National Farmers' Federation

Submission to the

National Energy Guarantee Draft Detailed Design Consultation Paper

13 July 2018

NFF Member Organisations

AGFORCE

Australian Chicken Growers' Council Ltd

Australian Dairy Farmers

AUSTRALIAN FOREST PRODUCTS ASSOCIATION
afpa
TREES | WOOD | PAPER

Australian Livestock Exporters' Council
ALEC

ALPA

AUSTRALIAN Pork

AUSTRALIAN VETERINARY ASSOCIATION

PURE BEECHWORTH HONEY
100% Pure Australian Honey

CANEGROWERS

CATTLE COUNCIL OF AUSTRALIA

CORPORATE AGRICULTURAL GROUP

COTTON AUSTRALIA

driedfruits australia

FCA
FARMERS FOR CLIMATE ACTION

Future Farmers Network

Goat Industry Council of Australia inc.

GrainCorp

Grain Growers
Real benefits. Real results.

NORTHERN TERRITORY CATTLEMEN'S ASSOC. NTCA

nsw FARMERS

NEW SOUTH WALES IRRIGATORS' COUNCIL

The Pastoralists' Association of West Darling

PET
PRIMARY EMPLOYERS TASMANIA

ppsa
PRIMARY PRODUCERS SA

AGRICULTURAL EXCELLENCE & SUSTAINABILITY
RICEGROWERS' ASSOCIATION OF AUSTRALIA INC

SHEEP PRODUCERS AUSTRALIA

SoilsForLife
AN OUTCOMES AUSTRALIA PROJECT

Summerfruit AUSTRALIA

WAFARMERS

Victorian Farmers Federation

WOOLPRODUCERS AUSTRALIA

The National Farmers' Federation (NFF) is the voice of Australian farmers.

The NFF was established in 1979 as the national peak body representing farmers and more broadly, agriculture across Australia. The NFF's membership comprises all of Australia's major agricultural commodities across the breadth and the length of the supply chain.

Operating under a federated structure, individual farmers join their respective state farm organisation and/or national commodity council. These organisations form the NFF.

The NFF represents Australian agriculture on national and foreign policy issues including workplace relations, trade and natural resource management. Our members complement this work through the delivery of direct 'grass roots' member services as well as state-based policy and commodity-specific interests.

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Introduction

The National Farmers' Federation (NFF) welcomes the opportunity to make a submission to the *National Energy Guarantee Draft Detailed Design Consultation Paper*. Access to affordable and reliable electricity is paramount to maintaining the international competitiveness of Australian agriculture.

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. Agriculture is a source of strength in the Australian economy, providing stable employment and income to rural communities. To achieve continued growth, the sector needs regulatory and public policy settings that foster growth and productivity; innovation and ambition.

The NFF supports the National Energy Guarantee (NEG) as the most achievable mechanism to resolve the affordability and reliability issues currently being experienced from the electricity market. The NFF also supports the NEG as the best mechanism to achieve certainty and acknowledges it will continue to facilitate investment in lower emissions technologies. This has been a comprehensive consultation process and NFF looks forward to reaching final resolution and implementation in the near future.

Emissions Reduction Requirement

The NFF acknowledges Australia's commitment to the Paris Agreement to reduce emissions by 26 – 28 % from 2005 levels by 2030.

The framework of the NEG must be developed and finalised in a manner that ultimately:

- Maintains system reliability.
- Ensures affordability.
- Meets Australia's Paris Agreement Targets.

The NFF supports the approach the NEG has taken so far in that the framework aims to:

- Be technology-neutral.
- Incentivise investment in low cost dispatchable sources of electricity.
- Provide long-term policy certainty.

Emissions reduction policies need to be coordinated nationally to ensure that reliability, affordability and international competitiveness are not compromised. Under the current settings, the RET distorts the generation sector through opaque cross-subsidies from consumers and non-renewable generators to renewable generators. The RET was designed as a transition policy, but has by default become the core policy lever to reduce emissions in the electricity sector by favouring particular types of generation technology.

