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Business SA submission: to AER on SA Power Networks 2020-25 Regulatory Proposal (including Tariff Structure Statement)

May 2019

Business SA
Chamber of Commerce
and Industry South Australia

Executive Summary

- Energy cost pressure is still very real for South Australian businesses, from small retail and hospitality businesses to bakers and laundries, to more export orientated businesses such as irrigators, wineries and food manufacturers to highlight just a few. While the extreme prices in the electricity contract market have somewhat moderated, the reality is that South Australia's average wholesale price hit a new record for the March 2019 quarter and average distribution tariffs are set to increase over 9 per cent on 1 July 2019. We are far from being out of the woods and gas costs also remain well above historical averages.

- Fortunately, the spate of unreliability events which impacted South Australia over 2015-17 have eased, and Business SA would expect this result considering hundreds of millions of taxpayers' dollars were thrown at various solutions primarily aimed at the generation market. Notwithstanding, we maintain that our members still expect reliable power in a first world country and particularly those in areas such as the Eyre Peninsula and Adelaide Hills which have suffered most in recent years and thankfully are the subject of SAPN's focus in its 2020-25 proposal.

- Business SA recognises SAPN's emerging challenges of managing the grid, particularly in relation to the growing solar trough. We broadly support proposed tariff changes albeit conditional on small businesses having cost-effective access to real-time data in order to exercise any options to mitigate against potentially adverse price outcomes.

- We are not satisfied with the evidence provided to suggest that SAPN needs to recover real labour cost increases from electricity consumers over 2020-25, particularly when past forecasts used did not eventuate in the relevant wage index rises anticipated, and from our own understanding of the current capacity of South Australian businesses to pay wage increases above inflation.

- Significant increases in distribution tariffs occurring on 1 July 2019 have shone a spotlight on the current revenue cap model and Business SA requests the AER to think carefully about whether network businesses should be required to adopt AEMO forecasts and who ultimately pays when those forecasts significantly overestimate grid demand. If SAPN is best placed to manage the risk of forecasts being inaccurate, that may be a more effective model but the reality is that the AER needs to address why South Australian consumers are going to end up paying over 9 per cent distribution cost increases on 1 July as a result of grid demand forecasts which failed to materialise.

- Business SA accepts the reality of the natural drivers which led to SAPN's vegetation management costs increasing significantly upon the break of the millennium drought in 2010. However, we question that in 2019 why the recent spate of dry years hasn't resulted in a similar reduction in costs to control vegetation surrounding power lines and why electricity consumers are again going to have to pay even more for vegetation management over 2020-25.

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Introduction

Business SA, South Australia's Chamber of Commerce and Industry, was formed in 1839 and has over 3,000 members across every industry sector, from micro-businesses through to listed companies. We are a not-for-profit business membership organisation that works on behalf of members and the broader business community in pursuit of economic prosperity for both South Australia and the nation. Funded by member subscriptions and our products and services, we are independent of any government or political party.

As the recognised 'voice of business' in South Australia, Business SA constantly communicates with its members to ensure our advocacy speaks to their collective needs and those of the broader business community. This occurs through day to day conversations, various online communication mediums, and more formally through member reference groups and topical roundtables and seminars. Our advocacy on electricity matters is informed by our Energy, Water and Sustainability Member Reference Group and we maintain appointments on the following:

- Essential Services Commission of South Australia (ESCOSA) Consumer Advisory Committee;
- ElectraNet Consumer Advisory Panel;
- SA Power Networks Business Reference Group.

While the energy price shocks from the wholesale market which hit South Australia over 2015-2017 are now behind us, the reality is that local businesses are still having to deal with a 'new normal' level of electricity costs where the forward price is essentially double its historical average. This is in addition to wholesale gas costs where triple the historical average is the 'new normal'.

South Australia has the highest median age of all mainland states and a population growth rate half that of the national average. This means local businesses increasingly have to look interstate and abroad for market growth. Being competitive in those markets relies on having access to competitively priced inputs such as power and the reality is that South Australian SMEs still face the highest electricity costs in Australia[1], and third highest in the world[2].

