

MEM20V0015

Mr Warwick Anderson
General Manager
Australian Energy Regulator
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Dear Mr Anderson

Thank you for the opportunity to comment on the SA Power Networks' (SAPN) revised Regulatory Proposal for 2020-2025.

The South Australian Government welcomes the Australian Energy Regulator's (AER's) level of scrutiny in assessing SAPN's regulatory proposal for 2020-25. As I stated in our submission dated 15 May 2019, the AER needs to balance the needs of SAPN to manage the transition underway in our electricity network and the needs of all South Australian electricity consumers for downward pressure on their electricity prices. To this end, by seeking more robust business cases from SAPN on a number of capital expenditure proposals, SAPN's stakeholders and electricity customers can be assured the AER is potentially reaching this balance.

I also welcome the AER's approval of SAPN's Low-Voltage Management Program to ensure all South Australian consumers benefit from our increasing distributed energy resources. With regards to SAPN's proposed contingent project, the Electricity System Security Project, the South Australian Government supports the inclusion of this contingent project. I note that the project will be subject to a Regulatory Investment Test – Distribution allowing further stakeholder consultation.

The South Australian Government commends SAPN for its extensive stakeholder consultation since the AER's draft decision in October 2019. The Energy and Technical Regulation Division of the Department for Energy and Mining has been fully engaged with this consultation and, in the main, has been impressed with the level of information provided to stakeholders. I encourage SAPN to continue to engage with its stakeholders through the forthcoming regulatory period and not just recommence when considering its next regulatory proposal for 2025-30. Given the establishment of SAPN's Connections Working Group, the Residential and Business Tariffs Working Groups and the new Consumer Consultation Panel, there is confidence that there will be ongoing consultation.

Minister for Energy and Mining



Government
of South Australia

The South Australian Government notes SAPN's endeavours to reduce its capital expenditure in some areas and the lower than forecast operating expenditure in its base year. I welcome the reduced overall revenue and subsequent lower network prices for South Australian consumers from 1 July 2020. However, the South Australian Government considers that there are still expenditure proposals that the AER should ensure are in the long-term interests of South Australian consumers. The attached submission highlights these items and encourages the AER to ensure these are prudent and efficient.

I trust that this submission on SAPN's revised proposal assists the AER in determining a suitable balanced outcome for SAPN and South Australian consumers. I look forward to the AER's final decision in April 2020.

Should you have any questions in relation to this submission, please contact [REDACTED] Executive Director, Energy and Technical Regulation, Department for Energy and Mining on [REDACTED].

Yours sincerely

A large black rectangular redaction box covering the signature of the Minister for Energy and Mining.

Hon Dan van Holst Pellekaan MP
Minister for Energy and Mining

14 / 1 / 2020

Att: Government of South Australia Submission to the Australian Energy Regulator on the SA Power Networks' revised Regulatory Proposal 2020-2025



GOVERNMENT OF SOUTH AUSTRALIA SUBMISSION TO THE AUSTRALIAN ENERGY REGULATOR ON THE SA POWER NETWORKS' REVISED REGULATORY PROPOSAL 2020-2025

To assist the Australian Energy Regulator (AER) in its assessment of SA Power Networks' (SAPN) revised Regulatory Proposal for 2020-25, the Government of South Australia (SA Government) provides comments on the proposed capital and operating expenditure relating to:

- 1 Asset replacement
- 2 Network augmentation
- 3 Net Connections
- 4 Non network Capital expenditure for IT, Property and Fleet
- 5 Operating Expenditure – Distribution licence
- 6 Proposed Contingent Project – Electricity System Security
- 7 Tariff Structure Statement
- 8 Stakeholder engagement

1 Capital expenditure - Asset replacement

Given asset replacement (Repex) is approximately 40% of SAPN's proposed expenditure, the SA Government welcomes the AER's draft decision, based on the information provided, to reject and/or reduce several components of SAPN's proposed Repex. It is noted that during subsequent consultation and in its revised proposal, SAPN has acknowledged that the information provided was not sufficient for the AER to approve the proposed expenditure.

It is also noted that SAPN has provided a significant number of strengthened business cases for many expenditure items. Additionally, the SA Government welcomes the apparent level of consultation between the AER and SAPN to ensure mutual understanding of SAPN's forecasting methodologies.

The SA Government acknowledges the ageing of SAPN's infrastructure and supports prudent expenditure based on contemporary techniques. To this end, the SA Government supports the proposed ICT expenditure on SAPN's Assets and Works program to assist the delivery of Repex expenditure. SAPN has provided a business case in its revised proposal and has consulted with stakeholders on the benefits of the program. The SA Government also acknowledges the potential for intergenerational cost shifting by delaying appropriate Repex in the next regulatory period.

However, the SA Government has concerns with several expenditure items specifically poles (increased by 9%), overhead line components (by 15.5%) and service lines (by 18%). These increases do not appear to have been fully justified by SAPN other than general remodelling and application of actual 2018-19 expenditure. The AER is urged to fully assess whether this increased expenditure is fully justifiable.