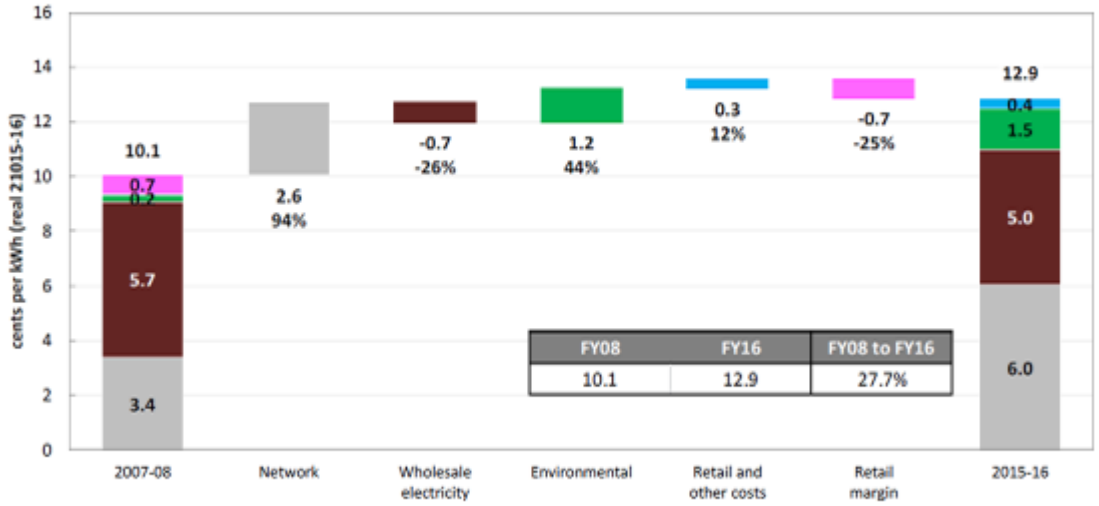
Escalating power prices have encouraged users to leave the centralised network and invest in alternative sources of electricity, further increasing costs for those unwilling or unable to leave the network. Network costs comprise almost half the increase in electricity prices across the NEM from 2015-2016[1] and are 'locked-in'. This will especially burden regional users where there are higher transmission costs and fewer customers to amortise the cost burden across. As such, the NEG must create a flexible framework that:

- is technology-neutral, market-based and economy-wide, delivering affordable, reliable and secure energy;
- supports increased competition across all aspects of the electricity and gas markets;
- ensures sound economic regulation of networks through the Australian Competition and Consumer Commission where competition is low, especially in regional and rural Australia;
- supports innovation to capture the full range of opportunities to improve energy productivity, energy efficiency and low emissions energy generation, including renewable, thermal and kinetic energy;
- recognises the potential of regional Australia to take part in the revolution of energy generation and supply and ensures that the regulatory settings enable this change, rather than create barriers for change;
- empowers and builds capacity in regional, rural and remote communities to contribute to secure and reliable energy supply and storage;
- ensures that rural, regional and remote Australia is not disadvantaged or left behind by the disruption, and that the policy solutions are designed for all Australians, not just those in metropolitan areas;
- recognises and rewards landholders, communities and industries that contribute to Australia's emissions reductions goals.

A number of reports released have shed light on the reasons behind price rises nationally, and across various jurisdictions. For example, the graphs below, from the ACCC Preliminary Report into Retail Electricity Pricing aptly demonstrates the contribution of different cost components to rising electricity prices.

