Consumer
Challenge
Panel

CCP14

Advice to the AER on the SA Power Networks 2020-25 Regulatory Proposal

AER Consumer Challenge Panel Sub-Panel CCP14

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16 May 2019

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Acknowledgements

CCP14 wishes to acknowledge the cooperation and support of staff from the AER and SA Power Networks, as well as members of stakeholder groups associated with the SAPN Regulatory Reset, all of whom have generously provided information and insights to assist the sub-panel in its review of the businesses' consumer engagement programs to date.

We also advise that to the best of our knowledge this report neither presents any confidential information nor relies on confidential information for any comments and can be published on the AER's website.

This report reproduces data from the SAPN 2020-25 Regulatory Proposal and associated documents available on the AER website. We acknowledge the claim to copyright by SAPN that notes that material must not be reproduced without first obtaining permission from SA Power Networks. As this information is now in the public domain, we believe that this information can be used for the purposes of this report.

This report also draws on email correspondence with SAPN which SAPN has confirmed is not confidential.

2 About this document

CCP14 is the AER Customer Challenge Panel allocated to the SA Power Networks (SAPN) 2020-25 Electricity Distribution Regulatory Determination process. The CCP is required to advise the AER on matters of the reset that concern electricity customers. Our advice to the AER is guided by the National Energy Objective, which is:

> "*to promote efficient investment in, and efficient operation and use of, energy services for the long-term interests of consumers of energy with respect to price, quality, safety, reliability and security of supply of energy.*"

A number of aspects of the SAPN's proposal are set by the AER to cover all networks and hence are 'out-of-scope' for the CCP's consideration:

- Rate of Return – which is based on the AER Binding Guideline of December 2018
- Opex productivity – which comes from the AER Decision of March 2019 and is 0.5% per year
- Taxation allowance – which is from the AER decision of December 2018 and
- Regulatory depreciation

Therefore, in our assessment of SAPN's regulatory Proposal, we consider:

- How prudent and efficient is proposed capex and opex expenditure?
- How will the incentive schemes be implemented and affected?
- How will costs be allocated to different consumers through the Tariff Structure Statement?
- How does the Proposal reflect the changing electricity market and long-term issues?

Importantly, the CCP considers how well the SAPN Regulatory Proposal (Proposal) reflects fair and balanced interaction with their community and customers, and where aspects of the decision have (or have not) received informed support from their customers and stakeholders.

Over the period of this work, CCP14 has prepared two formal submissions to the AER as part of the SAPN reset process:

a) *Advice to the AER in response to SAPN's approach to the challenges of the high penetration of embedded generation – 29 June 2018* [1]. In response, SAPN provided further information to CCP14[2].

b) A detailed advice to the AER in the form of *a submission on SAPN's Draft Plan – 9 October 2018* [3].

In light of these earlier documents, this submission serves to highlight the key opportunities and issues we have observed regarding the SAPN Proposal. We will be making a further submission on SAPN's response to the change tax allowance calculation following the AER's decision in December 2018[4].

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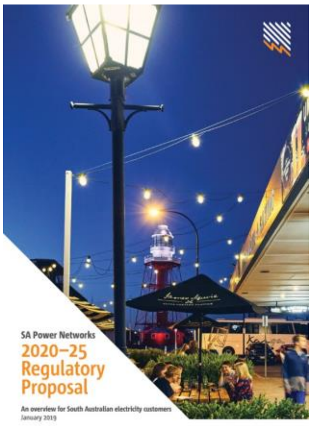
[1] https://www.aer.gov.au/system/files/CCP%20subpanel%2014%20-%20Advice%20-%20Response%20to%20SAPN%27s%20approach%20to%20the%20challenges%20of%20the%20high%20penetration%20of%20embedded%20generation%20-%20June%202018.pdf

[2] https://www.aer.gov.au/system/files/SAPN%20response%20to%20CCP14%20advice%20to%20AER.pdf

[3] https://www.aer.gov.au/system/files/CCP14%20-%20Submission%20on%20SAPN%27s%20Draft%20Plan%20-%209%20October%202018.pdf

[4] AER Final Report – Review of Regulatory Tax Approach December 2018 https://www.aer.gov.au/system/files/AER%20-%20Tax%20review%202018%20-%20Final%20report%20-%2017%20December%202018_0.PDF

3 Overview



The Proposal notes that SAPN is *'an industry leader in efficiency and safety'.* Quite reasonably, SAPN highlights its relatively strong historical performance in supply reliability, safety and business efficiency when compared to other DNSPs.

Key in the opening statements is the need to "*balance the customer expectations with the significant challenges we have today in managing the electricity distribution network*." CCP14 acknowledges that there is a tension between the various imperatives prevalent in providing a safe, reliable and affordable energy service in today's dynamic environment. A network's proposal must ensure the informed and reasonable expectations of customers are clearly reflected in its proposal. We do not believe that SAPN's choice of that balance reflects its' consumer expectations.

SAPN's conclusion on "balance" is to maintain a 'steady ship' based on its relatively good performance to date on measures such as productivity and rate of increase in network prices. SAPN argues that this performance means their ability to make further improvements is very limited. There are many aspects of the SAPN Proposal that reflect a relatively efficient network that is seeking to cope with a number of environmental, commercial and social challenges in serving its customers, including the impact of the world-leading levels of Distributed Energy Resources (DER) on its network.

However, based on its observations of consumer feedback, CCP14 believes that this 'steady as she goes' approach is no longer what consumers are expecting. While it is likely to maintain current service levels and performance, it does not adequately reflect the changing view of customers who are demanding lower energy prices underpinned by a trust that the utility is doing everything in its power to perform more efficiently, find new ways of managing risk and to 'work with less' wherever reasonably possible.

We believe that the Proposal does not adequately demonstrate genuine transparent consumer engagement in a number of ways.

Firstly, we are disappointed about the way in which the headline price falls for residential and business customers from 1st July 2020 were presented by SAPN. We believe that SAPN should have been more transparent around how the proposed price path came about. Judging by submissions on the Draft Plan, consumers had the impression that the reduction was due to steps taken by SAPN to reduce costs. Instead, these price decreases would have been price increases had it not been for factors external to SAPN - AER driven changes to WACC and calculation of taxation allowances. SAPN strongly opposed these changes during the AER public consultation process on each. Just as SAPN opposed the AER moves to incorporate an opex productivity factor published after SAPN submitted its proposal. This will work to further increase the headline price fall.

We acknowledge that SAPN does actively manage its network to reduce investment and to extend asset lives and has the leading demand management program among networks. However, in the face of repeated consumer feedback that affordability remains a critical pressure in South Australia, we question whether SAPN's proposal that it has done everything it can to reduce its costs. For this reason, we have highlighted several areas where we urge the AER to look at the detail of the proposed expenditure. We have also highlighted the demand forecasts. If the over-estimation of grid demand in the current 2015-20 period is repeated in 2020-25, prices will be much higher in 2024-25 than they are in 2019-20 even with the offsetting impact of the AER driven changes.

Secondly, it is not clear how other areas of concern expressed by some consumer groups, such as the justification for additional network capital expenditure for DER and enhanced reliability or the need for the significant investment in ICT, have been considered in the Proposal. The claimed reductions in capex from the Draft Plan to the Proposal are largely 'book transfers' and not showing a response to submissions on the Draft Plan.

Finally, whilst there was sector-leading engagement up until the Draft Plan, for which we commend SAPN, subsequent engagement has been disappointing. Rather than transparently engaging in deep face to face engagement to *"consult", "involve" and "collaborate"* with the SAPN CCP on all aspects of the Draft Plan, SAPN chose to do little more than simply *"inform"* the SAPN CCP. This can be illustrated by SAPN's approach to DER. Rather than transparently engage on DER, including a discussion on a key issue of the future trend in the solar cross subsidy, SAPN informed its CCP that the material aspects of the proposal were to be locked down by the end of October and this restricted engagement. Yet SAPN subsequently engaged Newgate to undertake an online survey in November 2018 to assess consumer views on DER. The results of this survey are used to support their Proposal.

The substantive changes in the Proposal from the Draft Plan seem to be more the result of internal SAPN considerations rather than an intentional reflection of concerns and issues raised by stakeholders. This is particularly seen in the changes resulting from the AER tax allowance decision last December. This will be the subject of a subsequent CCP14 submission.

SAPN's appears to have decided to not meaningfully and transparently engage with consumers following the release of the Draft Plan, put in a Proposal that differs little in a substantive sense from the Draft and wait for the AER's Draft Decision. This means we are unable to confirm the existence of informed support from consumer groups on many aspects of the proposal.

Therefore, we do not consider that the Proposal is "capable of acceptance".

CCP14 - Mark Grenning, Louise Benjamin and Mike Swanston

16 May 2019

4 Headlines of the SAPN proposal

Price

The proposal leads with a headline reduction in average distribution charges of 8% from 1 July 2020, with further decreases in subsequent years. This position is delivered essentially through a stable revenue of $3,915m compared with $3,909m in the 2015-20 period (see Figures 1 and 2 below), which includes:

a) a 13% *increase* in operating expenditure, balanced by
b) a lower rate of return at 5.43% compared with 6.13% during 2015-20.

Service performance

The plan intends to deliver improved targeted network performance for some customers through increased expenditure on network reliability. The plan also includes expenditure across a number of categories to adapt the network for changing customer choices, essentially by facilitating increased control of embedded generation as its uptake by customers continues. This work relates closely to the ENA approach to Open Networks, and the issues raised by AEMO of higher penetration of Distributed Energy Assets (DER).

Capital expenditure

Remains largely stable at $1,714m compared with $1,728m in 2015-20, The Regulated Asset Base (RAB) rises 1% from $4,418m to $4,478m at June 2025.

Within that consistent headline capex number however, some underlying components have changed significantly in the proposal. Despite the ageing network assets, SAPN is planning to maintain current levels of asset replacement expenditure – a position that CCP14 largely supports. Investment in network capacity augmentation is down 22%, again generally supported by CCP14, as it is consistent with trends elsewhere in the NEM.

Of concern however is the fact that the savings from this reduced augmentation spend have been largely taken up by increases in network connection expenditure ($35M), 'strategic' network investment ($12M), and network reliability improvement ($12M).

The other point of interest is that Investment in ICT remains high, with almost half-a-billion dollars to invested in the current and next period on ICT assets.

Challenges

The Proposal notes the following challenges:

a) rising electricity costs are a key concern for SAPN's customers
b) the network is ageing, with SAPN having one of the oldest networks in the National Market;
c) changing customer technologies, in particular the high continued rate of growth of DER uptake.

These challenges of the ageing network and changing customer expectations have been well communicated in the SAPN workshops. As noted in a number of places in this report, we believe that too little weight has been given to the concerns expressed by customers regarding the cost of electricity.

Priorities

In response, SAPN notes three areas of priority:

a) maintain safety and reliability ,
b) keep prices down, and
c) transition to the new energy future

Changes since the draft plan

In its Draft Plan, SAPN proposed a capital expenditure of $1,850m, somewhat higher than the forecast expenditure for the current regulatory period. This plan included modest rises in most categories of capex with the exception of capacity-related augmentation and ICT. In the Proposal, SAPN has moderated most of these rises back to around the level of current expenditure, with the greatest reductions in network augmentation and asset replacement.

Planned expenditure in fleet ($9m), customer connections ($17m) and ICT ($23m, a point of concern with customer groups) have actually increased since the draft plan.

Most notable in the change in capital expenditure since the draft plan is the transfer of $70m in network repair costs from replacement capital to an operating expense, and a $38m adjustment in labour costs for capital works (superannuation). A net reduction of $109m in capex has occurred, or only -$1m when net of these book adjustments.

In operating expenses, SAPN notes a net increase in opex of $62m due largely to the changes in the maintenance cost allocation policy of $70m.

Since the draft plan, increases in revenue requirements of $22m have been identified.

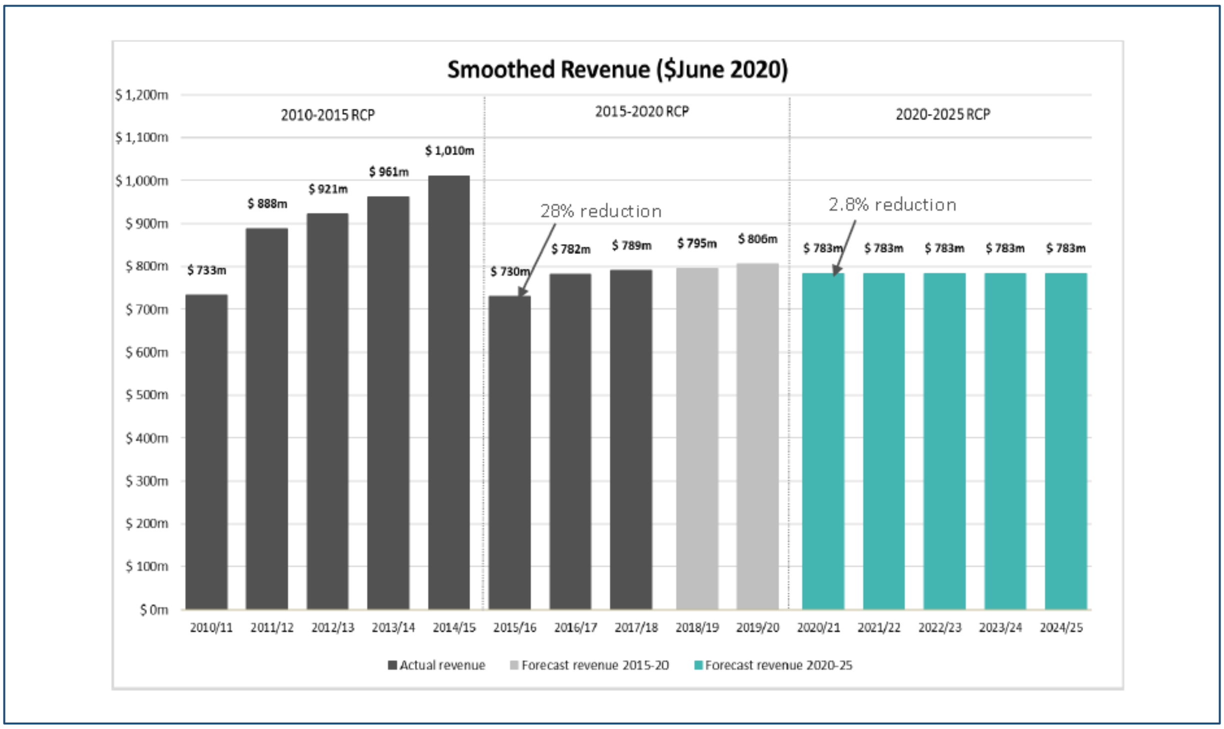


Figure 1: SAPN – Revenue trend ($m, $2020) **(Source: SAPN Presentation, 4 April 2019)**

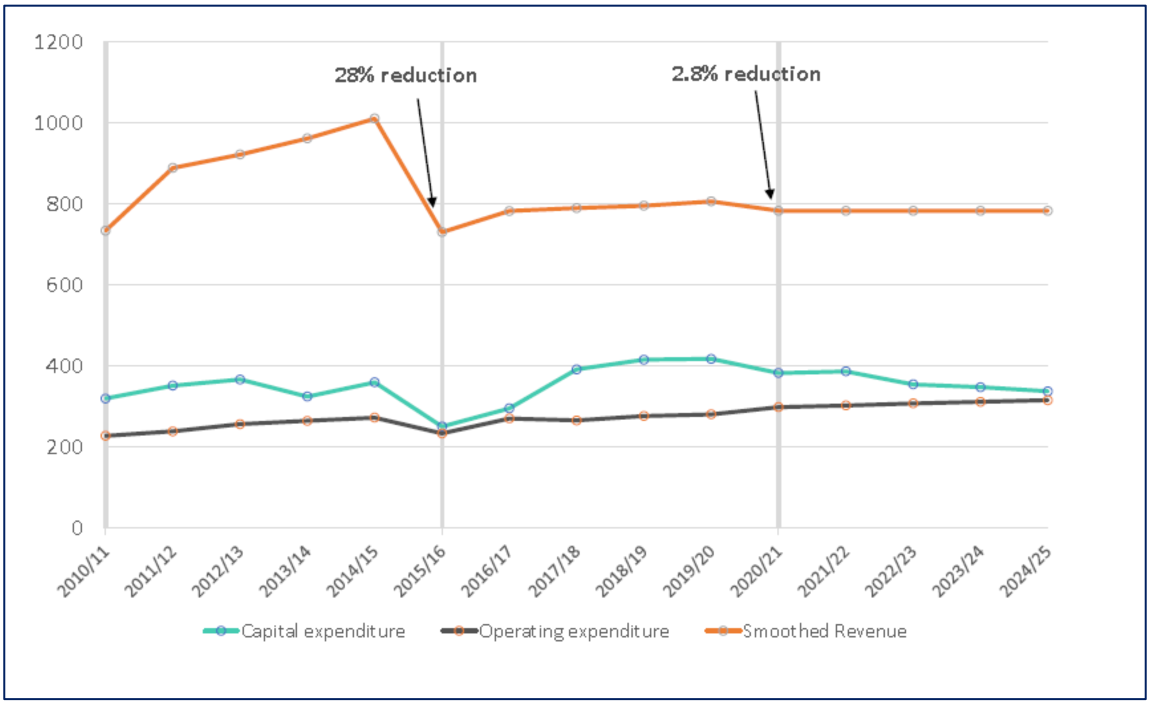


Figure 2: SAPN – Revenue, Capex and Opex trend ($M, $2020) (Source: SAPN Presentation, 4 April 19, slide 34)

5 Observations on the development of the Proposal from the Draft Plan

SAPN commenced their engagement for the 2020-25 regulatory over 2 years ago. CCP14 has been welcomed to a significant number of workshops, information sessions and reference group meetings since we began our involvement in August 2017.