2 Capital expenditure - Network augmentation

The SA Government supports the AER's decision to approve the Low-Voltage management expenditure given the increasing penetration of distributed energy resources in South Australia. The SA Government also supports prudent expenditure to further address the identified issues such as quality of service and voltage.

The SA Government also commends SAPN for identifying reduced capital and operating expenditure with regards to the LV transformer monitoring and supports this level of expenditure to improve visibility of SAPN's low-voltage network.

The SA Government acknowledges the discussions on the equity issues facing customers on SAPN poor reliability feeders. However, we note that ESCOSA is the independent body responsible for setting reliability standards through a robust review and consultation process. In the recent review of reliability standards, ESCOSA determined to maintain the current reliability standards. The SA Government acknowledges the need for thorough consultation on this matter, and notes that depending on SAPN's capacity, it could still choose to progress some work during the regulatory period.

Similarly, the proposed 'Hardening the network' expenditure is not supported in the absence of a specific obligation. As noted by SAPN, there was no general consensus during consultation on this item.

3 Capital Expenditure - Net Connections

The SA Government is concerned that this significant increase (23%) in Net Connections expenditure was identified to stakeholders very late in the consultation process. While stakeholders were provided with SAPN's arguments regarding the AER's calculation (for instance, the AER reducing customer gross connections forecast but not customer contributions by a similar percentage), SAPN did not indicate that revised modelling and reduced Weighted Average Cost of Capital would lead to such a significant increase in Net Connections expenditure. The AER is encouraged to ensure that such expenditure is fully justifiable.

4 Capital expenditure – Non-Network

4a Information Technology

The SA Government notes the AER's acceptance of SAPN's recurrent IT expenditure and as stated previously supports the proposed Assets and Works program given the benefit projected for efficient Repex.

Following SAPN's stakeholder consultation, the SA Government accepts that there are no suitable alternatives to the proposed SAP Upgrade project.

However, as stated in our submission on SAPN's original revenue proposal, the SA Government rejects the proposed expenditure on ring-fencing Enerven's access to SAPN's ICT assets given the time since the non-compliance with the Ring-Fencing Guideline was identified in SAPN's 2018 ring-fencing compliance audit. The SA Government is concerned that SAPN's current period's capital expenditure underspend could have been utilised to achieve compliance with the Guideline in a more timely manner.

The SA Government is also concerned with the proposed new expenditure on 'Utilities Cyber Security Uplift' (\$7.3m total expenditure) particularly as our first submission highlighted a significant increased expenditure on cyber security. SAPN acknowledge that currently there are no new regulatory requirements for NEM participants to uplift their cyber security.

The SA Government notes that cyber security in the NEM is being discussed at the COAG Energy Council and at its latest meeting in November 2019, Council agreed for the Commonwealth Government to lead this initiative. However, the Commonwealth Government is planning to release a new National Cyber Security Strategy in 2020 and then the Commonwealth will examine how to translate any potential whole-of-economy obligations into standards or regulation appropriate for

the electricity sector. Therefore, it is still uncertain what the extent of new requirements will be or that these will need to be implemented in the next regulatory period. The AER should further discuss with the Department of Home Affairs and the Department of Industry, Science, Energy and Resources on both the timing of likely obligations and the appropriateness of SAPN's proposed expenditure.

4b Property Expenditure

The SA Government welcomes the significant decrease in proposed property expenditure through predominantly the cancellation of the proposed Seaford Depot. The SA Government also acknowledges the stakeholder consultation on property expenditure undertaken since October 2019. However, as noted in our previous submission and further by SAPN's business cases related to the conditions of its depots, the extent of the current period's underspend raises concerns on SAPN's ability to deliver the proposed property refurbishments to its depots.

4c Fleet

While the SA Government welcomes SAPN's revised proposal for fleet expenditure being 16.5% lower than originally proposed, as our previous submission noted there is a significant underspend in the current regulatory period. From **Figure 5.13 Fleet expenditure profile 2010-2025**, the forecast underspend in 2019-20 appears to be unchanged from the original proposal that is approximately 30% underspend.

Also, as noted in our previous submission, the SA Government questions whether the proposed 2020-25 forecast expenditure should be above the current actual/forecast expenditure for the 2015-20 particularly given the stated reasons for the underspend in 2015-20 – that is, a highly competitive supply market, better procurement contracts, and vehicle selection. It is unlikely that these conditions will deteriorate in the 2020-25 period and therefore the allowance should be set to take into account these conditions.

5 Operating expenditure – Step change - Distribution licence

As advised in our previous submission and to SAPN on 20 June 2019, the distribution licence fee will be \$2,935,000 per annum from 2020-21 to 2024-25.

6 Proposed Contingent Project - Electricity System Security Project

The SA Government supports SAPN's Electricity System Security Project to ensure that under frequency load shedding in South Australia can effectively arrest a frequency disturbance and enable the Australian Energy Market Operator (AEMO) to maintain a secure system.

AEMO, in cooperation with SAPN, has undertaken further analysis and concluded that under frequency load shedding will in the near future be rendered ineffective, due to distributed energy resources in South Australia. Timely action will be required to mitigate risks in the short to medium term, which includes adding additional load to the existing scheme (if possible) and enhancing SAPN's assets to employ relays which can determine flow direction.

