Australian Energy Regulator

Attention: Mr Warwick Anderson

Submission: Issues Paper – SA Power Networks revenue determination 2020-2025

20 May 2019

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About The Energy Project

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We don't sell equipment. Rather, we work closely with clients to provide them with the tools needed to make sound business decisions about their energy needs.

Project Contact: [redacted]

ECA Disclaimer

"This project was funded by Energy Consumers Australia as part of its grants process for consumer advocacy projects and research projects for the benefit of consumers of electricity and natural gas.

The views expressed in this document do not necessarily reflect the views of Energy Consumers Australia (www.energyconsumersaustralia.com.au)

1 Executive Summary

The Energy Project Pty Ltd has been successful in obtaining a grant from Energy Consumers Australia (ECA) in May 2019 (with the South Australian Financial Counsellors Association and Uniting Communities) to advocate for the consumer interest in relation to customer connections during the SA Power Networks 2020-25 Regulatory Determination.

This submission has two key themes related to the 2020-25 Regulatory Proposal. Firstly, in relation to expenditure on connections and the pricing of services. Secondly, in relation to the 'user experience' of accessing connection services.

The Proposal includes a revised Customer Connection Policy, reclassification of some connection services to allow for 'more cost reflective pricing' and a capital expenditure program for connections of $213m net of customer contributions ($563m gross, Attachment 5). At this stage, we are unable to support the proposal for the regulatory reclassification of Connection Services and the inclusion of a margin in the build-up of costs.

In our experience of making connection inquiries and applications under the current Connection Policy (2015-20) for business customers, community sector organisations and property developers, the process is not transparent and rarely results in customers feeling like they have achieved a reasonable result. We are strongly of the view that a better customer experience is possible.

We acknowledge that SA Power Networks approach to the classification of services was influenced by a recent regulatory determination[1]:

> *"We note that the Service Classification Guideline was published after the bulk of the extensive customer engagement in developing our Proposal had been undertaken. This has limited our ability to fully consult with our customers on the classification changes to our Connection Services. We therefore look forward to engaging further with customer and other stakeholder views raised during the distribution determination process."*

1 Attachment 12 – Classification of Services, page 17

We have approached SA Power Networks in relation to these matters and they have agreed to engage with us and other stakeholders on connection issues. The first step will be a workshop to develop a shared understanding of the issues from a customer's perspective.

This submission to the AER Issues paper highlights the limited stakeholder engagement to date on connection issues and contrasts this with SA Power Networks written statements of customer focus in the connections process. The submission also reflects on SA Power Networks Future Networks strategy and past commitments to enhance the customer experience. We have also provided a detailed case study of a connection process to illustrate the challenges of negotiating a satisfactory outcome.

The desired outcome of this project is that customers seeking connection services during 2020-25 can access a timely, transparent, customer-centric process for a fair priced connection service.

We look forward to a constructive engagement with SAPN, other stakeholders and the AER.

2 Introduction & Background

This submission is focussed on issues relevant to customer connections to the SA Power Networks distribution network.

SAPN has proposed a revised Customer Connection Policy, reclassification of some connection services to allow for 'more cost reflective pricing' and a capital expenditure program for connections of $213m net of customer contributions ($563m gross, Attachment 5).

2.1 SA Power Networks Proposal

The SA Power Networks proposal refers to customer connection issues in:

- Attachment 5: Capital Expenditure (5.15 Customer connections expenditure forecast)
- Supporting document 5.11 Connections Management Plan 2020-2025
- Supporting Document 5.17 Future Network Strategy 2017-2030
- Attachment 12: Classification of Services
- Attachment 14: Alternative Control Services
- Model 14.4: Fixed Fee and Quoted Services Pricing Model
- Attachment 16: Connection Policy
- Attachment 17: Tariff Structure Statement (Appendix I)

2.2 AER Issues Paper

The AER Issues Paper refers to customer connection issues:

- In terms of capital expenditure at page 25
- In terms of Service classifications in Section 6 (p35-); and subsequently
- In terms of Alternative Control Services in Section 8 (page 44-)

2.3 Stakeholder Engagement

Based on its stakeholder engagement, SA Power Networks' identified that customers and stakeholders generally agreed that they value (Issues paper, p11):

- Keeping prices down
- A safe and reliable network
- Transitioning to the new energy future.