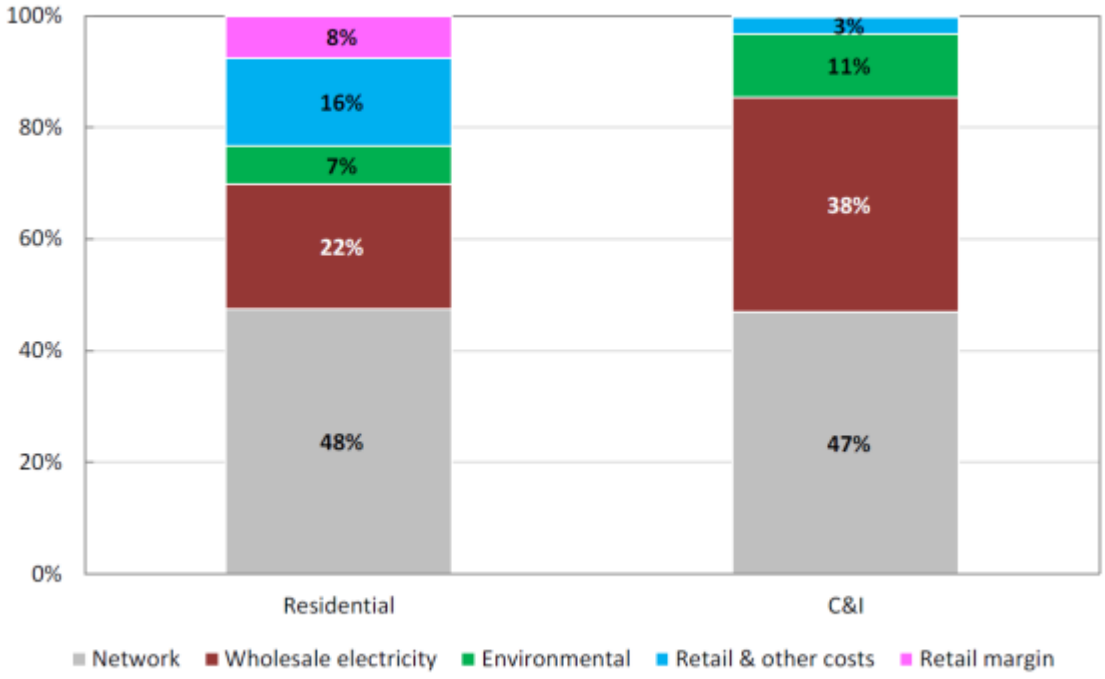
[1] https://www.accc.gov.au/system/files/Retail%20Electricity%20Inquiry%20-%20Preliminary%20report%20-%2013%20November%202017.pdf

Figure 2.24: Change in the average NEM C&I effective price (c/kWh) from 2007–08 to 2015–16, real values in 2015–16 dollars excluding GST



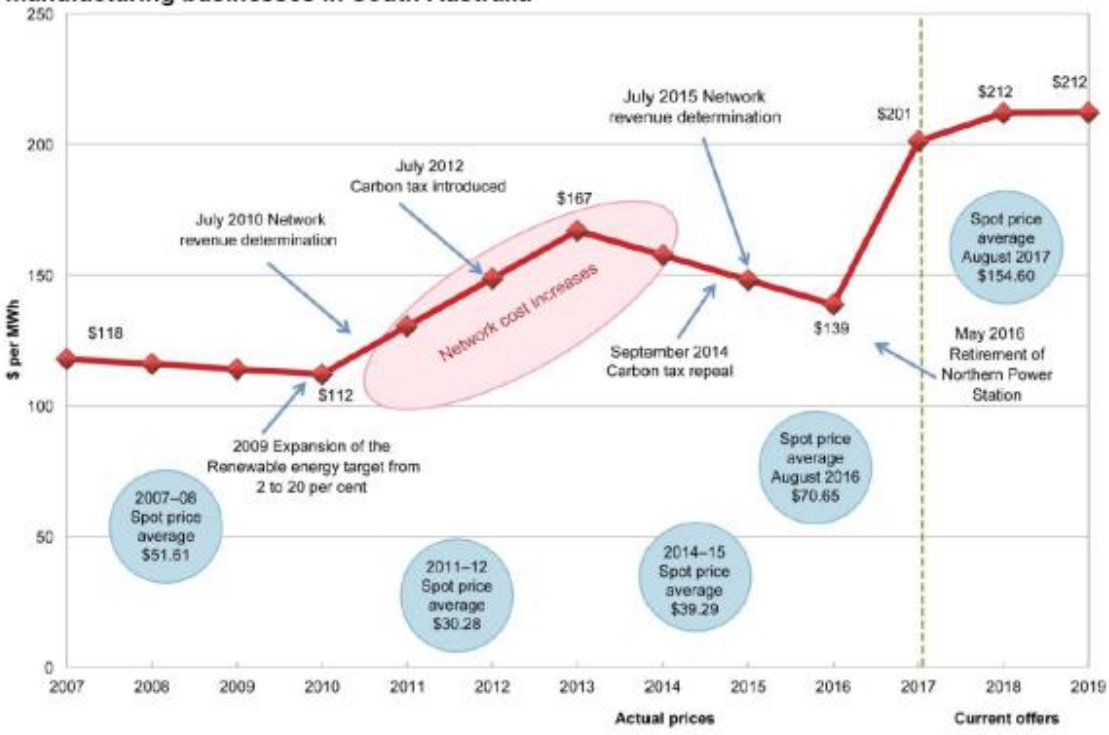
Source: ACCC analysis based on retailers' data. Based on the data, there was a negligible positive retailer margin in 2015–16.

