

Uniting Communities, South Australian Financial Counsellors Association and The Energy Project

With support from Energy Consumers Australia



We recognise the traditional owners of the land we meet on: The Kurna people.



Students from
Kurna Plains
school,
Elizabeth



Kicking the can down the Road?



Key Issue for us - EQUITY

- Managing uncertainty
- Repex – are we kicking the can down the road or being prudent?
(intergenerational equity)
- Worst served customers
- Tax – what's fair
- Future Networks and Future Tariffs
- Connections

CONTEXT

1. Uncertainty

We have (rightly) focussed on the NEO:

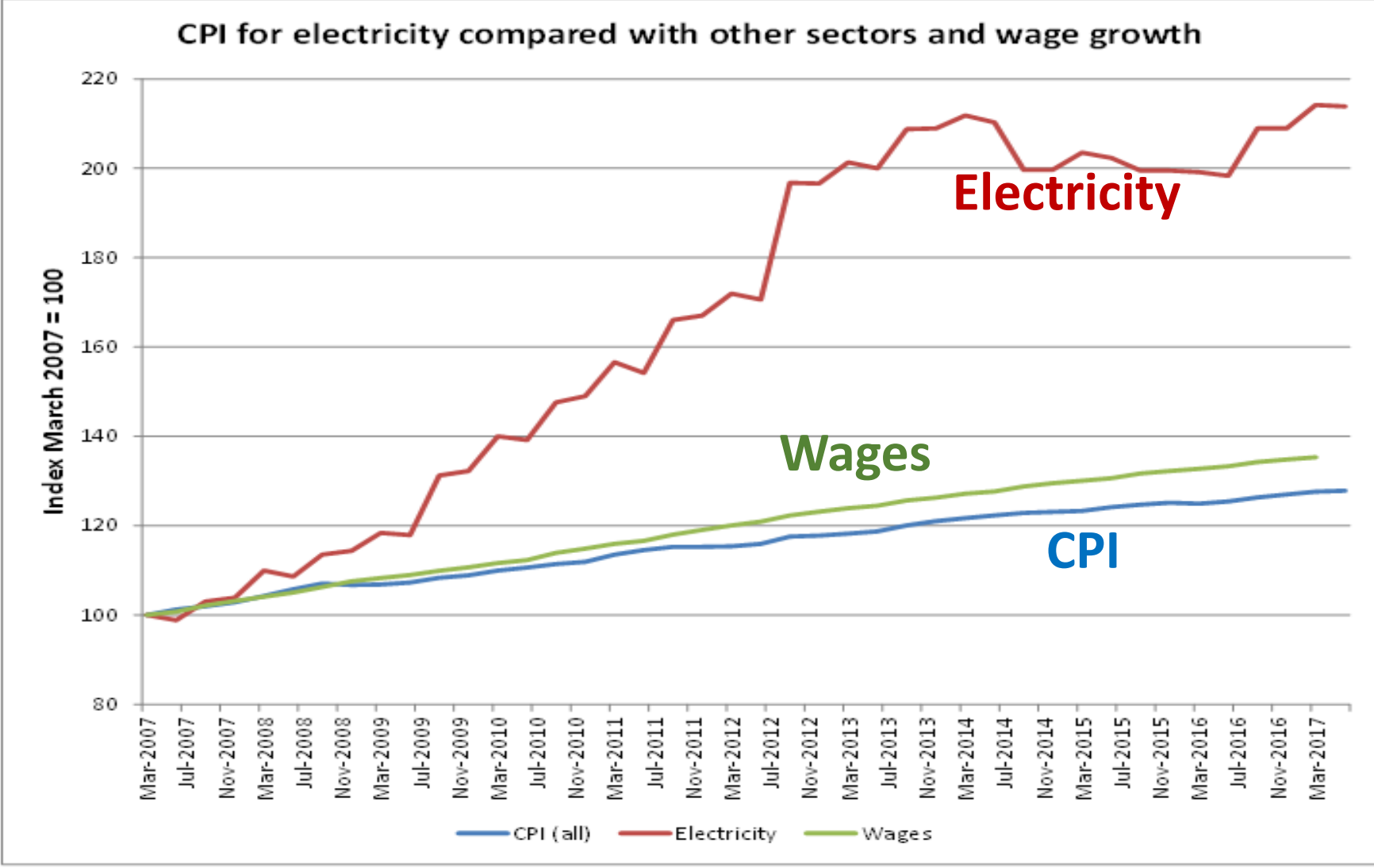
- “to promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity with respect to:
 - price, quality, safety and reliability and security of supply of electricity
 - the reliability, safety and security of the national electricity system.”

BUT

We don't know what the energy future looks like.