In our view, the process of connecting new or changed loads, generation and storage to the SA Power Networks Distribution Network is relevant to all three of these, and particularly relevant to the transition to the new energy future while maintaining a safe and reliable network.

The current regulatory period saw the introduction of the NECF connection process under chapter 5A of the National Electricity Rules. The introduction of the NECF process was intended to improve customer outcomes in getting a new connection to the network. However, as far as we are aware, SAPN has not engaged with stakeholders on their experiences with the connection process.

SA Power Networks 2020-25 Draft Plan discussed customer connection issues in terms of inverter connection standards (page 32), capital expenditure (Section 6, p 36-37, 44), as a driver of IT expenditure (p45), alternative control services (p76).

According SA Power Networks[2]:

> *When our Connections Policy was discussed with customers and stakeholders, they felt comfortable with its 'causer pays' approach.*

However, SA Power Networks' *Customer and stakeholder engagement report* does not make any reference to customer connections[3] and so no details of these discussions have been provided. There is however a reference to AER's Consumer Challenge Panel (CCP14) in Attachment 12 (Classification of Services) page 15:

> *"… we propose that … 'Standard Connections' and 'Negotiated Connections' involving work to connect a premises be classified as ACS given that:*
>
> - *this will allow for cost reflective charging for activities which can be attributed to connecting customers. These connections involve works and assets / components that relate solely to the connection applicant and not to other customers. This outcome is consistent with the view expressed by Consumer Challenge Panel 14 (CCP14) in its submission to the AER's Preliminary F&A, that connections should be 'user-pays' as much as possible; and*
> - *in contrast, a SCS classification as reflected in the Final F&A would limit our ability to present a cost reflective price signal to connecting customers."*

The CCP14 submission in fact stated[4]:

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[2] SA Power Networks – 2020-25 Regulatory Proposal – Attachment 5 – Capital expenditure, page 89

[3] We are aware of some engagement with SA Power Networks' Renewables Reference Group in relation to small embedded generator connections

[4] www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/aer-position

"We believe that the cost of connections for customers seeking non-standard connection, should, as much as possible, be causer/user pays. It should not be an opportunity for a network to make a capital contribution that increases the RAB for all consumers. It should not be an opportunity for a large consumer seeking a specialised connection to have that connection cross-subsidised by all users."

It is hoped that the above comment from CCP 14 has not been taken as support from consumers for the entire connection policy. There has been insufficient information on actual performance made available to stakeholders for any such conclusion to be reached.

2.4 Customer Service aspirations

SA Power Networks Connections Management Plan (supporting document 5.11) also makes a number of references to the consumer experience of Connection Services:

"As our connection services are inherently customer centric, the Manager Customer Solutions also have joint operational responsibilities with the General Manager Customer Relations to ensure that our practices contribute to the long-term interest of customers and what they value (p14)."

Reference is also made to SA Power Networks' Customer Strategy "On the same wavelength":

