AUSTRALIAN ENERGY REGULATOR

Submission in response to AER's preliminary decision on SA Power Networks' Regulatory Proposal 2015-20

SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED

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Submissions by 3 July 2014 to:
Mr Sebastian Roberts, General Manager, Network Regulation
Australian Energy Regulator, GPO Box 520, Melbourne VIC 3001
Email: SAelectricity2015@aer.gov.au

SUMMARY OF SUBMISSION

The South Australian Wine Industry Association (SAWIA) is broadly supportive of the Australian Energy Regulator's (AER) preliminary decision on the *SA Power Networks Regulatory Proposal 2015-2020*, which should result in an approximate 9% reduction in electricity prices for many of our small business members.

There are, however, several aspects of the decision that are still of concern, most notably:

- Capital and operating expenditure should not increase concurrently, and both should be reduced from that allowed in the 2010-15 period through reconsideration of the base year
- SA Power Networks should build in efficiency gains at a cost to the company and not other electricity users.

SAWIA urges the AER to give further consideration to these matters and toughen its position in preparing a final decision to give more consideration to the long term interests of electricity users.

SAWIA also notes that SA Power Networks has significantly improved its engagement with us following our previous public submission to the AER.

THE SOUTH AUSTRALIAN WINE INDUSTRY ASSOCIATION INCORPORATED

The South Australian Wine Industry Association Incorporated (SAWIA) is an industry employer association representing the interests of wine grape growers and wine producers throughout the state of South Australia.

SAWIA is a not for profit incorporated association, funded by voluntary member subscriptions, grants and fee for service activities, whose mission is to provide leadership and services which underpin the sustainability and competitiveness of our members' wine businesses.

SAWIA membership represents approximately 96% of the grapes crushed in South Australia and about 36% of the land under viticulture. Each major wine region within South Australia is represented on the board governing our activities.

SAWIA has a strong track record as an industry leader and innovator in many areas. SAWIA pro-actively represents members and the greater wine industry with government and related agencies in a wide variety of aspects of business in the wine sector.

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SUBMISSION

Background: Electricity usage in the wine sector in South Australia

The Food and Wine sector is a significant contributor to South Australia's economy, generating Gross Wine Revenue of $17.1 billion in 2013-14, contributing about 10% of the total for the State.

One of the State Government's economic priorities 'Premium Food and Wine produced in our Clean Environment and Exported to the World', aims to grow the opportunities for South Australia's food and wine industries in existing and emerging local, national and international markets.

The South Australian (SA) wine sector has historically been the heart of the Australian Wine Industry with around half of Australia's vineyard area and about 40% of the total grape harvest. Many of the major Australian wine companies' head offices are located in SA, and SA wineries export about 50% of Australia's total exports worth about $1.153 billion in 2013-14.

Electricity can be a significant proportion of the costs of production for businesses in the wine sector.

In vineyards, the main use of electricity is to drive water pumps for irrigation, and this can represent up to about 25% of total production costs. The demand is highly seasonal in most wine growing regions in South Australia, and the largest requirement for electricity is when the need for irrigation at its highest – that is, throughout summer. The peak demand (1/2 hour interval) for electricity during this period can be an order of magnitude higher than the yearly average.

For wineries, electricity is used to power a range of processing equipment and the proportion of production costs can vary widely according to the types of activities carried out from as low as 5% to as high as 50% of total costs. The higher proportion would apply in the case of a winery that is perhaps a contract processing facility with few staff and no cellar door sales activity, whilst the lower might apply in the case of a winery that has a cellar door and maybe administration staff on site, with perhaps a small maturation cellar for barrel storage of wine. In a processing facility, the largest use of electricity is most commonly for refrigeration, and the greatest demand for this occurs during the vintage period – spanning from approximately middle January to at least late April across all the wine growing regions. The peak demand (1/2 hour interval) for electricity during this period can in some cases be up to an order of magnitude higher than the average throughout the rest of the year. Hence, demand based tariffs can disadvantage grape and wine producers relative to other industries that have inherently less 'peaky' requirements for electricity.

Most grape and wine production is based in regional areas of the State and, whilst the majority have access to the power grid, some users have experienced limitations in supply and/or reliability of electricity from the grid. In certain cases, this has led to users either choosing to remain off-grid or to use diesel powered generators or pumps to overcome these problems.

Our members have been concerned about the extent and rate of increase of electricity prices that have occurred over the recent years.

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Position on AER's Preliminary Decision on SA Power Networks' Regulatory Proposal 2015-20

SAWIA is pleased to be able to comment on the Australian Energy Regulator's preliminary decision on SA Power Networks' Regulatory Proposal 2015-2020.

We understand that a key role of the Australian Energy Regulator is to ensure that energy monopolies are regulated so as to perform in a similar way as a competitive entity. In our view, the preliminary decision falls short in adequately protecting the long term interests of electricity users.

Our main concerns in certain specific areas are discussed below.

Increased capital and operating expenditure

Whilst we welcome the AER's preliminary decision to reduce some components of capital expenditure and operating expenditure, we remain concerned that it still allows SA Power Networks (SAPN) to concurrently increase both. We reiterate the position put in our earlier submission that in our experience, and that of our members, this is not 'normal' business operation, where capital expenditure is made and justified as an investment generally with a view to decreasing operating costs.

We note that the preliminary decision allows both capital and operating expenditure to increase in a step change manner with the latter being more significant in magnitude. We are concerned that this increase is not justified in the current economic environment. In particular, the economic conditions that may have justified the step change increases that were allowed between the 2005-10 and 2010-15 regulatory periods may not be relevant today. Furthermore the preliminary decision proposes 2013-14 as the base year for these expenditures, which will have the effect of compounding the past rises in electricity costs to users in the future. Therefore, we suggest that the AER reconsider the base year to effect a step change reduction in these expenditures to compensate for the changed economic and market conditions.

Efficiency in operating expenditure

SAWIA is concerned that the AER appears to have taken the view that SAPN's operating expenditure in one regulatory period will be a good indicator for the next period. In our experience, and that of our members, it is 'normal' business practice to continually improve such efficiency to remain competitive, and SAPN should be subject to the same objectives. This reinforces our recommendation that the AER seek to build further efficiency in its final decision through reductions in allowable operating expenditure.

Productivity gains

SAWIA remains concerned that the preliminary decision does not seek to ensure that SAPN pursue productivity gains as is normal current practice in business and government workplaces in Australia. In particular, the wage increases allowed are still quite generous in the current business operating environment and in comparison with community standards. In any case, SAPN, like all businesses, should be seeking efficiency improvements to take these increases into account rather than simply seeking to pass on its wage increases to consumers.

End of submission

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