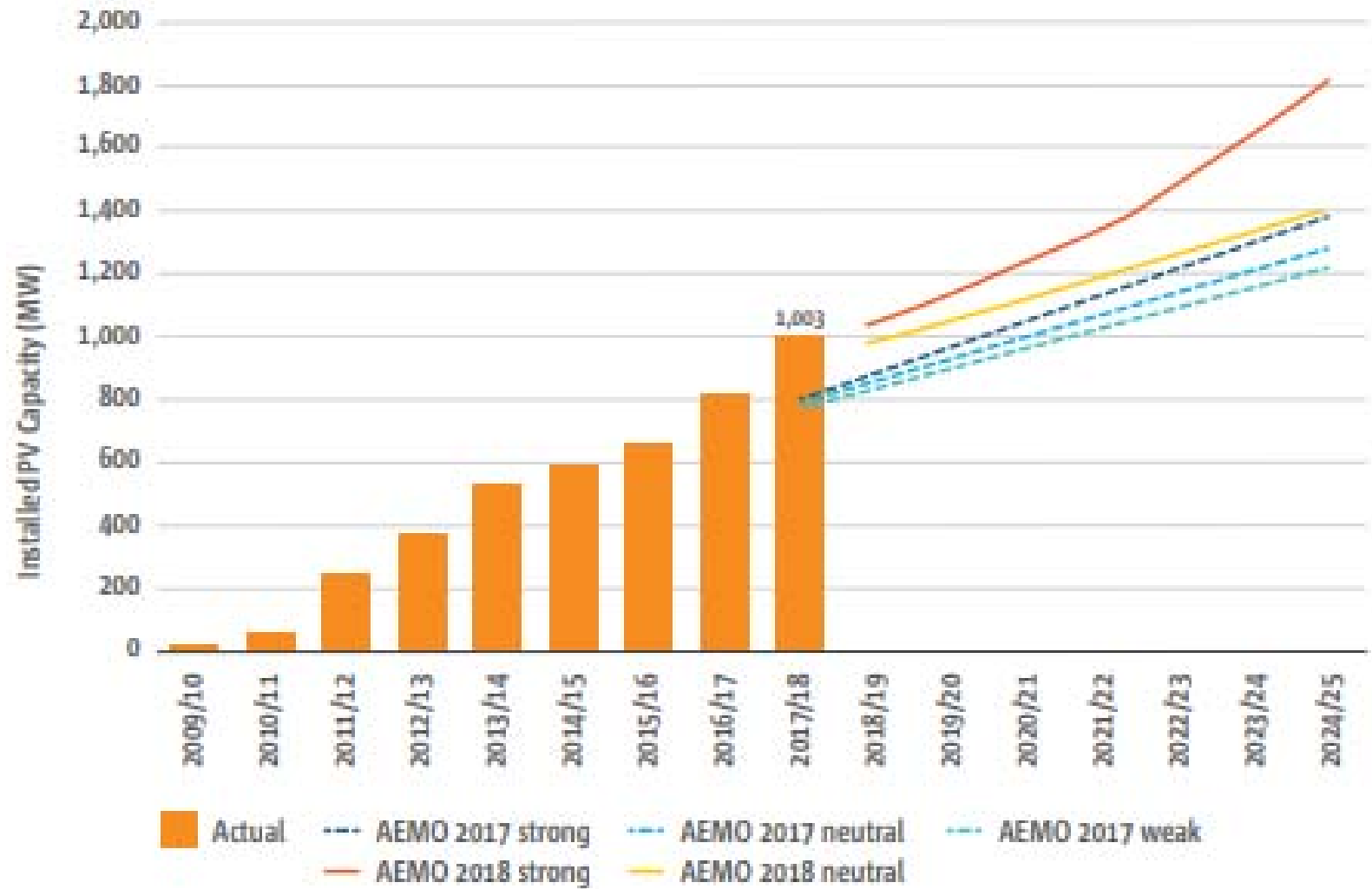
We have to deal with uncertainty and SAPN is probably at the global forefront of pragmatically operating with this uncertainty

2. Price - ACCC



3. DER etc

Figure 1.5: Installed solar capacity and future forecasts (AEMO⁹)



4. Last Time: Summary Response to SAPN Reg proposal

SAPN efforts to bring prices down appreciated, but can they do better still?

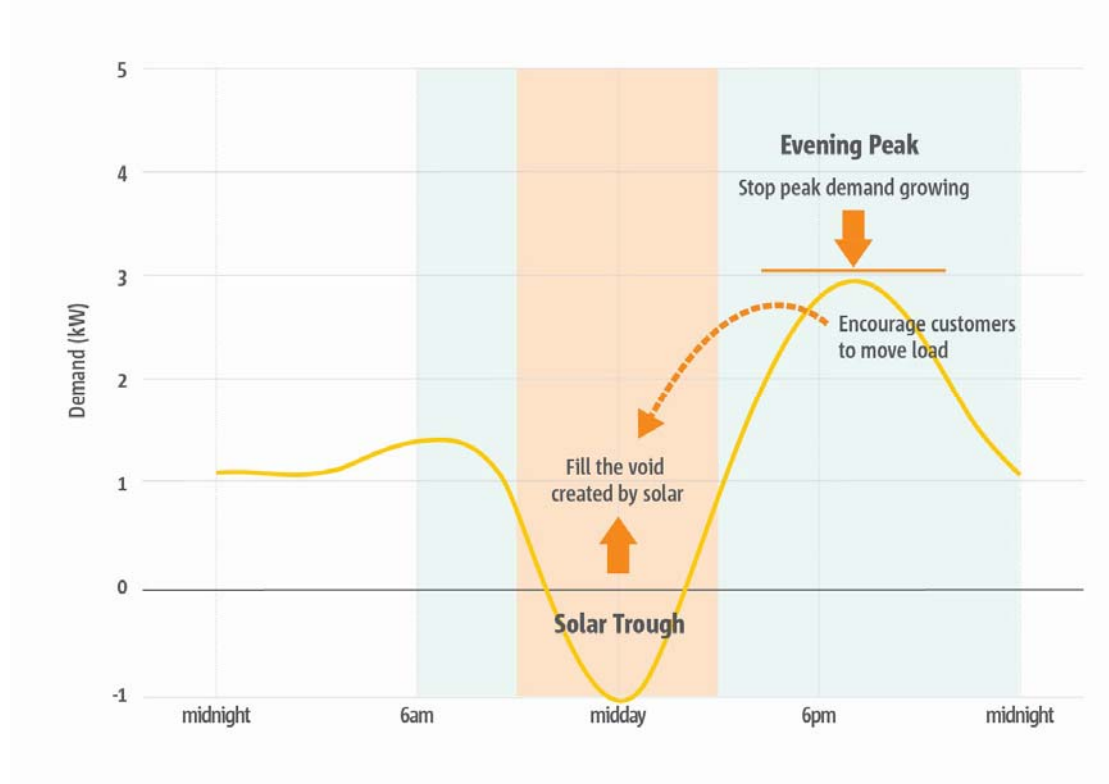
Seems to be room to move on:

- Opex productivity,
- IT,
- non-network capex,
- tax
- maybe connections,
- maybe tariffs

