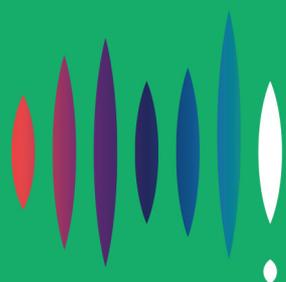
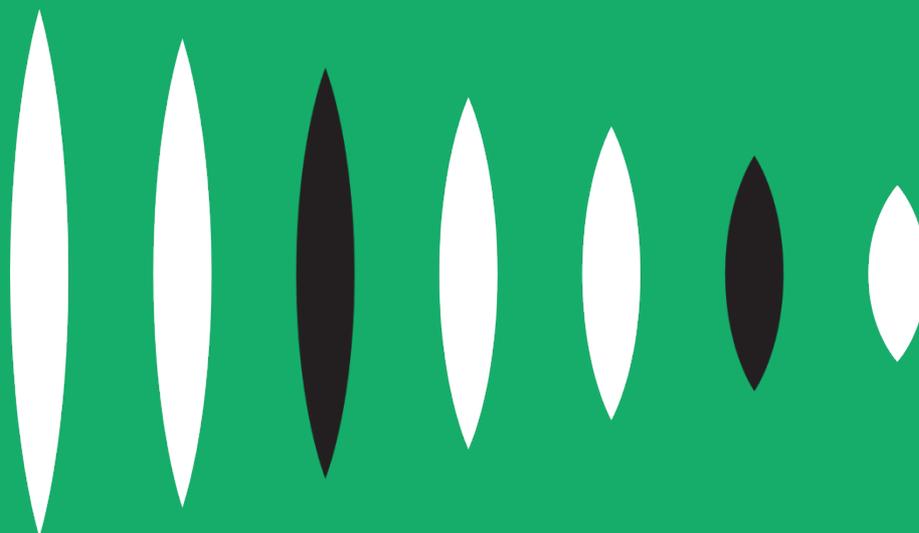


# SA Power Networks 2020-2025 Draft Plan

Submission to the SA Power Networks Draft Plan

October 2018



**ENERGY  
CONSUMERS  
AUSTRALIA**

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## Version history

| VERSION | DATE           | COMMENTS |
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## Introduction

Consumers are looking to SA Power Networks to provide high quality services, at affordable prices. In return, they accept that investors should earn a fair return for their long-term investment in these regulated assets. We are looking to SA Power Networks to adopt long-term strategies, and revenue proposals that align the interests of their shareholders with the interests of their customers.

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments Energy Council (the 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 provided by SA Power Networks to respond to the Draft Plan.

We understand that SA Power Networks is continuing to engage with stakeholders about the best way to work with consumers and new energy businesses in the transformation of the network.

We believe that SA Power Networks needs to consider the longer-term strategy beyond 2025 for developing a network that enables individual consumers to use electricity the way they want to. This strategy should be developed to ensure that any cost to consumers is minimised and passed through in a way that is affordable and does not lead to higher prices in the future.

### What consumers are telling us

Residential energy consumers in South Australia are telling us that they are more satisfied with their electricity supply in 2018 than in 2017. 60 per cent of respondents to our [June 2018 Energy Consumer Sentiment Survey](#) are satisfied with the reliability of the electricity services, which is an increase of 15 per cent since April 2017.

Consumers also reported a 12 per cent increase in the level of satisfaction with fault resolution of their electricity services.



However, only around 38 per cent of respondents are satisfied with the overall value for money. This represents a decrease of five per cent on the 2017 consumer sentiment survey.

With consumer confidence in long term technological advances to manage energy supply and costs having increased four per cent to 41 per cent in 2018, South Australian consumers are among the most technology forward in Australia. Of the consumers who participated in our survey:

- 46 per cent have rooftop solar panels
- 14 per cent have solar hot water
- three per cent have a battery storage system; and
- 40 per cent of respondents have told us they are considering a battery storage system, with five per cent planning to purchase a battery storage system in the next 12 months.

