



Ms Rowan McKeown  
Senior Policy Officer  
Essential Services Commission  
GPO Box 2605  
ADEALIDE SA 5001

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Lodged online: [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au)

Dear Ms McKeown,

**RE: ESCOSA - SA Power Networks 2020 reliability standards review: Draft Decision, August 2018**

As the peak body for the health and community services sector in South Australia, the South Australian Council of Social Service (SACOSS) has an established history of interest, engagement and provision of proposed advice on the necessary market mechanisms and policy for essential services, including electricity. SACOSS research shows that the cost and supply of basic necessities like electricity have significant and disproportionately greater impacts on vulnerable people. SACOSS' advocacy is informed by our members and direct consultations with consumers and other consumer organisations: organisations and individuals who witness and experience these impacts in our community. SACOSS would like to thank the Essential Services Commission of South Australia (ESCOSA) for its Draft Decision on the SA Power Networks reliability standards review, dated August 2018 (the Draft Decision), and its broader consultation with SACOSS.

SA Power Networks is the owner and operator of the main distribution electricity network in South Australia. The reliability of SA Power Networks' distribution services is regulated jointly by ESCOSA and the Australian Energy Regulator (AER). ESCOSA is seeking feedback on its Draft Decision relating to the review of the SA Power Networks Reliability Standards for the 2020-2025 period (the Review).

ESCOSA's Draft Decision sets out that for the 2020-2025 period:

- network reliability performance standards will apply to ten region-based categories
- targets will be set to maintain reliability at current levels, rather than improve or reduce performance
- one-off duration of interruption Guaranteed Service Level (GSL) payments will be replaced with total annual duration of interruption payments

- frequency of interruption GSL payments will be simplified, and late attendance fee GSL payments as well as faulty street light GSL payments will be removed
- SA Power Networks will be required to provide information by SMS that is ‘timely, current and accurate’ and will be required to monitor overall communication quality, and
- from July 1, SA Power Networks will be required to report directly to its customers on its reliability performance.

SACOSS commends ESCOSA on its thorough and well-reasoned Draft Decision. SACOSS acknowledges ESCOSA’s significant work throughout the Review process, including its engagement and consultation with SA Power Networks, consumers and stakeholders, in addition to its detailed analysis of data and comprehensive economic assessment of reliability standard options. SACOSS is satisfied that ESCOSA has conducted the Review in line with relevant requirements, principles and expectations, leading to a Draft Decision that SACOSS broadly believes promotes the long term interests of consumers in South Australia.

### **Network reliability performance standards will apply to ten region-based categories**

ESCOSA’s Draft Decision recommends setting network performance standards for ten region-based categories, rather than four feeder-type categories, as is currently the case. The ten region-based categories proposed by ESCOSA comprise nine distinct geographic regions, and a tenth category for major regional centres.<sup>1</sup> ESCOSA outlines six reasons for proposing performance standards based on regions:

- They are a better tool for communication than feeder-type categories.
- They minimise the potential for localised decline in reliability.
- They provide the basis for targeted improvements in specific areas where a broader driver or rationale, such as addressing poor performance or promoting economic development, exists.
- They align with SA Power Networks’ network planning practices.
- They would accommodate the performance of off-grid supply, if it becomes a regulated distribution service.
- In other jurisdictions where feeder-type categories are used to set the reliability standards there is more than one distributor. This means that the schemes are, in practical effect, similar to a region-based approach.

Whilst SACOSS accepts ESCOSA’s rationale for region-based standards, we note that the introduction of these standards may change the costs of maintaining reliability in smaller region-based categories. Currently, lower cost improvements in high density areas can be made to maintain the overall reliability of a particular region which includes less reliable low-density areas. However, under the newly defined categories, there is less scope to reduce costs of improvements to maintain reliability in low-density areas. SACOSS acknowledges ESCOSA’s note that:

*‘a change in costs driven by introducing region-based categories would not be immediate, as no decline in regional performance has been observed since introducing feeder category targets in 2015. Such decline would only be expected to occur over the medium to long term. Cost changes would arise in incremental decisions about repair and replacement expenditure’.*<sup>2</sup>

<sup>1</sup> See Table 2: Proposed region-based categories, ESCOSA Draft Decision, p.18

<sup>2</sup> ESCOSA, SA Power Networks reliability standards review – Draft Decision, August 2018, p.24 (footnote 44)

SACOSS also acknowledges that future technological and regulatory developments may support the implementation of **lower cost** non-network options for maintaining (or improving) reliability in low-density areas. SACOSS would support future consideration of lower cost 'off-grid' solutions, and agrees with ESCOSA that a change to region-based performance standards would align with the monitoring of the performance of off-grid supply, in the event of regulatory change.<sup>3</sup>

Overall, SACOSS supports ESCOSA's Draft Decision to set region-based standards, which we agree will provide a more complete picture of increases or decreases in current reliability levels, and may better incentivise SA Power Networks to consider options to improve the reliability of worst served customers.

