Submission to the Australian Energy Regulator on SA Power Networks' Revised Regulatory Proposal 2015-20

SACOSS Submission
July 2015

SACOSS Submission to the Australian Energy Regulator on SA Power Networks' Revised Regulatory Proposal 2015-20
First published in July 2015

First published in July 2015 by the
South Australian Council of Social Service

47 King William Road
Unley, SA, 5061 Australia
Ph (08) 8305 4222
Fax (08) 8272 9500
Email: sacoss@sacoss.org.au
Website: www.sacoss.org.au

Written by South Australian Council of Social Service.

'This project was funded by Energy Consumers Australia (www.energyconsumers.com.au) as part of its grants process for consumer advocacy projects and research projects for the benefit of consumers of electricity and gas. The views expressed in this document do not necessarily reflect the view of Energy Consumers Australia'.

Executive Summary

SA Power Networks' Revised Regulatory Proposal has not made the case to change the AER's Preliminary Decision to give less weight to SA Power Networks' Consumer Engagement Program (CEP) than if submissions had broadly supported the consumer engagement approach. SACOSS considers that it is reasonable to take account of user submissions on the CEP, particularly given their unanimity. SACOSS also considers that the Colmar Brunton and Business SA surveys have significant value. SACOSS considers that Banarra and Oakley Greenwood have some salient criticisms of the CEP findings. Finally, SA Power Networks has not demonstrated a clear link between the CEP and its Revised Proposal, nor that elements of them might not be part of business-as-usual funded out of other approved revenue.

In relation to capex and opex, SACOSS supports the findings of the AER in its Preliminary Decision rather than those put forward by SA Power Networks in its Revised Regulatory Proposal and as outlined in this submission. SACOSS does not support the proposed step changes.

Contents

Consumer engagement

SA Power Networks' Regulatory Proposal argued for around $300 million of capex and $100 million of opex as "customer supported or customer driven" initiatives.[1]

The AER commissioned a review of SA Power Networks' consumer engagement methodologies and reported results by Oakley Greenwood, which:

> *...noted the consumer engagement was relatively narrowly focussed. Also that some results seem counter–intuitive, such as finding even extreme hardship customers preferred safety expenditure on the highest possible number of road intersections.*[2]

The AER's preliminary decision was that:

> *On balance, we see SA Power Networks' consumer engagement as a work in progress. While we have taken into account the consumer engagement results reported by SA Power Networks, we have given these less weight than if the consumer engagement approach had been broadly supported in submissions to SA Power Network's regulatory proposal. We expect SA Power Networks will evolve its consumer engagement methods over time.*[3]

In its Revised Regulatory Proposal, SA Power Networks points to the evidence of its consumer engagement program (CEP) to justify a range of capital and operating expenditure proposals totalling $58 million for capex and $53.1 million for opex.[4]

A central contention in SA Power Networks' Revised Proposal is that the AER should have placed greater weight on the findings of SA Power Network's CEP, arguing that the CEP was wide-ranging and robust. SA Power Networks' Revised Proposal includes seven attachments on CEP issues including a review by Banarra of SA Power Network's CEP methodology against best practice principles for consumer engagement, criticisms of SACOSS-Colmar Brunton research, a review of Business SA's submission and survey results, a response to Consumer Challenge Panel criticisms of its CEP, a review of SACOSS WTP commentary, a review of the AER response, and a review of Oakley Greenwood's critique.

SACOSS supports the position taken by the AER in its Preliminary Decision. Notwithstanding the arguments presented by SA Power Networks in the Revised Proposal, SACOSS believes that the AER should maintain its preliminary position. The AER's preliminary position is the most appropriate position in light of all the evidence including:

- Views of user groups; and
- Analysis of the CEP methodology.

Additionally, SACOSS considers that SA Power Networks has not demonstrated that the CEP findings justify its revised capex and opex proposals.

---

[1] SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, http://www.aer.gov.au/sites/default/files/SA%20Power%20Networks%20-%202015-20%20Revised%20Regulatory%20Proposal%20-%20July%202015.pdf, p. 23.

[2] AER 2015, *Preliminary Decision*, *Overview*, *http://www.aer.gov.au/sites/default/files/AER%20-%20Preliminary%20decision%20SA%20Power%20Networks%20distribution%20determination%20-%20Overview%20-%20April%202015_0.pdf*, p. 15 (footnotes omitted).

[3] Ibid.

[4] SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, pp. 39 & 40.

Views of user groups

SACOSS considers that it is important to take the views of submissions from user groups into account when determining whether to grant additional revenue on the basis of customer preferences. User groups have close connections with their member bases and go to considerable efforts to ensure they understand their members' views. Members rely on user groups to represent their views given it is not reasonable to expect all individual members to respond to the AER's call for submissions with detailed information.

SACOSS notes that SA Power Networks' Revised Proposal does not point to any submissions from user groups which support additional capital or operating expenditure.

SA Power Networks itself notes that there were twenty-seven submissions, of which it states that ten did not refer to the SA Power Networks CEP while seventeen submissions made one or more negative comments about aspects of the CEP.[5] SA Power Networks states that the twenty-seven submissions represent a "very limited number of submissions".[6]

SACOSS considers that it is not reasonable to characterise twenty-seven or seventeen submissions as a very limited number of submissions. In fact the groups involved in the seventeen submissions that discussed the CEP represent a large and diverse group of users, including business and residential consumers. In the case of SACOSS alone, SACOSS represents 332 members consisting of 116 member organisations and 216 individual members. Many of our member organisations are themselves very large organisations including The Salvation Army, Australian Red Cross (SA Division) , St Vincent de Paul Society (SA) Inc., Centacare Catholic Family Services, The Smith Family and Anglicare SA. SACOSS also has other peak organisations which are organisational members including Community Centres SA and Youth Affairs Council of SA. SACOSS works very closely with our members to develop our policy positions and we regularly canvass their views in preparing our submissions.

Moreover, SA Power Networks underrates the difficulty of preparing a response to SA Power Networks' Regulatory Proposal, given the proposal consisted of 436 pages supported by 94 appendices, 16 models, and 10 regulatory information notices and that it covered topics that require a high degree of prior understanding, and there is a relatively low level of resources amongst many user groups. Certainly, if user groups were confronted with the view that their submissions would or should be rejected by the AER when pitted against survey findings of an electricity distributor the user groups may be discouraged from making submissions. It is extremely disappointing that SA Power Networks is so keen to promote itself as being "at the forefront of consumer engagement"[7] while at the same time strongly rejecting the submissions of seventeen user groups including two surveys (by SACOSS and Business SA).

SA Power Networks' submission draws attention to the fact that "the specific financial circumstances of one group in the community should [not] impacts on programs and expenditure that are for the benefit of the majority of customers"[8], referring to those facing significant financial difficulties. Against this, SACOSS notes that the seventeen submissions from a diverse range of perspectives and interests took a consistent position on the CEP. Indeed, SACOSS considers the unanimity of the user submissions in criticising aspects of the CEP as a strong point in favour of the AER's Preliminary Decision.

---

[5] SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, p. 15.
[6] Ibid.
[7] Ibid. p. 13.
[8] Ibid. p. 16.

