

### **IRRIGATORS CALL FOR FURTHER CUTS TO ELECTRICITY NETWORK CHARGES**

The New South Wales Irrigators' Council (NSWIC) has called on the Australian Energy Regulator (AER) to further cut the NSW regional power network operator Essential Energy's allowable financing rates, the value of its regulated asset base, and capital and operating expenditure levels over the next regulatory period - to achieve real cost reductions for NSW irrigators.

The Council's call for further cuts beyond the allowance levels published in AER's draft determination for the next 4 years follows a forum convened this week to discuss the Energy Regulator's reframing of the allowable costs associated with running the NSW regional power network.

NSWIC has pointed to the comparative network charges imposed on customers in the US and UK as highlighted at the AER forum which show NSW regional customers are paying 10 cents per kWh more on average than customers in the US and 4 cents more than in the UK - showing Essential Energy's network charges remain unsustainably high against international benchmarks.

The Council's Chief Executive Officer Mark McKenzie said by any reasonable measure the NSW regional network business has been and continues to operate below cost efficient levels and irrigators have had to pay heavily for network services that are more expensive than necessary.

Mr McKenzie said a second major issue of concern is Essential Energy's Regulated Asset Base, which over the last 5 years has continued to be built to service regional energy demand that has never materialised, and in many parts of the network has actually reduced. Yet irrigators are now left with a gold-plated network that will continue to cost billions of dollars more to maintain than it should.

"The current discussions around regional energy network charges shows the network operators are too heavily focussed on replacing existing assets instead of finding more sophisticated demand management solutions that could save real dollars for customers. NSWIC has been raising the issue of better demand management for years, but the networks and the Energy Regulator appear stuck on only considering engineering solutions, which require additional investment and load customers up with increased network charges."

Mr McKenzie said, "The capital expenditure allowance for Essential Energy is still proposed to increase over the next determination period, which is simply not sustainable for irrigators. AER needs to cut the cost allowances for the network even more deeply than its draft determination level. With a significant portion of the NSW regional power network underperforming the assumed value of the network asset base is clearly bloated!"

"There is also room to move on cutting the allowed rate of return on assets even further. An allowed rate of return of over 7 per cent does not reflect realistic borrowing costs for the network business, at a time of historically low interest rates. AER's own guidance range for the networks was between 6 and 7 percent and NSWIC believes the lower end of this range is appropriate - particularly given the very high profits that NSW network businesses have achieved over the last 5 years," Mr McKenzie said.

"Irrigators need a long term solution to unsustainable increases in electricity costs flowing from excessive network charges. This means Essential Energy needs to cut expenditure, increase efficiency and ensure that the network assets are fully utilised, rather than gold plating the existing poles and wires and shifting ever increasing costs to network customers."

NSWIC has urged AER to address these issues in its final determination on NSW regional electricity network charges in April 2015. The Council is also seeking recommendations on lower power cost outcomes from the current Senate Inquiry Into Electricity Network Charges.

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Approved: RS / MM

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For Further Information:

Mark McKenzie  
Chief Executive Officer  
Phone: 02 9251 8466