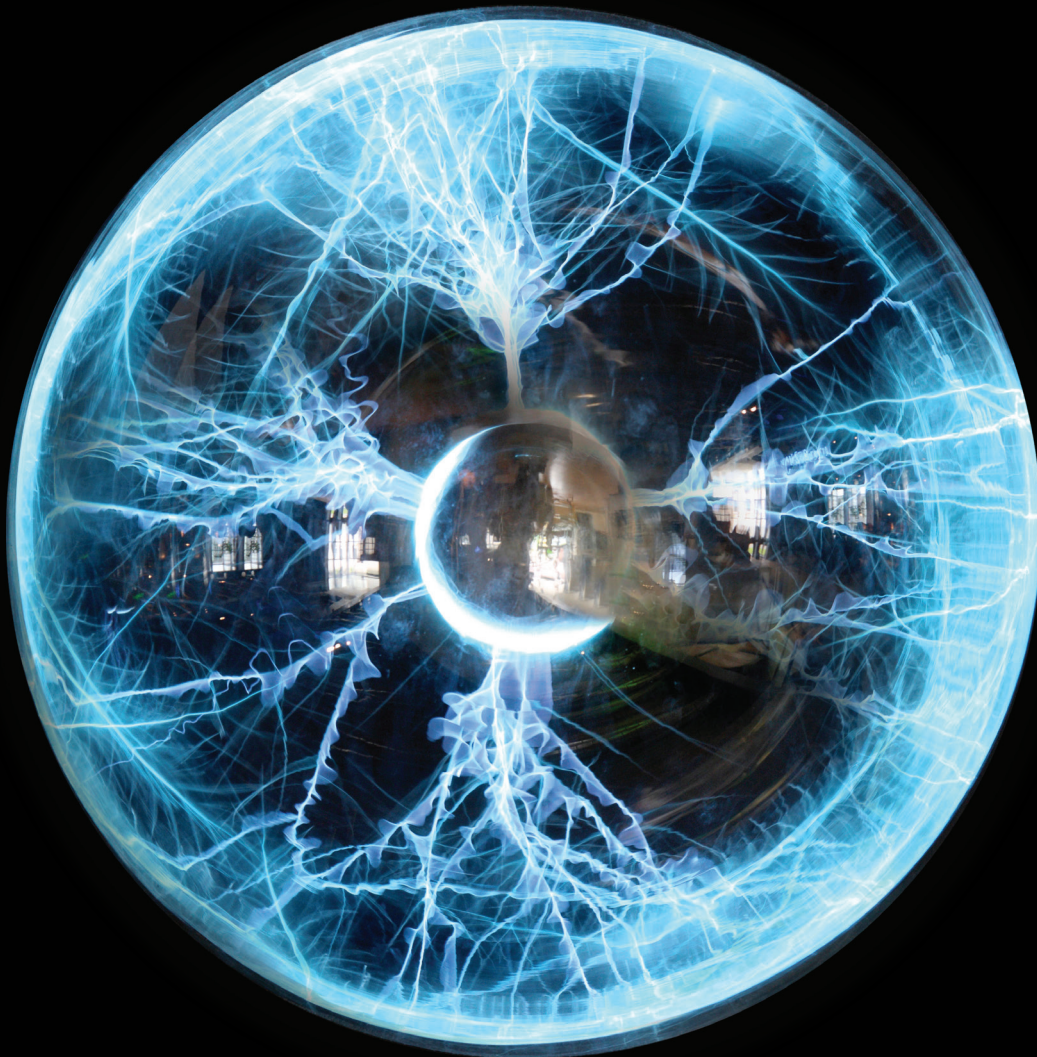




ElectraNet

Customer Insights Report

September 2016

The Customer Engagement Program

Background

The supply of electricity in South Australia is undergoing significant transformation, with declining energy consumption from the traditional electricity network (grid) occurring due to slowing economic growth, increased penetration of solar rooftop systems, and emerging technology.

ElectraNet Pty Ltd (ElectraNet) is the principal electricity Transmission Network Service Provider in South Australia, operating as part of the National Electricity Market (NEM), and is regulated by the Australian Energy Regulator (AER).

