

11 February 2010

Michelle Groves  
CEO  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

Dear Ms Groves,

**Re: Response to proposed pricing structure of SPI Electricity Pty Ltd**

Mars Petcare is Australia's largest manufacturer of prepared pet foods in Australia, employing over 800 people across our head office and major manufacturing site in Wodonga, Victoria, our dry pet food plant at Bathurst NSW and our bird seed facility at Wacol in Queensland. Mars Petcare is part of the privately owned Mars Inc. which in Australia employs over 2500 people.

Our Wodonga site has one of the largest canning operations in Australia and energy is both a critical and substantial input cost to our operations.

We have read and considered the regulatory proposal (public version) of SPI Electricity Pty Ltd (SP Ausnet) submitted in response to the Electricity Distribution Price Review 2011-2015. In this proposal, SP Ausnet seek a "once off" network pricing increase of 46.25% from 2010 to 2011, followed by annual 5.5% increases for the duration of the review period.

The financial implications for this proposed pricing increase on Mars Petcare's Victorian manufacturing operations are as detailed below:

	2009	2010	2011	2012	2013	2014	2015
A\$000 total price network charge	660	706	1030	1087	1147	1210	1277

As is evident from the table above, the proposed network price increase of 46.25% in 2010/2011 translates into an increase of \$327,000 in our electricity charges, not taking into account any increase in retail pricing in the amount of electricity used. The impact of additional compounding of the proposed annualised 5.5% increase in network charges translates into our 2015 forecast network electricity charges being some 93.5% higher than our cost in 2009.

Mars Petcare Australia recognises the critical importance of electrical infrastructure and the need for on-going capital expenditure to maintain and enhance this infrastructure. Over recent years, Mars Petcare has experienced a considerable number of electricity power failures at our Wodonga site and, on a number of occasions, individual failures have resulted in direct costs of over \$250,000 as a result of the canning process being interrupted. These instances and costs have been communicated to SP Ausnet previously.

We note in the submission from SP Ausnet that the important changes affecting their operating environment are: customer expectations, climate change and the financial environment. These same major issues affect Mars Petcare and we are vigorously adapting our business in response to these important factors. We do not believe that price increases of the magnitude sought by SP Ausnet in the submission are appropriate nor equitable.

Mars Petcare also seeks clarification on the final pricing structure sought by SP Ausnet. On page 17 of the submission, the proposal introduces two new "Distribution Use of System tariffs", with one tariff applied to residential and small commercial customers and a second "Critical Peak Demand" price for large LV customers, HV customers and sub-transmission customers. In light of this proposed dual tariff pricing structure, we seek clarification if SP Ausnet's proposed "one-off" price increase of 46.25% proposed for 2011 is a mean price increase across all customers, with the likelihood that large customers would incur greater price increases than domestic customers.

In conclusion, Mars Petcare is committed to manufacturing in regional Victoria, using Australian raw materials and providing quality employment for over 500 people at our Wodonga operations and over 800 nationally. Efficient and dependable infrastructure is critical for the manufacture and efficient movement of our goods to our Australian and export markets. We rely on electricity for our manufacturing operations and we accept that the electrical infrastructure requires on-going investment to ensure supply continuity.

We do not accept that SP Ausnet need to raise the network charges by 46.25% in 2011 followed by 5.5% annual (compounding) increases over the duration of the price review period. The projected impact of this proposal on our Wodonga manufacturing site would result in network pricing in 2015 being 93.5% higher than 2009 levels. This is unacceptable given that the lack of reliability of SP Ausnet services has caused us considerable interruption and costs.

Yours faithfully,



Anthony Ainsworth  
Commercial Director