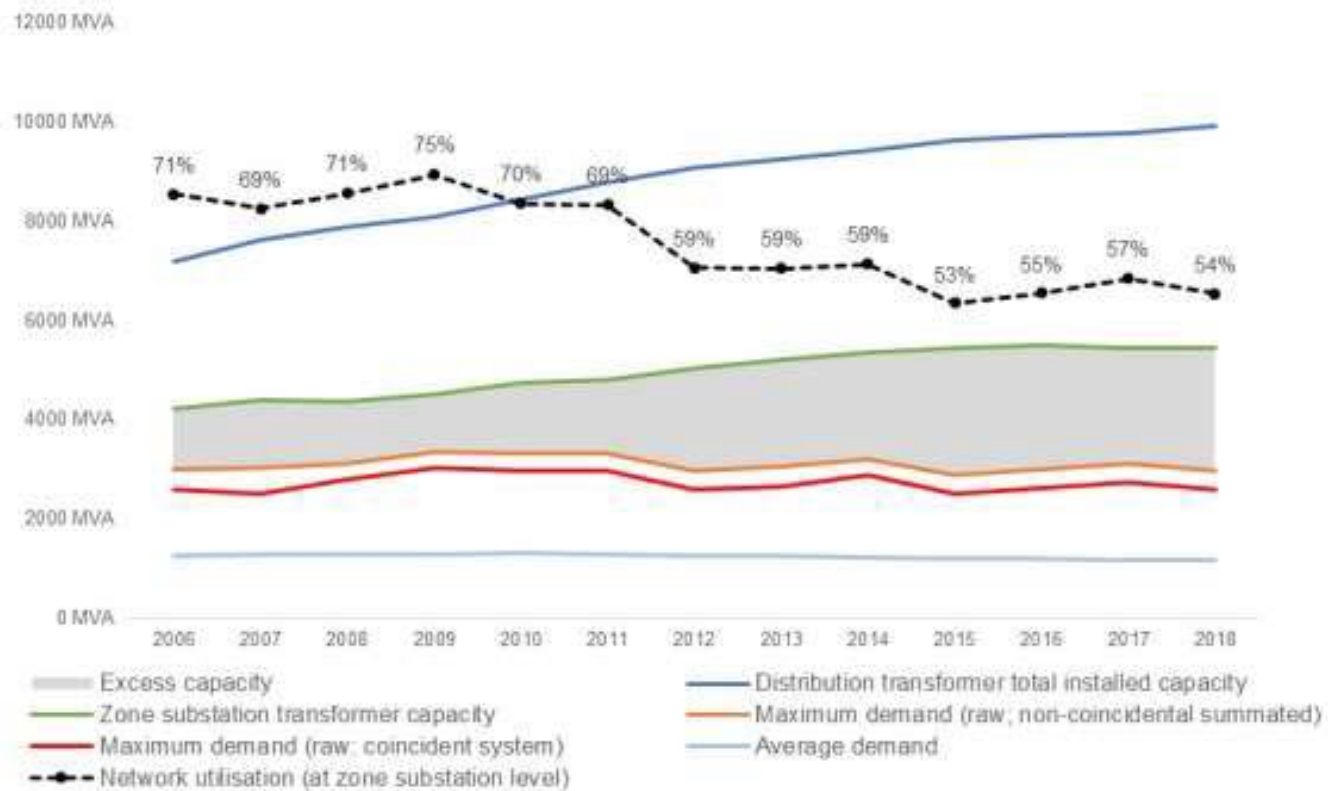


Future Network issues in SA

- Rooftop solar increasing at >100MW per annum provides challenges and opportunities



