MURRAY REGIONAL DEVELOPMENT BOARD INC

REPRESENTING THE LOCAL GOVERNMENT AREAS OF THE MURRAYLANDS

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Impact of Competition Policy Reforms Inquiry
Productivity Commission
PO Box 80
Belconnen ACT 2616

18/7/99

Dear Commissioners,

The attached submission has been prepared by the Murraylands Regional Development Board to highlight the problems that are being experienced with this region mainly from changes to electricity access and charging policies that have been attributed to changes in competition policy in Australia.

The effects in the Murraylands are beginning to mount as the policy bites harder over time. The Board has been supplied with actual examples where costs of electricity connection have increased each year over the past three years for the same connection job.

The general effect of this policy is to slow the rate of new investment in this region and consequently slow the rate of new job creation. Unemployment in this region was 11.5% in 1998/99.

The Board has shown that the current policies actually reduce competition and the beneficial effects of this through State Governments providing confidential payments to some businesses to offset electricity connection costs. These costs are shown to be far more important than the cost / Kw comparisons and would like to see a more rigorous economic evaluation of the total costs of electricity connection and use and it's effects in rural and regional environments.

Further detail and follow up can be obtained from the CEO of the Murraylands Regional Development Board, Mr Simon Wright.

Yours sincerely

S Wright

for Sam Godden
A/Chairman, Murraylands Regional Development Board

Effect of Changes in National Competition Policy on Regional Electricity Supply in the Murraylands Region of SA

A submission prepared by the Murraylands Regional Development Board, South Australia

Introduction

The Murraylands Region is currently undergoing significant expansion with new investment and jobs being created in response to this. The Murraylands Regional Development Board considers that the Murraylands region is in a period of rapid growth that will eventuate in conservatively $30m to $40m in new investment in the coming 2 to 3 years and 700 to 800 new jobs. However, the Board is becoming increasingly aware of significant barriers to new development in this region. The major problem is access to electricity at reasonable cost.

A number of businesses wishing to expand and develop in the Murraylands Region are now experiencing difficulties with obtaining sufficient electricity at reasonable cost. Electricity supply in the Lameroo - Pinnaroo district is now becoming critical as irrigation industry expands and users require electricity for pumps, coolrooms and other value adding processes. Industry development projects around the Parilla district are now experiencing an inability to connect to high volume 3 phase power.

The Murraylands Regional Development Board has set value adding to primary products as a key strategic direction for the region given the opportunities to create jobs through new investment. The strategies of the MRDB are very much aligned with the SA Government's "Food for the Future" Plan. However, the limitations caused by insufficient electricity supply or supply at prohibitive cost, actually cost hundreds of new employment opportunities within this region if not attended to in a shorter term rather than the longer term.

The policy of electricity infrastructure costs being borne by some users in full and up front as they attempt to invest in their businesses is a burden that is proving to be a major disincentive for business investment in regional SA. Electricity charges levied by ETSA include a component for capital upgrades, system maintenance and depreciation and to charge the full costs of increasing the electricity capacity of a region onto initial users is inequitable. Electricity capacity has been allowed to run down over recent years and because of this, new and existing users are being asked to cover the cost of this inadequate planning. The run down of the State's electricity asset base will cause long term problems including:-

- the sale price for ETSA will be eroded as the business community in SA highlights the inadequacy of the existing electricity infrastructure.

- jobs and investment will transfer to low cost States such as NSW and Vic and to urban areas where electricity is costed onto businesses but environmental costs are not

Business operators in the Murraylands Region object to paying directly for the costs of electricity infrastructure expansion and upgrades that increases the sale value of the electricity utilities.

Long Term vs Short Term Policies

Consumers of electricity have previously funded growth that leads to new jobs as part of their normal electricity tariffs. The current policy direction is causing delays to regional business investment plans or relocation to other areas where electricity costs are lower but environmental costs are higher (but not accounted for).

The issue raised in this submission is not that of high or excessive electricity tariffs but the cost of capital investment to be borne by business before commencing any project. The amount paid to ETSA provides no title to guarantee ownership for bank security purposes and does not allow a business to claim depreciation and recovery of actual costs as others link into the upgraded system. A partial rebate of costs is provided is additional owners link into the network. The systems used are not transparent and vest entirely with ETSA.

The Murraylands Region provides an example in Australia where this is the case.

Milking the Cash Cow

State Government figures show that contributions to Government from ETSA have increased from $153.7m in 1992/93 to $525m in 1996/97. This dividend has been paid at the expense of infrastructure expansion that has traditionally been covered by ETSA and paid through the tariffs paid by individuals and businesses. Individuals and businesses still pay for this expansion but these capital upgrade amounts are paid to Government rather than funding the expansion of the electricity network. This has generally assisted business and industry upgrades and expansion particularly in regional areas.

