

GOVERNMENT OF SOUTH AUSTRALIA SUBMISSION TO THE AUSTRALIAN ENERGY REGULATORY ON THE SA POWER NETWORKS' REGULATORY PROPOSAL 2015-2020

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

1. Asset replacement
2. Safety related network augmentation
3. Demand driven network augmentation
4. Reliability related network augmentation
5. The replacement of the Kangaroo Island undersea cable
6. Quality of Supply
7. Vegetation Management
8. Distribution Licence Fee
9. Legal and Regulatory Obligations.

In addition, commentary is also provided on SA Power Networks':

10. Consumer Engagement process and findings;
11. Proposed expenditure and approach to metering and tariffs; and
12. Nominated cost pass through events.

1. Capital Expenditure – Asset Replacement

One area of investment which SA Power Networks proposes to escalate significantly is works associated with asset replacement with a proposed capital expenditure of \$792 million or \$553 million above the previous allowance for 2010-2015.

The South Australian Government acknowledges that SA Power Networks' forecast of actual expenditure for the end of the current regulatory period is \$143 million above the AER allowance of \$239 million. While this overspend supports SA Power Networks' claim that work is required in this area, the magnitude of the proposed asset replacement program is concerning. Indeed, ensuring that assets are replaced in a prudent and efficient manner will ensure a safe and reliable supply of electricity to consumers.

In recognition that much of the network infrastructure was built in the 1950s and 1960s, SA Power Networks' capital expenditure costs associated with replacing ageing assets have already spanned multiple regulatory periods since 1999 and continue to be a sizable component of SA Power Networks' proposal. In the 2005-2010 regulatory period ESCOSA approved an allowance of \$90 million (Dec \$2004) which was close to triple the allowance of the previous period of \$33 million (Dec \$2004). Further, despite the AER's final decision for 2010-2015 representing a lower level for asset replacement expenditure than was sought by SA Power Networks, the allowance of \$239 million again represented close to triple the previous allowance. As such, it is reasonable to provide that SA Power Networks should already be well underway in their ongoing asset replacement program which has featured heavily in the previous 2 determinations and it is therefore concerning that the current

Regulatory Proposal again seeks an increase of over 3 times the 2010-2015 allowance.

Furthermore, this capital expenditure proposal is directly linked to SA Power Networks' requirements under the Safety, Reliability, Maintenance and Technical Management Plan. It is therefore necessary for the AER to establish, through engineering advice, how quickly defects need to be rectified and whether the entire \$792 million is necessary over the next 5 years to ensure a safe and reliable supply of electricity.

2. Capital Expenditure – Safety related network augmentation

Road Safety

SA Power Networks has included a proposal of \$77.5 million in capital expenditure to undertake a road safety program by undergrounding or relocating power lines in 20 targeted traffic black spots. This program was identified during the consumer engagement process. SA Power Networks has provided that it will form a working group with the Department of Planning, Transport and Infrastructure and the Motor Accident Commission to develop protocols and criteria for identifying the most appropriate locations.

As stated in the covering pages of this submission, the South Australian Government is concerned with the impact of escalating electricity prices. This impact is not limited to vulnerable or other residential customers. The Government notes the submission made by Business SA to SA Power Networks' which called on SA Power Networks' support of economic growth by finding efficiencies in its expenditure for 2015-2020.

The South Australian Government places significant importance on road safety as demonstrated through its commitment to ongoing road safety initiatives such as the current "Operation Safe Holidays", Safety upgrades for right-turns, and installation of motorcycle barriers beneath existing guard rails on 14 roads (more details are available at <http://www.dpti.sa.gov.au/tzt>). For this reason, rather than embarking on a program that directly impacts on electricity prices, the Government submits road safety initiatives are best left to expert agencies such as the Department of Planning Transport and Infrastructure and the Motor Accident Commission to determine if undergrounding or relocating power lines is the most viable option available to protect South Australian motorists in specific locations.

