

1 September 2015

Mr Stephen Pearce  
Manager Economics  
Essential Services Commission of South Australia  
GPO Box 2605  
Adelaide SA 5001

Dear Mr Pearce

I am responding to your request for submissions on ElectraNet's proposal to vary the Electricity Transmission Code.

The proposal specifically relates to removing the requirement for ElectraNet to upgrade the Baroota exit point near Port Pirie which is planned to increase the level of reliability from a Category 1 reliability standard, to a Category 2 reliability standard.

#### Executive Summary

- The case to enhance the transmission grid at the Baroota exit point no longer seems valid given the decline in demand forecasts since the original business case.
- South Australian businesses have already experienced significant electricity price rises in recent years and Business SA supports Electranet's reassessment of the need to upgrade the Baroota exit point.
- ElectraNet must still focus on at least maintaining, and where appropriate improving, reliability to rural and regional electricity networks, particularly considering the regions are the primary driver of export growth.
- There are future opportunities for the mining sector should a 275 KV transmission line be extended to the Eyre Peninsula and we should not lose site of the long term potential to increase South Australia's mining output.

Should you require any further information or have any questions, please contact Andrew McKenna, Senior Policy Adviser, Business SA on (08) 8300 0009 or [andrewm@business-sa.com](mailto:andrewm@business-sa.com).

Yours sincerely,

  
Nigel McBride  
Chief Executive Officer.

### **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:*

- **Electricity costs are a significant input for many businesses, particularly in the manufacturing and irrigated agriculture sector.**
- **South Australian small business more broadly is being challenged by the current economic environment and is focused on reducing all costs.**
- **Rising electricity costs since 2009 have been very difficult for businesses to absorb, particularly when coupled with the move to demand based tariff structures for larger businesses.**
- **South Australia's total electricity demand is falling and the advent of disruptive technologies is placing additional pressure on grid operators, including Electranet, to ensure network customers are not burdened with higher prices into the future in order to maintain the grid.**

### **Key Policy Points**

We make the following key points in relation to our position:

1. The rising cost of electricity, particularly since 2009, has been a significant concern for South Australian business, particularly small business. Acknowledging that price deregulation occurred in 2013, our recent survey of member businesses showed that on average, businesses have still experienced cost rises of approximately 50%. Furthermore, 27% of businesses experienced increases of 60% or higher, with those in high electricity input businesses such as irrigated agriculture especially hard hit.<sup>1</sup>
2. Business SA is mindful of increased investment proposal activity in South Australia's electricity grid which is somewhat at odds with the falling electricity demand experienced in recent years. In fact, electricity demand has been falling since 2010/11 and the Australian Energy Market Operator (AEMO) forecasts that annual average demand will fall by 0.8% through to 2023/24.<sup>2</sup>
3. AEMO forecasts that peak summer time electricity demand will actually fall by an annual average of 0.3% through to 2023/24. Notwithstanding that investment activity is often on the basis of satisfying localised peak demand, broadly speaking the cost of network spending being attributed to electricity consumers should be falling, not increasing.

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<sup>1</sup> Business SA, Submission to AER on SA Power Networks 2015-20 Regulatory Proposal, January 2015

<sup>2</sup> AEMO, South Australian Electricity Report 2014, P1

4. In 2010/11 when South Australia's average electricity demand peaked, the RBA's cash rate reached its post GFC high of 4.75%. Since that time, the cash rate has fallen by 275 basis points, substantially lowering the borrowing costs of network operators, including ElectraNet. However, electricity prices have continued rising on the back of increased spending by network operators.
5. ElectraNet's reassessment of the need to upgrade the Baroota exit point seems reasonable in light of the falling electricity demand experienced over recent years. Assuming the primary driver of upgrading the Baroota exit point was the 2011 electricity demand forecast, if increased demand has not eventuated, then a prudent course of action is not to proceed with this upgrade.
6. Business SA is cognisant of the need to ensure appropriate levels of electricity reliability to regional and rural customers, particularly given the significant and growing contribution of agriculture and associated food & beverage manufacturing to South Australia's economy. While we support Electranet's proposal in so far as it relates to an unjustified augmentation of the regional transmission network, we reiterate our support for regional and rural reliability standards to be at least maintained with a view to improvement based on cost effective investments.