend.
- Revaluing the regulated asset base to remove the impact of over investment from the underlying cost base.
- Promotion of increased competition in the electricity market.
- Funding for both on-farm energy audits and to implement best practices energy efficient measures.
- Development and implementation of strategies to manage peak demand which will help to optimise the efficiency of network investment, such as use of generators during peak demand.

NIC will help to identify and transition irrigators with commercial buying group, off-grid and other opportunities to escape unsustainable pricing mechanisms and to enable irrigators to be sustainable.

Background Information

Government policies at a state and federal level are artificially and unsustainably driving up electricity prices. The cumulative increases in electricity tariffs are not sustainable. For example the cotton industry has seen power bills increase in the order of 350 per cent since 2000 *(the CPI increase over this period was 43 per cent).* Queensland canefarmers are now paying 107 per cent more than they were in 2009 *(the CPI increase over this period was 13.9 per cent)*, resulting in price increases far exceeding CPI over these periods.

The prices irrigators receive for their food and fibre products have not matched the unfettered escalation in electricity prices. Irrigators are price takers who operate on low margins. A small increase in fixed costs can have a drastic impact on their profitability.

Unsustainable electricity price increases are leaving irrigators with little choice; they can either cease production or source cheaper forms of energy, which will only exacerbate the problem for remaining electricity users as costs will have to be recovered from fewer users.

Despite different tariff and pricing regimes across the country, irrigators irrespective of where and what they farm, are experiencing escalating electricity price increases. Electricity price rises over the last decade are having a major impact on irrigators' profitability; any small increase in fixed costs can have a drastic impact. As a result, in some regions irrigators are being forced to turn off pumps resulting in a significant slump in productivity.

The Commonwealth is spending $12 billion in the Murray Darling Basin to recover water for the environment, with $5.8 billion originally allocated to recover water through increased water use efficiency. However, the 'water efficiency versus energy efficiency' conundrum is impacting on the ability of farmers to make new water efficient systems profitable. In some cases farmers have been forced to abandon new pressurised water efficient systems profitable due to unsustainable electricity price increases.

Network demand is declining in a growing economy, and further price increases will reduce rather than enhance, network revenue as 'off-grid' options become more competitive.

The regulatory framework surrounding the setting of electricity prices is complicated, convoluted, opaque and unsustainable, with numerous state and federal agencies having a range of roles and impacts on electricity prices. This area is in need of reform.

Electricity price regulators must take into account the financial impact on electricity users of any price increase and consider the impact on the profitability of businesses and their capacity to pay. This measure should also be cumulative, taking into account the impact of other government controlled services such as water delivery charges.

Networks must not be rewarded for over-investment, "gold-plating" and under utilisation of assets.

All major political parties acknowledged in the lead up to the 2013 federal election that electricity prices are too high and should come down, yet power prices in all states, even with the abolition of the Carbon Tax, will have above CPI increases this year:

- *'Electricity prices are too high by global standards. This affects the competitiveness of all firms large and small. Of course it also affects individual consumers.'* former Prime Minister Kevin Rudd, National Press Club address,11 July 2013
- *'I mean, this country ought to be an affordable-energy superpower … what we need to do to get power prices down, and down significantly.'* Prime Minister Tony Abbott, Sydney Morning Herald, 19 December 2013.
- *'Some forms of farming and food storage on-farm necessarily involve using a lot of energy, and we rely on them to do so because the energy is used to maximise food freshness and safety, and to maximise water use efficiency. But that necessary high*

energy use comes at a cost to farmers, who operate in a tough competitive environment against the rise of cheap imports.' Australian Greens Policy, 18 July 2013: Lowering On-Farm Energy Bills

Similarly at a state level politicians are claiming electricity prices are too high, yet blame shifting is enabling regulators and electricity companies to get away with inaction to stop unsustainable price rises.

The current regulatory pricing framework provides a guaranteed return on investment and encourages over investment in network assets. The federal government has the ability to ensure that over investment (Gold Plating) by state owned electricity providers is discontinued. A more challenging need is to revalue the regulated asset base to remove the impact of over investment from the underlying cost base.