In addition, the AER will note that SA Power Networks has sought a capital expenditure of \$46.3 million over 2015-2020 for undergrounding power line projects related to the Power Line Environment Committee (PLEC). PLEC assists the Minister for Mineral Resources and Energy in assessing and recommending the undergrounding of overhead power lines to be undertaken by SA Power Networks as required by the *Electricity Act 1996*. In 2012, the PLEC Charter was amended to include road safety and electricity safety in the parameters for assessing a project for PLEC funding.

High Bushfire Risk Areas

Bushfire prevention and bushfire safety are of paramount importance to the South Australian community. Legislative requirements, together with programs aimed at reducing the risk of bushfires, are critical to the wellbeing of all South Australians. In recognition that electricity infrastructure has the potential to ignite or contribute to bushfires, South Australian electricity legislation places obligations on SA Power Networks aimed at reducing bushfire risk as well as empowers it to take appropriate action where there is a risk of bushfire.

Specifically, the *Electricity (Principles of Vegetation Clearance) Regulations 2010* (the Regulations) prescribe vegetation clearance requirements around power lines. The primary function of the Regulations is safety, in particular to ensure that fires are not started by vegetation coming too close to power lines. The Regulations were introduced as a response to the Ash Wednesday bushfires in 1983. The clearance required is determined by the voltage of the power lines and the amount the vegetation and power lines move or swing under severe weather conditions.

On top of its requirements under the Regulations, pursuant to section 53 of the *Electricity Act 1996*, SA Power Networks has been empowered to be able to disconnect the distribution networks in extreme conditions to minimise the potential for a catastrophic bushfire.

On top of its legislative obligations, SA Power Networks has proposed an extensive bushfire risk management program with a proposed capital expenditure of \$221.7 million over the 5 year period. This program includes a number of initiatives such as replacement of ageing recloser devices with SCADA controlled devices, investigation of ground fault neutralising technologies and a targeted undergrounding program in high bushfire risk areas (HBRA) with a proposed total expenditure of \$128.6 million.

It is understood that \$26.6 million of the targeted undergrounding program specifically relates to undergrounding power lines to 12 Bushfire Safer Precincts¹, as recommended by SA Power Networks' consultant, Jacobs. The remaining \$102 million is proposed for undergrounding of high risk sections of power lines which SA Power Networks provide is a prudent investment. This latter proposal is provided despite the Jacobs' findings that an insulated conductor system may be more cost effective than broad scale undergrounding of lines in HBRA's².

When assessing SA Power Networks' proposed expenditure for bushfire safety, the AER should consider whether the recommended initiatives are the most cost efficient responses, noting the alternative approach suggested by Jacobs and with the existing legislative requirements in mind.

¹ SA Power Networks Bushfire Mitigation Program – Business Case, page 29

² SA Power Networks – Jacobs: Recommended bushfire risk reduction strategies for SA Power Networks, October 2014, page.16

3. Capital Expenditure – Demand Driven network augmentation

SA Power Networks is proposing a significant reduction in demand driven augmentation expenditure in 2015-2020 compared to 2010-2015 following a decrease in electricity consumption in South Australia in recent years.

The South Australian Government supports the proposal to reduce the capital expenditure for this category in an environment where customers are becoming more conscious of energy efficiency as well as taking advantage of technologies such as solar photovoltaic (PV) to help manage their electricity usage.

In addition, it is important that the AER take into account current regulatory reforms that are likely to also impact on how consumers use electricity when assessing SA Power Networks' proposed expenditure. Specifically, the new National Electricity Rules relating to Distribution Network Pricing and the pending rule change on Expanding Competition in Metering and Related Services are expected to further influence how electricity consumers use the network, which could further reduce electricity consumption and decrease peak demand.

4. Capital Expenditure – Reliability related network augmentation

SA Power Networks is seeking an allowance of \$58.8 million in capital expenditure relating to reliability which is more than double the approved allowance of \$25.2 million for 2010-2015. It is understood that this expenditure is specific to maintaining SA Power Networks' performance against its Supply Restoration and Reliability Standards as determined by ESCOSA.

SA Power Networks provide that severe weather events have caused major damage to the electricity network which has resulted in long duration outages especially in remote areas. During 2010-2015 SA Power Networks has undertaken a program to harden the network against such events and seek to continue to do this during the next regulatory period.

