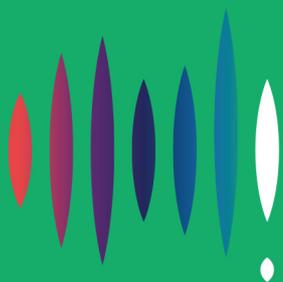
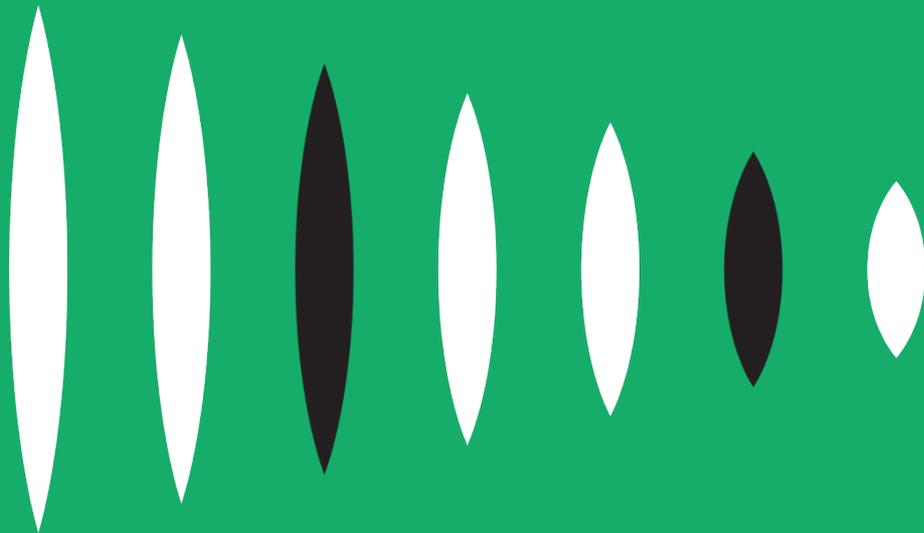


AER Issues Paper: SA Power Networks Electricity distribution determination 2020 to 2025

Submission
May 2019



**ENERGY
CONSUMERS
AUSTRALIA**

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Version history

VERSION	DATE	COMMENTS
1	20 May 2019	Final

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Introduction

Energy consumers in South Australia and across the National Electricity Market are making new choices about how they meet their energy needs. Networks must create a new dialogue with consumers about today and the future to develop robust, cost-effective strategies that optimise an increasingly distributed and diverse electricity system.

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments Energy Council in 2015, our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

We appreciate the opportunity to respond to the Australian Energy Regulator (AER) on its *Issues Paper: SA electricity distribution determination, SA Power Networks 2020 to 2025* (the AER Issues Paper). In our response, we will comment on matters raised in the AER Issues Paper, as well as matters from SA Power Networks' (SAPN) regulatory proposal (the Proposal).

Affordability is a priority for households and small businesses and is Energy Consumers Australia's first port of call when reviewing network revenue proposals. SAPN's Proposal would see annual customer bills decrease from 1 July 2020 by \$40 for the average residential consumer and \$111 for small to medium businesses.¹ These price reductions would provide welcome relief for consumers, and every effort must be made to explore opportunities for greater efficiencies and further savings.

The challenge of transformation looms large over this revenue determination with SAPN grappling with the reality of a more decentralised and diverse electricity system.

We have engaged the consulting firm Dynamic Analysis to provide a technical perspective on the AER Issues Paper and the SAPN Proposal. This work has identified a number of questions about the Proposal. These questions include:

¹ SAPN, *2020-25 Regulatory Proposal: An overview for South Australian electricity consumers January 2019*, page 2. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

- the rationale underpinning SAPN's approach to tax and depreciation following the AER's *Regulatory tax review 2018*;
- the impact of its re-characterisation of activities from capital expenditure (capex) to operational expenditure (opex) on the opex base year step changes and the flow on effects of this re-characterisation to the incentive regime and productivity trends;
- its capex strategy, in particular for information and communication technology (ICT) (including cyber security) and augmentation capex;
- whether it has done all it can to maximise opportunities to provide a more affordable distribution network for its consumers; and,
- how it has worked with the South Australian Government and transmission operator, ElectraNet, to ensure that work to provide voltage and broader system security is complementary, not duplicative.

What South Australian Consumers are telling us



Residential energy consumers in South Australia are telling us that they were more satisfied with the overall provision of electricity and gas supply in 2018 than in 2017. 70 per cent of respondents to our [December 2018 Energy Consumer Sentiment Survey](#) reported overall satisfaction with the provision of energy, which is a 17 per cent increase from December 2017.²

In terms of the provision of electricity, the largest increases in satisfaction measures were for reliability (which increased 16 per cent to 64 per cent) and fault resolution (which increased 15 per cent to 60 per cent).³ These increases could be reflecting the length of time that has passed since the 2016 system black event.

Significant increases were also reported for respondents' satisfaction for overall value for money (which increased 12 per cent to 44 per cent) and customer service (which increased 11 per cent to 60 per cent).⁴

South Australian consumers are telling us they are increasingly confident in long-term technological advances to help them manage their energy supply and costs (increasing 10 per cent to 43 per cent since 2017⁵).

However, more broadly, South Australian consumers are still not confident that the market is working in their best interest, despite the increased confidence levels from 10 per cent to 30 per cent.⁶

Our framing and approach



The objective – the long-term interests of energy consumers

Promoting the long-term interests of consumers means that current and future consumers pay no more than they need to for the quality of service they require. To put it in even simpler terms, that not one dollar more is spent than necessary; not one day earlier than it is needed. This is an outcome that can best be achieved through a process of dialogue and alignment between network businesses and the consumers they serve.

² Energy Consumers Australia, [December 2018 Energy Consumer Sentiment Survey](#), page 99.

³ *Ibid*, page 100.

⁴ *Ibid*, page 100.

⁵ *Ibid*, page 104.

⁶ *Ibid*, page 103.

When this happens, businesses are demonstrably careful with consumers' money and investors are earning reasonable returns.

It does not happen when investors or managers are incentivised to follow a strategy that is distorted by objectives beyond the regulatory framework. In our assessment of regulatory proposals, we are guided by three principles to explore and understand the direction the business is taking:

1. The network business should be able to demonstrate that it has developed a deep understanding of the preferences of its consumers.
2. The business should be able to talk about its longer-term strategy and business plans to provide a context for the five-year revenue proposal under consideration, including a long-term price path expectation.
3. The business should be able to acknowledge the problems created by decisions made previously – comparatively less spending per se, is not enough. Consumers are looking for positive assurance that the spending is designed to meet the National Electricity Objective (NEO).

How we assess draft plans and regulatory proposals

For the SAPN 2020-2025 regulatory proposal, we have engaged experts, Dynamic Analysis, to provide technical advice on the Proposal. This advice is provided at **Attachment A** and builds on our engagement with SAPN at the earlier Draft Plan stage. We include this detailed advice in our submission and as a shared resource for all stakeholders engaging with SAPN as part of this process.

It is important to note that this advice does not reflect an Energy Consumers Australia final position. Rather, it is an input which informs our thinking and highlights areas for further exploration. We ask that network businesses and the AER consider the questions posed and issues raised in the advice, to help further public understanding of the network's strategy and reasoning for the revenue setting proposal.