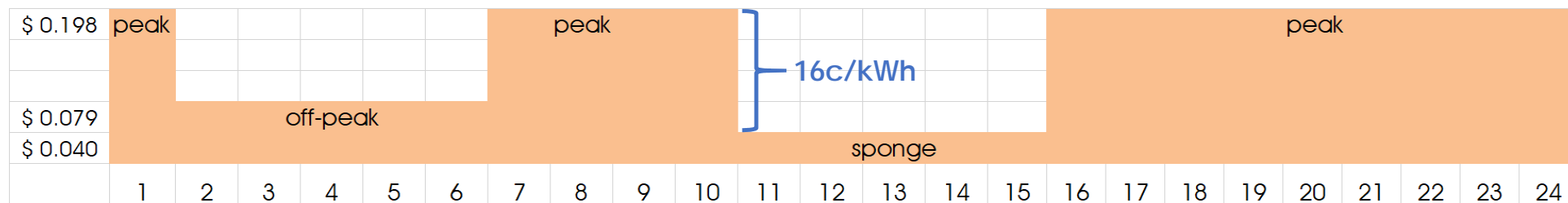
Network Utilisation is falling



Source: AER analysis of network RIN data - Draft Decision Figure 18.1

New Network Tariffs and Price Signals

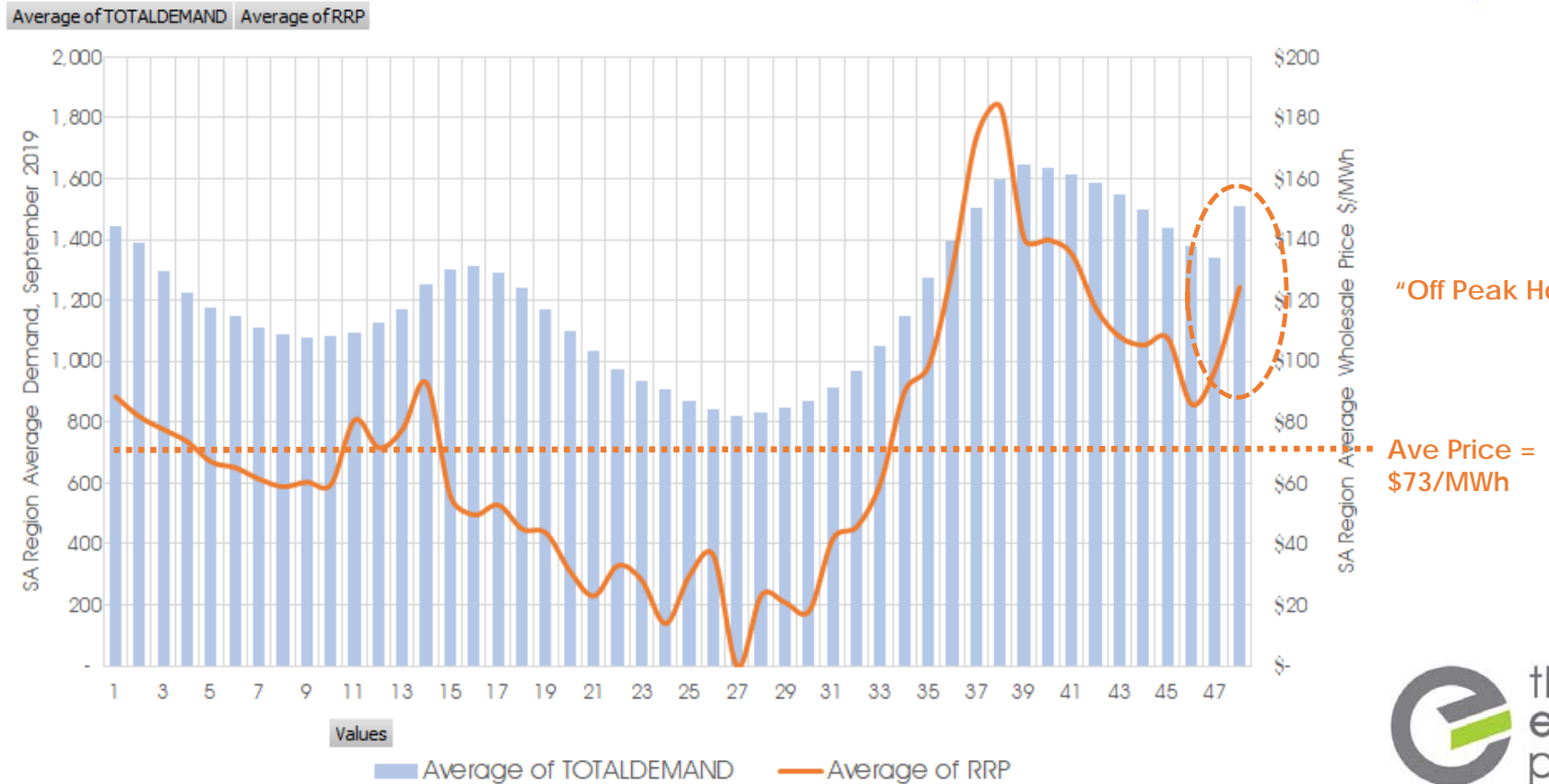
- New 'solar sponge' network tariffs send a strong signal to households ... cheaper power 10AM-3PM



- Opportunity for businesses – move consumption into solar hours, stay out of 5-9PM peak window of the new business Network Tariffs
- September 2019 also shows the effect of solar on wholesale prices ... a glimpse of the future?
- Wholesale prices averaged well below average during solar hours ... but
- Wholesale prices averaged well above average in the evening – with prices spiking with the residential hot water load around midnight
- Turns existing notions of 'off-peak' on its head

Price Signals ?

September 2019 – SA Price vs Demand



Interval ▾

Increased Network Utilisation is key to lower prices ...

- If energy sales fall, fixed costs and revenue cap regulation means prices rise ...
- As we saw in July 2019 this can combine with other changes to be a large increase ...
- AER approved SAPN 2019/20 pricing:
 - “Network price increases for residential and business customers in 2019/20 average **9.9%** on a weighted-average basis. This is due to the combination of:*
 - *higher allowed distribution revenue and pass-throughs (transmission and PV FiT payment) of 3.2%,*
 - *revenue cap over-recovery increasing tariff recovery of a further 3.3% and*
 - *the decline in weighted average sales quantities on last year’s forecast of 3.2%.*

Both business and residential energy usage has been declining through in-house use of solar and energy efficiency and is forecast to continue to decline in 2019/20”



- Hoping for a smoother price path in 2020-25

The Draft Decision

The BIG ones:

- Consumer engagement
- Repex
- IT
- Tax

Consumer Engagement

| LIST OF MEETINGS RE SAPN RESET | | | |
|--------------------------------|---|-------------|--|
| Date | Event | Time | Place |
| Tues Oct 15 | ECA Grant Group plus Jess Vonthetoff | 4pm | The Greek, Halifax St |
| Wed Oct 16 | Customer Consultative Panel Special meeting to discuss AER Draft Decision | 1.30 pm | Level 6 Rydges 1 South tce |
| Thur Oct 17 | SAPN Vulnerable Customer Strategy | 9.30am | The Precinct Conf centre, Thebarton |
| Mon Oct 21 | IT & non network capex | 12 noon | Level 6 Rydges 1 South tce |
| Fri Oct 25 | Repex | 1pm | Adelaide Pavilion South |
| Mon Oct 28 | Field Trip | 8.30am | |
| Wed Oct 30 | AER Forum | Today | |
| Fri Nov 1 | Other network capex | 10.30a m | Level 6 Rydges 1 South tce |
| Thur Nov 21 | SAPN Customer Reference group | 9.30am | SACOSS King William Rd |
| Wed Nov 27 | Customer Consultative Panel | 9am | SACOSS King William Rd |

What do Consumers Want (in era of uncertainty)

- Affordability
- Honesty – recognise the reality of uncertainty
- Ongoing discussion about priorities, costs and options – consumers are part of the solution
- The whole picture – not just the individual components

We remain wary about:

- Double counting
- There is always more spending wanted
- Don't want to be ripped off by energy business suppliers
- Want to experience the much promised efficiencies

Personal Observation

“I have been engaging with ETSA / ETSA Utilities / SAPN for a long time! I consider the engagement over the past couple of months to be the most open, frank and constructive that I have experienced. Not ‘there’ yet, but getting close” - MH

