

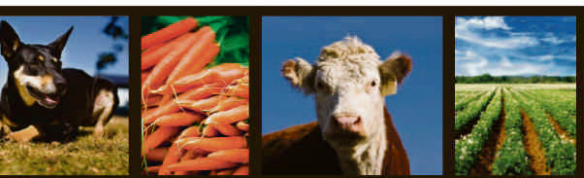


Tasmanian Farmers and Graziers Association

Submission on: Energy Strategy Issues Paper

Draft Only

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AGRICULTURE IN TASMANIA

The total Tasmania gross state product (GSP) was \$23.9 billion for the 2012 year. The GVP of agriculture, forestry and fishing collectively amounted to almost 9% of this total – before input supply services and value-adding, which is well above that for the nation as a whole.

In 2010/11, the farm gate value of production (GVP) of agriculture, forestry and fishing was \$1.98 billion. This comprised:

- agriculture - \$1.150 billion;
- forestry - \$235million; and
- fishing - \$597 million.

This is before considering input supply services and value-adding. Taking into account basic multiplier factors, this means the farm-dependent economy contributes more than \$5.0 billion to the gross state economy - in spite of adverse pressures on the forestry industry.

Over the past 25 years, the average annual rate of increase in farm gate GVP has been close to 4%. Average growth in the farm GVP over the recent past has been slightly slower than average, as a result of reduced export returns due to the high value of the \$A and increasing cost pressures along the value chain.

Milk and milk products followed by livestock and livestock products were the main sector contributors to farm production value. However, this was partly offset by reduced vegetables output associated with severe wet weather at harvest in the first quarter of 2011.

Some 10,500 people were employed directly in agriculture forestry and fishing. A further 8,500 people were employed in services to agriculture and food and fibre value-adding. This is close to 9% of the working population in Tasmania.

The preliminary Tasmanian government Scorecard data for 2010-11 (prepared by DPIPW) indicates the wholesale value of food and beverage production has remained steady, roughly in line with the previous year at \$2.7billion This demonstrates the important role that the processing sector plays in adding value to farm gate returns and the fortunes of those who live and work in the farm dependent sector.

Furthermore, the inclusion of forestry as a long cycle crop enterprise in farming businesses in the state means that the overall economic contribution must include these figures too. Our best estimate is that in 2009/10 this added a further \$400 million to farm gate income. Clearly, as a result of the uncertainty currently evident in this sector, that figure has fallen significantly since then. Nonetheless, on a long term outlook, forestry remains an integral part of a diversified farm business.

Compared to the previous year, growth in agriculture GVP has broadly offset the fall in forestry GVP.

The vast bulk of our agricultural product is sold interstate and overseas. Farm exports in 2010/11 easily exceeded \$550m (farm gate equivalent value) when account is taken of pharmaceutical products. The share of exports to Asian destination exceeded 50%. In addition, it is estimated that a further \$1.8 billion of raw and value-added product was shipped to the mainland.

In 2011/2012, total exports from Tasmania were valued at \$3.196 billion. Agricultural products represented some 30% of that total – approximately \$1 billion. Almost 25% of total exports (\$502 million) were destined for ASEAN countries. Agricultural products valued at approximately \$121 million represented 25% of that total. ASEAN countries have become increasingly important destinations too, with overall exports increasing marginally over the past three years; and food exports alone increasing significantly from \$71 million to \$96 million over the period 2009/2010 through 2011/2012. Major products exported to ASEAN countries included dairy (\$42 million); seafood (\$32 million) and wood products (\$20 million estimated from private forestry sector). Key destinations included Japan (35%), China (21%), and Hong Kong (21%).

Farmers are also significant land managers in the state, with almost a third of Tasmania's land area of 68,300 sq. km committed to agriculture.

These figures clearly confirm the importance of the sector as an economic driver for the state's economy – and also demonstrate that agriculture is a more significant contributor to the Tasmanian economy than in any other state. With this in mind, it is clear that Tasmania needs to ensure that the agricultural base of the state remains competitive and profitable.

ABOUT THE TFGA

The TFGA is the leading representative body for Tasmanian primary producers. TFGA members are responsible for generating approximately 80% of the value created by the Tasmanian agricultural sector.