When we engage with proposals, we hope to see proposals that successfully demonstrate the link between the business strategy and revenue proposal. In these documents, we look to see if the business has unpacked why the decisions being made (or proposed) are in the long-term interests of consumers. We seek evidence about the claims in the proposal and how they link back to consumer preferences and outcome; and how informed consumer preferences have influenced decisions within the business.

Based on our experience in similar processes, we have also come to the position that if one party has information that would make the choice between two alternatives in a draft plan or revenue proposal clear, but will not provide the information, we will assume the information works against the proposed preferred option. Consequently:

- If we are not provided with the information we request, our position is that the expenditure is unjustified.
- If we cannot see evidence of consumer preferences, our position is that the expenditure is unjustified.
- If we cannot see clear evidence of ring-fencing integrity, our position is that the expenditure is unjustified.

Our observation is that different businesses are at different stages of maturity as we move away from the old way of making revenue determinations. Some businesses have taken us on the entire journey; some have willingly shared non-public information with us and our experts; and some re-started this journey with a clear and demonstrated commitment.

At the end of this process, we would ideally be in a position where we can confidently assure consumers that the very best use of their next \$1 is to spend it with their local network to deliver the high-quality network services consumers have said they wanted.

Looking at the decision-as-a-whole, Dynamic Analysis's advice to us is that:

South Australia Power Networks (SAPN) has been delivering its customers quality electricity service at an affordable price over the last 20 years. The 2020-25 regulatory proposal offers further prices reductions for South Australian consumers. SAPN is also leading the industry on tackling challenges and opportunities from integrating solar, batteries and electric vehicles into the grid. Our review however highlights elements of the proposal that require further review and evidence before being accepted by the AER. These include proposed increases to opex, growth and non-network capex programs, and the incentive reward for underspending capex in the last period.

The basis for this assessment is outlined in **Attachment A**. This submission explores these, and other, concerns.

Our response

We recognise that it is the responsibility of the AER to set the maximum revenues that networks are allowed to recover from consumers through network tariffs over the five-year regulatory period, based on its assessment of efficient costs and an informed view on expected electricity demand.

Consumer views and perspectives are integral to ensuring that the decisions made by the AER are in the long-term interest of consumers.

In informing our views on this proposal, Energy Consumers Australia has had a laser like focus on affordability, which needs to be a constraint on all expenditure decisions of the business. At the same time, we understand that distributed energy resources (DER) (such as solar panels, battery storage systems, and other new energy technology) have been highlighted by SAPN as drivers for a different approach to running a distribution network, drivers which will incur costs and risks for consumers, which we explore below.

Engagement with stakeholders

We are in the midst of a paradigm shift in the energy system, which is largely stemming from the uptake of new technology. This change is seeing our networks transition from a “small number of large things, to a large number of small things”.

These “small things” will be accompanied by values, needs and preferences that must and will shape decisions about the transition of the energy system. This challenge moves beyond the engineering changes – it is an extraordinary social and economic reshaping that demands new thinking, new frameworks and new tools.

When thinking about reshaping consumer engagement for revenue determinations, we want to have a deeper, richer and more open dialogue.

In its Proposal, SAPN stated that it has taken a ‘no surprises’ approach to engaging with consumers, stakeholders and regulators⁷.

On the whole, we believe that SAPN’s engagement practices have improved since 2017. We have observed that SAPN is better at engaging on some topics more than others. While the approach to engagement on the future network activities can broadly be described as “no surprises”, this is not the case for SAPN’s response to the changes to the regulatory framework, largely around taxation and depreciation. This issue is discussed in more detail below.

Looking forward, SAPN has already begun reviewing its consumer engagement strategy, reviewing with stakeholders what worked, what didn’t, and opportunities for improvement. In one session that we participated in in March 2019, some stakeholders indicated that SAPN’s engagement had improved since the engagement for the current regulatory period began.

However, one of the overwhelming themes from the March 2019 workshop was that stakeholders wanted engagement where they could advocate and influence outcomes on behalf of their constituent groups. This is at the heart of good consumer engagement – the opportunity to influence and collaborate with network businesses on matters that are not only important to the business, but to consumers. We encourage SAPN to allow itself to be more informed and influenced by consumer stakeholders and to reflect this guidance in its business documentation and decisions.

The bottom line – costs to consumers

SAPN’s Proposal would see annual customer bills decrease from 1 July 2020 by \$40 for the average residential consumer and \$111 for small to medium businesses.⁸ SAPN points to the savings being more than double

⁷ SAPN, *2020-25 Regulatory Proposal: An overview for South Australian electricity consumers January 2019*, page 14. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

⁸ SAPN, *2020-25 Regulatory Proposal: An overview for South Australian electricity consumers January 2019*, page 2. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

the residential savings estimated by the Australian Competition and Consumer Commission (ACCC) (see Figure 1).

These savings are driven by a mix of changes to the regulatory framework and SAPN's efficiency to date. We would like to see SAPN continue to challenge itself on where further savings can be made. Analysis at **Attachment A** (page 9) indicates that there could be opportunity for a further reduction of \$240 million of revenue for SAPN, if not adequately justified.

SAPN has intentionally deviated from the AER's standard approach to projecting its revenue path for the period, as it believes it balances feedback from its consumers about wanting savings in their pocket up front, but also wanting to avoid bill shock.⁹ We support a smoother revenue path as we view stable prices as a road to building consumer confidence and trust.

Figure 1: Achievable average annual residential bill savings by 2020-21¹⁰

Region	Achievable savings (\$ per annum)						2020-21 Bill	% Reduction
	2017-18 Bill	Networks	Wholesale	Enviro	Retail	Reduction		
Victoria	1457	39	192	34	26	291	1166	20
NSW	1697	174	155	43	37	409	1288	24
South east								
Queensland	1705	147	192	18	32	415	1284	25
South Australia	1727	13	227	89	42	371	1356	21
Tasmania	1979	115	226	75	—	414	1490	21

Growth in the regulated asset base (RAB)

A network business's RAB is a significant factor in the affordability of the network, as (in simple terms) the higher the RAB per customer, the greater the overheads the network will recover from consumers and the greater the pressure on bills.

Unlike its peers in NSW and Queensland, SAPN has consistently kept its RAB low, which in turn has helped put downward pressure on prices. SAPN is proposing to increase its RAB from \$4,417.7 million in 2020 to a closing RAB of \$5,059.6 million in 2025. Based on SAPN's Proposal, the AER

⁹ SAPN, *2020-25 Regulatory Proposal: An overview for South Australian electricity consumers January 2019*, page 17. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

¹⁰ ACCC, *Restoring electricity affordability and Australia's competitive advantage, Retail Electricity Pricing Inquiry – Final Report June 2018*, Table A, page xv. Accessed from <https://www.accc.gov.au/publications/restoring-electricity-affordability-australias-competitive-advantage>

projects the RAB value to increase by around two per cent in real terms by the end of the 2020-25 regulatory period¹¹.

Capacity utilisation

SAPN's capacity utilisation has remained largely consistent over the last three years at between 52 and 54 per cent¹².

One of the challenges facing SAPN is how its future grid strategy can take advantage of existing spare capacity on its network, as continuing to add to the capacity of the network could increase the risk of further under-utilised assets in the future.

Investing for the future – what, how and how much?

