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22 January 2020

Mr Warwick Anderson  
General Manager  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

Via email: [SAPN2020@aer.gov.au](mailto:SAPN2020@aer.gov.au)

## **SA POWER NETWORKS REVISED REVENUE PROPOSAL 2020-25**

Dear Mr Anderson,

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments (COAG) 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's (AER) consultation on its Draft Decision for SA Power Networks (SAPN); and SAPN's revised revenue proposal for 2020-25.

Our view is that the revised proposal is capable of acceptance on a decision-as-a-whole basis. This conditional support is subject to the AER being satisfied about the issues we raise in this submission.

In forming our view, we acknowledge the effort SAPN has taken to provide additional information, narrowing the evidence gap and addressing to a large extent, stakeholder concerns. However, we note that there are some aspects of the revised proposal that would benefit from more information.

### ***Further assurance needed***

We engaged Dynamic Analysis to undertake a technical review of SAPN's initial and revised proposals. This analysis informed our submissions on the draft plan (in October 2018) and the AER's Issues Paper (in May 2019). We have attached the technical report provided by Dynamic Analysis to help inform your assessment. This assessment has raised the following areas where further substantiation would be required before an unconditional view of capable-of-acceptance could be reached.

- Operating expenditure (opex)  
On the whole, SAPN's revised opex proposal demonstrates its willingness to address the concerns consumer organisations raised in the initial proposal. The additional information SAPN provided to substantiate some step changes, and the decision to include a negative step change to pass through productivity savings from its capital ('capex') program. Two elements of opex that are not substantiated to the same level include Guaranteed Service Level (GSL) payments and labour costs:
  1. The evidence base for the Guaranteed Service Level (GSL) payments is not as transparent and it is not clear what new analysis has caused SAPN to alter its original proposal.
  2. It is recognised that forecasting is a complex activity, and one that must be robust where consumers pay the bill. The discussion about whether to use the AER's



forecaster (DAE) or SAPN's forecaster (BISOE) must be informed by the evidence base. Dynamic Analysis suggests that the AER's analysis indicates DAE has provided more accurate forecasts in the past than BISOE. Looking at past accuracy appears to be a sensible metric when assessing the credibility of one professional forecaster over another. We cannot see sufficient justification from SAPN to substitute the AER's draft decision.

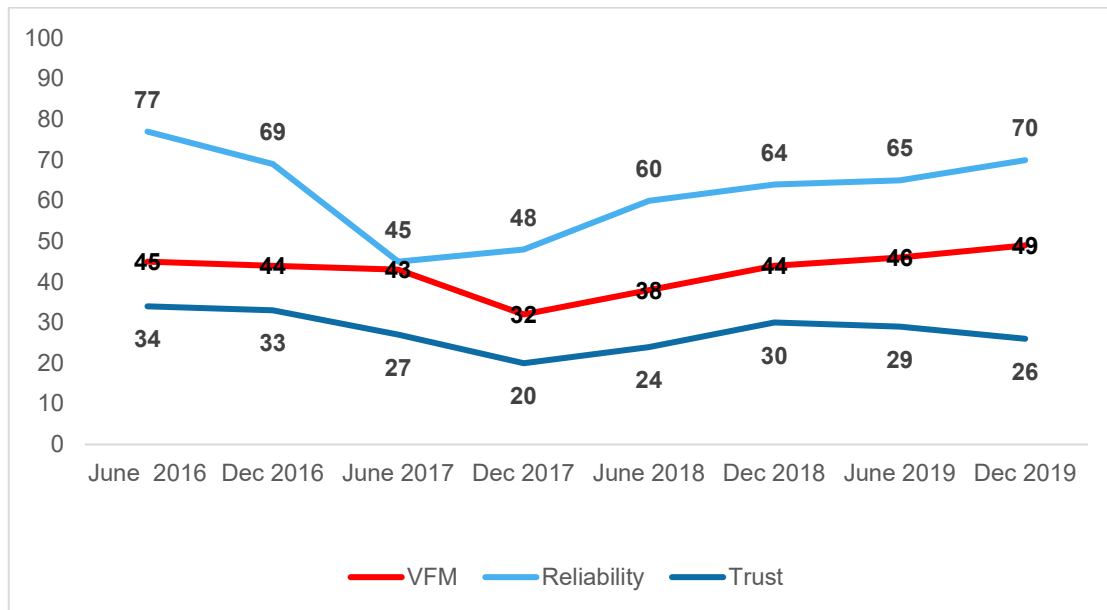
- **Connections capital expenditure**  
The key issue is whether the connecting customers should be paying for the full connection themselves, or whether the general customer base should cover these costs, especially if these costs are driven by large customers such as developers or government agencies.
- **Reliability capital expenditure**  
We consistently see similar issues raised across the National Electricity Market (NEM) about improving reliability on low reliability feeders and to make the system more resilient to storm and other weather events. Our expectation is that networks explore all possible options to meet reliability standards at the least possible cost for consumers. We note that one network has established a Network Innovation Advisory Committee which is a forum for the business to work through these matters with consumer representatives in an open and collaborative way. We are encouraging networks to consider how these kinds of approaches might be adapted for their context.
- **Property and fleet capital expenditure**  
Trust is an important factor in this cost component. As we stated in our submission to the AER's Issues Paper, SAPN had underspent its allowance in all three categories over the last two regulatory periods. This raises concerns about governance and program delivery. SAPN may wish to consider, for example, committing to not claiming an incentive reward for any unspent funds related to this component.
- **Incentive rewards**  
The above issue about property and fleet management is a good example of the lack of transparency around how incentive rewards are provided. ECA supports incentive-based regulation, and mechanisms that deliver outcomes for consumers and reward networks for delivery. However, consumers need to be absolutely assured however that the rewards are given for true efficiency and innovation rather than simply delaying or otherwise not-delivering a program of works.