In our submission on the Draft Plan, CCP14 commended SAPN for this early engagement approach that set a new benchmark in quality of information, commitment by many staff and the availability of a wealth of feedback from its customers and the wider SA community. This was facilitated by best practice community engagement through their Customer Consultative Panel (SAPN CCP) and Reference Groups. The SAPN 'Talking Power' website provided a comprehensive and effective platform for encouraging and recording engagement with their community and customers – this is perhaps one of the most effective uses of websites that we have seen in this round of regulatory resets for electricity distributors.

The Draft Plan was released in August 2018 and provided a number of information sessions to assist customers to understand the issues in the Draft Plan and to seek feedback. SAPN provided resources to assist the SAPN CCP in the preparation of their submission. There were 26 submissions received – an impressive level of consumer participation.

Despite this high quality engagement process, we were left with a number of reservations regarding the approach taken in the Draft Plan. CCP14's conclusion in its submission of 9 October 2018 was:

> "*We believe SAPN's Draft Plan is largely a 'business as usual' plan. It does not aggressively continue to look for efficiencies nor deliver all achievable price reductions through efficiency and innovation. The majority of the objective of "delivering better outcomes at a lower price" is being achieved by factors other than specific actions by SAPN to deliver the lowest costs and most efficient network service*

possible. The relatively small headline reduction in prices in year 1 is substantially due to SAPN applying the lower rate of return set out in the recently published AER Draft Rate of Return Guideline – a guideline that SAPN is strongly opposed to."

We went on to comment:

> *"We look forward to SAPN undertaking further substantive engagement prior to the finalisation of the 2020-25 regulatory submission and the detail in that submission more fully reflecting the true needs of the wider community, leading to general support of the SAPN proposal."*

We keenly watched the way SAPN considered the feedback from the Draft Plan from the range of stakeholders. In particular, we looked to the interaction with the SAPN CCP and Reference Groups to take the valuable opportunity to incorporate their informed advice by modifying, adapting and improving the plans in the Proposal to best reflect the needs, thinking and suggestions from the community.

However, our experience post the Draft Plan was that SAPN tended to focus on *informing* stakeholders about the Draft Plan. Against the IAP2 engagement spectrum, we observed only a few instances of *consulting* [5] and little or no examples of *involving* or *collaborating*. As Think Human recommended in its report on customer engagement – SAPN should make more explicit to participants what level of participation on the IAP2 spectrum it is seeking to deliver against[6].

We were left with the impression that the substantive changes in the Proposal were more likely as a result of internal SAPN analysis rather than an intentional reflection of concerns and issues raised by stakeholders. This proved to be the case.

This situation was described by the SAPN CCP in its submission on the Draft Plan:

> *"While the early consultation and engagement processes were comprehensive and productive, the SAPN process from the issue of the Draft Plan has been somewhat unclear. The approach understood by the Panel at its first meeting was for the Panel to:*
>
> > *1. Develop a response to the Draft Plan, including highlighting points of agreement and main aspects of disagreement*
> >
> > *2. Enter into discussion with SAPN about areas of significant disagreement*
> >
> > *3. Revise the initial response document to reflect any changes in understanding / Draft Plan positions, achieved through dialogue (assumed to be post 5th October into November)*
>
> *This approach was then not supported by SAPN on 24th September, the reasons given being the timing of submissions and that the material aspects of the revenue proposal were to be effectively locked down by the end of October 2018. Consequently, this is the only documented response that the Panel is able to make to the Draft Plan. We consider that an opportunity for meaningful subsequent engagement has been missed*." (p.3)

Given this approach, it should not be surprising that our conclusion on the Proposal is similar to that for the Draft Plan. Again, it is largely a 'business as usual' plan. The Proposal provides indicators to show why SAPN considers it is already at the efficiency frontier. This means there is little or no scope for, nor requirement to, aggressively seek further efficiencies, improve productivity, reassess risks or consider compromises in order to deliver the price reductions consumers now expect.

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[5] CCP14 takes a robust view of the meaning of consulting, which we discuss further below

[6] Think Human "Customer Engagement Evaluation Report" October 2018 Supporting document 0.4

So, after a very effective start, SAPN seemed to "close shop" and not reflect what we consider to be the many valid concerns of consumers. We did not get the feeling that SAPN was interested in considering whether they could meaningfully 'move their position' or take steps to respect the concerns by stakeholders by seeking to further engage with concerned groups on major issues. We discuss a few examples here which are commented on in more detail later in this submission:

- The proposed increased expenditure to improve network performance and reliability seemed inconsistent with the findings of the ESCoSA reliability review.
- There were many concerns expressed about the nature of the support for facilitating increased DER both in the deep dive sessions as well as in submissions on the Draft Plan[7]. In addition, there were concerns expressed around the slow unwinding of the cross-subsidy from those without rooftop solar to those with rooftop solar. We are not aware of any data being provided to consumers to help them understand the size and trends in the level of this cross-subsidy to help them come to a position on support or otherwise for the DER plans.
- We observed significant concerns by a number of consumer groups about the scale of SAPN's proposed information and communications technology (ICT) capital expenditure investment in the Draft Plan. We note that SAPN executives advised the SAPN CCP after the publication of the Draft Plan that "*we are aware that consumers don't agree with our ICT proposal, but we will wait for the AER to give its expert opinion*." In addition, the ICT expenditure actually increased a further $23m in the Proposal "…following receipt of vendor quotes" yet there was no information provided for consumers to properly assess the validity, impact or options analysis following this change. The AER's recently published ICT Consultation Paper[8] highlights the significant expansion in network ICT expenditure over recent years and the need for a much more rigorous review of the justification for this expenditure. We look forward to the AER applying the Guidelines from this review to the SAPN proposal.
- There were a number of significant changes from the Draft Plan to the Proposal that seem to stem from the AER's tax allowance decision in December 2018. The decision will have a very significant impact on SAPN with the total 2020-25 revenue decreased by $176m. Changes listed in the Proposal that seem to flow from this decision include:
    - "capex/opex trade-off: expensing cable and conductor repairs currently capitalised" which resulted in a decrease on capex of $70m and an increase in opex of $68m and
    - Higher depreciation allowance from a higher mix of short life assets (particularly IT systems) in updated capex forecasts for both the current 2015-20 period and the next 2020-25 period and depreciation of shorter that increased revenue by $120m.

  We are not aware of any engagement with consumers to get their understanding and support for the way SAPN have implemented the AER's conclusions. SAPN simply provided two complex supporting papers as part of the Proposal[9]. CCP14 is working on a separate submission to cover this aspect of the SAPN Proposal.

Subsequent to the publication of the Proposal, SAPN seems to be unwilling to engage in any further meaningful consumer engagement apart from "informing" and is waiting to see what the AER Draft Decision brings.

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[7] E.g. see the SACOSS and ECA submissions to the Draft Plan at https://www.talkingpower.com.au/DraftPlan_Feedback/documents

[8] AER "Consultation Paper – ICT Expenditure" May 2019 https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/ict-expenditure-assessment-review

[9] Attachment 4 - Regulatory Depreciation and Attachment 7 – Corporate Income Tax

For example, the contingent project of around $80m that SAPN explained at the April Forum as flowing from discussions with AEMO, was not included in Section 9 – Changes from the Draft Plan in the summary Proposal document. SAPN commented at the Public Forum that its inclusion has come very late in the timetable and they had not had time to discuss it before lodgement. We are unaware if SAPN has engaged with customers on this project since lodgement. about the contingent project since the Forum.

6 The imperative to reduce network prices

While SAPN presents its Proposal as a balancing of "keeping price down", "maintain safety and reliability" and "transition to the new energy future", we believe that it has given insufficient attention to the concerns of all consumers across the spectrum that prices are far too high. A broad spectrum of consumers supported this view in their submissions on the Draft Plan.

The ECA noted in the results of their recent survey of consumers in SA that:

> *"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…* (p.4)
>
> *"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."* (p.5)

and went on to emphasise:

> *"The need for affordability to be an explicit constraint on all network decisions …"* (p.7)

Business SA's concluded:

> "*The initial price path suggested of CPI – 3.9% then CPI thereafter is a step in the right direction but Business SA believes there is further scope to improve price outcomes without compromising SA Power Networks being adequately incentivised to provide a reliable and sustainable electricity distribution network." (p.1)*
>
> *"Business SA recently conducted our second biennial Regional Voice survey where we had received over 450 responses from businesses across regional South Australia. This survey was conducted in partnership with regional Chambers of Commerce and Regional Development Australia boards.*
>
> *Businesses were surveyed on a range of issues and on aggregate, electricity costs came out as the number one challenge with electricity reliability and quality of supply coming in at number four. Considering the range of issues facing businesses that they were asked to choose from, over twenty, the fact that two of the top five related to electricity is quite concerning."* (p. 3)

SACOSS concluded:

> *"With this in mind, SACOSS' submission to SA Power Networks is focussed on ensuring the network is operated as efficiently as possible, with a view to reducing costs to consumers, particularly vulnerable consumers. SACOSS believes South Australian energy consumers are overwhelmingly concerned about price, and are not necessarily seeking that SA Power Networks 'do more for less', but are rather seeking it efficiently and prudently maintain existing levels of service and reliability. ESCOSA's consultation and customer research supports our view, with its Draft Decision on the SA Power Networks' Reliability Standards Review finding there is little appetite for increased reliability or service levels, if that results in increased costs." (p. 2)*

"In relation to using technology to improve reliability in poor performing areas, SACOSS believes SA Power Networks' conclusion that customers need improved reliability is not supported by ESCOSA's Draft Decision and Oakley Greenwood's contingent valuation survey. SACOSS submits that customers are overwhelmingly concerned about price and SACOSS supports all activities that lead to the efficient and prudent operation of SA Power Networks focusing on lower costs for consumers." (p. 16)

The SAPN CCP feedback on the draft plan is powerful[10] with affordability a consistent message:

"no component of the electricity supply chain can ignore this imperative as the evidence is overwhelming that high and ever higher electricity bills are hurting a significant number of households and businesses." (SAPN CCP 2nd submission, p5)

CCP 14 concluded:

"Our comments in this document highlight the opportunities for these 'hard conversations' in further substantive engagement prior to the finalisation of the 2020-25 regulatory submission and we encourage SAPN to take up that opportunity and to develop a submission that more fully reflects the true needs of the wider community, leading to general support of the SAPN proposal." (p.4)

But this further consultation did not occur. The quote above in the introduction to this report from the SAPN CCP was a good description of the overall situation.

7 Our overall comments on the Proposal

CCP14's summary view on the Draft Plan was that it was mainly focussed on asset planning rather than the NEO. We saw it as a "business as usual" plan that did not aggressively continue to look for all possible efficiencies nor deliver all achievable price reductions through efficiency and innovation. SAPN provides a range of data to justify its position that there is little scope to deliver these efficiencies.

- Comparison of RAB growth for SAPN vs NSW, Queensland and Tasmania
- Its high ranking on the AER productivity benchmarking reports
- Network charges increasing around CPI in the long term

This section provides comments on these issues and others as we comment on the overall Proposal.

Issue 1 – SAPN's data supporting little scope to improve productivity

(a) Comparative RAB growth

Business SA addressed this issue in its submission to the Draft Plan:

"…comparing performance to the New South Wales and Queensland Government owned networks is less relevant for networks in South Australia and Victoria which we would inherently expect to be more efficient.

As the Productivity Commission put it in their 2013 inquiry, State-owned network businesses have conflicting objectives, which reduce their efficiency and undermine the effectiveness of incentive

[10] See https://www.talkingpower.com.au/40131/documents/90051

regulation. Their privately-owned counterparts are better at efficiently meeting the long-term interests of their customers."

Similarly, the SA network was not subject to the significant change in network security standards that applied in NSW and Qld around ten years ago.

Further it would be surprising if SAPN's RAB did expand by much given the fall in maximum grid demand in South Australia over the decade [11]. This flat load growth profile does of course reflect some impact of DER. It does support the trend for reduced investment in network capacity as evident in not only the SAPN proposal, but also those of other network distribution businesses in recent years.

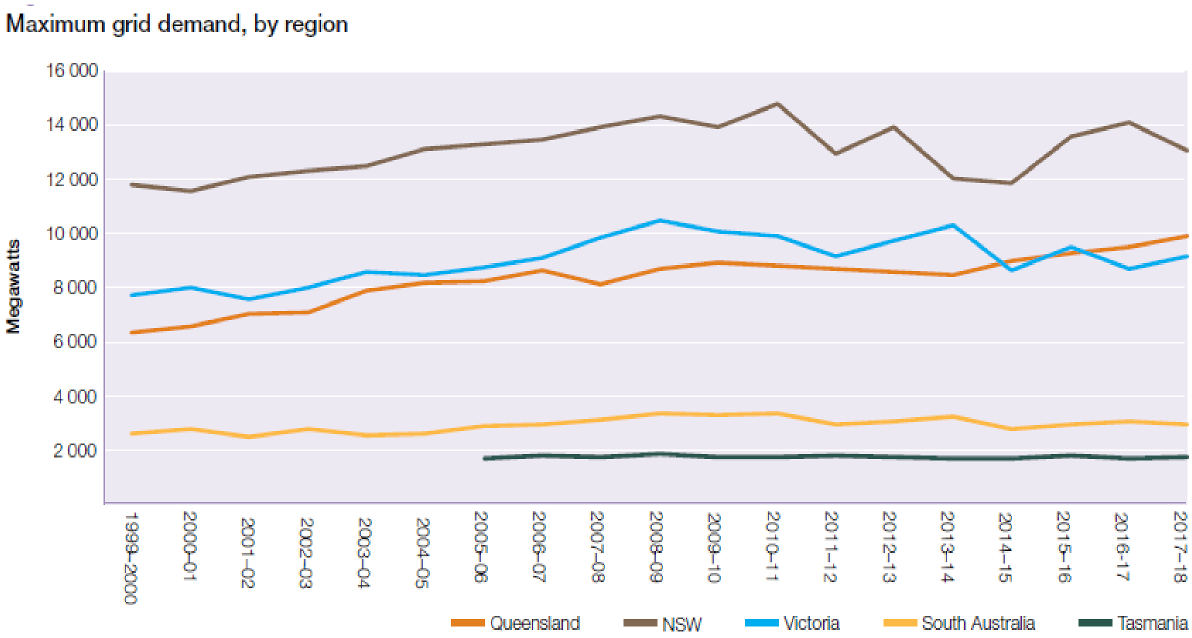

Figure 3: Historical demand trends, by state (Source: AER State of the Energy Market, 2018)

(b) High ranking on the AER productivity benchmarking reports

SAPN's approach is illustrated on its reaction when consumer gave strong feedback during the engagement process that SAPN should offer an opex productivity improvement. SAPN's response in the Proposal was:

"We have not reflected the AER's November 2018 draft decision (on opex productivity) which proposes to reduce the forecast opex of all distributors to account for industry productivity gains prior to these being achieved. We consider that the available evidence does not support these pre-emptive adjustments. (p. 23)

SAPN finally acknowledged at the Public Forum on 4 April 2019 that it would be required to achieve a 0.5% opex productivity factor following the AER's decision in February 2019[12].

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[11] AER State of the Energy Market 2018 p.77
https://www.aer.gov.au/system/files/State%20of%20the%20Energy%20Market%202018%20-%20Full%20report%20A4_2.pdf

[12] See AER Final Decision Paper "Forecasting productivity growth for electricity distributors" February 2019
https://www.aer.gov.au/system/files/Opex%20productivity%20growth%20review%202018%20-%20Final%20decision%20-%208%20March%202019.pdf
However, as we discuss below SAPN's Proposal includes several opex step changes, some of which will significantly increase its base year before the productivity is applied.

Perhaps SAPN's approach is better expressed as no desire to offer productivity improvements that flow 100% to consumers. SAPN has been, and no doubt will continue to be, happy to produce productivity improvements that result in CESS and EBSS benefits. There is a $70m carryover CESS benefit in 2020-25 from 2015-20. Consumers will share 30% of the opex cost overrun in the current period.

The CCP14 submission on the Draft Plan discussed SAPN's efficiency and the reader is referred to that discussion (see pp 7-10). Drawing on the 2017 AER data published subsequently to that submission:

- SAPN's overall (MTFP) decreased 6% in 2017 but SAPN still retained second spot on the DNSP rankings so overall efficiency continues the trend decline since the analysis began in 2006 with the 2017 result nearly 20% below 2006
- After a significant improvement in 2016 over 2015, 2017 fell back to the 2015 level; there is a long-term trend decline in this measure since 2006 with 2017 being over 30% below 2006

As we noted in our submission on the Draft Report, SAPN acknowledges that these measures are only about relative productivity, not absolute productivity. Our fundamental argument here is that the incentive based regulatory framework used by the AER is designed to replicate what a "workably competitive market" would produce. We would argue that a workably competitive market regularly produces productivity improvements that are fully passed on to consumers. In workably competitive markets there is pressure to absorb cost increases. In the regulated environment, there seems to be an expectation that cost rises should simply be passed through, and areas where costs have decreased are rarely highlighted.

This falling productivity is reflected in falling asset utilisation. Yes, SAPN has one of the better DNSP asset utilisation levels, but consumers are also interested in the absolute position – not just the relative position.

