

9 November 2016

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**Business SA**  
Chamber of Commerce  
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Working for your business.  
Working for South Australia

Dear Mr Appleby

I write in response to your request for submissions on ElectraNet's Preliminary Revenue Proposal for the regulatory period 2019-23 and acknowledge that Andrew McKenna has been representing Business SA's views during the consultation process on your proposal through both ElectraNet's Consumer Advisory Panel and its sub-panel working group.

### Executive Summary

- Business SA welcomes a drop in electricity transmission prices which are forecast to fall by 13% in 2019, largely driven by a 46% decrease in ElectraNet's capital expenditure and a forecast decline in 'rate of return' from the existing 7.5% to 5.75%, both combining for an average annual \$38 saving on small business electricity bills.
- Business SA acknowledges that businesses have had to absorb significant increases in electricity prices over the past decade which until relatively recently had been primarily driven by rising network costs and all of ElectraNet's future spending proposals need to be made in context of past investments which have tripled its regulated asset base since 2003.
- Business SA commends ElectraNet for being open to engaging with key stakeholders on a deeper level with respect to its future spending plans over the 2019-23 regulatory period. While ElectraNet and its customers may have some competing priorities, combined we have much more to gain from South Australia's future prosperity which must be underpinned by reliable and affordable electricity prices.
- There are no drivers of 'real' labour cost increases in South Australia at present, which is evidenced by the Essential Services Commission of South Australia (ESCOSA)'s recent decision to limit SA Water labour cost growth to CPI.

Should you require any further information or have questions, please contact Andrew McKenna, Senior Policy Adviser, on (08) 8300 0000 or [andrewm@business-sa.com](mailto:andrewm@business-sa.com).

Yours sincerely,

Anthony Penney  
Executive Director, Industry and Government Engagement





### Why this matter is important to South Australian businesses

As South Australia's Chamber of Commerce and Industry, Business SA is the peak business membership organisation in the State. Our members are affected by this matter in the following ways:

- After labour, electricity costs are the most significant concern for small business with the average small business electricity bill having doubled over the last decade from approximately \$2,100 per annum to in excess of \$4,250 per annum.<sup>1</sup>
- South Australia has the highest proportion of non-firm renewable generation in the National Electricity Market (NEM) and the withdrawal of Alinta's Northern Power Station in May 2016 has put significant pressure on South Australia's wholesale electricity market, effectively leaving two key players to hedge the base-load electricity needs of industry.
- Up until mid-2015 when South Australia's wholesale electricity prices began to rise dramatically, network costs had been the primary driver of the significant increases in electricity costs over the past decade and businesses cannot afford to return to the spending patterns associated with that period which have been compounded through rising regulated asset bases.
- South Australia's blackout on 28<sup>th</sup> September 2016 crystalised the importance of reliability to business and once the exact causes and their relative contributions to the system failure are determined by relevant inquiries, it will be important for ElectraNet to take reasonable steps at appropriate costs to mitigate future impacts of similar events.

### Key Policy Points

1. To ensure ElectraNet remains conscious of the impact network cost increases have had over the past decade, Business SA would like to draw attention to a survey we conducted in January 2015, six months before the South Australian wholesale electricity price jumped substantially on the back of Alinta's announcement to close Northern Power Station in 2016. In this survey, we asked businesses to comment on the actual impact of rising electricity costs on their businesses since 2009. We provide the following comments from businesses verbatim:

#### *Manufacturer with 4 employees;*

*"The impact has been very significant. We put solar panels on our business only to find that we were faced with even higher charges such as kVa. We have had to change the way that we manufacture and how many machines we can run at one time just to keep our business viable. In 2012 we reduced our staff levels down to 3 just to keep our costs down. It has taken 12 months for our retailer to sort out our bills and we are constantly looking at ways to reduce our energy spend. We have signed contracts over the last 15 years. Late last year when we signed our new contract the price increase almost wiped out the benefit of putting on the panels to begin with. I think you will find that most manufacturing companies are struggling with the ever rising cost of electricity and that any further increases could be the final nail in the coffin for those who are already struggling."*

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<sup>1</sup> SA Power Networks TSS presentation – August 2016



***Horticulture business with 4 employees;***

*"We pump water from the River Murray, the costs have increased by over 200% and we have no option but to pass this onto consumers"*

***Hospitality business with 10 employees;***

*"We need to use electricity all day every day because of freezers and coolroom. Less profit so cannot employ more staff even though I need to. I just work longer hours."*

***Farming business with 10 employees;***

*"We will not last..... the price of grapes plummeted, power costs extortionate and staff will lose jobs. We are penalised for using high power for only 3 months of the year."*

***Aged care business with 106 employees;***

*"Impact has resulted in a staff cuts at time and cuts in expenditure on building improvements Business is aged care - therefore electricity is used to maintain residents health etc."*

***Farming business with 1 employee;***

*"Absorbing costs and affecting bottom line. Makes irrigation operations less profitable for primary production. Better off with old flood technique than new water efficient centre pivots. More water efficiency costs you with higher electricity pricing."*

***Food manufacturing business with 5 employees;***

*"Approx \$2000 per quarter in 2009. Approx \$4,500 per quarter in 2014."*

***Manufacturing business with 16 employees;***

*"All our machinery and hand tools use electricity. We have changed some processes to try and cut our usage and also installed solar panels. We have had to increase our quotes to our clients to cover the rising electricity costs which has seen us non-competitive compared to overseas tenderer's and others."*

***Hotel with 15 employees;***

*"We have less staff. We ourselves work 14 to 16 hours a day. If we could save on running costs we would employ more people."*