The SA Government considers that a prudent approach for developing the power system must be taken. The actions proposed by SAPN under the Electricity System Security Project are described by AEMO as "no regrets" options, and we support this view.

The SA Government is, however, concerned that including all activities on this matter under the Electricity System Security Contingent Project may delay some lower cost immediate actions that could be progressed by SAPN to reinforce under frequency load shedding. We are therefore proposing the immediate provision of \$2 million for capital expenditure to commence early works on mitigation strategies as proposed by AEMO. Such early works may include the addition of further loads to the Under Frequency Load Shedding Scheme as a short term measure.

7 Proposed Tariff Structure Statement

The Government welcomes SAPN's ongoing engagement on their tariffs through the recently established Residential and Business Tariff Working Groups.

These Working Groups should be a useful ongoing conduit for SAPN to assist in educating South Australian residential and business consumers on the new cost-reflective tariffs where these consumers have the appropriate meters. To this end, the SA Government supports SAPN's intention, stated at p29, **Attachment 17B**, *"to engage with retailers as well and our customers and stakeholders on our tariff trials and tariff development, including opportunities for collaboration and community education to ensure the best outcomes for all South Australian customers."*

This engagement should also include SAPN's approach to unforeseen changes when preparing its annual pricing proposal as outlined at **17.5.6, Attachment 17A**. SAPN received stakeholder feedback during its consultations that annual price fluctuations required better communication to consumers.

The SA Government is concerned that some of the proposed changes to tariff structures may reduce the effectiveness of price signals that encourage usage on weekends during periods of low or minimum demand.

AEMO data demonstrates that with the growth in rooftop PV, minimum operational demand from the grid is now occurring on sunny, low demand days, typically weekends. For the financial year 2018-19, a record low minimum operational demand (sent-out) for South Australia of 583 megawatts (MW) was observed on 21 October 2018. It is understood that this record has already been broken a number of times during 2019-20, most recently on Sunday, 10 November 2019.

This rapidly decreasing minimum demand profile represents an emerging challenge in managing the security of the South Australian electricity system. SAPN's Electricity System Security Project is a recognition of this emerging challenge.

The SA Government considers that sending appropriate price signals, which incentivise consumers to shift usage of electricity during periods of low demand, is an important mechanism to help manage minimum demand periods in South Australia. As noted above, these periods typically occur on weekends.

The SA Government is concerned that SAPN did not adequately consider the emerging minimum demand issue when conducting workday versus non-workday analysis and concluding that there is no need for tariff differentiation between workdays and non-workdays in the South Australian customer base except for the CBD sub-region.

Similarly, the SA Government is concerned that the off-peak commencement at 1.00am for time-of-use residential customers is too late for customers to move their usage from the peak periods. For many customers, the solar sponge times are during working hours and customers may not yet have

the technology to allow usage to be moved to this period. **Section 17.4.2 Off-peak controlled tariffs** highlights that off-peak controlled loads commences at 11.30pm. As a result, to ensure appropriate pricing signals are provided to time-of-use customers, SAPN should consider revising the commencement time of their off-peak pricing.

The SA Government supports SAPN's proposed tariff trials regarding hot water systems and utilising the excess solar PV generation in the low-voltage network. The SA Government encourages SAPN and retailers to fully inform their customers on the potential benefits of these trials. If successful, these trials potentially could lead to a faster take-up of Time-of-Use tariffs than SAPN suspect in its discussion at **17.9.1, Attachment 17B**.

8 Stakeholder engagement

The SA Government welcomes the opportunity to participate in the consultation undertaken by SAPN since the draft decision in October 2019. With a few exceptions, SAPN logically outlined the significant differences between its original proposal and the AER's draft decision and whether it accepted or not the draft decision. This process enabled stakeholders to identify the expenditure areas where SAPN was likely to repropose or drop the rejected projects. It also allowed stakeholders to highlight to SAPN where business cases for reproposed projects needed to be strengthened and whether there was general support for the projects. This process should have ensured a 'no surprises' revised revenue proposal.

The two notable exceptions to this are the increased Net Connections and increased Repex. As mentioned at 3) above, the significant increase in Net Connections expenditure was conveyed to stakeholders very late in the consultation process allowing for very little discussion. Similarly, for Repex, the consultation centred on the need for the Assets and Works program (and resultant reduced Repex) and the potential 'bow wave' of future Repex and the intergenerational equity issue. The significant increases described in 1) above for poles, overhead line components and service lines were not sufficiently highlighted during the consultation.

Given the detailed consultation process commenced in February 2018 with the 'Deep Dives,' the SA Government is concerned that despite ongoing concerns expressed by stakeholders in these workshops and submissions, there appears to have been little effort to shift potential 2020-25 expenditure into this regulatory period to reduce the identified underspends. This is particularly so for fleet and property expenditure where there was surely the opportunity and time to remediate the issues identified by SAPN before 2020-25.

However, the SA Government commends SAPN for the senior level support and time given to its consultation process during the development of both its original and revised proposals. The SA Government will continue to commit to the various Working and Reference Groups during the next regulatory period.