When the findings of the CEP are examined, SACOSS considers it surprising that price is not identified as a key issue. SA Power Networks list thirteen key customer insights from their TalkingPower qualitative and quantitative research initiatives.[9] These include 'Develop cost-reflective pricing tariffs', 'Consider installing advanced meters', and 'Educate customers about new technology and industry change to help increase their satisfaction'. An initial reaction might be that cost-reflective pricing tariffs and advanced meters and technology and industry change might not be the first things identified by consumers as concerns compared to pricing issues.

Certainly, the SACOSS survey found that 93 per cent of customers were concerned about pricing issues so it would be surprising that SA Power Networks' research did not identify price as a concern among the thirteen top concerns of customers. Banarra's review of the CEP methodology (discussed below) suggests a reason why: "*the TalkingPower consultation program [stage one] did not provide an initial opportunity for stakeholders to freely identify issues themselves without the influence of pre-set issues*". [10] SACOSS understands Banarra's comment to mean that consumers were not given the opportunity to select the issues of concern to them but instead only to comment on a number of issues set for them by the researchers.

In contrast to the insights presented by SA Power Networks, the research by NTF found that cost and concern about the rising cost of electricity was a very substantial issue for consumers.

In the NTF research, respondents were asked to nominate on a seven point scale their degree of concern about rising cost of electricity with one representing the highest level of concern and 7 representing the lowest level of concern. NTF's findings are represented below.[11]

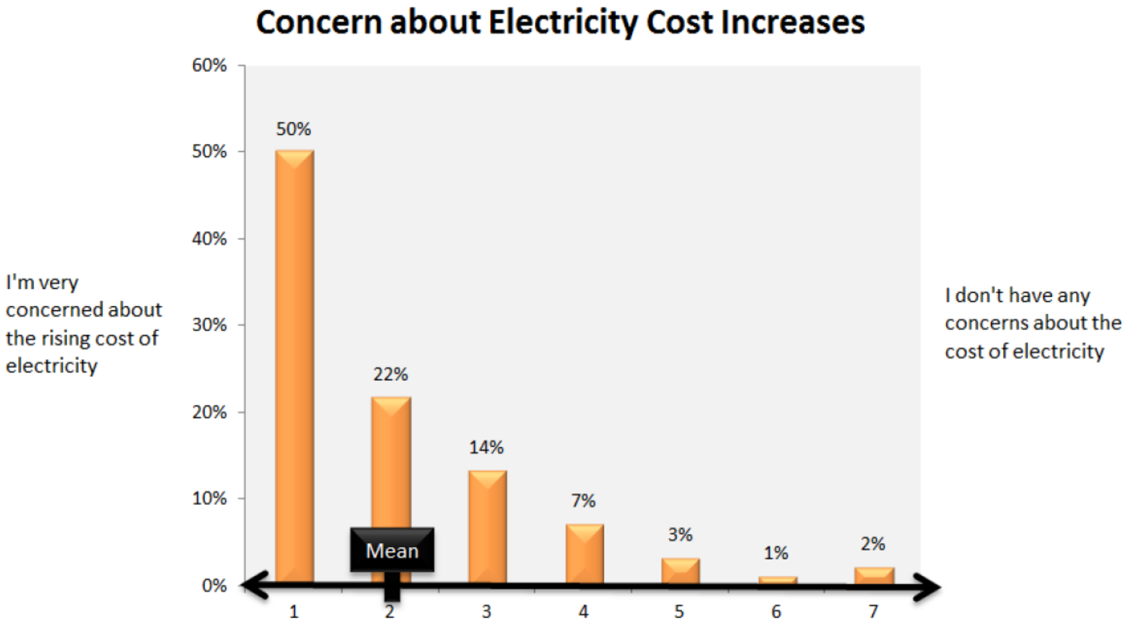

Figure 1: Concern about electricity cost increases (Source: NTF, Attachment 6.8 to SA Power Networks Regulatory Proposal: p. 21)

[9] SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, p. 21.

[10] Banarra 2015, *Attachment C.1 to SA Power Networks Revised Regulatory Proposal,* http://www.aer.gov.au/sites/default/files/SA%20Power%20Networks%20-%20C.1_PUBLIC_Banarra%20-%20Final%20Gap%20Analysis%20Assessment%20-%20July%202015.pdf, p. 15.

[11] NTF 2015, *Attachment 6.8 to SA Power Networks Regulatory Proposal*, http://www.aer.gov.au/sites/default/files/SAPN%20-%206.8%20PUBLIC%20-%20NTF%20Targeted%20Willingness%20to%20Pay%20Research%20Findings.pdf, p. 21.

The results show a very high degree of concern about the rising cost of electricity. Eight-six per cent of respondents are in the first three categories at the concerned end of the spectrum. This is consistent with:

- The finding from SACOSS's survey that "93% of respondents would like to see a reduction in the price of electricity"[12] and,
- The finding from Business SA that *"Our survey of member businesses found 87% want reduced electricity prices as their highest priority. Furthermore, 89% are not willing to pay more for increased reliability*."[13]

By pre-setting the range of issues for consumers as referred to by Banarra and quoted above, the initial stage one SA Power Networks CEP research could very well have had the effect of positioning the choices of users as between these different pre-set services rather than as part of a trade-off between prices and services.

Moreover, the NTF WTP research was framed by the NTF in the following terms:

> *It was explained to respondents that regardless of their decision, there would be a modest reduction in price.*[14]

In this way, it is not clear that price and service selection were particularly linked. Respondents could well have taken the view that regardless of their choices prices would fall modestly, meaning that any particular choices might be essentially costless. Or respondents might reasonably have taken the view that they would be given some benefit or fall in price, which they could 'spend' in some way on service improvements across the network.

In Attachment C.2 of the Revised Regulatory Proposal, NTF expressed concern about the survey conducted by Colmar Brunton on behalf of SACOSS, "from a respondent conditioning perspective"[15] by asking questions on:

- "Respondents' proclivity to switch electricity retailer
- How much respondents "*trust that your **energy retailer** is doing the right thing by you and has your best interests at heart*"
- Whether respondents agree or disagree "*energy companies should have the power to **cut customer supply if the customer is unable to pay a bill***"."[16]

NTF said that the presence of these questions at the head of the survey was "leading and biasing".[17]

---

[12] NTF 2015, *Attachment C.2 to SA Power Networks Revised Regulatory Proposal*, http://www.aer.gov.au/sites/default/files/SA%20Power%20Networks%20-%20C.2_PUBLIC_NTF%20Review%20of%20SACOSS-CBR%20Research%20-%20July%202015.pdf, p. 4.
[13] NTF, *Attachment C.3 to SA Power Networks Revised Regulatory Proposal*, http://www.aer.gov.au/sites/default/files/SA%20Power%20Networks%20-%20C.3_PUBLIC_NTF%20Review%20of%20Business%20SA%20-%20July%202015.pdf, p. 4.
[14] NTF, *Attachment C.5 to SA Power Networks Revised Regulatory Proposal*, http://www.aer.gov.au/sites/default/files/SA%20Power%20Networks%20-%20C.5_PUBLIC_NTF%20Response%20to%20SACOSS%E2%80%99%20WTP%20Assertions%20-%20July%202015.pdf, p. 7.
[15] NTF 2015, *Attachment C.2 to SA Power Networks Revised Regulatory Proposal*, p.5.
[16] Ibid.
[17] Ibid.

