30 May 2018

Mr Warwick Anderson
General Manager: Network Finance and Reporting
Australian Energy Regulator
By email: RateOfReturn@aer.gov.au

Dear Mr Anderson,

The Agriculture Industries Energy Taskforce (the Taskforce) appreciates the opportunity to provide comments on the Australian Energy Regulator's (AER) consultation for the rate of return guidelines for regulated energy network providers. The Taskforce fully supports the position put forward by the AER's Consumer Reference Group (CRG), and believes that the current rate of return regime has only guaranteed over-investment by network owners through generous reimbursement regimes and has failed to achieve end-user outcomes of an affordable and reliable supply of energy.

All participants within the agricultural sector have significant exposure to energy prices, and thus, significant interest in the AER's rate of return guidelines process. The sector is exposed directly through energy intensive processes such as irrigation, or indirectly through the energy exposure of processors. As an example, electricity and gas price rises over the past two years reduced dairy farmers' margin by close to 5% due to increased on-farm and processor energy costs (Dairy Australia 2017). The sector is also a trade exposed industry, with 75% of agricultural products being exported. The significant price rises in energy prices is jeopardising the sector's international competiveness, and $60 billion p.a. worth of exports for the Australian economy.

Over the last decade the combined Regulatory Asset Base (RAB) of the electricity distribution networks has almost doubled, while network utilisation has declined from just under 60 per cent to just over 40 per cent. Despite these changes, network businesses are continuing to enjoy strong earnings. This points to a needless overinvestment in network assets, with consumers forced to pay unutilised or underutilised assets. Due to regulatory provisions that are heavily weighted in favour of regulated network providers, all forecasting and obsolescence risk is borne by the consumer, where even unutilised assets generate a revenue for asset owners. There is no mechanism to right-size the RAB, due to regulatory fears of sovereign risk. One of the few avenues left for consumers to get a fair deal on regulated energy infrastructure, is the settings that determine the rate of return on the RAB.

The Taskforce fully supports the position put forward by the CRG that the rate of return settings have failed to achieve consumer outcomes. To date, the AER has failed to provide any evidence that the rate of return settings have ensured consumer outcomes. The only evidence provided by the AER as to the validity of the rate of return settings is that it has not caused underinvestment in regulated assets. The Taskforce agrees with this proposition, but would suggest that the settings have encouraged overinvestment.

The Taskforce further supports propositions put forward by the CRG, particularly that:

- the reduction in risk faced by the regulated network businesses afforded by the rules are not reflected in lower returns through the rate of return settings; and
- the lack of data on actual returns against modelled returns, significantly reduces confidence in the AER's ability to make informed decision on the guidelines settings.

The Taskforce appreciates the opportunity to make comment on this important process.

Yours Sincerely

Agriculture Industries Energy Taskforce*

** National Irrigators' Council; NSW Farmers; National Farmers' Federation; Cotton Australia; NSW Irrigators' Council, Irrigation Australia Limited; NSW Dairy Connect; CANEGROWERS; Queensland Farmers Federation, Central Irrigation Trust (CIT), Bundaberg Regional Irrigators Group (BRIG), Winemakers Federation of Australia, Australian Pork*