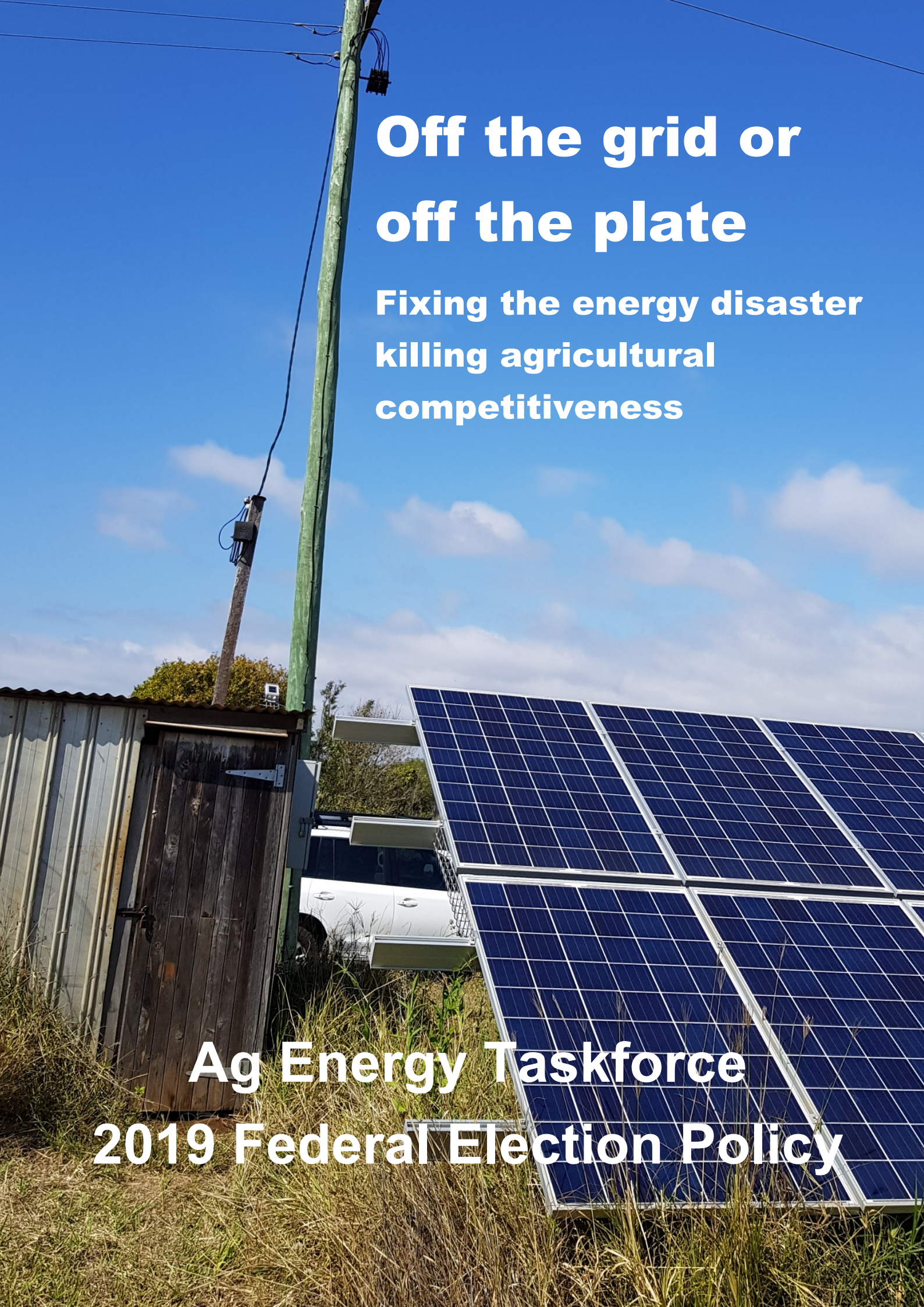

Off the grid or off the plate

Fixing the energy disaster killing agricultural competitiveness

Ag Energy Taskforce

2019 Federal Election Policy

Ag Energy Taskforce requests for election 2019

- 16 cents/kWh maximum
- Implement ACCC recommendations
- Optimise the Regulated Asset Base
- Introduction of irrigator tariffs
- Genuine competition in the NEM
- Make it easier to build local networks
- Reduce barriers to connecting on-farm generation to the grid
- Policy certainty
- A $250 million water and energy productivity program
- Funding support for policy engagement

Ag Energy Taskforce participating organisations

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Diesel generation – is moving off grid and onto diesel a good policy outcome?