Business SA recognises multiple drivers of South Australia's electricity costs, and that SAPN's distribution component comprises approximately 35 to 40 per cent, but the only reality for businesses is affording the final bill.

Network costs may have somewhat steadied in recent years relative to the wholesale market, but we need to bear in mind that the five-year period from 2010-15 did result in a substantial increase in average network costs per customer, rising by approximately 33 per cent above inflation[3]. This was directly related to SAPN's allowable revenue from the AER[4].

South Australian businesses have worked hard in recent years to implement all possible options to reduce energy costs, which is most evident through the rapid increase in solar panel installations. This has helped ease the burden, but batteries are not yet economical for most businesses and the technology is not at the level where businesses can rely on solar and batteries for continually available power. This means nearly all businesses are still substantially reliant on the grid but due to less overall demand on account of increased solar use, per unit electricity distribution costs are increasingly rapidly; on average increasing by 5.9 percent in 18/19[5] and 9.1 per cent in 2019/20[6]

[1] Energy Consumers Australia, Analysis of small business retail energy bills in Australia, June 2018, p5
[2] ACCC, Retail Electricity Pricing Inquiry – Final Report, P24
[3] ACCC, Retail Electricity Pricing Inquiry – Final Report, P35
[4] AER, Overview – SA Power Networks Final Decision 2015-20, P11
[5] SA Power Networks, Pricing Proposal 2018/19, p26
[6] SA Power Networks, Pricing Proposal 2019/20, p24

Analysis of overarching proposal:

1. Consultation process

From Business SA's experience with previous SA Power Networks regulatory proposal consultation processes, there has definitely been a more open approach taken for the 2020-25 period. Representative groups have also had the opportunity to discuss key issues and topics early in the piece and have been provided with access to a detailed level of information at workshops and through other avenues including the Business Reference Group. We commend and thank SAPN for their work on this front.

While the time commitment from stakeholders has been considerable, and needs to be adequately considered for, the consultation has been quite targeted and structured to allow parties to select the sessions they find most important and relevant to attend. In future though, all aspects of consultation costs need to be carefully considered.

2. Context of proposal

Business SA acknowledges that SAPN's proposal is prepared against a backdrop of the Australian Energy Market Operator (AEMO) forecasting net summertime demand to decline at 1 per cent per annum over 2020-25 (after consideration of solar and batteries). We also recognise that for SAPN, the mid-day solar trough has overtaken constraining peak demand as the most important challenge facing the distribution network through the next regulatory period.

The 2020-25 revenue proposal of $3,915 million (in real $2020) compares to Actual/Forecast Revenue over 2015-20 of $3,909m. While Business SA welcomes a stabilisation of revenue in real terms, it is still increasing by inflation and the AER needs to carefully consider what drivers justify SA Power Networks' overall proposal in an environment of declining grid utilisation.

Business SA welcomes an 8 per cent reduction in electricity distribution charges from 1 July 2020 with minor decreases in subsequent years. Any relief in electricity prices will certainly assist South Australian businesses to be more competitive and helps to reduce the burden of significant increases in the wholesale market over recent years. We are also pleased that SAPN recognises '*Quite understandably, customers want to see downward pressure on electricity prices in all parts of the value chain*'. This has been a consistent message from Business SA in recent years given the range of factors driving electricity prices but ultimately customers are not interested in who is to blame, rather who is working individually and in collaboration to take the price pressure off them.

While external factors such as a declining weighted average cost of capital (WACC) and less recoverable tax revenue are key drivers of that decrease, the AER's draft decision should highlight to what extent this is true versus the efficiencies that can be attributed to SAPN.