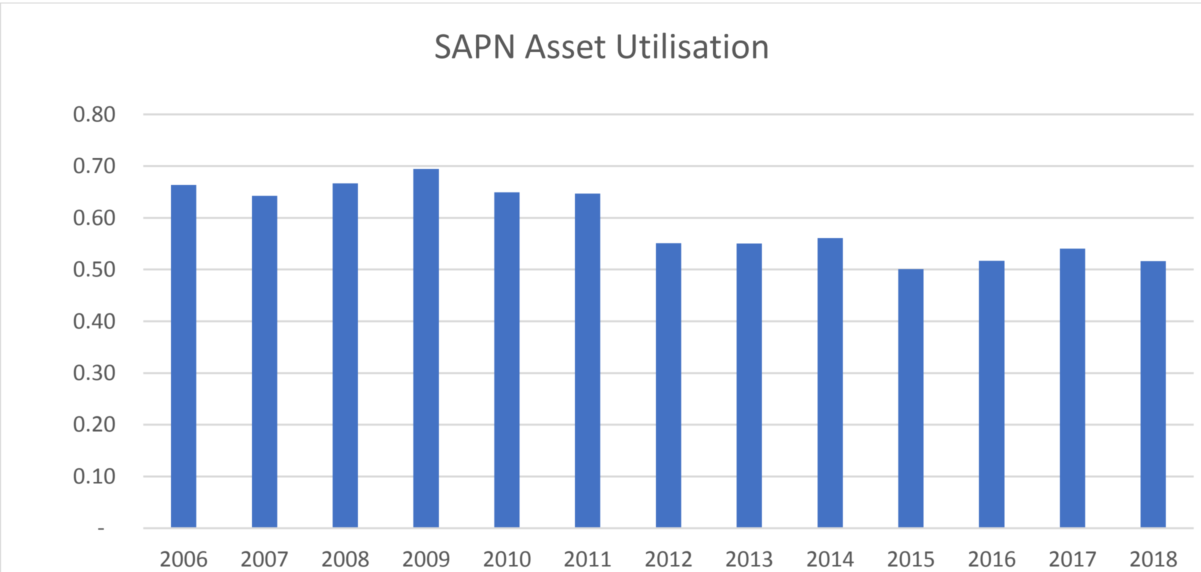

Figure 4: Asset utilisation over time, SAPN (Source AER)

While RAB will rise by 1% in real terms over the 2020-25 period, we are not convinced that this is the most efficient pathway in a falling grid demand world with increasing DER.

(c) Network charges increasing around CPI in the long term

Another perspective on SAPN's claims to superior performance is provided by a comparative analysis of network charges. The majority of electricity customers pay their distribution network bill in the form of a cents per kilowatt hour, plus a fixed charge. CCP14 has attempted to initiate some discussion regarding the rate for electricity that a customer pays, on the basis that it in some ways reflects the efficient distribution of that energy.

The customer's electricity bill includes many things, and these components vary in nature and cost across jurisdictions. Our focus is the unit cost of the distribution charge component of the customer's bill, in cents per kilowatt hour. It the cost of this commodity, essentially a transport charge, that can prompt a customer to ask why it differs from state to state, distributor by distributor.

We certainly acknowledge that there are many variables that influence this basic indicator, including customer density, load factor, environment, and network design fundamentals. However, we stand by this simple analysis to generate conversation and engagement, based on the simple measure asked by a customer - 'is that a fair price for the distribution service , and why is it different to that in other places?'

CCP14 has carried out some basic analysis on public data to at least initiate this discussion. This has been prompted by SAPNs comment, drawing on the ACCC data in its recent electricity report that[13]:

> *"… the South Australian network component of residential customer bills (including both transmission and distribution charges) is the second-lowest in the National Electricity Market."*

CCP14 acknowledges this fact, however we point out that this is in proportion to one of the highest overall average bills in the NEM, due largely to one of the highest wholesale energy prices in the NEM[14]. However, our point remains that a utility should be able to reasonably demonstrate to an electricity consumer that the price paid per unit is fair and efficient. Of course, the entire regulatory reset process is targeted at ensuring a fair and efficient price.

Ultimately however, the vast majority of customers can only judge fairness when it is expressed in a simple metric, and when there is reasonable justification, when compared with others, for the particular price of a service.

The most recent AEMC Annual report on residential electricity price trends published on 21 December 2018 identified changes in the energy supply chain cost components that are driving residential electricity prices and bills for each Australian state and territory, and nationally, from 2017-18 to 2020-21[15]. This report corroborates SAPN's statement that the network cost contribution to the total electricity bill of a representative residential customer in the state, at 38%, the lowest in the country.

When the distribution charges alone are considered, the AEMC report indicates the SAPN distribution charge for 2018/19 to be of the order of 12.71 c/kWh, including the metering charge**[16]**. This charge is exclusive of the cost of transmission costs and environmental policies.

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[13] Proposal p. 6
[14] ACCC "Retail Electricity Pricing Inquiry - Final Report" June 2018, p8
https://www.accc.gov.au/system/files/Retail%20Electricity%20Pricing%20Inquiry%E2%80%94Final%20Report%20June%202018_Exec%20summary.pdf
[15] AEMC "2108 Residential Electricity Price Trends Review" 21 December 2018 https://www.datocms-assets.com/6959/1545274459-2018-residential-electricity-price-trends-final-report.PDF
[16] Ibid Figure F1, p89 – data for 2018/19

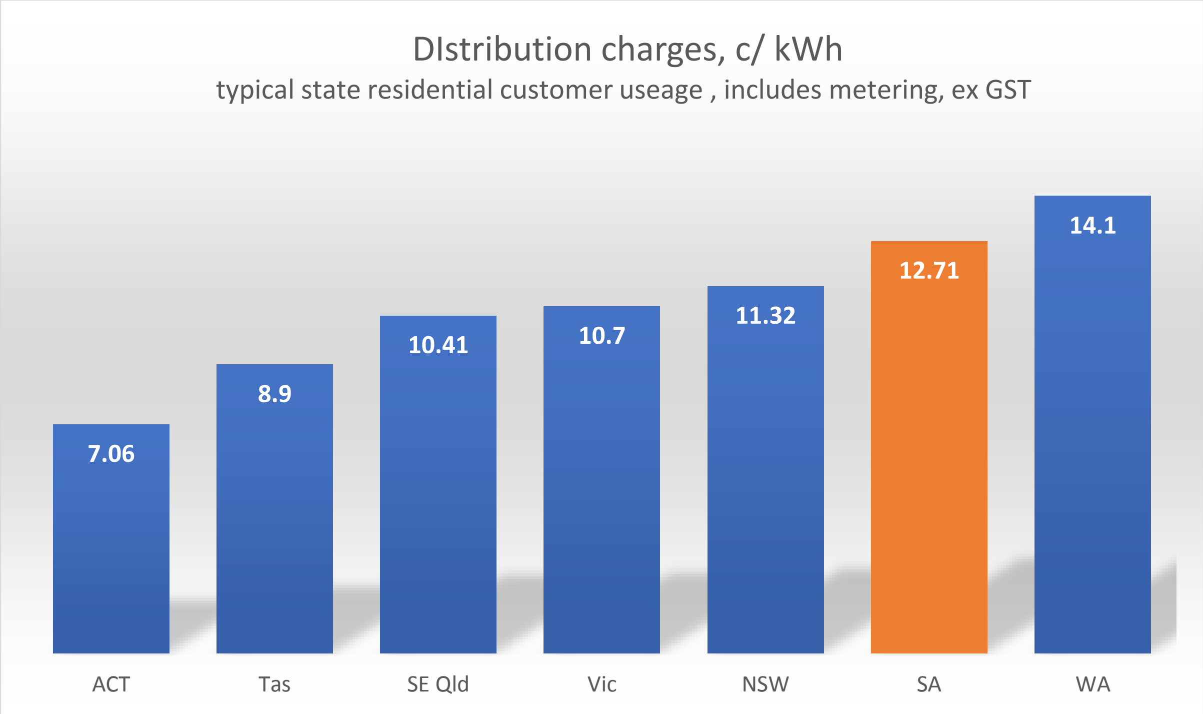

Figure 5: Distribution charge per kWh, 2018-19 for a typical customer in the state

(Source, AEMC Residential Electricity Price Trends, Dec 2018, tables A1 – I1)

The AEMC analysis uses an average residential consumption per annum of 5MWh for SA customers, whereas SAPN advises that average residential household consumption is ~4MWh and falling. Even with this information, our analysis continues to indicate that SAPN's per-unit distribution charge is average to above-average relative to the average for national electricity distribution utilities.

This data suggests that there remains 'room for improvement' for SAPN to reduce their revenue requirement, and hence network charges, especially against a background of only moderate customer growth and relatively flat energy growth.

Issue 2 - The headline fall in prices is due to factors outside of SAPN's control and which it strongly opposed

The way the Draft Plan was presented suggested that SAPN's actions to improve productivity and decrease expenditure resulted in the proposed price changes. Submissions reflected this perception. For example, ECA said:

> *"The proposed reductions to residential and small business consumers in 2020-2021, followed by increases below CPI demonstrate that SA Power Networks is listening."* (p.9)

Business noted:

> *"The initial price path suggested of CPI – 3.9% then CPI thereafter is a step in the right direction…"* (p.1)

However, the falling real price path presented is more the result of external factors outside of SAPN's control than reductions in expenditure/improvements in efficiency. We highlighted this issue at a conceptual level in our submission on the Draft Plan:

"The majority of the objective of "delivering better outcomes at a lower price" is being achieved by factors other than specific actions by SAPN to deliver the lowest costs and most efficient network service possible. The relatively small headline fall in prices in year 1 is substantially due to SAPN applying the lower rate of return set out in the recently published AER Draft Rate of Return Guideline – a guideline that SAPN is strongly opposed to." (p.2)

We went on to comment that:

"*Our comments in this document highlight the opportunities for these 'hard conversations' in further substantive engagement prior to the finalisation of the 2020-25 regulatory submission and we encourage SAPN to take up that opportunity and to develop a submission that more fully reflects the true needs of the wider community, leading to general support of the SAPN proposal*. (p.4)

We expected that an important part of this consultation up to the submission of its Proposal would be SAPN providing a transparent analysis of this issue to assist stakeholders to respond to the Draft Plan. SAPN chose not to. SAPN also chose not to provide this analysis as part of its Proposal.

The proposal's Section 3 is titled "Keeping prices down" and makes a number of comments about the importance of price:

"Quite understandably, customers want to see downward pressure on electricity prices in all parts of the value chain."

"We will do all this while responding to stakeholder and customer concern about electricity price – delivering further reductions in our charges for 2020-25."

Following a request from CCP14, SAPN provided some pricing data in relation to its Proposal[17]. The tables below show the impact of excluding recent AER decisions on WACC and taxation allowance from the price trend calculations. Table 1 shows that without these AER decisions that had the impact of lowering network prices, SAPN's 2020-25 prices from 1 July 2020:

- for residential customers would have been an $11 (2%) increase rather than the $40 (11%) decrease in the Proposal
- for small business, it would have been a $75 (4%) increase rather than a $111 (5%) decrease in the Proposal.

Nominal Price change on 1 July 2020	**Residential (per customer)**		**Small to medium business 20 MWh/year**	
	$	%	$	%
As proposed	-40	-7	-111	-5
Adopting 2015-20 WACC parameters and 2015-20 rate of return and 2015-20 tax allowance methodology	+11	+2	+75	+4

Table 1: Nominal price change comparison, 1 July 2020 (Source: SAPN email, 28 March 2019)

[17] SAPN correspondence with CCP14 – 28th March 2019

Table 2 highlights the situation looking at the total 2020-25 period:

- for residential customers would have been a $49 (8%) increase rather than the $5 (1%) decrease in the Proposal
- for small business, it would have been a $250 (12%) increase rather than a $49 (2%) increase in the Proposal.

Nominal Price change on 1 July 2024 relative to 30 June 2020	Residential (per customer)		Small to medium business 20 MWh/year	
	$	%	$	%
As proposed	-5	-1	+49	+2
Adopting 2015-20 WACC parameters and 2015-20 rate of return and 2015-20 tax allowance methodology	+49	+8	+250	+12

Table 2: Nominal price changes comparison across the period (Source: SAPN email, 28 March 2019)

Given that SAPN declined to include an opex productivity factor in its Proposal, the price reductions will be higher than indicated in the Proposal when the AER's decision in February 2019 to apply an opex productivity factor of 0.5% is applied.

During the consultation process on all three issues – WACC, taxation allowance and opex productivity - SAPN and its major shareholder vigorously opposed all three changes proposed by the AER[18].

Issue 3 - Little meaningful change from the Draft Plan to the Proposal

When considering the changes in detail, we see little change in the aggregates form of the Draft Plan to the Proposal. The headline changes in revenue, capex, opex and the Regulated Asset Base are summarised in Table 3 below[19].

[18] See:

- Opex productivity https://www.aer.gov.au/system/files/Houston%20Kemp%20-%20Pre-emptive%20productivity%20adjustments%20-%20A%20report%20for%20Jemena%2C%20AusNet%20Services%2C%20SA%20Power%20Networks%2C%20CitiPower%2C%20Powercor%20Australia%20and%20United%20Energy%20-%208%20May%202018.pdf
- WACC - https://www.aer.gov.au/system/files/Network%20Shareholder%20Group%20-%20Submission%20to%20Initial%20Report%20-%2026%20July%202018%20-%20PUBLIC_0.pdf
- Taxation allowance - https://www.aer.gov.au/system/files/SA%20Power%20Networks%2C%20Australian%20Gas%20Infrastructure%20Group%2C%20CitiPower%2C%20United%20Energy%20and%20Powercor%20-%20Submission%20to%20Initial%20Report%20-%2026%20July%202018%20-%20PUBLIC_0.pdf

[19] Data provided by SAPN correspondence with CCP14 6th March 2019

$June 2020m	Forecast 2015-20	2020-25		% change from 2015-20 Forecast
$m		Draft Plan	Proposal	
Total revenue	3,909	3,893	3,915	0
Capex	1,728	1,850	1,741	+1%
Opex (excl debt costs)	1,324	1,468	1,530	+16%
RAB (at end of period)	4,418	4641	4,478	+1%

Table 3: Changes in key financials from the draft plan

The Proposal (pp44-45) highlights a number of changes in individual components.

(a) Lower capital expenditure forecast

> *"However, in response to customer and stakeholder feedback to keep downward pressure on prices in conjunction with the capex/opex tradeoffs, the total capex forecast has been reduced by $109 million (from $1,850 million to $1,741 million)."*

We consider this statement is misleading:

- $70m of the reduction is due to a reclassification of capex to opex (opex increase by $68m) following the AER tax allowance decision in December 2018
- $38m is due to "superannuation regulatory adjustment (on labour costs for capital works)" which sounds more like an externally driven change than an actual reduction in capex due to improved asset management or better procurement practices.

  neither of which were the result of customer and stakeholder feedback.

- It does not mention the "Electricity System Security" contingent project of $80m added late in the process following discussions with AEMO (there is no mention of the project at all in the SAPN Overview document)

Yes there were example of reductions – extending Protection compliance program into future regulatory period (-$18m), reduced scope of property works (-$14m), revised scope and estimates for the continuation of bushfire risk mitigation that commenced in 2015-20 (-$8m) – but these were offset by increased vendor quotes for IT and fleet (+$32m).

(b) Operating expenditure forecast

This increased by $62m was driven by the $68m increase in opex due to a re-classification of capex following the AER tax allowance decision.

Issue 4 – The risk of fall in grid demand

Business SA in its submission on the Draft Plan noted:

"We are also mindful that the actual price outcomes for individual consumers will depend on how well demand forecasts match outcomes.

Based on recent experience from the 2018/19 tariff reset, we are concerned that if demand forecasts are not met, that customers may face higher than expected tariff increases and we would like to see detailed information about how network demand forecasts have matched actual outcomes over the past decade, noting that SA Power Networks has acknowledged under-recovery over the past two years.

We acknowledge that in the 2018/19 tariff reset, distribution charges for small business customers increased on average by 5.9%. This is more than twice the current rate of CPI and demonstrates our concern that if demand forecasts are not met for 2020-25, businesses' actual price outcomes will be much greater than CPI.

Furthermore, we note that SA Power Networks has reflected distribution price changes as retail % changes which is irrelevant to businesses because it assumes that all other parts of the electricity bill remain constant which is not the case, nor does SA Power Networks have influence over other parts of the bill. Recent under recoveries from other parts of the bill, e.g. transmission charges, are also adding to higher retail electricity bills, and combined with distribution and solar feed-in-tariff schemes, led to combined total network tariff increases for small businesses of 6.87% in 2018/19." (pp2-3)

This issue has been highlighted to SAPN on a number of occasions where the CCP14 has been present – at the Business Reference Group in May 2018 when the prices for 2018/19 were discussed and again at the AER Forum on the Proposal held in Adelaide on 5th April 2019 when the prices for 2019/20 were discussed.

Following discussions with SAPN, the following data was provided[20]. First, the actual weather-adjusted sales have been well below the 2015 forecast.

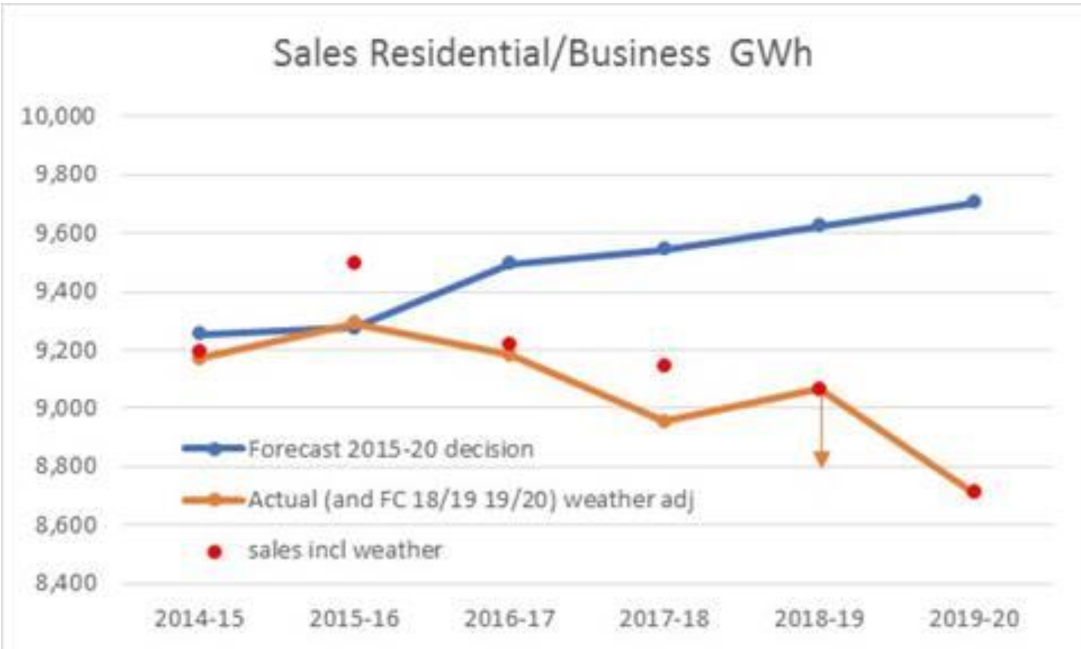

Figure 6: Energy sales trends, SAPN (Source: SAPN)

[20] SAPN correspondence with CCP14 8th May 2019

SAPN have advised that average residential consumption from the grid is around 20% lower than 10 years ago with the average SA residential customer use of over 5MWh pa in 2010 expected to fall to below 4MWh pa in 2020[21].