Colmar Brunton are a respected research firm that have conducted a range of surveys in the energy industry. It is not considered that the questions are leading or biasing. NTF's main argument to support its view is that electricity is only four per cent of an average customer's household expenditure, and no reference was made by Colmar Brunton to other items of household expenditure. However, only the third of the three questions quoted above asks even indirectly about expenditure and it asks about attitudes to cutting supply and not about the size of expenditure on electricity or any particular trade-offs.

In this context, SACOSS questions the approach of NTF informing respondents prior to the survey where prices would head *regardless of their decision*.

SACOSS believes that it is reasonable to consider the Colmar Brunton findings to the same extent as it is to consider the NTF findings. SACOSS would also argue that Business SA's survey has some important insights for consideration.

In relation to Willingness to Pay, SA Power Networks has stated in its revised regulatory proposal that:

> "We engaged The NTF Group to review the SACOSS assertions, and its key findings are below:
>
> 1) SACOSS stated 'the use of online surveys skews the sample' – it is clearly evident in the WTP report submitted with the Original Proposal that the respondents were not recruited online (even though the survey was administered online).
>
> 2) SACOSS raised doubt about the legitimacy of sample weighting – the WTP report submitted with the Original Proposal clearly states that the sample accurately reflected ABS data.
>
> 3) SACOSS casts doubt over the way in which costs were presented to respondents – to assist respondents to the WTP research in making price -service trade - offs, explanations were given about the proportion of their bill accounted for by electricity distribution, as well as the total electricity bill impact of their choices.
>
> 4) SACOSS appears to infer an association of our WTP study with 'push polling' – it is self - evident that none of the characteristics of push polling (large numbers of respondents, brief surveys of less than 60 seconds and no analysis of response data) apply to WTP research."[18]

SACOSS does not agree with the above comments from SA Power Networks and has addressed each of these critiques below:

1) In our submission on the regulatory proposal, SACOSS noted the multiple methods of recruitment being both telephone and online. The issue that SACOSS raised in this context was not the method of recruitment. SACOSS stated that it was not convinced that reliance on an online survey to be representative of SAPN's customer base is appropriate. We drew attention to the challenge this presents for low income households, particularly the elderly.

2) In our submission, SACOSS noted that the sample was post-weighted to mimic census data for age and gender (and then further weighted to reflect the proportion of solar households in SA). SACOSS then stated that "the sample was 'overweight' with solar customers and they have been re-weighted from 39% to 28%. Hardship customers represent 19% of the results

[18] SA Power Networks 2015, *Revised Regulatory Proposal 2015-2020*, p.32.

after weighting. The selection of these weights is contestable and the results could have been sensitivity tested [to a] range of values."[19]

3) In our submission, SACOSS raised numerous concerns with the presentation of costs in the survey instrument. Even acknowledging that respondents were given explanations about the proportion of their bill made up by electricity distribution and the total impact of their choices on their electricity bill, we stated that we were "not convinced that an online survey that couches costs in terms of: 'your bill will be $6.90 lower per quarter, would you like to spend $2.35 (i.e. a third) of this to make a "major improvement" and "reduce potential for vehicle collisions …' is really the same as the question 'are you willing to pay an additional $9.40 per annum'".[20]

4) SACOSS did not state that the NTF WTP work involved push polling.

SACOSS notes that in the AER Preliminary Determination, the AER relied on different arguments than those attributed by SA Power Networks to SACOSS in relation to WTP and which have been quoted above. Specifically, the AER commented on sample representativeness, survey presentation, inadequate information as to the outcome of possible choices, scope of the survey, approach applied to choose the most preferred service offering, WTP amounts versus capex proposals and a range of other findings from the Oakley Greenwood report.

[19] SACOSS 2015, Submission to the AER on SA Power Network's Regulatory Proposal, http://www.aer.gov.au/sites/default/files/SA%20Council%20of%20Social%20Services%20%28SACOSS%29%20-%20Submission%20on%20SAPN%27s%20regulatory%20proposal%202015-20%20-%2030%20January%202015.pdf, p.29.
[20] Ibid. pp.31 - 32.

Review of the CEP by Banarra and Oakley Greenwood

SA Power Networks states that:

> *SA Power Networks' CEP aligned with the requirements of this Guideline, with the Stakeholder Engagement Standard (AA1000SES) and the International Association of Public Participation (IAP2) framework.*[21]

SA Power Networks commissioned Banarra to conduct an assessment of SA Power Networks' approach to stakeholder engagement under the TalkingPower customer engagement program for the Regulatory Proposal. Banarra compared the TalkingPower program against a range of best practice standards including:

- Australian Energy Regulator Consumer Engagement Guideline (AER Guideline);
- AccountAbility AA1000 AccountAbility Principles Standard and,
- AccountAbility AA1000 Stakeholder Engagement Standard.

Banarra reviewed the CEP against the criteria for stakeholder engagement processes, and against the principles for good practice stakeholder engagement. In relation to both the stakeholder criteria and the principles, Banarra found that:

> *The [SA Power Networks CEP] TalkingPower program largely met these process requirements of the AER Guideline, AA1000SES and AA1000APS, with some gaps identified.*[22]

Banarra found against the criteria and principles as noted below:[23]

Criteria

Element	Criteria Sources	Summary Rating
Commitment and policy	AA1000SES/AER Guideline	H
Governance and decision making	AA1000SES/AER Guideline/CCP Letters of Advice	H
Priorities	AA1000SES/AER Guideline/CCP Letters of Advice/IAP2 Public Participation Spectrum	M
Delivery	AA1000SES/AER Guideline/CCP Letters of Advice	H
Results	AA1000SES/AER Guideline/CCP Letters of Advice	H
Evaluation and review	AA1000SES/AER Guideline/CCP Letters of Advice	M

Principles

Principle	Criteria Sources	Summary Rating
Accessibility and inclusivity	AA1000APS/AER Guideline	M
Materiality	AA1000APS	M
Clarity, accuracy, timeliness and responsiveness	AA1000APS/AER Guideline	H
Transparency	AER Guideline	H
Measurability	AER Guideline	L

[21] SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, p. 17.
[22] Banarra 2015, *Attachment C.1 to Revised Regulatory Proposal*, http://www.aer.gov.au/sites/default/files/SA%20Power%20Networks%20-%20C.1_PUBLIC_Banarra%20-%20Final%20Gap%20Analysis%20Assessment%20-%20July%202015.pdf, pp. 7 & 13.
[23] Ibid. pp. 7 & 14.

Banarra found that:

> *Processes, in particular, could be improved regarding stakeholder identification and mapping, and in the establishment of key indicators and processes to monitor, evaluate and review the stakeholder engagement program and the quality of engagement. Banarra notes, in its experience, that these aspects are typically the last to be comprehensively addressed by those with maturing stakeholder engagement management systems.*[24]

Banarra elaborated on this view:

> *However, the process applied was limited in three ways. Firstly, it was limited to consumers and did not seek to systematically identify issues for other key stakeholder groups, or seek to determine the relevance and significance of issues to both SA Power Networks and to its stakeholders, as required by AA1000SES and AA1000APS. A good practice materiality process should draw on a wide range of stakeholder groups and information sources (including stakeholders, societal norms, financial considerations, peer-based norms and policies) in order to establish issues material to each stakeholder group, as well as to the business itself. Secondly, while it is acknowledged that the issues for engagement within the CMM Survey were identified and refined over time through a long history of consumer engagement, predetermined the TalkingPower consultation program did not provide an initial opportunity for stakeholders to freely identify issues themselves without the influence of pre-set issues; which may have limited the breadth of issues identified and considered. And finally, SA Power Networks' process did not meet the AA1000APS materiality process criteria that it "evaluates the relevance of the identified… issues based on suitable and explicit criteria that are credible, clear and understandable as well as replicable, defensible and assurable".*[25]

The above comments represent serious drawbacks in SA Power Networks' CEP methodology. On one reading, Banarra is effectively saying that the CEP may have not addressed the issues of most concern to consumers but only the ones set by the distributor.

