Email the AER received on Friday 30 January 2015

Mr Sebastian Roberts

General Manager

Australian Energy Regulator

Dear Mr Roberts,

The Greens believe that the SA Power Networks’ Regulatory Proposal overstates the case for additional return on its assets and consequently, it should be significantly amended by AER.

At the heart of its proposal, SAPN has understated the decline in energy demand (and therefore its own role) in a rapidly changing electricity market and technical environment. SAPN has overstated both capex and opex in order to maximise its guaranteed return at the expense of SA electricity consumers.

South Australians are increasingly shifting to solar power and home generation, and want more flexibility and transparency in these options both with their distributor and their retailers.  The next big technological shift will be home battery storage with a number of domestic products set to hit the market in coming months.  This will lead to a lesser role for the monopoly distributor.  These changes are happening now and will be well advanced during the next regulatory period.

The Greens also reject the assumptions of SAPN’s proposal, which are based on Willingness To Pay (WTP) surveys and focus testing. The premise behind such methods is essentially to justify charging as much as possible for a given service, regardless of the actual cost of its provision. This achieves neither the aim of minimising costs to the consumer, nor incentivises efficiency within the business’ capex or opex. We see this as an inappropriate use of market power. Furthermore we are not satisfied that feedback was obtained from a statistically significant sample size, given the scope of the service provision to South Australians. 13,000 respondents to a survey is not adequate in determining WTP or any other measure when the service provision is to 1.5 million people. That represents less than 1% of the pool of people who are required to purchase SAPN’s distribution services. Basing assumptions on WTP without looking at a range of other factors, is inadequate to determine an appropriate expenditure regime.

The Greens reject the SAPN  claim that capex on asset replacement is overdue in SA more so that other States. The much longer operational life of the Stobie pole design compared to timber poles used by other distributors interstate means that replacement has not had to be as frequent in SA. So it is somewhat misleading to suggest that SA has the ‘oldest average asset life’ and therefore replacement expenditure is necessary.

Despite the overall excessive level of capex, the Greens would like to see more resources put toward undergrounding power lines beyond what is currently allocated through PLEC.  We see undergrounding as a worthwhile capex because it reduces liability over time and therefore reduces opex on asset maintenance.  There are clear environmental and fire safety advantages in this approach as well.

SAPN also proposes changes to its tariff structure for medium-scale commercial clients. There are a number of ‘triggers’ that cause SAPN to move customers to demand tariffs, which don’t reflect a customer’s effort to reduce demand and also earn a return for the electricity they generate. The outcome is that customers who wish to install medium to large solar panel arrays on their business properties are being dissuaded from doing so, because the business case is becoming less and less attractive as a result of the tariff change. In some cases, they would actually be paying significantly more for electricity after solar installation. The Greens recommend the abolition of these arbitrary solar triggers that have the end result of less solar being installed, effectively punishing people for investing in their long-term sustainability.

The Greens suspect that overall trends in solar uptake for both residential and business consumers is causing some panic in the established monopolies. We believe that some of these proposals for capex and opex, as well as the demand tariff changes, are counter-productive and anti-competitive. We see these measures as little more than unnecessary revenue protection for a failing business model. It is unreasonable to guarantee cost recovery for what we see as over-the-top expenditure that will not address medium and long-term sector transformation.

In summary, The SA Greens remain unconvinced that such significant expenditure is necessary to provide long-term solutions for South Australia. Given the current shift toward distributed generation, and a growing preference for self-sufficiency by South Australian consumers, it seems imprudent to propose a 47% increase in the Regulatory Asset Base in the next 5 years. We believe SAPN needs to reassess its role as a distributor and make more effort to accommodate the need for flexibility and transparency that consumers expect.

I have had the opportunity to discuss some of these issues with the South Australian Council of Social Services (SACOSS) and I urge you to take particular note of their submission, which is comprehensively referenced.  We share SACOSS’ objective to protect the most vulnerable consumers in South Australia against unfair and unnecessary price rises.

Yours faithfully,

**Hon. Mark Parnell MLC**

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Parliamentary Leader, SA Greens

Parliament House, Adelaide  SA  5000

Ph. 08 8237 9111 │ [parnell@parliament.sa.gov.au](mailto:parnell@parliament.sa.gov.au)

[**www.markparnell.org.au**](http://www.markparnell.org.au/) │Follow Mark on [**Facebook**](http://www.facebook.com/MarkParnellMLC) & [**Twitter**](http://twitter.com/#!/MarkParnellMLC)