Figure 2.25: Cost components for average NEM residential and C&I customers in 2015–16



Source: ACCC analysis based on retailers' data.

Figure 1.7: Timeline of price drivers and average total cost of electricity for three medium manufacturing businesses in South Australia



Source: ACCC analysis based on price information from three de-identified manufacturers in South Australia and AEMO, Information Hub: average price tables (viewed on 8 September 2017). Average weighted monthly spot prices August 2016 and

The graphs indicate that, for both residential and commercial and industry users (C&I) users, network costs are the predominant driver of price increases (48%). This is followed by: wholesale costs (22%), environmental costs (7%), retailer costs (16%) and retail earnings before interest, tax, depreciation and amortisation (EBITDA) margins (8%)[2].

Prices are typically higher in regional and remote areas due to similar reasons. The main reasons include:

- Higher infrastructure costs (fewer customers means that infrastructure costs are spread over less customers compared to urban areas)[3].
- Limited competition and vertical integration. In regional Queensland, continued price regulation, and the uniform tariff policy, and exclusive subsidies to the incumbent retailer, Ergon Energy, has created significant barriers to entry for other retailers.

Whilst addressing these issues may be out of scope of the NEG, the Government must ensure that the NEG will not further entrench these issues. The NFF recognises that these issues are being considered in the design of the NEG. Recommendations mentioned in various enquires, including the: ACCC Inquiry into Retail Electricity Pricing; and The 2017 Annual Report of

[2] https://www.accc.gov.au/system/files/Retail%20Electricity%20Inquiry%20-%20Preliminary%20report%20-%2013%20November%202017.pdf

[3] https://www.aer.gov.au/system/files/AER%20State%20of%20the%20energy%20market%202017%20-%20A4.pdf

The Health of the National Electricity Market, where possible, should further guide the design of the NEG to ensure reliable and affordable electricity in regional areas.

In establishing the NEG, the Government must recognise the role and potential of regional Australia in contributing to Australia's emissions reduction target. The NEG must create a stable, long-term policy environment that allows all technologies to evenly compete in order to deliver affordable, reliable and secure energy in the short term while providing a stable and transitional pathway to a low emission future. This must also extend to regional Australia.

Renewable Bioenergy

The NFF recommends that the NEG explicitly recognise the potential of renewable bioenergy in emissions reduction by rewarding renewable heat generation for industrial processes and biomass cogeneration.

Bioenergy is both a renewable and reliable source of energy. It is dispatchable and can deliver baseload power 24 hours a day, 7 days a week, making up for shortcomings in intermittent solar and wind generation. Being both renewable and reliable, NFF believes that it should be considered a premium source of energy, meeting the energy trilemma of reliability, affordability and emissions reduction.

Bioenergy currently accounts for nearly 1 % of Australia's electricity production, and 7 % of renewable energy production, well below the OECD average of 2.4 %[4]. This suggests there is significant opportunity for bioenergy to be included in the energy mix, especially in regional communities.

OECD research assessing the impact of renewable energy on regional economies and rural communities[5], and drawing on case studies in 16 regions across Europe and North America, has found benefits to rural communities through:

- New revenue sources
- New job and business communities
- Innovations in products, practices and policies in rural communities
- Capacity building and community empowerment
- Affordable energy

North Karelia, in Finland, and Mellersta Norrland, in Denmark, are two regions have benefited from the use of bioenergy.

The lack of incentives for renewable heat energy in energy generation creates a serious imbalance in the renewable energy market and misses some of the lowest cost opportunities for carbon emissions abatement. It is the view of the NFF that a truly technology-neutral NEG should provide due recognition to renewable bioenergy as a dispatchable source of energy in the system.