There is also a degree of ambiguity in the SAPN commentary related to what has changed for consumers from recent consultation processes and when compared to the existing determination. The thrust of SAPN's commentary in its draft proposal relates to changes from their draft plan, not so much changes between the actual/forecast 2015-20 regulatory determination and the 2020-25 draft proposal. It is important that the AER primarily have regard to changes between its actual previous decision and SAPN's proposal, with secondary consideration to any changes between the draft plan and proposal.

3. Regulatory Asset Base (RAB)

a) SAPN's RAB for 2020-25 is relatively stable and increases slightly from $4,418m to $4,478m (in real $2020). This might only represent 1.4 per cent growth, but again, it is 'real growth' in the context of a forecast decline in actual demand on the grid over 2020-25.

   Business SA acknowledges SA Power Networks commentary on growth in its RAB being efficient when compared to over-investment in the eastern states. We agree that there has been significant over-investment in government owned networks in New South Wales and Queensland but we do not believe this is a good yardstick to compare against privately owned networks in South Australia and Victoria.

   SAPN's opening RAB as at 1 July 2005 was $2.5 billion which by 1 July 2010 had increased slightly to $2.8 billion[7]. However, with the RAB forecast to close out the 2015-20 regulatory period with a value of $4.4 billion on 1 July 2020, this represents growth of 5.7 per cent per annum over the current decade. While Business SA recognises this is well below some of the eastern states, it has still been well above inflation and puts real cost pressure on end consumers, particularly large market businesses consumers which at the same time have been shifted to cost-reflective demand tariffs. The AER's final decision should have regard to SAPN's historical RAB growth, at least over the last decade, and how the current regulatory proposal fits within that context.

b) Business SA requests the AER to also provide a graph and analysis on nominal movements in SAPN's RAB, at least over the last decade. It is important to also have regard to nominal impacts as these are the ones that actually flow through to end user's electricity bills. In competitive markets, asset values do not just increase by inflation as a given and businesses cannot just simply pass through cost increases related to broader inflationary pressures.

4. Reliability

Electricity reliability outcomes are not uniform across South Australia, and in of itself, this is not necessarily cause for concern when considering the costs required to maintain equivalent levels of reliability for all customers.

In recent years though, Business SA has recognised where certain areas of the State have suffered from abnormal levels of unreliability, particularly on the Eyre Peninsula and in the Adelaide Hills. Both these regions have significant primary industry, mostly export orientated, and they are also increasingly reliant on tourism which makes outages even more damaging to the local economy. As one example, Hahndorf was recently named the third most popular regional tourist destination in Australia.[8]

SAPN have proposed relatively modest spending to address reliability shortfalls in both these areas and Business SA is supportive of their efforts.

ESCOSA recently undertook a review of SAPN's service standards and engaged Oakley Greenwood to conduct an electricity consumer 'willingness to pay' survey. From Oakley Greenwood's contingent valuation results, there was one reliability improvement scenario with a net benefit, $1.9 million; for an average 10 percent reduction in interruption frequency (associated with a 90-minute annual average reduction in outage duration) for 27,000 customers on Low Reliability Distribution Feeder (LRDF)s. [9]

While we understand that only one of four consumer segments were willing to pay to fund that reliability improvement, there should still be adequate consideration for the fact that it still resulted in a net benefit from consumers willing to

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[7] AER, ETSA Determination 2010-15, May 2010

[8] Experience Oz, poll announced January 2017

[9] ESCOSA, SA Power Networks reliability standards review – Final decision, page 13

pay, and we would also point out that when LRDF consumers were asked to fund their own reliability improvements, this was a much higher relative cost for each consumer as a result of being a very narrow cohort. Therefore, the results may have varied if LRDF consumers were asked to pay for their own reliability improvements on the basis that all consumers contributed the same cost, particularly in the context of 'state-wide pricing' which exists in South Australia.