SAPN owner and Consumer Engagement

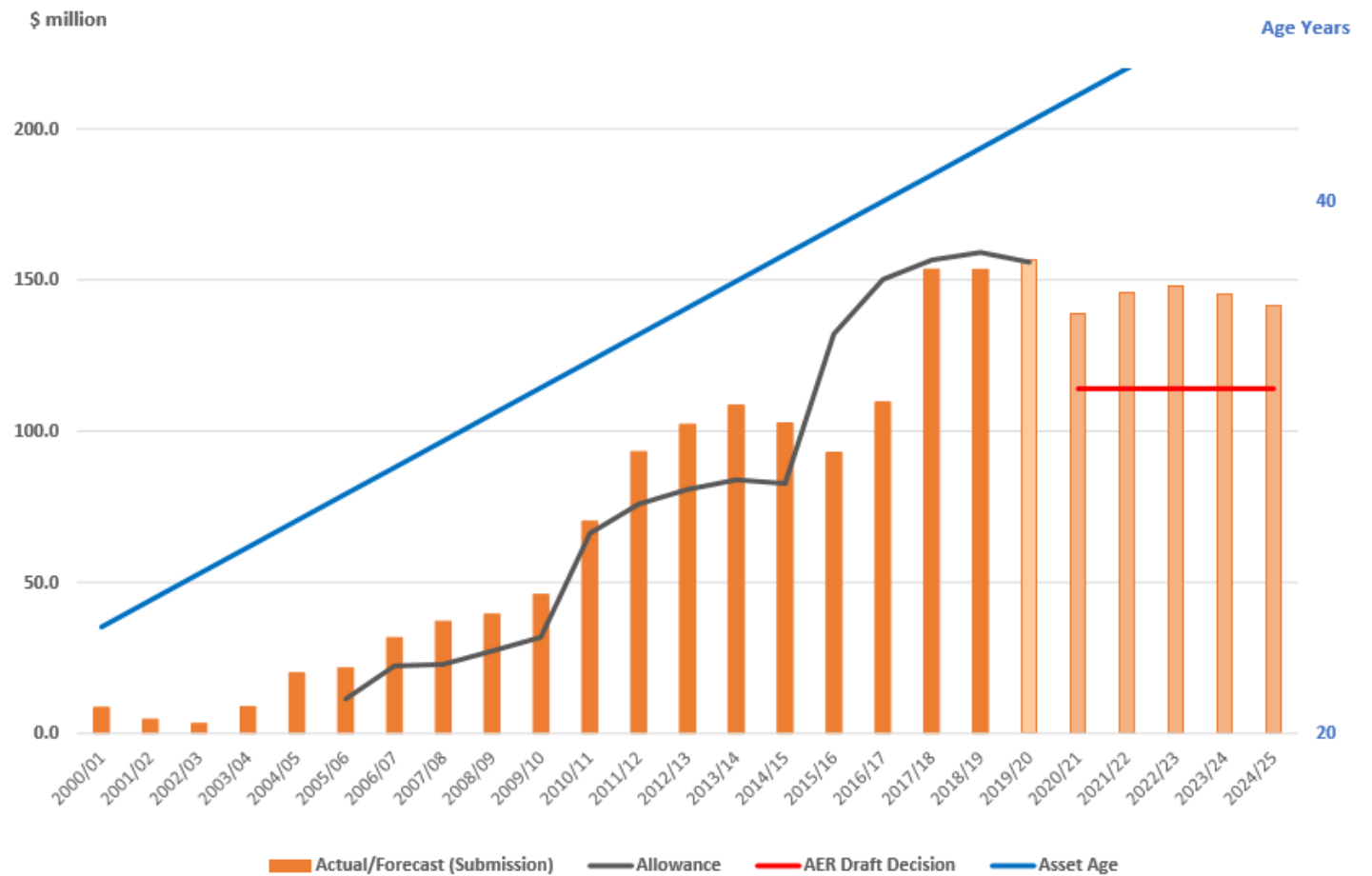
- Spark managing director Rick Francis said it was disappointing that the AER had “*not acted on the clear message it has received from the investment community in relation to the market’s rate of return expectations*”.

Financial Review 9/10/19

CAPEX - REPEX

DD Repex + A&W

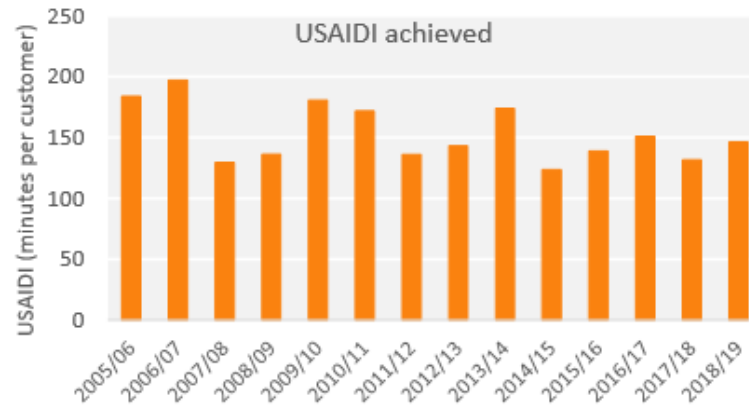
AER Draft Decision – \$128M reduction in Repex and no further A&W investment (-\$40M)



