



CANEGROWERS



QFF

QUEENSLAND FARMERS' FEDERATION



Growing the best

Agricultural Industries Energy Task Force

Dear Chairs and Commissioners

Submission to the Electricity Supply and Prices Inquiry

Thank you for the opportunity to contribute a submission to the above inquiry.

Escalating electricity costs are already contributing to Australia losing its competitiveness in the international market for agricultural product. At the same time, they are impacting the viability of producers of fresh food and natural fibre consumed by Australian households.

The impact is particularly severe on agricultural product produced by irrigators who need power to pump water or product that needs processing, packaging and/or refrigeration.

This submission is being made on behalf of the Agricultural Industries Energy Task Force a group of agriculture bodies with participants including: National Irrigators Council; CANEGROWERS; National Farmers Federation; NSW Farmers; Queensland Farmers; Central Irrigation Trust; Cotton Australia; NSW Irrigators Council; Bundaberg Regional Irrigators Group; Winemakers Federation of Australia; Pioneer Valley Water; and Dairy Connect.

While the individual participants support this submission, many will also have made their own submissions highlighting issues that may be of more specific relevance to them. The National Irrigators Council and CANEGROWERS have coordinated this submission and would indicate our support for submissions made by other farmers groups including the NFF and NSW Farmers.

The NIC on behalf of the task force commissioned Sapere Research to draft the attached report. The work was funded in large part by a grant from Energy Consumers Australia.

Sapere's independent research shows 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.

Similarly, it highlights the inefficiency in upstream gas contributing to the excess wholesale costs and prices.

The report itself draws conclusions about barriers to workable competition and effective economic regulation, and makes recommendations for further ACCC research.



National Irrigators' Council

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

Ph 0429 780883 email: ceo@irrigators.org.au

In the view of the task force the evidence compiled in the Sapere report indicates a failed market. There is no genuine competition in substantial parts of the electricity sector, sufficient to constrain prices and profits. As a result, contrary to the legislated objective, the National Electricity Market (NEM) is failing to meet the needs of consumers, or the broader interests of the Australian society and economy.

Agricultural industries and particularly the irrigated agricultural sector have highlighted in many previous comments and submissions to other bodies our belief that the electricity market's operation and regulation serve to provide inflated returns for asset owners rather than meeting Australia's objectives.

There is no doubt that policy uncertainty is also a major negative impact but the [evidence presented in this] report provides further evidence that the regulation and operation of the market is not working for consumers including primary producers.

The report also highlights the inequity of pricing for agricultural consumer being located in country areas. It highlights both lack of genuine competition for regional power users and also inequitable methods currently used for pricing the asset base which see agricultural users paying to address congestion that does not exist in their areas.

Agricultural industries have made submissions recently to the Finkel Review, the House of Representatives and now to the ACCC. This reflects the fact that we see skyrocketing electricity prices as a major threat to the sustainability and competitiveness of food and fibre production in Australia.

In previous submissions we have pointed out that it is not good enough to just stem the increases in power prices. They are already making Australia less competitive and productive. This report includes case studies which show that some international markets have already gone because our product is no longer competitive and one that suggests an entire irrigation district might cease operation (leading to around a halving in the productivity per hectare and massive flow on job losses in processing).

These outcomes are unacceptable for a country with abundant energy resources and with a national objective of providing its residents with affordable food and fibre - let alone an objective of being a 'food bowl' for Asia.

Our previous submissions have said prices must come back down, National Irrigators Council has advocated a 30% reduction in power prices, or a long-term price of 8 cents for electrons and 8 cents for transmission.

The attached report by Sapere identifies the following key issues:

- A small but significant set of remaining regulatory privileges for some but not all retailers
- High consumer search costs, in part due to complex tariffs and lack of consumer engagement
- Substantial barriers to expansion by smaller retailers

- Market structures including vertical and horizontal integration (a merger approval that appears to have been influenced by a view that retail margins are normal (and hence there is no incentive for vertical foreclosure)
- Weak incentives for rivalry among major, vertically integrated retailers and the potential for tacit collusion; and
- The absence of effective retail market monitoring to constrain any retailer market power.

The report suggests that by exercising its data gathering powers, *“the ACCC may significantly reduce the uncertainties associated with estimating costs and profits, and offer a more robust set of conclusions regarding whether prices are consistent with the existence of workably competitive markets and effective economic regulation.*

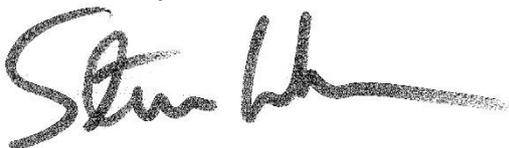
Being able to conclude that there are market and regulatory failures, the ACCC may then be able to test hypotheses on the origins of these failures and begin to identify remedies. It is suggested that the ACCC acquire data from retailers necessary to arrive at robust findings regarding:

1. *Structural, competitive or behavioural issues in the industry;*
2. *Identification of any behaviour that raises concerns under the Competition and Consumer Act 2010;*
3. *Improved transparency regarding electricity offers and pricing;*
4. *Increased information about competition, pricing and other practices in the supply chain that may improve customer experiences in buying electricity services; and*
 - (a) *For the reasons set out earlier, the ACCC Inquiry should also review the regulated components of the supply chain.*

Depending on its findings, we would also suggest the ACCC could consider and make recommendations on options for establishing a framework for effective ongoing regulatory monitoring of electricity and gas retail markets. This reflects our observation there is no such monitoring at present. Precedents in the airports and petrol retail sector may be useful in this regard.”

Within the ACCC’s remit for this inquiry we would urge consideration of the measures included in the Sapere report and, following that, strong recommendations aimed at rectifying the sources of failure in the NEM.

Yours sincerely



Steve Whan

CEO National Irrigators Council, on behalf of the Agricultural Industries Energy Task force
12 July 2017