AUSTRALIAN ENERGY REGULATOR

Submission in response to Australian Gas Networks (SA) Access arrangement 2016-21

SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED

SUBMISSION OF: SOUTH AUSTRALIAN WINE INDUSTRY ASSOCIATION INCORPORATED

ABN: 43 807 200 928

ADDRESS: First Floor, Industry Offices
National Wine Centre
Botanic Road
ADELAIDE SA 5000

CONTACT PERSON: Mark Gishen

POSITION: Project Manager – Environment & Technical

TELEPHONE: (08) 8222 9277

FACSIMILE: (08) 8222 9276

EMAIL: mark@winesa.asn.au

WEB: www.winesa.asn.au

DATE:

Submissions by 10 August 2015 to:
Mr Warwick Anderson, General Manager, Network Finance and Reporting
Australian Energy Regulator, GPO Box 3131, Canberra ACT 2601
Email: AGN2015GAAR@aer.gov.au

SUMMARY OF SUBMISSION

The South Australian Wine Industry Association (SAWIA) is concerned that the *Australian Gas Networks (SA) Access arrangement 2016-21*, is not in the long term interests of gas users, and if accepted in its current form, will increase gas prices unreasonably and have a detrimental impact on businesses in the wine sector.

The aspects of the proposal that are of most concern to SAWIA are:

- the proposed increases in capital expenditure are not justified in the context of falling demand, and a concurrent increase in operating expenditure is in stark contrast to normal business practices
- the proposed return on investment is excessive when compared with current practice in business or government
- the proposed increase in the regulated asset base is unjustified and, if accepted with have a detrimental long term effect on the prices paid by users.

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.

South Australian Wine Industry Association Incorporated
ABN 43 807 200 928
1st Floor Industry Offices, National Wine Centre, Botanic Road, Adelaide SA 5000
Tel: 61 8 8222 9277 Fax: 61 8 8222 9276 Email: admin@winesa.asn.au Web: www.winesa.asn.au

SUBMISSION

Background: Energy 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 is '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 about 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.

Energy can be a significant proportion of the costs of production for businesses in the wine sector. A number of facilities in the wine sector use gas, and for most of these businesses the main use of gas will be for heating water for steam or for heat exchange processes.

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

Position on Australian Gas Networks (SA) Access arrangement 2016-21

SAWIA is pleased to be able to comment on Australian Gas Networks (SA) Access arrangement 2016-21 proposal (the 'Proposal').

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 Proposal put forward by Australian Gas Networks (SA) (AGN) fails to meet this expectation in many ways, and if not corrected, could result in the wine sector being saddled with unjustified and unfair burden of costs for gas.

Our key concerns in several specific areas are discussed below.

Increased capital expenditure

We are concerned that AGN is seeking to concurrently increase both capital expenditure and operating expenditure in the Proposal. In our experience, and that of our members, this is not 'normal' business operation, where capital expenditure is justified and made generally with a view to decreasing operating costs. Furthermore, the expenditure is some 3 to 4 times the value of annual depreciation, whereas 'normal' business practice for established businesses would be closer to equivalence.

Return on investment

The proposed return on investment is far above what most business expect to achieve in the current financial environment. The current low interest rates that are being experienced in the economy would reasonably be expected to result in a decreasing cost of debt, yet the Proposal seeks to build in increases.

South Australian Wine Industry Association Incorporated
ABN 43 807 200 928
1st Floor Industry Offices, National Wine Centre, Botanic Road, Adelaide SA 5000
Tel: 61 8 8222 9277 Fax: 61 8 8222 9276 Email: admin@winesa.asn.au Web: www.winesa.asn.au

Regulated asset base

We are concerned that the proposal to increase the Regulated Asset Base (RAB) from $1.43 billion to $2.12 billion over 2016 to 2021 (48% increase) is unnecessary during this period, especially at a time of falling demand and, if accepted, will lock-in future price rises.
The AER should question whether a risk assessment has been undertaken by AGN to verify the need and timing of the replacement works, as it may be that not all of it is required in this time frame. Given that AGN's proposal includes forecasts that total consumption will fall by about 2% per annum over the period, and with reliability remaining steady, it is difficult to see why such an increase can be justified. Our concern is that such an unnecessary increase will result in an immediate pass through of increasing costs to users that will be compounded in the future.

End of submission

South Australian Wine Industry Association Incorporated
ABN 43 807 200 928
1st Floor Industry Offices, National Wine Centre, Botanic Road, Adelaide SA 5000
Tel: 61 8 8222 9277 Fax: 61 8 8222 9276 Email: admin@winesa.asn.au Web: www.winesa.asn.au