Introduction

Rapidly rising energy costs have had a serious impact on the ability for Australian farmers to produce food, fibre and renewable fuel for Australians. They impact production costs via the operation of pumps for irrigation, cooling for storage and processing and packaging.

Australia has moved from having a competitive advantage in energy costs to being one of the most expensive countries in the world. We are losing our ability to compete globally, and seeing significant job losses and loss of income.

Australian producers are being forced off the grid or out of business. Export competitiveness is disappearing and, as price takers, Australian farmers are seeing their viability dashed.

That's despite the agricultural sector having a bigger take up of solar power projects than any other sector.

In the last three years, farmers have taken up loan incentives offered by the Clean Energy Finance Corporation (CEFC), spending over $100 million on 417 on grid and 20 off grid solar power projects, more than any other single sector. These projects were also on average larger than other sectors, with loans almost seven times the average at over $250,000. Moreover, farmers took additional loans with the CEFC to the value of $100 million during this time, to improve the energy efficiency of farm buildings and production systems.

The extent of agricultural investment will be many times higher as these figures do not include the projects where farmers have purchased renewable or energy efficiency technologies outright or sought funding elsewhere.

Australian farmers are walking the talk when it comes to renewables, they are leading the transition.

But the policy failures are still hurting. For many producers solar without storage is not a viable option and for many of them going off grid means new diesel generators. And for those left on the grid? Their costs just keep going up.

Australia's dream of being the 'food bowl' or 'delicatessen' of Asia will disappear without action and this policy sets out a few key demands that could put us back on track.

Key 2019 election policy requests:

- **16 cents/kWh maximum** - A price ceiling for electricity of 8 cents/kWh for electrons and 8 cents/kWh for supply;
- **Implementing the ACCC recommendations** - Implementing the full recommendations of the ACCC Inquiry into retail electricity prices, including those relating to network costs;
- A **NEM rule change to optimising the Regulated Asset Base**
- **Introduction of irrigator tariffs** – recognising that irrigation demand is not driving critical peak loads on hot days;
- **Genuine competition** – a properly functioning market with competition at all levels;
- **Local networks** - Removing network barriers to sharing of local energy generation on local networks;
- Reducing the barriers to connecting on-farm generation to the grid;
- **Policy certainty** – a stable energy policy that is technology-neutral, market-based and economy-wide, delivering affordable, reliable and secure energy;
- **A $250 million water and energy productivity program** – focusing on support for energy solutions in irrigated agriculture including smart water efficient practices, renewables, storage and hybrid systems; Eligible technologies will include solar generation and battery storage (where applicable), the suite of digital and engineering technologies required to optimise energy efficiency and demand management on farm and smart grid connection solutions;
- **Funding support for policy engagement** – helping put agriculture on an even footing with well-resourced energy companies for engagement in policy and regulatory processes.

Background

The Agriculture Industries Energy Taskforce (Ag Energy Taskforce) was formed in response to the direct impact on production costs from rising energy prices. The Taskforce is convened by the National Irrigators' Council (NIC) and involves:

- *Australian Dairyfarmers*
- *Bundaberg Regional Irrigators Group (BRIG)*
- *CANEGROWERS*
- *Central Irrigation Trust (CIT)*
- *Cotton Australia*
- *Dairy Connect*
- *National Farmers' Federation (NFF)*
- *National Irrigators' Council (NIC)*
- *NSW Irrigators' Council (NSW IC)*
- *Pioneer Valley Water (Qld)*
- *Queensland Farmers' Federation (QFF)*

Taskforce members have taken a three-pronged approach to energy costs, to:

- advocate for regulatory reform;
- support adoption of technology or generation to reduce costs; and
- advocacy on price and tariff structures in individual jurisdictions.

