SAPN RD 2020-25

Reducing energy costs for Vulnerable Customers

AER Stakeholder Forum

30 October2019

South Australian Council of Social Service

About SACOSS

- The South Australian Council of Social Service (SACOSS) is the peak body for the health and community services sector in South Australia.
- SACOSS has a long-standing interest in the delivery of essential services because the cost of basic necessities, like electricity, has a disproportionate impact on vulnerable and disadvantaged people.

Importance of keeping prices down

- SA has the least affordable electricity in the NEM - and the biggest impact is on low income South Australians.

- Low income households in SA are paying 7.6% of their disposable income on energy (9.9% for customers on standing offers) - the highest percentage in the NEM.

- Average electricity debt (for non-hardship customers) increased by $586 to $1524 in 2017-18 - the highest in the NEM.

- Nearly 5% of all residential customers in SA (including hardship customers) are repaying debt – highest proportion in the NEM.

- SA has the highest number of hardship customers as a percentage of total customers and the second highest number of disconnections (behind Queensland).

SA Power Networks’ Engagement

- SACOSS commends SA Power Networks on its early engagement and extensive Customer Engagement Program (CEP).
- SACOSS was disappointed SAPN’s changes to the Draft Plan did not appear to reflect consumer feedback on affordability concerns (reductions were largely transfers from capex to opex).
- Early engagement is welcomed, but it is important for the AER and SAPN to remain open to consumer feedback throughout the entire regulatory process.

AER’s Draft Decision

- SACOSS welcomes the AER’s Draft Decision allowing for revenue of $3905.3m in 2020-2025 - $309.2 million less than SAPN proposed.

- The implementation of the Draft Decision would see a reduction in annual energy bills for South Australian households of around $63 in 2020-21.

- SACOSS estimates that *in real terms* the savings could be $100 a year by 2024-25 – good news for those on low incomes with no room to move in the household budget.

- The AER has listened to consumer concerns and applied rigorous analysis to the proposal to ensure forecast expenditures represent value for money.

- SAPN now need to work hard at keeping the revised proposal at least cost and SACOSS expects the AER to apply the same rigour in assessing new evidence.

SACOSS' submissions on SAPN RP 2020-25

SACOSS' written submission provided the AER with feedback on the following areas of SAPN's Regulatory Proposal:

- Operating expenditure
- Capital expenditure sharing scheme (CESS)
- Spending on the network of the future
- IT expenditure
- Labour costs
- Taxation

Opex – SACOSS’ concerns

- SAPN was seeking a major increase in opex in the 2020-25 regulatory period of 17.3% - the AER decision was 5% lower.
  - SACOSS still has concerns about the productivity assumptions and will be encouraging the AER to re-examine this issue

- SACOSS questioned whether 2018-19 represents an efficient base year, given higher expenditure in that year - the AER determined it was appropriate:
  - We still remain concerned about the assumptions and the inflationary impact on opex

- SACOSS called for AER to apply 0.5% productivity growth – AER did apply 0.5%.

Network of the Future

- SAPN has proposed numerous CAPEX initiatives to manage future network flows and voltage fluctuation issues.

- SACOSS submitted there was considerable overlap between these capex programs and called for more transparency on how much it is spending to prepare the network for greater solar and battery utilisation and how initiatives interrelate with each other.

- AER's Draft Decision challenged some proposals and agreed about transparency. ✓

ICT Expenditure

- SAPN have proposed $284.6 million for ICT capex – with the majority on maintenance and upgrading of business-as-usual systems.
- SACOSS considered there was not enough detail provided in SAPN's proposal to justify the IT expenditure, which is not expected to yield significant savings or efficiencies ($23.2m for 2020-25).
- AER's Draft Decision allowed $196.8m or 30.% less than proposed, and said forecast benefits were overstated by SAPN.
- SACOSS strongly supports the AER decision. ✓