Second, the 10% lower sales component has resulted in approximately 11% higher average revenue ($/MWh), as shown in table 4 below:

Year of forecast	2015	2019	Difference	%
2019/20 Total revenue $m	831	831	0	0%
2019/20 Residential and business sales MWh	9700	8700	-1000	-10%
2019/20 Average revenue $/MWh	85.7	95.5	9.8	11%

Table 4: Revenue per MWh - SAPN (Source (SAPN)

So average prices are 11% higher than expected because of demand being lower than forecast at the time of the ARR's Final Decision on 2015-20. We recommend that the AER undertake a thorough review of the 2020-25 demand forecasts. The risk for SAPN customers is that the price fall brought by AER wide initiatives (WACC, tax allowance and opex productivity) will be reversed by grid demand forecasts that prove to be too high.

Issue 5 - Approach to DER

SAPN is at the forefront of developing a network response to deal with high levels of penetration of embedded generation, particular solar PV and Virtual Power Stations (VPPs).

In discussing how to deal with competing objectives of keeping prices down, maintaining safety and reliability, and transition to the new energy future, the Proposal highlights the following actions:

> "*Our plans include expenditure to enable customer choice and flexibility to connect solar, batteries and electric vehicles to our network" and*
>
> *"By enabling more lower cost renewables to be connected to the network, the entire community will benefit from downward pressure on wholesale electricity prices and cleaner energy solutions."* (p.11)

The Proposal refers to the AEMO forecast:

> *"Solar capacity continues to grow strongly and, by 2024, the Australian Energy Market Operator (AEMO) is forecasting that there will be enough installed rooftop solar to supply the entire energy needs of the State during low demand periods.*" (p.8)

SAPN commissioned research that seeks to show the value of this increased solar PV export[22]. We are not convinced by these valuation studies.

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[21] Email correspondence with CCP14 11th May 2019

[22] Houston Kemp estimating Avoided Dispatch Costs and VPP January 2019 which is Attachment 5.20 part 7 of the network of the Future documents on the AER website at https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/sa-power-networks-determination-2020-25/proposal

- Additional rooftop solar exports in the middle of the day over the latter years of the 2020-25 period may be a zero value given AEMO's forecast
- The value may even be negative if it is still attracting a FiT, there are costs from AEMO directions and additional RRO/RERT costs.
- The argument that "we can export it" may be difficult to sustain:
  - to Victoria – given the Victorian Government support for solar PV will limit to scope for exports
  - to NSW on the yet to be approved EnergyConnect needs to take account of the costs consumers will bear for building the interconnector.

So even if there is capacity in the existing LV/HV network to handle these additional exports, we question the value being maintained over the life of the rooftop solar asset given the growing congestion in the LV network. CCP14 would encourage the AER to undertake a thorough review of the claims on overall lower electricity costs as part of its forthcoming DER review.

SAPN have acknowledged that the unwinding of the solar cross-subsidy in South Australia will be slow over 2020-25 because the vast majority of those now with solar PV are on accumulation meters. SAPN estimates that by 2025, 50% of customers with solar PV will still be on an accumulation type meter. Even though all now solar/battery connections in 2020-25 with have an interval meter with TOU pricing, only 17% of residential customers are forecast to have PV and an interval meter by 2025[23]. To the extent that the cost reflective tariffs over the 2020-25 period are transitioning to a fully cost reflective price, the cross subsidy may increase over the reset period.

We would also encourage the AER to investigate the level of solar cross-subsidy from those without solar to those with solar as part of its DER review.

SAPN has emphasised to CCP14 the broad customer support for its DER related expenditure. We believe there can be a large difference between "support" and "willingness to pay". Naturally, consumers benefitting from solar cross-subsidies think they are a good thing. CCP14's view is that it is impossible to get a comprehensive view on consumer attitudes to DER without extensive consultation involving an explanation and discussion of all aspects including the level of the solar cross-subsidy over time.

However, as far as CCP14 is aware, SAPN has not provided any data during its consumer engagement on this matter. Rather than undertaking detailed post Draft Plan engagement including this data, SAPN chose to commission Newgate to do an on-line survey of residential customers in November 2018 just prior to submission of its Proposal[24]. Not surprisingly given the survey technique used, it concluded that[25]:

> *"…76% of customers felt positively about "SA Power Networks spending money on its network to enable more solar in South Australia""*

CCP14 believes that a survey of this type, no matter how well designed from a survey/statistical point of view, is not a good indicator of consumer willingness to pay for particular changes. We believe that surveys presenting respondents with largely binary options are of very limited use to support network expenditure and are not a substitute for direct engagement with informed consumers and industry. A much more robust approach would have been detailed direct consumer engagement through the SAPN CCP.

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[23] ibid

[24] Newgate Research Community Attitudes Towards Solar December 2018 Supporting document 0.16. As note above, a reason SAPN gave their CCP for restricting engagement post Draft Plan, was "…*that the material aspects of the revenue proposal were to be effectively locked down by the end of October 2018."*

[25] SAPN Customer and stakeholder engagement report 31 January 2019 p. 27

Issue 6 - The 2020-25 period revenue is being set at a low point in the interest rate cycle

CCP 14 highlighted this issue in our submission to the Draft Plan and is illustrated in the following graph [26]:

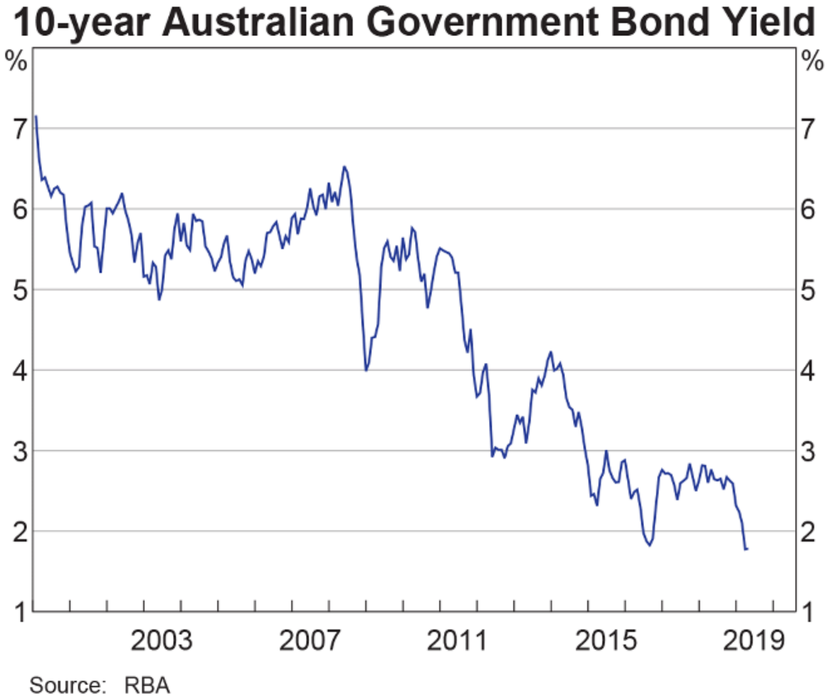

Figure 7: 10 year bond yield (Source, RBA)

The ECA also commented on the:

> *"risk of price impacts should the weighted average cost of capital (WACC) increase"* (p.6)

The impact of the interest rate cycle since the GFC on the decline in network WACCS is shown in the Figure 8[27]. WACC rates are at their lowest point over the last 15 years. The SAPN rate in its Proposal is 5.43%, lower than in the Draft Plan. The WACC for 2019-20 in the recent Ausgrid 2019-24 decision was 5.72%[28].

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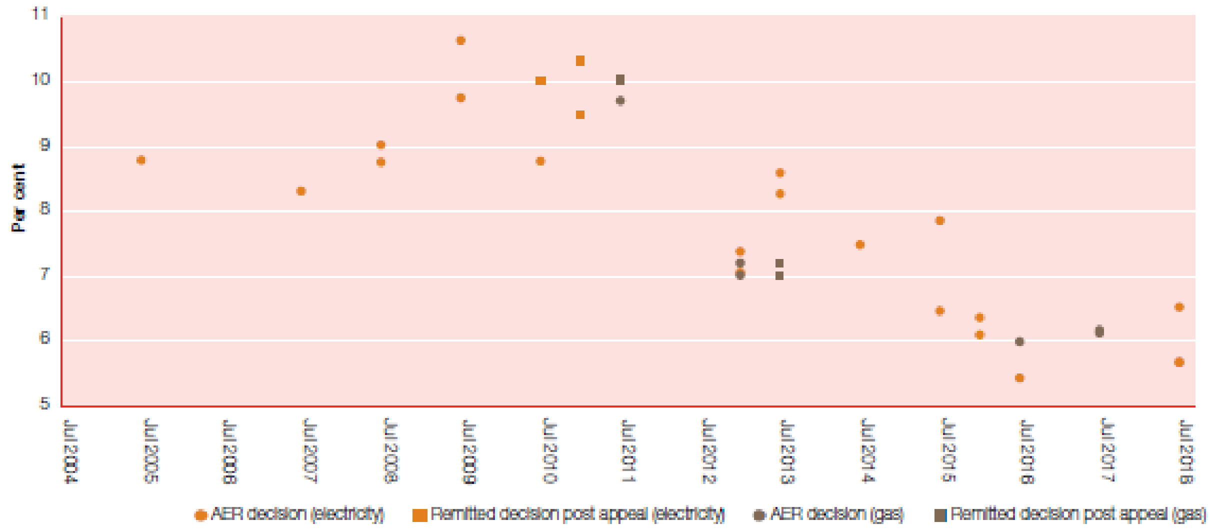
[26] RBA 8 May 2019 update https://www.rba.gov.au/chart-pack/interest-rates.html

[27] See AER State of the Energy Market 2018 p. 162 https://www.aer.gov.au/system/files/State%20of%20the%20Energy%20Market%202018%20-%20Full%20report%20A4_2.pdf

[28] See AER Final Decision Ausgrid Distribution Determination 2019 to 2024 Overview April 2019 p. 26 https://www.aer.gov.au/system/files/AER%20-%20Final%20decision%20-%20Ausgrid%20distribution%20determination%202019-24%20-%20Overview%20-%20April%202019.pdf

Figure 3.18

Rates of return for energy networks



Note: Nominal vanilla WACC.

Source: AER decisions on electricity network revenue proposals and gas pipeline access arrangements; AER decisions following remittals by the Tribunal/Full Federal Court.

Figure 8: Rates of Return for Energy Networks (Source: AER)

CCP14 believes that this poses a particular long-term risk for consumers. There should be very close scrutiny of capex in a low WACC world. Rises in interest rates can quickly change price falls into large price rises. This highlights the importance of capital investment restraint now to limit the impact on future prices when interest rates inevitably increase in the future.

We would encourage the AER to undertake sensitivity analysis of the impact of say a 0.5% increase in the Government bond rate on SAPN's prices.

8 Customer and community engagement

SAPN's consumer engagement report to the AER highlights the extensive scale of its community engagement including:

- 5437 participants
- 127 activities
- 40 reference group meetings
- 15 locations
- 20 newsletters and
- 32 submissions on draft plan.

Part of the engagement included detailed information sharing sessions (referred to as deep dives), followed by the release of a Draft Plan. The sessions were well organised and well attended by SA CCP, CCP14 and the AER. In our experience participants mostly received the pre reading in advance. The sessions were well documented and the expenditure pie chart donuts very easy for participants to follow.

The deep dive sessions were independently facilitated with supporting written reports from the facilitator. CCP14 and members of the AER's specialist teams attended many of these deep dive sessions. This led to the publication of the Draft Plan, which resulted in SAPN receiving 26 submissions. CCP14 also observed subsequent engagement between SAPN and the SA CCP on the Draft Plan and the preparation of the SA CCP submissions to SAPN on the Draft Plan.

We have previously highlighted that we believe that the SA CCP and its Reference Group structure is excellent. The structure has the potential to enable customers to influence expenditure decisions. To date only the Arborist Reference Group has been empowered by SAPN to influence operational expenditure in the contentious vegetation management area, with acknowledged success.

SAPN received very detailed feedback about customers' expectations around affordability (discussed above in Section 6), network of the future and ICT both before and after the Draft Plan. Table 5 lists major issues raised in the community feedback.

Submission	Key Issue
Adelaide Hills Council	Better information during outages, longer term strategy for vegetation management, frustration with power interruptions in recent years
Alexandrina Council	Looking for improved supply reliability
Anonymous	Generally supportive of plan, price aware, supportive of embedded generation
Arborist Reference group	Supportive of vegetation management plans
Business SA	Reliability and price are key issues Engagement is appreciated and well received Further scope for price reductions Localised reliability needs to be addressed Encourage development of new tariffs
COTA	Price is of concern

SA CCP	Supportive of goals, but believes the draft plan falls short of achieving these goals. SAPN has not responded to flattening sales and modified its investments to a rate that customers can afford. The Panel recommends that SAPN reassesses its proposed revenues and aims for a more substantial saving for customers than the $37 / year average proposed for residential customers. A much stronger consumer benefit narrative is needed to justify the very high proposed IT spending.

Table 5: Key issues from a sample of submissions to the Draft Plan

When commenting on SAPN's customer engagement program, some stakeholders have referenced the IAP2 Public participation spectrum. The spectrum is a tool for classifying engagement from 'inform' and 'consult' at one end of the spectrum to 'collaborate' and 'empower' at the other end.

INCREASING IMPACT ON THE DECISION

	INFORM	CONSULT	INVOLVE	COLLABORATE	EMPOWER
PUBLIC PARTICIPATION GOAL	To provide the public with balanced and objective information to assist them in understanding the problem, alternatives, opportunities and/or solutions.	To obtain public feedback on analysis, alternatives and/or decisions.	To work directly with the public throughout the process to ensure that public concerns and aspirations are consistently understood and considered.	To partner with the public in each aspect of the decision including the development of alternatives and the identification of the preferred solution.	To place final decision making in the hands of the public.
PROMISE TO THE PUBLIC	We will keep you informed.	We will keep you informed, listen to and acknowledge concerns and aspirations, and provide feedback on how public input influenced the decision.	We will work with you to ensure that your concerns and aspirations are directly reflected in the alternatives developed and provide feedback on how public input influenced the decision.	We will look to you for advice and innovation in formulating solutions and incorporate your advice and recommendations into the decisions to the maximum extent possible.	We will implement what you decide.

Figure 9: IAP2 engagement spectrum

For example, the SA CCP stated: "*However, the CCP's majority submission outlined some disappointment as to the stated restriction on further discussion or consultation on matters of interest/concern after the submission of comments on the Draft Plan.*" (SAPN CCP 2nd submission, p2)

Consultant's reports on engagement

SAPN has commissioned a number of reports to support their position on engagement.

CCP14 maintain that the engagement undertaken by SAPN leading to the draft plan has been measured, informative and involves a good cross-section of their customer base and advocates. This position is supported by the KPMG report prepared for SAPN - *KPMG Reset Engagement Advice - October 2018.*[29]

The KPMG October 2018 report was the third report in a series of gap analysis that SAPN asked KPMG to do of its approach to stakeholder and customer engagement for the 2020-25 reset. As KPMG states it evaluated the SAPN program at three different stages against the following external standards:

- the AER Consumer Engagement Guideline for network service providers (2013);
- AA1000 Stakeholder Engagement Standard (2018); and
- IAP2 Public Participation Spectrum.

The October report focuses on Phase 3 between January and August 2018 up to the release of the Draft Plan and some of the engagement thereafter. The KPMG report notes improvements SAPN brought to its plan closing gaps previously identified and lists further areas for modest improvement.

In our view the report confirms our observations that the SAPN engagement plan up to the Draft Plan was well planned, well-resourced and in the main well executed. The KPMG findings focus in particular on the AA1000 Standard dealing with documentation, risk identification and risk management plans. Our main observations are that KPMG did not appear to have undertaken any discussions for this Phase 3 report with external stakeholders nor does it focus in depth on the IAP2 issues to the same extent that other stakeholders and other consultants such as Think Human have.

SAPN also asked one of its independent facilitators, Think Human, to do an evaluation of SAPN's engagement program[30]. Part of this report includes an analysis of SAPN's stakeholder engagement measured against the IAP2 spectrum. Think Human have recommended that in future engagement programs SAPN make it more explicit to participants which level of the IAP2 spectrum SAPN is delivering against so that all participants know in advance what level of involvement they can expect to have.

CCP14 supports this recommendation. In our view CCP14 and several members of the SAPN CCP in particular, were more ambitious for SAPN to consult and involve customers in the development of their Proposal than SAPN was. SAPN intended to inform its stakeholders and to consult by providing information and explaining its Proposal to stakeholders. We take a more robust view of the term 'consultation', which we do not accept is just focussed on seeking approval or permission.

It only became apparent that SAPN did not intend to involve its stakeholders, in the sense of assisting with the design of its regulatory Proposal, near the end of the pre lodgement engagement program. After SAPN released its Draft plan the SA CCP and CCP14 raised the possibility of narrowing the issues that had emerged in the responses to the SAPN Draft Plan. SAPN funded a facilitator to assist the SAPN CCP to prepare its response to the Draft Plan. CCP14 observed those meetings. SAPN seemed genuinely surprised that its CCP expected to be negotiating elements of its regulatory Proposal and members of its CCP were disappointed that they were not taking part in discussions. Some CCP members expressed a desire to engage in 'a Scottish Water style process'.

