



15 January 2020

Mr Warwick Anderson
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Email: SAPN2020@aer.gov.au

Dear Mr Anderson

RE: AER DRAFT DECISION AND REVISED REGULATORY PROPOSAL FOR SA POWER NETWORKS - 2020-25

Origin Energy appreciates the opportunity to provide a submission to the Australian Energy Regulator's (AER) assessment of the regulatory revenue proposal submitted by SA Power Networks (SAPN) for the period 2020-25 and the associated revised proposal.

Origin supports the progress that the AER has made in driving SAPN towards achieving more efficient expenditure levels.

We note that the AER's draft decision allows SAPN to recover \$3,905.3 million from its customers for the 2020–25 period, \$309.2 million less than that proposed by SAPN in its initial regulatory proposal. The majority of the AER's proposed revenue reduction relates to a significantly lower forecast rate of return coupled with a significant reduction in proposed capital expenditure for the period.

We are generally supportive of the AER's draft decision and the resultant reduction in customer bills. Accordingly, we are supportive of the SAPN revised proposal being largely in line with the AER's recommendations.

SAPN provided a revised regulatory proposal requesting revenue of \$3,916, \$11 million higher than the AER's draft decision. SAPN responded to the AER's request for additional supporting information in relation to proposed capital expenditure arguing that the expenditure is necessary to maintain the integrity of the network. While Origin acknowledge the importance of maintaining network safety and reliability, we note that SAPN currently performs well against reliability standards set by ESCOSA and therefore question the need for additional expenditure in this area. We request that the AER thoroughly review the proposed expenditure to ensure its prudence and efficiency.

We also acknowledge the rapid uptake of rooftop solar in South Australia and the potential impact on the SAPN network. We support SAPN's proactive approach in response to the growth in distributed energy resources (DER) but encourage the AER to continue to adopt a measured approach in its expenditure assessment given the untested nature of such expenditure.

With respect to tariffs, we note that the AER accepted SAPN's tariff structure statement (TSS), acknowledging the ongoing transition to cost-reflective pricing. We are supportive of the AER's decision

and the AER's associated recommendations aimed at further strengthening the TSS, particularly where these are aimed at enhancing customer engagement and understanding.

Origin previously highlighted our concerns regarding the development of fees associated with alternative control services. In particular, we expressed concern regarding the cost-reflectivity of cancellation fees and substantial increases in charges for a number of services relative to current charges. We are pleased that the AER and SAPN have conducted an assessment of the underlying costs associated with these services and are generally supportive of the outcomes.

Further comment on these issues is presented below.

Capital expenditure

In its draft decision the AER identified a significant difference between SAPN's proposed capital expenditure and what the AER considered efficient, especially regarding the need for future investment. The AER noted that SAPN failed to provide sufficient justification and supporting evidence for its proposed capex investment and allowed SAPN the opportunity to provide additional supporting material as part of its revised regulatory proposal.

SAPN requested additional capital expenditure in relation to augex, repex, connections and non-network expenditure arguing that the expenditure is necessary to maintain network safety and reliability and to support ongoing customer demand for renewable energy technologies and new services.

Origin are naturally supportive of maintaining the safety and reliability of the SAPN network, but also consider that SAPN has an obligation to actively reduce expenditure wherever possible to improve affordability. We note that the revenue reduction in 2020-25 period and consequent tariff reductions relate to factors outside SAPNs control, namely the reduction in the rate of return and changes to the allowed tax allowance. For these reasons, we encourage the AER to critical review revised expenditure to ensure the expenditure delivers the most efficient network service while providing the greatest possible network price reductions.

With respect to SAPN's revised capital expenditure, Origin makes the following comments:

- we are concerned with the proposed increase in reliability related expenditure given SAPN appears to be meeting reliability standards set by ESCOSA whilst achieving an underspend in capex during the current regulatory period;
- SAPN provided a revised estimate of connections expenditure in excess of that in its initial regulatory proposal. Given the variability in connections growth over recent years, we encourage the AER to critically assess the robustness of the modelling underpinning the revised connections forecasts;
- we note the significant reduction in proposed non-network expenditure recommended in the AER draft decision and SAPN's subsequent request for additional expenditure in its revised proposal. Origin are concerned that the proposed increased expenditure has not been adequately justified, particularly with respect to customer benefits. Specifically, we are concerned with SAPN's proposed Information and Communications Technology expenditure, especially in light of the substantial expenditure over recent years, We request that the AER scrutinise the necessity for the increased expenditure and confirm tangible customer benefits; and

- Origin notes the proposed increase in DER-related expenditure and is supportive of expenditure in this area where warranted, We appreciate the difficulty in assessing the appropriateness of DER-related expenditure particularly in ensuring the expenditure strikes an appropriate balance between accommodated DER growth, minimising asset stranding risk, optimising network utilisation and maintaining network reliability, without compromising affordability for all network customers. We therefore encourage the AER to conduct a thorough cost/benefit and options analysis to ensure that the expenditure represents the best use of investment funds at this time.

Alternative Control Services

In response to SAPN's initial regulatory proposal Origin expressed concern regarding proposed increases in charges for a number of fee-based ancillary network services. In addition, Origin questioned the appropriateness of proposed cancellation fees for a number of services being set equal to the actual cost of performing the service.

The AER's analysis showed that there were modelling errors relating to the cost build up for disconnection and reconnection services. We acknowledge that SAPN has corrected these errors resulting in a significant reduction in prices that are now in line with the current 2019-20 prices.

The AER examined fees for temporary disconnection and reconnection services and removed administration time from the services. As a result, the price increases were significantly reduced. We are pleased that SAPN has accepted the AER's revisions.

Origin's submission indicated that proposed cancellation fees for a number of services were set equal to the actual cost of performing the service. We argued that setting a cancellation fee equal to the cost of providing the service was unlikely to be cost reflective. We note that the AER acknowledged our submission and rejected SAPN's proposal to apply its proposed disconnection and reconnection service fees for the cancellation of reconnection and disconnection services.

SAPN indicated that it renegotiated its services contract for metering. As part of this renegotiation SAPN introduced a dedicated cancellation charge for disconnection and reconnection service orders, prior to the work order being completed. Accordingly, SAPN has proposed a revised cancellation charge of \$12 irrespective of the cancellation timeframe.

Origin supports SAPN's proposal to introduce a separate charge for the cancellation of disconnection and reconnection services for the site. While we support the proposed \$12 cancellation charge, we consider that the process could be further refined in the future to incentivise early notification of a cancellation. That is, Origin considers that there is scope to segment the proposed cancellation charge dependent on the notice provided. In particular, we consider that no cancellation fee should be applied where the cancellation request is received more than 2 business days prior to the work being completed. We consider that a notice period of more than 2 days provides ample time for a request to be cancelled without SAPN incurring any associated costs. Accordingly, we consider that the application of no cancellation fee in this instance represents a cost-reflective approach and would encourage early notification of cancellations.

Similarly, when insufficient notice has been provided to change a service order (i.e. less than 2 business days), we accept that the work may have already been scheduled and is unable to be changed. In this instance we consider that a cancellation fee would be appropriate. We consider that the associated cancellation charge should reflect the cost to SAPN of the cancellation i.e. the administrative cost of receiving, scheduling, and then cancelling the order.

If you have any questions regarding this submission, please contact Gary Davies in the first instance at

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Yours sincerely

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Sean Greenup
Group Manager, Regulatory Policy

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