Our view is that great care needs to be taken to ensure that policies to shore-up the reliability of the system do not lead to overinvestment in the network and further price rises for consumers, who according to the Energy Consumer Sentiment Survey are more satisfied with reliability than value for money. Our thinking about striking the right balance is informed by our strategic framework for the transformation of the energy system and market:

- *Affordability* must be a constraint on investment and decisions about energy – an explicit criterion in decision making up and down the supply chain.
- Energy services must be built around *individuals* to reflect their own use and costs – whether that is consumers who are innovating and engaged; or the majority of consumers who are focused on affordability and costs; or consumers with vulnerabilities.
- Investment in the power system – networks, generation and retail – must be *optimised* based on consumers' demands that not a dollar more is spent than is necessary, not one day earlier than needed.

In its proposal, SAPN notes that increasing levels of rooftop solar panels is causing high voltage events on its low voltage (LV) distribution system. The impact of this is that SAPN is incurring both capex to reactively address consumer complaints about high voltage events and undertake remediation activities¹³.

SAPN also indicates that if current connection rules continue to apply, many areas of the network will exceed its hosting capacity in 2020-25, as consumers continue to invest in solar. Absent a new strategy, SAPN may be forced to curtail the ability for consumers and new energy services providers

¹¹ AER, *Issues Paper*, page 19. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

¹² AER, Regulatory Information Notices (RIN) for 2015/16, 2016/17 and 2017/18. Accessed from <https://www.aer.gov.au/networks-pipelines/network-performance/sa-power-networks-network-information-rin-responses>

¹³ SAPN, *Supporting document 5.10, Distribution System Planning Report*, page 84. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

to get the full value of their investment and participate in a transforming market¹⁴.

SAPN proposes three initiatives to address the voltage issues by implementing greater LV network visibility and dynamic export limits, including:

- visibility of LV network hosting capacity;
- a distributed energy resources register; and
- open interfaces¹⁵.

SAPN engaged Newgate Research to better understand consumers' attitudes to potential options that SAPN could implement to enable more solar in South Australia. This included consulting on three options that SAPN could pursue to manage the impacts of solar on its network. In its consumer research for SAPN, Newgate characterised this package as a "dynamic update", where a new system would be developed to monitor, predict and manage the flow of energy in the LV distribution network, avoiding the need for extensive infrastructure upgrades¹⁶.

SAPN argues that investment to manage voltage issues will also help manage electricity flowing in both directions: from the network to the consumer (the traditional flow); and from the consumer to the network (a new flow as a result of distributed energy resources on the network).¹⁷

It also says that the investments are necessary to ensure the stability and safety of the State's energy system in South Australia. This is because of the different characteristics of renewable generation and, the need to support new, more flexible, demand-side resources.¹⁸

However, SAPN is not the only business proposing options to provide stability to the South Australian energy system.

In February 2019, ElectraNet published its Project Assessment Conclusions Report for its Regulatory Investment Test for Transmission (RIT-T) for the proposed SA Energy Transformation interconnector between South Australia and NSW. RIT-Ts provide the framework for transmission operators to test options for significant investment. In this case, ElectraNet's preferred option is a new interconnector.

¹⁴ SAPN, *Supporting document 5.18, LV Management Business Case*, page 9. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

¹⁵ Ibid, page 12.

¹⁶ SAPN, *Supporting document 0.16, Newgate Research Community attitudes towards Solar*, slide 5. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

¹⁷ SAPN, *2020-25 Regulatory Proposal: An overview for South Australian electricity consumers January 2019*, page 29. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

¹⁸ Ibid, page 28-29.

As part of the RIT-T process, ElectraNet explored several options that included non-network solutions. In its Draft Report, ElectraNet found that:

The continued growth in rooftop PV installations is leading to the minimum grid demand approaching zero in the mid-2020s. Without an additional interconnector, future rooftop PV installations will have to be controllable in order to disconnect them when operating as an island. To enable this, policy changes may be required.¹⁹

As part of its Conclusions Report and in response to public submissions, ElectraNet commissioned Entura to undertake a review of its non-network options. The Entura Report suggests that a number of system supports, including Minimum Load Control in 2025, would be needed for the non-network option to be considered for the "...SA Power System to operate as near as possible to the standard provided by a second AC [alternating current] interconnector."²⁰ Minimum Load Control is defined as "[a] wide area control of embedded storage and/or rooftop solar such that SA demand does not fall below such a level that positive grid demand cannot be maintained when the SA network is islanded."²¹

It is difficult to reconcile these reports. On the one hand, the proposed interconnector will be needed to safeguard South Australia's energy system from rooftop PV and other distributed energy generation connected to the distribution network.

On the other hand, SAPN is telling us that the investment proposed for its future grid strategy will provide that stability for the South Australian energy system.

Either way, consumers pay for the investments made at a distribution and transmission level.

Consumers need to be assured that these investments represent value for money, and that they are not paying twice.

To help clarify the situation, we request SAPN, ElectraNet and the South Australian Government work together to produce a brief diagram about how the two projects relate and provide benefit to South Australian consumers, without consumers paying twice for the same solution.

¹⁹ ElectraNet, *South Australia Energy Transformation Project Assessment Draft Report 29 June 2018*, page 56. Accessed from <https://www.electranet.com.au/wp-content/uploads/projects/2016/11/2018-07-06-SAET-PADR-Final.pdf>

²⁰ Entura, *SA Energy Transformation RIT-T, Consolidated Non-interconnector option, ENTURA-ECA29, 5 June 2018*, page 45. Accessed from <https://www.electranet.com.au/wp-content/uploads/projects/2016/11/SAET-RIT-T-Consolidated-Non-interconnector-Option-Entura-5-June-2018.pdf>

²¹ Entura, *SA Energy Transformation RIT-T, Consolidated Non-interconnector option, ENTURA-ECA29, 5 June 2018*, page i. Accessed from <https://www.electranet.com.au/wp-content/uploads/projects/2016/11/SAET-RIT-T-Consolidated-Non-interconnector-Option-Entura-5-June-2018.pdf>

How much will the “Dynamic Control” option cost?

SAPN advises that the preferred option of dynamic control will cost \$31.80 million of capex and \$3.80 million of opex in the 2020-25 regulatory period (total expenditure of \$35.60 million)²².

Analysis undertaken for Energy Consumers Australia by Dynamic Analysis (**Attachment A**) indicates however, that total capex on the low voltage network is close to \$150 million. Some of this, particularly the low voltage monitoring program, seems to be closely related to enabling dynamic exports. We also think that the proposed solution could lead to cost efficiencies in some of SAPN's business-as-usual programs such as its proposed \$48 million for a quality of supply program that may no longer be required if dynamic exports are viable. We will continue to work with SAPN to understand the total costs associated with this option.

What do consumers want?

SAPN engaged Newgate Research to undertake a point in time survey of residential consumers to find out which of the three options to address voltage issues consumers preferred. These options were described as:

- Option 1: a “comprehensive upgrade” where the network is progressively upgraded with new infrastructure as sections of the networks come under strain from increased solar.
- Option 2: a “dynamic upgrade” where a new system would be developed to monitor, predict and manage the flow of energy in the LV distribution network – avoiding the need for extensive infrastructure upgrades.
- Option 3: a “no upgrade” option which involved routine maintenance only and no additional upgrade of the network for solar customers.²³

The research found that while there was strong support for enabling more solar, some consumers continue to struggle with their power bills²⁴.

Efficient costs and value for money

It is clear that SAPN has undertaken extensive analysis on its approach to managing voltage issues on the LV network. It has also consulted widely through “deep dives” (a workshop focusing on a particular issue) and the Distributed Energy Resources Integration Working Group.

