

From: [REDACTED]

Sent: Wednesday, 1 April 2020 8:37 PM

To: [REDACTED]

Cc: [REDACTED]

Subject: RE: SA Power Networks 2020-25 Revised Proposal - Natural disaster pass through event [SEC=OFFICIAL]

Importance: High

Hi Warwick,

Thanks for calling back and for the telephone tag.

Ahead of speaking tomorrow I thought it might be useful to document our growing concern associated with a determination issued in the midst of this pandemic. [REDACTED]

This is at a time when we are in earnest attempting to develop our response and ensure that we can continue to deliver for our customers. [REDACTED]

[REDACTED] Some of the concern I think comes not being kept informed of AER thinking – it may well be that many of the issues are already under active consideration. Richard and I have raised a number of these matters with you but it might help to document our early thinking.

Below is a preliminary list of items we feel the AER Board needs to have regard to in our 2020-25 determination. This is by no means exhaustive and are my high level thoughts only and the list will likely grow as the crisis escalates and more issues come to the fore.

- Productivity – the AER’s Draft Decision (and applied to our Revised Proposal) is to apply a pre-emptive 0.5% productivity adjustment. As a result of Covid-19 and ‘social distancing’ directives we have implemented substantial changes to our operations which both add cost to the work undertaken and reduce the amount of work achieved: resulting in negative productivity in the short term and it will take time to return productivity to current levels once the crisis is over let alone see productivity improve. As another example we are reducing the time of planned interruptions to reduce the impact on customers – something customers need from us at this time as more and more are now working from home – so accordingly we are no longer bundling work thereby reducing productivity. The 0.5% adjustment is not appropriate in the current circumstance. The recent events where we have had to send all office staff from our main building home is a significant hit to productivity; even when the building is open we are still sending the majority of office staff to work from home – with not all of these staff able to be as productive as in the office. There are a myriad of other examples of how this event is impacting productivity in both the field and for office based staff and once this is over it will take some time to get back on the productivity train.
- Inflation – the AER’s methodology for forecasting inflation in years 1 and 2 is now well out of date and inflation will not meet the RBA target range over years 3-10. A decision that uses the RBA current forecasts for years 1 and 2 that have not been updated by the RBA will knowingly code an incorrect number into our decision. The market data suggests that the RBA methodology is no longer tenable for years 3-10.

- Rate of Return – the 10 year Commonwealth Bond yield averaging period which determines the risk free rate and therefore our regulated Return on Equity for the next five years will be set at a time when financial markets are knowingly dysfunctional and have been since January 2020. It cannot be ignored that we are heading for a recession.
- Fall in Australian dollar – the recent significant drop in the Australian dollar will significantly increase our material costs – this has not been reflected in our material cost forecasts for 2020-25.
- Reduced leave taken by staff – labour costs (which assume 4 weeks leave taken each year by all staff) will be materially higher, due to staff taking less leave due to travel bans (10 extra days leave equates to a business cost of \$8m).
- Liabilities with failing to meet service standards – supply restoration and other service targets will be materially impacted if field staff availability is reduced as we expect will happen at some stage as this pandemic develops. In storm events this will lead to material cost increases in terms of potentially higher GSL payments and STPIS penalties if the regulatory regime does not adapt to the new environment.
- Regulatory obligations – there is a need to review our current service, safety and compliance obligations as the pandemic evolves. What was appropriate pre-Covid 19 may no longer be appropriate in coming months. We need to reassess what services, and how these will be delivered, during the pandemic to maintain safety of staff, customers and community.
- Re-categorisation of services from NDS to ACS from 1 July 2020 – all our customer-driven works (including public lighting, legacy metering, ancillary network services) are to be regulated as Alternative Control Services from 1 July. Given significant systems, training and other changes required to comply with this re-categorisation, should a deferral be considered?
- 1 July 2020 networks tariffs – in accordance with the TSS, significant tariff structure changes are due to be implemented by 1 July 2020. Implementation of the new tariffs requires significant stakeholder engagement and system changes – should a six months delay for these be considered?
- Superannuation scheme costs – given material decreases in fund returns, we may potentially incur materially higher costs to maintain defined benefits to employees.

Given the extraordinary environment we now find ourselves in from the Covid-19 pandemic, we feel the AER Board should factor these matters into its thinking of our Final Determination due end April. We would gain some comfort that the AER is not treating our Final Determination as ‘business as usual’.

SA Power Networks recognises the role we must play in delivering for customers over coming months and we are a strong advocate for the Electricity and Gas Network Relief Package that is being developed and which will come at not an insignificant cost to our business.

Having said that we also feel the need more than ever to work closely with industry regulators at this time to deliver for customers as well as protect the business. Should we ‘lose’ significant field force capacity ahead of major storm events this will require us to adapt more than ever before and work with the community to ensure we can deliver in challenging circumstances. We would encourage the

AER to support us as we seek to work through the challenging times ahead. It may be that the AER is already thinking these issues through but again we would encourage more communication.

Kind regards  
Patrick

Patrick Makinson  
GM Governance and Regulation

From: [REDACTED]  
Sent: Wednesday, 1 April 2020 7:08 PM  
To: [REDACTED]  
Cc: [REDACTED]  
Subject: RE: SA Power Networks 2020-25 Revised Proposal - Natural disaster pass through event [SEC=OFFICIAL]

**OFFICIAL**

Thanks Richard

Sorry I missed Patrick this afternoon I will call him in the morning.

Warwick

From: [REDACTED]  
Sent: Wednesday, 1 April 2020 6:33 PM  
To: [REDACTED]  
Cc: [REDACTED]  
Subject: SA Power Networks 2020-25 Revised Proposal - Natural disaster pass through event

Hello Warwick, Claire

In light of the current Covid-19 pandemic, we believe it prudent to propose some revisions to the wording of the proposed Natural disaster pass through event definition for the 2020-25 period. Please refer attached letter.

Happy to discuss further at your earliest convenience...

Richard Sibly  
**Head of Regulation**

[REDACTED]  
[REDACTED]  
[REDACTED]

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