[4] https://www.cefc.com.au/media/107567/the-australian-bioenergy-and-energy-from-waste-market-cefc-market-report.pdf
[5] http://www.oecd.org/cfe/regional-policy/Policy%20BriefJD%208%20june.pdf

Multiple sectors in agriculture are well-placed to incorporate renewable bioenergy in their production, and some have already done so. This includes sugar mills and the forest products industry where residues from operations are abundant and supply is reliable. These residues include:

- Bagasse;
- Landfill gas;
- Wood waste and black liquor.
- Energy crops
- Agricultural products
- Municipal solid waste

There are multiple benefits in adopting renewable energy in the NEG:

1. Allows Australia's primary industries to contribute to Australia's emissions reduction target.
2. Provides a reliable source of dispatchable energy that will enhance reliability in the system.
3. Reduces cost for industrial processors that are already subjected to high electricity prices.
4. Stimulating regional development[6], creating jobs and economic activity.

Australia's electricity system can strongly benefit by incentivising renewable bioenergy. The NFF believes the best way this can be included in the NEG is to enable renewable heat production to be eligible for Australian Carbon Credit Units (ACCUs) and allow large market customers to use these to meet their emissions requirement under the NEG. While NFF recognises that renewable heat is not considered in the National Energy Guarantee, NFF believes it should be included within the framework of the NEG.

The NFF recommends that renewable bioenergy be included in the policy goal of additionality within the framework of the NEG.

Similarly, the NFF supports the inclusion of external offsets as a flexible compliance option under the NEG which will benefit regional areas. This was further discussed in the NFF's submission to the Draft Detailed Design of the Commonwealth elements of the NEG.

The NFF acknowledges the 50,000 MWh threshold for exemption from the emissions reduction requirement as a sensible step to ensure large users make a fair contribution in reducing emissions whilst not further burdening smaller market customers. This provision introduces a mechanism that captures a shared obligation for emissions reduction on very large users which is expected to further mitigate any market distortion that significant market participants might cause.

[6] https://www.cefc.com.au/media/107567/the-australian-bioenergy-and-energy-from-waste-market-cefc-market-report.pdf

Reliability Requirement

Electricity use is variable across agriculture depending on industry, intensification of operations, location and structure of the business. Farms that require heating, cooling or irrigation have higher levels of electricity use. In some industries electricity consumption is stable year round, in others there can be significant seasonal variability. For some farmers demand is flexible, providing choice as to when electricity is consumed. For others, demand is often driven by factors beyond individual control, such as streamflow, the weather, and regulations that govern access to water, reducing options for an individual to manage their own demand.

The NFF notes that while there is an emissions and reliability requirement, there is no requirement for affordability, and is an assumed outcome following the implementation of the Guarantee. The NFF is concerned about the effect of reliability requirement on affordability.

The NFF understands that at T – 3 (years), when the reliability obligation is triggered, liable entities will be deemed responsible for meeting the reliability gap, through more timely investment in new supply or demand response technologies and/or accelerating wholesale contracting activities to manage their liability. At T – 1, the AEMO, as the procurer of last resort, will be able to access the RERT framework and forcefully procure the required resources to address the reliability gap, with the cost to be recovered from liable entities according to the degree of non-compliance. The NFF believes this will increase the likelihood of high 'spot prices' that will compound costs of accelerated investment and ultimately be passed onto consumers. It will be important that a clear mechanism is in place to monitor and mitigate where possible any adverse impact on price that meeting the reliability requirement might cause.

NFF notes that previous forecast errors requiring investment to maintain reliability in the system has left a stranded asset (gold plating) that has imposed significant costs to consumers, including regional consumers. Overinvestment to enhance reliability comes at the expense of affordability. Both reliability and affordability are key for agricultural producers – wholesale price spikes and outages can destroy annual returns for some farmers in the space of a few hours.

There is no explicit consideration of affordability in this scenario, but rather it is believed that it '*represents an acceptable trade-off between reliability and cost i.e. where the cost of additional capacity is equivalent to the avoided cost of load shedding*'. NFF considers this will lead to higher costs.

The NFF also understands that the reliability obligation can be triggered with little 'advance notice'. Producers and those along the supply chain must be given adequate time to manage their risk and adapt to any potential for further price increases. Therefore, it is critical that there are measures in place to ensure affordability for farmers if the reliability obligation is triggered.