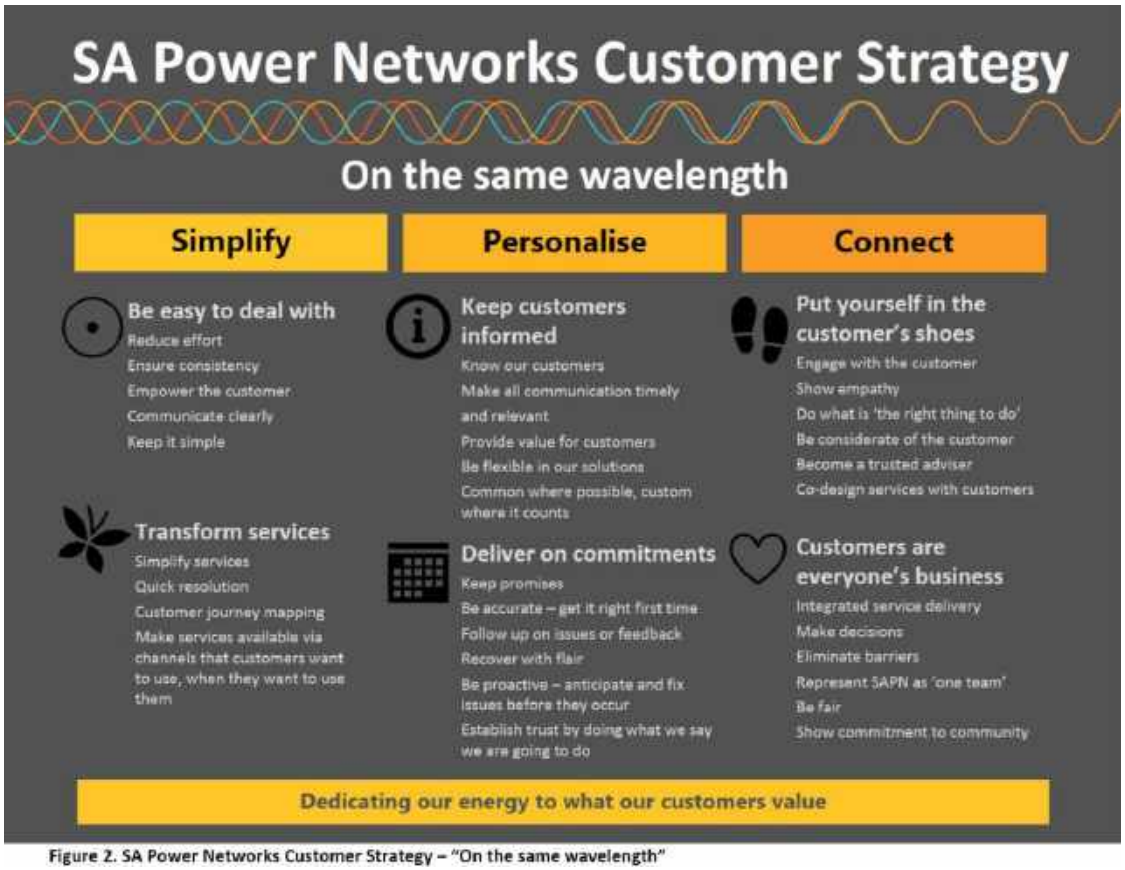


Figure 2. SA Power Networks Customer Strategy – "On the same wavelength"

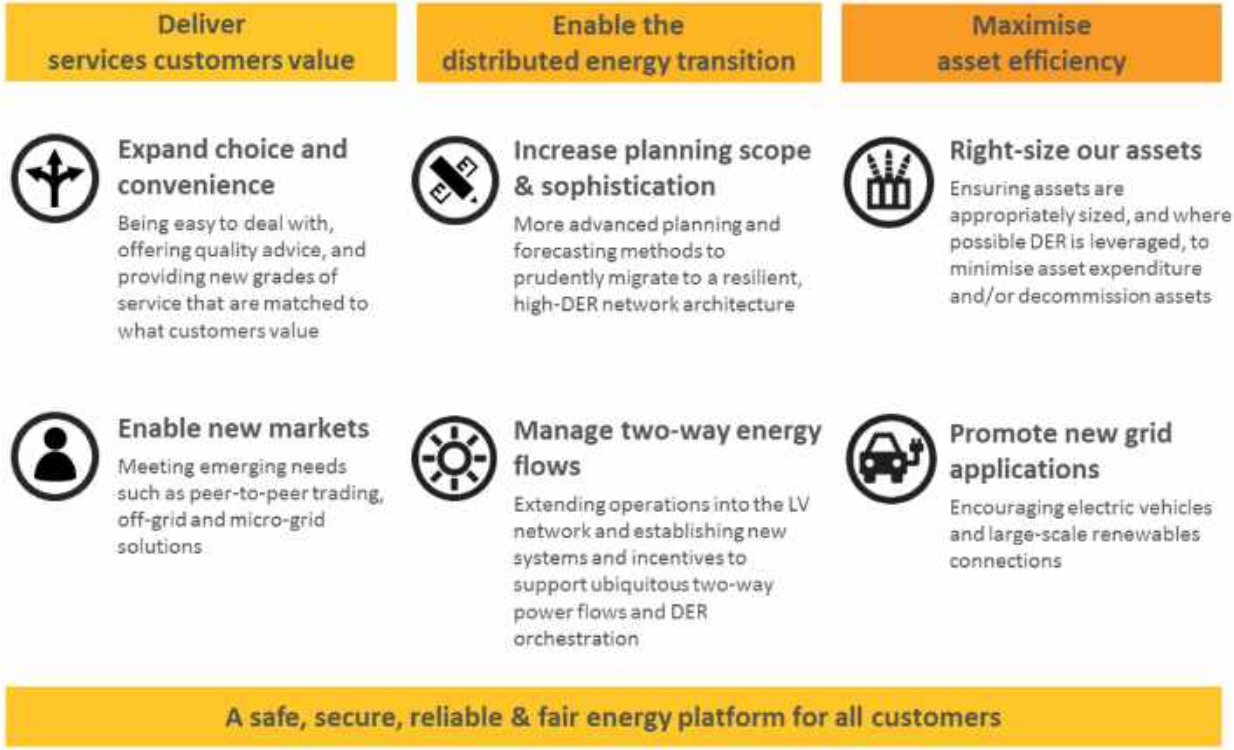
Further reference is made to the alignment between the Quality Management System and the services customers value:

> *Working within this Quality Management System ensures consistent governance of our obligations and our delivery of products and services that our customer value. To achieve this, we (among other things) … seek customers' feedback to better align our strategic objectives and future plans for connection services and other services we provide (p16).*

However, no evidence is presented of this being realised as opposed to just being the aspiration of the business. Overall, our view is that a significant opportunity exists to deliver SA Power Networks ambitions for customer service by engaging further with the users of the connection service.

2.5 Future Networks Strategy

SA Power Networks Future Network Strategy 2017-30 (Supporting Information 5.17), describes how the customer connection process has been deemed an important step in improving customer outcomes and supporting innovation. A summary image is reproduced below



The extracts highlighted below describe improved customer connection service intentions.:

> "Strategy 1 Expand choice and convenience

… **1. Reduce connection costs, delays & barriers:** by enabling simple on-line self-service tools for higher volume, indicative and/or simple requests, and by engaging regularly with customers and their representatives to identify key pain-points or improvement opportunities in our connection processes … **2. Offer greater choice of connection products & service levels:** providing a range of new services, developed in partnership with customers, that are well suited to varying customers' needs … **3. Provide energy advisory services:** that support customers in making sound choices in their selection of energy products … at the time of a network connection or alteration request"

"Strategy 3 Manage two-way energy flows

… 2. Enhance DER connection processes & standards"

"Strategy 5 Promote new grid applications

… 2. Encourage large-scale renewable connections: by streamlining connection processes and publishing maps of least-cost locations from a network connection perspective. We will also consider a new role for a dedicated account manager to proactively seek distributed generation connections and facilitate proponents' applications and connection process."

However, the regulatory proposal does not appear to provide an update on progress with the strategy and the milestones it contains.

Overall, our view is that the connection process is pivotal to delivering the Future Network strategy and, again, a significant opportunity exists to deliver SA Power Networks ambitions for customer service by engaging further with the users of the connection service.

2.6 Complaints

We note that the Energy and Water Ombudsman (EWOSA) 2017-18 Annual Report shows 'Connections' as the second highest category of complaints in 16/17 and 17/18 but the proposal does not include any analysis, elaboration or contrast EWOSA complaints with internal complaints performance:

SERVICE PROVISION

This year we received 1,369 complaints from customers in relation to aspects of Service Provision.