5. Grid Demand Forecasting

Business SA is mindful that SAPN must rely on the Australian Energy Market Operator (AEMO)'s grid demand forecasts which have overestimated demand in the past two years, resulting in substantial distribution tariff increases for all South Australian consumers; on average 5.9 percent in 18/19 and 9.1 per cent in 2019/20. While we recognise the energy market is rapidly evolving, we are also conscious that our members ultimately pay the price for inaccurate grid demand forecasts. The AER needs to consider whether individual networks should be held accountable for their own forecasts. It is not fair that South Australian businesses must foot the bill for actual grid demand falling substantially short of that forecast. Forecasting demand is a risk any business in a competitive market faces and SAPN should be best positioned to forecast its own demand, rather than being required to offload that task and the associated risk of inaccuracy to AEMO.

Proposed Capital Expenditure (CAPEX):

1. Business SA recognises SAPN's proposed CAPEX is relatively stable in real terms, $1,728m for 2015/20 versus $1,741m for 2020-25.

2. SAPN is requesting $31.8 million for low-voltage management (installation of systems required to enable them to manage the impact of high solar penetration).

   Business SA acknowledges the growing number of residential customer enquiries related to voltage excursions outside mandated limits described in SAPN's proposal10. It would be helpful to see comparable data on business inquiries as voltage fluctuations can be equally problematic and should also be clearly tracked.

   While SAPN's request may seem reasonable at face value, Business SA requests the AER to look at how SAPN could better access existing technology available through residential or business solar systems, and what technical or legal barriers might be preventing them from doing so. For many years now, Business SA has been told about the purported benefits of shifting consumers onto smart meters following the 'Power of Choice' reforms, including to facilitate smarter grid management. Now that smart meter penetration is growing quite steadily in South Australia, we expect consumers to realise those benefits without necessarily having to pay for more network investment associated with grid management.

3. SAPN proposes to spend $285m on IT related CAPEX over 2020-25. In of itself, Business SA understands that SAPN needs to keep pace and take advantage of advances in technology to more efficiently manage its operations. We are also mindful of how the changing ways consumers are using the grid is resulting in new and varied challenges for SAPN, many of which will require innovative IT dependent solutions.

   What we do want to see though is that SAPN is getting optimum value for money from its IT spend, and that it is relative to other comparable electricity distributers. For example, Ausgrid which are now majority privately owned and service a population approximately twice that of SAPN in urban and regional NSW (including Sydney and the Hunter region), were recently allowed by the AER to spend $137m per annum on IT over 5

[10] SAPN, 2020-25 Regulatory Proposal, Attachment 5 - Figure 5-23, p65

years from 2019-24. In aggregate, this is less than half SAPN's IT proposal and Ausgid is also in process of transitioning to the cloud.[11]

4. Business SA acknowledges SAPN has flagged a $79.2 million contingent project regarding redesign and rebuild of the under frequency load shedding (UFLS) scheme and establishing capability to shed rooftop solar loads, otherwise termed distributed energy resources (DER). This is on back of recent AEMO modelling that suggests that as early as 2023, there will be sufficient DER within SA to supply the entire State at minimum demand levels. This increase in DER is expected to render the existing UFLS scheme ineffective. The project is expected to involve replacing and recommissioning 625 existing underfrequency protection relays with units that support load flow determination and the ability to selectively enable under-frequency operation.

   With significant growth in grid-scale renewables occurring in conjunction with behind the meter rooftop solar installations, Business SA encourages SAPN to work with AEMO to look at how desired outcomes in such scenarios can also be achieved across the grid, and what is the most efficient mechanism in which to do so. For example, SA Water recently announced Project Zero at a cost of $304m which involves installation of approximately 154MW of new solar generation across 80 sites[12]. If these types of grid-scale projects can be easily controlled to achieve grid-scale outcomes, Business SA would expect there might be less instances where the control of smaller residential or business units is necessary.

   Such collaboration should also include how to best maximise the contribution of demand response which has received growing interest from the business community via AEMO/ARENA funded initiatives and innovative retailers offering practical access for SMEs.