Banarra recommended that:

> *Prior to future Regulatory Proposal consultation processes, SA Power Networks could consider conducting an enhanced materiality process to identify the issues to engage stakeholders on, drawing on a wide range of stakeholder groups and information sources (including stakeholders, societal norms, financial considerations, peer-based norms and policies). This process should use key criteria to determine the relevance, significance and priority of issues. This will help to ensure, at the start of consultation, completeness of information and the appropriateness of topics for engagement.*[26]

This recommendation was one among sixteen recommendations for improvement of the CEP made by Banarra.

Banarra's findings reasonably support the view that the CEP could have been more robust. The AER was entitled to take the view the CEP as a work-in-progress, and entitled to consider the views of submissions (which were unanimous) and the Consumer Challenge Panel.

---

[24] Banarra 2015, *Attachment C.1 to Revised Regulatory Proposal*, p. 7.
[25] Ibid. pp. 15 & 16.
[26] Ibid. p. 16.

Oakley Greenwood's critique of the WTP research found that "the description of choice scenarios should have stated outcomes".[27] In other words, if respondents are asked to pay a particular amount, this amount should be linked to a particular outcome (e.g. for $x per quarter, reduce bushfire risk by y per cent). SA Power Networks argues in response that while that may have been ideal it was "not feasible in this instance".[28] SACOSS considers that while it may be true that it might not be possible to link a cost to an outcome, this demonstrates a weakness of the WTP methodology and tends to support the view that the findings are not robust.

This methodological weakness emerges in some of NTF's WTP findings. Oakley Greenwood noted that:

> *… some of the research results are puzzling. For example, every customer segment – even core hardship customers -- strongly preferred the service level that involved treating 30 blackspot traffic intersections as compared to the other choices (20, 10 or no intersections, as shown in Figure 6 on the following page.*
>
> *…. the 30 intersection option was the only one that reached the acceptance threshold. Could this be an artefact of the numbers themselves? Did the number of intersections just seem very small as compared to what respondents may have perceived as the number of intersections for which this treatment might be warranted?*[29]

SA Power Networks argued that NTF's WTP findings are "solid, robust and technically sound"[30] and that "our CEP was unquestionably reflective of electricity consumers in South Australia".[31] SACOSS considers that this overstates the CEP findings, particularly compared to the views of user group submissions or the Colmar Brunton survey.

Proposed CEP-related expenditure in revised regulatory proposal

SA Power Networks has not provided clear reasons for why it has selected the particular capex and opex programs put forward in the Revised Regulatory Proposal out of the programs it argued for in the original Regulatory Proposal.

A substantial element of the capex, $26.8 million, or over 46 per cent of the total proposed capex, is to "Maintain secure supply to targeted bushfire safer places".[32] On the opex side, $34.6 million or 65 per cent of the opex programs are bushfire-related.[33] Yet concern about bushfire risk was not identified as a significant driver among the drivers of customer satisfaction.[34]

---

[27] SA Power Networks 2015, *Revised Regulatory Proposal*, p. 33.
[28] Ibid.
[29] Oakley Greenwood 2015, *Peer review of the willingness to pay research submitted by SAPN*, http://www.aer.gov.au/sites/default/files/Oakley%20Greenwood%20-%20Peer%20review%20of%20the%20SA%20Power%20Networks%20willingness%20to%20pay%20research.pdf, pp. 14 & 15.
[30] SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, p. 33.
[31] Ibid, p. 36.
[32] Ibid. p. 39.
[33] (Taken to comprise the following programs - Shift in NBFRA cycle from 3 to 2 years, NBFRA tree removal and replacement, BFRA tree removal and replacement Bushfire communications, and Extreme weather. It is noted extreme weather could cover more than bushfire events, but the allowance for this project is $1.9 million opex). Ibid. p. 40.
[34] NTF 2014, *SA Power Networks targeted willingness to pay research – research findings,* http://www.aer.gov.au/sites/default/files/SAPN%20-%206.8%20PUBLIC%20-%20NTF%20Targeted%20Willingness%20to%20Pay%20Research%20Findings.pdf, p.13.

Another concern is the possibility of double-counting among SA Power Networks' CEP-related projects. It is not clear if any of the CEP-proposed programs are part of business-as-usual activities for which the AER has granted revenue already, or if there is an overlap among the different CEP-proposed projects.

Where WTP studies have not been conducted, for example, *Engagement of arborists* or *Hardening the network to improve reliability during major event days*, there is little clear evidence of how much customers are willing to pay for these projects, or whether their support for trimming trees appropriately and improving reliability during major events is based on the assumption that such activities might form the normal focus for SA Power Networks and be supported out of general revenues rather than as additional services. For example, SA Power Networks claims that:

> *… our consumers want us to take steps to maintain the quality of the services they receive. In the context of the significant and persistent community concerns over the aesthetics of our assets and activities, this includes undertaking different and additional tree trimming practices to improve the visual amenity of vegetation around power lines.*[35]

The consumers in making those views might be considering they represent business-as-usual for SA Power Networks rather than a special project at an additional cost. Or, given consumers were presented with a range of pre-set issues to choose from, they may have simply been listing issues in priority.

The broader point is that SA Power Networks has not necessarily demonstrated the link between the CEP findings and its capex and opex proposals. While it is one thing to say that consumers would support some attention to particular service or quality issues, it is another to say that they would be prepared to pay for an improvement in that service or quality, or to say how much they would pay. While SACOSS appreciates that the NTF WTP surveys were designed to assist in quantifying whether and how much customers might be willing to pay, the surveys were only conducted in two areas, making it difficult to form any clear view on whether customers might be willing to pay an additional amount for service quality improvements in other areas.

Conclusion

SA Power Networks' Revised Regulatory Proposal has not made the case to change the AER's Preliminary Decision to give less weight to SA Power Networks' CEP than if submissions had broadly supported the consumer engagement approach. SACOSS considers it is reasonable to take account of user submissions on the CEP, particularly given their unanimity. SACOSS also considers that the Colmar Brunton and Business SA surveys have significant value. SACOSS considers that Banarra and Oakley Greenwood have some salient criticisms of the CEP findings. Finally, SA Power Networks has not demonstrated a clear link between the CEP and its Revised Proposal, nor that elements of them might not be part of business-as-usual funded out of other approved revenue.

[35] SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, p. 38.

Capex and Opex

Introduction

SACOSS has already commented on SA Power Networks' original proposal and on the AER's Preliminary Determination. This submission focusses on the justifications in SA Power Networks' Revised Regulatory Proposal for reinstating some of the capex and opex reductions made by the AER in its Preliminary Decision.

