Submission to the Australian Energy Regulator in response to the *Issues Paper: SA Power Networks Electricity Distribution Determination 2025-30*

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ABOUT THE SOUTH AUSTRALIAN WINE INDUSTRY ASSOCIATION

The South Australian Wine Industry Association (SAWIA) is an industry 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. Our mission is to provide leadership, advice and support to South Australian grape and wine businesses, assisting them to prosper within a dynamic, diverse industry.

SAWIA membership represents approximately 96% of the winegrapes harvested in South Australia and about 40% of the vineyard area. 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, and proactively represents members and the greater wine industry to government and related agencies on a wide variety of matters.

ABOUT THE SOUTH AUSTRALIAN WINE INDUSTRY

The South Australian wine industry is worth about $2.45 billion to the state's economy[1]. South Australia has 18 distinct wine regions with at least three having international recognition. South Australia is a premium wine state responsible for producing about 60% of Australia's wine production[2] (current total around 964 million litres of wine), and 80% of Australia's premium wine.

South Australia has approximately 75,500 hectares under wine grapes[3], representing about 52% of Australia's vineyards, and comprise of 77% red and 23% white wine grape varieties. The total wine grape crush in 2023 in South Australia was 661,984 tonnes, accounting for 55% of Australia's crush. For South Australia, this was 14% below the 10-year average.

In the twelve months to the end of December 2023, South Australia exported 366 million litres for a value of $1.34 billion (about 70% of Australia's total value). South Australia's major export markets by value are currently Hong Kong, Singapore, UK, USA, Malaysia, Thailand, New Zealand and Canada. Of international exports with a label claim from the regions of South Australia, about 75% are in bottled format, comprising over 95% of the value. Wine is currently South Australia's fourth largest single export sector. South Australian wine businesses export to about 100 countries.

In South Australia there are approximately 1,250 licensed[4] wine producers (including about 600 processing facilities, 340 cellar doors[5]) and 3,246 registered vineyard owners[6], who together directly employ around 8,990 persons[7] and indirectly support another 81,900 jobs[8].

Wine regions are a significant contributor to South Australia's tourism economy, which is currently worth around $814 million annually[9], with at least 39% of international visitors to South Australia spending time in wine regions.

[1] Primary Industries Scorecard 2022-23.
[2] Wine Australia, Production, Sales and Inventory Report 2022-23
[3] SA Winegrape Crush Survey 2023, Wine Australia
[4] Consumer and Business Services SA
[5] The Australian and New Zealand Wine Industry Directory
[6] SA Winegrape Crush Survey 2023, Wine Australia
[7] Census 2021, Australian Bureau of Statistics
[8] Derived from Economic Contribution of the Australian Wine Sector 2019, AgEconPlus. Wine Australia website
[9] South Australian Tourist Council (SATC) for the year ending March 2023

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: SA Power Networks Electricity Distribution Determination 2025-30.* SAWIA notes that the proposed revenue path delivers an average annual increase of $24 for small to medium businesses from July 2025, which is a concern for many wine businesses in the current operating environment.

SAWIA would like to see increased focus by the Australian Energy Regulator (AER) in identifying and considering opportunities for reductions in the revenue allowance for SA Power Networks, in particular:

- Further review of the validity of the forecast demand growth as a key driver for the proposed revenue.
- Review of the Capital and Operating expenditures.
- Further review of operating expenditure on Service Offerings for efficiency gains.

SAWIA's experience of engagement with SA Power Networks in developing this proposal has been generally positive.

SUBMISSION

<u>Background: Electricity usage in the wine sector in South Australia</u>

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 $1.34 billion in 2023. Wine is South Australia's fourth 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 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 could 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 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 reliability of supply remains a key concern, in-particular, short term 'brown-outs' that can cause damage to equipment.

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

<u>Responses to the Issues Paper: SA Power Networks Electricity Distribution Determination 2025-30</u>

The South Australian Wine Industry Association (SAWIA) is pleased to provide comment in response to the Australian Energy Regulator's (AER) *Issues Paper: SA Power Networks 2025-30 Electricity Distribution Determination (*Issues Paper*)*.