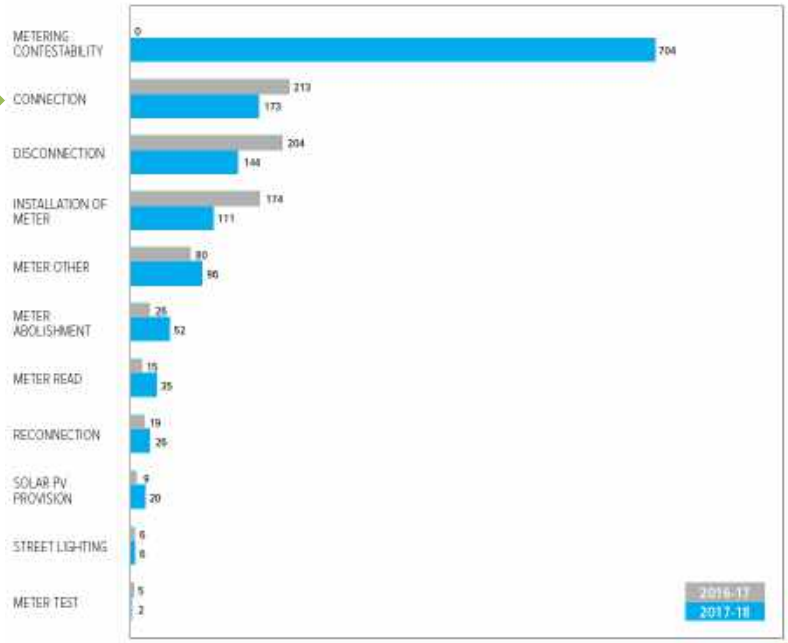


Fig 7. Provision of supply complaints by type, 2016-17 and 2017-18

3 Capital Expenditure

3.1 Proposal

According SA Power Networks[5]:

> *The actual and forecast customer connections capex compared to the AER allowance for the 2015-20 RCP is shown in Table 5-34. The gross connections forecast capex for the 2015-20 RCP is forecast to be $475.7 million, $137.8 million (22%) below the AER allowance of $613.5 million.*
>
> *The forecast connections contributions capex for the 2015-20 RCP is $297.5 million, $109.6 million (27%) below the AER allowance of $407.1 million, refer to Table 5-35.*
>
> *The total net difference between the customer connections allowance and forecast for the 2015-20 RCP is $178.2 million, $28.2 million (14%) below the allowance of $206.4 million, refer to Table 5-36.*

Table 5-34: Comparison of gross connections expenditure, AER allowance to actual/forecast (June 2020, $ million)

Connections	2015/16	2016/17	2017/18	2018/19	2019/20	TOTAL
Allowance	113.7	116.6	119.6	127.5	136.1	**613.5**
Actual and forecast	94.5	90.6	90.0	104.8	95.7	**475.7**

Table 5-35: Comparison of connections contributions expenditure, AER allowance to actual/forecast (June 2020, $ million)

Contributions	2015/16	2016/17	2017/18	2018/19	2019/20	TOTAL
Allowance	76.9	77.2	79.1	84.2	89.8	**407.1**
Actual and forecast	64.9	56.9	56.3	62.4	57.0	**297.5**

Table 5-36: Comparison of connections net expenditure, AER allowance to actual/forecast (June 2020, $ million)

Connections Net	2015/16	2016/17	2017/18	2018/19	2019/20	TOTAL
Allowance	36.9	39.4	40.5	43.3	46.3	**206.4**
Actual and forecast	29.7	33.6	33.8	42.4	38.7	**178.2**

SA Power Networks' connections capex forecast for the 2020-25 RCP is summarised in Table 5-37 below.

Table 5-37: Forecast customer connections expenditure for the 2020-25 RCP (June 2020, $ million)

	2020/21	2021/22	2022/23	2023/24	2024/25	TOTAL
Connections (gross)	111.3	113.2	114.4	114.0	110.2	**563.2**
Contributions	70.6	70.3	70.8	70.6	67.8	**350.1**
Net expenditure	40.7	43.0	43.6	43.4	42.5	**213.2**

According to AER Issues Paper (p25):

[5] SA Power Networks – 2020-25 Regulatory Proposal – Attachment 5 – Capital expenditure, page 89

Connections capex

SA Power Networks has proposed $563.1 million ($2019-20, inclusive of overheads) in gross connections, which is 18 per cent higher than for the 2015–20 regulatory period. This includes:

- $213.2 million for net connections capex, which is rolled into the RAB and recovered over time through network distribution charges
- $350.1 million for capital contributions, which is funded by connecting customers through cash contributions and gifted assets.