If the benefits of SAPN's proposed investment are to be realised, consumers with solar panels should be able to optimise their investment in their own solar panels; and consumers without solar should benefit from lower network capex costs.

We believe that the focus should be on maximising benefits for consumers, and delivering an appropriate return on their investment. When assessing

²² SAPN, *Supporting document 5.18, LV Management Business Case*, pages 13-14. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

²³ SAPN, *Supporting document 0.16, Newgate Research Community attitudes towards Solar*, slide 9. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

²⁴ Ibid, page 40.

the costs and benefits to consumers, we question whether outcomes such as “reduced risk of adverse media coverage and customer enquiries” and “reduced exposure to financial risk and SPS [service performance scheme penalties]²⁵ should be considered in the equation.

The suite of measure to manage voltage issues on the LV network is ambitious and carries the risk that the proposed program of works may not be delivered within the period, and that the benefits to consumers may not be realised.

Our confidence in the proposed expenditure would be bolstered by an in-period tracking and monitoring of the proposed program of works.

We believe that the discussion would benefit from SAPN providing more information on the dynamic export option outlined in the Proposal. Our specific questions on this topic are outlined in **Attachment A**.

Comments on key components

The key components of SAPN’s Proposal are summarised in Table 1.

Based on the assessment conducted by Dynamic Analysis (**Attachment A**), we have focused our comments on:

- opex (escalation; output; tax and depreciation; and step changes);
- capex (replacement; augmentation; connections; ICT; property, fleet and plant);
- incentives; and
- Tariff Structure Statement.

²⁵ SAPN, *Supporting document 5.10, Distribution System Planning Report*, page 97. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

TABLE 1: SUMMARY OF KEY COMPONENTS

2020-25 SUMMARY	SA POWER NETWORKS
Revenue (\$June 2020, m) Unsmoothed	\$4,220.8 ²⁶
RAB June 2020 (\$m)	\$4,417.7 ²⁷
RAB June 2025 (\$m)	\$5,059.6 ²⁸
Capex (net forecast)	\$1.7 billion (\$2019-2020) ²⁹
Opex (\$m)	\$1,670.8 ³⁰

Rate of Return

Given the AER has finalised its binding rate of return guideline, we defer comment on SAPN's compliance with this guideline to the AER.

Efficiency and productivity

The AER describes the productivity growth factor as capturing the improvements in good industry practice that should be implemented by efficient distributors as part of business-as-usual operations. Examples of areas of improvement include new technology and changes to management practices.³¹

While the Proposal states that SAPN would not apply the AER's productivity factor, at the AER's public forum on 4 April 2019, it announced that it will include the AER's opex productivity adjustment in its revised proposal³². We welcome this move from SAPN.

We support the AER's view that the incentive-based framework is not meant to incentivise the business-as-usual productivity growth that would be

²⁶ SAPN, *Attachment 1, Annual Revenue Requirement and Control Mechanism – January 2019*, Table 1-1, page 10. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

²⁷ SAPN, *Attachment 2, Regulatory Asset Base – January 2019*, Table 2-2, page 21. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

²⁸ Ibid

²⁹ AER, *Issues Paper*, page 19. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

³⁰ SAPN, *Attachment 1, Annual Revenue Requirement and Control Mechanism – January 2019*, Table 1-1, page 10. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

³¹ AER, *Final decision paper: forecasting productivity growth for electricity distributors*, page 7. Accessed from <https://www.aer.gov.au/system/files/Opex%20productivity%20growth%20review%202018%20-%20Final%20decision%20-%202018%20March%202019.pdf>

³² SAPN, *SA Power Networks 2020-25 Regulatory Proposal, AER Public Forum, 4 April 2019*, slide 21. Accessed from <https://www.aer.gov.au/system/files/SAPN%20-%20Presentation%20-%202019%20April%202019.pdf>

expected within the sector, but rather, the productivity growth that exceeds what it has forecast³³.

The analysis at **Attachment A** suggests a scenario where SAPN can continue to drive efficiency in its network, through an ambitious engineering and productivity transformation that could lead to \$9.2 billion in total expenditure savings by 2060. The keys to success under this scenario are to stretch asset life, retire (rather than replace) parts of the network by leveraging consumers' solar panels and batteries, and pursue an aggressive strategy to reduce the cost of delivering capex and opex.

Taxation and depreciation

In December 2018, the AER released its final decision on its review of regulatory tax. In response to this, SAPN amended its approach to depreciation and classification of assets:

As a result of the AER decision, we have reviewed our treatment of economic asset lives, depreciation approaches, and capitalization policies and included these changes in our Proposal capex and opex forecasts. The proposed changes better reflect the actual work undertaken and life of assets involved and therefore align more closely with the depreciation requirements of the National Electricity Rules (section 6.5.5).

Although our proposed changes provide for a capex/opex trade-off reducing capex and increasing opex by \$68 million over 2020-25, the overall impact of the AER Taxation Allowance decision is a net reduction of \$101 million in our allowed 2020-25 revenue.³⁴

While SAPN acknowledges the need to continue engaging with stakeholders on this approach, we would like to further explore the following questions:

- What would the impact have been if SAPN maintained its current approach? And what is the ongoing cost impact of an increasing opex?
- If this approach better reflects actual work and life of assets, why was this approach not implemented earlier? This question is asked because it speaks to consumer trust and confidence. It raises concerns about how closely aligned businesses' revenue proposals are with the actual network investment need, rather than the regulatory process being used as a financial tool for profit outcomes ahead of the long-term interests of consumers.

We are not satisfied that the need for the change is based on the long-term interests of consumers. We see a proposed depreciation allowance that is

³³ AER, *Final decision paper: forecasting productivity growth for electricity distributors*, page 7. Accessed from

<https://www.aer.gov.au/system/files/Opex%20productivity%20growth%20review%202018%20-%20Final%20decision%20-%202018%20March%202019.pdf>

³⁴ SA Power Networks, *2020-25 Regulatory Proposal: An overview for South Australian electricity consumers January 2019*, page 43. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

\$120 million higher than the Draft Plan,³⁵ with a rationale that these changes are more aligned with the NER. Further questions for consideration include:

- The approach in the Draft Plan was the same as the current period,³⁶ which was approved by the AER as compliant with the NER. It does not logically follow that the proposed change is to correct a misalignment.
- If there is scope within the NER for multiple interpretations of the depreciation requirements, then this test must be assessed along-side what is in the long-term interest of consumers. If consumers are telling SAPN that affordability is a key issue, then we would ask the AER to review the depreciation and tax approach in the Proposal. It begs the question - just because you can do it, should you?

The Proposal also reclassifies expenditure associated with cable and conductor minor repairs on the basis that this would address inter-generational issues raised by the AER in its tax review (that is, where current customers receive short term benefits at the expense of future consumers).³⁷

Accelerating the recovery of long-lived network investments so that only current customers pay for them actually shifts business risk from the business to the consumer. In effect, instead of the business developing a strategy to deal with uncertainty in the future, it is making the consumer underwrite the risk associated with uncertainty. We view this as being unfair given large businesses are better placed to manage uncertainty than residential and small business consumers. In addition, if the network sees that the investment can continue to be optimised once the consumer has paid for it earlier than they needed to, it is unclear what additional benefits consumers would receive from this strategy.