Operationally, the TFGA is divided into separate councils that deal with each of the major commodity areas. As well, we have a number of standing committees that deal with cross-commodity issues such as climate change, biosecurity, forestry, water and weeds. This structure ensures that we are constantly in contact with farmers and other related service providers across the state. As a result, we are well aware of the outlook, expectations and practical needs of our industry.

With our purpose being to promote the sustainable development of Tasmanian primary industries, the TFGA is committed to ensuring that the agriculture sector in Tasmania is profitable and sustainable. We are also committed to promoting the vital contribution the agricultural sector makes to the environmental, social and economic fabric of the Tasmanian community.

GENERAL COMMENT

The TFGA welcomes the opportunity to provide a submission to the Tasmanian Government's issues paper on developing an energy strategy for Tasmania.

The Government is to be commended on acknowledging the need to develop an energy strategy for Tasmania and the consultation process it is undertaking. The work done by the Energy Working Group to date has allowed us to develop a start point for what is a very large and problematic issue. While some of the reforms over the past few years have been positive some have been costly mistakes that could have been avoided with full and considered consultation.

TFGA acknowledges the difficulty of developing an energy strategy for Tasmania that will deliver an efficient and reliable energy resource for Tasmanians at prices that do not stifle business viability. There are a number of factors that make this particularly challenging for Tasmania: we are a small market; our generation and distribution sectors are government owned monopolies; and any strategy must factor in the potential impacts of climate change both from an environmental and shifting policy perspective – both globally and nationally.

Given the aforementioned limitations, TFGA questions the ability of government to deliver affordable energy at a retail level without making some tough choices that deliver competition in the wholesale generation and distribution services as well. Whilst retail competition is important it is not the Holy Grail and cannot be expected to deliver downward price pressure on its own.

It is also important when we discuss affordable energy that we do not exclude the costs to business for connection installation and maintenance. These costs can be a huge imposition and deter further investment by existing and new businesses.

TFGA does not profess to be an expert on energy generation and nor does it have all the answers and solutions to Tasmania's energy issues but as TFGA is confronted with the energy issues of its members on a far too regular basis we are well placed to deliver a perspective of small to medium businesses who are often disproportionately large energy consumers.

As the energy issues paper has been developed with a focus on electricity based energy TFGA has in its responses to the questions posed has focussed its response on electricity based energy.

QUESTIONS POSED BY THE ENERGY STRATEGIES ISSUES PAPER

Question 1

What enhancements could be made to regulatory frameworks to ensure the right incentives for businesses and consumers are in place?

Tasmania has signed up to the national energy market and as a part of that they have also taken on the extremely high level of regulation and reporting imposed by that regime. The Tasmanian energy landscape, as it currently stands, appears to have adopted all of the added regulatory burden of the national framework but received no benefits from being a part of the framework.

Whatever framework is adopted for Tasmania it should reflect the true needs of doing business in Tasmania and reflect the Tasmanian energy market.

Question 2

Given both the State and Commonwealth Government are committed to reducing red and green tape, and that the electricity market is highly regulated and complex, what opportunities are there to reduce or remove regulation?

TFGA has not sought to examine the complex regulations around the energy market but has chosen to focus on the regulation that it sees that impacts its members on a daily basis.

TFGA deals with a myriad of small regulatory issues that cost time and money to its members. Some of these are tied to the national regulatory framework that has been adopted by Tasmania and some flow from local regulation or even internal policy decisions by the three state owned electricity businesses.

The government should look at those easy targets that are in their control as a matter of expediency and then work towards a review of those under the national regulatory system that add no real value to the individual Tasmanian market.

The TFGA is happy to provide more detail but for the sake of brevity will highlight some of the issues that it is aware of that through policy and regulation have imposed a burden of monetary and time costs to the industry over the past twelve months:

- Requirement of an “all-weather” road to all meters – even when in the middle of a paddock.
- Estimation of meters during winter months as meter readers are not allowed to drive to meters that they deem unsafe due to wet conditions or meter placement. Meters that were approved upon installation by Aurora or its predecessor. Invariably the estimated winter accounts are in the thousands of dollars at a time when there has been no actual usage of the installation and at a time when there is no income flowing to the farm to meet the additional cost.
- Producers electing to self-read meters in order to avoid estimation have to have an email address for every meter that they wish to self-read – this could be up to ten meters for some farm businesses.
- Requirement of an engineer’s certificate for existing meter platforms before a meter reader is allowed to read the meter.
- Distribution tower replacement program not taking into account the needs of the land owners that these structures traverse.