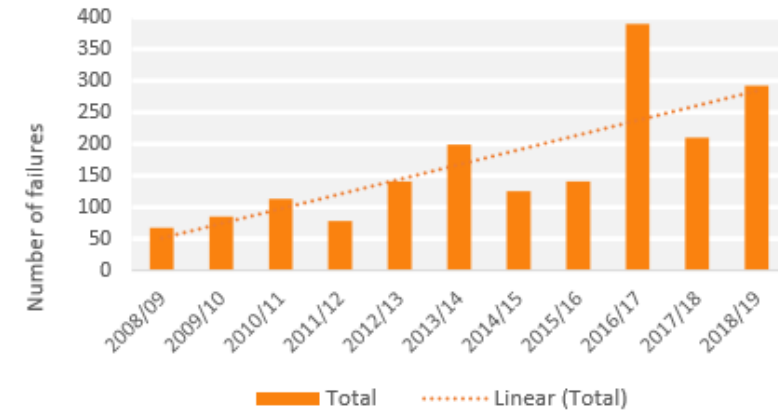
From
SAPN

2. Performance has generally been maintained

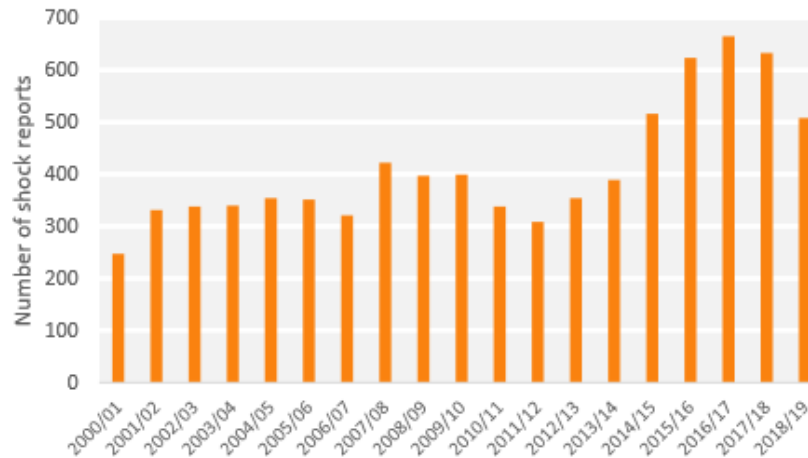
Average minutes customers without supply