Opex

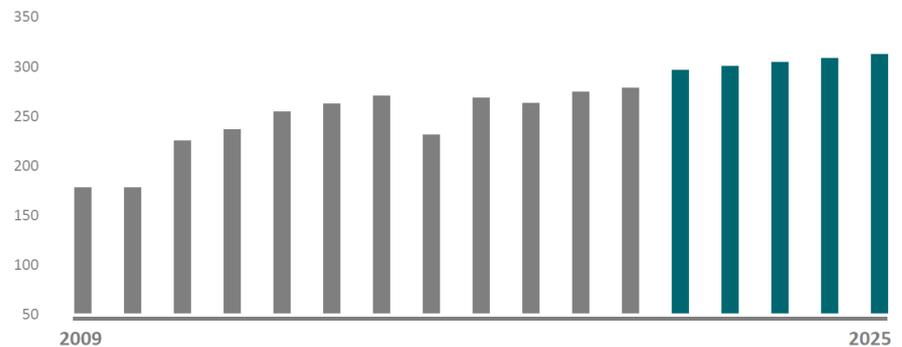
Looking at opex as a whole, SAPN's opex has increased by close to 50 per cent over the last 10 years (**Attachment A**, page 27). Figure 2 tells us that SAPN's 2024-25 proposed opex will be 18 per cent higher than its actual opex in 2017-18.

³⁵ SA Power Networks, *2020-25 Regulatory Proposal: An overview for South Australian electricity consumers January 2019*, Table 9.3, page 45. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

³⁶ SA Power Networks, *2020-2025 Draft Plan*, page 60. Accessed from <https://www.talkingpower.com.au/38336/documents/84356>

³⁷ SAPN, *2020-25 Regulatory Proposal – Attachment 7 – Corporate Income Tax*, page 8. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

Figure 2: Opex increase from 2009 to 2025 (\$m, real 2020, excludes metering)



Dynamic Analysis has identified the following opex components that warrant closer AER scrutiny (**Attachment A**, page 30).

Opex step changes

This represents an increase of \$95 million. The main concerns are:

- cloud transitioning – timing of the project and cost estimates for the hosting and scheduling.
- cable conductor and minor repairs – this represents an increase of \$60 million in step changes, which is a significant amount. We are querying whether the proposed expenditure is truly a repair and does not extend the life of the asset. This step change alone would increase SAPN's opex by 5.3 per cent and prices by about 1.5 per cent.
- LV management – staff and salary level (if related capex is approved).
- Guaranteed Service Level (GSL) step change. This component requires a negative step change since the GSL costs will fall by 40 per cent from 1 July 2020. The Essential Services Commission of South Australia (ESCOSA) advises that this equates to an annual contribution of around \$5 per customer³⁸. We would like to see the evidence of the underlying calculation to be assured that the cost reduction proposed by SAPN is appropriate and the design integrates with the AER's base year allowance.
- Critical infrastructure compliance – given the confidential nature of the business case, we would rely on the AER to undertake close scrutiny of the costs in line with the questions outlined in **Attachment A** (page 30).

Trend and output price

Given the significant increase in opex for output and labour price, we would like to see more tangible evidence that SAPN's underlying opex is impacted significantly by customer growth and network assets (see **Attachment A**, page 31).

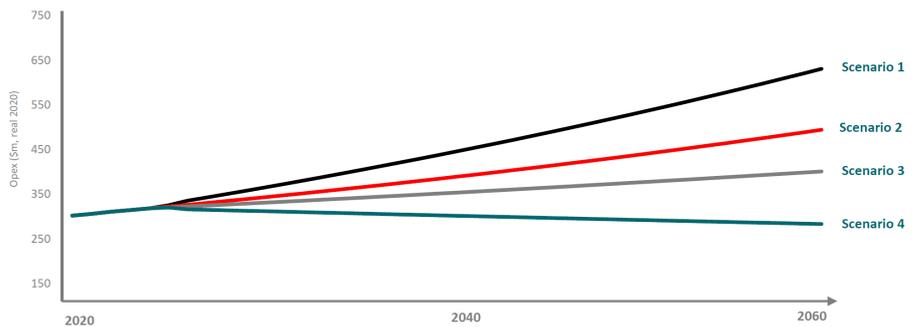
³⁸ ESCOSA, *Fact Sheet: Changes to SA Power Networks' Guaranteed Service Level (GSL) scheme from 1 July 2020*, page 2. Accessed from <https://www.escosa.sa.gov.au/ArticleDocuments/1188/20190107-Electricity-SAPN-ReliabilityStandards-GSL-Scheme-FactSheet.pdf.aspx?Embed=Y>

Trend productivity

Analysis undertaken by Dynamic Analysis indicates that without ongoing productivity, South Australian consumers are likely to suffer affordability issues in the long-term. This is particularly the case if opex continues to rise for step changes, output and labour but energy sales remain flat. Figure 3 illustrates four opex scenarios. What would happen to opex from 2025 if SAPN:

- Scenario 1: continue to increase opex based on steps and trends in 2020-25
- Scenario 2: removes the impact of step changes
- Scenario 3: removes the impact of escalation
- Scenario 4: incorporates a productivity trend on top of scenario 3.

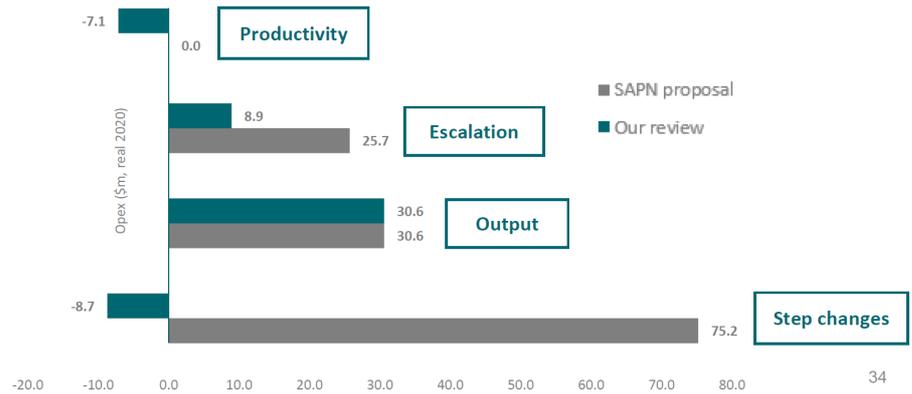
Figure 3: Opex scenarios



	Annual step change	Annual Output factor	Annual escalation factor	Annual productivity
Scenario 1	\$3m	0.67%	0.61%	0%
Scenario 2	\$0m	0.67%	0.61%	0%
Scenario 3	\$0m	0.67%	0%	0%
Scenario 4	\$0m	0.67%	0%	1%

Attachment A outlines many questions for further reflection by SAPN and the AER. Dynamic Analysis also considers the following components require justification, the magnitude of which is outlined in Figure 4. We note that the SAPN has made a verbal commitment to adopt the AER’s 0.5 per cent productivity and will include it in its revised proposal.

