



National Irrigators' Council

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Energy White Paper Fails to Tackle Real Challenges

Chair of the National Irrigators' Council Energy sub-committee Dale Holliss today expressed disappointment in many aspects of the Federal Government's Energy White Paper noting the complete omission of any reference to the network charging regimes of electricity companies', a key factor in driving the unsustainable cost of electricity in the irrigated agriculture sector.

Mr Hollis said 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," Mr Holliss said.

The total gross value of irrigated agricultural production in Australia in 2012-13 was \$13.4 billion. {ABS}

Typically electricity **network charges** represent around 50% of farmers' electricity bills, environmental charges 20%, and electricity usage making up less than 26%.

Mr Holliss said while the Energy Green Paper in 2014 acknowledged there was limited opportunity for irrigators to change their energy use patterns, the White Paper does not recognise agriculture's unique energy use patterns suggesting that cost-reflective electricity tariffs would give consumers better price signals about how they use energy and that price signals would discourage use during more costly peak times. There is lack of recognition that irrigators are a cornered demographic.

"Irrigators who are large users of power over short periods have limited opportunities to take advantage of off-peak power tariffs. Usage patterns are largely dictated by the needs of a particular crop and/or requirements of water pumping regulations as part of river management operations. Many producers and industries are continually working to find efficiencies in their use of electricity," Mr Holliss said.

The National Irrigators' Council has for some time proposed 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;
- promotion of increased competition in the electricity market; (*noted in the White Paper*)
- 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.

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 Australian Energy Regulator (AER) price determinations currently underway in setting prices in several states presents a real opportunity during the review process for the AER to thoroughly examine and contest the proposals submitted by electricity network companies in relation to:

- the linking of capital expenditure (and regulated asset base) to network tariff customer classes;
- less generous formulas for calculating the weighted average cost of capital (WACC) for networks;
- 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;
- the performance of networks in relation to global benchmarks and actual service delivered.

Mr Holliss stressed the urgent need for a new and sustainable electricity policy framework in Australia. He said it is hoped that the current Senate Inquiry will throw up a suite of recommendations for consideration by Government to respond in a way that will establish the right mechanisms to deliver the fundamental changes that are urgently needed.

"Network supplied electricity should remain a cost-effective energy source for food and fibre producers," Mr Hollis said.

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