The challenge for SA Power Networks is to develop a strategy to respond to the direction consumers are taking the market, empowers consumers and delivers affordable solutions.

To do this, we need to move beyond the 'trilemma' that narrows and confines thinking around the short term, current technology and big, supply-side solutions. This is to embrace the possibilities of a new, more dynamic system where reliability, affordability and emissions reduction are aligned and complementary.

When we are thinking about transformation of the network and assessing revenue strategies, we are thinking about three things:

1. Affordability must be a constraint on investments and decisions about energy – an explicit criterion in decision making up and down the supply chain.
2. Energy services must be built around individuals to reflect their unique circumstances, enabling people to easily manage their own use and costs – whether that is innovating and engaged consumers, the majority of consumers who are focussed on affordability and convenience, and consumers with vulnerabilities.
3. Investment in the power system – networks, generation and retail – must be optimised based on consumers' demands that not a dollar more is spent a day earlier than is necessary.

### Our framing and approach

We have engaged network revenue experts, Dynamic Analysis, to help us assess the SA Power Networks Draft Plan. Together, our assessment has been aimed at:

- understanding the specific journey of SA Power Networks and its customers



- understanding and identifying the near-term and long-term strategies and implications for the network and consumers
- focussing on questions around reliability, network size, asset health and how the network is changing
- identifying issues for further explanation and exploration. These issues include:
  - the future impact of the low regulated asset base (RAB), should increased expenditure be required in future revenue periods
  - the speed of depreciation and the impact on the RAB
  - long-term asset replacement planning strategies
  - risk of price impacts should the weighted average cost of capital (WACC) increase
  - flattening sales due to the increased uptake of distributed energy resources.

We have provided more detail on these issues in the presentation at Attachment A.



## Our response

We recognise that the Australian Energy Regulator (AER) is responsible for setting the maximum revenues that networks can recover from consumers through network tariffs over the five-year regulatory period. We understand that the AER must base its assessment on efficient costs and an informed view on expected electricity demand.

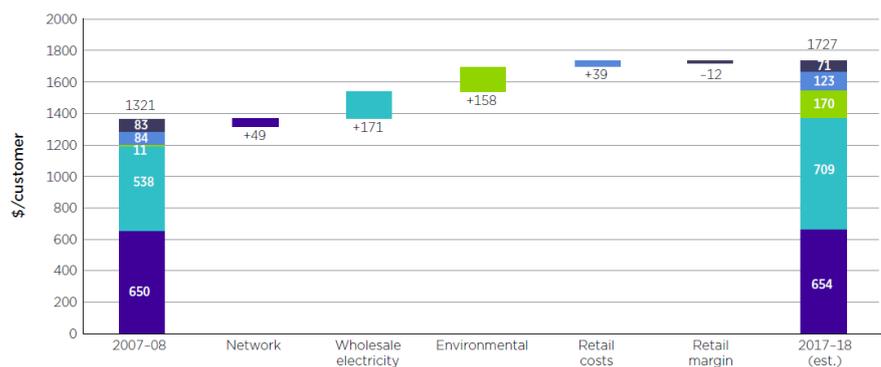
The Draft Plan represents the first milestone in the revenue determination process, as it seeks to gather stakeholder feedback to inform its revenue proposal to the AER.

Through the five-yearly revenue determination process, the AER authorises the transfer of dollars from the consumer’s pocket to the distribution network. This is money that the consumer would otherwise have been able to spend at their own discretion. Instead, it is turned into a guaranteed income for the distribution network in exchange for the safe and reliable delivery of electricity.

This means that consumers need to be absolutely confident that the decisions driving network investment are in their long-term interests.

The need for affordability to be an explicit constraint on all network decisions recognises that overall bills for South Australian energy consumers have steadily increased over the last ten years, as illustrated in Figure 1 below.