Figure 4: Magnitude of adjustments to components of opex

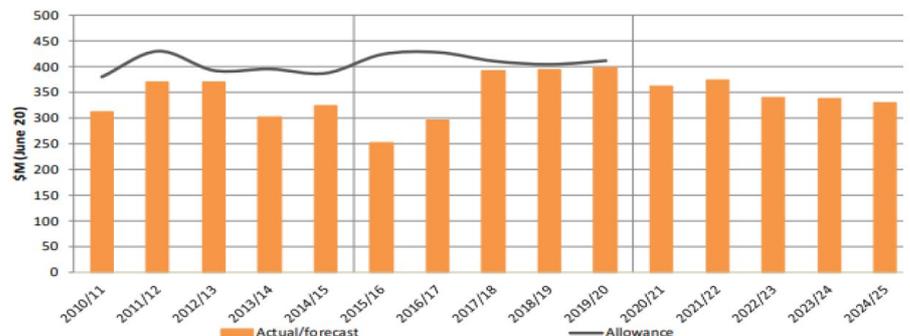


Capex

Dynamic Analysis has indicated three areas of opportunity for SAPN to minimise its proposed capex: augmentation capex (augex), connections and non-network programs.

The initial review of the capital trends also suggests that SAPN tends to deliver fewer projects than forecast. While this could be due to delivery issues or decisions to defer forecast capex closer to the time of delivery, this has a cost impact for consumers, which we will discuss later in the submission. Figure 5 highlights the systemic over-estimation in its forecast process, either due to delivery capacity, prioritisation closer to delivery, or forecast assumption errors such as customer growth. For the past two regulatory periods, SAPN has underspent its capex allowance by about 18 per cent.

Figure 5: Comparison of SA Power Networks actual/forecast vs AER allowance (\$m, real 2020)



Source: SAPN Regulatory proposal

Repex

Our concerns about SAPN’s repex component is largely about whether this level of replacement is sufficient over the long term. This flags an issue for

regulatory periods beyond 2025, as tension may grow between the need to retain affordability constraints without impacting reliability.

Augex

SAPN proposes to invest \$400 million of augmentation at a time when energy demand is falling and replacement challenges are increasing. The drivers of this proposed investment include:

- Maintaining or improving reliability:
 - SAPN is proposing \$64 million on programs that impact frequency and duration of outages; and \$50 million on safety programs.
 - ESCOSA's final decision on reliability standards for SAPN for 2020-2025 is for SAPN to maintain reliability at current levels rather than improve or reduce performance. ESCOSA's approach was supported by results of a customer survey showing consumers are satisfied with reliability outcomes and have limited willingness to pay for reliability improvements. ESCOSA also indicated that the results of economic assessments show no clear economic benefit in setting targets to improve performance³⁹.
- Investing in monitoring and modelling its low voltage network. This is related to the work to manage voltage and two-way flows of energy on the network, referred to earlier in the submission.
 - SAPN is proposing to spend \$150 million on measures to address voltage issues arising from two-way energy flows; including \$48 million on rectifying issues with voltage complaints based on business-as-usual historical costs.
 - When the AER undertakes its analysis, we would expect it to consider affordability as a constraint on all investment areas, any equity issues for consumers with solar panels based on where they are situated on the network in relation to other network assets, and consumers' appetite to undertake the expenditure.

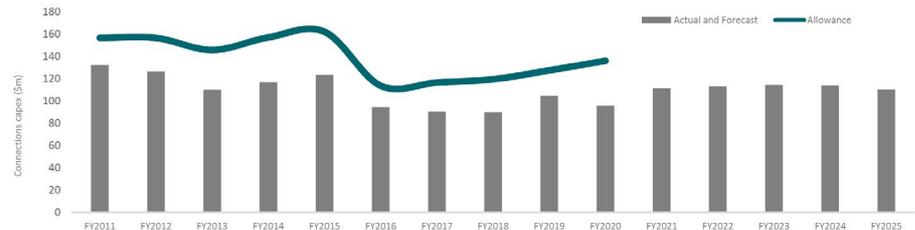
Given SAPN's history of underspending, Dynamic Analysis considers that about 20 to 30 per cent of the proposed augex is likely to be deferred in practice based on historical data.

Connections

SAPN spent 22 per cent less than the AER's allowance in the 2015-20 and 2020-15 periods (see Figure 6). It is now forecasting an 18 per cent increase from its actuals. We would like to see the AER undertake a robust analysis of the drivers of these changes to see if there is a chronic over-estimation of connections capex in the forecast or something else. The better outcome for consumers is to not have to pay for investment that is not needed or not based on robust data.

³⁹ <https://www.escosa.sa.gov.au/projects-and-publications/projects/electricity/sa-power-networks-2020-reliability-standards-review>

Figure 6: SAPN’s actual/forecast connections capex compared to the AER allowance (\$m, real 2020 for 2016 to 2025, nominal for 2011 to 2015)

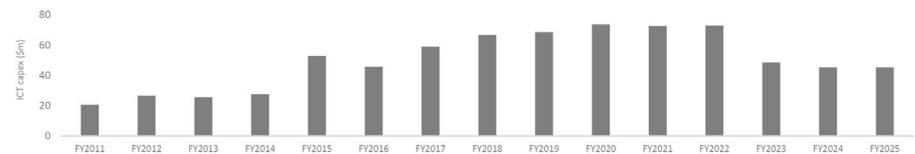


Information and Communication Technology (ICT)

As stated in our submission to SAPN’s Draft Plan, we recognise that ICT is required as a transformation enabler. However, this position does not mean that consumer preferences, outcomes and benefits should not be articulated.

The key issues across the NEM are the lack of transparency and trust that the proposed ICT investment will deliver what it is meant to, and that the level of ICT investment is needed. Much of these concerns stem from not knowing what is driving the investment, not being able to see clear links between ICT investment and increased productivity and efficiency (and therefore reduced costs to consumers); and, the apparent need to invest more often. Figure 7 illustrates the amount of ICT investment in SAPN since 2011.

Figure 7: Actual and forecast ICT capex (\$m, real 2020 for 2016 to 2025, nominal for 2011 to 2015)



We have engaged Dr Rob Nicholls of the University of New South Wales to assist in building the knowledge and capability of advocates so that we may be able to engage meaningfully with networks on this topic. We aim to create a safe space for dialogue between network businesses and advocates to explore this component. In the meantime, we need to see a clearer link between consumer benefits/efficiencies stemming from ICT investment (see pages 46-48 of Attachment A).

Property, fleet and plant

Dynamic Analysis advises us that SAPN has underspent its allowance in all three categories over the last two regulatory periods. It is now asking for an 18 per cent increase in actual capex without a clear articulation of drivers. We ask the AER to carefully review the proposed \$200 million for property, fleet and plant and tools (see page 49 of Attachment A).

Incentives

SAPN is proposing a Capital Expenditure Sharing Scheme (CESS) reward of \$70 million, which Dynamic Analysis advises us equates to a residential consumer paying \$10 more a year for electricity (page 52, **Attachment A**).

Incentive frameworks are designed to provide consumers with a fair share of benefits from efficient actions undertaken by the network business. We question whether the CESS proposed to be claimed is due to efficiency measures rather than over-forecasting or simply not being able to deliver the program. For example, Figure 8 shows how many projects have been deferred due to incorrect forecasts. We ask the AER to consider the primary motivator for undelivered projects when assessing the CESS reward.

