AUSTRALIAN ENERGY REGULATOR

Submission in response to the Issue Paper on SA Power Networks' Regulatory Proposal for 2020-25

SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED

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DATE:	**15 May 2019**

Submissions by 16 May 2019 to:
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SUMMARY OF SUBMISSION

The South Australian Wine Industry Association (SAWIA) is pleased to provide comment in response to the Australian Energy Regulator's Issues Paper on the *SA Power Networks 2020-2025 Regulatory Proposal*.

SAWIA notes that the proposed revenue path delivers an average annual reduction of $111 for small to medium businesses from July 2020. However, further possible reductions should be given additional consideration, in particular:

- Capital expenditure should be reviewed for opportunities to decrease further, especially that relating to ICT investment.
- There may be potential to reduce operating expenditure, in particular through restraint in labour cost increases as well as through productivity growth.

SAWIA is broadly supportive of the proposed tariff structure and is keen to see the results of the tariff trials that are currently underway.

SAWIA's experience of engagement with SA Power Networks has improved significantly over the past five years and is now a representative of their Business Reference Group, and was pleased to have been involved in the extensive engagement process that was undertaken in developing the Draft Plan.

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, advice and support to South Australian grape and wine industry businesses assisting them to prosper within a dynamic, diverse industry.

SAWIA membership represents approximately 96% of the grapes crushed in South Australia and about 40% 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 South Australian (SA) wine sector is the heart of the Australian wine industry with around about half of Australia's vineyard area and total grape harvest. Many of the major Australian wine companies' head offices are located in SA, and SA wineries export about 60% of Australia's total exports worth about $1.76 billion in 2018. Wine is now South Australia's largest single export sector.

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 is 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 early 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, some 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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Response to the Issues Paper on SA Power Networks 2020-25 Regulatory Proposal

The South Australian Wine Industry Association (SAWIA) is pleased to provide comment in response to the Australian Energy Regulator's Issues Paper on the *SA Power Networks 2020-2025 Regulatory Proposal (the Proposal)*.

On a positive note, SAWIA's experience of engagement with SA Power Networks has improved significantly over the past five years and SAWIA is now a member of the Business Reference Group. The engagement process to develop the Regulatory Proposal has been extensive and SAWIA has invested considerable time resources to the various consultations.

The proposed revenue path to deliver an average annual reduction of $111 from July 2020 for small to medium businesses is a positive step. However, we would like to see increased focus in identifying and considering further opportunities for price reductions given the underlying issues that are discussed below.

Capital expenditure

Whilst the Proposal has reduced capital expenditure relative to the Draft Plan, it is an increase relative to the forecast actual for the previous period (2015-20). Given that overall demand is forecast to decline, we consider that there may be opportunity to reduce the proposed increases in non-capacity related capital expenditure and encourage the AER to seek clarity on costs-benefits as well as justification for them.

We also note that the proposed Information technology costs remain a significant proportion of capital expenditure (~17%). In normal competitive markets, businesses investing in such initiatives would do so on the basis of financial risk and return through reduced operating costs, which is not the case in this proposal (see *Operating expenditure* below).

Operating expenditure

We are concerned with the proposed increases in operating expenditure. As a regulated monopoly, SA Power Networks should strive to perform as if it were in a normal competitive market where continuous productivity growth is fundamental business practice. We believe that SA Power Networks should strive to achieve further productivity gains that are benchmarked against industry in general.

We believe that, in the current economic climate, SAPN should strive for cost restraint in labour costs just like all other businesses. We are concerned that the proposed escalation in labour costs in the Proposal may not be in the long-term interests of customers.

We also suggest that the increase in costs for vegetation management requires further justification, with due consideration of medium- to long-term rainfall forecasts which we understand is expected to continue below the long-term average over the 2020-25 regulatory period.

Demand management incentives

SAWIA is generally supportive of demand management as a means to smooth loads and thereby reduce the need for distribution network investment to increase peak capacity. SAWIA is currently involved in developing guidelines for wineries on how to better manage their demand. However, we would like to point out that for many small-medium sized wineries, cost-effective access to their real-time load data even if they have a smart meter remains a barrier, leaving many of them practically unable to actively respond to rapidly moving price signals. We encourage the AER to consider the practicality for businesses to uptake any initiatives proposed to foster demand management.

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Tariff structure statement

We have welcomed the availability of the Monthly Actual Demand tariff for large business (>160MWh/yr) during the current period, as this has provided an option for some businesses in the wine sector to reduce their costs.

The proposed tariff structure for business that incorporates demand-based and time-of-use tariffs appears to offer further opportunities for wine businesses to better manage their demand to reduce costs. However, the ability of some wine businesses to utilise such tariffs efficiently may be hampered by constraints in obtaining real-time data as described above (see *Demand management incentives*). It is important that retailers pass-on such price signals in a transparent way, which may or may not occur, and this risk should be considered by AER in evaluating the merits of the proposed tariff structure.

We would like to see some modelling on the impact of the proposed tariff changes on businesses in our sector, and note that SAPN has trials underway in the Riverland that should provide information on the feasibility of using customised tariffs in future; we look forward to seeing the results and interpretations for businesses in our sector more generally.

End of submission

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