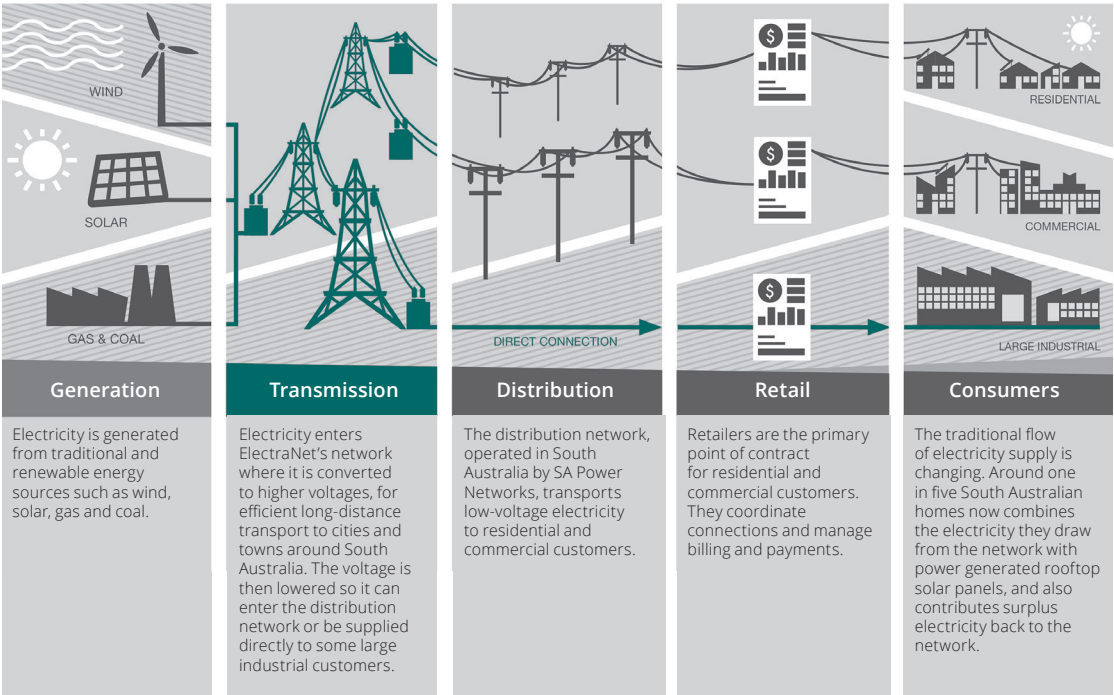
ElectraNet is responsible for transporting electricity from traditional and renewable power generators in South Australia and interstate to where it is needed. The transmission network transports electricity over long distances to metropolitan, regional and remote

areas where it connects to multiple customer connection points, including SA Power Network’s distribution network.

Under the regulatory framework ElectraNet is required to submit a Revenue Proposal outlining its expenditure plans and priorities for the 2019–2023 period to the AER by 31 January 2017. The AER will make a revenue determination based on ElectraNet’s Proposal for operating and maintaining a transmission network that meets the long term needs of South Australian electricity customers.

In late 2015 ElectraNet launched a Customer Engagement Program to help understand customer concerns and priorities as it develops its plans for the future of the South Australian transmission network.

How Electricity gets to you



Source: ElectraNet

Approach to Customer Engagement

The Customer Engagement Program sought to capture the needs and expectations of South Australian electricity customers and those customers directly connected to the transmission network. The findings from the program will inform the development of ElectraNet's directions and priorities.

The Customer Engagement Program consists of four key phases:

Design Phase – Development of the approach to customer engagement, agreeing the stakeholders, engagement themes and establishing the foundations for future engagement.

Listen Phase – Engagement with customers who are directly connected to the ElectraNet network, customer representatives, and interested stakeholders through the use of public forums and interviews.

Interpret & Respond Phase – Application of the feedback received during the Listen Phase to the business planning process, confirming the interpretation of the insights and obtaining feedback on the preliminary business responses with stakeholders and customer representatives.

Ongoing Engagement Phase – Establishment of a framework for continued engagement.

This report focuses on the outcomes of the Listen Phase, where ElectraNet sought to gain insights and opinions on its view of the future role of the transmission network. ElectraNet used its draft network vision to guide the conversation with stakeholders and customers. ElectraNet also explored feedback on its approach to investment over the next regulatory period.