Figure 8: Actual / forecast augex compared to the AER allowance⁴⁰

Project Name	Region	Project Category	Planned Year	Estimated Cost (\$ million ⁴⁰)	Status	Reason for deferral / Comment
Barossa South Sub Upgrade (Mod 2)	Barossa	Substation Capacity - Existing	2016	3.5	Completed	-
Dorrien 33/11kV substation upgrade	Barossa	Substation Capacity - Existing	2015	2.8	Completed	-
Lyndoch East Substation (2 x Mod 6)	Barossa	Substation Capacity - New	2018	4.0	Not commenced	Slower customer load growth – deferred post 2025
Stockwell Sub Upgrade (No2 Mod 2 Substation)	Barossa	Substation Capacity - Existing	2018	3.9	Completed	-
Eliza Street Cable Duct works	CBD	Substation Capacity - New	2019	3.7	In progress	-
Meadows Substation Upgrade	Eastern Hills	Substation Capacity - Existing	2019	2.3	Not commenced	Slower customer load growth – deferred post 2025.
Mount Barker East Substation – New	Eastern Hills	Substation Capacity - New	2019	5	Not commenced	Slower customer load growth – deferred post 2025.

Incentives – theory and practice

The design of economic regulation for electricity distribution networks in Australia is described in general as an ‘incentive framework’ and is acknowledged as being derivative of the RPI-X price cap approach developed in the UK. While the regime continues to use a CPI-X approach to revenue smoothing, it is otherwise nothing like the original intent. The building block approach used to reset allowed revenue is more accurately described as a modified ‘cost of service’ mechanism with components of Performance Based Regulation. Cost of service regulation itself is a misnomer as applied in the US as it doesn’t set prices on the basis of current costs but on prior costs, and therefore in an environment of declining average costs utilities benefitted from this regulatory lag.

The theory of incentives as applied to regulation by Laffont and Tirole considers a choice between polar extremes of actual cost of service

⁴⁰ SAPN, *Supporting document 5.10, Distribution System Planning Report, 2020-25 Regulatory Proposal, January 2019*, page 34. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal>

regulation and total price cap regulation. They identify that the social welfare maximising option is to provide the regulated firm with a choice of what proportion of revenue is recovered from each form, a firm that believes it has high cost saving opportunities will choose a mix with a high incentive.

The Australian model has five significant flaws⁴¹:

1. The approach to efficiency includes an inherent paradox. The regulator in setting the revenue allowance is determining the efficient costs of the business, but the incentive regime is designed to reward greater efficiency. The better the AER does its job *a priori* the less the available incentive for management.
2. The design of the Efficiency Benefit Sharing Scheme notionally distributes the benefits of efficiency improvement 30:70 between the firm and consumers. In practice the firm gets its share in the six years following the improvement, while consumers need to wait till the 15th year till they get the first 30 of their total 70. A scheme whereby consumers get the immediate benefit of some of the cost saving would be preferable and would in part resolve the paradox.
3. The estimation of the allowed rate of return is inconsistent with the operation of the incentive schemes. The CAPM assumes that actual returns are normally distributed around the expected return while the operation of the incentive mechanisms has been biased (and we would argue should be biased) on the upside. The intention is to reward the welfare maximising level of effort by managers in improving technical efficiency.
4. The incentive regime does not properly reward a business for the additional risk inherent in Research Development and Design (RDD) activities necessary to introduce the most significant efficiency improvements (that is, innovation). The logic that these activities should not require funding because the developments will reduce costs is undermined by the fact that not all RDD will deliver benefits. This is further eroded by the demand that an allowance for capital expenditure requires a matching reduction in operating expenditure. A final complication can be that the savings might not emerge at all till the next regulatory control period.
5. The approach to benchmarking the allowed rate of return and the tax allowance has historically been interpreted as an area where the network should benefit from financial management to reduce costs. Recent decisions on the weighted average cost of capital and tax allowance have sought to reduce this scope by setting the allowance at the (genuinely) efficient rate. Networks have consequently seen a reduction in the potential for economic profit which they may seek to recover in other ways. We support the AER's decision on the taxation review. However, this does not exempt SAPN from needing to provide the evidence to demonstrate that its change in approach

⁴¹ These flaws are to be expanded on in a paper being prepared by Energy Consumers Australia for consideration in July.

to depreciation is appropriate and in the long-term interests of consumers (whether they are today's consumers or tomorrow's).

SAPN should be recognised for the effort they have put in to achieving efficiencies. Of all the networks they most acutely feel the impacts of high DER penetration and, consequently, have the most to gain from strategies to optimise the value of DER use. However, providing an upfront allowance for the development without compensating savings potentially over-rewards innovation, while providing an allowance with compensating savings potentially under-values risk and will stifle innovation. A combined approach of a 'cost compensation' approach for innovation capex (that is treat it as a passthrough) and bringing forward to consumers the benefit of efficiency improvements could better manage the innovation risk/reward trade-off.

We encourage SAPN to think more broadly about how the regime can work for the benefit of investors and consumers.

Tariff Structure Statement

The context

Energy Consumers Australia has assessed the extent to which SAPN's Tariff Structure Statement (TSS) creates opportunities to unlock the potential flexibility in consumers' energy use now and into the future, often described as demand side participation. Where consumers are able to understand and respond to opportunities to be rewarded for this flexibility, the necessity to build expensive long-lived assets to meet the electricity needs in our homes and businesses is lessened.

There is also a larger context, which goes to the nature of energy markets, and whether they are effectively working in the interests of consumers. Following completion of the Retail Electricity Pricing Inquiry in June 2018, the ACCC is closely monitoring all parts of the supply chain in the electricity sector for the next seven years with a focus on improving affordability including addressing the "dysfunctional state of energy retailing."⁴²

The ACCC expressed its concern in the Retail Electricity Pricing Inquiry that progress in shifting to "user pays" or cost reflective pricing for the use of electricity distribution networks has been too slow. In our view, simply mandating that network tariff changes be imposed on all consumers with digital meters could have unknown and unintended consequences for consumers in the retail market, even allowing that governments could take a role in providing an adequate safety net for low income consumers.

When consumer groups are faced with consideration of the merits of proposed changes to the design of electricity distribution network tariffs, in almost all instances there is an absence of information on how these tariffs will be reflected in the choices of retail pricing offers made available to residential and small business consumers. When consumer groups see retailers limiting choice, such as no longer offering "flat rate" retail pricing following the implementation of cost reflective network tariffs, or see

⁴² <https://www.accc.gov.au/media-release/more-work-needed-to-make-electricity-prices-affordable>

consumers experiencing bill shock from being charged peak rates, it negatively impacts confidence and trust which is already low in this market.

Further, there is an absence of information on how different consumers could be impacted by retail pricing offers that exposes them to peak pricing. As is evident in our Energy Consumers Sentiment Survey there is a lack of easily available information and tools to enable them to manage that risk, at the time they are making decisions that impact on energy use rather than seeing the electricity bill as the price signal.

Exposing consumers to the risk of higher bills – or the opportunity for lower bills – without ensuring they have the capacity to understand and respond is in stark contrast to the intention of the package of measures that have been recently introduced to improve consumer outcomes in retail energy markets.⁴³

SAPN network tariff design

In consultation with customers, SAPN developed four customer impact principles that it has demonstrated it has applied in developing its TSS:

- Principle 1 – empower the consumer
- Principle 2 – fairness and equity
- Principle 3 – simplicity (to inform consumer decision making)
- Principle 4 – compliance.

SAPN has clearly articulated a rationale for the changes being made to network tariffs, given the uptake of solar which has resulted in a solar trough in the middle of mild sunny days and reverse power flows on the network.

“Consequently, our proposed tariffs include a stronger pricing difference between the solar “trough”, and the morning and afternoon peaks to encourage customers to use energy in the solar trough period – and to avoid the morning and afternoon peaks.”⁴⁴

The tariff strategy also responds to the need to address peak demand (while a consideration, no longer a key driver of growth in the SAPN network) and localised demand constraints. The proposed tariff structures are also designed to influence consumer behaviour in relation to the timing and the nature of charging of electric vehicles.