General comments

On a positive note, SAWIA's experience of engagement with SA Power Networks (SAPN) in the development of their 2025-30 Regulatory Proposal (the Proposal) has been generally positive and SAWIA is a member of its Tariff Working Group. The engagement process to develop the Proposal was extensive and SAWIA has invested considerable time and resources to the various consultations.

The proposed increased revenue will deliver an average annual increase in cost of $24 (or 0.4%) from July 2025 for small to medium businesses, which is a concern for many wine businesses in the current operating environment. The most recent 'Small Business Retail Tariff Tracker'[10] report by Energy Consumers Australia (ECA) showed that, in the six-month period to December 2023, South Australian small businesses experienced an increase in annual electricity bills of 24% and continue to have the highest electricity bills in the country (average of $10,427).

We note that the proposed revenue increase is primarily driven by increases in capex, opex and the cost of capital and that the uplift is based on several assumptions including increased demand "due to electrification". Whilst recognising that the forecast growth in demand is based on AEMO projections, SAWIA notes that similar growth forecasts put by SAPN in past Regulatory Determination proposals have not materialised. In fact, SAPN's own data presented at the Public Forum in April 2024 showed a slight downward trend in demand over 2014 and 2022. It is well known that electrification will deliver greater energy efficiency, which could counter any potential growth in demand, and therefore "electrification" as a justification requires more detailed investigation before accepting it.

Therefore, we would like to see greater focus by the AER in identifying opportunities for reductions in the allowed revenue for SAPN that might help decrease the price of network charges.

Responses to questions

Below we provide responses to some of the questions (numbered and bold) in the Issues Paper.

Early signal pathway (ESP)

1) **What are your views on the scope of our in-depth targeted review for SA Power Networks'? Are there any other aspects of the proposal that require an in-depth review?**

   As stated earlier, SAWIA believes that the basis for and magnitude of increased demand should be further challenged.

2) **Are stakeholders comfortable with the AER undertaking a high-level review of SA Power Networks' proposed depreciation and tariff schedule?**

[10] https://energyconsumersaustralia.com.au/wp-content/uploads/ECA-SME-Tariff-Tracker-Report-Dec-2023.pdf

Yes, SAWIA is broadly supportive of this approach.

3) **Do you consider that we should accept parts of SA Power Networks' proposal at the draft determination stage? If so, what areas?**

SAWIA notes that the AER's role is to evaluate proposals to ensure that they are prudent and efficient and SAWIA expects the AER to reject any proposals or parts that do not meet those criteria. Further, AER should take account of all stakeholders' views in their evaluation, and therefore it may not be appropriate to accept parts until that has been received.

Key drivers of proposed revenue

4) **What are your views regarding the merits of SA Power Networks' price stability narrative and do you think there is an opportunity to decrease prices.**

As stated earlier, SAWIA is concerned about the basis and validity of the forecast demand growth as it is a key driver for the proposed revenue increase. Investigating this in more detail may indicate opportunities to decrease the revenue allowance.

Consumer engagement

5) **Do you think SA Power Networks' consumer engagement meets the expectations set out in the Handbook in delivering a consumer-centric proposal? Please give examples.**

As stated earlier, SAWIA's experience of engagement with SAPN in their development of the Proposal has been generally positive. We are not familiar with the detailed requirements of the Handbook, but have concerns that some aspects of 'Service' and 'Affordability' may have been framed in a way that appeared to portray them as a trade-off, whereas we believe that they are not necessarily mutually exclusive concepts in this context.

6) **Do you think SA Power Networks' proposal adequately captures the cost of living concerns raised by stakeholders?**

As stated earlier, SAWIA's members have expressed to us their concern about the extent and rate of increase of electricity prices. SAWIA does not consider that an increase in total revenue of 7.5% as proposed by SAPN (p. 6) adequately addresses current cost-of-living concerns.