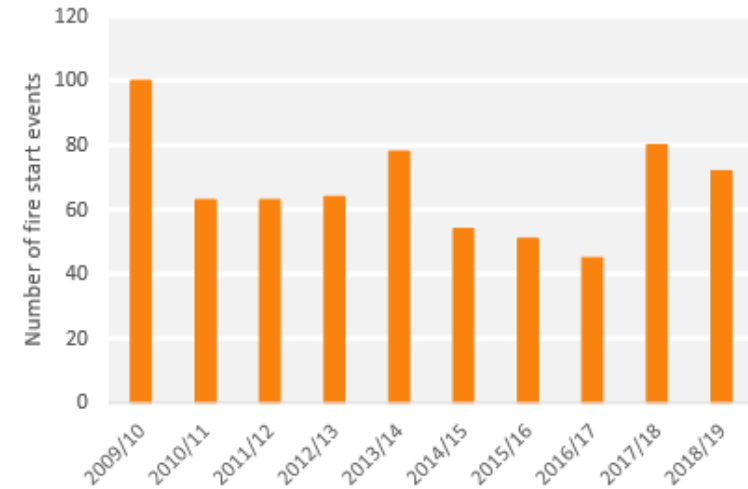
Pole failures



Customer electric shock reports

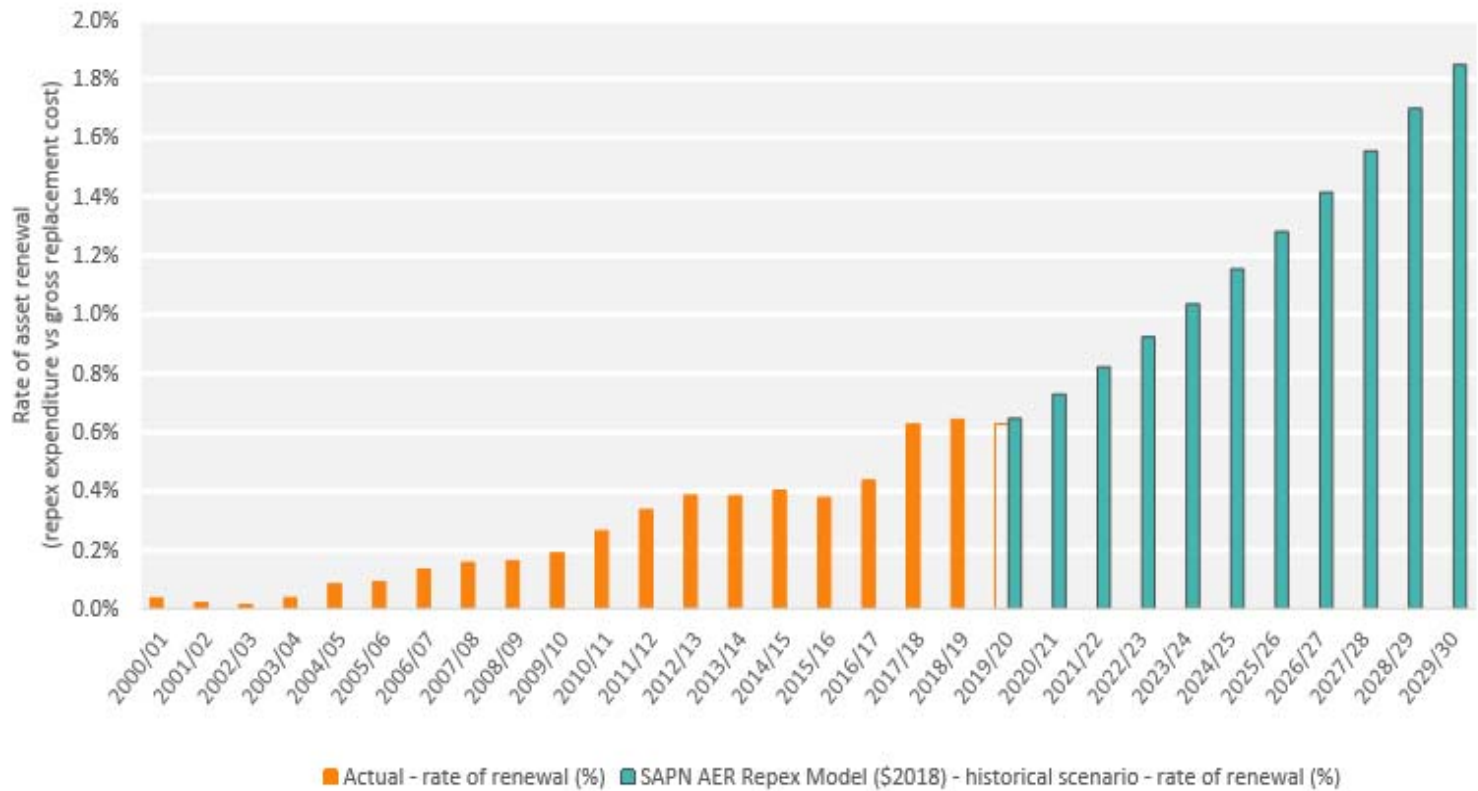


Fire starts



But:
Rate of
Renewal

A time
needs to
come
when plan
is made to
renew



Source: AER Category Analysis RIN (renewal expenditure) and AER repex model (replacement cost) and AER repex model forecasts

- Current replacement rates of < 0.5% infer an asset life of 200+ years
- Ultimately replacement rates will need to increase, to arrest asset age deterioration, perhaps to 2% - 3% of gross replacement cost

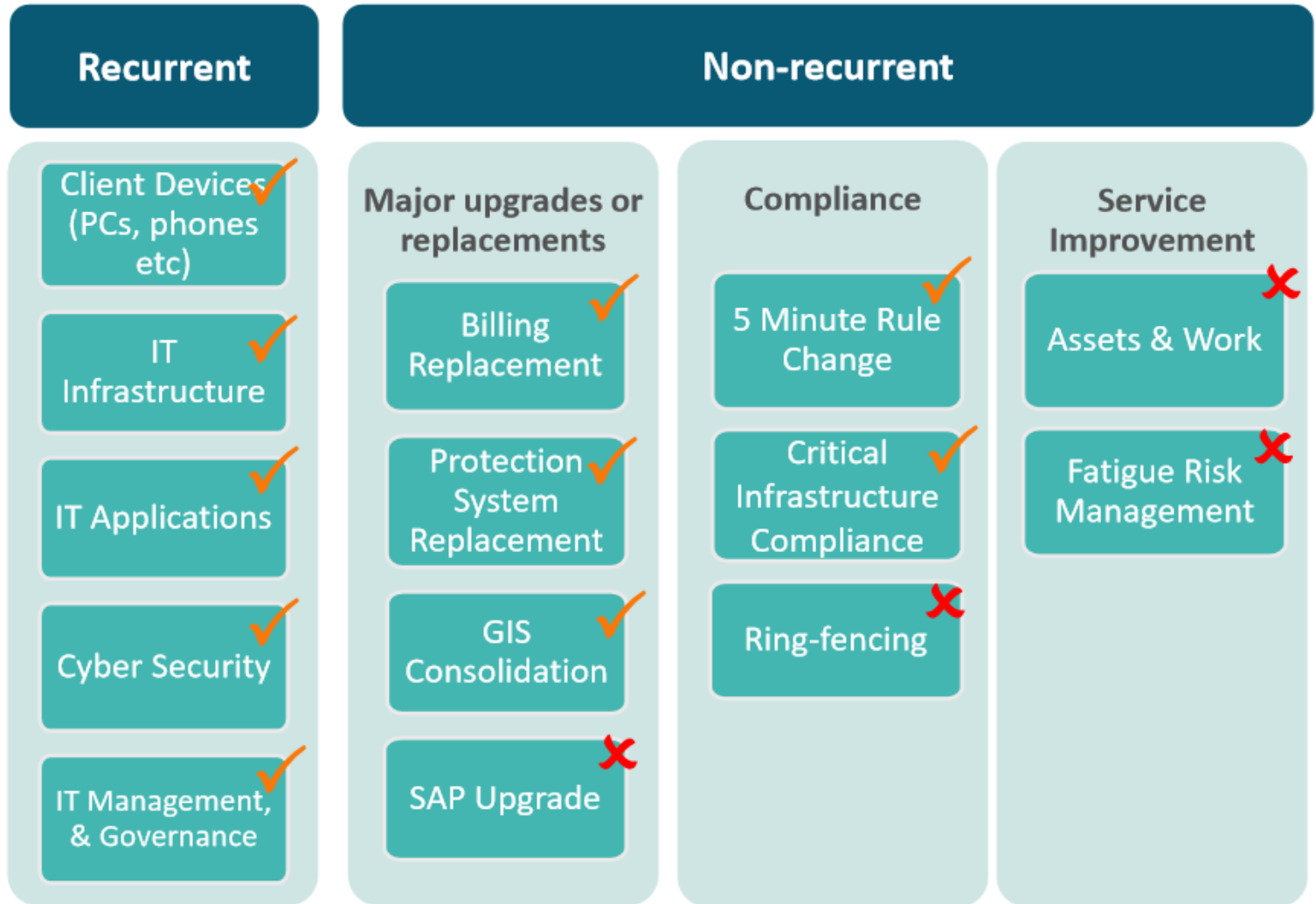
Repex priorities

SAPN has responded to AER invitation to sharpen proposals

- Line replacement (in particular) plan is needed, and can't be kicked down the road
- Worst Served Customers – eg Nepabunna. Equity suggests if paying the same price, can expect extremes of service to move closer to the mean (though balanced with cost differentials)
- Assets and Work – SAPN has an improved case

The Draft Decision – IT and Non Network

AER Draft Decision



ICT

- Greater analysis welcomed.
- Tangible benefits to customers still not clear
- Overall picture still not clear
- NB split makes sense between:
 - recurrent,
 - new and
 - Cyber security

TAX

Still thinking this one through, with help from SA Centre for Economic Studies (SACES).

Seems unreasonable that past tax allowances have been $>$ actual tax paid, across networks.