Revised capex proposal

Areas where SA Power Networks is seeking to reinstate capex are summarised in Table 1 below.

	Capex	Repex	Augex	Customer connections (net)	Non-Network	Escalation adjustment
Regulatory Proposal	2481	792	884	189.4	615.6	98.1
AER Preliminary Decision	1684	657	504	189.4	369.5	61.3
Revised Regulatory Proposal	2070	731	635	190.8	513	
Difference		74	131	1.4	143.5	-61.3

Table 1: Capex reinstatements sought by SA Power Networks (June 2015, $ million) [36]

An analysis of the increase in capex sought by SA Power Networks (compared to the AER Preliminary Decision) and broken down at the repex, augex, and non-network level is stated in Table 2 below.

Repex	**Cost**
Error in application of repex model	51.1
Pole top structures	20.1
Total	**71.2**
Augex	
Bushfire mitigation program	40.6
Bushfire safer places	26.8
Backup protection	18.6
Hardening the network	17.3
Low reliability feeders	8.6
Remote communities	2.4
Micro-grid trial	2.9
Network control	26.5
RIN compliance	2.6
LV network monitoring	3.5
Total	**149.8**
Non-network	
IT	86.1

[36] Figures are approximate. SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, pp. 59, 62, 65, 70, 137, 140, 181 & 183.

Network Operations Centre	8.1
Telecommunications Network Operation Centre	5.8
Radio network	2
New fleet	16.7
In-fleet management system	3
Property	19.9
Distribution Network Pricing Rules	2.6
Total	**144.2**

Table 2: Increase in capex sought by SA Power Networks in Revised Regulatory Proposal compared to AER Preliminary Decision (June 2015, $ million).[37]

General view on proposed programs

SACOSS considers there is a high onus on a distributor to justify expenditure over and above efficient levels.

One basis for supporting higher expenditure is that it lifts service levels to those sought by a significant part of the market and thus meets an unmet demand.[38]

However, in this case, given primary responsibility for bushfire safety rests with other organisations, support for additional spending by electricity users on bushfire safety and mitigation measures is essentially altruistic.

While altruism is praiseworthy, in this case such choices impose costs on other customers, including those who do not support the initiatives.

In these circumstances, there should be a higher hurdle to justify the expenditure. This supports the argument in the Oakley Greenwood report for the AER that the willingness to pay of the majority for altruistic purposes should be weighed more carefully against the costs it imposes on those unwilling (or unable) to pay.

In the public forum on the Preliminary Decision, Bev Hughson posed some rhetorical questions about SA Power Networks' CEP findings, including:

- Did consumers have sufficient knowledge of the industry & its regulation to really understand the trade-offs between price & service?
- Did consumers understand that other parties had equal or more responsibility for managing the states bushfire risks & road safety (for instance)?[39]

For example, SA Power Networks has argued consumers supported the $26.8 million Bushfire Safer Places program under which it planned to underground power lines to twelve bushfire safer precincts.[40]

---

[37] SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, pp. 67 & 68, 70-72 & 140.

[38] Services such as electricity distribution services are consumed jointly, making it difficult for distributors to offer different levels of service to different customers.

[39] Hughson, B 2015, *Preliminary Decision Conference for SA Power Networks*, http://www.aer.gov.au/sites/default/files/Bev%20Hughson%20CCP2%20-%20Presentation%20at%20South%20Australian%20preliminary%20decision%20conference%20-%20May%202015.pdf, p. 27.

SACOSS considers that it may have changed survey respondents' views to learn that SA Power Networks' consultant Jacobs found "that an insulated conductor system may be more cost effective than broad scale undergrounding of lines in HBRAs".[41] SACOSS believes that it is important to consider whether consumers would still have supported the Bushfire Safer Places program knowing this.

Bushfire programs

In its Revised Regulatory Proposal, SA Power Networks proposes a number of bushfire-related programs, including:

- The bushfire mitigation program ($40.6 million) to replace manual reclosers, rod air gaps and current limiting arc horns, and reconstructing metered mains[42];
- The bushfire safer places ($26.8 million) "to underground electricity supplies to 12 targeted CFS designated BSPs"[43]; and
- The back-up protection program ($18.6 million) to "address sections of the network in country locations where the back-up protection does not currently comply with clauses S5.1.9(c) and (f) of the NER and ND J1."[44]

SA Power Networks' Revised Regulatory Proposal seeks to support the ***bushfire mitigation program*** on the basis of its legislative obligations. Section 60 of the Electricity Act requires SA Power Networks to take reasonable steps to ensure that its distribution system is safe and safely operated".[45] While it is understood this legislative obligation has not changed recently, SA Power Networks argues the experiences leading up to and emerging from the Victorian Bushfire Royal Commission (**VBRC**) and the Victorian Powerline Bushfire Safety Taskforce have now pressed home that bushfire mitigation is part of the obligation to operate safely.[46]

SA Power Networks also points to section 18 of the *Work Health and Safety Act 2012* which requires SA Power Networks to maintain safe systems for workers and others affected by its assets.

SA Power Networks has not presented any significant new safety arguments for its programs. SACOSS agrees with the previously put arguments in submissions that bushfire safety is primarily the responsibility of other entities. If SA Power Networks were to act unilaterally, it would run the risk of being inefficient. In fact, arguably Jacobs' advice on covered conductors suggests it may be.
SACOSS notes that SA Power Networks is relying on very broad and general legislation to support its program rather than legislation specific to bushfire risk. Arguably the primary intent of the Electricity Act is safety from electrocution while the WHS Act is primarily about protecting workers and

---

40 SA Power Networks 2015, *Revised Regulatory Proposal.*

41 Government of South Australia 2015, *Submission to the AER Regulatory Proposal on SA Power Networks Regulatory Proposal*, https://www.aer.gov.au/sites/default/files/SA%20Minister%20for%20Mineral%20Resources%20and%20Energy%20-%20Submission%20on%20SAPN%27s%20regulatory%20proposal%202015-20%20-%20attachment%20-%2030%20January%202015.pdf, p. 5.

42 SA Power Networks 2015, *Revised Regulatory Proposal,* p. 79.

43 Ibid. p. 101.

44 SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, p. 106. SA Power Networks stated that "The back-up protection program has been removed from the umbrella of our bushfire mitigation program in this Revised Proposal [as]… the driver of this program is primarily to achieve compliance with our regulatory obligations and requirements related to back up protection, not bushfire mitigation". Ibid. p. 109.

45 Ibid. p. 81.

46 Ibid. pp. 81 - 83.

providing safe systems of work. If the SA Government wished to put in place specific legislative responsibilities in relation to bushfire protection then it could do so.

Having said that, SA has legislated (at much lower cost) in one regard relating to bushfire risk. South Australia has legislated that SA Power Networks has the power under SA law, unlike other States, "to turn off the power in extreme bushfire weather".[47] The AER argued in its Preliminary Decision that it may be preferable to the proposed programs. SA Power Networks has responded in its RRP that:[48]

> *Whilst SA Power Networks has this legislated power, SA Power Networks does not exercise its power under section 53 of the Electricity Act lightly. As noted by the PBST in its Final Report, this power has been used infrequently in South Australia.*

SACOSS considers that the light use of the power indicates it may be rarely needed and could be a more efficient way of mitigating bushfire risk than the proposed capex programs.