The Taskforce has also undertaken independent research, funded by members and with the assistance of Energy Consumers Australia (ECA), which has provided key data showing that:

- In every section of the electricity market the charges being passed on to consumers exceed the economically efficient cost of supply. That is from generation to transmission and retail (Taskforce submission to ACCC);
- Inequity of pricing for agricultural consumers, highlighting both lack of genuine competition for regional power users and inequitable methods used for pricing the asset base which see agricultural users paying to address congestion that does not exist in their areas (Taskforce submission to ACCC);
- Irrigators are paying up to 40% more than the actual cost of supplying their power, with that leading to unjustifiable profit being earned by power companies. The companies fail to provide prices based on irrigation profile characteristics, forcing irrigators to pay based on 'average' load profiles. Irrigators don't have the same peaks on a hot day as other energy consumers and irrigation pumping predominantly coincides with times when system demand is at just 30-55 per cent of system annual maximum demand (Sapere Research Group "Empowering irrigation consumers electricity supply arrangements");
- Profits made by electricity networks are more than $2.6 billion higher than they should be – meaning electricity bills are much higher than is justified, just with

network costs (Sapere Research Group "Regulated Australian Electricity Networks - Analysis of rate of return data published by the Australian Energy Regulator")

Our research has also provided numerous case study examples of negative impacts on agricultural businesses across Queensland, NSW, South Australia and Victoria of excessive energy costs. These case studies have included, lost export markets, changes to production and many cases of producers substituting diesel generation for grid power.

These policy requests reflect our industries' view that the major work needing to be done by the next Federal Government is in providing a certain policy environment, tackling the significant regulatory imbalance which sees the electricity sector making unjustifiable profits, ensuring a genuinely competitive market and removing regulatory barriers to better integration of distributed generation.

We would be extremely disappointed if the election focus continued to be an argument over the source of power. We support the need for reliable power supply included firming of renewables and we support an orderly and well planned transition to a low emission power sector. An argument over climate change policy cannot be allowed to distract attention from the vital reform that needs to take place in the operation of the electricity sector overall.

This paper provides a brief outline of the policy requests summarised above. More detail on each is available should it be required.

Australian farmers have taken up CEFC funding faster than any other sector, spending over $100 m on 417 grid connected and 20 off grid projects over the last three years.

2019 Election Policy Requests

8 cents and 8 cents, a 16 cents/kWh price ceiling for electricity

Electricity prices need to come down if Australia is to have a long-term competitive advantage in the production of food and fibre. It is recognised that the market sets prices, but it is a market that lacks genuine competition. The market rules build in opportunity for excess investment to be baked into network prices then returning excess profit, policy uncertainty and a failure to plan for transition away from coal has reduced competition in generation and domination by big vertically integrated players means retail competition is limited.

Taskforce members feel there must be a maximum or ceiling price which gives producers and associated industries the confidence to invest and the ability to grow food and fibre with a reasonable return.

We call on Government to implement policy to ensure that there is an effective price ceiling of 8 cents per kWh for electrons and 8 cents for distribution for a total of 16 cents per kWh maximum.

Implementing the ACCC and Finkel recommendations

The Australian Consumer and Competition Commission (ACCC) provided a comprehensive review of what is going wrong in the electricity market. The Federal Government and Opposition have indicated support for key parts of the recommendations, and much of the work associated with those measures is already progressing.

We remain concerned, however, that key elements of the recommendations will not be followed through. This relates particularly to recommendations relating to the regulated asset base (RAB) in NSW and Queensland which involve and impact on State Governments.

Similarly, in relation to the 2017 Finkel review, Energy Ministers agreed on a timeline to implement 49 of the 50 recommendations. Some of those recommendations have been progressed and incorporated in recommendations and the work coming out of the ACCC inquiry.

NEM rule change to optimising the Regulated Asset Base

The Taskforce seeks a comprehensive assessment of the economy-wide costs and benefits of revising the electricity network and transmission businesses' regulated asset base (RAB) to efficient levels.

We know that the RABs of Australia's electricity networks have been artificially inflated and inefficiently grown to excessive levels. Despite being subject to price/revenue regulation, network costs, profits and prices appear to be excessive.

There is evidence of substantial excess network capacity across many parts of the NEM. We have not been able to identify a corresponding reduction in the allowed cost of capital to

accompany risk transfer associated with the move to the RAB roll-forward method for setting the RAB at the start of the following price period (replacing the previous method which included provision for asset optimisation). Consequently, it appears that network prices incorporate the double effect of excessive returns on an excessive asset base

The Taskforce has long argued that the current regulatory framework is enabling regulated network businesses to build in unacceptably high returns. The Australian Energy Regulator's lack of a performance measurement framework to understand the extent of the profitability of regulated electricity and gas businesses has clearly enabled gold plating resulting in unsustainable price increases to consumers.

As noted in this paper, the Sapere Research Group work commissioned by The Taskforce in late 2018 showed that electricity networks are more than $2.6 billion higher than they should be – making super-normal profits, because in a real-world situation, they are low risk and consequently have low financing costs, not because they are outperforming. As part of the Sapere work, the Taskforce objected to the overinflated value of the RAB with no optimisation of the asset base – something that other sectors have (including gas).