Consumer Advisory Panel

Prior to commencing the Customer Engagement Program, ElectraNet established a Consumer Advisory Panel. The Consumer Advisory Panel has two main functions. Firstly the panel has the responsibility of providing guidance to ElectraNet in the development of its customer engagement activities, to ensure engagement with the right stakeholders on the right topics. Secondly the panel is designed to represent the views of the end use customer.

The Panel is led by an independent facilitator, and consists of members from peak customer and business organisations in South Australia.

Consumer Advisory Panel Members

Business SA
Conservation Council of South Australia
Consumers Association of South Australia
Council of the Ageing SA (COTA SA)
Energy and Water Ombudsman SA
Energy Consumers Coalition of SA (ECCSA)
Energy Users Association of Australia
Local Government Professionals Australia SA
Primary Producers SA
South Australian Chamber of Mines and Energy (SACOME)
South Australian Council of Social Service (SACOSS)
Uniting Communities

Engagement topics

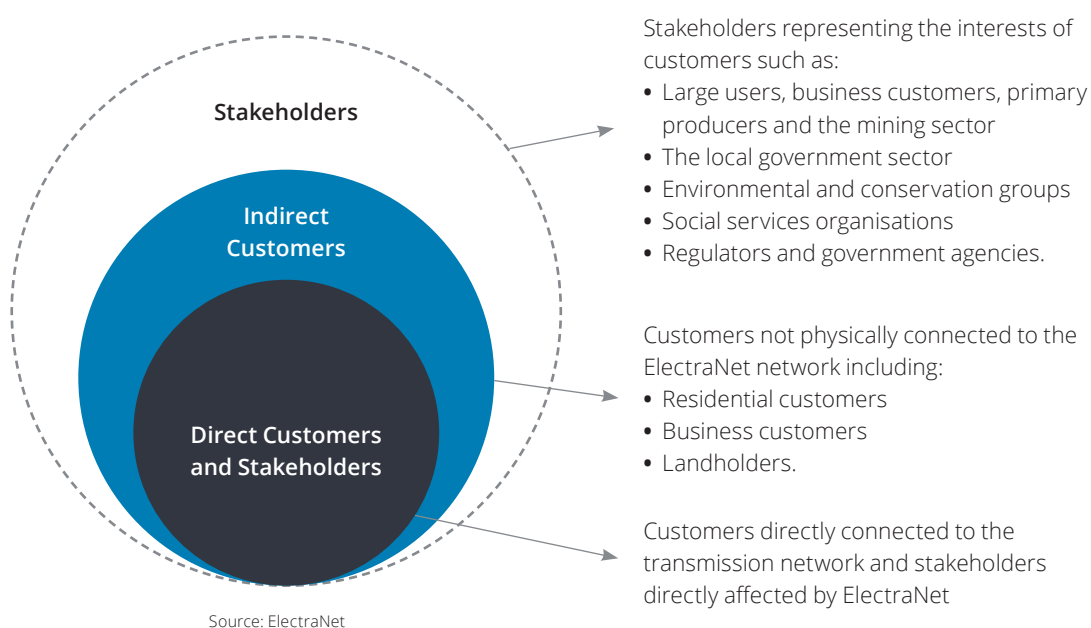
During the Design Phase, ElectraNet, working with the Consumer Advisory Panel, established a set of engagement topics focused on the issues that the Panel considered were of most importance to customers.

The engagement topics were:

Engagement theme	Description
Customer experience	Customer Service performance and expectations
The role of the transmission grid	Current role, future role, and disruptive forces
New technology	Impact of technology such as battery storage on the network
Network reliability	Current reliability performance, reliability expectations, factors that influence reliability, proposed investment approach
Transmission pricing	Pricing structure for customers directly connected to the transmission network
Revenue recovery	Options for the retirement of network assets, and accelerated depreciation

Participants

In designing its Customer Engagement Program, ElectraNet engaged with customers ranging from those that represent customer interests through to customers that are directly connected to the transmission network.



In addition to understanding the views of stakeholders and customers outlined above, ElectraNet designed the customer engagement program to focus on developing relationships and establishing a foundation for future engagement. This approach meant that ElectraNet did not seek to obtain a statistically representative sample of electricity customers in South Australia.

