

**Submission to the
Independent Pricing and Regulatory Tribunal**

**~ Draft Report & Determination - Retail tariffs & charges
for electricity 2010-2013 ~**

February 2010

**NSW Farmers' Association
Level 25, 66 Goulburn Street
Sydney NSW 2000**

Ph: (02) 8251 1700

Fax: (02) 8251 1750

Email: emailus@nswfarmers.com.au

Executive Summary

- **Agriculture is a significant contributor to the NSW economy.** The gross value of NSW agricultural commodities production in 2008 was \$8.59 billion. This increases to \$27 billion when including the multiplier effect of businesses and industries within the complete food supply chain.
- **Under the proposed Determination, NSW's 5 year infrastructure upgrade percentage increase of 80 percent is by far the largest on the National Network, totalling a massive \$14 billion.**
- **NSW primary producers will lose price competitiveness in both domestic and overseas markets. This will have direct social and economic ramifications on rural NSW.** Unlike many other business sectors, primary producers are price takers and cannot pass on cost increases to their downstream customers. A loss in primary producer financial viability has a spill over effect to rural communities who are dependent on their commercial sustainability to support local community and business services.
- **The Association is calling on the NSW State Government to review its regulatory processes regarding the provision of electricity network services in NSW.** NSW taxpayers are being asked to pay for the highest proportional increase in network upgrades than any other state in Australia.
- **A more gradual incremental price increase would ease the financial ramifications of the Draft Determination price increases.** This would enable the NSW business sector to adapt to the changed market conditions without such an immediate impact on their cost competitiveness.

Introduction

The NSW Farmers' Association (the 'Association') is Australia's largest state farming organisation representing the interests of the majority of commercial farm operations throughout the farming community in NSW. The Association also represents the interests of rural and regional communities and the important issues associated with natural resource management and trade. Through its commercial, policy and apolitical lobbying activities, it provides a powerful and positive link between farmers, the Government and the general public.

Association Members have a strong interest in the regulation of retail electricity prices. Many of NSW's 40,000 farming businesses are classified as small retail customers. Electricity prices are a notable proportion of the input costs for these businesses. Accordingly, the Association welcomes the opportunity to provide a submission to the Independent Pricing and Regulatory Authority ('IPART') Draft Report & Determination - Retail tariffs & charges for electricity 2010-2013 (the 'Draft Determination').

The Association is aware of the vital importance reliable electricity supply plays in supporting efficient and competitive industries in NSW. Market participants involved in the provision of electricity in NSW must ensure their infrastructure is adequately maintained and sufficiently capable to support residential and business electricity demands throughout the State.

The Association objects however to two elements of the Draft Determination:

- 1.the effect such a dramatic price increase will have on the financial viability and cost competitiveness of the State's farming sector; and
- 2.the inadequacies within the State Government's regulatory processes that have resulted in NSW taxpayers being asked to outlay more than residents in any other State for their electricity network's infrastructure upgrades

These and other issues will be discussed throughout this submission.

Review of IPART Draft Determination

The effect of the price increase

Agriculture is a significant contributor to the NSW economy. The gross value of NSW agricultural commodities production in 2008 was \$8.59 billion, representing about 20 percent of total Australian agricultural production.¹ However this figure increases to \$27 billion when factoring in the multiplier effect of businesses and industries further down the supply chain.

IPART's Draft Determination will result in an increase in operating costs to the State's farming sector. Electricity supply already represents a notable cost to farming operations, equating to 2.5% of an average NSW dairy farming operation's input costs and 0.43% for broad acre operations.

The Draft Determination has recommended the three NSW retail providers increase prices by 44 percent (Integral Energy), 58 percent (Energy Australia) and 62 percent (Country Energy) by 2013.² Country Energy's increases, the Draft Determination states, can be broken down to increases of 12 percent in 2010/11, 17 percent in 2011/12, and 23 percent in 2012/13, for a cumulative total of 62 percent over the 3 years.

The magnitude of this price increase will vary depending on the particular type of farming operation. The Draft Determination states that a typical Country Energy business customer will pay \$2,985 more in 2013 (Country Energy's network services cover 95 percent of NSW's land mass). However, as Table 1 below demonstrates, while broad acre cropping operations will likely see similar price increases as a typical Country Energy business, more electricity intensive farming businesses, such as dairy farmers, will see their bills increase considerably higher.

Table 1: Indicative annual bill for typical Country Energy farming operation (nominal \$)

Farm operation	Average electricity costs per farm operation (2009/10)	2012/13	Cumulative increase 2009/10-2012/13 (%)	Cumulative increase 2009/10-2012/13 (\$)
Dairy	\$16,123	\$26,120	62%	\$9,997
Broad acre	\$4,320	\$7,000	62%	\$2,680

Source: ABARE AGSurf – Financial Tables 2007-08, Interactive Data 2008, and Australian Commodities Statistical tables v16 n4.

This impact will add to increased operational costs faced by many NSW farming businesses. Just as importantly, however, is the loss in cost competitiveness for NSW farmers in both domestic and international markets. As Table 2 demonstrates, NSW residents will see the highest proportional price increase in infrastructure upgrade funding compared to other states on the National Network.

¹ ABS (2009), *Value of Selected Agricultural Commodities Produced, 2007-08*, cat number 7503.0

² With Country Energy being the major retail provider in regional NSW and therefore the most relevant for Association members, this paper will focus only on the costs from this retail provider.