Introduction of irrigator tariffs

The Taskforce has undertaken several research projects which confirm that:

1. Irrigator demand is not driving critical peak loads on hot days;
2. Most irrigators are able (with appropriate equipment) to participate in demand management programs;
3. Irrigators are not on parts of the system which suffer from or are in danger of congestion;
4. Supply prices being charged to irrigators are not reflective of actual cost and include excess profit.

Many States once had irrigation tariffs, these have generally now gone or are being replaced by tariffs based on so called 'cost recovery'. Unfortunately, as the work of the Taskforce has shown, the basis for cost recovery quite unfairly loads rural users and irrigators with pricing determined based on overestimates of congestion, peak loads not driven by those users and excessive built in returns for infrastructure.

In its worst cases moving to these tariffs, will, if not changed, lead to lower productivity, decisions not to irrigate, and in at least one area the likely closure of an entire irrigation scheme.

Genuine competition

The electricity market does not operate in the National interest and it certainly does not provide a genuinely competitive market. The Taskforce supports greater power for the AER in ensuring competition. As part of this, we strongly urge Government to work to ensure the AER is hearing from consumers and ensuring that consumer voices, including agriculture, have the opportunity and the resources to provide input on an equal footing with electricity companies.

Local networks

Existing network rules and pricing are not providing affordable and reliable electricity to regional and rural communities. Distributed energy resources can optimise consumer outcomes from networks and the generation of electricity. An arrangement where a processor (eg a sugar mill with bio generation) becomes part of a local network, sharing and trading power with related consumers and others inputting distributed generation can be more affordable and reliable than the centralised system, yet current regulations are biased to centralised solutions.

There are significant costs and barriers to creating local networks which involve grid connection. How regional networks are priced is central to the success of these local energy networks.

Reducing the barriers to connecting on-farm generation to the grid

The cost, pricing and access regime for regional distribution networks is the biggest barrier to new innovative energy solutions led by consumers, such as on-farm generation and local energy cooperatives. Despite significant underutilisation of network assets, little has been done from a regulatory or pricing perspective to encourage more effective utilisation that would reduce network costs for all regional users and spur regional economic growth through access to affordable energy.

Policy certainty

The Taskforce seeks a stable energy policy that is technology-neutral, market-based and economy-wide, delivering affordable, reliable and secure energy at a fair and competitive price. The uncertainty of the last decade must end to ensure that investment decisions can be made by potential providers of generation and storage.

Funding Requests:

$250 million water and energy productivity program

The program will focus on support for energy solutions in irrigated agriculture including smart water efficient practices, renewables, storage and hybrid systems. It will comprise a fund for on-ground energy productivity works, administered by ARENA (Australian Renewable Energy Agency), supported by an integrated R&D, demonstration and extension program delivered by the Taskforce and its partners.

Eligible technologies will include solar generation and battery storage (where applicable), the suite of digital and engineering technologies required to optimise energy efficiency and demand management on farm and smart grid connection solutions.

The program offers significant benefit to farmers, authorities responsible for bulk water allocation and electricity distributors who have to manage difficult peak loads in summer.

Funding support for policy engagement ($160,000 over two years)

The Agricultural sector is at a constant disadvantage in engaging meaningfully in the policy and regulatory processes around energy and electricity specifically. Agriculture is a key trade exposed sector which is being directly negatively impacted by high energy prices.

It is critical that policy and regulatory decisions take full account of Agriculture as a key consumer group but also as a sector whose survival is so clearly in the National interest. Unfortunately, all too often these processes are dominated by input from very well-resourced energy companies and their peak bodies who are able to marshal teams of ‘experts’ to support their case.

In response, our taskforce does its best to make cogent arguments utilising the most meagre of resources and goodwill from our members. We do not have the technical expertise to match the well-funded energy companies, a point rubbed into our membership when we were told by the AER at a meeting that we needed to learn to speak the industries language.

Our sector cannot hope to match the energy companies’ resources however a modest amount of funding to assist the Taskforce to employ one policy officer would help. Our proposal is for employment of a policy officer over a two-year period with a 60/40 funding mix. $60% or $180,000 (over two years) provided by Government and the remainder by members.

ReAqua project near Dubbo - Solar pumping bore water with diesel backup (growing cotton in this case)

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