5. SAPN has proposed $11.4m to continue with its bushfire mitigation program. This is substantially less than the circa $300m requested in its 2015-20 proposal which was not backed by a change in legislation or regulation. Business SA supports SAPN playing its part to reduce bushfire risk, particularly in a State with a high incidence of bushfires. However, considering bushfire management extends far beyond the remit of the electricity sector, electricity consumers should not bear disproportionate costs that are unrelated to regulatory requirements imposed by relevant safety experts.

   Business SA is supportive of SAPN for taking a more practical and efficient approach in its 2020-25 draft proposal to ensure the electricity distribution network appropriately manages its own capacity to reduce the incidence and impact of bushfires.

6. Business SA understands SAPN is making a claim for approximately $70m under the Capital Expenditure Sharing Scheme (CESS) for next regulatory period related to current period underspend. Business SA requests the AER to clarify that this relates to a more efficient spend as opposed to delayed expenditure.

[11] AER, Final Decision – Ausgrid Regulatory Proposal 2019-24, p31

[12] Minister David Spiers, Press Release, 20 February 2019

Proposed Operating Expenditure (OPEX):

7. Aggregate OPEX is proposed to increase by 13 per cent although Business SA recognises a substantial amount of this increase is related to a re-categorisation of cable and conductor repair works which are now included as maintenance as opposed to CAPEX. Notwithstanding, we also recognise that ESCOSA's decision to amend the Guaranteed Service Level (GSL) scheme to the extent of $5 million per annum should also place downward pressure on SAPN's OPEX.

8. Vegetation management is forecast to cost SAPN $215m over 2020-25 against actual/forecast spending of $184m for 2015-20.

   While SAPN's vegetation management spending over 2010-15 was also $184m, SAPN argued this significant increase was due to vegetation growth post the break of the millennium drought, subsequent to 2005-10 spending which was only $68 million.

   Business SA acknowledges that in its decision on SAPN's 2015-20 regulatory proposal, the AER did not accept SAPN's then proposed $32m step change increase for vegetation management, which at that stage was based on a customer 'willingness to pay' survey.

   SAPN have not provided justification for why its vegetation management spending through 2015-20 has also reached $184 million, an equivalent level to the drought breaking period of 2010-15, and why it is again looking to grow vegetation management spending to $215 million over 2020-25. particularly when South Australia has mostly experienced below average rainfall years since the last drought broke as evidenced by the following rainfall statistics:

Year	Rainfall Total at Kent Town (mm)	Long-term (LT) Average Rainfall	Above or Below LT Average	Rainfall across SA compared to LT average	Comments on SA rainfall
2009	518.2	549.2	below	12% below	Below - both Adelaide and rest of SA
2010	592.6	549.1	below	61% above	Millinium drought breaks
2011	537	550	below	57% above	Millinium drought breaks
2012	527	550	below	23% below	Below - both Adelaide and rest of SA
2013	507	549	below	13% below	Below - both Adelaide and rest of SA
2014	534	549.9	below	9% below	Below - both Adelaide and rest of SA
2015	395	543.9	below	13% below	Below - both Adelaide and rest of SA
2016	820	551	above	63% above	Above - both Adelaide and rest of SA
2017	536	550	below	11% above	Average Year
2018	427	527	below	24% below	Below - both Adelaide and rest of SA

[13]

Consumers accept that SAPN will experience higher costs to manage vegetation growth in wet years. However, there is an equivalent expectation that when the State goes through drier times, and we have just experienced the driest and warmest start to a year on record in 2019, that SAPN will pass on any savings from reduced vegetation management costs. Business SA acknowledges that there may not necessarily be a direct linear relationship but when SAPN successfully mounted an argument to pass on additional vegetation management costs following the break of the millennium drought, it is only reasonable to assume that there must be savings following a relatively dry period.

[13] Bureau of Meteorology, SA rainfall data, www.bom.gov.au

9. SAPN have again argued to levy an above CPI (real) labour cost increase onto electricity consumers, noting their most recent enterprise bargaining agreement (EBA) struck in September 2018 provides for 3.5% annual pay rises – albeit down from the 4.25% annual rises agreed to in the 2014 EBA. This is against the backdrop of the consumer price index (CPI) currently growing at an annualised 1.3% for both South Australia and the nation through to the end of the March quarter 2019[14].