The Government of South Australia appreciates the extensive work of SA Power Networks in making South Australia's electricity distribution network one of the most reliable in Australia as demonstrated in Chapter 4 of the Regulatory Proposal. While the Government supports activities to ensure that South Australian customers are as least likely to be impacted by power outages as possible, these need to be considered within the context of overall cost impact on consumers. Such expenditure should be limited to only those activities that are most cost effective with the largest benefits as assessed by the AER. It is not prudent to attempt to safeguard the network against all weather events, the cost of which would not only be too large but which may prove to be unnecessary if weather conditions change.

In assessing the level of capital expenditure required under this area, the AER will undoubtedly consider SA Power Networks' performance against the reliability standards that encompass the unplanned interruption duration target and unplanned interruption frequency target. The ESCOSA Report on Performance of SA Power

Networks for the last 2 years, 2013/14 and 2012/13, found that SA Power Networks has used best endeavours to meet all reliability standards despite not achieving its specific seven individual location targets. Furthermore, while in 2012/13 SA Power Networks only met 1 of 7 individual location duration targets in the Adelaide Business Area, in 2013/14 its performance improved to meeting 4 of 7 individual location duration targets. These are important findings in considering whether SA Power Networks requires more than double the previous allowance for reliability expenditure.

In March 2013, ESCOSA commenced a review of the jurisdictional service standards in time for the 2015-2020 revenue determination process. Through research and open consultation with the South Australian community ESCOSA's final decision was to maintain network reliability standards in line with the average historical performance during 2009/10 to 2013/14. The review was based on a series of customer preference surveys conducted over the past 10 years and sought to establish whether there is a need to amend the service standards to a higher or lower level. ESCOSA reported that survey respondents consistently expressed high levels of satisfaction with the level of reliability in South Australia. This is further supported by SA Power Networks' own customer engagement which found that 88% of customers were satisfied with the current reliability levels.

In addition, ESCOSA's annual reporting on network reliability performance provides the causes that contribute to power outages, including those caused by weather. A review of this reporting shows:

Period	Average % of interruptions caused by weather
2000 – 2005	37%
2005 – 2010	32%
2010 – 2014	35%

Furthermore, a review of the last 3 years shows:

Period	Average % of interruptions caused by weather
2011 - 2012	27%
2012 – 2013	29%
2013 - 2014	42%

Therefore, while in 2013/14 weather contributed to 42% of interruptions, it followed two years where weather causes accounted for less than 30%. Put this way, this analysis shows that the number of average interruptions caused by weather has remained relatively stable from 2000 and therefore we would question the need for

an increase of expenditure for reliability against weather events by more than double from the previous regulatory period.

In light of the overall community's satisfaction with electricity reliability in South Australia, noting the historical impact of weather on the network and keeping in mind community concerns with electricity prices, the AER must carefully consider the need for solutions to infrequent events and their long term impact.

On a further note, the South Australian Government notes the proposed Microgrid trial project at a cost of \$2.8 million as a possible long-term solution in locations that are supplied electricity via a poorly performing radial line. While this particular proposal appears to have merits, the AER should give consideration to whether it is better placed under the Demand Management Incentive Scheme which has an allowance of \$3 million (\$600,000 each year) rather than in the ex-ante capital expenditure allowance.

5. Capital Expenditure – Replacement of the Kangaroo Island undersea cable

As part of its Capital Expenditure program relating to Augmentation Strategic projects, SA Power Networks is seeking \$47.2 million to install a new undersea cable that supplies power to Kangaroo Island. This is proposed on the basis that the existing cable, which was commissioned in 1993, is nearing the end of its expected operating life.

The South Australian Government supports this proposal as a means to ensure Kangaroo Island residents have secure electricity supply in the long-term and to mitigate the possibility of early failure of the existing cable.

As demonstrated by the SA Power Networks Regulatory Proposal, early replacement of the cable will minimise the risk of additional costs being incurred should the cable fail prematurely. SA Power Networks have estimated that in the event of cable failure, the generation and support cost for 12 months to supply electricity to the island while the cable is repaired would be approximately \$31.6 million. If the cable cannot be repaired and requires replacement this cost would be even greater.