Compared with the current regulatory period, forecast net connections capex is about 20 per cent higher, and forecast capital contributions is 18 per cent higher. SA Power Networks' forecast that net connections capex comprises 12 per cent of its total capex forecast.

The increase in forecast capex is primarily driven by an increase in major customer connections, with strong growth forecast for non-residential building commencements.

However, according to the Connections Management Plan:

"Our forecast of the net capital expenditure (net **capex**) necessary to provide connection services over the next regulatory control period (1 July 2020 to 30 June 2025) is **$239.8 million** ($2017/18) to provide standard control services, which covers Basic and Negotiated connections services. This forecast allows for (in $2017/18):

- **$449.0 million** of **gross capital expenditure**; and
- **$209.2 million** of **customer contribution**. "

3.2 Response

The discrepancies in the numbers between the Connections Management Plan and the Regulatory proposal deserve an explanation. Further, the "14% below forecast" expectation for the current Regulatory Control Period combined with a proposed 20% increase in net capex in the 2020-25 RCP deserves scrutiny from the AER. This should include an explanation of the impacts for consumers of such variations between regulatory periods.

It is also noted that the increase is largely due to an increase in expected non-residential building commencements (Issues Paper p25). The Connections Management Plan states (page 21) that "*The forecasts for major* connections *expenditure were developed from a "bottom-up" process* …". As is often the case in regulatory determinations, expenditure forecasts developed from the "bottom-up" should be reconciled against a "top down" consideration of prudent expenditure. We encourage the AER to review the Connections forecasting methodology in some detail.

4 Connection Services

4.1 Changes to the Classification of Services

According to the AER Issues Paper (p49), SA Power Networks has proposed to reclassify 'Standard Connections' and 'Negotiated Connections' involving work to connect a premises as alternative control services from standard control. SA Power Networks contends that this will allow for cost reflective charging for activities which can be attributed to connecting customers. These connections involve works and assets/components that relate solely to the connection applicant and not to other customers.

The implications for users of SA Power Networks' Connection Services (consumers and their agents) are not clear from the proposal. We acknowledge that SA Power Networks Attachment 12 – Classification of Services (Page 17) states:

> *"We note that the Service Classification Guideline was published after the bulk of the extensive customer engagement in developing our Proposal had been undertaken. This has limited our ability to fully consult with our customers on the classification changes to our Connection Services. We therefore look forward to engaging further with customer and other stakeholder views raised during the distribution determination process."*

The Energy Project Pty Ltd has been successful in obtaining a grant from Energy Consumers Australia (ECA) in May 2019 to advocate for the consumer interest in relation to customer connections. We have approached SA Power Networks in relation to this matter and look forward to further engagement with the business, other stakeholders and the AER.

4.2 Including a margin in the cost of Connection Services

As discussed above, the proposal includes *classifying 'connection services – for services other than basic premises connections and extensions and augmentations'* as Alternative Control Services.

'Fee based and quoted services' are presented in SAPN Attachment 14 – Alternative Control Services (ACS) and states (page 17):

> *"For the 2020-25 RCP, we propose to include a* ***margin*** *for fee-based and quoted services in our indicative prices. The inclusion of a margin is consistent with the principle of competitive neutrality, with margins included in prices that would be observed for similar services in a competitive market."*

And at p36 Quoted services, states:

> *"Margin is equal to 6 percent of the total costs of labour, contractor services and materials."*

And at page 37:

> *"… the inclusion of a margin for fee-based and quoted services is consistent with the principle of competitive neutrality and the revenue and pricing principles contained within the NEL, where customers pay an amount that is commensurate with the prices that would be observed in a competitive market."*

Two fixed fee items in particular are directly relevant to customer connections. These are:

- Fee code NDS340 Connections specification fee - $0-$100k project
- Fee code NDS341 Connections specification fee - $101k-$200k project

The services are described as "Work undertaken in preparing and issuing the specification including one site visit for customer extension works."

Based on TSS prices for 2020-25, the cost of these services will increase significantly:

- NDS340 from $1,930 in 18/19 to $3,280 in 20/21= **+66%**
- NDS341 from $3,200 to $5,740 = **+79%**

The regulatory proposal does not appear to contain any justification for these increases nor any evidence of engagement with affected stakeholders. In fact, according to the Draft Plan Overview (p7):

Other customer-specific services

The AER will set prices for public lighting, customer connection and other customer-specific services for 2020–2025. These are discussed briefly in this Draft Plan.