Table 2: State electricity network infrastructure funding

Network provider	State	AER approved 5 year infrastructure upgrades	Percentage increase compared to the previous five years
Country Energy, EnergyAustralia and Integral Energy	NSW	\$14 billion	80 percent
ETSA Utilities	SA	\$1.628 billion	58 percent
Energex	QLD	\$5.718 billion	33 percent
Ergon Energy	QLD	\$5.013 billion	24 percent

The Association understands that the only remaining Draft Determination for the National Network for Victoria is due in May 2010. In any event, as Table 2 demonstrates, NSW's 5 year infrastructure upgrade percentage increase of 80 percent is by far the largest on the National Network, totalling a massive \$14 billion. The next largest State network infrastructure upgrade, SA, has sought 22 percent less increase on their previous five year plan. QLD's two network providers, Energex and Ergon Energy, have received a further 47 and 56 percent less than NSW's increase respectively.

This will have a direct effect on NSW primary producers' cost competitiveness in both domestic and overseas markets. Given the economic contribution of the farming sector to many rural communities, this competitive loss will also have ramifications on rural NSW. Unlike many other business sectors, primary producers are price takers and will not be in a position to pass on the input cost increases to their downstream customers. A loss in primary producer financial viability then has a spill over effect to rural communities who are dependent on their commercial sustainability for employment and participation in numerous community services. This includes institutions and organisations, such as schools, hospitals, sporting clubs and volunteer contributions to services such as the Rural Fire Services.

The Association is, however, aware that 90 percent of the Draft Determination price increases stem from increased network charges and the Federal Government's proposed Carbon Pollution Reduction Scheme (CPRS) (the cost contributions have been summarised in Table 3).

Table 3: Cost contributors to the increases between now and 2012/13

Cost Driver	Indicative cumulative increase in prices	Percentage contribution to total increase
Network charge increase (as determined by AER)	35%	56%
Energy cost increase due to CPRS	21%	34%
Energy cost increase to factors other than the CPRS	2%	3%
Retail cost and margin increases	4%	6%
Total	62%	100%

On 30 April 2009 the Australian Energy Regulator (AER) released its final decision approving increased investment to the electricity distribution networks in NSW for the period 1 July 2009 to 30 June 2014.³ Then on 26 November 2009, the Australian Competition Tribunal ('ACT') handed down its decision on an appeal by the NSW electricity distribution network operators against AER's April 2009 distribution determinations.⁴

Unfortunately, the passing of these decisions impedes on the ability of the Association to

³ AER media release *AER final decision approves increased investment in the NSW electricity distribution network*. Release # NR 005/09 on 30 April 2009

⁴ AER media release *Australian Competition Tribunal makes decision on AER electricity determinations for NSW and Tasmania*. Release # NR 017/09 on 26 November 2009

affect the price increases proposed in the Draft Determination. Firstly, following the ACT's November ruling, the network price increases are effectively completed. Furthermore, with the fate of the Federal Government's CPRS still undecided, there remains only the energy cost increases to factors other than the CPRS and the retail cost and margin increases available for comment. The Association does not see either of these cost increases being significantly inflated outside the scope of natural commercial changes to raise an objection.

However the fact remains that there will be a considerable effect on the financial viability of the NSW farming sector should all the price increases in the Draft Determination come into effect. Even in a best (read cheapest) case scenario (i.e. one that would not include the additional cost of a CPRS), the Draft Determination will see:

- Dairy operations with an average annual electricity bill increase of 41 percent, or \$6,610, to \$22,733 (compared to \$26,120 with the CPRS charge); and
- Broad acre operations with an average annual electricity bill increase of 41 percent, or \$1,771, to \$6,091 (compared to \$7,000 with the CPRS charge).

The Association does however applaud the NSW Government's recent implementation of the \$272.5 million *Consumer Protection Package* of initiatives. Such steps go some way to alleviating the financial strain caused by the recent price increases in NSW electricity.

The management of the three State owned electricity network providers

The Association is calling on the NSW State Government to review its regulatory processes regarding the provision of electricity network services in NSW. The \$14 billion of capital investment approved by the AER in April 2009 for the State's five year distribution network upgrades is an increase of 80 percent from the current 5 year level of \$8 billion. While the AER explains that the majority of the infrastructure upgrades stem from increased demand due to population growth and other demand factors, two key questions remain. Firstly, why is it that other States are requesting significantly less network infrastructure upgrades? Secondly, how can the management of the three network providers justify a capital works program that has allowed their respective network infrastructure to downgrade to such a point as to warrant the need for such a massive injection of capital?

The Association appreciates that both these questions are outside the scope of the Draft Determination. However the fact that the three network providers in question, Country Energy, Integral Energy and Energy Australia, are all NSW Government owned Corporations, highlights the need for the State Government to review its regulatory powers and practices of its own wholly owned Corporations.

Conclusion – the way forward

The Association recognises the need for a safe and reliable electricity network system. However a 62 percent increase in electricity bills will result in a significant increase in the operating costs of the State's farming sector. This increase will result in NSW farmers losing price competitiveness in both domestic and overseas markets, an affect which will also have ramifications on the viability of many areas in rural NSW.

Rather the Association requests IPART consider a more incremental price increase as a means to reduce the immediate burden proposed in the Draft Determination. While detailing the specifics of such a strategy go beyond the capabilities of the Association, it would ideally ensure essential capital works projects are funded as well as provisions for more medium to long term infrastructure expansion. This would give NSW residents and businesses the assurance of both immediate and long term electricity supply that is not so financially burdensome.