***Packaging business with 15 employees;***

*"Any increases in costs significantly impact our future growth prospects as a small to medium business. We wanted to employ an extra person in 2014 but the extra costs particularly electricity costs impacted on our decision not to employ."*

***Accommodation business with 24 employees;***

*"Cost increases passed onto customers. Aged pensioners do not appreciate rising costs and some struggle to pay."*



*Manufacturing business with 7 employees;*

*"Electricity is used to run all our machines plus lights. Electricity has increased our over-heads but because of the whole industry downturn over the years we have not been able to pass this cost onto customers because price is the majority concern to win a job."*

*Manufacturing business with 15 employees;*

*"The rising cost of electricity has been a major factor in not being able to be competitive with offshore manufacturers. Our business is now less than 1/20th of its size from 10 years ago!"*

*Manufacturing business with 50 employees;*

*"Electricity used to be a minor overhead in our business, now it is a major part of our overheads and we are not competitive globally"*

2. As at 1 January 2003, ElectraNet's regulated asset base (RAB) stood at \$824 million. By 2008, this had grown to \$1.27 billion and by 2013, \$2.09 billion. Based on the indicative data provided, we estimate ElectraNet's current RAB to be \$2.65 billion.

Business SA recognises that total electricity demand in South Australia was growing for much of the decade up until the Global Financial Crisis (GFC) but that it has actually fallen 9.61% since 2010<sup>2</sup> while maximum demand has also declined in recent years, offset by the rising contribution of solar PV.

Business SA acknowledges the need for ElectraNet to maintain its network and ensure reliability standards are met, particularly in light of the recent state-wide blackout, but we need to reinforce the concurrent need for South Australian businesses to have globally competitive electricity prices, particularly to grow export markets.

ElectaNet's proposed 46% reduction in capital expenditure will relieve pressure on a growing RAB and is welcomed by Business SA as an important first step to addressing our broader concerns with South Australia's high electricity prices.

3. Business SA has volunteered its time to be represented on both ElectraNet's recently established Consumer Advisory Panel and its sub-panel working group which aim to solicit feedback from consumers throughout the revenue determination process.

While we acknowledge that the early engagement process has been a learning exercise for both sides, ElectraNet have shown a genuine degree of openness with consumer representatives which has helped to instil a sense of confidence in the processes behind construction of its 2019-23 revenue proposal.

Although the early engagement process should not be viewed as forming individual or collective agreement from stakeholders in relation to ElectraNet's proposal, Business SA has found the process helpful in enabling consumer groups to become more informed, in turn facilitating constructive engagement on key issues.

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<sup>2</sup> Business SA calculations from AEMO historical data, <http://aemo.com.au/Electricity/National-Electricity-Market-NEM/Data-dashboard#aggregated-data>



4. ESCOSA recently determined SA Water's revenues for the period 2016-20, a significant component of which related to labour costs. Considering all utility infrastructure companies employ a substantial number of technicians and engineers, Business SA expects drivers for SA Water's labour costs to be quite comparable to those experienced by ElectraNet and we acknowledge the following comments from ESCOSA in reaching its decision on SA Water's labour costs:

*In doing so, it has reached the view that the base rate of increase in the cost of labour – which is an input to the calculation of SA Water's total labour costs – should be capped by the rate of change in the Australia wide Consumer Price Index (CPI). SA Water had proposed a base rate of change at half a percentage point above the CPI. However, given current evidence and economic circumstances in this State, the Commission is not persuaded that a higher base rate of change is prudent and efficient.*

Furthermore, ESCOSA stated 'SA Water did not propose any real labour cost escalation for its contracted delivery costs, suggesting that labour can be maintained within CPI for these externally delivered costs.'

Business SA acknowledges that South Australia currently has the highest unemployment rate of all States and Territories at 6.7% and looking ahead to Holden's pending exit from local auto manufacturing, local wage price drivers will remain depressed into the foreseeable future. As evidence, South Australian CPI is only growing at 0.7% per annum, below the national rate of 1%.<sup>3</sup>

5. Business SA supports ElectraNet's endeavours to improve reliability on the Eyre Peninsula, not only to Port Lincoln but also to northern customers situated within the State's largest single grain growing region which is mostly exported. The blackout events highlighted the vulnerability of Pt Lincoln customers which were particularly exposed given businesses expected the regional city's backup generator to provide support in the event of a network failure.

It is clear from Business SA's involvement in the early engagement process that ElectraNet is undertaking significant investigatory work to better understand the condition of conductors on the Eyre Peninsula to ensure any investment decisions are adequately justified and in the best long term interests of consumers.

6. Business SA recognises that ElectraNet will adopt rate of return parameters in line with recent AER determinations and subsequent court rulings. This is a welcome step forward and should largely avoid unnecessary expenditure by both ElectraNet, the AER and consumer groups on expert consultants contesting cost of capital models.

However, we would expect the final revenue proposal would include more information about the past, current and future revenue streams associated with rate of return parameters, particularly given such amounts are typically the largest component of costs recouped from energy consumers, including businesses. Furthermore, the national electricity objective focuses on the long term interests of consumers with respect to price, quality, reliability and safety which underlies the importance of maintaining a historical perspective.

On a related point, Business SA expects all future analysis of ElectraNet's RAB and other rate of return inputs to be at minimum provided on a 'nominal' basis. The costs that consumers face are inherently nominal and consequently, all analysis should be presented in a form which accords with how costs are actually recouped from consumers through electricity prices, not 'real' figures which strip out inflationary impacts.

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<sup>3</sup> June Quarter CPI 2016, ABS