ElectraNet offered the following engagement opportunities for interested parties:

- **Stakeholder Forum** – A range of stakeholders were invited to a public forum with a focus on the release of the Network Vision Discussion Paper
- **Stakeholder Interviews** – A range of customers directly connected to the network, customer representatives (including members of the Consumer Advisory Panel) and other stakeholders were invited to attend interviews
- **Riverland Stakeholder Forum** – A forum hosted in the Riverland for business customers and stakeholders operating within the region.

Engagement method	Number
Forum participants	27
Interviews	20

Our Role

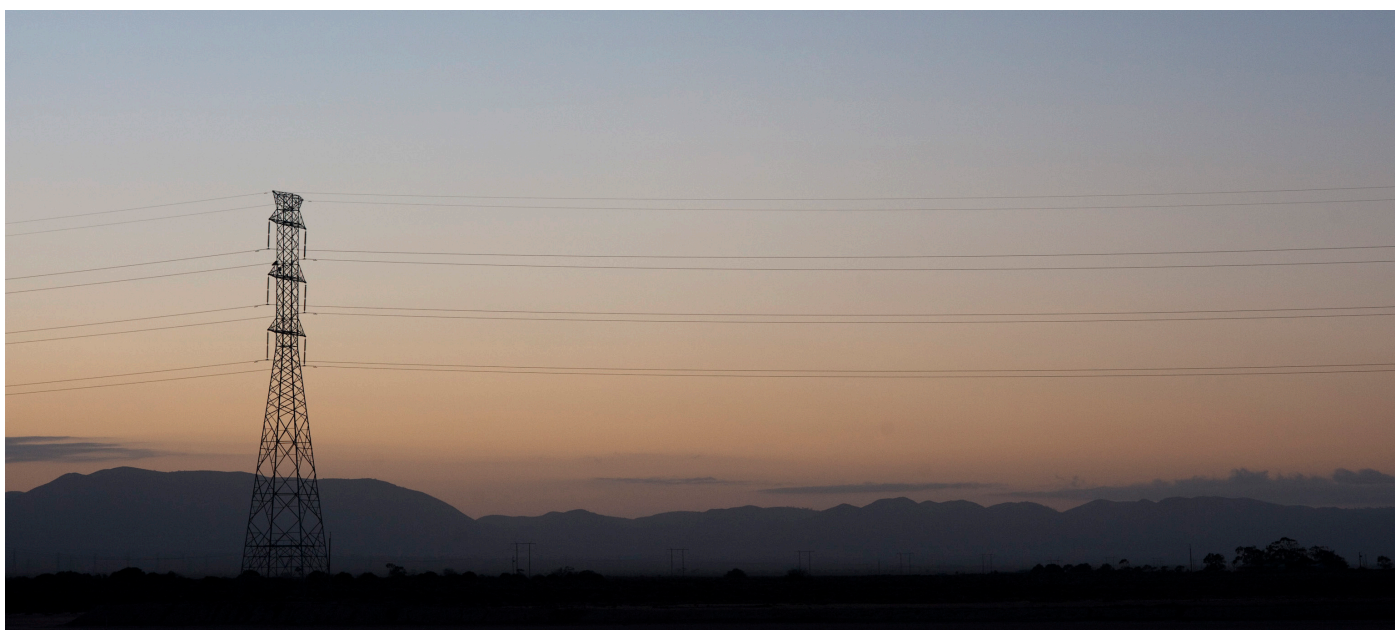
Deloitte was engaged to assist ElectraNet in the design and delivery of the Listen Phase of the Customer Engagement Program. Specifically Deloitte was responsible for:

- Assisting in the design of interview and forum materials
- Independent recording and reporting of customer feedback from forums and interviews.

Deloitte facilitated both forums, with support from senior managers and members of ElectraNet's executive team. Interviews were led by senior managers and subject matter experts from ElectraNet, with Deloitte's primary role being to record and report on the findings.

The role of ElectraNet in both the interviews and the forums was essential to ensure that participants were provided with the necessary information to enable them to engage in an informed conversation regarding the supply of electricity in South Australia.

Information collected during the workshops and interviews has been analysed and distilled into a set of insights. The remainder of this report will outline these insights.



