AUSTRALIAN ENERGY REGULATOR

Submission in response to SA Power Networks' Revised Regulatory Proposal 2015-20

SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED

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Submissions by 24 July 2015 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 concerned that the *SA Power Networks Revised Regulatory Proposal 2015-2020* (Revised Proposal), if accepted in its current form, will increase electricity prices unreasonably and have a detrimental impact on grape and wine businesses.

SAWIA previously stated its broad support of the Australian Energy Regulator's (AER) preliminary decision, but remains steadfast in the view that the AER should toughen its position in preparing a final decision in the long term interests of electricity users.

In the revised proposal, SA Power Networks appears to have generally sought a middle bargaining position rather than address the fundamental issues raised by the AER's preliminary decision. We are particularly concerned that SA Power Networks appears to have sought to increase the allowable Asset base and depreciation beyond its original proposal.

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 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.

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 SA Power Networks' Revised Regulatory Proposal 2015-20
SAWIA is pleased to be able to comment on SA Power Networks' Revised Regulatory Proposal 2015-2020 (the 'Revised Proposal').

We understand that a key role of the Australian Energy Regulator (AER) is to ensure that energy monopolies are regulated so as to perform in a similar way as a competitive entity. In our view, the Revised Proposal put forward by SA Power Networks (SAPN) fails to meet this expectation in many ways, and we urge the AER to rectify this in its final decision in order to adequately protect the long term interests of electricity users.

The Revised Proposal appears to generally seek a middle-ground bargaining position rather than address the fundamental issues raised by the AER's preliminary decision. We are particularly concerned that SA Power Networks appears to have sought to increase its allowable *Asset base and depreciation* beyond that put in its original proposal, based on what it is claimed to be a more "accurate method to determining remaining asset lives". Whilst we may not be experts in these methods, we understand that the impact of such an increase will be higher prices for electricity in the future.

We reiterate our positions on the key issues that were outlined in our submissions to SA Power Networks' original Regulatory Proposal and the AER's Preliminary Decision that are summarised below:

Increased capital and operating expenditure
- should not increase concurrently as this is not 'normal' business practice,
- the step increases are not justified and instead decreases should be considered consistent with a revision of the base year for calculation.

Efficiency in operating expenditure
- SAPN should build further efficiency through rationalisation of operating expenditure.

Productivity gains
- SAPN should be made to seek efficiency improvements for its discretionary spending.

We encourage the AER to take account of these positions in making its final decision.

End of submission

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