Failure of the undersea cable would have direct consequences to the approximately 4,400 Kangaroo Island residents and businesses. Investment in the 2015-2020 regulatory period will minimise this possibility as well as accommodating any demand growth on the island and providing security of supply for at least the next two decades.

6. Capital Expenditure – Quality of Supply

The South Australian Government appreciates there has been a strong increase in the number of PV systems which are installed in South Australia, the majority of which are connected to the LV network. SA Power Networks submit that in areas where a high penetration of PV is found, quality of supply has been impacted which is supported by a significant increase in quality of supply related customer voltage queries.

The Government supports SA Power Networks taking measures to better monitor the LV network and understands there has been an impact from the emergence of the two-way network. Part of the proposal includes the installation of 10,000 telecommunications modules per annum on new and replacement smart-ready meters which will assist SA Power Networks to monitor quality of supply. Concerns with the potential impact on competition in metering are discussed below under section 11. *Proposed Expenditure and approach to Metering and Tariffs* and apply equally here. It is understood that SA Power Networks are seeking to recover a total of \$107.4 million in capital expenditure for voltage regulation and monitoring over the regulatory period. Whilst it is evident this figure does not include the additional \$12.4 million operating expenditure component³, it is unclear about how the \$107.4 million is derived noting the capital costs in Tables 14-16 on pages 52-53 of the Tariff and Metering business case (Attachment 14.3). Accordingly, it is important that the AER investigates the proposed expenditure and provides clear justification should approval of the \$107.4 million be given.

7. Operating Expenditure – Vegetation Management

While discussion of vegetation management features heavily in various parts of SA Power Networks' Regulatory Proposal, this part of the submission solely relates to the proposed \$31.9 million step-change in operating expenditure associated with an improved vegetation management program.

SA Power Networks have used the 2013/14 year as the base year to calculate operating expenditure including for vegetation management. While the actual expenditure for this period is not provided explicitly, SA Power Networks provide that they spend about \$36 million per annum on vegetation management. It is also understood that in 2013/14 more was spent on vegetation management than in 2010/11 to 2011/12 and more than is allowed for 2014/15.

Upon application by SA Power Networks for a cost pass through of increased vegetation management costs, in July 2013 the AER approved \$35.1 million for the 2012/13 to 2014/15 years. This resulted from what the AER determined to be uncontrolled and unexpected vegetation growth following the break in drought. It is understood from the Regulatory Proposal that AER allowed a higher expenditure in 2012/13 to 2013/14 than 2014/15.

Therefore, in addition to the already escalated allowance for 2013/14 SA Power Networks is seeking a further \$31.9 million over the regulatory period or an additional \$6.38 million per year.

The South Australian Government does not support this increased expenditure and provides that the vegetation management allowance for 2015-2020 should be limited to, and possibly lower than, the previous regulatory period allowance of \$108.6 million on the basis that:

³ Tables 17-18, page 54 – Tariff and Metering business case (Attachment 14.3)

- the \$108.6 million was approved for a unique circumstance to allow SA Power Networks to catch up and become compliant with their regulatory obligations at that time;
- noting that these obligations are now less stringent; and
- that SA Power Networks has provided that it will be compliant by the end of the current regulatory period.

The following information is provided to assist the AER in their assessment of SA Power Networks' proposed expenditure and supports the Government's above position.

In understanding the circumstances that led to the cost pass-through allowance of \$35.1 million, the Department of State Development undertook a desktop analysis of historical average rainfall and found that based on a period of 33-years South Australia is likely to experience a combination of wet and dry conditions over 2015-2020. The analysis showed that:

- The average annual rainfall over the 33-year period is 226.37mm per annum.
- Since 1980, South Australia has experienced 20 years of below average rainfall and 14 years above average rainfall.
- There have been 5 years of significantly-above average rainfall (taken to be at least 30% higher than average), 2 of which were in 2010 and 2011.
- There have been 4 years significantly-below averages.
- The rainfall levels from 2004 to 2009 confirm that South Australia experienced its *longest period* of below-average rainfall in the last 33 years. 1985 to 1987 was the second longest with only 3 years of below average rainfall.
- 2010 saw the highest rainfall in the last 33 years at 369.44mm and 2011 saw the third highest at 354.42, making these 2 years the wettest consecutive years since 1980.

