Riverland Wine

Submission Regarding SA Power Networks Revised Regulatory Proposal (2015-2020)

July, 2015

Executive Summary

Riverland Wine provides this submission on behalf of its irrigator and winery members. These businesses cover virtually all tariff classes.

Riverland Wine remains concerned that the Revised Proposal presented by SA Power Networks continues to be excessive in its budgets, is predicated on an unjustified capital expenditure program, is skewed in the Company's favour and makes little effort to ensure ongoing improvements in operating and investment efficiencies.

Additionally, the Company has made much of its "Thinking Power" consultation workshops, and uses these as a basis for justifying considerable Capital Expenditure. The workshops employed methodology which was disingenuous in the extreme, could only have one (very predictable) outcome and should be completely discounted.

Riverland Wine fully supports the work of the Australian Regulatory Regulator and commends them on the rationale behind the Preliminary Decision in regard to SA Power Network's Proposal for the period 2015-16 to 2019-20.

In conclusion, we submit and urge that the AER's Preliminary Determination should become final as it strikes a good balance between future charges, investment to ensure network integrity and efficiency and is in the best interests of industry and consumers in the state.

Background

Riverland Wine is the Peak Industry Body representing the entire wine and wine grape production industries in the Riverland of South Australia.

Riverland Wine represents 1,045 winegrape grower/irrigators as well as the Region's wineries that collectively produce approximately 30% of the national crush worth approximately $78 million annually. Clearly, the industry is a major stakeholder in the Australian Energy Regulator's determinations regarding the cost of electrical power. Electricity charges are a significant cost of production throughout the industry's supply chain. The most significant power requirements arise from irrigation pumping costs (either as individual businesses or via charges levied by the Irrigation Trusts[1]) or the considerable power requirements of the wineries (lighting, pumping and refrigeration). To put the winery costs into perspective, it takes approximately 1kWh of electricity to produce each litre of wine[2].

The Australian wine industry is currently experiencing possibly the most difficult marketing challenges in its history and the Riverland is no exception. The reality is that the vast majority of grapes are being sold at well below the cost of production and the wineries are experiencing similar difficulties. Neither is in a position to sustain the considerable increases in charges being pursued by SA Power Networks. As the single largest industry in the Riverland region and therefore the dominant economic driver for the Region, the fortunes of the Region are inextricably tied to the wine industry. Therefore the SER's determinations will have a very significant effect on the Region, well beyond the effect on the individual electricity charges.

It is from the wider industry and Regional perspective that Riverland Wine wishes to provide the comments contained within this submission.

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[1] Typically either Renmark Irrigation Trust or Central Irrigation Trust

[2] http://www.walis.wa.gov.au/isde7/concurrent-sessions-presentations/nrm-stream/working-with-the-wine-industry.pdf/download

Submission

Riverland Wine would like to present the following points for consideration in the AER's deliberations:

SA Power Networks is a Monopoly

SA Power Networks as the sole electricity distributor is a monopoly and the existing legislation (NEL and NER) is there to ensure that this situation is kept in check for the benefit of consumers and that the National Electricity Objective is achieved. This crucial responsibility must be "front and centre" of the AER's determinations.

The National Electricity Objective (NEO).

We note that the NEO is to "promote efficient investment in and efficient operation and use of electricity services for the long term interests of consumers of electricity with respect to price, quality, safety, reliability and security of supply of electricity; and the reliability, safety and security of the national electricity system"[3].

We fully support the objectives of the NEO and encourage the AER to adhere to these objectives and in doing so pay particular attention to the requirement regarding price, which appears to be the most significant thrust of SA Power Networks' Regulatory Proposals, particularly in view of the comments made in the point above regarding the monopoly in place.

Impacts of Energy Costs on Industry and Communities

As mentioned earlier in the Background, the wine industry in general and that in the Riverland in particular, is vulnerable to any significant increase in electricity costs. Significant electricity consumption is required to pump irrigation water for the production of grapes and for the lighting, pumping and refrigeration within the wineries. Excessive and unwarranted CapEx by SA Power Networks will have a very significant impact on an industry experiencing major economic challenges and ultimately have a profound negative effect on the Region's economy. It should also be noted that the state in general is under considerable economic challenges and it must be a priority to ensure a favourable environment for industries to thrive and prosper. This is not all about SA Power Networks' future.

We submit that it is not in either the Region's nor the state's best interests for SA Power Networks to engage in unnecessary and unjustified CapEx to the detriment of its customers.

[3] NEL, s7.

SA Power Networks Consultation Workshops.

In their Revised Regulatory Proposal, SA Power Networks go to considerable lengths to praise the merits of both the methodology and outcomes of their Customer Engagement Program (CEP) titled "Thinking Power". They also claimed that AER's own process and the quality of the submissions was inferior and "urge the AER to take a considered approach to the preferences expressed by SA Power Networks' customers and to give weight to all of those preferences"[4]. It is worth noting that the SA Power Networks' Proposals rely heavily on these workshops to determine and justify much of the future CapEx needs.

The workshop program somewhat ingenuously revolved around such topics as improved communications, services, reliability and safety and amenity value of any infrastructure; all things the attendees could be expected to support in principle (which they in fact did to an extremely high level).

