AUSTRALIAN ENERGY REGULATOR

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

SOUTH AUSTRALIAN WINE INDUSTRY
ASSOCIATION INCORPORATED

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Submissions by 30 January 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 concerned that the *SA Power Networks Regulatory Proposal 2015-2020*, if accepted in its current form, will increase electricity prices unreasonably and have a detrimental impact on grape and wine businesses.

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 static or falling electricity demand, and a concurrent increase in operating expenditure is in stark contrast to normal business practices
- the proposed increases in wages costs are excessive when compared with current practice in business or government
- the proposed tariff structures inherently disadvantage the grape and wine industry relative to other users because of the seasonal nature of the industry.

SAWIA's experience of engagement with SA Power Networks has been unsatisfactory and considers that any elements of the proposal purportedly based on outputs of the engagement process may not be truly reflective of the stakeholders' views.

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 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.

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' Regulatory Proposal 2015-20
SAWIA is pleased to be able to comment on SA Power Networks' Regulatory Proposal 2015-2020 (the 'Proposal'). SAWIA has developed this submission with assistance from Business SA, of which it is a member, and has also provided some input to the development of their submission.

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 SA Power Networks (SAPN) fails to meet this expectation in many ways, and if not corrected, could result in our sector being saddled with unjustified and unfair burden of costs for electricity.

Our key concerns in several specific areas are discussed below.

Increased capital expenditure
We are concerned that SA Power Networks (SAPN) 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.

We are concerned that the proposal to increase capital expenditure from $1.6 billion to $2.5 billion is merely a means of increasing the value of the Regulated Asset Base (RAB) in order to justify unnecessary revenue increases. In other words, 'gold plating' of the network as has been seen in other States. Further, given that demand has been largely static or falling in recent years, and with reliability remaining steady, it is difficult to see why an increase in capital expenditure is needed or could 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.

Cost of debt
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. This may be due to SAPN having used the 10-year trailing average method, as past higher interest rates will tend to bias the projection upwards, and the AER may wish to investigate the appropriateness of this approach further. This method might also tend to reduce risk to the business, so it is surprising to us that SAPN is also proposing that their risk rating (the 'Beta' ratio) be increased to allow them to increase their allowable return. The AER may wish to further examine this apparent contradiction.

Safety
We agree that improved bushfire and road traffic safety are both important and laudable outcomes of expenditure, however, we do not consider that SAPN should decide the priority areas of expenditure. We consider that such prioritisation is the responsibility of State and Local governments, as was the view expressed by the Royal Commission into the bushfires in Victoria.

Productivity gains
The wage increases set out in the Proposal (4.25% already approved until 2017 and then 4.37% thereafter) are extremely generous in comparison to those experienced in the wine sector or any other connected industry sector, and in the general business environment, which are typically less than 3%. This is totally unacceptable in the current economic circumstances.

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There appears to be no productivity gains built in to the Proposal, which also stands in stark contrast to normal current practice in business and government workplaces in Australia.

Consultation and engagement

SAWIA's experience with SAPN's approach to stakeholder engagement has not been good. We were not aware of nor a participant at any of the public engagement meetings, and the 'willingness to pay' surveys. At our invitation, we had a representative of SAPN meet with the SAWIA Environment Committee, however the follow up response from that time on has been almost negligible despite repeated and regular requests on our part for further information. If our experience is any indication of the broader engagement with stakeholders, then it cannot be considered as anything but inadequate and totally unacceptable.

Tariff structure, demand management and smart metering

We are not opposed to a tariff system that is reflective of costs. However, we are not convinced that the tariff structure proposed by SAPN is in fact representative of true costs, because we believe that there is a lack of transparency and comprehensibility that might logically explain the connection between the costs and the tariff rates. It is possible that this might be addressed simply by better communication on the part of SAPN, but we are concerned that the complexity is partly a means of obfuscation.

Businesses need to be able to understand the tariff structure in order to estimate the impact on their business costs. We understand that this is a very complex area, but the tariff structures seem almost impossible for the average business in the grape and wine sector to easily interpret without resorting to external experts. Many of our members are finding this presents as an excessive administrative burden when trying to negotiate supply or better manage their demand. It would appear that more transparency in tariff structures is required to assist businesses to understand the impacts.

Smart meters may well offer improved access to energy use data, but data in isolation will not in itself immediately lead to users being able to better manage their demand for electricity. Many users will simply be overwhelmed by the volume of data and not have the skills to be able to turn that information into knowledge. As a result, many will be unable to effectively manage their demand to make the best use of the electricity resources at an affordable price. In practice, we are not aware of any wineries that are able to understand the tariff structures and comprehensively interpret their usage data in order to adjust their electricity usage patterns and expenditure. Users in the grape and wine sector, especially the SMEs, need to have access to appropriate tools and skills to enable them to convert data into knowledge to help them better manage their energy use. The SAPN proposal does not appear to attempt to address this issue.

End of submission

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