



National Irrigators' Council

Level 2, NFF House, 14-16 Brisbane Ave
Barton ACT 2600

Ph: 02 6273 3637
ABN: 92133308326

30 April 2015

The Secretariat
Review of Governance Arrangements for Australian Energy Markets
Energy Division
Department of Industry and Science
GPO Box 9839
CANBERRA ACT 2601
energygovrev@industry.gov.au

Dear Sir/Madam

Re: Review of Governance Arrangements for Australian Energy Markets

The National Irrigators' Council (NIC) is pleased to provide comment by way of submission to the issues paper relating to the Review of Government Arrangements for Australian Energy Markets. We note the key task of the Panel is to assess whether there are ways to change the governance arrangements of Australian energy markets so as to improve outcomes in terms of quality, timeliness and cost.

Our comments do not go to the specific and many questions raised in the issues paper. We do however provide you with the attached Agricultural Industries Electricity Taskforce submission to the current Senate Inquiry into electricity network companies. The submission focuses particularly on the Australian Energy Regulator (AER) pricing determinations process where we believe there exists an unfair process.

It is hoped the issues raised by consumers and stakeholders as part of this review, are examined in conjunction with other reviews and reports under the umbrella of the Commonwealth and COAG arrangements, in such a way that results in a system with fewer complexities, but most importantly, a fairer price setting regime for all consumers.

Consultation

We are disappointed at the short timeframe allowed for consultation during this review of governance arrangements for Australian Energy Markets, with the Issues paper being released only several working days prior to the date submissions are due. We make the point that many consumer/stakeholder organisations are member funded bodies who seek to participate in the raft of Government inquiries and reviews that impact on our respective organisations, and we attempt to do so with limited resources, as is the case with our Council.

In addition, there has been little consideration given to the fact that the Sydney consumer roundtable meeting proposed for Tuesday 12 May clashes with the federal budget to be delivered from Canberra on that day. Many consumers/stakeholder organisations are involved in the federal budget 'lock-up' in preparation for its delivery, the outcomes of which are often quite significant for our members. Unfortunately NIC representatives are unavailable to attend the proposed roundtable meeting in Melbourne on 14 May due to competing priorities.

NIC involvement in electricity issues

The NIC has been engaged for some time, along with the Agricultural Industries Electricity Taskforce (the Taskforce), in advocating for a fairer system in the way Australia's electricity network companies calculate their network costs through their submissions to the AER. In recent months we have provided submissions to the following Government inquiries and AER electricity distribution regulatory proposals:

- Competition Policy Review (the Harper Review)
- Australian Government Energy White paper
- Australia's Agricultural Competitiveness Green Paper
- Senate Inquiry into electricity network charges
- AER South Australian Power Networks Regulatory Proposal (2015 – 2020)
- AER Queensland electricity distribution regulatory proposals 2015-16 to 2019-20.

NIC involvement in the electricity debate is borne out of the crippling cost of electricity network charges on Australia's irrigated agriculture sector which is undermining the viability of rural businesses and impacting on the social and economic wellbeing of rural and regional communities. Our members are experiencing the impact of sustained annual electricity price rises which have typically more than doubled prices over the previous six years. Typically network charges represent around 50% of farmers' electricity bills, environmental charges 20%, and electricity usage making up less than 26%. In this context we submit that genuine fairness in the system will only be achieved from reform of network charges which continue to have a highly distorting effect on the energy market.

Australian Energy Markets Governance Arrangements

Taskforce members have been involved at many levels, through federal and state governments, in the regulatory processes under the AER and Australian Energy Market Commission (AEMC) and in numerous meetings with the utilities. The Taskforce submission (attached) to the current Senate Inquiry into electricity network charges notes that our members have been frustrated by the byzantine complexity and bureaucracy of the electricity industry. While it is understood various bodies and legislative frameworks were established to undertake specific roles (as detailed in the issues paper) the current review of these arrangements, roles and responsibilities is welcomed.

It is pleasing to note the issues paper flags under **History of Energy Market Reforms**:*these effects have created new challenges for existing business models, structures and policy, such as the new paradigms of rising prices and falling demand.....It is important that consideration of governance effectiveness be undertaken in the context of modern market conditions and expected future challenges.* We have frequently detailed in submissions and in meetings with political representatives, the issue of falling demand from the grid putting greater burden on electricity networks with remaining consumers being asked to meet costs.

Over a sustained period, there appears to be an entrenched culture of institutional and governmental blame shifting. Governance and regulation of the industry is split between many bodies, with prescriptive rules and processes impeding any positive changes. Evidence of industry profit and prices underpins our view that network companies' shareholders are benefiting at the considerable expense of electricity consumers.

We have also long advocated for an examination of the way network companies present information to the AER during the electricity reset determinations process. This is critical in being able to set appropriate regulatory allowances. The arrangement adopted in the National Electricity Market (NEM) known as the 'propose-respond' model sees network businesses submitting their business proposals and the regulator responding to the proposals. The regulator may wish to accept the proposals, though if proposals are rejected by the regulator, the onus is on the regulator to explain why.

This model was advocated by network businesses and adopted by the Australian Energy Market Commission (AEMC) and formalized in the National Electricity Rules. Prior to these rules, under the

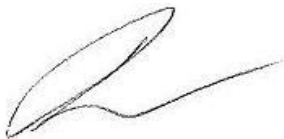
economic regulation performed by the ACCC (for transmission networks) and state regulators (for distribution networks), the regulators determined the information requirements and businesses responded to the regulator's requests. While the networks also submitted their intentions and proposals, there was no obligation on the regulators to respond to these proposals.

With the onus of proof on the regulator under the 'propose-respond' model, network businesses are afforded an unfair advantage. During the 2010 regulatory decision, demand growth was significantly over estimated by Queensland companies and recently acknowledged by them during the December 2014 forum where it was stated that they realised after proposals were submitted that the suggested demand would not expand as they had advised the AER it would.

While the AER has the capacity to ask questions and seek further information from network businesses, it does not set the agenda. We submit that a change of process is needed with the AER setting the agenda and the **onus of proof being placed on network businesses to respond to the regulator's questions.**

We commend these comments to you along with the attached submission to the Senate Inquiry which details more broadly our concerns and recommendations.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tom Chesson', with a long horizontal flourish extending to the right.

Tom Chesson
CEO

enc