BENDIGO MANUFACTURING GROUP

13th July 2015

Mr Chris Pattas
General Manager
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Forwarded by Email: VICElectricity2016@aer.gov.au

Dear Mr Pattas,

The Bendigo Manufacturing Group (BMG) comprises representatives from a cross section of Bendigo-based manufacturing sectors who provide advice to the City of Greater Bendigo on issues and inhibitors that impact on manufacturing as well as opportunities to develop and grow the sector.

Bendigo-based manufacturing faces the same 'business pressures' as the sector more generally as it strives to compete in global markets. The supply and future pricing of energy is a critical concern to most manufacturers to sustain and grow their operations.

It is our understanding that it is the Australian Energy Regulator's (AER) role to ensure a 'competitive environment' is replicated for the monopoly distribution sector through the National Electricity Rules by applying incentives, penalties and other directions.

One future requirement that the AER must ensure doesn't happen again is the variation in year to year tariffs as was the case between 2014 and 2015 where HV customers in Powercor's Distribution Region experienced network cost increases in the order of 15% to 18% overnight. The manufacturing sector has limited capacity to pass through such input price increases.

Whilst manufacturers have and continue to strive for improved productivity year by year to be competitive in global markets, it is extremely disappointing to see Powercor's forecast productivity change for the next period is nil. This lack of projected productivity improvement is unacceptable in today's economic climate. Distributors using an excuse that additional compliance requirements has resulted in stalling / stopping productivity growth seems to be too narrow an explanation / excuse. Improving systems and the application of smart technology (largely based around improved data and automation within the system) surely would improve productivity within the system. Distributors need to revisit the productivity question with AER requiring tangible productivity improvements. In global markets, businesses that don't achieve productivity improvements wouldn't be sustainable.

The BMG would also like to make the following comments:

Capital expenditure – Powercor's forecast capital expenditure on CAPEX which includes replacement expenditure (REPEX) is proposing a $279 million increase in the next 5 years compared to 2011– 2015 period for REPEX. The whole question of having a common factor to determine the period deemed to be the 'working life of the distribution network infrastructure components' comes to the fore with such a large projected increase. In order to make sense of Powercor's proposal (and other Distributors proposals), an in-depth assessment report of this component including possibly setting a benchmark for the effective life of key infrastructure components before replacement needs to be established.

Real time communication with customers – today's technology suggests that this approach is achievable. From our recollection, Powercor have an application that can be down loaded to advise of system impacts. How widely known the availability of such an application is to businesses is not known. Clearly there was poor communication between Powercor and HV customers prior to the 2015 calendar year about significant changes to distribution tariffs that were introduced in January 2015. Effective communication is a critical element for any business, especially where that business is a monopoly.

Revenue – it is interesting to note that the expected impact on distribution charges for Year 1 of the 2016 – 2020 period within Powercor's region is projected to decrease between 4.5% (typical large business) and 8.2% (typical residential). Specifically related to large businesses, it should be noted that reported increases in network costs in January 2015 were in the order of 15% to 18%. This spike created unforeseen production cost increases which couldn't be passed on. So in transitioning from 2015 to 2016, to claim projected decreased distribution costs as a 'selling point' doesn't sit that comfortably given the size of the increase experienced at the start of 2015. Clearly for the 2016 to 2020 period, the AER must monitor and report impacts of annual tariff changes on typical groups of customers to address the inconsistency in charges from one year to the next with a goal to reduce such impacts in what is a protected market.

Consistency in fundamentals for determining specific calculations - similar to the issue of different interpretations in the 'working life of infrastructure components' by various distributors, AER needs to consider applying 'standard practice across the NEM for calculating such elements as maximum demand. Clearly the majority of distributors base their calculations on half hourly intervals, yet Powercor appears to stand alone and calculate maximum demand on 15 minute intervals for demand tariff customers. Distributors need to be brought into line with what is accepted as best practice within the industry.

KVa based tariffs for High Voltage energy users – it was pleasing to be advised at the AER Information Session held on 22nd June 2015 by Powercor's CEO that Powercor is introducing a KVa-based tariff mid 2016 for HV customers (Information provided during the Q and A part of the session.) A KVa based tariff provides a return on investment for businesses that improve their energy infrastructure such as installing power factor correction technology.

Should you require further information on the above, in the first instance please direct your enquiries to Jeff Bothe either via email j.bothe@bendigo.vic.gov.au or phone: 03 5434 6197 / 0419 162 003.

Yours faithfully,

GORDON HARDCASTLE
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