Program insights



Customers want lower, more stable and transparent electricity costs



Customers who are directly connected to ElectraNet's network are generally satisfied with the service they receive



Customers and Stakeholders are seeking to increase their relationship with ElectraNet as opposed to working through SA Power Networks



The transmission network will continue to play an important role in the future by facilitating the integration of renewable energy generation and ensuring customers receive reliable and stable supply



The transmission network will need to adapt to meet the needs of South Australia as distributed generation levels and storage solutions increase



Customers view storage solutions as part of the future of the grid when it becomes economically feasible, however are unclear on what ElectraNet's role should be



Customers are supportive of ElectraNet exploring demand management initiatives and view incentives as the key to assisting customers change their usage patterns



Customers are satisfied with the current reliability levels of the network



Customers view ElectraNet's approach to Capex and Opex as prudent so long as a risk based approach is adopted and reliability standards continue to be met



Customers believe ElectraNet should employ a cost-benefit approach when considering asset retirement



Most customers are unaware of, or confused by, transmission pricing structures



Direct connect customers are generally against ElectraNet using peak demand as a base for determining charges



Customers are unclear as to the best method of recovering depreciation charges for the transmission network



Overarching insight

Insight #1 – Customers want lower, more stable and transparent electricity costs.

Participants outlined their concern about rising electricity prices in South Australia, believing it is contributing to unfavourable economic conditions, making businesses uncompetitive and investment unattractive.

In particular customers in the Riverland forum stated that they require an affordable supply of electricity to enable their businesses to compete in both the national and international markets in which they operate. These participants have been considering alternative energy solutions, such as solar and storage, in an attempt to minimise the impact of rising electricity prices on their businesses. They would however prefer to continue to receive their electricity from a network solution if it can be delivered cost effectively.

Discussions held across both forums and the interviews highlighted that participants have some understanding that rising prices are partly influenced by the uptake of renewable energy sources.

However, the majority of participants were unsure of the drivers behind the price rises and are looking for increased transparency from ElectraNet and other participants within the electricity supply chain. ElectraNet advised participants that it expected no 'real price increase for transmission charges' for the 2019- 2023 period based on information available at the time.

Although participants were encouraged by ElectraNet's efforts to minimise price increases, they believed that following recent price increases, that a price path that delivered a price reduction should be the objective.

"There is confusion around what we are paying for, and who we are paying."

"I struggle to understand how the peaks and demands affect the price I am paying. It just seems to fluctuate and go up and down."

"If you want to remain relevant you need to go back to reasonable pricing. They are beyond the point of tolerance and we are looking at alternative solutions to go off grid."

Customer experience

Although the majority of South Australian electricity customers do not need to interact directly with ElectraNet regarding their electricity supply, customers that are directly connected to the transmission network, do however need to interact with ElectraNet. During the interviews these customers and stakeholders were asked about their service and experience.

Insight #2 – Customers who are directly connected to ElectraNet’s network are generally satisfied with the service they receive.

Insight #3 – Customers and Stakeholders are seeking to increase their relationship with ElectraNet as opposed to working through SA Power Networks.

During the interviews, customers who are directly connected to the network and stakeholders outlined that they are generally satisfied with the service that they receive from ElectraNet, highlighting that ElectraNet is responsive and resolves most enquiries promptly.

“The responsiveness of ElectraNet in listening to complaints is good.”

“I have no idea what ElectraNet does and what SA Power Networks does and what the split between the two is.”

“ElectraNet is pretty good to deal with. They provide advice and respond to all issues – no complaints from main customers.”

Although generally customers are satisfied with their interactions and service outcomes, some stakeholders are confused by the relationship between ElectraNet and SA Power Networks. Specifically, land owners commented that access related issues were a point of confusion, with participants unsure as to why SA Power Networks contacts them to arrange work on behalf of ElectraNet.

“As a land owner I have always had good contact and a good experience with ElectraNet when compared to other infrastructure companies.”

“I’m confused when SA Power Networks contacts me to do work on behalf of ElectraNet.”

The role of the transmission network

At the time of conducting the forums and the interviews, ElectraNet was developing its Network Vision, a document that outlines its vision for the future of South Australia's transmission network. The future role of the network was therefore a pivotal conversation for ElectraNet to have with customers and stakeholders as it developed its view.

The discussion held during the forums and the interviews on this topic enabled ElectraNet to present its view on its role as the transmission network owner and operator, and the disruptive forces impacting them.