Table 6-7: SA Power Networks forecast real price growth for the 2020-25 RCP

(June 2020, $ million)	2020/21	2021/22	2022/23	2023/24	2024/25	Average/ Total
Labour price growth %	0.78%	1.07%	1.21%	1.09%	0.96%	1.02%
Non-labour price growth %	-	-	-	-	-	-
Weighted real price growth%	**0.47%**	**0.64%**	**0.72%**	**0.65%**	**0.58%**	**0.61%**
Real price growth ($m)	**$1.3**	**$3.1**	**$5.2**	**$7.1**	**$8.9**	**$25.7**

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Business SA acknowledges SAPN's legal obligations to match award rate increases where relevant and to otherwise remunerate staff as it best sees fit. SAPN may also have a solid justification for pay rises to certain staff in specific roles, particularly those in high risk and specialised areas. It is not for Business SA to dictate to the AER or SAPN how individual staff should be paid. What we can say though, is that if SAPN as a regulated monopoly is seeking to recover above CPI wage increases for 'all its staff' from electricity consumers, it needs to provide sufficient evidence of how its entire labour component is improving productivity or what other drivers are leading to SAPN having to pay all staff above CPI and award rate wage increases. In its 2020-25 proposal, SAPN have not supported any productivity growth adjustment, saying there is no evidence to support it. Business SA acknowledges this proposal was submitted ahead of the recent AER decision to impose a 0.5 per cent productivity growth requirement on all network businesses from its decision date of 8 March 2019. However, Business SA is surprised that SAPN is requesting above CPI wage price increases across the board without any acknowledgement of the need to increase productivity, particularly in an environment where demand on the grid is actually declining.

The BIS Oxford wage cost analysis provided in SAPN's 2020-25 proposal shows wage growth in the SA construction sector actually lagged that of utilities and waste services from 2013 to 2018, and even the utility and waste services wage index only grew by 2% in 2018 with construction coming in at 1.3%. Subsequently, we do not understand what is justifying both these indexes increasing substantially above that level throughout 2020-2025 as show below[16]:

[14] ABS, Consumer Price Index, March quarter 2019

[15] SAPN, 2020-25 Regulatory Proposal – Attachment 6.7

[16] SAPN, 2020-25 Regulatory Proposal – Attachment 6.6

Table 1. Wage Forecasts for South Australia and Australia

(Per cent change, year average, year ended June)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Average (f)
NOMINAL LABOUR PRICE CHANGES	Actuals						Forecasts		Next Regulatory Period					
South Australia Wages														
(1) Electricity, Gas, Water and Waste Services Wages:														
Wage Price Index (a)	**3.9**	**3.5**	**2.9**	**2.2**	**2.0**	**2.0**	**2.6**	**3.0**	**3.5**	**3.9**	**4.1**	**4.0**	**3.8**	**3.9**
(2) Construction:														
Wage Price Index (a)	**2.9**	**2.2**	**1.9**	**1.4**	**1.4**	**1.3**	**2.0**	**2.4**	**3.1**	**3.8**	**4.1**	**3.7**	**3.3**	**3.6**
Australian Wages (b)														
(3) Electricity, Gas, Water and Waste Services Wages:														
- Wage Price Index	4.2	3.2	2.8	2.4	2.2	2.0	2.7	3.1	3.6	4.0	4.2	4.0	3.8	3.9
- Average Weekly Ordinary Time Earnings (c)	6.1	2.0	0.7	3.5	4.3	2.3	2.8	3.5	4.0	4.4	4.5	4.3	4.1	4.3
(4) Construction:														
- Wage Price Index	3.3	2.9	2.1	1.6	1.7	2.4	2.4	2.6	3.4	3.9	4.1	3.6	3.3	3.6
- Average Weekly Ordinary Time Earnings (c)	4.3	2.1	2.2	1.4	2.2	2.0	2.0	3.3	3.8	4.5	4.7	4.0	3.9	4.2