### ***What consumers are telling us***

In our December 2019 Energy Consumer Sentiment Survey, for households in South Australia there have been improvements in satisfaction with reliability; and value for money of electricity services has improved, from the lows of December 2017, although there continues to be a gap between these two measures (see Figure 1). However, the longer-term trend is a decline households' confidence that the market is working in their interests (trust).



**Figure 1 Long term trends in household sentiment in South Australia**



Source: Energy Consumer Sentiment Surveys

Note: The results reported are the percentage ranking these attributes 7 or more a scale of 1-10 (a positive rating)

**Replacement capex (repex)– what do energy services look like in South Australia in 2050?**

South Australian consumers currently pay the some of the highest electricity prices in the world.<sup>1</sup> In our presentation at the AER’s public forum, we quoted its *State of the Energy Market* report, “South Australia had the highest electricity bill to income ratio in low income households, despite having the second lowest electricity use in the NEM.”<sup>2</sup> On the upside, the Australian Competition and Consumer Commission (ACCC) indicates that SAPN has one of the lowest Regulated Asset Bases (RAB) in the NEM.<sup>3</sup>

On the evidence, Dynamic Analysis suggests that SAPN’s current replacement is well below sustainable levels given the age of the network. The risk for consumers in this situation, is the potential that in the future a significant amount of investment will be made in a short time – a “bow wave” of investment – that could see prices increase at a steep rate over a short time. This would be a negative outcome for consumers where trust is built on stable prices and all parts of the supply chain making every effort to put downward pressure on prices.

In our submissions to SAPN’s Draft Plan and the AER Issues Paper, we recognised that there is a potential repex need in the medium term. However, this comment does not stand alone. We have also raised the need for a plan for future investment in the network, where new technologies at possibly lower prices means that network businesses’ approach to replacing assets is not done on a like for like basis in perpetuity. We’ve asked about how distributed energy resources/ new technology and

<sup>1</sup> AER, *State of the Energy Market 2018*, Figure 1.9 International household electricity price comparison.

<sup>2</sup> Ibid, page 64.

<sup>3</sup> ACCC, *Retail Electricity Pricing Inquiry – Final Report*, Figure D: Regulatory asset base 2006 to 2017, by NEM region, real \$2916-17, page ix.



demand management has been considered to help retire assets rather than continue with like-for-like replacement<sup>4</sup>. And we've stated that 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.<sup>5</sup>

The challenge for both SAPN and the AER, is to balance the need for investment now vs what will be needed to deliver the energy services that consumers desire in the medium term. In this situation, the risk for consumers is that they will be paying for assets that are no longer needed/ stranded in the future.

We have recently been developing some energy consumer-focused future scenarios using the Oxford Scenario Planning Approach to help us think about what Australia could look like in 2050 and how energy services could be supplied to consumers at that time. We have also undertaken research on consumer expectations which includes what consumers expect from their energy supply in the future and how it fits into their everyday lives. We would be happy to work with SAPN, the AER and other consumer advocates to help develop an approach to asset replacement that aims to mitigate the risk of unavoidable future costs for consumers.

We expect that the AER will also soon begin considering what types of evidence it will want to see to demonstrate that networks are thinking about future technology and investment need, and whether investment in traditional network assets (with their long-term pay-back period) remains efficient. We suggest that the AER may want to consider reviewing the efficiency of long-term investment decisions in the face of new technology, non-network and network solutions (including microgrids and stand-alone power systems that networks are currently trialing).

### ***Incentives***

For consumers to have confidence in incentives, there needs to be absolute clarity that what is being rewarded is genuine efficiency improvement, not just a reward for persuading the regulator to make too generous allowances in the previous revenue period.

### ***Consumer engagement***

We have observed positive consumer engagement with SAPN. From a logistical perspective, SAPN provides for many different ways for advocates to engage (webex, in person, teleconference); provides well thought-out materials and agendas for meetings; will make key personnel available for discussions and produces easy to understand documentation.

We have also seen SAPN working hard to deliver better outcomes for consumers by holding a retailer-specific forum on tariffs. This forum provided retailers with opportunities to think more about how they could pass on the benefits that are expected to flow from SAPN's innovative tariff approach and for consumer advocates to engage with retailers about passing through the benefits.

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<sup>4</sup> ECA, *Submission to the SA Power Networks Draft Plan, Attachment A, Zoning in on key issues - Capex*, page 9. Accessed from <https://energyconsumersaustralia.com.au/wp-content/uploads/Submission-to-the-SA-Power-Networks-Draft-Plan-2020-25-AppendixA.pdf>

<sup>5</sup> ECA, *Submission to the AER Issues Paper: SA Power Networks electricity distribution determination 2020 to 2025*, page 4. Accessed from <https://www.aer.gov.au/system/files/ECA%20-%20Submission%20on%20SA%20Power%20Networks%20Regulatory%20Proposal%202020-25%20-%2016%20May%202019.pdf>



**Concluding comments**

The revised proposal indicates SAPN's willingness to change approach on some matters in the face of regulator and stakeholder views. Consumers need to be assured that SAPN is thinking about its repex challenge in a way that joins up the thinking about the future of energy services in South Australia, how consumers want to engage with their energy services, and the mutual benefits and opportunities that new technology and new approaches could provide.

Yours sincerely,

Rosemary Sinclair AM  
Chief Executive Officer

Att: Dynamic Analysis report *Technical advice to Energy Consumers Australia. Review of South Australia Power Networks' revised regulatory proposal*