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Mr Chris Pattas
General Manager
Network Regulation South
Australian Energy Regulator
GPO Box 520
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By email: aerinqury@aer.gov.au

Dear Mr Pattas

*Ai Group preliminary response to AER review of
electricity network service proposals Victoria*

The Australian Industry Group welcomes the opportunity to provide feedback to the Australian Energy Regulator about the Victorian electricity distribution network service providers' regulatory proposals. Ai Group member businesses employ around 750,000 staff in an expanding range of industry sectors including: manufacturing; engineering; construction; automotive; food; transport; information technology; telecommunications; call centres; labour hire; printing; defence; mining equipment and supplies; airlines; and other related service industries. Ai Group has some 3,500 member companies in Victoria. Many companies operate multiple sites, which may be located in various distribution service areas across metropolitan Melbourne and regional Victoria.

The reliable supply of electricity at competitive prices is essential to the productivity and sustainability of the manufacturing sector. The current review of electricity service proposals is occurring at a time when both distribution businesses and their customers in industry are facing significant challenges including protracted drought, extreme weather events, volatile financial conditions and ongoing uncertainty regarding Australia's climate change policy framework..

These factors serve to highlight the importance of effective and extensive consultation with all stakeholders in the context of the current review. It is of concern, therefore, that the 11 February 2010 deadline for submissions commenting on the distributors' proposals falls prior to the AER's Customer Consultative Forum's first discussion of the proposals and related impacts on stakeholders.

Of further concern to Ai Group is that detail of distributors' tariff proposals are unlikely to be available prior to October/November 2010 with the result that it is likely that there will be inadequate time for consultation prior to implementation.

The adequacy of modelling for energy use outlook

In their respective revenue proposals to the AER as the foundation to their projected capital expenditure and operational programs the distributors have provided an agreed outlook for energy usage to 2013 of a significant reduction in average energy use per person over that period. The model predicts growth in peak energy usage but reductions in non-peak periods on the basis of significant efficiency improvements with a resultant reduction in average energy use per person during that period.

Given continued growth in both population and in uptake of energy-using equipment and appliances in our community it is important that the results of the modelling be carefully analysed. For example, what are the consequences for the energy supply system, system reliability, quality of supply and pricing, if the rate of implementation of efficiency gains is slower than predicted by models provided to the AER by distributors? The impact on network capacity of emerging technologies should also be factored into such considerations. For example the prospect of electric powered vehicles gaining rapid consumer acceptance could impact on electricity demand as well as the network capacity to respond to such loads.

Industry further seeks clarification of what interventions would be enacted by the distributors in circumstances where energy use exceeds targets.

Comparison, identification of impacts and implementation of changes to accommodate new network tariffs.

It is anticipated that the distributors' new network tariffs may be even more complex than existing arrangements. For example, introduction of time-of-use, seasonal and kVA demand thresholds may be under consideration.

It is essential that there be clear definition of targets and customer impacts for all of the respective tariffs.

For example, in instances where a new tariff proposal is designed to be revenue-neutral (and aims to shift demand to non-peak periods by extending the time availability of off-peak rates and boosting the cost of peak power prices), it is important to identify the price impacts across customer categories, particularly those where demand is relatively inelastic.

Further, industry must be provided with sufficient advance notice of new tariff arrangements to enable assessment of budgetary impacts and allow for adjustment to production processes, schedules, equipment and work practices to be undertaken. There may exist operational barriers to changing shift times to limit exposure to seasonal tariffs (and penalties that apply).

Companies may have to change employment agreements and industrial relations conditions for variations to shift times. There may also be occupational health and safety implications to consider as well.

Companies involved in seasonal production will be particularly impacted by introduction of seasonal and time of use tariffs given their generally limited flexibility to adjust processes to accommodate tariff opportunities, eg food processors in regional areas during summer harvest and processing operations. The pre-Christmas period is often a peak period for manufacturing for many industry sectors.

New kVA-based tariffs could require the installation of substantial capacitor equipment in order to comply with the stipulated Power Factor Correction index. The impacts on industry in terms of cost and time and are also important considerations.

Responsibility for liaison with customers regarding new tariffs?

With the anticipated emergence of new tariff arrangements in late-2010 it is critical that information on new tariffs across all customer groups is conveyed in a manner that can be readily interpreted and compared against existing tariffs. It is also important that conditions of eligibility, and any new equipment or metering requirements are clearly conveyed to the market.

For multiple site operations, it is important that tariffs have consistency in features and thresholds where possible, in order to make comparisons and ensure accuracy.

Responsibility for liaison with customers regarding new distribution tariffs and the respective changes in price and service structures must be clearly identified. An effective mechanism for consultation with customers and for provision of feedback to the distributor and AER must be in place from commencement.

Who will manage the changes and potential impacts on customers?

According to market design in our National Electricity Market, electricity retailers are responsible for liaison with customers. The distributor provides the local network service for delivery of the electricity on a monopoly basis and the distributor should not have contact with customers.

Member companies have provided feedback about complexity and confusion regarding the introduction of a 'summer demand incentive charge' in the previous regulatory period. Some companies first became aware of the tariff change/new tariff when their subsequent electricity bill arrived and enquired to Ai Group about the considerable price increase they'd incurred (around 20%-25%) and the reason behind this. In addition the tariff is complex and confusing for some customers. It has season (summer) and time features but extends from 1 November to end-March, and there is confusion about whether Eastern Standard or Daylight Saving times apply.

Short duration interruption to supply

Sites with computer controlled equipment and processes are vulnerable to momentary supply interruptions. Ai Group has received anecdotal information from member companies about frequent 'short-duration' interruption to electricity supply. Operations with the interruptions to supply face costly loss of production time, the high cost of disposal of off-specification products and wastes along with cleaning and re-start of production equipment. Companies in sectors such as high temperature plastic extrusion, packaging of food products and printing are vulnerable.

We recognise the addition of a distributors' performance index for momentary interruptions (ie Momentary Average Interruption Frequency Index MAIFI) but we point out that the index covers interruptions by an average customer. We believe the performance index should also consider localised areas of the distribution network in order to diagnose and rectify problem areas within the network.

Ai Group looks forward to continued opportunities to liaise with distributors, AER and industry to assist in forthcoming consultations.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Timothy Piper', written over a horizontal line.

Timothy Piper
Director - Victoria