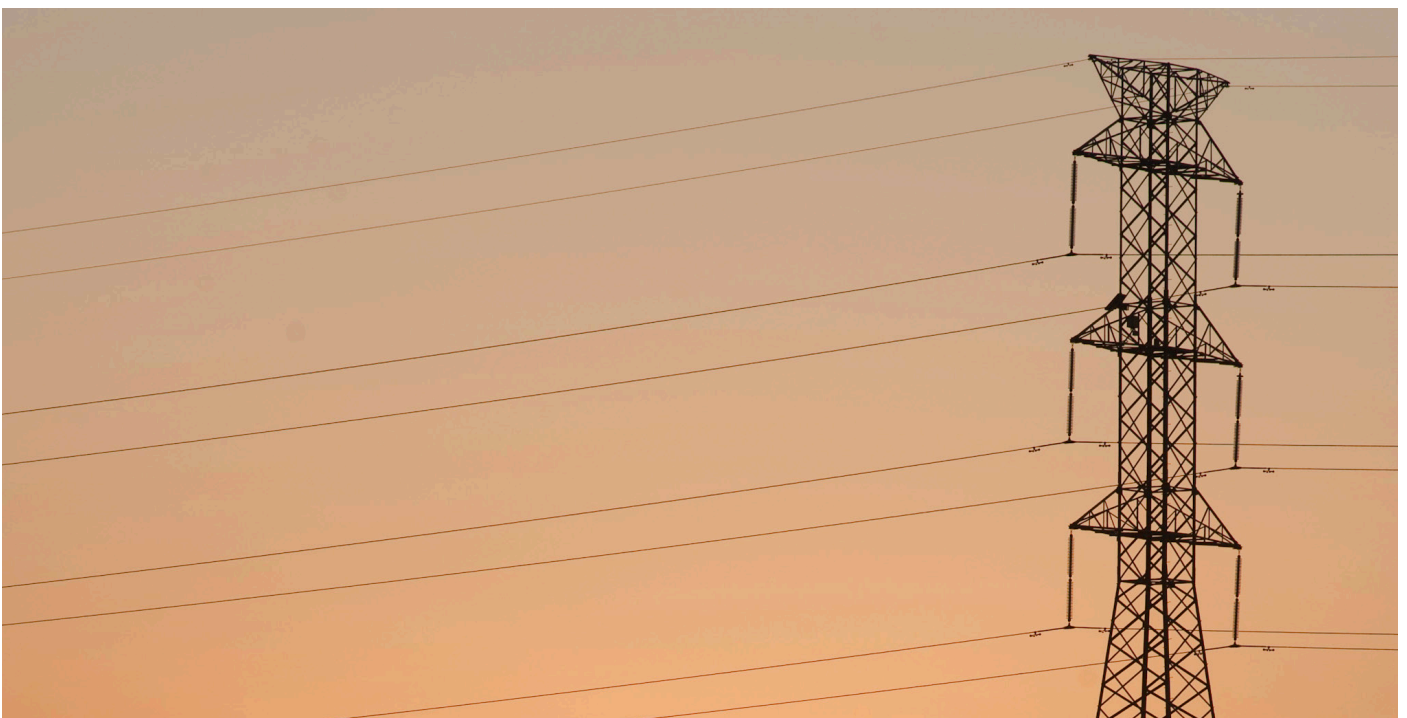
Insight #4 – The transmission network will continue to play an important role in the future by facilitating the integration of renewable energy generation and ensuring customers receive reliable and stable supply.

Insight #5 – The transmission network will need to adapt to meet the needs of South Australia as distributed generation levels and storage solutions increase.

Participants were well informed with respect to the changing technology landscape, although were less clear on the impact that may have on the network.

Participants believe ElectraNet has an important role to adapt to meet the needs of changing customer expectations, in particular ensuring the network adapts to new generation patterns and provide a 'back-up' to off grid solutions as storage options become more prevalent.

With the changing generation mix in South Australia, the increasing importance of a reliable interconnector was also understood by many participants.



"ElectraNet has a role to play with getting renewable energy to the market."

"ElectraNet should facilitate connecting up small-scale generation to the grid in a least cost approach."

"Reliability is the major requirement – renewable systems aren't 24/7 and will require backup which will be provided by the network."

"What is the ongoing role of regulated network? We need flexibility to meet future needs and community expectations."

"I can't see the network disappearing. The amount of electricity carried might change but there will still be a need for the backbone which ElectraNet will need to ensure is as efficient as possible whilst minimising costs."