[29] https://www.aer.gov.au/system/files/SAPN%20-%200.5%20-%20KPMG%20Reset%20Engagement%20Advice%20-%20October%202018%20-%20Public.pdf

[30] Think Human "Customer Engagement Evaluation Report October 2018 supporting document 0.4

Of course, nothing in the NER required SAPN to involve customers in this way, nor to try to narrow the areas of significant disagreement between the Draft Plan and the Proposal. As the SAPN CCP noted in their majority response to the Draft Plan:

> "*We feel that SAPN is unclear about what it wants to achieve from consumer engagement/partnership. It has undertaken some very good engagement, but that most CCP Panel members feel this has not been followed through consistently. Using the IAP2 spectrum as a basis, we observe that SAPN started the engagement for the 2020-25 regulatory proposal by applying 'involve' level approaches but drifted back to mainly 'inform' as the process moved through the third phase. The lack of any evident engagement plan beyond June 2018 is disappointing and seems to imply that the opportunity is now closed for any input/listening*."

CCP14 described the position of SAPN as not wanting to engage further with its customers and with the SAPN CCP in particular as a lost opportunity in our response to the Draft Plan.

It was open to SAPN to develop a regulatory Proposal that was in the long-term interests of consumers (LTIC) and that met customers' needs by developing a Proposal that responded to the extensive feedback that customers had given it during the engagement process and on its Draft Plan. Instead, we are concerned about several aspects:

- the Proposal does not set out transparently the fact that prices would be rising in the period under the Proposal if it were not for the actions taken by the AER in 2018 to readjust aspects of the framework in customers favour through the framework changes to the binding rate of return guideline, the tax review and the opex productivity review
- there has been little meaningful change in the Proposal since the Draft Plan and aspects of the Proposal that customers raised strong concerns about have in fact increased e.g. the ICT program which has increased by $23m, fleet capex which has increased by $9m
- the total investment required to support DER and all costs associated with PV installation and export including the contingent project has not been transparently presented and
- the Newgate survey referred to above cannot be relied upon as a justification for all customers paying.

CCP14 does not believe that the current SAPN Proposal is in the LTIC and it is not capable of acceptance by the AER for the many reasons others and we have highlighted in the responses to the Draft Plan as well as in this response.

Think Human has raised two other issues in its report that we would like to comment on. The first is the comments from some participants about whether the engagement program was all worth it. As Think Human observes:

> "*A number of participants have questioned if this amount of additional engagement is having a commensurate impact on the Plan or if the Plan would be just as good with less engagement."*

If CCP14 had known that the SAPN objective with the release of its Draft Plan and the engagement on it was to inform and explain its plan to its stakeholders rather than consulting and involving them in it, CCP14 would not have encouraged SAPN to extend the range of its information sharing sessions.

The level of engagement needed on deeply technical material is resource and time heavy for all concerned. SACOSS refers in its response to the Draft Plan on '*the resourcing pressures this placed on consumers and consumer organisations to meaningfully participate in the program*.' Given that the Draft Plan is substantially the same after the additional engagement, CCP14 agrees with SACOSS that the additional engagement has not really improved the Plan with a couple of important exceptions we discuss below.

CCP14 believes that the discussions between SAPN and the AER on the Network of the Future Plan, which saw SAPN arrange a session with AEMO, including the AER's Technical Advisory Group in Melbourne were very important. This early consultation with CCP14 and the AER resulted in SAPN revising this expenditure to the proposed $36 million in the Proposal. In our view this is an excellent example of the benefits of early engagement. We are however very concerned that some of the benefits of this early engagement has been undermined by the inclusion of significant additional augex expenditure and the contingent project all of which relate to DER and PV integration.

Similarly, the engagement around tariffs has resulted in the TSS, which is underpinned by the solar sponge Time of use tariff, which has received strong customer support. We share the optimism of SAPN's customers that the proposed tariff will reduce the excess solar in the middle of the day through increased consumption and may reduce the need for all of the additional DER investment.

The detailed overview of the new value approach to asset replacement was also very informative but the repex component of SAPN's Proposal was never likely to be the most contentious part of its Proposal given SAPN's record as strong asset managers and the early involvement of the AER's repex team.

The second issue raised in the Think Human report is about the evolving role of the CCP. The AER has encouraged the CCP to play a challenging role to both businesses and the AER and to work with networks that are interested in trialling new approaches to consumer engagement. Not all businesses have welcomed our new role and we believe that our new role to challenge SAPN has caused some tension between SAPN and us. We are not concerned about this reaction and we do not take it personally.

CCP14 does not want to leave the impression that the engagement process has been a wasted effort. The SAPN stakeholder engagement team has run very good sessions, with excellent documentation, which have been well recorded by external facilitators. We understand that the deliberative forums that SAPN ran before CCP14 was involved were well received. The first involvement that CCP14 had with the early engagement program was at a forum in August 2017[31] that sought to summarise back to stakeholders the results of the program of deliberative forums that included regional forums. Several stakeholders reported to the meeting that the sessions had been well received and had identified issues of concern.

Many of the submissions to the Draft Plan acknowledge the progress that SAPN has made in this regulatory proposal compared to the last reset. For example, Business SA stated:

> "*It is clear that SAPN has taken a much more constructive and proactive approach to engaging with consumers during the consultation process to date for 2020-25 which is an important part of reaching the best sustainable outcome for both the network and consumers*."

SACOSS observed:

> "*SACOSS has been encouraged by SAPN' willingness to listen and respond to consumer feedback during the Consumer Engagement Plan*."

Some of the stakeholders also report that trust levels between SAPN and its customers and local customer advocate groups are growing. CCP14 believes that SAPN could have done more by applying the detailed feedback it received in shaping its Proposal. The position now is that the AER has a wealth of feedback from a

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[31] As early as the August 2017 meeting, CCP14 observed that SAPN was seeking stakeholder views on reliability and proposals to harden the network through the use of binary options. We raised with SAPN our concerns that stakeholders were not clear that they were being asked to comment on investment proposals to increase reliability above standards that may not be mandated by ESCoSA.

wide range of stakeholders about what consumers think of the Draft Plan and the regulatory Proposal that will inform its Draft Decision. We encourage the AER to review the detailed responses to SAPN's Draft Plan.

The detailed recommendations from Think Human in its evaluation report support a greater role for the SA CCP in the 2025-30 process. This is reflected in the following Figure 10, from page 3 of the report.

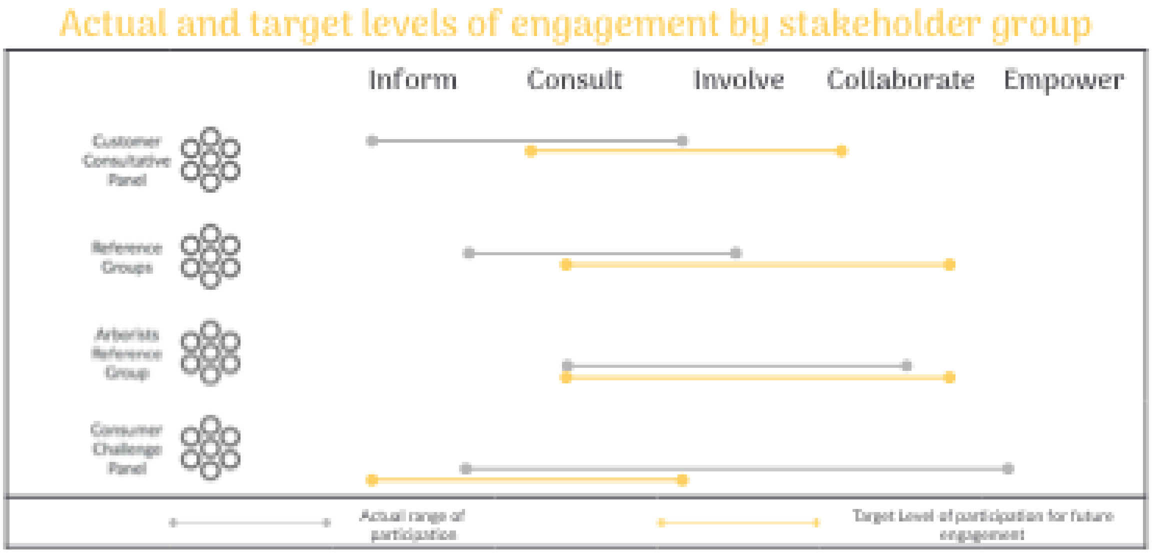


Figure 10: Engagement levels, from the '*Think Human*' report to SAPN (Source: SAPN)

We completely agree with this recommendation and in fact, CCP14 encouraged SAPN to use its SA CCP and Reference Groups more for detailed options analysis and business case testing as part of this 2020-25 reset. As the SA CCP had only been recently reconstituted, we were informed this was not possible for this process. CCP14 often refers other networks to the SAPN CCP and Reference Group structure as a good way to embed customers in the network business planning cycle. We encourage SAPN to continue to invest in its CCP and Reference Groups and bring them more into both BAU and strategic decision making in similar ways to the arborist Reference Group. We are aware that SAPN has been engaging with its CCP about this issue since it lodged its Proposal. Think Human concludes its report:

> *"With ongoing and sustained investment and commitment to embedding customer engagement into business as usual, particularly at the higher end of the IAP2 spectrum of participation, SAPN should be in a much stronger and more mature place by the next regulatory proposal period in 5 years' time."*[32]

We are aware that SAPN intends to wait for the Draft Decision from the AER and to continue to engage in the usual propose respond model with the AER. We would like to encourage SAPN to consider Think Human's recommendation and the SAPN CCP's request for further consultation in this regulatory period rather than waiting until 2025-30.

SAPN may come to see further engagement on some of the core issues raised in the consistent feedback to its Draft Plan and its Proposal, after the AER's technical teams have done more work on the issues. We are aware that the SAPN CCP remains very keen to work with SAPN to narrow the gap to arrive at a revised revenue Proposal that is capable of support from stakeholders. If SAPN chooses to consult and involve customers in the development of its revised regulatory Proposal, CCP14 remains ready to participate constructively alongside the AER technical teams, the SAPN CCP, ECA and local customer advocates.

[32] Think Human p. 30

Any future engagement by SAPN could explore the use of guardrails around specific issues to prioritise participation by the SAPN CCP and Reference Groups. If SAPN does not choose this further engagement approach we have great confidence in the AER's technical capability to respond to the various issues raised by customers, many of which have NEM wide significance, in making it Draft Decision in the LTIC.

The SAPN CCP has encouraged SAPN to choose to engage with its customers on its revised revenue Proposal rather than just interacting with the AER for these reasons:

"An open collaborative approach could benefit SAPN by:

- *Aligning its delivery more closely with services that customers value*
- *Building stakeholder support for difficult trade-offs that are inevitable as the energy transition challenges the business to change and Improving its innovation by introducing diverse perspectives*."

So far SAPN has declined the invitation.

9 Operating expenditure

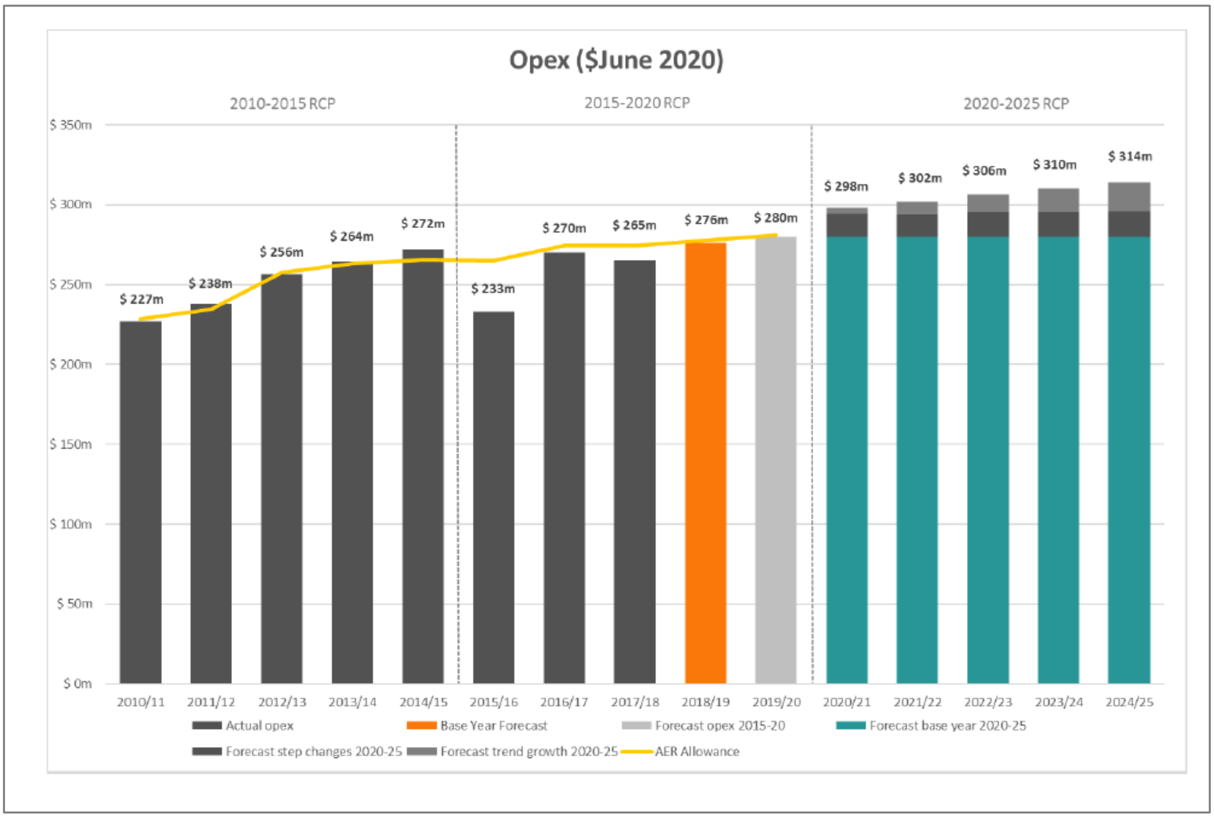


Figure 11: SAPN –Opex trend ($M, $2020) (Source: SAPN Presentation, 4 April 2019)

CCP14 highlights the following issues for the AER's consideration.

Issue 1 Step changes

SAPN has proposed four step changes – LV management, cloud transition for hosting and scheduling, a reclassification from capex to opex reflecting SAPN's interpretation of the AER Tax Allowance review in December 2018, and critical infrastructure compliance.

CCP14 has previously provided commentary on the LV management system[33] when the proposed capex and opex costs were considerably higher than the current proposal. We understand the AER is generally supportive of the overall LV management project in its revised scope.

We remain to be convinced about whether the cloud hosting step changes meet the AER definition of a step change.

We understand the new Federal requirements around cybersecurity may constitute a legitimate step change. CCP14 members have seen this category of expenditure in other revenue proposals. We look forward to the

[33] See https://www.aer.gov.au/system/files/CCP%20subpanel%2014%20-%20Advice%20-%20Response%20to%20SAPN%27s%20approach%20to%20the%20challenges%20of%20the%20high%20penetration%20of%20embedded%20generation%20-%20June%202018.pdf

forthcoming ICT review to examine what is the efficient level of opex and capex spending to meet the Critical Infrastructure Centre legal requirements.

We will examine the capex/opex reclassification is a subsequent submission on the overall impact of the AER tax review.

Issue 2 Labour costs estimates

The standard approach used by the AER is to take the average of the network's consultant's forecast and AER's consultant's forecast. It is perhaps no coincidence that across networks, the networks' forecasts are consistently showing higher real wage increases than the AER's forecasts. SAPN is no different[34]:

Table 6-8: SA Power Networks annual labour price growth for the 2020-25 RCP

	2020/21	2021/22	2022/23	2023/24	2024/25
BIS Oxford Economics %	1.16%	1.53%	1.72%	1.62%	1.36%
Deloitte Access Economics %	0.40%	0.60%	0.70%	0.57%	0.57%
Average labour price growth %	**0.78%**	**1.07%**	**1.21%**	**1.09%**	**0.96%**

The problem with South Australian forecasts is that the ABS does not collect this data so there is no historical data on actuals to asses consultants' forecasting accuracy. We would encourage the AER to seek to understand why the differences between respective consultants persist and whether the averaging approach is a robust methodology. We would also encourage the AER to draw on the experience of Business SA and its members in this matter. As Business SA commented in its submission on the Draft Plan:

> "Business SA is concerned that SA Power Networks is proposing above CPI labour cost increases for 2020, albeit we expect somewhat less than the 4.25% per annum increases negotiated in your previous enterprise bargaining agreement (EBA). The reality of South Australia, and indeed Australia, is that wage growth is at record lows and many local businesses, particularly small businesses, are even struggling to afford CPI increases for their workforce. In fact, Australia's wage price index growth for the June Quarter 2018 was only 2.1%, and this was propped up by public sector wage growth of 2.4%. Considering South Australian CPI growth is currently running at 2.7% per annum, this is already above national wage growth so CPI in of itself is relatively generous.
>
> Business SA acknowledges SA Power Networks' rationale that above CPI labour cost increases are justified on the basis of increased productivity from workers, including through adapting to technological change. While that may well be the case in theory, how will it be measured and why is SA Power Networks opposed to a total productivity growth target on the entire business yet expects consumers to pay above CPI wage increases based on productivity improvements?
>
> As Business SA articulated back in 2014, we are not opposed to any level of wage increase which is funded by the owners of SA Power Networks, but if you expect consumers to pay above CPI labour cost increases through regulated network revenues, our members and indeed the entire South Australian business community need to be convinced beyond reasonable doubt why that is necessary. SA Power Networks' arguing an approach on labour costs aligns with the AER's accepted approach using independent forecasts for the utility industry is not sufficient evidence for South Australian consumers to demonstrate it holds weight for the specific labour market dynamics which exist locally." (p.4-5)

[34] SAPN Attachment 6 Operating Expenditure p.32

Issue 3 - Opex benefits from ICT spend

Networks frequently justify ICT capex on the basis of the opex savings it brings. We comment on this issue further below in section 11. We would have liked to see greater explanation form SAPN about the opex savings from $285m ICT capex in 2020-25.