Depreciation

7) **Do you have views on whether SA Power Networks' proposed regulatory depreciation approach is capable of acceptance at the draft determination stage.**

As stated earlier, we are concerned about the increase in capital expenditure, which increases the magnitude of the Regulated Asset Base, in turn impacting depreciation and subsequently price rises in the long term. We therefore expect AER to further investigate the approach to depreciation.

Forecast capital expenditure (Capex)

8) **Does the proposed scope of the capex review for SA Power Networks seem appropriate?**

   SAWIA supports the scope of the capex review proposed by AER.

9) **Are there areas not covered above that stakeholders consider we should look at? Why?**

   SAWIA suggests that AER may wish to undertake detailed analysis to identify the causes of apparent degradation in reliability and performance in the Adelaide CBD and why this is different to other parts of the network. This might then help identify areas of true need for increased or decreased investment.

10) **Do you agree with SA Power Networks' approach of investing to provide export service levels based on customer preferences?**

    SAWIA agrees with the AER in that SAPN's proposed Customer Energy Resources expenditure requires further consideration.

Forecast operating expenditure (Opex)

11) **What do you think about the proposed scope of targeted review?**

    SAWIA supports the scope of the opex review proposed by AER.

12) **What do you think about SA Power Networks' key changes from the Draft Proposal as set out in Section 4.4.2?**

    The AER has identified several changes from the SAPN Draft Proposal and SAWIA broadly supports AER's approach in assessing them.

13) **Do you consider that SA Power Networks has adequately incorporated consumer feedback on the Draft Proposal into its Regulatory Proposal?**

    As stated earlier, SAWIA's experience of engagement with SAPN in their development of the Proposal has been generally positive.

14) **Do you consider SA Power Networks' opex forecast for the 2025–30 regulatory control period reasonably reflect the efficient costs of a prudent operator? Specifically, do you consider SAPN's proposed step changes, and base adjustment are required to produce an opex forecast that reasonably reflects the efficient costs of a prudent operator?**

    SAWIA is concerned with the proposed increases in operating expenditure. As a regulated monopoly, SAPN should strive to perform as if it were in a normal competitive market where continuous productivity growth is fundamental business practice. We believe that SAPN 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 efficiencies just like all other businesses. We are concerned that the proposed escalation of opex in the Proposal may not be in the long-term interests of customers.

Incentive schemes

15) Do stakeholders have feedback on the design of SA Power Networks' proposed CSIS?

SAWIA may be able to provide further feedback following the detailed assessment of the Proposal by the AER.

16) Do you have any views on the proposed application of any of the above incentive schemes?

SAWIA may be able to provide further feedback following the detailed assessment of the Proposal by the AER.

Tariffs

17) Do you consider there are any aspects of SA Power Networks' proposed TSS that requires adjustment before our acceptance?

As stated earlier, SAWIA is a member of the Tariff Working Group and has been involved in SAPN's engagement process to develop the Regulatory Proposal, therefore we were well appraised of the tariff proposals. Following further feedback from our members, we have concerns about the time-of-use tariffs becoming the default for residential and small business customers that export to the grid. We are aware that many wine businesses (small and large) encounter difficulty in changing their consumption patterns in response to the tariff price signals due to barriers including lack of cost-effective access to their real-time load data, their typically 'peaky' loads, limited capacity to respond, and the high capital cost of suitable equipment for effectively monitoring and controlling their loads. Therefore, SAWIA suggests that time-of-use tariffs should remain 'opt-in' for residential and small business customers until these barriers can be overcome.

Service offerings

19) Do you consider that sufficient justification has been provided in the provision of new services?

As stated earlier, we are concerned with the proposed increases in operating expenditure. As a regulated monopoly, SAPN should strive to perform as if it were in a normal competitive market where continuous productivity growth is fundamental business practice. We believe that new services should only be implemented where they deliver productivity gains

20) Do you consider the proposed labour rates and fee-based prices to be reasonable?

We believe that, in the current economic climate, SAPN should strive for cost restraint in labour costs just like all other businesses and should be benchmarked against broader industry.

End of submission