New technology

ElectraNet's Network Vision discussion paper considers the impacts of disruption that the transmission network is facing from technological advancements. During the forums and interviews, ElectraNet shared its view of the impacts and opportunities presented by new technology, and allowed participants to provide their perspectives of the implications for ElectraNet.

Insight #6 – Customers view storage solutions as part of the future of the grid when it becomes economically feasible, however are unclear on what ElectraNet's role should be.

Participants had a good understanding of South Australia's reliance on renewable energy, and the increasing penetration of solar installations at a domestic and small business level. The notion that battery storage would soon be available was also well understood by participants, with some commenting that the traditional supply chain faces further disruption.

"Grid scale storage will give the ability to make best use of renewable energy."

"It is fairly conceptual idea at the moment due to the expense associated with pursuing the storage solution."

ElectraNet explained that there were options for it to deploy storage solutions at a network level, that would help manage the load on the network, particularly during peak periods.

Although participants were able to see the potential benefits of electricity storage at a network level, they were not clear on who should provide the solution. Understanding the electricity supply chain, and the underlying regulatory model, participants were unsure whether ElectraNet, other members of the supply chain, or a new competitive entrant should provide these services.

"I'm mixed on the issue, I'm aware that networks owning what are effectively generators will cause issues for customers. Some work has suggested that networks shouldn't be able to own storage at all."

Insight #7 – Customers are supportive of ElectraNet exploring demand management initiatives and view incentives as the key to assisting customers change their usage patterns.

ElectraNet explored with participants the extent to which demand management strategies should be pursued as alternatives to traditional network solutions to meet the changing demands on the network.

Participants understood the value of demand management strategies, although indicated that for them to be effective, appropriate incentive arrangements would need to be available to encourage participation.

“ElectraNet has a very important role in encouraging demand-side participation by allowing those that do something to benefit through lower transmission charges.”

“The extent to which ElectraNet pursues demand-side solutions depends on the scale of the plant and the type of load. It makes sense at a domestic level – not sure how it would work commercially for users with large energy requirements.”



Network reliability

At the time that the interviews were being conducted South Australia had experienced a large scale power outage, with approximately 110,000 homes and businesses left temporarily without power, as a result of an unplanned interruption of supply through the interconnector connecting South Australia and Victoria. As a result, participants were keen to speak about reliability of supply, and ElectraNet's proposed plans to maintain the reliability of the network into the future.

Participants were asked about their views on the reliability of South Australian electricity supply, and in particular the reliability of ElectraNet's transmission services.

Insight #8 – Customers are satisfied with the current reliability levels of the network.

Insight #9 – Customers view ElectraNet's approach to Capex and Opex as prudent so long as a risk based approach is adopted and reliability standards continue to be met.

“Not much more ElectraNet can do. The existing (reliability) level is about right.”

ElectraNet outlined its plans over the regulatory period, which will focus on containing Operating and Capital Expenditure whilst maintaining the current level of reliability.

Despite the large outage that had occurred during the time of the interviews, participants in both the forums and the interviews were satisfied with the reliability that they currently experience from the transmission network. The majority of discussion moved beyond the recent outage, and focused on how infrequent such large scale outages are, and how dependable the transmission network in South Australia is.

Participants were satisfied with the current level or reliability and were supportive of ElectraNet's approach to Operating and Capital Expenditure. However they emphasised that they do not want ElectraNet to reduce expenditure at the expense of the current reliability performance.

“Pretty happy – no major problems or infrastructure issues.”

“Reliability is pretty good in SA. We've never had any problems with it.”

“Transmission is extraordinarily reliable. It is much more reliable than the distribution network.”

“Needs to be a risk-based approach to ensure reliability standards are met.”

“Case by case approach with the costs/benefits of each situation.”

Insight #10 – Customers believe ElectraNet should employ a cost-benefit approach when considering asset retirement.

ElectraNet outlined potential options for how to retire assets that no longer have any foreseeable use, including fully maintaining such assets, keeping such assets safe and removing such assets. Each of these options have differing cost profiles. Participants encouraged the use of a cost-benefit approach applied on a case by case basis.

Participants advised ElectraNet to consider a range of factors such as whether the asset would likely be needed in the future, the state of the land that it is currently on and safety impacts.

“Safety first and economic approach.”

“Seems sensible on the surface – depends on the anticipated longer term needs of the asset.”