10 Capital expenditure

10.1 An overview of the key issues for capex

In its workshops, SAPN demonstrated its capability as a competent manager of network assets. Key performance indicators of safety, environmental management, service delivery and importantly network performance are all meeting community expectations, with the exception of some localised concerns regarding power interruptions.

We believe that these results support a case for no overall increase in capital expenditure by SAPN in the 2020-25 period – which is the case and shown in Figures 12 and 13 below.

Our key concern with the capital expenditure is that there appear to be opportunities for the overall capital expenditure to actually reduce, given flat demand growth and a position by ESCoSA that reliability measures are largely acceptable.

SAPN has seen fit to reduce expenditure in network augmentation, consistent with the trends in most distribution jurisdictions. Commendably, increases in replacement capital expenditure have been contained as assets age. Our belief is that the benefit of these actions has been however curtailed by rises, or continued high levels of expenditure, in other categories of capex.

In the light of a strong desire by customers to seek lower electricity costs, including in the future, we believe that SAPN has not embraced every opportunity to demonstrate constraint, seek opportunities to reduce expenditure or consider lower cost (albeit possibly at higher risk) options.

Therefore, we believe that SAPN has missed an opportunity to enhance trust with their community by demonstrating spending restraint in a form that most of its customers must exercise in our daily budgets.

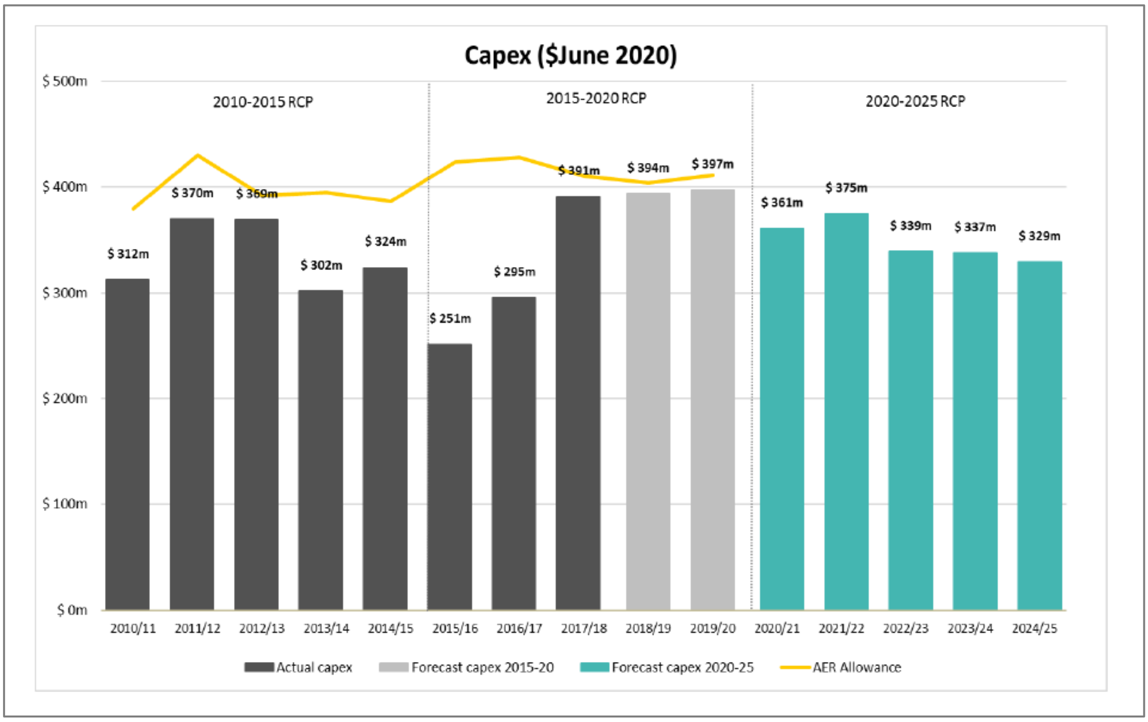


Figure 12: SAPN –Capex trend ($M, $2020) (Source: SAPN Presentation, 4 April 2019)

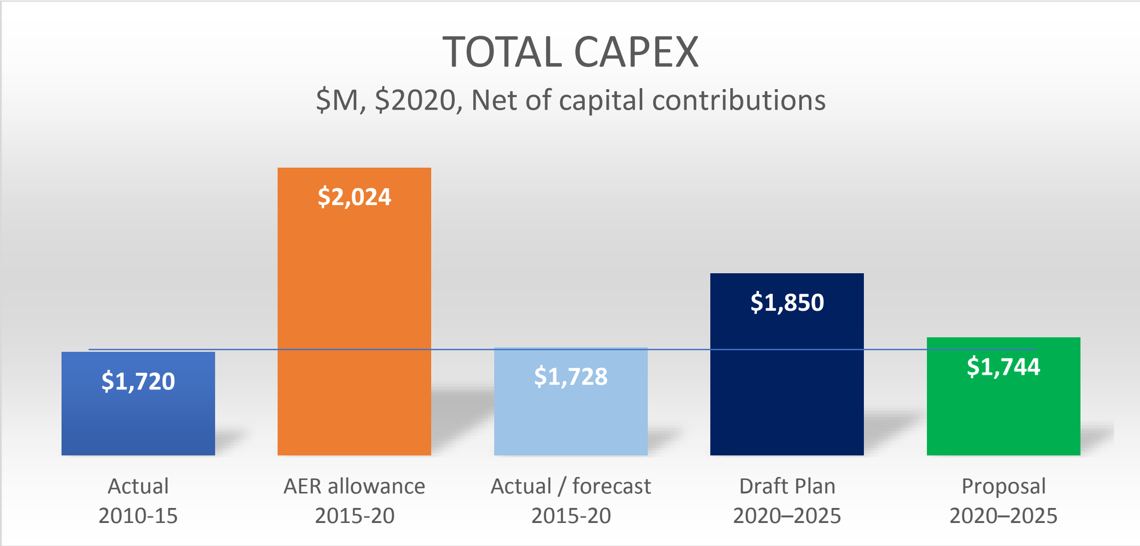


Figure 13: SAPN – Total capital investment – change (Source: CCP analysis of SAPN data)

10.2 Asset replacement

SAPN has highlighted the significant age profile of their line assets, in particular 'stobie' poles. We recognise the somewhat unique challenge to consider the modelling of these assets in terms of failure profile and replacement cost and support the ongoing interaction between the AER Repex team and SAPN to establish a workable position regarding the replacement of aged assets.

SAPN went to lengths to explain their asset management strategy in the workshops, with many examples and scenarios.

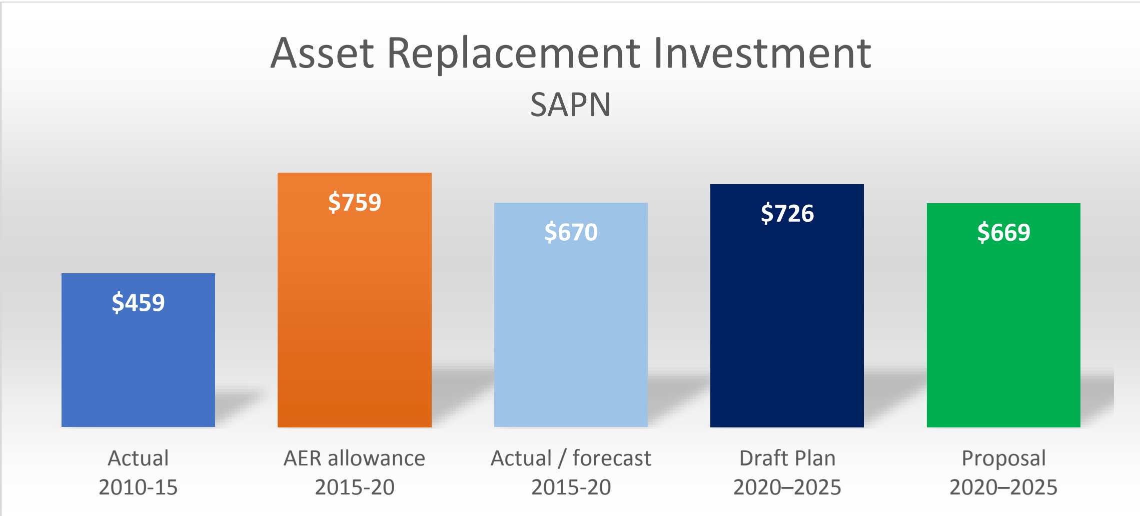


Figure 14: SAPN - Asset Replacement expenditure data (Source: CCP analysis of SAPN data)

Overall, we believe that SAPN has made a reasonable case to maintain replacement capital expenditure at existing levels, and we support this aspect of the proposal. However, we encourage the AER to consider whether SAPN has done as much as it can to avoid repex expenditure through enhanced analytics and information management provided by the ICT investment, DM and other non-network solutions.

We also encourage SAPN to leverage the very significant investment being made by customers, third parties and the SA Government in their own infrastructure to retire assets without needing to replace them.

10.3 Network – related expenditure, other than asset replacement

SAPN has proposed an overall amount of network-related expenditure that is very similar to the forecast investment in the 2015-20 period. This is consistent with their 'stable, business-as-usual' position.

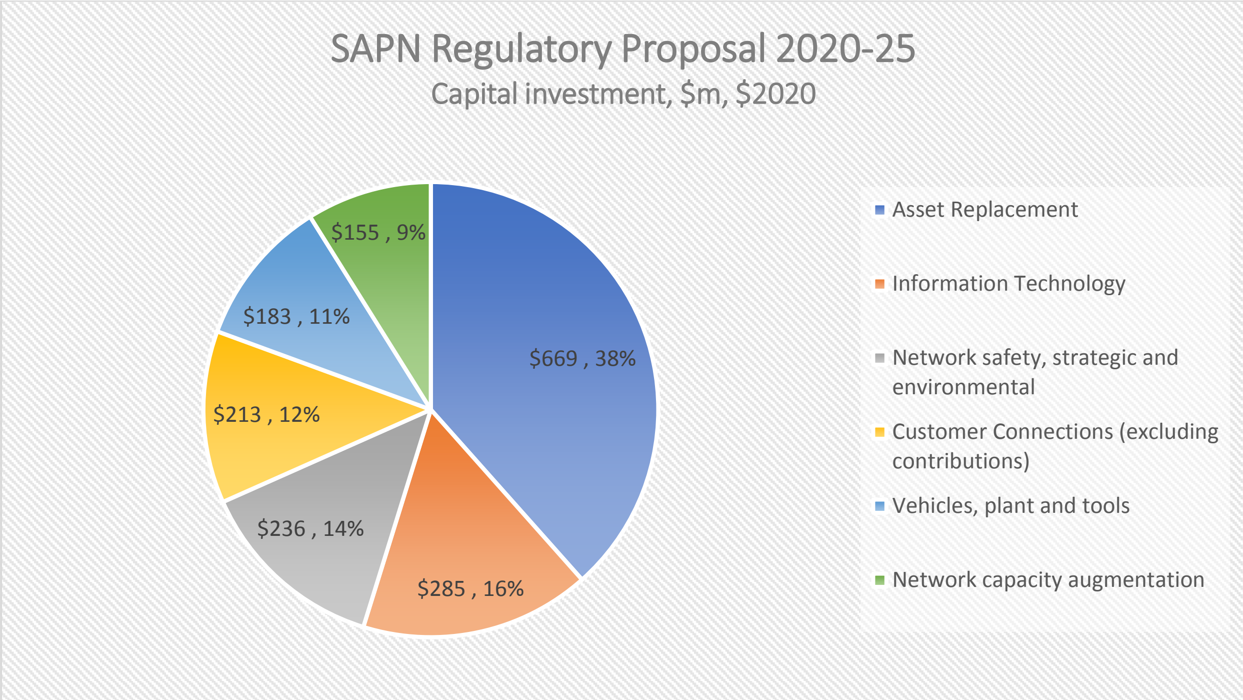


Figure 15: SAPN capital expenditure plan (Source: CCP analysis of SAPN data)

Asset replacement (38%) is the largest component, consistent with other distributors. Somewhat surprising is the proportion of expenditure targeted at ICT and non-augmentation network needs (Figure 15).

Following feedback on the draft plan, we note that the total capex amount claimed for 2020-24 reduced $64M or 14%, bringing the proposal back to a number that is $28M (7%) slightly less that this period's forecast.

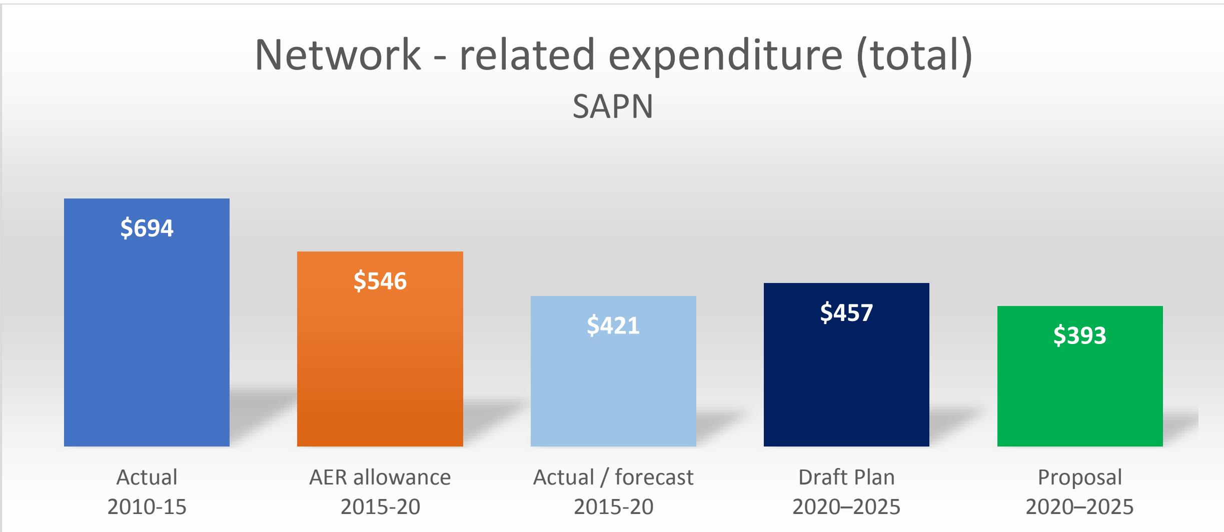
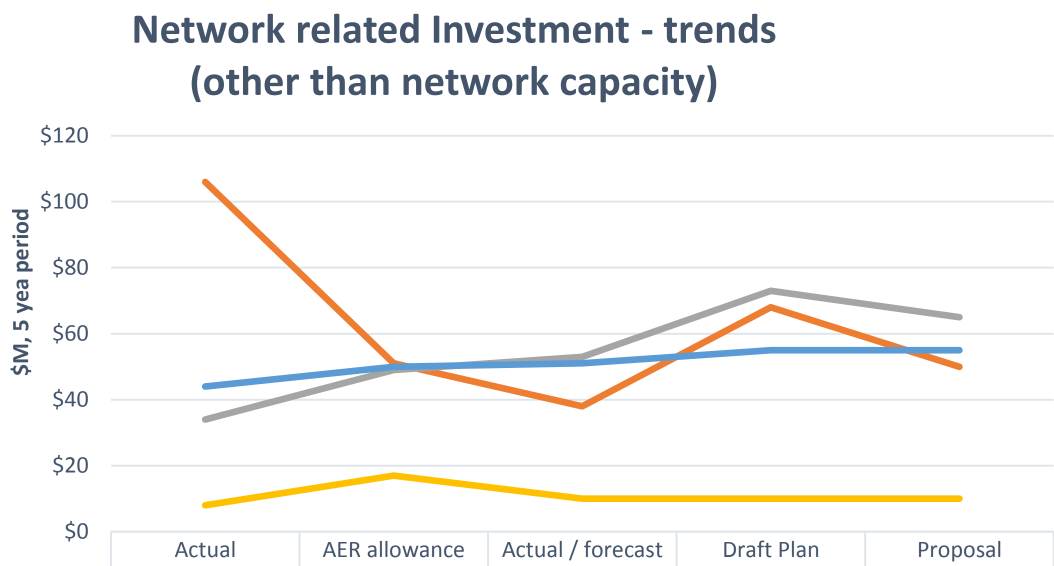


Figure 16: SAPN – Network-related expenditure data (Source: CCP analysis of SAPN data)

Notably, the biggest reduction compared to the current forecast is network capacity investment, down $44M. Based on information provided by SAPN, this reduction seems realistic and (subject to detailed analysis by the AER) supported by CCP14.

Of concern however, the reduction is then somewhat ‘clawed back’ through increases in planned expenditure in the strategic, reliability and safety categories, without, be believe, adequate justification as to why the current levels of investment are insufficient to maintain what is already reasonable performance. We note that proposed expenditure on network strategic issues and reliability are higher than that in the current period. Whilst SAPN discussed these issues in their workshops, it was not made clear why the increases over current spend were justified, particularly when considering the acceptable performance by SAPN to date.



	Actual 2010-15	AER allowance 2015-20	Actual / forecast 2015-20	Draft Plan 2020–2025	Proposal 2020–2025
Strategic	$106	$51	$38	$68	$50
Reliability	$34	$49	$53	$73	$65
Environmental	$8	$17	$10	$10	$10
PLEC (relocations)	$44	$50	$51	$55	$55

Figure 17: trends in network- related Capex (source: CCP analysis of SAPN data)

This gives rise to a number of issues that remain unresolved in our minds regarding Capex, and are discussed below.

Issue 1 –The underlying cost to accommodate growth in DER is embedded in multiple investment categories, including network augmentation

SAPN has allocated $155M towards Network Capacity augmentation. Traditionally, such investment is aimed at increasing the capability of the network to meet growing customer electricity demand.

