

2 April 2019

Sherine Al Shallah
Australian Energy Market Commission
PO BOX A2449
Sydney South NSW 1235

Dear Ms Al Shallah

RE: AEMC Review of the regulatory frameworks for stand-alone power systems – priority 2

The National Farmers' Federation (NFF) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) *Consultation Paper on regulatory frameworks for stand-alone power systems – priority 2*.

The NFF is the peak national body representing farmers and, more broadly, agriculture across Australia. Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. The NFF's vision for Australian agriculture is to become a \$100 billion industry by 2030. Agriculture is a source of strength in the Australian economy, providing stable employment and income to rural communities. To achieve our vision, the sector needs regulatory and public policy settings that foster growth and productivity; innovation and ambition.

The NFF understands that there are two priority areas of work that the AEMC is progressing:

1. **Priority 1** – focusing on distribution network service provider (DNSP) led stand-alone power systems (SAPS); and
2. **Priority 2** – focusing on third party SAPS.

And notes the release of the Priority 1 draft report. If done correctly, SAPS offer a practical solution to customers on the fringe of edge of grid supply which includes farmers and other rural, regional and remote communities. This can deliver real benefits and is consistent with the NFF's 2030 Roadmap goal to support transition to renewable and decentralised energy sources, including off-grid.

The NFF recognises the need for a nationally consistent framework to allow distributors to develop off-grid supply arrangements for existing customers or new connections where efficient, as identified in both the *Finkel Review into the Future Security of the National*

Electricity Market and the Australian Competition and Consumer Commission's (ACCC) *Retail Electricity Pricing Inquiry* (REPI) final report.

The NFF will comment on three scenarios: transition to DNSP-led SAPS, transition to third party SAPS and the development of third party SAPS.

First, it is important to recognise both the landscape of electricity use in agriculture, as well as potential drivers of moving to a third party SAPS, particularly for farmers, and other rural and regional communities.

Electricity use is variable across agriculture depending on the industry, intensification of operations, location and structure of the business. Farms that require heating, cooling or irrigation have higher levels of energy use. For example, pumping water for on-farm irrigation is the most intensive use of electricity in the sugar industry. Cane growers have witnessed a 130 per cent increase in electricity cost between over the past decade. In the dairy sector, the most energy intensive activities include water heating, milk cooling and milk harvest, and comprises 80 per cent of energy use and cost-on farm. For some farmers, demand is also flexible driven by need, for example, cool rooms.

The NFF has highlighted, in a number of its submissions, the cost burden of electricity to the agricultural sector. Modelling by the Australian Farm Institute revealed the annual cost of electricity to Australian farm businesses to be \$1.2 billion, and energy costs (including electricity) averaging nine per cent of the gross value of production, with costs much higher in intensive industries such as irrigation and horticulture.

The most significant cost components of electricity bills for those in rural and regional communities are:

- network costs through overinvestment in transmission infrastructure, that is, 'poles and wires';
- retail prices; and
- wholesale prices.

Additionally, farmers often have to pay for their own poles to connect to the grid which adds to the cost.

DNSP-led SAPS

The NFF accepts the Commission's draft position that:

- where DNSPs are moving to SAPS, they should publish a customer engagement strategy based around notifying and consulting affected parties well in advance of any transfer.

Consultation should be effective in actively considering concerns of parties. Any forced moved to a SAPS should automatically transfer the risk of price dispersion between the retail market for electricity and the price paid by the customer on the SAPS onto the network. Customers can be better off on the SAP but should never be worse off.

Transition from DNSP to third party SAPS

The NFF accepts the Commission's draft position, in relation to the decision-making framework for customer transition to a third-party SAPS were as follows:

- An efficiency pre-condition for transitioning DNSP customers to a third-party SAPS is not required; and
- the third party should obtain the Explicit Informed Consent of all relevant customers in written form to transition them from the DNSP grid to a third-party microgrid (subject to jurisdictional exemptions), and the AER will have a role in the asset transfer process.

However, the NFF is concerned about the asset transfer process and the perverse outcome that DNSPs are (overly) compensated for what they consider 'efficiency losses' when they already gain considerably financial benefit from the regulated asset base (RAB) and weighted average cost of capital (WACC) weightings under the rate of return instrument. In Dec 2018, the AER released its final decision on rate of return for regulated energy networks, and while there is a slight reduction in the level compared to 2013, the NFF maintains that the current levels are still too high.

The NFF is of the view that the RAB is identified as part of the cost benefit analysis during the efficiency precondition determination.

Development of third party SAPS

The cost of poles and wires is largely driven by a fixation on providing a high standard of reliability in the system, particular gold-plating in the late 2000s. These costs disproportionately impact communities in rural and regional communities where there are long power lines that supply electricity to areas with a low population density.

In this context, third party SAPS provides an opportunity for farmers and those on the fringe of the network to exercise autonomy and create or design a system that is tailored to their needs. This includes both reliability standards and generation needs. To that extent, the NFF strongly supports minimal regulation for third party SAPS.

However, the NFF believes that the development of third party SAPS should have the explicit informed consent of all those involved.

In relation to the seven dimensions noted in the consultation paper:

- **Registration and licensing** – the NFF does not see the need for licensing for both microgrids and individual power systems, nor a requirement for maintaining a continuity of supply, Particularly as the current approach under NEL requirements for personnel authorised to carry such electrical work are administered by the respective jurisdiction and complemented by Australian Standards. The need to have explicit informed consent suggests that customers should have an understanding of the risks and implications of their system and the level of reliability it provides. The NFF is not

opposed to having a central register of microgrids and ISPs;

- **Economic regulation** – the NFF does not see the need for economic regulation of the system as the system should be built to meet the need of the customer;
- **Third party access and connections** – the NFF considers third party access and connection from the perspective of those that are seeking to connect to a pre-existing third party system. In this context, the NFF suggests this would be conducted in negotiation between the new customer and the third party, not dissimilar to how it operators on a DNSP-led grid. Where augmentation is required to meet the need of the new customer, costs should be negotiated between the parties;
- **Consumer protections** - this is not within the NFF's area of expertise but we understand Australian Consumer Law (ACL) has no energy specific consumer protections and in light of this being an rapidly changing area of technology and systems, this gap needs to be addressed;
- **Reliability** – there is no need for regulatory protections in respect of reliability standards. The autonomy to have a tailor made SAPS is one of the drawcards of a third party SAPS. By allowing third parties to design a system that meets their specifications, there is no need to have an arbitrary reliability standard that would unnecessarily increase electricity costs; and
- **Safety** – while safety is an important consideration, safety should be sensibly covered in other national legislation, not in an electricity-specific regulatory framework such as this.

SAPS offer the potential to resolve existing challenges with being connected to the network, including: reliability, transmission losses, network costs in low density population centres, increasing cost pressures and associated bushfire risks and vegetation access issues.

The NFF would be pleased to further engage the AEMC on this issue. For further information, please contact Warwick Ragg, General Manager NRM, on 02 6269 5666.

Yours sincerely



TONY MAHAR
Chief Executive Officer