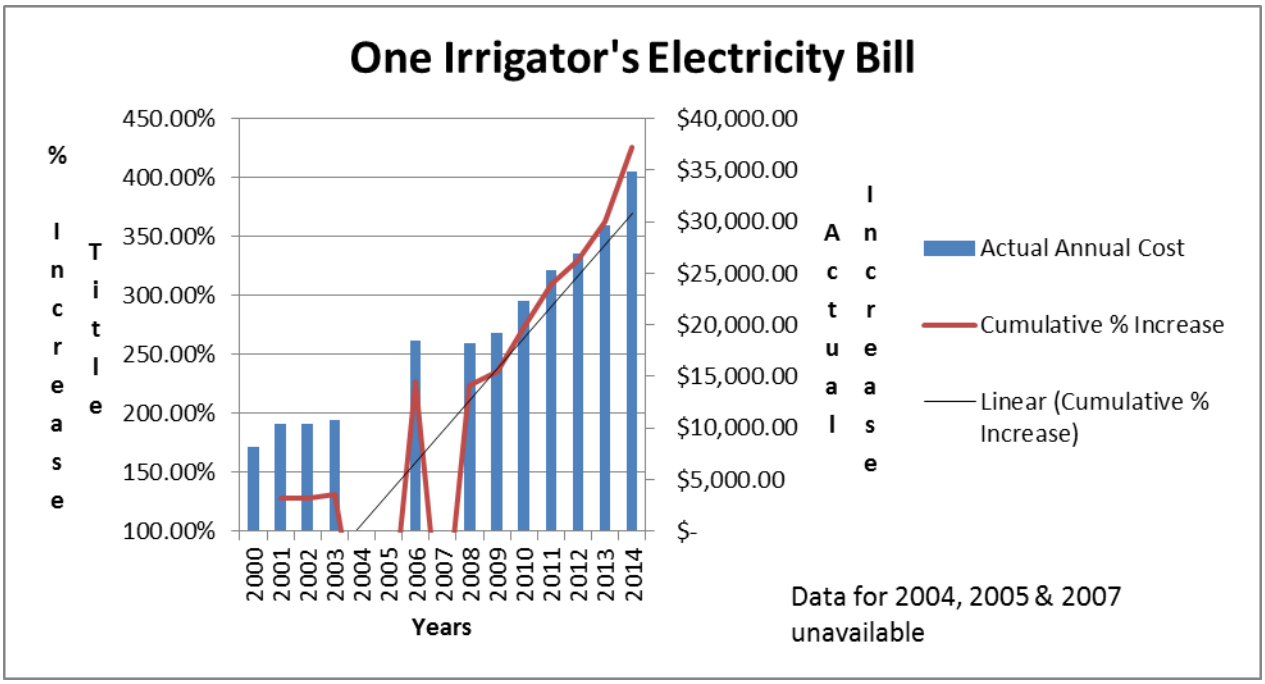
If the full savings from the repeal of the Renewal Energy Target and the Carbon Tax were passed on to consumers, on-farm electricity costs would be immediately alleviated by approximately 20 to 25 percent.