SA Power Networks in its RRP essentially restates its view that the WTP (and CEP program more generally) support the ***bushfire safer places program***.[49] SACOSS refers back to its views on the findings of the CEP program, and in particular the extent to which the willingness to pay work done by SA Power Networks can be relied upon.

SA Power Networks argued that the ***back-up program*** was required to meet SA Power Networks' obligations under the technical rules in the schedules to chapter 5 of the NER, as well as under WHS legislation. However, SA Power Networks did not present any clear evidence that the solution embodied in the back-up protection program was the only or most efficient solution to the challenges of short circuit faults on the SWER network.

Reliability programs

SA Power Networks proposed a number of reliability-related capex programs based on its CEP that the AER did not accept in its Preliminary Decision.

The Revised Proposal revises the expenditure on these initial proposals and slightly increases expenditure on the majority. The Harden the Network program proposes to spend $17.3 million[50] to improve the resilience of the network "in locations that are consistently affected by lightning and wind storms which resulted in [major event days]".[51] The Low Reliability Feeder program proposes to spend $8.6 million[52] to remediate low reliability feeders.[53] In addition SA Power Networks reproposed to improve reliability in the remote communities of Hawker and Elliston ($2.4 million) and a micro-grid trial ($2.9 million)[54].

The reliability of the SA Power Networks network is good with the SA Power Networks network being one of the more reliable networks.[55]

---

[47] SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, p. 88.
[48] Ibid.
[49] Ibid. pp. 103 - 105.
[50] Ibid. p, 124.
[51] Ibid. p. 111.
[52] Ibid. p, 124.
[53] A low reliability feeder is defined as a feeder whose 'SAIDI exceeded 2.1 times the regional SAIDI average service standard target for two consecutive years'. Ibid, p. 112.
[54] Ibid. p. 124.
[55] Ibid. Chapter 4.

ESCOSA's previous research indicated consumers were comfortable with current service standards. ESCOSA consulted widely as part of its review of reliability standards in 2014 and found that customers were generally content with current reliability and "there appears to be no need to increase the levels of service set, and hence the cost associated with meeting these levels…"[56].

ESCOSA in setting regulatory levels conducted WTP surveys and found satisfaction with current reliability levels as well as concern about rising prices. The SACOSS, Business SA, and NTF studies all found significant concern about prices. It is also noted that SA Power Networks' WTP work was only narrowly focussed on bushfire and traffic blackspot issues rather than reliability issues per se. Thus it provides no real support for increased spending initiatives related to reliability.

Non-network capex

SA Power Networks proposed spending on new IT systems and business changes as well as recurrent expenditure.

The AER Preliminary Decision accepted SA Power Networks' recurrent or business-as-usual IT expenditure of $126 million.[57]

However, the AER reduced SA Power Networks' proposals for new IT and related business change programs from $227.8 million to $87.6 million, a reduction of $140.2 million.[58]

The AER was concerned about the immaturity of SA Power Networks to deliver a major IT project, particularly through outsourced partners. In the Revised Regulatory Proposal, SA Power Networks has said its management of IT projects had improved since a critical report in 2011.

Large IT projects can be notoriously difficult to implement and expenditure can be significantly over budget.

SACOSS notes the AER has still approved a sizable budget for non-recurrent IT expenditure of $87.6 million, which would be challenging for most organisations to manage.

SA Power Networks has not nominated a challenging list of projects to be supported by the non-recurrent IT expenditure. SA Power Networks' list includes: (i) regulatory obligations; (ii) network pricing; and (iii) contestable metering changes. This is a short list to support a $227 million program in new IT spending and business change.

SACOSS strongly urges the AER to further review both this recurrent and non-recurrent expenditure. SACOSS considers SA Power Networks would be likely to fund the whole of the non-recurrent expenditure if it could see the savings in other parts of the business from the expenditure and was confident it could implement the project on budget. The funding could come from estimated savings from the new IT-supported practices.

[56] ESCOSA cited in Hughson, B 2015, *Preliminary Decision Conference for SAPN*, p. 21.
[57] AER 2015, *Preliminary Decision Attachment 6,* http://www.aer.gov.au/sites/default/files/AER%20-%20Preliminary%20decision%20SA%20Power%20Networks%20distribution%20determination%20-%20Attachment%206%20-%20Capital%20expenditure%20-%20April%202015.pdf p. 122.
[58] Ibid.

Revised opex proposal

Table 3 shows SA Power Networks' revised opex claims in the Revised Regulatory Proposal.

	Opex	Step changes	Output growth	Real price growth
Regulatory Proposal	1524.1	216.8	46.7	61.4
AER Preliminary Decision	1225.8	4.1	20.5	5.9
Revised Regulatory Proposal	1421.9	140	36.4	50.2
Difference	196.1	135.9	15.9	44.3

Table 3: Opex reinstatements sought by SA Power Networks (June 2015, $ million)[59]

The opex reinstatements are in two main areas: (i) step changes and (ii) rate of change factors. The rate of change reinstatements have been broken down in Table 3 into output growth and real price growth reinstatements.

General view on opex reinstatements

While SACOSS acknowledges that SA Power Networks is more efficient than some other distributors in the electricity industry, it agrees with the view of the Consumer Challenge Panel that the opex allowance should be set closer to the efficient benchmark. Bruce Mountain estimated that SA Power Networks was 16 per cent below the efficient frontier for opex. Compared to SA Power Networks' average opex over 2006 to 2013, and adjusting for growth in the network, SA Power Networks should be spending around $168 million per year in opex. This is around $73 million below the average $241 million in opex allowed in the AER Preliminary Decision.[60]

SACOSS is concerned that the AER's approach of using a recent base year rather than examining a longer term average of opex is distortionary, encourages a 'status quo' approach to spending, and undermines the supposed incentive properties of the regulatory regime. Bev Hughson notes that SA Power Networks has tended to spend close to the opex allowance each year,[61] which suggests to SACOSS that the AER's approach may be encouraging a culture of spending to the allowance rather than seeking efficiencies. In this regard, using a recent single year as a base year is particularly distortionary for SA Power Networks (and other electricity distributors) because SA Power Networks' opex allowances have been rising rapidly over the past two RCPs and are at or close to an historical peak. There is little reason to believe that recent opex spending is more reflective of underlying costs than longer term opex trends. There have been few major changes in the immediate past to explain the rise, and in particular the scale of the rise.

[59] SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, pp. 194 & 198, modified.
[60] Mountain, B 2015, *South Australia Draft Decision Conference,* http://www.aer.gov.au/sites/default/files/Bruce%20Mountain%20CCP2%20-%20Presentation%20at%20South%20Australian%20preliminary%20decision%20conference%20-%20May%202015.pdf, p. 14.
[61] Hughson, B. 2015, *South Australia Draft Decision Conference for SAPN,* p. 13.

Rate of change factors

The rate of change factors are intended to compensate networks for growth in the size of their networks and increases in the real price of inputs (such as material or labour) which raise their costs of service. At the same time, a productivity adjustment is applied to allow for increases in productivity. The formula is:

Output growth + real price growth – productivity growth[62]

In its Preliminary Decision, the AER reduced the output and real price growth factors proposed by SA Power Networks and set productivity growth at zero (meaning the AER did not assume any improvement in SA Power Networks' productivity as SA Power Networks' network grew).