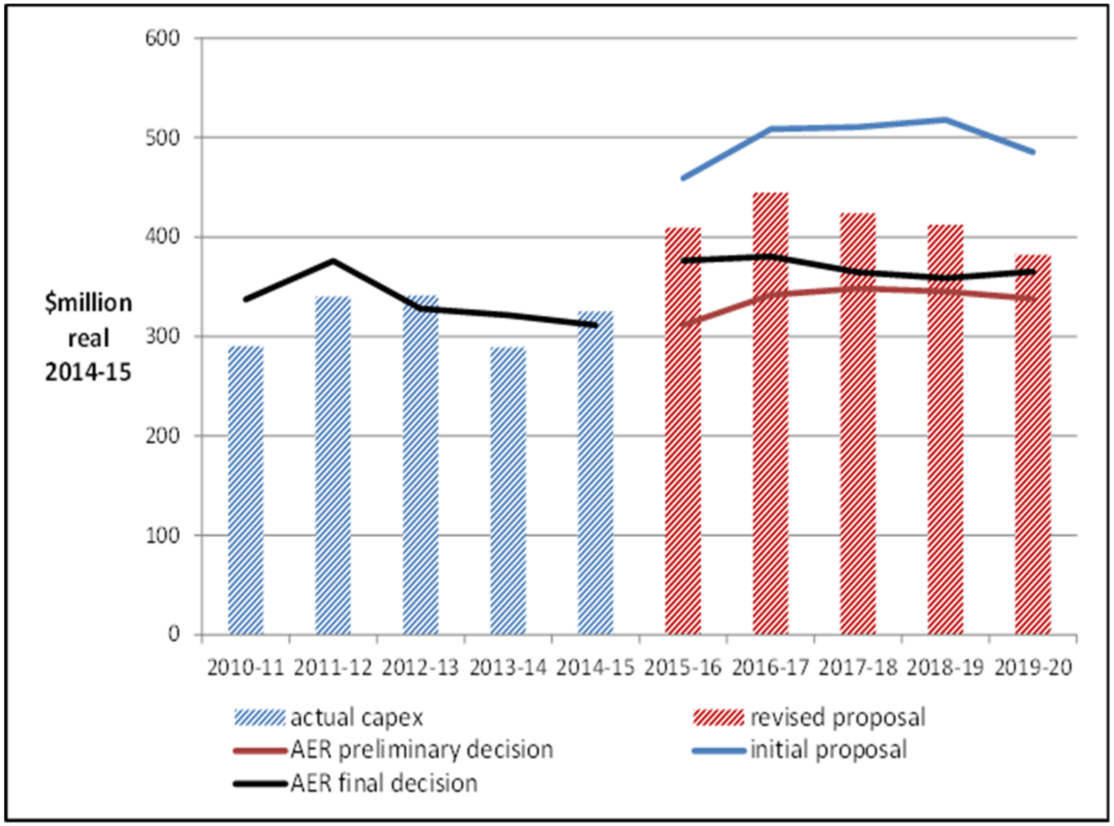
Network Reliability

- SAPN sought $61.8m in reliability Augex.
- This expenditure was aimed at maintaining underlying reliability, hardening the network against major events, and improving the performance of low reliability feeders.
- SACOSS was concerned at the high level of reliability-related capex in SAPN's proposal in light of:
  - the strong view by ESCOSA that reliability levels should stay as they are
  - the superior performance of SAPN against its existing STPIS targets
  - the feedback by customers in the ESCOSA survey that they are satisfied with the current levels of reliability
  - the feedback from customers in the ESCOSA survey that they do not support paying more for improvements in reliability
  - the small number of customers that stand to benefit from the proposed capital spending.
- AER have allowed $30.8 million - SACOSS supports AER's decision. ✓

