

23 November 2012

ATT: Commissioner Philip Weickhardt

Electricity Network Regulation
Productivity Commission
PO BOX 1428
Canberra City ACT 2601

NSW Business Chamber
incorporates

- Sydney Business Chamber
- Australian Business Limited Apprenticeships
- Australian Business Lawyers and Advisors
- Australian Business Consulting and Solution

Dear Commissioner,

The NSW Business Chamber (NSWBC) welcomes the opportunity to comment on the Productivity Commission's draft report into Electricity Network Regulatory Frameworks.

The NSWBC is one of Australia's largest business support groups, helping around 30,000 businesses each year. Tracing its heritage back to the Sydney Chamber of Commerce established in 1826, the NSWBC works with thousands of businesses from owner operators to large corporations, incorporating product-based manufacturers to service provider enterprises. The Chamber is a leading business solution provider and advocacy group with strengths in workplace management, occupational health and safety, industrial relations, human resources, international trade and improving business performance.

Operating throughout its network in metropolitan and regional NSW, NSWBC represents the needs of business at a local, state and federal level, advocating on behalf of its members to create a better environment for commerce and industry.

At the outset, the NSWBC wishes to congratulate the Commission on a very well structured and detailed draft. As the Commission has correctly identified, the current energy regulation regime and ownership structure of energy networks has been a key driver in increasing energy price increases over the last five years.

While the impacts of these cost increases have been felt right across the community, they are having a significantly strong impact on business. In the 2012 September quarter NSWBC *Business Conditions Survey* 44% of respondents rated rising energy costs as having a significant or very significant impact on their business.

Furthermore, for energy intensive industry sectors such as manufacturing, general energy price increases, direct increases imposed as a result of the introduction of the carbon tax and the ongoing challenges of weak global demand and the strong Australian dollar have hit especially hard. As a result, business is keen to see any reform "circuit breakers" that can provide cost pressure relief.

The Chamber has been long advocated the need to reform NSW's energy network. It is pleasing to see that many of the policies that we have advocated are reflected in the Commission's recommendations; in particular the need for state and territory governments to privatise their state owned network businesses is most welcome.

While the Chamber is pleased to support the recommendations of the Commission in the main, we have identified a number of issues where our views differ. We set these out below:

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Draft Recommendation 5.4

This recommendation relates to a situation whereby if a network business spends materially more capital than that allowed for in the Australian Energy Regulator's (AER) final ex ante regulatory determination then its entire capital expenditure should be subject to an ex post prudency test.

While this recommendation is supported, the Chamber suggests that such a power be expanded to allow the AER to undertake such reviews even if a network business has not exceeded its expenditure cap if it has reason to believe capital is spent inefficiently or imprudently, such as if a network business does not adjust its capital expenditure if demand forecasts are substantially lowered. Any ex ante determination is unavoidably based on incomplete information. The Commission has rightly recommended that a network business should be able to apply to have the expenditure cap raised if circumstance change. However, without a broader capacity for ex post review, network businesses have a clear incentive to spend up to the cap, even when it would not be prudent to do so.

Draft Recommendation 10.1

This recommendation relates to the roll out by distribution businesses of new smart meters technology.

While encouraging greater use of smart meters is appropriate, we do not support a blanket mandatory roll-out by the Australian Energy Regulator (AER). Smart meters come at a cost and are not necessary or cost effective in every set of circumstances.

Customer-initiated installation of smart meters allows them to make a judgement about the benefits of a smart meter based on their capacity to shift their loads taking into account any time of use tariffs charged by their retailer.

Yours sincerely

Paul Orton
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