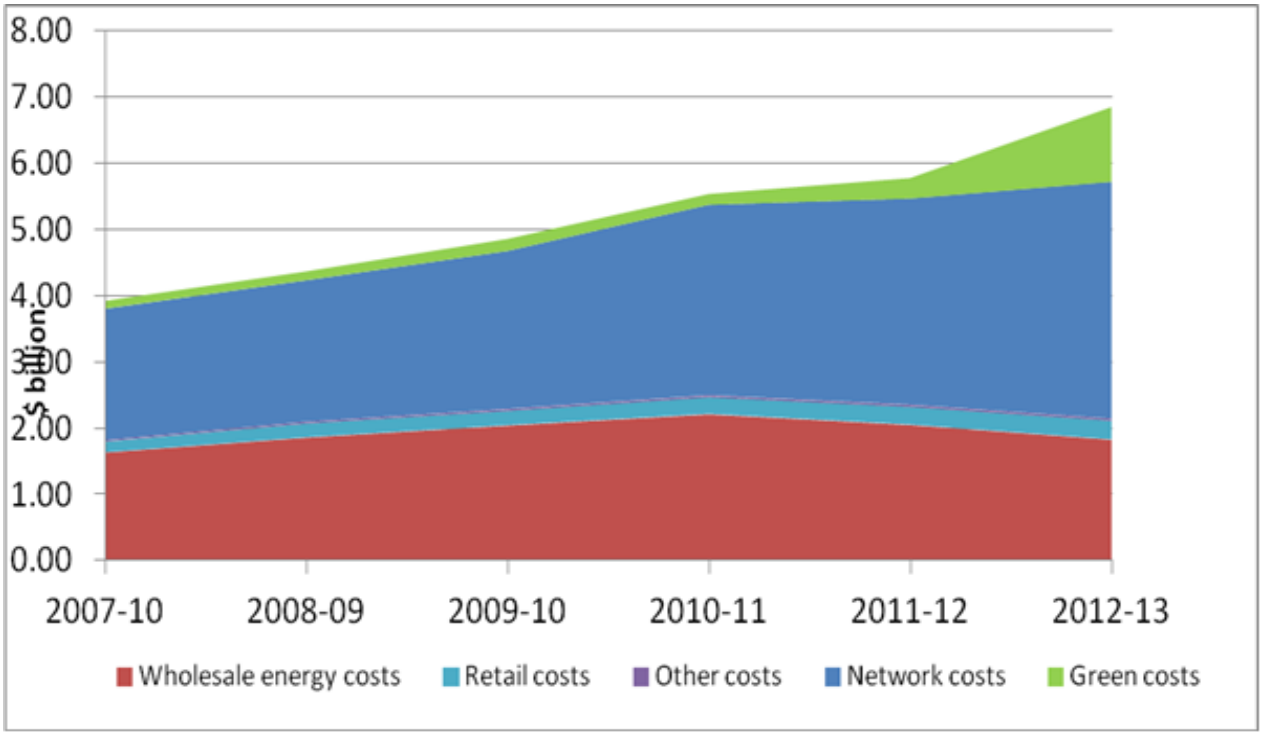
Governments, via unsustainable price increases, have captured all the revenue from any efficiency gains that irrigators make.

Federal and state governments could assist irrigators to identify and eliminate irrigation energy use inefficiencies by providing irrigation system audits to identify pump and distribution system inefficiencies and assist with planning and implementation of system upgrades.

Queensland

The following graph illustrates the effect of electricity prices on one cotton grower in the Emerald district. This graph reflects the cost of a particular quarter's bill in 2000, extrapolated using the Tariff prices for the particular year, multiplied by the usage experienced in that quarter in 2000.





(Source QCA Presentation 23/11/2012 Bundaberg)

The above graph shows that in 2012/13, the network charges (N) accounts for around 54% of the total charge and the retail charges (R) account for 46% of the determined price in Queensland. The R component can be further broken down to show that 26% is actual energy costs and a significant 20% is due to environmental costs. Half the environmental cost is due to the carbon tax and the other half is the cost of green initiatives such as the Renewable Energy Target and the photovoltaic subsidy schemes.

New South Wales

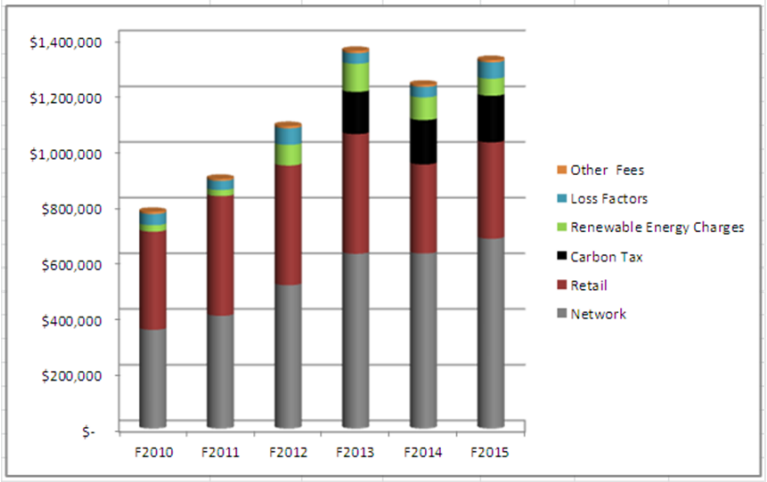
An electricity trial conducted by NSWIC and Cotton Australia has made similar findings. The trial found that overall electricity costs for irrigators participating in the trial have increased by up to 300 per cent over the last five years. Network charges have been the most significant drivers of electricity cost increases, as they make up between 55 and 65 per cent of an irrigator's electricity costs. The biggest network cost increase was $263,575 by one trial participant (between 2008/09 - 2012/13).