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- Irrigation meter installation inadvertently transferred into farm tenant's name.
 - Multiple accounts for the one business.

Those are just a snap shot of issues that should be easily resolved and yet are simply not. When developing regulation we have to start assessing whether the protection that we seek to afford through the implementation of the regulation is out-weighed by the cost to the end-user; if the answer is yes then the regulation should not exist.

Question 3

Is retail competition important because of price, choice or for other reasons?

Retail competition is important because of price and service however, as previously stated, as a stand-alone mechanism it is limited in its ability to deliver much relief for high electricity costs.

There is no doubt that in order to deliver price discounts some retailers may elect to make savings in the customer service area. A consumer would then be given the option of choosing between modest price savings at the expense of more prompt and efficient servicing of their account.

Without additional reforms around generation and networks there will remain little room for variance by multiple retailers. If Tasmania's SOEB's are able to deliver electricity prices that are demonstrably the cheapest in Australia and comparative on an international basis then choice becomes less important; at the end of the day it little matters who sends your account if there is little variance in the price charged.

Question 4

What enhancements or additional information could increase the reporting transparency of the Government's electricity businesses and contribute to improved efficiency?

Currently State Owned Energy Businesses (SOEBs) are burdened with a heavy level of reporting and compliance with Australian Energy Regulator under the national framework. It needs to be assessed as to whether that national reporting is adding value to transparency and efficiency of our SOEBs at a state level or whether it is just feeding into the general national melting pot. It must be recognised that the Tasmanian energy market is a much different animal than most other states; all of our generation and distribution businesses are government owned monopolies and therefore much easier to impose regulation upon and, arguably, have a much greater responsibility to the customers that they serve. TFGA questions whether the current regime is serving Tasmanians adequately.

While there are is more than adequate information on spot pricing through the National Energy Market this is a mechanism understood by few outside of the energy industry. There needs to be a much more transparent and easily comparable reporting of the end-user cost

that highlights in plain English the comparable tariff costs between states (and even internationally).

TFGA believes that the Tasmanian Economic Regulator (TER) should have its scope and resources broadened to allow it to request the information it needs to ensure that it is able to investigate more fully any area that it believes is needed to ensure the SGOEBs are delivering the best possible efficiencies.

Question 5

Do energy intensive and trade exposed businesses require greater future price certainty to maintain and/or grow their operations?

The requirement of future price certainty for Tasmania's large industrial users is also obviously important in encouraging their ongoing investment within the state.

However future price certainty is always an enhancement to the business planning of any enterprise looking at further investment. The agricultural sector is in the throes of a massive investment in irrigation in this state.

When those primary producers involved with the early irrigation schemes initially prepared their business case when making the decision as to whether or not they should invest in the new irrigation schemes and any consequential on-farm expansion it was in a far different energy market than they face today; the return on investment today would be much less than they would have predicted based on energy costs of five years ago.

Question 6

Would you consider accepting slightly lower levels of reliability if this resulted in materially lower prices?

For the agricultural industry reliability is integral to many businesses; in particular for dairy, irrigation reliant cropping and businesses reliant on cool storage. Over the years we have seen what it costs the industry when outages, both of short and long duration, impact the ability of these businesses to operate.

For farms under irrigation an outage of even seconds can mean hours of work repriming and setting irrigation pumps during season. Degradation of soft fruit, particularly berries and cherries, that is not kept at optimum temperature can equate to vast losses at the destined export markets – both in terms of lost dollars and lost reputation.

The impacts for the dairy industry where transmission loss can range from animal health issues caused by delayed milking through to the loss of a full day's production costing an average dairy business tens of thousands of dollars.

There are also impacts for general livestock businesses as they need to rely on constant electricity flow to maintain water supply to troughs and electric fencing.

Strangely enough, despite the critical nature of reliability of supply for the agricultural sector the compensation available for a rural business under the supply guarantee is far less generous than that available to their urban counterparts.