In considering the BIS Oxford forecast for 2020-25, the AER should also have regard to BIS's labour cost forecast provided for the 2015-20 SAPN regulatory proposal[17] which generated the following external labour cost escalation:

Real Cost Escalation Forecasts to 2019/20, August 2014 SA Power Networks

Table I: Summary – External Labour Cost Escalation Forecasts

(per cent change, year average, year ended June)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	5 yr Avg (f)
	Actuals				Forecasts	Next Regulatory Period					
NOMINAL PRICE CHANGES											
1. SA Power Networks' External Labour Cost Escalation											
Contractor Labour - Construction WPI South Australia (a)	**3.3**	**3.9**	**3.2**	**3.0**	**3.0**	**3.2**	**3.4**	**3.6**	**3.9**	**4.3**	**3.7**
Construction WPI - Australia (b)	4.0	4.1	3.3	2.9	3.1	3.5	3.9	3.8	3.9	4.1	3.9
2. Australian Wages											
All Industries - AWOTE (c)	4.2	4.3	4.6	3.3	3.8	4.3	4.9	4.8	4.5	4.9	4.7
All Industries - WPI (c)	3.8	3.6	3.3	2.7	3.0	3.5	3.8	3.7	3.7	4.0	3.7
Consumer Price Index (headline) (d)	3.1	2.3	2.3	2.7	2.9	2.7	2.5	2.5	2.5	2.5	2.5

The question Business SA has for the AER is, who pays for the fact that the construction wage forecasts for South Australia have substantially overshot the reality of what has transpired here in recent years?

The usual practice of the AER taking the average between SAPN's consultant's estimated wage increase and their own consultant seems to remove any professional judgement from what is a justified pay rise based on demand for labour in the industry, broader economic fundamentals and regulated award requirements. South Australia businesses more broadly struggle to even pay CPI increases, let alone minimum award rate increases which have been in excess of CPI for most of the last decade. If SAPN is to be artificially exposed to competitive pressure through the AER's economic regulation structure, the minimum Business SA members expect is that a fair judgement is made on what is a justified wage increase and not simply the average of consultant reports, particularly when those previous forecasts have been shown to be quite optimistic.

In BIS Oxford's own words "*over the past 18 years, the growth in productivity in the sector has not been a driver of higher wages growth in the utilities sector*"[18]. If this is the case, why should electricity consumers continue to pay for real wage increases?

[17] SAPN, 2015-20 Regulatory Proposal – Attachment 12.5

[18] SAPN, 2020-25 Regulatory Proposal – Attachment 6.6, page 31

10. Business SA would have preferred SAPN take a proactive approach to productivity growth rather than having a regulator impose it, no differently to our member businesses facing genuine competitive forces, and we encourage SAPN to consider going above the minimum required 0.5 per cent. In an era of declining demand on the grid, SAPN's future profitability is going to hinge on its ability to continuously lift productivity and if it just waits until the AER forces change upon it, SAPN's business model may become unsustainable.

Tariff Structure Statement (TSS):

11. The 2014 'Power of Choice' electricity market reforms arising from the Council of Australian Governments (COAG) are primarily about imposing cost-reflective tariffs onto all customers, with pricing principles requiring distribution service providers to have regard to the extent to which retail customers are able to mitigate the impact of tariff changes through their usage decisions.

    What is clear in the market place is that despite the growing penetration of smart meters into the small customer market, including for businesses, cost-effective access to real time data is lacking. Business SA recognises and appreciates that SAPN has taken a balanced approach to progressively implementing cost-reflective tariffs and has not pushed for the mandated approach adopted by Victoria. However, we are still concerned that if time-of-use (ToU) tariffs are implemented throughout 2020-25, even small market customers with interval meters will not be easily and cost-effectively able to access real-time data.