SAPN is proposing that the changes to network tariffs will apply to customers with digital meters (described as interval meters), which is currently approximately 10 per cent of residential and small business customers and rising to 45 per cent by 2025.

Our understanding of the package of network tariffs proposed by SAPN is that they work together to significantly increase the proportion of electricity consumption that is potentially flexible in response to pricing signals, if passed through by retailers. This is evident in the analysis shown in Figure 9 (that is, Figure 17.44 in Attachment 17 of the Proposal). The proportion of

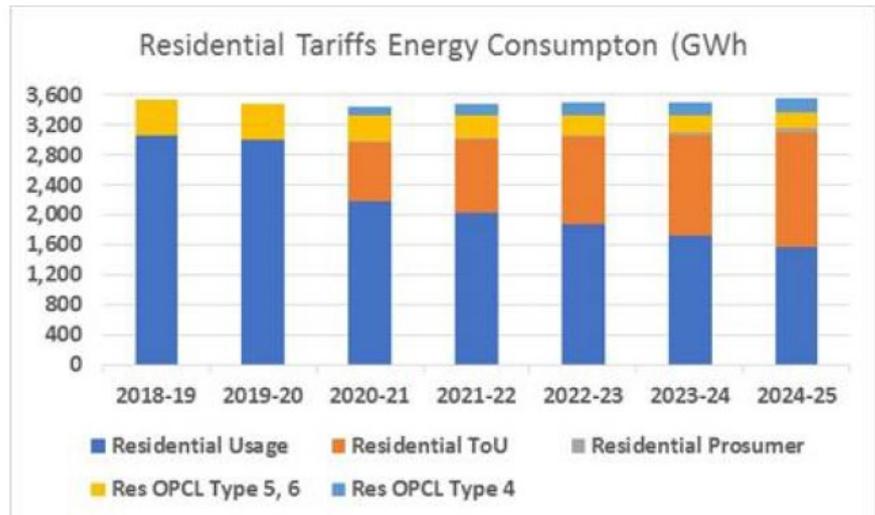
⁴³ This includes the default market offer

<https://www.energy.gov.au/publications/price-safety-net>

⁴⁴ SAPN Regulatory Proposal Overview, p. 37

residential consumption that is covered by network tariffs with peak and off-peak pricing rises from around 17 per cent to 56 per cent in 2020-25.

Figure 9: Residential tariff forecast energy consumption by class



Source: SA Power Networks analysis

We support the following elements of the network tariffs proposed by SAPN for residential and small business customers, as summarised in the Regulatory Proposal 2020-25⁴⁵ including:

- the replacement of inclining block tariffs with a flat usage rate for (existing) customers without digital meters;
- time of use as the default tariff for consumers installing digital meters from 1 July 2020, with significant blocks of off-peak pricing (which offsets a potential concern with having peak periods apply on weekends and public holidays for residential consumers);
- the off-peak controlled load tariffs, for electric hot water systems and appliances;
- an optional “prosumer” demand tariff for customers with new technologies (for example, solar and battery systems, home energy management systems), using average demand for residential customers during the peak window and anytime demand for small business; and
- the moderate increase in the supply charge, applying across all tariffs.

There are elements of the proposed tariffs where we have concerns, which go to ensuring that there is a fair transition, and the evidence of consumer impacts.

- There is no requirement to inform existing customers that have digital meters of the change in the network tariff on 1 July 2020, even though it could have an impact on their bill. (We recognise that time of use tariffs are simpler than a demand tariff, but the issue remains nonetheless). SAPN has identified that this is 13 per cent of residential customers and

⁴⁵ SA Power Networks 2020-25 Regulatory Proposal, p. 39 and Attachment 17 Tariff Structure Statement, p. 13.

15 per cent of small business customers.⁴⁶ For this reason, our view is that these customers should be able to opt-in to the time of use tariff rather than be defaulted onto the time of use tariff. Our view could change if it could be shown that 100 per cent of these customers would be better off than on the existing inclining block tariff.

- SAPN does not propose to allow consumers with a digital meter to “opt-out” back to a flat rate tariff. In the absence of SAPN offering a flat rate tariff for customers installing a digital meter after 1 July 2020, a retailer may also not offer the customer a choice of a flat rate *retail* tariff. We would like to understand from the retailers in South Australia whether this could be the case.
- There is an assumption that consumers with digital meters on a *retail* time of use tariff will be provided with the information on their energy use, in such a way that enables consumer decision making to shift or reduce their use. In the absence of this information, the only price signal consumers will receive is in their bill. There is a need for a whole of sector conversation in advance of the introduction of these tariffs on 1 July 2020 that addresses how consumers will be provided with information on their use that is meaningful and actionable and in particular, the appliances that drive their use.
- SAPN has estimated that for residential customers the “network price will vary by not more than five per cent of the current retail price”⁴⁷ and therefore proposes no transition arrangements. Appendix D of Attachment 17 in the TSS provides more detailed analysis which shows the proportion of residential consumers (with and without solar systems) have a higher bill on a time of use tariff compared with a flat rate tariff. For the 20 per cent of residential consumers without solar that have a higher bill, most have a potential increase of 5 per cent (it is not clear whether this is the retail price or network use of system charges) or less. If low income consumers in this group could be identified, then measures could be targeted to offset the impact, or to exclude them from a time of use tariff (for example to exclude people on life support, with medical needs for heating or cooling). Noting that the tariffs are technology neutral, for consumers with solar the impacts overall are small and dependent on the proportion of consumption that is charged at lower rates. Similarly, for small business customers, SAPN has identified the potential change in the network use of system charges of the proposed tariffs. For most small businesses those on time of use tariffs will have decreases in their network bill, while a significant proportion of small businesses that will be shifted to the anytime demand charge will face increases in costs. Our expectation is that SAPN would work with these businesses to adjust their energy use during the transition period, and if needed adapt the tariff or offer an alternative demand response/load control mechanism, to enable behaviour change.

In our view it is important that SAPN continue to explore within the regulatory period innovative mechanisms to unlock the flexibility in consumers’ energy use as well as find solutions that enable the potential impact of more cost reflective pricing to be mitigated. In this context we support:

⁴⁶ SA Power Networks, Attachment 17 Tariff Structure Statement p. 11

⁴⁷ SA Power Networks, Attachment 17 Tariff Structure Statement p. 58

- SAPN's approach to integrating demand management and trials into their overarching tariff strategy, in particular the Riverland trial and the hot water management trials; and
- SAPN continuing to investigate the appropriate mechanisms for unlocking customer value in Virtual Power Plants.

Given that SAPN is at the frontier of new technologies adoption (as is evidenced in the prosumer tariff), we suggest that there be a further exploration of how alignment between the retail incentives for the timing and location of local generation (or demand response); and the network tariffs and charging can be aligned to optimise the benefits for consumers.

Conclusion

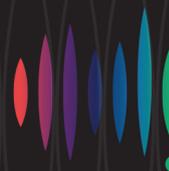
Energy Consumers Australia has appreciated the opportunity to comment on the SAPN Proposal for 2020-25 and address issues raised in the AER Issue Paper.

If you have any questions about our comments in this submission, or require further detail, please contact Shelley Ashe, Associate Director – Networks, by email at shelley.ashe@energyconsumersaustralia.com.au or phone on 02 9220 5514.

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