Transmission pricing

Transmission pricing was discussed with participants, in particular with those customers directly connected to the transmission network who are directly charged and have transparency over their transmission charges from ElectraNet.

Insight #11 – Most customers are unaware of, or confused by, transmission pricing structures.

ElectraNet outlined that its revenues are recovered from customers through a combination of Transmission Use of System (TUOS) charges (both locational and non-locational), common service charges and exit charges under a defined methodology. Participants were asked to comment on the current charge structure.

As outlined in Insight #1, across all discussions it was apparent that rising electricity prices are of a concern to customers. Importantly many customers (including direct connect) are unclear as to how ElectraNet charges for its services.

“The deals are confusing.”

“I would like to see some cost structures reduced or eliminated as they are confusing.”

Insight #12 – Direct connect customers are generally against ElectraNet using peak demand as a base for determining charges.

ElectraNet also discussed with customers their attitudes with respect to the stability and predictability of transmission prices. Participants emphasised that stable prices are important to them as they seek consistency in their pricing structure. However, they are not prepared to accept higher bills in order to achieve greater ‘smoothing’ of the bill over time.

The general feedback on the stability of pricing was positive, although some direct connect customers reported that they had noticed an increased level of volatility in recent years, and reinforced the value of a more stable price path.

ElectraNet raised the option of relying more heavily on maximum demand as a framework to determine transmission network charges, rather than energy consumption. Customers expressed mixed opinions and were unable to provide a unified view as to whether they supported this approach; the key finding with respect to pricing structure was that they are seeking simplicity in their arrangements with ElectraNet.

"I am unclear how the costs of maintaining assets translates into charges."

"Tend to be peaky – demand-based means customers would pay more."

"Customers won't understand demand-based tariffs or different tariff types and there is too much complexity with changing customer behaviour."

"I don't like the idea. Maximum demand is very cost-prohibitive."

Revenue recovery

ElectraNet discussed with participants the manner in which it currently recovers depreciation on its assets under the regulatory framework over the life of its assets. With declining demand levels and increasing levels of uncertainty with respect to the role of the network in the future, the possibility of shifting to earlier recovery of network investment through accelerating depreciation charges was discussed.

Insight #13 – Customers are unclear as to the best method of recovering depreciation charges for the transmission network.

Generally participants were unclear as to how depreciation charges are currently charged, or the rules that govern them. As such they found it difficult to provide guidance on future charges. Participants did understand the trade-off between current and future customers, and the need to recover the cost of the network, over a sensible time frame. However, participants did not believe they were best placed to provide input as to the right approach.

Generally participants were seeking ElectraNet to consider the options on their merits and work with regulators to determine the best approach, seeking to balance short term price increases without leaving a price burden for future customers.

“ElectraNet should be considering the options on a case-by-case approach for each individual asset.”

“Need to strike a balance between leaving customers in the long-term with too high a burden versus short -term pain.”

“No firm view – accelerated depreciation makes sense. Need to come up with a solution to last the expected timeframe of the need for the asset. Ensuring future network development allows higher degree of flexibility, such as shorter life span (use cheaper materials.)”

Next steps

The insights gathered to date through its engagement with customer representatives and wider stakeholders are helping ElectraNet to shape its Network Vision, and the key directions and priorities that will guide decision making and planning for the delivery of transmission network services in South Australia into the future. This updated Network Vision is expected to be issued in September 2016.

ElectraNet will also be issuing a Preliminary Revenue Proposal in September 2016 which contains the proposed plans, proposals and programs to deliver on these key priorities for the coming regulatory period of 2019-2023. ElectraNet will be further

engaging with customers, customer representatives, the Australian Energy Regulator and wider stakeholders to seek feedback on these proposals before lodging a formal Revenue Proposal by January 2017. The Preliminary Revenue Proposal is intended to provide an opportunity for feedback and is not an early submission of ElectraNet's formal Revenue Proposal either in whole or in part.

This program has established a foundation for ongoing engagement with customers and stakeholders which will continue into the future as ElectraNet implements its agreed plans and strategies, and works with customers to continue to improve the value of transmission services in South Australia.



Glossary

AER	Australian Energy Regulator
CAP	Consumer Advisory Panel
Direct connect customers	Customers that are directly connected to the ElectraNet network
NEM	National Electricity Market
TUOS	Transmission Use of System



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