    SAPN is proposing to introduce a Time of Use (ToU) tariff for small business customers with interval meters where peak is defined as 5:00pm to 9:00pm on work days, and non-work days from November to March; with a work day shoulder price period from 7:00am to 5:00pm on November to March and 7:00am to 9:00pm April to October. Other times are off-peak.

    If the electricity market rules require networks to have regard to the extent retail customers are able to mitigate tariff changes through their usage decisions, this should include cost-effective access to real-time data should ToU tariffs be introduced. Business SA recognises that Consumer Data Rights reforms in progress may overcome some of the privacy issues related to this issue, but even if this is resolved prior to July 2020, we are not convinced it will solve issues related to the provision of real-time data. Whether small consumers face a ToU tariff or demand tariff, they should not have to fork out for additional equipment or costs related to accessing that data in real time.

    For many years, consumer representative organisations like Business SA have been sold the benefits of shifting all electricity customers onto smart meters and while we accept the fundamental logic, we have always maintained that ultimately the benefits must still outweigh the costs.

    We are also mindful that government policy in the electricity market is often imposed in the absence of a reality where the retail market is deregulated, save for the recent foray of State and Federal Governments into default market offers for retail customers. Subsequently, we need the AER to address the question that if SAPN is able to implement ToU tariffs for small market customers with interval meters over 2020-25, how will it be satisfied that those consumers have adequate real-time data access to inform usage decisions to mitigate against any potential adverse electricity price outcomes?

12. Business SA acknowledges other key tariff changes being proposed for businesses include:
    - introducing a ToU tariff with maximum demand charge that would apply to those small businesses using more than 70kVA of demand (noting anytime demand charged on the highest half-hour demand during the last 12 months where the customer exceeds 70kVA and lower usage rates apply);

- introducing a locational large business demand tariff for the central business district (CBD) of Adelaide with a six-hour demand window between 11:00am to 5:00pm on workdays from November to March; and
- having a different demand window for non-CBD large business which incorporates a four-hour demand peak window between 5:00pm and 9:00pm any day from November to March reflecting the impact of solar on coincident peak demand.
- extending the peak window from a 30-minute window to an average over four-hours for large business 'agreed annual demand' customers
- annual demand to be reset on a rolling 12 months basis.

We recognise SAPN's consultative approach for their suite of tariff changes and welcome the continuation of choice between actual and agreed demand tariffs. Shifting the demand window for non-CBD large businesses will also enable many manufacturing and agri-businesses to better absorb the solar trough while avoiding the coincident demand with residential air-conditioning. Averaging the peak demand window over four hours will provide much more opportunity for energy intensive businesses to respond to and manage peak demand events, and this should also extend to small businesses exceeding 70kVA. Automatically resetting annual demand based on a rolling 12-month average will also be positive for consumers.

Critical to the successful adoption and understanding of SAPN's proposed new tariff structure will be adequate communication and we suggest the AER think about how that should occur, and who should ultimately be responsible. We recognise that the retail market may not ultimately translate SAPN's new tariffs directly but small businesses should still know what is driving their electricity prices. In a 2016 report provided to SAPN's then proposed TSS for 2017-20, Business SA recommended a range of options which should be considered to target communication of tariff changes to small businesses, including development of tariff calculators. Such communication could also be channelled through business representative organisations.

Miscellaneous points:

13. Business SA is encouraged that SAPN is looking at better ways to manage the 800 MW of overnight hot water load, particularly is it may be used to counter against the mid-day solar trough.

14. Business SA acknowledges SAPN proposes to add 'rental of distribution assets to third parties' to their unregulated services. We encourage SAPN to continuously investigate new ways in which to maximise the benefits from their existing assets, but in doing so they should also attribute gains to consumers under the usual structure, allocating 70 per percent of revenues while retaining 30 per cent as an incentive.

    Consumers ultimately pay for SAPN's return on assets so it stands to reason that they should also benefit from third-party arrangements which relate to the same assets.