Question 7

Would a review of tariff structures be desirable, in terms of minimizing total network costs?

It is difficult to see how the restructuring of tariffs can offer in the way of minimizing network costs. Any changes to tariffs would amount to window dressing or a shifting of the cost burden between sectors.

While time based variations in tariffs may be a reasonable option for private consumers they are limited in influencing the consumption behaviour of businesses. Often business has little influence over their energy demand times and can be counter-productive where there is no ability to adjust timing of demand.

The time-of-use irrigation tariff has seen some farmers shift their irrigation to night-time watering to capture the lower rate however there are often enterprises who due to water availability are forced to water at peak rates causing hardship to their business.

Question 8

What approach, including non-regulatory ones, should Government consider for improving the thermal efficiency of our buildings?

The Government should look to implementing an education program on the potential cost efficiencies of improved thermal efficiency and options on how to achieve this. Delivering thermal efficiencies in buildings in Tasmania where energy use for heating in winter months is very high could help deliver significant savings to businesses.

The implementation of thermal efficiencies can be a particularly challenging and costly exercise for any small to medium businesses who have limited resources and little understanding of the how to achieve best outcomes for their meagre resources. This is particularly so for those many businesses occupying the multitude of heritage buildings where there can be the complication of dealing with the limitations of heritage listings.

TFGA would like to see the government adopt a program that encourages building assessments to be made by suitably qualified persons/businesses. The cost of this could be refunded by government through a subsidy where the thermal efficiencies made under the building assessments are adopted in full. Upon presentation of a suitable business case low interest loans could be made available through the government to enable the requisite investment by business.

Question 9

What approach to energy efficiency should Government use to help improve productivity for small to medium businesses, and to reduce energy bills for households?

A similar approach to achieving energy efficiencies for businesses that TFGA has suggested at question 8 could be adopted by the government. While there have been some case studies achieved and there are numerous fact sheets available every business is different and gleaned what will work best for an individual business from the multitude of material available can be a challenging and time-consuming for many small businesses.

While educative material is important it is still not a stand-alone measure; it has to be supported by access to resources, particularly in the initial stages. Therefore TFGA urges the government to make available the information on potential cost v investment efficiencies and support that with low interest loans to implement the necessary measures.

TFGA would like to note that consumers achieving energy savings through reduced usage will obviously mean reduced revenue for Tasmania's SOEBs. It is of little use for energy customers to reduce usage if the sum result is for the SOEBs to increase charges to make up the shortfall in their margins. There has to be a tandem recognition of this issue and a strategy put in place to ensure that energy customers do not end up worse off because they invest in energy efficiency measures only to be 'rewarded' by increased consumption charges that neutralise their savings equating to net overall loss.

Question 10

What role should Government play in attempting to retain and increase load growth in Tasmania and how should it do it?

Tasmania has to question whether or not they actually need to increase their load growth. There is already questions being asked around whether Australia has an excess energy generation. Tasmania is also facing uncertainty around the future presence in the state of two of our largest electricity consumers.

Before we even look to the discussion of increased load growth we have to develop ensure that there will be a customer base for our current generation. How will we deal with the excess energy available if any of our major consumers withdraw from the state? Possibly this question has already been addressed by the government and its SOEB's and if so any planned strategy to deal with this issue should be made available to the public.

Government should be focussing on ensuring that it encourages an economic environment that is conducive to retaining existing businesses and encouraging of new investment and allow the market to dictate load growth demand naturally.

Question 11

What further potential is there to develop renewable energy in Tasmania, including wind energy, given there is no unmet Tasmanian demand requiring additional generation for the foreseeable future?

TFGA believes that further government investment in renewable energy in Tasmania without a corresponding demand is poor business. With no current unmet demand, uncertainty around future demand and the constant striving for reduced energy consumption it is difficult to see where the impetus to further develop renewable energy in Tasmania.

The investment to date in other energy sources outside of Hydro has sensible diversified our options and will help in times of drought to ensure continuity of a clean energy source. However further investment, sans any market failure, should be left to the commercial sector who will invest if there is a market demand.