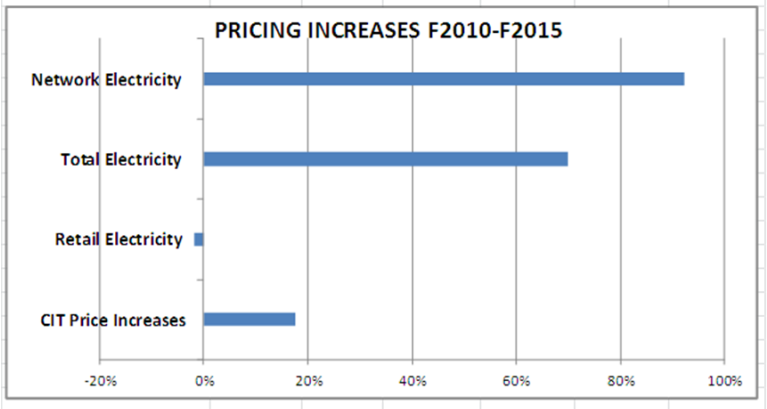
South Australia

In the graph below, work completed by Central Irrigation Trust highlights a similar story in South Australia.

LOXTON PUMPING STATION ELECTRICITY COSTS F2010 to F2015

Annual Expense	F2010	F2011	F2012	F2013	F2014	F2015
Network	$ 354,614	$404,794	$ 514,720	$ 627,484	$ 628,701	$ 681,605
Retail	$ 352,669	$430,008	$ 430,008	$ 430,008	$ 319,779	$ 346,095
Carbon Tax	$ -	$ -	$ -	$ 151,483	$ 159,093	$ 167,289
Renewable Energy Charges	$ 22,789	$ 21,930	$ 73,950	$ 100,927	$ 81,669	$ 61,252
Loss Factors	$ 40,388	$ 32,643	$ 59,307	$ 37,823	$ 37,576	$ 58,817
Other Fees	$ 7,787	$ 7,297	$ 8,465	$ 8,491	$ 7,711	$ 8,078
Total	$ 778,246	$896,672	$ 1,086,449	$1,356,216	$1,234,530	$ 1,323,136





Conclusions

While the immediate removal of green costs such as the Carbon Tax and Renewable Energy Target would save irrigators up to 20 to 25 percent on their energy bills, the greatest savings will be delivered from reform of the network charges. In states where demand charges currently exist, irrigators are being severely impacted because of lumpy usage patterns.

The NSW and Queensland Governments' majority electricity assets remain in public hands; however this is mooted to change in the near to medium term with both states looking to privatise assets in their next terms. The desire to maximise sale returns is impeding any progress on reforms, as are the dividends these governments currently receive from energy companies.

The network component of electricity prices is determined by the Australian Energy Regulator (AER). The AER approves network tariff schedules and determines the allowed revenues which network owners are permitted to recover based on National Electricity Rules and the proposals that are lodged with it by the network operators. The AER sets a revenue recovery target every five years at a level that is intended to guarantee a return on network costs.

The current regulatory pricing framework provides an excessive guaranteed return on investment and encourages over-investment in network assets. The federal government has the ability through the AER to ensure that over-investment (Gold Plating) by network owners is discontinued. It is imperative that the regulated asset base is re-valued to remove the impact of over-investment from the underlying cost base. The fundamental flaws in the electricity pricing framework requiring prompt action include:

- not taking into account the impact of high electricity prices on users or the wider economy and;
- passing the risk of poor network investment decisions on to electricity users.