From this we can see that the 8-year period from 2004 to 2011 was unusual in comparison to the other 25 year pattern. Further, it can be concluded that every dry period (where rainfall is below average) is eventually followed by a wet period (where rainfall is above average). Generally speaking, the data shows that South Australia experiences 1-2 years of consecutive below-average rainfall followed by above-average rainfall. Since 1980, South Australia has not had more than 2 consecutive years of above average rainfall but yet has experienced 3 or more consecutive years of below –average rainfall twice (1985-1987 and 2004-2009).

On average, this combination of wet and dry conditions should result in a relatively consistent growth rate for vegetation over the period and it is not reasonable to assume vegetation growth will again be impacted by the unusual high rainfall of 2010 and 2011.

The approved allowance of \$108.6 million for the 2010-2015 period was based on the actual vegetation clearance expenditure in 2008/09. While the Government acknowledges that vegetation growth is likely to be higher than in 2008/09 which represented the last 2 years of the drought and followed 4 years of below-average

rainfall, there are a number of reasons that SA Power Networks should be able to manage vegetation management clearance costs within the previous allowance.

The 2010-2015 vegetation management allowance represented 2.5 times the amount approved in the 2005-2010 regulatory period of \$43.3 million. While at that time, SA Power Networks' vegetation clearance management process was considered "at or near industry best practice"⁴, the approved \$43.3 million did not result in SA Power Networks being able to fully comply with the regulatory requirements of that time. In acknowledgement of this, the AER approved an additional \$65.6 million for 2010-2015.

Since February 2010, the *Electricity (Principles of Vegetation Clearance) Regulations 2010* (Regulations) provide for a more light-handed approach to vegetation clearance in Non Bushfire Risk Areas than in the previous regulatory period. Further, in the ESCOSA 2013/14 Annual Performance Report – SA Power Networks, SA Power Networks has advised that it is on schedule to fully comply with the current Regulations by 30 June 2015⁵ which is by the end of the current regulatory period and therefore it follows that compliance will be achieved within existing funding for 2010-2015.

8. Operating Expenditure – Distribution Licence Fee

SA Power Networks has proposed an annual reduction of \$1.1 million from the 2013/14 base year in its distribution licence fee expenditure based on my advice to them in September 2014.

In accordance with the *Electricity Act 1996*, as the Minister for Mineral Resources and Energy I am responsible to fix the level of electricity industry licence fees from time to time, including distribution licence fees. I have previously advised SAPN that an annual electricity distribution licence fee of \$2,257,600 will apply the regulatory period. It is understood that this new licence fee will be applied by the ESCOSA each year from 11 October 2015, reflecting the anniversary date of the issuing of SAPN's distribution licence.

9. Operating Expenditure – Legal and Regulatory Obligations

In addition to the operational costs of the 2013/14 year which SA Power Networks has proposed as the base year for calculating operating expenditure, a number of additional expenses have been identified, including those relating to Legal and Regulatory Obligations. Specifically, the South Australian Government would like to comment on 2 of the proposals.

The first is in relation to the \$10.5 million (\$4.3 of which is attributed to standard control services and \$6.2 of which is attributed to alternative control services) for ensuring compliance with Rule 90 of the National Electricity Retail Rules. Currently, to reflect South Australia's jurisdictional needs, Regulation 14 of the *National Energy*

⁴ Electricity Distribution Price Review – PB Associates, page 115

Retail Law (Local Provisions) Regulations 2013 provides that electricity distribution network services providers operating in South Australia are not required to comply with Rule 90 if the duration of the planned interruptions is less than 15 minutes. This Regulation was due to expire on 30 June 2015 which is the reason that SA Power Networks are seeking additional operational expenditure.

The Government of South Australia would like to advise the AER that following stakeholder consultation and consideration of the matter, Regulation 14 was amended in January 2015 to extend the current period to 30 June 2020. Accordingly, the proposed cost of \$10.5 million can be removed from the proposal.