A number of regional people are concerned that if they pay the costs of electricity infrastructure upgrades including augmentation, then this will increase the value of the utility when sold and they will effectively pay for the upgrades twice as the new owner recoups the purchase price. The net effect is that business has resisted new investment in the Murraylands Region at the expense of jobs. The unemployment rate in the Murraylands region is 11.5% (1998).

Specific examples of electricity costs stifling economic development have been identified in the Murraylands Region and include:-

Project	Electricity connection costs	Investment	Jobs
a new high tech onion export packing and grading plant at Murray Bridge (7 growers forming network company)	$120,000	$2m	30 jobs over 2 years
a wood shaving plant being established	initially $8,000 now $43,000	$1m	10 jobs in 1 year
expansion of coolrooms for a flower production facility at Monarto		$0.25m	5 additional jobs
development of a mushroom production unit	$500,000	$13m	150 - 250 jobs
expansion of chicken production (small - medium grower case)	no cost 3 years ago, now $80,000	$0.5m	4 jobs
olive growing at Coonalpyn (case 1)	$400,000 est	$10m	30 jobs
olive growing and oil extraction plant near Coonalpyn (case 2)	in excess of $300,000	$5 - $10m	50 - 60 jobs
olive development Pinnaroo (case3)	unknown	$3m - $4m	20 - 30 jobs
general irrigation expansion at Parilla amongst up to 12 growers	electricity not available (cost prohibitive)	$5m	40 jobs
Pig abattoir near Murray Bridge	$685,000	$15m - $20m	200 jobs in 2 years
Tourism based Wildlife Sanctuary	$365,000	$1m - $2m	5 - 10 jobs
Dairy development between Meningie & Wellington	$450,000	$2m	8 jobs

The above examples are all in planning phases and the majority will not proceed in this region under current electricity supply and costing policy.

It should also be noted that a large chicken company is currently carrying out a study to assess their future directions in SA. The change in electricity charging is seen as a major negative for this State's further growth in the industry. The same company's Victorian manager has targeted expansion of the industry in Western Victoria to take up the lack of expansion in SA due to electricity shortages.

These are some of the known projects within this region. The MRDB is working with other organisations wishing to relocate and significantly expand their operations in this region. At this stage the availability of electricity is a major limiting factor preventing the growth and job creation that is needed.

Costing Electricity

State Government responses indicate that costs of connecting electricity between States are similar. However, the amounts depend on the base from which calculations are made. The Murraylands region has had electricity capacity that has been run down particularly over the past 5 to 8 years and almost all new developments require significant infrastructure upgrades. Thus the costs of performing similar upgrades are relatively uniform but unfortunately, more businesses require larger upgrades in SA because of the state of the existing infrastructure.

Scenarios of these cases can show that the initial payment of capital amounts to connect electricity will effectively double the tariff rate that users pay for electricity eg a user paying $400,000 in year 0 and $50,000 per annum in electricity tariff is effectively paying another $50,000 per annum or $100,000 in total per annum through the payment of this connection charge based on a discount rate of 8% over a 12 to 13 year period. This is a cost to regional and rural users that is hidden in most presentations of tariff cost changes and comparisons.

Hidden Costs

The Murraylands Regional Development Board is also concerned that electricity supply was once openly used by Governments as an incentive to encourage business development. Competition policy has led to a change in this relatively transparent process to one that is now covert where electricity costs are offset with incentive payments that are private and confidential between State Governments and the businesses concerned. This allows the real costs of electricity to be hidden with no comparison between amounts provided to individual businesses or any comparison as to real cost differences between States. In this way Competition Policy Reforms have replaced an open, transparent process with a closed, secretive process that reduces the ability to have true competition. The Murraylands Regional Development Board view is that the previous electricity policy had a number of advantages as well as disadvantages but the net effect was positive and this has now been replaced by seemingly ideologically correct but practically flawed policies that detract from regional and rural areas.

Summary

The MRDB has identified electricity as a key area that is critical to regional development. The current situation is causing concern for all businesses looking to expand within the Murraylands region. The situation is critical and must be addressed immediately to prevent the loss of business confidence in investing in SA and prevention of business expansion within this and other regions. The electricity capacity of this region is proving to be inadequate to allow investment and employment growth. The MRDB seeks support in reviewing this issue and providing clear and decisive changes that will restore the ability of the Murraylands Region to support the growth and development that the Board is actively encouraging and succeeding in obtaining. The Murraylands Regional Development Board is confident that this scenario applies to a number of rural and regional areas throughout Australia.