**Figure 1: Change in average South Australia residential bill per customer from 2007-08 to 2017-18, \$ per customer, real \$2016-17, excluding GST**



Source: Australian Competition and Consumer Commission [Restoring electricity affordability & Australia's competitive advantage](#)

The Australian Competition and Consumer Commission’s (ACCC) Final Report on electricity pricing, [Restoring electricity affordability & Australia's competitive advantage](#) (the Final Report), states that the average residential consumer’s bill has increased by around \$400 in the last ten years.

While network prices have increased by eight per cent over this period, Figure 4.1 of the Australian Energy Market Commission’s (AEMC) [2017 Residential Electricity Price Trends data](#) spreadsheet indicates that South Australian consumers are paying the highest prices in the national electricity market for the network component of retail electricity prices. In 2017/18, the



AEMC reported this to be 14.34 cents per kilowatt hour (compared to a range of 7.10 to 14.23 cents per kilowatt hour in other states).

### Summary

The Draft Plan has been made at a crucial time for SA Power Networks as it needs to balance implementation of real changes to transform the network in the current period, with making good decisions for the future health of the network. For these reasons, Energy Consumers Australia is looking to SA Power Networks to:

- develop its revenue proposal with the consumer at the centre of its strategy. We would expect this would be reflected through:
  - all decisions explicitly considering the implications for consumers and how they want to participate in the electricity market; and
  - truly innovative tariffs that are designed based on consumer reward rather than risk.
- Indicate how it will manage the long-term health of the network, in a way that is financially sustainable.
- Indicate how SA Power Networks will pursue productivity improvements in both its capital and operating expenditure programs.
- Provide more explanation on the proposed new capital expenditure (capex) for IT. We recognise that IT is required as a transformation enabler. However, we seek a greater explanation of what is required to illustrate:
  - the benefits that will be delivered to consumers
  - the pay-offs from the investment (for example, the operational productivity and efficiencies that will flow from this investment); and
  - what new thinking SA Power Networks has applied to how these costs are recovered and how these costs are depreciated.
- Provide a deeper understanding of why depreciation costs are such a significant proportion of the proposed electricity bill and the regulatory asset base.

### Engagement with stakeholders

Energy Consumers Australia recognises that SA Power Networks has undertaken significant consultation with a wide variety of stakeholders in the development of the Draft Plan.

We believe that SA Power Networks is making a genuine attempt to gather consumer feedback for their proposal and undertake a journey of improvement in its approach to customer engagement.





The Draft Plan reflects consumer insights gathered by SA Power Networks, with consumers wanting prices to stay below the Consumer Price Index (CPI) in some instances. The proposed reductions to residential and small business consumers in 2020-2021, followed by increases below CPI demonstrate that SA Power Networks is listening.

Our engagement with SA Power Networks to date has been constructive, with SA Power Networks providing us with access to detailed information (such as the Post Tax Revenue Model) to help us better understand the directions in the Draft Plan.

**Health of the network and the regulated asset base (RAB)**

SA Power Networks has one of the lowest RABs (normalised for customer numbers and size of network) of any network in Australia.

This shows that there has not been the same expansion of investment as some other networks in the 2009-2012 period. Unlike some other networks, SA Power Networks’ RAB has not grown to unsustainable levels, as shown in Figure 2.

**Figure 2: Regulatory asset base from 2006 to 2017, by National Electricity Market (NEM) region, real \$2016-17**



Source: [Restoring electricity affordability and Australia’s competitive advantage](#)

**Capital expenditure**

Our conversations with SA Power Networks indicates that it has worked hard in the short-term to efficiently extend the life of its assets.

However, we have concerns about the future health of the network given its average age. We would like to see SA Power Networks articulate its approach to replacement and augmentation expenditure over the shorter and longer-term to ensure that South Australian consumers do not face reliability issues in future regulatory periods. We would like to see how SA Power Networks will replace its aged network over the longer-term, including opportunities to reduce costs through optimised design and productivities.

**Depreciation**

Part of what is missing from the narrative in the proposal is an explanation of the role of depreciation.