The second issue relates to the new calculations for network connection customer contributions which will come into operation in South Australia on 1 July 2015 under the National Energy Customer Framework (NECF). SA Power Networks is seeking \$1.3 million for additional resources to process what they term as more complex calculations and to handle an expected increase in enquiries.

The Government of South Australia provides that the transition to the Connection Rules under NECF do not represent a step-change requiring operational investments. Currently, SA Power Networks is applying the substantial requirements from the NECF since its adoption on 1 February 2013 in its Connection Policy for 2013-2015. On 1 July 2015, the AER's Connection Charging Guideline requires calculations based on a cost-revenue-test formulation, not too dissimilar to the current existing connection charging regime.

10. Consumer Engagement Process and Findings

The South Australian Government acknowledges and values the extensive consumer engagement work undertaken by SA Power Networks in developing its Regulatory Proposal. We strongly encourage and support engagement measures as a means of allowing communities and stakeholders to provide their views on issues that impact them directly such as electricity prices.

The results of SA Power Networks community engagement showed support for a number of new initiatives. It is understood that the proposals for undergrounding in high bushfire risk areas and traffic black spots as well as improved vegetation management were identified as worthwhile projects. These were then tested with the Willingness to Pay research which involved responses from 895 customers as well as qualitative research with hardship customers.

While the research demonstrates SA Power Networks' commitment to understand the community's drivers, the Government is concerned that the results do not align with the concerns expressed by South Australian electricity consumers at large. Certainly over the last 5 years the Government has received an increasing number of letters from the community expressing concern with impact of escalating electricity prices.

One specific example, which demonstrates this point well, relates to last year's approval by the AER of an additional \$35.1 million pass-through cost for vegetation

clearance costs resulting from increased rainfall. Following the AER's decision the Government received a number of letters expressing customer concern regarding the additional charge.

Furthermore, the Government refers the AER to the stakeholder submissions to SA Power Networks' May 2014 Directions and Priorities Consultation Paper, some of which directly expressed concern with the results of the consumer engagement process citing that the impacts on consumer bills of the initiatives were not expressly revealed.

In addition, it is important that the AER is satisfied that the proposed expenditure on projects identified during the consumer engagement process accurately reflect what respondents were willing to pay. For example, does the proposed targeted undergrounding program in High Bushfire Risk Areas at a capital cost of \$128.6 million reflect SA Power Networks' findings that a majority of customers were prepared to pay an additional \$10.20 per annum for undergrounding 135 km of power lines in bushfire and high bushfire risk areas?

The Government acknowledges that the consumer engagement process is the first of its kind to be undertaken by SA Power Networks as a result of the 2012 amendments to the National Electricity Rules. Therefore, the Government requests the AER to give careful consideration to the results and whether the proposed expenditures are prudent while bearing in mind the community's real concern about the impact of electricity prices on household incomes and business operations.

11. Proposed Expenditure and approach to Metering and Tariffs

In recognition of the recently determined National Electricity Rule changes relating to Distribution Network Pricing Arrangements and the pending rule changes on Expanding Competition in Metering and Related Services, SA Power Networks has developed a tariff and metering proposal for which it is seeking both capital and operating expenditures over 2015-2020. The Government understands these expenditures to include:

Activities	Service Classification	\$ million
Capital Expenditure ⁵		
IT Applications & Equipment	SCS	27
IT Applications & Equipment	ACS	49
Operating Expenditure ⁶		
Additional IT and Telecommunication operating expenditure	SCS	33.8
Metering Services including: meter reading, maintenance, energy data service and corporate overhead	ACS	86.2