REPEX

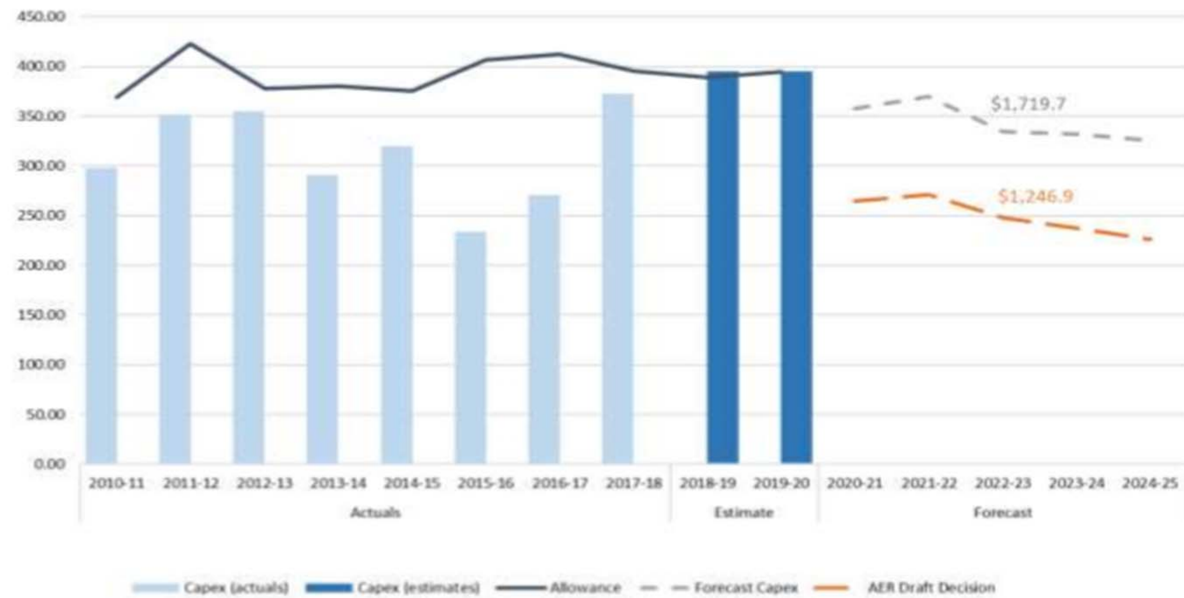
- SAPN is seeking $637.2m in Repex, AER Draft Decision has allowed $508.5m, or 20% less than proposed.
  - SAPN underspent *allowed* Repex by 20% in the 2015-20 period
  - Allowed Repex ($655m) was already well below that proposed by SAPN for 2015-20
- Difficult to reconcile urgency communicated by SAPN around 2020-25 Repex spend with 2015-20 underspend.
- Given the 2015-20 performance SACOSS questioned SAPN requirements for 2020-25.
- SACOSS accepts the AER's analysis and Draft Decision.

AER final decision for 2015-20 compared to SAPN proposal ($m, 2014-15)



AER Graph: historical vs. forecast capex

Figure 5.1 SA Power Networks' historical vs forecast capex snapshot ($ million, 2019–20)



Source: AER analysis.

Note: SA Power Networks' actual and estimated capex is based on SA Power Networks' recast category analysis RIN data.

Estimated Allowance for taxation costs

- The AER has changed its treatment of immediately expensed capex, in response SAPN has shortened asset lives in a number of categories, which may have a negative impact on prices facing current consumers.
- Shortened asset lives are likely be one of several factors contributing to the significant increase in regulatory depreciation (and tax depreciation) in SAPN’s 2020-25 proposal.
- AER accepted SA Power Networks' proposed standard tax asset lives for all of its asset classes, but rejected SA Power Networks' proposal to adjust the opening tax asset base.
- AER Draft decision determined a corporate income tax allowance of $37.6 million.
- SACOSS is awaiting a study by SACES and further investigation of tax issues to finalise a position on this issue.

Labour costs

- SAPN proposed average labour price growth in its RP (BIS Oxford and Deloitte forecasts) of around 1.0% (real terms).
- SACOSS argued the Deloitte Access Economics forecasts (which were lower than the BIS Oxford) were a more accurate forecast of likely wage growth and should be weighted accordingly.
- AER accepted the Deloitte figures (not combined with BIS Oxford).
- With current wage stagnation, SACOSS supports the AER's draft decision. ✓

Tariff Structure Statement

- SAPN's TSS is broadly welcomed by stakeholders and AER.
- The 'solar sponge' period allows SA Power Networks to encourage consumption during periods of high rooftop PV generation but also reflect the lower cost of serving demand during that period.
- SACOSS acknowledges the benefits for customers who can shift consumption to between 10am and 3pm. SACOSS is cautious about the impact of higher tariffs during the 'Inflexible family peak period' (homework, cleaning, washing, cooking) on the 'family formation group'.
- If the TSS is implemented, SACOSS will be seeking a review after 12 months looking at:
  - Level of retailer uptake and pass-through to consumers
  - Impacts on specific vulnerable consumers, (e.g. low-income, high-use family households)

Summary

- Low-income consumers are overwhelmingly concerned about affordability.

- SACOSS commends the AER on its analysis and robust decision-making, resulting in lower energy bills for consumers.

- SACOSS is asking SAPN to work hard to keep its revised proposal at least cost – providing evidence the forecast expenditure occurs at the correct time and is justified.