We note that depreciation is 25 per cent of SA Power Network's total revenue. Assets are being depreciated well before they are being replaced. This means that today's consumers are paying more than they need to now, when assets could be depreciated over a longer time period.

Energy Consumers Australia seeks more information around the modelled impacts of various depreciation methodologies.

We do not seek to prescribe a particular depreciation methodology. However, if it is proposed that the methodology is that from the previous period, evidence should be provided to demonstrate it is in the long-term interest of consumers.

We also seek more information from SA Power Networks quantifying the impacts of various methodologies (for example, the pros and cons of a faster recovery of network revenue compared to a longer recovery approach). This would provide us with a level of comfort that current and future customers pay no more than they need to for the services they prefer.

### **Transformation of the network and non-network expenditure**

SA Power Networks has indicated it faces the highest penetration of solar PV (per capita) in the National Electricity Market (NEM). The rate of penetration of distributed energy resources (such as solar PV and battery storage systems) will likely increase with falling technology costs and government support of consumer-level take-up of these technologies through the:

- phased roll-out of the Tesla Virtual Power Plant; and
- Household Storage Subsidy Scheme.

These programs will see more than 40,000 battery storage systems connect to the network.

The challenge for SA Power Networks is to integrate the influx of new technology in the network with the older asset base, in a way that ensures the efficient optimisation of the network; reflects the ways that individual consumers wish to engage with their energy supply; and is affordable.

We are encouraged that SA Power Networks is continuing to engage with new energy businesses and consumer representatives through a dedicated Distributed Energy Resources Integration Working Group to address questions about the security of the distribution network. These discussions have the potential to result in innovative partnerships with new energy businesses that will optimise the efficient operation of the network.

Our observation from participation in the Distributed Energy Resources Integration Working Group is that the language does not yet reflect the need to partner with consumers, recognising that these are consumers' assets. Framing the discussions around rewarding consumers for their flexibility will help mitigate any risk that solutions to the transformation problem do not align with how consumers intend to use their investment. We would like to see SA Power Networks apply this framing to their future thinking and discussion on distributed energy resources and the network.



### Productivity and efficiency

SA Power Networks has demonstrated good performance in maintaining an efficient network. Energy Consumers Australia would like to see SA Power Networks continue to push the frontier of efficiency and productivity as the network transforms. We are looking to see productivity measures introduced to help SA Power Networks share their productivity savings with consumers. We consider there are opportunities to progressively pursue efficiency in both operating and capital expenditure and encourage SA Power Networks to address their future efficiency programs in the upcoming regulatory proposal.

### Information Technology expenditure

Non-network spending is one area where the benefits of non-capital expenditure should be quantified and passed through to consumers. IT expenditure has a greater impact on electricity bills than network investment due to its short asset life.

We would like to see the benefits to consumers more clearly articulated in the Draft Plan and the productivity offset incorporated into the operational expenditure trend.

### Tariff Structure Statement

Energy Consumers Australia is broadly comfortable with the direction that the tariff structure statement is headed in. However, consumers would benefit from more detail around the strength of the incentives in the demand charge.

We would also like to see SA Power Networks develop greater thinking on the impact of consumer behaviour in response to pricing signals. The impact of this may be greater in South Australia given the roll-out of battery storage systems and solar PV in residential premises.

## Concluding comments

We are interested to see how SA Power Networks' strategy evolves in response to public feedback provided on the Draft Plan; and how it addresses feedback received in the revenue proposal process.

Energy Consumers Australia looks forward to continued engagement with SA Power Networks as they develop their revenue proposal.

If you have any questions in relation to our comments in this submission, please contact Chris Alexander on, Director Advocacy and Communications on 02 9220 5500 or by email at [chris.alexander@energyconsumersaustralia.com.au](mailto:chris.alexander@energyconsumersaustralia.com.au).

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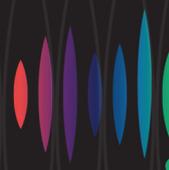
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