Output growth factors

Output growth is defined as "the change in expenditure due to changes in the level of outputs delivered, such as increases in the size of the network and the customers serviced by that network".[63]

The AER proposed three output growth factors, customer numbers, line length, and ratcheted maximum demand with the weightings 67.6 per cent to 10.7 per cent to 21.7 per cent.[64] These were the output growth factors and weightings used by Economic Insights in its benchmarking work for the AER.[65]

It is presumed that ratcheted maximum demand means that maximum demand provided at any point, so that if demand subsequently falls the network is still rewarded for the maximum demand it initially built into the lines. This rewards the network for constructing to meet peak demand, even if subsequent peaks are lower. The justification for providing this reward is that the cost driver for the business is building the line to the required maximum capacity and subsequent falls in demand do not reduce costs.

Since the three output growth factors have been used by Economic Insights in determining the productivity benchmarks, SACOSS considers it would be advisable not to depart from them and their relative weightings in determining the output growth factor to apply to the network.

SA Power Networks broadly accepts the factors and their weightings[66] but argues in the Revised Regulatory Proposal that:

> *Efficient augmentation of the network due to spatial demand growth will increase the size of the network, for which output growth is expected to provide a proportional increase in operating expenditure. However, where ratcheted maximum demand* ***at the aggregate level*** *is not forecast to increase (as is the case for SA Power Networks in the 2015-20 RCP) then this factor will not provide sufficient operating expenditure escalation to meet the increased costs of providing SCS. That is, under the existing output growth measures no increase in operating allowances will be provided for the maintenance and operation of the increase in network capacity that must be installed to meet demand and*

[62] SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, p. 197.
[63] Ibid. p. 200.
[64] Ibid.
[65] Ibid.
[66] Ibid. p. 201.

that has been accepted as efficient in the AER's preliminary decision on capital expenditure allowances.[67] (emphasis added)

SACOSS disagrees with SA Power Networks' view that falls in maximum aggregate demand affect its returns on the ratcheted maximum demand output growth factor.

Where a network is geographically expanded to serve an additional customer through construction of a new line, then the network will add a customer, a length of line, and the new customer's maximum demand as output growth factors. While maximum demand might not grow because of falls in demand elsewhere on the network, **ratcheted** maximum demand should increase by the amount of the increase in the new customer's maximum demand. The falls elsewhere are ignored by the ratcheting factor.

Real price growth factors

Table 4 shows SA Power Networks' revised claim in relation to opex real price growth adjustment.

	RP	AER PD	RRP	Difference RRP to AER PD
Labour	34.4	5.9	38.7	32.8
Contracted services	22.7	0	11.5	11.5
Non Labour	4.3	0	0	0
Total Real Price Growth	61.4	5.9	50.2	44.3

Table 4: Operating Expenditure Real Price Growth (June 2015, $ million).[68]

It can be noticed that the main reinstatement of $32.8 million relates to labour cost escalators.

SA Power Networks' Revised Regulatory Proposal seeks to escalate labour for the first two years of the 2015-20 Regulatory Control Period based on its EA and then based on a Frontier Economics extrapolation of benchmarked EA outcomes from similar businesses for the remaining three years.[69] In this context, the term 'similar businesses' means private DNSPs, a very restricted comparator set.

SA Power Networks argues that the Enterprise Agreement (EA) represents the actual cost of wages (subject to changes in productivity flowing from changes in work practices under the EA). However, the regulatory task under the NEO is to estimate the efficient level of wages over the 2015-20 RCP for a hypothetically efficient firm.

Thus it is reasonable for the AER to maintain its Preliminary Decision, which was to escalate real wages at the electricity, gas, water, and waste services (EGWWS) industry wage price index.

SACOSS supports the AER's Preliminary Decision with the following observations:

- SA Power Networks' Revised Regulatory Proposal has applied "an average of DAE and BIS Shrapnel's forecast of the EGWWS WPI to the proportion of costs that are labour-based contracted services", which would suggest that a WPI-based approach is appropriate;

[67] SA Power Networks 2015, *Revised Regulatory Proposal 2015-20,* p. 201.
[68] Ibid. p. 202, modified.
[69] Ibid. p. 203.

- If contractor rates are lower than EA rates this could be expected to put downward pressure on wage growth over time as it is feasible to outsource more work over time; and
- The EA does not represent some jobs and job categories at SA Power Networks (even noting SA Power Networks argues it represents 95 per cent of workers).[70]

EAs typically include agreements to improve productivity through more flexible work practices. To this extent, the EA wage increase would represent the maximum wage increase.

SA Power Networks relies on a report from NERA to argue that:

> *NERA observes no positive correlation between labour productivity and wages growth at the industry level … In short, industry-level wage growth rates are driven by a wide range of other factors. Even in the long-run there is no reason to expect that wage growth in a particular industry should be strongly correlated with productivity growth in that industry.*[71]

There is nothing in NERA's report specifically to address future expectations of labour costs or productivity improvements in SA Power Networks' business. SA Power Networks has not opened its EA to sufficient scrutiny to demonstrate it has not negotiated productivity improvements as part of the EA.

There is no case to estimate wages on the basis of a very limited comparator group of privately-owned DNSPs as Frontier did. That is an artificial comparator group compared to the broader EGWWS group. The privately owned DNSP group does not have special characteristics that make it different to the broader group. The skills in demand in both comparator sets are the same and could be expected to be subject to the same market forces of supply and demand. Frontier argues that caps on public sector wage increases "during times of tight fiscal conditions" are likely to "have imposed constraints on publicly owned networks when negotiating EAs" and public sector unions would have made trade-offs to retain jobs.[72] In SACOSS's view, these same tight fiscal conditions are the result of weaker economic growth (and lower associated tax revenues). This weaker economic growth is likely to have affected private sector organisations through weaker demand for electricity. Thus there is little case to expect private sector unions to have responded differently to the public sector unions in wage negotiations. SACOSS also observes that while SA Power Networks points to specific labour market rigidities in SA, this is inconsistent with their argument to use a private-sector DNSP comparator group to extrapolate wages.

All forecasts, including of wage costs, are uncertain by definition. It is reasonable to forecast that with the weak economy following the collapse in commodities prices and the weak observed trend in the WPI (including the WPI in SA) that future labour cost growth will be very subdued.

The broader arguments put by SA Power Networks to decouple wage trends in mining from those in electricity and that there is limited mobility of labour to or from SA are distractions from the broader argument behind labour cost forecasts that wages are subject to normal economic forces (although potentially with lags) and that the weakness in mining commodity prices is likely to be transmitted to the broader economy over time, resulting in downward pressure on wages, including the EGGWS WPI.

The RBA's May 2015 statement on monetary policy addresses labour cost expectations and finds:

[70] SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, p. 204.
[71] Ibid. p. 215.
[72] Ibid. p. 207.