SAPN has done a good job of explaining the more traditional aspects of network augmentation expenditure – connection points, demand growth and the like. CCP supports SAPNs position on these investments. Like many other distributors, SAPN has been able to significantly reduce its investment to increase network capacity in terms of customer demand. This is particularly commendable given SAPN was not subject to the significant changes in network security requirements evident in the eastern states some years ago, a factor that is evident in SAPN’s network utilisation data.

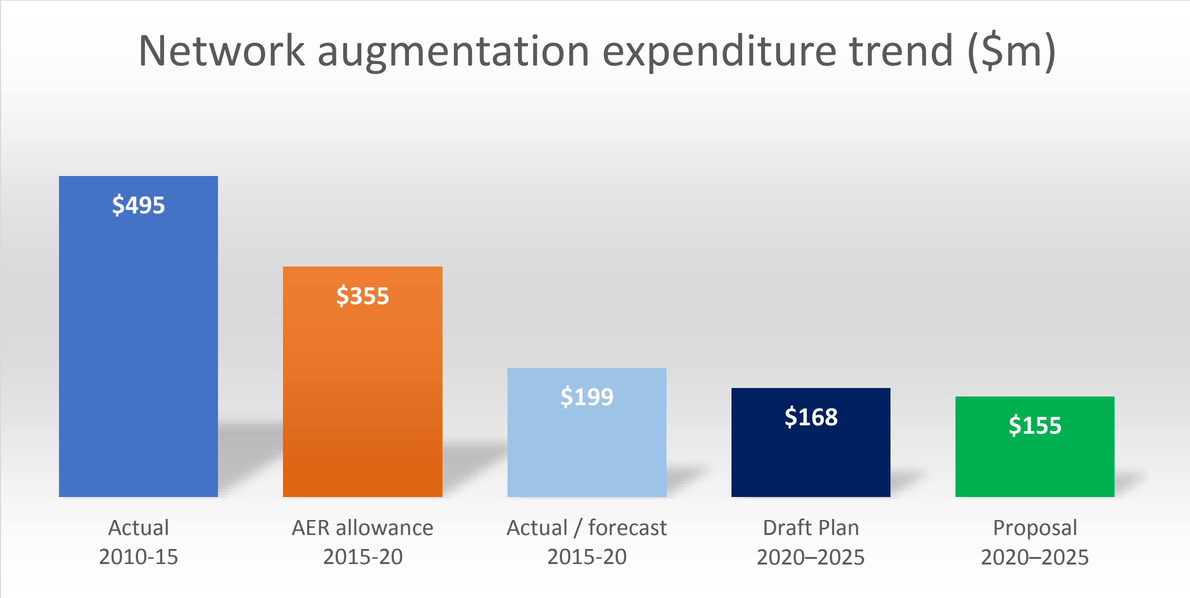


Figure 18: SAPN – Network capacity investment expenditure data (Source: CCP analysis of SAPN data)

In this proposal however, we note that SAPN has classified as network capacity a large part of the investment ($101M, 66%) to support growth in embedded generation and other forms of DER, an area that has traditionally been classified as 'power quality'. This took us a little by surprise, but on reflection is a reasonable and appropriate position as the expenditure is to support voltage regulation and network performance in light of falling minimum demand and two-way power flow.

This makes our assessing of SAPN's position on network augmentation difficult.

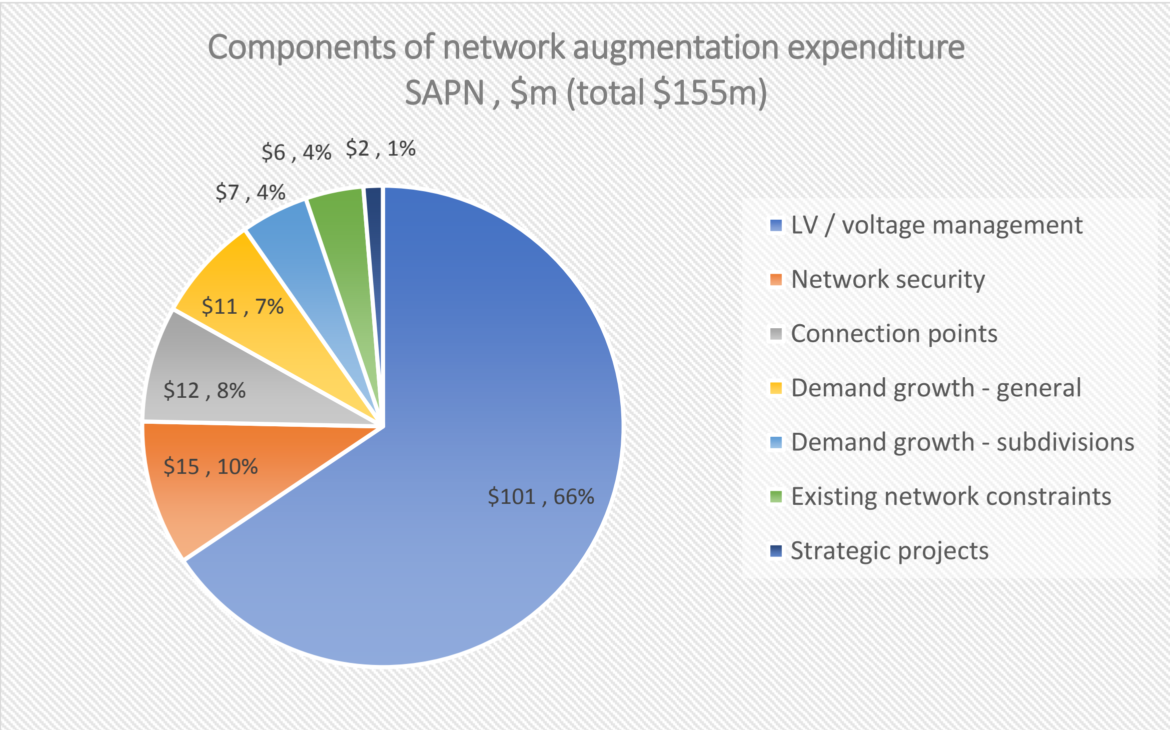


Figure 19: SAPN – Network Augmentation expenditure data (Source: CCP analysis of SAPN data)

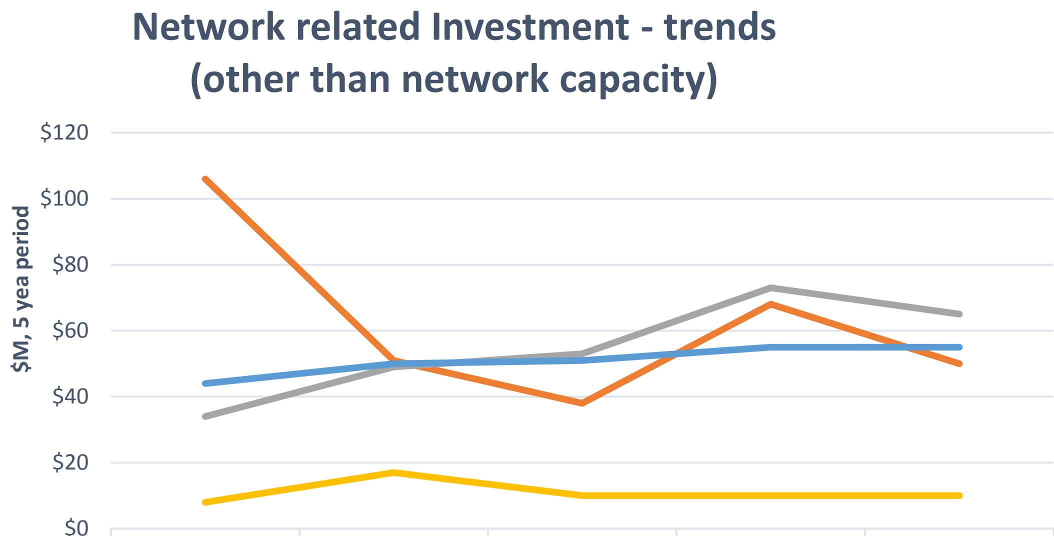
This large slice of network augmentation expenditure is for LV augmentation and voltage management to meet the growth in DER; which tends not to support more billable energy being transported, but rather to need the challenges of falling load factor and new peak demands in both the export and import direction. SAPN has highlighted the fact that their network has a very high penetration of embedded solar generation and is also facing the complexity of responding to the rapid growth of embedded virtual power stations (VPPs). The rise of these challenges is clear and has been well articulated by SAPN.

However, we do not believe that SAPN has made the real, ***total*** cost of their response to this challenge clear to customers so that informed, balanced analysis and support of options to address these challenges can be reached. The emerging DER conversation is complex, granted, and clear information in the public arena regarding the costs to facilitate this growth

We strongly encourage the AER to bring together all costs for SAPN to reasonably meet its DER challenges, including network augmentation, ICT investment, strategic investment and the like, so that informed debate as to the real cost to customers and the community can be aired.

Issue 2 – Justifying the growth in investment that is not related to network capacity

We remain concerned that Non-capacity related investment is increasing. SAPN provided a lot of information in the deep dives regarding the plans, but we believe the alternative options, steady-state plans and cost / benefits were not made clear.



	Actual 2010-15	AER allowance 2015-20	Actual / forecast 2015-20	Draft Plan 2020–2025	Proposal 2020–2025
Strategic	$106	$51	$38	$68	$50
Reliability	$34	$49	$53	$73	$65
Environmental	$8	$17	$10	$10	$10
PLEC (relocations)	$44	$50	$51	$55	$55

Figure 20: SAPN – Network strategic investment expenditure data (Source: CCP analysis of SAPN data)

On network reliability expenditure, we note the planned increased spend on reliability for worst performing feeders such as the Eyre Peninsula. This issue was raised by customers as part of the initial regional engagement sessions. It is our belief, however, that the case was not made for alternative options, such as transmission augmentation or local generation, nor was there justification why all customers in SA should pay for these localised issues.

Granted, attention to the 'worst performing feeders' is required as part of SAPNs network investment. However, we believe that adequate funding is already available to meet this objective. We note the support from the Wine industry and Business SA to support improved reliability, however in contrast there is no support from SACOSS for spend above mandated levels.

CCP14 echoes the ESCoSA position:

> *"SA Power Networks is expected to spend about $37 million to maintain current reliability standards over the five years -similar to the predicted total costs for the current period (2015-20) -rather than spending more on reliability above the standards and passing those increased costs on to customers. This will assist in constraining electricity costs: a key message from the customer survey and a key focus of the Commission's review."(ESCOSA SA Power Networks 2020 reliability standards review)*

> *"The Commission acknowledges that customer satisfaction has declined, and agrees that this is cause for concern. It also agrees with Business SA that this decline is not surprising in light of recent reliability events. While this broad customer satisfaction statistic is useful as a general guide in setting reliability standards, the Commission has been mindful that reliability experienced by customers is not driven solely by the reliability of the distribution network. It is also determined by the reliability of the transmission network, and reliability of generation. Further, dissatisfaction does not necessarily translate directly into willingness to pay for improvements. The costs of delivering alternative reliability outcomes needs to be separately assessed against customers' willingness to pay for that service. … the customer survey showed limited willingness to pay for reliability improvements." (ESCoSA, Final Decision on SAPN Reliability standards review, January 2019)*

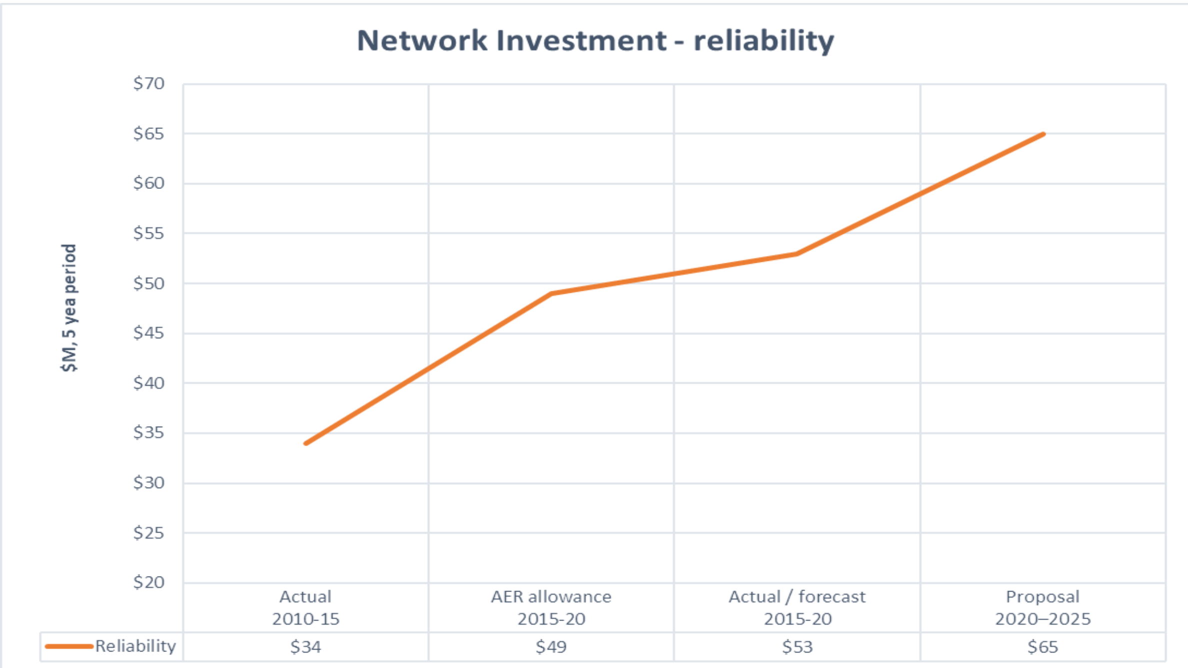


Figure 21: SAPN – Network reliability investment trend (Source: CCP analysis of SAPN data)

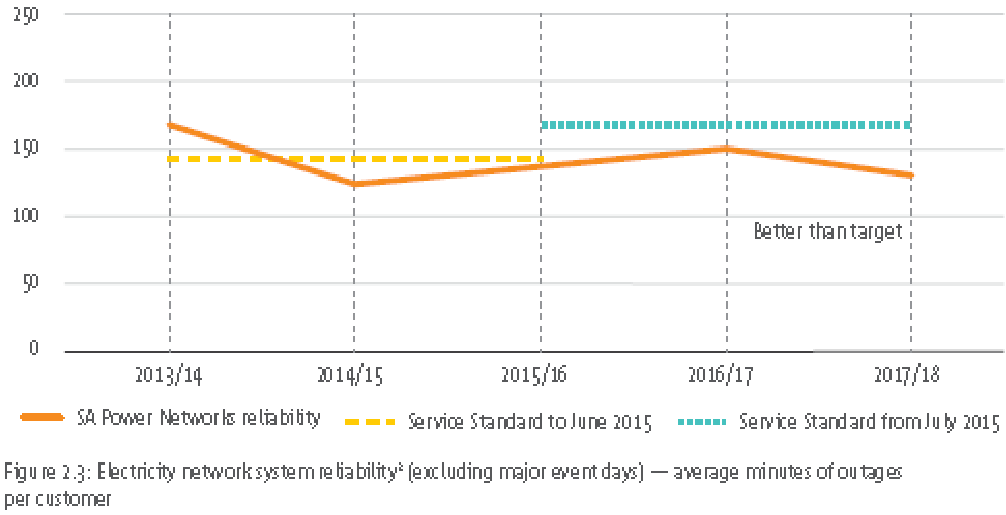


Figure 22: SAPN – Network Performance trend (Source: SAPN)

Issue 3 – The growth in connections expenditure appears inconsistent with underlying investment in network capacity

The number and cost of customer connections are based on SAPN's consultant's report. However, we note that despite flat demand growth and a relatively stable population growth (Figure 23), SAPN has highlighted the need for an increase of $35M (20%) in net connection costs when compared to the current forecast, nor why the requirement has increased by $9% ($17M) after the draft proposal (Figure 24).

We cannot recall in the engagement process where SAPN makes it clear why the proposed connection costs increase significantly from the current period.

We cannot support this increase without further information. This information has not been socialised with consumer groups to our knowledge.