Tasmania was ahead of its time and invested in renewable energy 100 years ago and we must ask ourselves whether our constant obsession with further development of renewable energy is sensible or necessary. We have done our heavy lifting and unless we have a clear and long-term commercial case for exporting to meet mainland demand we should not push further investment in growing energy generation.

Question 12

Is there a further facilitation role for Government in gas roll-out, or should Government focus its efforts on examining the costs and benefits of improving minimum protections for gas customers?

Any further gas roll out should be left to the province of the commercial sector. As was rightly recognised in the discussion paper Tasmania, as a price taker for gas, cannot influence or control the market. The rapidly rising cost of gas and with current projections predicting that this trend is set to continue it is unlikely that gas will continue to be the attractive investment proposition that it has been in the past.

Further investment should be in those assets that can provide income within the state and allow commercial entities to invest in gas based on market demand.

Question 13

What are considered to be the key opportunities, and the key issues, associated with possible energy futures?

As previously stated Tasmania has done the heavy lifting when it comes to renewable energy and should be well placed to reap the benefits of that early investment in relation to the ongoing climate change strategies however it is disappointing that we do not appear to be receiving full value and recognition of that foresight; particularly under the RET scheme.

Tasmania could look to evaluate its individual contribution to climate change, with regard to its reliance on renewable energy and high forestation, as compared to other states and nations and use that as a marketing tool to attract further investment and in the development of new markets for its produce.

It would be sensible for Tasmania to look to invest in other non-electricity based renewable energy types especially those with potential to export such as bio-fuels. Given that the commercial sector is already investing in this field in Tasmania the government could limit its role to that of facilitator; working closely with those active in the space to see what it can do to enhance ongoing investment.

As has been already recognised there is no unmet market demand in Tasmania and we have decreased energy (electricity) consumption down, and continue to do so, through market mechanisms and improved energy efficiencies. This unmet demand can create an opportunity for government to explore options to replace other environmentally unfriendly fuel types with clean electricity. However to encourage this we would have to reverse the trend of high electricity consumption costs to ensure that investment in alternatives are economically attractive.

Question 14

What could be some outcomes for the Tasmanian Energy Strategy, and what actions can government, or energy providers and consumers, take to achieve them? How could success/performance be measured?

Tasmania's energy strategy should aim to:

- Maximise our energy market by ensuring that we deliver reliable and efficient electricity at an internationally competitive prices;
- Develop a risk model that seeks to diversify the load demand and market, ensuring Tasmania is not vulnerable to the withdrawal of individual large industrial consumers;
- Encourage further investment by commercial entities in a diverse array of clean energy sources;
- Mandate that SOEBs invest in technology to help them to optimise demand management as opposed to further investment in new generation and to maximise network efficiency.
- Develop an energy environment that makes Tasmania attractive for business investment by:
 - Ensuring SOEBs are proactive in removing red tape rather than developing policies that deliver a burden to business that is greater than the issue the policy seeks to remedy.
 - Competitive capital cost pricing structure that encourages investment in new businesses. Start-up businesses should not be dissuaded from investment due to exorbitant costs of getting electricity to their new business.
- Ensure a variety of mechanisms are available to enable businesses and individuals to adopt energy efficiency measures and make better consumer choices; and

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- Explore ways to introduce competition in both the generation and distribution markets or re-evaluate the way Tasmania develops its pricing across the whole of the energy market with a view to reducing end retail costs.
 - Explore new technologies that would allow greater control by energy consumers over their use. For example roll out of smart metering and supportive technology that allows monitoring of power consumption.
 - Extend the scope and resources of the TER to enable them to ensure true transparency in pricing structures of SOEBs

CONCLUSION

Any energy strategy adopted must recognise what we have already achieved historically in electricity generation and seek to maximise our existing investments. We need to seek new ways to capitalise on this whether it be through improved technologies, new markets or new uses.

Whatever the strategy adopted it has to be clear, it has to be achievable and it has to be done through meaningful consultation. The appointment of the Energy Taskforce and the development of the issues paper is a step in the right direction. However as there are many facets to our energy industry government should not rely on the Taskforce as the sole mechanism for advice. Government also needs to ensure that it does not 'cherry-pick' from the advice it receives those parts that suit its purpose. The recent attempts to sell Aurora customer base shows us how easy and costly it can be to get it wrong.