

ABN 14 725 309 228
Enterprise House
136 Greenhill Road
Unley South Australia 5061
Telephone 08 8300 0000
Facsimile 08 8300 0001
Email customerservice@business-sa.com
www.business-sa.com

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Electricity Network Regulation
Productivity Commission
GPO Box 1428
Canberra City ACT 2600

Dear Sir/Madam,



I write to you in relation to the *Electricity Network Regulation Issues Paper*.

Business SA is South Australia's leading business membership organisation, representing thousands of businesses through direct membership and affiliated industry associations. We represent businesses across all industry sectors, ranging in size from micro-business to multi-national companies. Business SA advocates on behalf of business to propose legislative, regulatory and policy reforms and programs for sustainable economic growth in South Australia.

The reliable availability of low cost energy has underpinned the competitiveness of many Australian businesses. Electricity prices are rising rapidly for a number of reasons, including significant investments in distribution and transmission networks. It is therefore necessary to ensure that the regulatory arrangements for electricity networks result in efficient investments that are accompanied by electricity price rises that are minimised and justifiable.

Including appropriate benchmarking in analysis undertaken by the Australian Energy Regulator should assist in identifying the levels of investment in both distribution and transmission networks that are efficient and that will minimise electricity price rises. This should include broad benchmarking measures and also more specific or partial benchmarking measures, provided that they are statistically sound and take account of appropriate control measures, so that there are like with like comparisons.

Benchmarking needs to assess whether there are any differences between private network operators and those owned by State Governments. There may be implications for the regulator regarding the weighted average cost of capital to be used in pricing determinations.

Another objective of benchmarking should be to identify what parts of the electricity regulations, if any, result in perverse incentives and/or suboptimal performance. This should include consideration of the entire electricity supply chain, from generation through to networks and retailing.

Indeed, electricity regulations should ensure that the lowest cost approach to supplying reliable electricity is achieved, so that demand management, new generation capacity, the augmentation of transmission and distribution networks and distributed generation are all considered as options to cater for increases in the demand for electricity.

To this end, the current collection of planning reports, conducted mainly by the Australian Energy Market Operator, could be enhanced by having a whole of energy market perspective. Cost-benefit analysis should also be used to assess the full range of electricity supply and demand management options.

Yours sincerely

Peter Vaughan

Chief Executive Officer