> *Labour cost pressures remain subdued. Wage growth, as measured by the wage price index (WPI), was 0.6 per cent in the December quarter and 2.5 per cent over the year – the slowest annual pace since the index was first published in the late 1990s (Graph 5.9). Other wage measures suggest that the recent period has been the most protracted episode of slow wage growth since the early 1990s recession, though wage growth has not been quite as low as it was at that time.*
>
> *The slow pace of wage growth continues to be broad based. Growth of both the private and public sector WPI remained low over the year to the December quarter, at 2.5 per cent and 2.7 per cent, respectively (Graph 5.10). Year-ended wage growth in most industries has stabilised at levels well below their decade averages and dispersion in growth rates across the states is low. This is consistent with evidence from the Bank's business liaison, which finds that a greater proportion of firms report wage growth of 2 to 3 per cent than in the past, when outcomes in excess of 3 per cent were relatively common.*
>
> *According to business liaison and surveys of firms and union officials, growth in wages is widely expected to remain low.*
>
> *These wage outcomes are consistent with other indicators of spare capacity in the labour market (see the 'Domestic Economic Conditions' chapter). Compared with earlier episodes, increased labour market flexibility may have provided firms with more scope to adjust wages and average hours worked by each employee in response to a given change in demand for their goods and services, allowing them to increase employment by more than would otherwise have been the case. This is consistent with business liaison, which suggests that many employees appear to be willing to trade lower wage growth for greater job security.*
>
> *More generally, employers have remained under pressure to contain costs given spare productive capacity in many product markets and the pressures of international competition.*[73]

This reasoning is applicable to SA Power Networks' business and indicates the direction of efficient wage levels should be subdued, and it is more reasonable for the AER to continue with its Preliminary Decision than to move towards SA Power Networks' revised position.

SA Power Networks accept the use of the EGWWS WPI as a forecast of contracted services but argues for the index to be re-forecast as a blend of DAE and BIS Shrapnel's forecasts of EGWWS WPI. This would reinstate $11.5 million (as disclosed in Table 4 above). SACOSS again points to the subdued growth in economic conditions and wages to argue for DAE's forecast. The RBA's statement of monetary growth expects continued and prolonged weaknesses in labour costs. More importantly, a number of networks around Australia are cutting their capex and opex programs from the 2010-15 regulatory control period after a period of rapid expansion in capital and operating programs. For example, during the 2010-15 regulatory control period Energex and Ergon undertook a major retrenchment program. This means there will be a surplus of skilled workers who can provide electricity distribution services. At the same time, if it is true that these workers have skills that are "highly specialised"[74] as SA Power Networks argues, then they have fewer options for work outside the industry, and the surplus of workers will tend to place significant downward pressure on wages. In addition, the retrenchments that occurred during 2010-15 demonstrate that, contrary to

---

[73] Reserve Bank of Australia 2015, *Price and wage developments,* Statement on Monetary Policy, http://www.rba.gov.au/publications/smp/2015/may/html/price-wage-dev.html.

[74] SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, p. 208.

SA Power Networks' arguments, it is possible for electricity distribution companies to achieve industrial reform even in a highly unionised workforce context.

Step changes

Legal and regulatory

SA Power Networks has sought $9.0 million to comply with the Workplace Health and Safety legislation introduced on 1 January 2013.[75]

The AER rejected a similar proposal for $12.9 million in the Regulatory Proposal because:

> *In its Preliminary Determination, the AER concluded that a prudent service provider would already be meeting its regulatory obligations under the WHS Act and WHS Regulations in the 2013/14 base year given that those obligations commenced in 2013 and are consistent with the former occupational health, safety and welfare legislation.*[76]

SA Power Networks argues that it simply had not provided in its 2013-14 base year for WHS compliance costs.

SA Power Networks does not present fresh material to argue for the inclusion of this project as a step change, or that it is not a continuation of the ordinary practice of SA Power Networks under the earlier WHS legislation.

SACOSS does not consider it is persuasive for SA Power Networks to argue, "Leaving to one side the question as to the extent of any consistency [between the earlier legislation and the new legislation that commenced on 1 January 2013], SA Power Networks' efficient base year operating expenditure did not include any cost on account of these initiatives".[77] It would be very surprising that SA Power Networks had made no allowance for meeting its WHS obligations under any set of legislation as the quotation appears to indicate. The WHS legislation that commenced in January 2013 was an evolution and national harmonisation of earlier legislation rather than a radical increase in legislation. The new WHS legislation was well signalled in advance such that SA Power Networks would have had plenty of time to plan for it in its 2013-14 base year expenditure. Thus there is no step change in compliance costs compared to the base year.

Customer driven initiatives

In its Regulatory Proposal, SA Power Networks has proposed $31.9 million in new **vegetation management initiatives**.[78] The AER Preliminary Decision rejected the initiatives for the reasons summarised in the Revised Regulatory Proposal.[79] SACOSS finds the AER's reasons very persuasive.

SA Power Networks has reinstated and slightly raised its proposal to $33.2 million in the Revised Regulatory Proposal.[80]

---

[75] SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, p. 249.
[76] Ibid. p. 248.
[77] Ibid.
[78] Ibid. p. 275.
[79] Ibid. p. 276.
[80] Ibid. pp. 280 & 281.

SAPN's Revised Regulatory Proposal relies heavily on the findings on customer willingness to pay. It argues this is a step change because customers have changed their view of what they want in terms of vegetation management.

SACOSS restates its concerns about the findings drawn by SA Power Networks from the CEP, and how SA Power Networks has translated those findings into a program of works. SACOSS does not consider there is a strong case for such a major increase in expenditure on vegetation management and it is likely to double-reward SA Power Networks for existing vegetation management practices.

SACOSS notes the submission by the Minister for Mineral Resources and Energy to the original regulatory proposal. This submission noted that lower forecast rainfall conditions and cycles than the record rains in 2010 and 2011 would indicate SA Power Networks' vegetation management expenditure was above its requirements for 2015-20, much less that SA Power Networks had a case to increase expenditure. The submission noted the rapid increase in the vegetation management budget from 2005-2010 to 2010-15 (an increase of 2.5 times), and also noted the more light-handed approach to vegetation clearance in non-bushfire risk areas under the new regulations enacted in 2010.[81] The Minister's submission is a strong argument to reduce the vegetation management allowance compared to the 2010-15 regulatory control period rather than to increase it.

SA Power Networks has proposed $4.3 million on **customer services** in the Revised Regulatory Proposal, in line with its Regulatory Proposal. SACOSS cannot see new material in SAPN's Revised Regulatory Proposal to change the AER's preliminary decision that the spending was discretionary, and it could not be seen as a step change.[82]

SA Power Networks proposed $5.4 million for a **community safety awareness campaign**, which the AER rejected because the expenditure was discretionary, not sufficiently justified, and it was not a step change compared to current activities.[83] SACOSS supports the AER's preliminary reasoning.

In its Revised Regulatory Proposal, SA Power Networks raised the additional argument that customers had supported increased spending on safety from the CEP.

SACOSS reiterates its comments about the CEP. SACOSS considers SA Power Networks would need compellingly to demonstrate that customers understood the current level of spending in this area, the size of the increase and its impact on tariffs before it could call on customer support for this type of project. Customers may have supported spending in the CEP based on the understanding that they were an extension of existing spending patterns rather than increases in spending.

SACOSS considers the distributor carries a high onus in relation to programs in areas of discretionary spending such as this.

[81] Government of South Australia 2015, *Submission to the AER Regulatory Proposal on SA Power Networks Regulatory Proposal*, pp. 9 - 11.
[82] SA Power Networks 2015, *Revised Regulatory Proposal 2015-20*, p. 284.
[83] Ibid. p. 287.