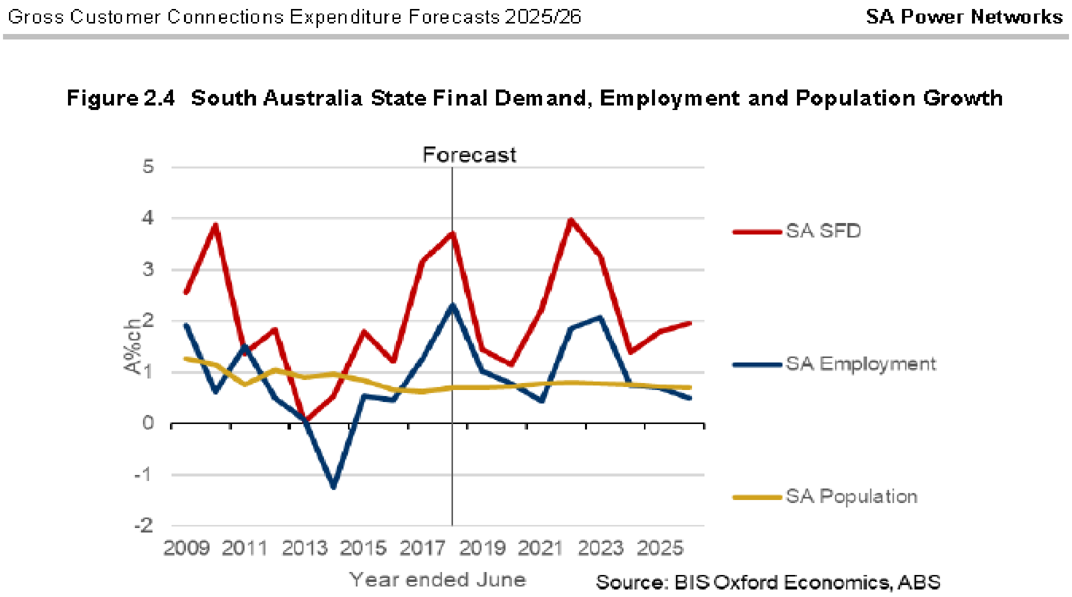


Figure 23: SA population growth forecasts (Source: SAPN)

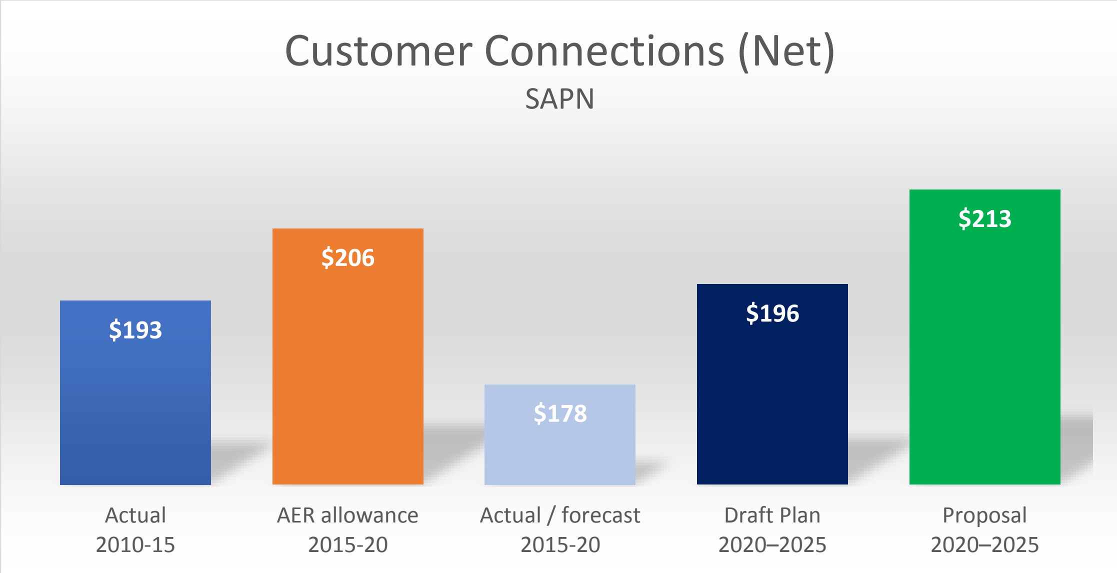


Figure 24: SAPN –Customer Connections expenditure data (Source: CCP analysis of SAPN data)

Issue 4 - Embracing Distributed Energy Resources (DER)

CCP14 acknowledges that SA has the highest PV penetration in Australia. This is likely to rise given the SA Government's policies and subsidies for PV and batteries. We commend SAPN on their early engagement with AER on the revised network of the future proposal reduced proposed capex to $36m. We urge the AER to take a total cost view of all DER related expenditure in the proposal so that customers are truly informed about the costs to all customers of maximising PV installation and export. There are several reasons why we believe that the AER should take a cautious and fully transparent approach to DER expenditure in the Draft Decision, notwithstanding the speed of DER uptake in SA:

- the SAPN DER proposal has NEM wide implications
- the energy system is in transition and storage and new business models will emerge
- the AER must avoid rushing to an unproven solution that might result in stranded assets in the RAB
- the AER should carefully check that the SAPN revised proposal maximises opportunities for market solutions rather than network curtailment solutions
- the solar sponge tariff should be given an opportunity to change customer behaviour
- a significant percentage of augex spend is also related to DER and LV management issues and the AER should make total spend on DER related issues transparent

As noted above, CCP 14 is concerned with the assumptions underlying the Houston Kemp wholesale value analysis and the Newgate customer survey. We are not persuaded that the 'social benefit' to all energy consumers, including the 50%+ who may not invest in DER, justifies the fact that all customers will need to pay for this initiative. We remain concerned that SAPN's approach to DER continues to be driven by AEMO and its preferred DSO model.

Further evidence of this is the ~$80m contingent project "Electricity System Security" which is buried in Attachment 5 and heavily influenced by AEMO direction. We would need a 'real life example' of the contingency to better understand the issue. The proposal as a contingent project was not discussed with community stakeholders. The critical issue is the existence of a RIT-D with meaningful opportunities for non-network solutions. Other solutions include inverters, impact from solar sponge tariff and export limits from larger VPPs.

SAPN is not alone in considering the challenge of increasing DER and how to make a reasonable allowance for the likely impact of new customer technologies. CCP can only reinforce a number of principles related to the 'least regrets' approach being taken by SAPN and other DNSPs. The AER must ensure that all such expenditure:

- maintains a view of the Long-term interests of all consumers
- considers the customer value to all customers, not just those who participate in DER
- takes a staged approach, implementing the investment not in a single step, but a series of steps. Deployment should target those networks and network segments where the consumer value is greatest (i.e. highest PV and storage penetration)
- pursues common platforms, standards and protocols
- focus on framework and policy optimisation, through connection standards, Australian Standards, tariff reform and, demand management
- makes use of technical facilities that are already available, such as those inherent in the connection systems and inverters. This is not necessarily a permanent solution, but may represent a cost-effective deferral option and
- improved (cost reflective) tariffs may be effective for a period of time in reducing the risk of storage devices being used in a way that puts the network outside its operating envelope.

CCP14 is very interested, as are many consumer groups, in the approach by SAPN to justifying investment – funded by all customers – in enhancement of the network to facilitate increased DER. Customer surveys - in particular around how the concept of 'export constraint' is presented - are very important.

10.4 Incentive Schemes

We are concerned that the proposed CESS benefit of $70m from the current period is not as the result of efficient deferral of projects and that the AER should carefully review this. The reasons given by SAPN are weather related and uncertainty about the regulatory environment caused in part by its seeking to review prior AER decision

11 Information and Communications Technology (ICT)

Overall, ICT investment by utilities is growing rapidly as the role of corporate support systems, real-time control systems, data gathering, and data analysis plays a much greater role in network businesses. Data analytics, low voltage network operation, regulatory commitments and cyber security obligations are all placing upward pressure on ICT requirements.

We acknowledge and respect the fact that ICT expenditure is a critical and increasing component of a distributor's expenditure, complicated by the shift to operating expenditure through cloud services and software-as-a-service. Utilities however need to be held accountable for these significant investments in, with clear discussion and validation of the benefits these investments deliver for the organisation and ultimately for customers.

CCP14 is highly supportive of the AER's proposal to analyse the ICT expenditure patterns across the NEM through their ICT Expenditure Assessment Review[35]. CCP14 will be making a submission to this ICT review.

Consumers need to be more informed of the requirements, benefit, prudency and risk implications of investment in ICT and related assets, as they gain an increasing influence on business performance and efficiency (and hence operating cost), depreciation (again, influencing price to customers), data risk, service delivery, customer choice and network supply risk and performance.

SAPN has provided a wealth of information to the AER as part of their proposal, proposing a capital investment of $284.6m in ICT in 2020-25. We note that SAPN also invested $314m on ICT assets in 2015/20, overspending the AER allowance by 9% ($27m)

We acknowledge that ICT is a complex area, with many demands on performance and cost. But against the significant investment of close to $600m over two regulatory periods, CCP14, SA CCP and other stakeholders are very uncomfortable about the need, value for money and approach by SAPN to this investment. This is a very large amount of money, and it is hard for customers to see the value.

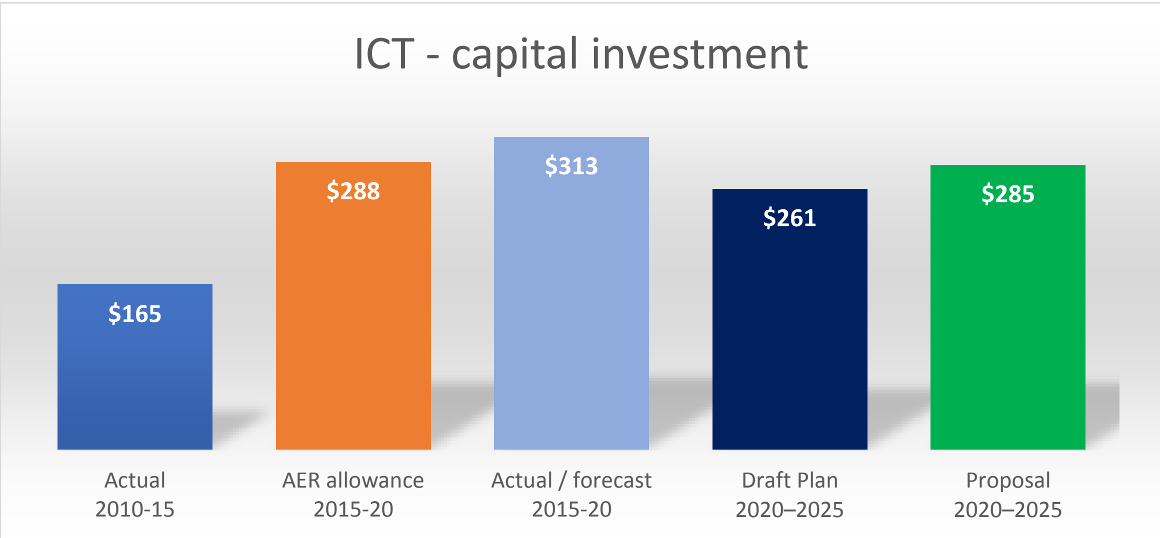


Figure 25: SAPN –ICT expenditure data (Source: CCP analysis of SAPN data)

[35] https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/ict-expenditure-assessment-review

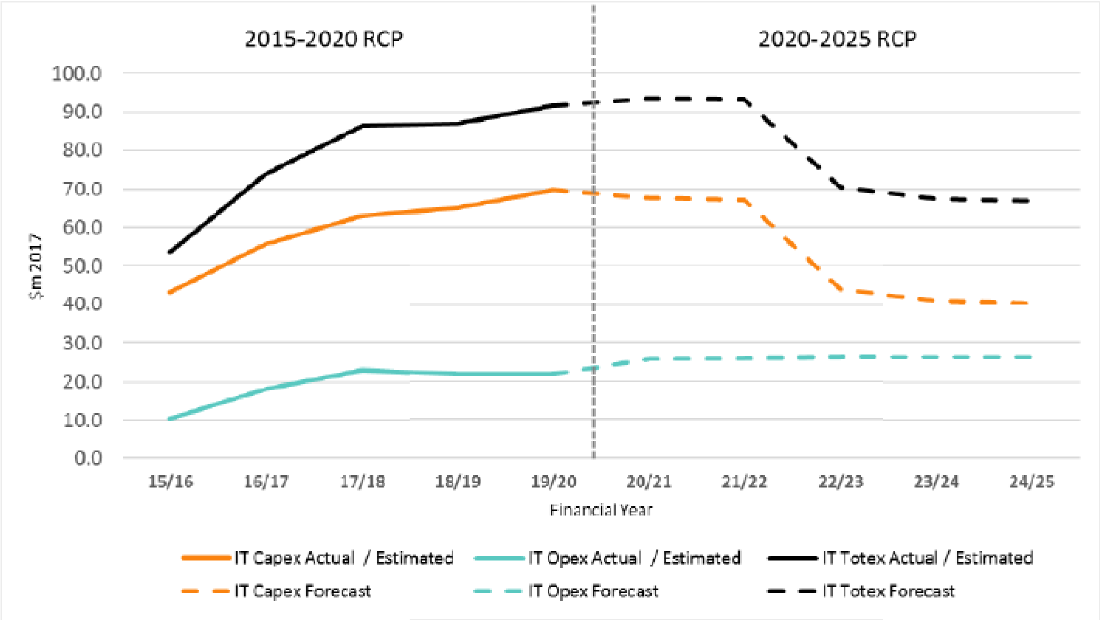


Figure ES.1: Actual/Estimated and Forecast IT totex, capex and opex across the 2015–20 and 2020–25 RCPs

Figure 26: SAPN - trend in ICT expenditure (Source: SAPN presentation 4 April 2019)

We support the AER taking a very close look at this expenditure.

Our concerns are around the following:

1. We generally understand that ICT expenditure can be cyclic over the life of the assets, say 10 years. We have observed other utilities undergo a period of renewal and high investment, followed by a period where the value of the ICT assets are extracted in more of a ‘maintenance’ cycle. We cannot see this cycle evident in SAPN’s proposal – just continued high levels of investment.
2. The absolute amount of investment seems inconsistent with various metrics - number of customers, value of assets, growth – when considering the ICT investment relative to other utilities.
3. The recipient of the value to SAPN of this investment through improved productivity and better business decisions is not evident in information provided to customers as reduced operating costs, better capital efficiency or improved service levels. Therefore, it is hard for customers to see much of thin investment as value for their money.
4. Counterfactual arguments have been largely trivial – ‘do this or we can’t bill/can’t keep the lights on /safety is compromised’. We do not deny that significant risks exist when investment is restricted, however SAPN would have been much better served by demonstrating to customers how their service delivery Business Continuity Plans (BCPs) relate to their ICT risks, and how those risks are mitigated.
5. We still have the nagging feeling that the vendor of the prime product is largely unaccountable to those ultimately paying the bill – the customers. The case for expensive product and platform upgrades imposed on the distributor is not transparent.

Customer stakeholders now demand clarity in linking the increased investment in ICT capability with performance improvements that are specific and measurable. Essential Energy clearly made this link in its recent Proposal for 2019-24. Similarly, we expect that Ausnet Services will develop the case for performance improvement in the period leading up to their Regulatory Proposal.

Some utilities have noted the possibility of not seeking funding for some ICT work that is directly intended to improve business efficiency, rather absorbing the costs and similarly embracing the benefits. CCP14 supports this approach. Regarding ICT that delivers business efficiencies, it is our belief that one of two approaches must be taken by the utility:

1. absorb the costs into the business, and they are not funded by customers; or
2. identify the costs as part of the capital works but include a strong and identifiable ‘downward step’ in operating costs and capital requirements that flow from the ICT investment.

The approach taken by SAPN is not evident in their engagement.

We welcome the AER’s foreshadowed review into ICT expenditure and encourage the AER to require businesses to self-fund ICT investment where networks choose not to quantify benefits to customers. We are also concerned about the large impact on price due to the short asset lives and relatively quick depreciation from the RAB and encourage the AER to also consider this issue on the ICT review.

The lack of trust in SAPN’s ICT investment is heighted by the $24m (9%) increase in ICT costs above those in the draft plan, noted as ‘increases in vendor quotes’. As customers who are ultimately paying for this, we believe the attitude by SAPN to accept these increases without clear evidence that they have fought for value, reconsidered their plan in light of the price increases or considered alternatives sadly gives the impression that SAPN does not value the customer dollar.

Again, we strongly encourage the AER to consider the impact of these price increases in their assessment of the expenditure.

12 Alternative Control Services

CCP14 observed a number of interactions between SAPN and the councils in the area regarding public lighting performance, prices and future planning. As has been the case in other jurisdictions, there is a range of views and requirements expressed by councils. SAPN has managed these concerns well in their workshops, and we have confidence that the proposal by SAPN in this area reasonably reflects the requirements and expectations of these key customers.

13 Tariffs and Pricing proposals

The aim of cost reflective tariffs is to empower customers to make informed choices by providing better price signals—so customers know what it costs to use electricity at different times so that customers can make informed decisions to better manage their bills.

CCP strongly supports the Time of Use solar sponge tariff as a means of influencing customers to shift their load from the evening peak to the midday trough. We agree with SAPN’s intentions for the solar sponge tariff namely: “*The changes........ will result in more equitable and fairer pricing that reflects how customers actually use the network. That is, the customers who contribute the most to the need to invest in the network will pay a fair share of this cost –it won’t be borne by customers who do not.”*

Influencing and rewarding those customers who shift their load is a much better approach for customers than SAPN investing in more network. We note that the SAPN TSS has been supported by customers. In its response to the Draft Plan ECA noted:

> “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."

However, the SAPN CCP noted:

> "The Panel does not give much attention to the TSS in this submission due to the lack of conclusive information available. There is a view that a tariff that includes 14 hours in a day at "peak price" cannot be about sending cost reflective price signals since the network will very rarely be experiencing peak demand for 14 hours in a day. We believe there are many opportunities for customer load shifting and demand management that would reduce SAPN costs overall, and a strong commitment to unlocking these behaviours needs to be demonstrated in the proposal.
>
> There is also a concern about the sustainability of non-solar PV residential customers paying a continuing increase in its share of network charges as PV penetration increases and urges SAPN to seek to address this anomaly through its TSS."

These concerns about the inequity between solar and non-solar customers were a consistent theme from the SAPN CCP in discussions with SAPN and are also raised in this submission.

Business SA supported opt in assignment policies and notes in its submission to SAPN on the Draft Plan the need for education to support the transition:

> "We are pleased to see SA Power Networks will maintain an opt in approach to shifting small businesses onto demand-based tariffs throughout 2020-25, and we also support the non-CBD peak demand period being shifted to 5:30 pm to 9:30 pm.
>
> However, we are mindful that new tariff options for small businesses may be complex to understand and we would like to know about any provisions SA Power Networks is making to educate small businesses on why the new options are being made available, and the fundamental rationale for moving towards cost-reflective tariffs. Part of this education could involve SA Power Networks developing a tariff calculator to help small businesses navigate through the various options available to them. Even if a small business may not be able to get that tariff outcome directly through their retailer, they can at least put some pressure on their retailer to ensure that only the actual distribution network costs are passed through."

Table 17.6 of the TSS sets out the feedback received by SAPN on its proposed TSS and how that feedback has been addressed in the Draft TSS included with the Proposal. CCP14 acknowledges SAPN's efforts to reflect this feedback in is draft TSS.

We acknowledge SAPN's leadership on DM initiatives and we encourage SAPN to think even harder about DM opportunities to help with the solar trough.

We do see some risks from the TSS:

- the demand forecast may be inaccurate leading to price jumps between years as highlighted in the data provide above, and
- SAPN needs to do greater impact analysis to identify those households who may not be able to shift their load to the middle of the day and who may be vulnerable customers unable to afford an increase in their electricity bills.

CCP14

16 May 2019