Opex

More work needed:

- Productivity
- Step Changes
- IT



Concluding comments

1. Seems weird that SAPN has to pay \$½ - 1m for customer's meter data that customers are then charged for.
2. Do submissions really need to be in by 15th January after getting revised revenue proposals in mid December? A bit 'unsociable'.

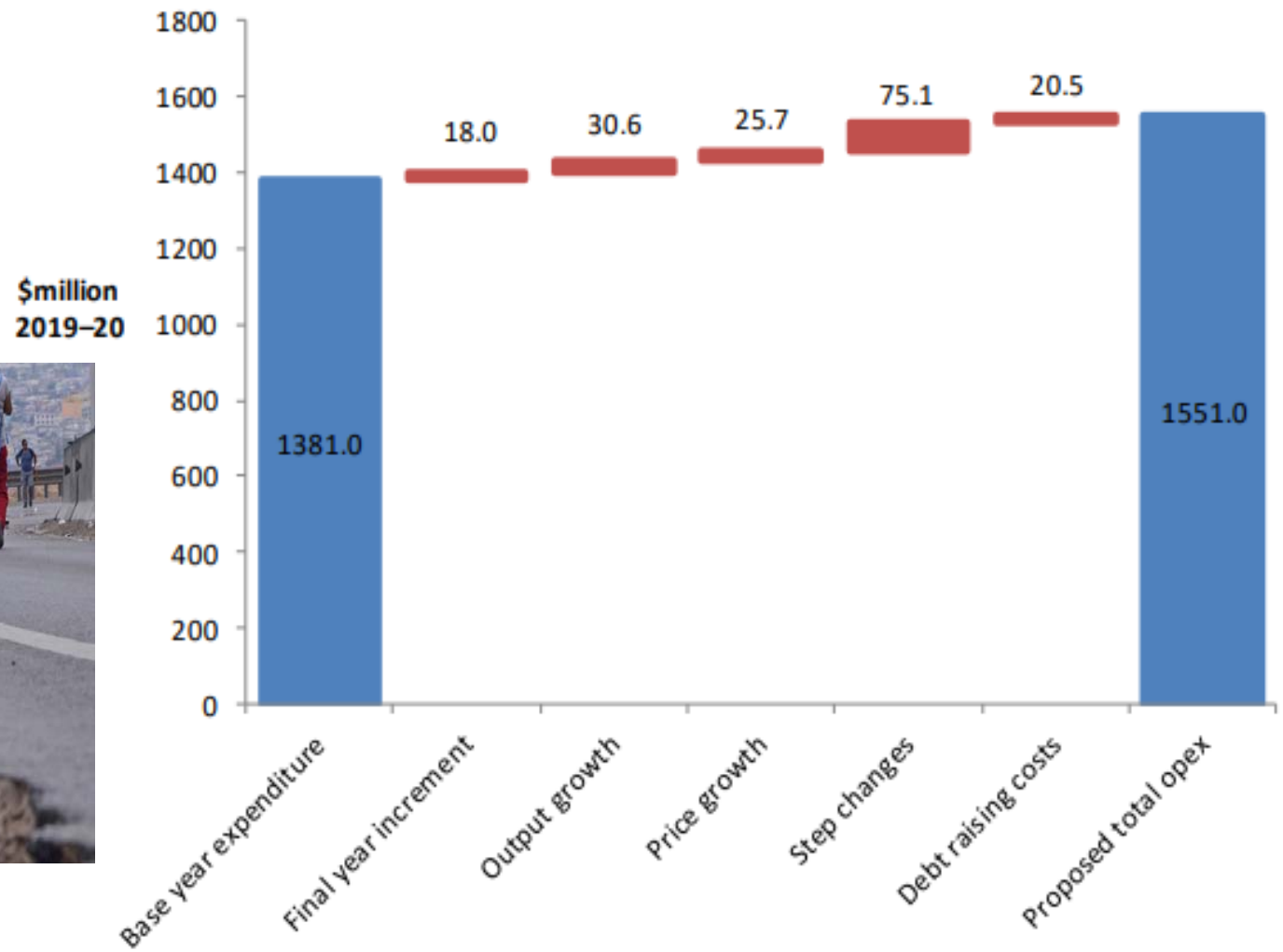
**Kicking the
can – not
too far
down the
road.**



SA Leading the World,
no roadmap - shared solutions - fairness



Opex



Source: AER analysis; SA Power Networks, 2020-25 Reset RIN.



Opex, Proposed Step Changes

| | 2020–21 | 2021–22 | 2022–23 | 2023–24 | 2024–25 | Total |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Cable and Conductor minor repair | 14.2 | 13.5 | 13.5 | 13.5 | 13.5 | 68.2 |
| Critical Infrastructure Compliance | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 12.1 |
| Cloud transition— Hosting | 1.0 | 1.2 | 1.6 | 1.7 | 1.8 | 7.2 |
| Cloud transition— Scheduling | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 3.8 |
| LV Management | – | 0.4 | 0.9 | 1.1 | 1.3 | 3.8 |
| GSL Reliability | (4.0) | (4.0) | (4.0) | (4.0) | (4.0) | (19.9) |
| Total | 14.3 | 14.3 | 15.3 | 15.5 | 15.8 | 75.1 |

Source: SA Power Networks, 2020–25 Regulatory Proposal Attachment 6.

Connections

- 2015-20 is the first reg period using the NECF connection arrangements of Chapter 5A of the NER.
- Does not appear that any review of performance to date.
- SAPN has proposed a revised Customer Connection Policy (Attachment 16) and a capital expenditure program for connections of \$213m net of customer contributions (\$563m gross, Attachment 5).
- Changes to the classification and process are proposed – See Issues Paper 8.4
- Connections costs: proposal > current period > draft plan
- But ... no evidence of stakeholder engagement on connection issues

TAX

This is the hard one!

- New AER Guideline, this is good
- SAPN seems to have been impacted more than other db's?
- SAPN responses impact opex, capex, depreciation etc
- More thinking and discussion needed before revised revenue proposal

