3 March 2023

Mr Sebastian Roberts
Network Expenditure
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Sent via email: incentivereview@aer.gov.au

Dear Mr Roberts

Submission on review of incentives schemes for networks

SA Power Networks welcomes the opportunity to comment on the AER Draft Decision on its 'Review of incentives schemes for networks'. This submission provides additional perspectives to those set out in Energy Networks Australia's submission which we support.

Incentive regulation has driven material benefits for consumers across the National Electricity Market, lowering costs of energy supply and improving service performance. We strongly support incentives for networks to take efficient risks to innovate and continually improve the efficiency of service delivery. Incentives remain particularly relevant now, at a time when networks are altering practices and investments to support customer services moving to more distributed energy and electrification.

We welcome the Draft Decision affirming the importance of a strong incentive framework, retaining all existing incentive schemes and largely retaining their power.

Our more specific views are that:

- we support retaining all AER incentive schemes as key to a balanced framework that incentivises networks to continually find efficiencies while maintaining and improving service performance;
- we support retaining the power of the incentive in the Capital Expenditure Sharing Scheme (CESS) by maintaining the benefit sharing ratio for networks at 30 percent where underspends are below 10 percent of the forecast capital expenditure regulatory allowance;
- while we remain of the view that the case for changing the CESS has not been made, we are comfortable with the proposed amendments in that:
    - a tiered incentive rate reducing the benefit sharing ratio for networks to 20 percent for underspends above 10 percent, is unlikely to dampen our capital efficiency drive;
    - the form of the proposed pre-determined tiered incentive rate ("bright line #2") provides clear and objective signals for networks on how the CESS will continually operate.
- we are unclear on the need for the CESS to be asymmetric as there are other existing regulatory mechanisms (i.e. the AER capital expenditure ex-post review) to assess the efficiency of material capital expenditure overspends and to ensure that any inefficient spends are not added to the Regulatory Asset Base (RAB). Moreover, we caution the AER against adopting asymmetry in future scheme designs as this is not good practice and risks perverse outcomes; and

- we support new information transparency measures that focus on explaining to stakeholders the drivers of a networks' actual expenditure outcomes diverging from allowances. While there is a role here for networks in improving their stakeholder engagement on this topic, we are also comfortable with the AER introducing new information reporting requirements. These requirements should:
    - focus on networks' providing the narrative for variances so that stakeholders can understand the appropriateness of factors that drove a network to materially underspend its forecast allowance. That is, rather than simply requiring detailed program / project line-by-line information which is unlikely to be useful for a network's stakeholders nor the AER itself; and
    - be introduced subject to adequate consultation with stakeholders and all networks concurrently to ensure consistency in approach – as such, the Regulatory Information Order process which includes broad consultation requirements is likely to be more favourable than introducing new reporting requirements via the regulatory determination (reset) Regulatory Information Notices which tend to be more bespoke to each network's determination and are not broadly consulted on by the AER.

If you have any queries or require further information in relation to our submission, please contact [redacted] on [redacted] or [redacted]

Yours sincerely

[redacted]

Patrick Makinson
EXECUTIVE GENERAL MANAGER GOVERNANCE AND REGULATION