⁵ SA Power Networks Regulatory Proposal 2015-2020, Table 14.1, page 135

⁶ SA Power Networks Regulatory Proposal 2015-2020, Table 14.2, page 135

From July 2017, SA Power Networks propose to progressively roll out a new capacity tariff for residential and small business customers who require new connections, connections alterations or who make new investment decisions. All other customers can opt-in. The Government of South Australia supports the move to cost-reflective pricing as a means to equitably recover network costs from those customers that impact on the distribution system and incentivise customers to minimise their load requirements. As referred to above, the rule changes association with Distribution Network Pricing Arrangements encourage distribution businesses to move towards cost-reflective pricing. While demand tariffs may be considered an equitable mechanism for recovering costs, the Government recommends that the AER consider SA Power Networks' proposal in light of the new Rule requirements. It is important that a shift to a new tariff structure, such as is being proposed by SA Power Networks, is approved under the new rules relating to Distribution Network Pricing Arrangements. Importantly, in addition to making distribution businesses being subject to a new pricing objective and new pricing principles, these businesses will be required to undertake a new consultation process that will increase certainty and transparency for consumers and retailers.

In addition to the AEMC's rule change activities, SA Power Networks references the South Australian Government's draft policy on new and replacement meters in South Australia. The regulatory proposal contributes this consultation work to new regulatory obligations which in turn contribute to SA Power Networks' metering proposal of installing new smart-ready meters for all future asset replacements. It is important to note the South Australian Government's January 2014 Discussion Paper titled "South Australian Policy for New and Replacement Electricity Meters" was a consultation paper to help inform the Government of possible future options. The paper was not a firm Government policy. At the stakeholder workshop of 9 October 2014, the AEMC proposed that all new and replacement meters meet the Australian Energy Market Operator's minimum functionality specifications. If the AEMC maintain this position through to the final rule determination, jurisdictions will have no role in new and replacement meter policies. The minimum functionality specifications will apply nationally to all new meters, including in new and replacement situations. Accordingly, the South Australian Government has deferred any further jurisdictional work on the metering proposal at this stage.

Whilst the Government is supportive of advance metering for residential customers, the Government is concerned that SA Power Networks' proposal to deploy an average of 70,000 new smart-ready meters per annum over the 5 year regulatory period could interfere with the intention of the competitive metering reforms that are currently underway. That is, if this annual figure were to be realised over 58% of South Australian customers would have smart-ready meters installed at their premises by SA Power Networks. The AER should consider what amount of smart-ready meter replacement is in the long term interests of consumers noting that competition in metering will commence within the regulatory period.

Finally, the Government considers that the merits of SA Power Networks' proposal to progressively move to monthly meter readings at a cost of \$49.2 million requires close consideration and investigation by the AER and again demonstrates the need to undertake the prescribed consultation process under the new National Electricity Rules relating to Distribution Pricing Arrangements. It is understood that SA Power

Networks is proposing to undertake manual readings of meters and has provided that it will require a significant increase in the number of handheld meter reading devices. The Government is supportive of monthly meter readings as it allows customers to receive monthly bills and improves customers' ability to manage expenses. However, monthly retail billing products are already available to South Australian customers and it is expected the rule change relating to Expanding Competition in Metering and Related Services will result in these customers being offered a smart meter capable of remote readings. Accordingly, we question whether the strategy and expense proposed by SA Power Networks associated with manual monthly meter readings is in the long term interest of consumers.

12. Cost Pass Through Events

The South Australian Government trusts that the AER will undertake due diligence in its consideration of SA Power Networks' proposal for the 6 additional cost pass through events. It should be kept in mind however, that such events can represent increased risk and can harm price stability for electricity consumers.

Of particular interest is the proposal to include a "General nominated pass through event" which was previously approved in the 2010-2015 regulatory period. The Government notes that in its Final Decision for the Victorian electricity distribution network service providers - Distribution determination 2011–2015, the AER stated that in its draft decision it did not apply the general nominated pass through event, which had been included in the South Australia/Queensland and New South Wales/ACT distribution determinations. The AER instead included a 'natural disaster event' which is more narrowly defined than the general nominated pass through event and which was intended to capture major uncontrollable costs. The AER concluded that its refusal of the general nominated pass through event will apply in future distribution revenue determinations.

The Government supports the AER's position that a general nominated pass through event should not be permitted. The events prescribed under the National Electricity Rules combined with any specific events that are highly likely to impact on SA Power Networks' costs during the regulatory period are sufficient and there should be no need to allow a pass through of a generalised nature.