However, it is clear from the presentation[5] given at these workshops that the attendees were NOT asked to consider the cost impact of the "wish list" constructed by these workshops, which were clearly designed to obtain a "shopping list" which SA Power Networks could insert into their Regulatory Proposal to justify extended CapEx.

We submit that SA Power Networks has not been completely open regarding the intent and outcomes of their Customer Engagement Program and nor were the workshops operated in a truly independent manner with balanced information being presented. The methodology was designed to obtain consumer support in a way which did not require them to consider the cost implications of their input. Such support is tainted and should be disregarded.

SA Power Networks Proposed Charges

Riverland Wine does not make any specific comments regarding the general methodology behind the Proposals, preferring to leave that to the expertise within the AER. However, we wish to draw the AER's attention to the following points which stand out as potentially problematic:

1. **Proposed charges:** While comparison of the Original Proposal's indicative annual charges (Table 16.1 in Revised Proposal) with the revised charges (Table 16.5) shows there has been a general overall lowering of the proposed charges, these are relatively modest as the following table shows using the 2019/20 figures as an example. Additionally, the changes

[4] Revised Regulatory Proposal, p14.

[5] http://talkingpower.com.au/wordpress/wp-content/uploads/Stage-2-Workshop-presentation.pdf

which have given the overall lowering of total charges have in fact *increased* the proposed charges for the small and medium businesses which are typical of much of the Riverland's grape growing industry, as well as boutique wineries.

Tariff Class	Original Proposal 2019/20	Revised Proposal 2019/20	Change
High voltage business	443,324	418,660	-5.6%
Low voltage business	78,593	71,484	-9%
Medium Business	10,719	11,382	+6.2%
Small business	1,344	1,418	+5.5%
Residential	694	696	+0.03%
Controlled load	105	110	+4.8%

It should also be noted that the Revised Proposal still assumes a 42% increase in charges across all classes between FY2015 and FY2019, a considerable impost well above CPI and difficult to justify in the current economic climate.

2. **Building Block Revenue:** The Revised Proposed SCS Building Block Revenue given in Table 16.3 remains overly generous. It seems somewhat "out of touch" for SA Power Networks to seek such generous returns for their business. The summary table below illustrated the quantum of their expectations:

Revenue Building Block	2015/16	2019/20	Change
Return on Capital	268.0	341.9	+28%
Regulatory depreciation	157.3	258.7	+64.5%
Operating expenditure	277.2	329.6	+19%
Net tax allowance	80.1	91.8	+14.6%
Annual revenue requirement (unsmoothed)	781.7	1,022.7	+31%

While taking into consideration the time frame of 5 years for these percentage increases to be achieved, they are well in excess of CPI, cannot be justified and are certainly not in either the consumer's nor the State's best interests.

It is submitted that the proposed charges and revenue building blocks, as outlined in points 1 and 2 above are demonstratively excessive and unjustified and that the AER's preliminary determinations regarding these budget parameters be adopted.

3. **Baseline year for Efficient Operating Expenditure:** It is submitted that the use of a base line year within the previous Regulatory Period (2011-15) is inappropriate, given that this period was one of rapidly accelerating operating costs, well above any previous Regulatory Periods. As a result, using any year in this period will provide a platform for calculating operating expenditure which is excessive and imbeds very low expectations of future efficiency gains.

It is submitted that the SA Power Networks' choice of 2013/14 as a baseline is inappropriate as it inevitably leads to the calculation and justification of excessive Operating Expenditure in their proposal.

4. **The conundrum presented by alternative power sources and increased consumption efficiencies:** The reality is that energy consumers and electricity consumers in particular are rapidly changing their energy consumption habits. The advent of alternative energy sources (especially PV) and significant improvements in power usage efficiencies have combined to significantly reduce reliance on the grid. There is no doubt that this trend will continue. Riverland Wine is aware of the considerable challenges that this falling consumption presents to a power network and the increasing difficulty in maintaining the services with falling revenue prospects. However, it must be remembered that a major driver for seeking efficiencies is the benefit/cost of consumers making this investment. In essence, by significantly increasing consumption charges SA Power Network is pursuing a very short-sighted strategy, which will increase revenue in the short term while doing much to drive consumers into further lowering their consumption, further exacerbating the challenge.

It is submitted that the long-term result of allowing SA Power Networks to proceed with their Proposed fees and charges is likely to lead to a further acceleration in consumers mitigating their electricity costs, thereby reducing the Network's ability to recover costs and provide an efficient service in the future.

Please see attached the signature sheet representing all elected Winemaker and Grower representatives of the region's 1,045 registered enterprises.

Riverland Wine Signatories – Submission to AER – July 24, 2015

Brian Walsh	Independent Chair RWIDC	
Sheridan Alm	Chair RWGA	
Stuart Andrew	RWGA	
John Angove	RWIDC	
Chris Christiansen	RWGA	
Peter Hill	RWGA	
Jim Markeas	RWIDC	
Bill Moularadellis	RWIDC	
Ivanka Moularadellis	RWIDC Alternate	
Jack Papageorgiou	RWGA	
Brett Proud	RWGA	
Ashley Ratcliff	RWGA	
Jim Thomson	RWGA	
Chris Byrne	Executive Officer, Riverland Wine	
Andrew Weeks	Business Manager, Riverland Wine	