We do not expect any marked change in the price or delivery of these services.

The statement "*We do not expect any marked change in the price or delivery of these services*" is not consistent with the eventual Regulatory Proposal.

Specifically, we do not accept that SA Power Networks is entitled to claim 'competitive neutrality' as the basis to apply a margin. The majority of SA Power Networks' connection services are not exposed to competition nor are they responsive to the needs of customers. A much more transparent and responsive service would be required before such a margin could be considered as consistent with the long-term interests of consumers.

5 Transparency and Reporting

The current regulatory period saw the introduction of the NECF connection process under chapter 5A of the National Electricity Rules. The introduction of the NECF process was intended to improve customer outcomes in getting a new connection to the network. However, as far as we are aware, SAPN has not engaged with stakeholders on their experiences with the connection process. A contributor to effective engagement would be increased transparency and reporting around service performance.

There does appear to be the opportunity to assess performance to some extent (Connection Management Plan p17):

> *5.3 Performance measures*
>
> *Measuring and reporting on the performance of the Customer Solutions department and the delivery of connections services plays a critical role in ensuring compliance to our regulatory obligations and driving productivity improvements.*
>
> *We measure and report on performance on a monthly basis (or more often, as needed). The measures we track cover a range of matters including compliance with regulatory service targets related to customer quoting and connections as well as general business performance and statistics.*

However, a summary of these performance indicators is not provided in the Plan or the Proposal.

There are also obligations to publish connection related information such as:

- Clause 17.3 of SAPN's Negotiating Framework 2015 – 2020 December 2015:
  "SA Power Networks will publish the results of negotiations on its website."

Schedule 5.8 pf the National Electricity Rules sets out the information to be included in each Distribution Annual Planning Report (DAPR). According to SA Power Networks 2018 DAPR, p104:

> 14.2 Key issues arising from applications to connect embedded generation
>
> Schedule 5.8(k)(1)(ii) requires SA Power Networks to describe its key issues arising from applications to connect embedded generating units received in the past year.
>
> Whilst there were no completed applications to connect embedded generation under Chapter 5 of the NER in the past year (refer Table 36 on page 104), SA Power Networks receives an extensive number of connection enquiries under the Chapter 5A process and an increasing number of informal enquiries to connect large exporting embedded generators.

In the past year, we have processed the following negotiated connections under Chapter 5A of the NER:

Table 35: Embedded generation connection enquiries and applications

2017/18 Embedded Generation	Quantity
Connection enquiries received (applicable only for above 30kW)	550
Applications to connect received (200kW and under)	19,240
Applications to connect received (above 200kW)	69
The average time taken to complete applications to connect (above 200kW)	7 months

14.5 Demand management connection enquiries and applications to connect

Schedule 5.8(k)(2) requires SA Power Networks to provide a quantitative summary of those connection enquiries, applications to connect and the average time taken to complete applications to connect received according to clause 5.3A of the NER.

Table 36 provides a summary of embedded generation enquires received since publication of the 2017 DAPR.

Table 36: Embedded generation connection enquiries and applications

2017/18 Embedded Generation	Quantity
Connection enquiries received under clause 5.3A.5	28
Applications to connect received under clause 5.3A.9	0
The average time taken to complete applications to connect	N/A

The Rules references in the 2018 DAPR have not been updated to the current version of the Rules (Version 121 accessed 07 May 2019) but the specific requirement is:

- Schedule 5.8(l)(1)(ii) requires a qualitative summary of … key issues arising from applications to connect embedded generating units received in the past year.
- Schedule 5.8(l)(2) requires a quantitative summary of

  (i) connection enquiries received under clause 5.3A.5;

  (ii) applications to connect received under clause 5.3A.9; and

  (iii) the average time taken to complete applications to connect

The qualitative summary of key issues arising from applications to connect (schedule 5.8(l)(1)(ii)) appears to be missing.

Overall, we believe there is a significant opportunity to enhance transparency through increased reporting of performance.

6 Case Study

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