### **Targets will be set to maintain reliability at current levels, rather than improve or reduce performance**

The reliability standards set by ESCOSA will directly influence the amount of revenue SA Power Networks proposes to recover from consumers for the next regulatory control period. Simply put, increased reliability and service levels, supports increases in revenue to improve SA Power Networks' distribution services. State-wide pricing arrangements mean small customers share the costs of distribution services, and in 2016-17 distribution costs accounted for 26.2% of a typical residential customer's annual electricity bill.<sup>4</sup>

In setting reliability standards, ESCOSA must assess how customers value reliability relative to the cost of providing it (the price-reliability trade-off). In our previous submission to ESCOSA<sup>5</sup> we supported a thorough economic assessment of reliability options, in order to ensure efficient reliability outcomes in the long term interests of consumers. SACOSS is pleased that ESCOSA's assessment of reliability options employed the following methods to quantify the benefits of cost-value scenarios:<sup>6</sup>

- a contingent valuation study undertaken by Oakley Greenwood<sup>7</sup>
- Desktop analysis based on the Australian Energy Market Operator (AEMO) estimates of value of customer reliability (VCR).

Oakley Greenwood defined the threshold for 'economic efficiency' as being:<sup>8</sup>

*Where the sum of the willingness of customers who would benefit from the reliability improvement plus the willingness of other customers to subsidise reliability improvements for those customers exceeds the cost of making those improvements.*

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<sup>3</sup> Currently off-grid supply is not a regulated distribution service, however the AEMC is developing law and rule changes to enable the regulation of alternatives to grid-supplied network services, see: ESCOSA, SA Power Networks reliability standards review – Draft Decision, August 2018, p.49

<sup>4</sup> ESCOSA, SA Power Networks reliability standards review – Draft Decision, August 2018, p.10 (footnote)

<sup>5</sup> SACOSS, Submission to ESCOSA on the SA Power Networks Reliability Standards Review: objectives and process, 7 February 2018 see link:

[https://www.sacoss.org.au/sites/default/files/public/documents/Submissions/Utilities%20Submissions/180207\\_SACOSS\\_Submission\\_ESCOSA\\_SAPN\\_Reliability\\_Standards\\_Review\\_2020.pdf](https://www.sacoss.org.au/sites/default/files/public/documents/Submissions/Utilities%20Submissions/180207_SACOSS_Submission_ESCOSA_SAPN_Reliability_Standards_Review_2020.pdf)

<sup>6</sup> ESCOSA, SA Power Networks reliability standards review – Draft Decision, August 2018, p. 25

<sup>7</sup> Oakley Greenwood, Economic Assessment of electricity distribution reliability standard packages, prepared for ESCOSA, 26 June 2018

<sup>8</sup> Oakley Greenwood, Economic Assessment of electricity distribution reliability standard packages, prepared for ESCOSA, 26 June 2018, p. 1 (footnote 1)

SACOSS supports this definition and accepts the key findings of the Oakley Greenwood Report that (*inter alia*):

- There is a relatively high level of satisfaction (73%) among customers regarding the reliability of their electricity supply.
- Most customers are not willing to pay anything to improve the reliability of their electricity supply.<sup>9</sup>
- Only one of the six reliability improvement scenarios investigated was found to be economically efficient, however only about one quarter of the customers who would benefit from those reliability improvements were willing to pay for those improvements being made.<sup>10</sup>

Overall, ESCOSA found that the assessments of the cost-value scenarios ‘show no clear economic benefit in setting targets to improve reliability performance’.<sup>11</sup> SACOSS accepts ESCOSA’s findings and supports the methodology used to arrive at this finding. The results of the economic assessment are consistent with customer feedback received by SACOSS and SA Power Networks that price is of primary concern to South Australian customers.<sup>12</sup> SACOSS is strongly supportive of ESCOSA’s Draft Decision to maintain reliability at current levels.

### **Targeted improvements for specific regions**

As outlined above, one of ESCOSA’s reasons for setting region-based standards is to ‘provide a basis for targeted improvements in specific areas where a rationale exists’.<sup>13</sup> In the current regulatory period, concerns have been raised around the reliability and quality of electricity supply for the Eyre Peninsula and Adelaide Hills regions. ESCOSA has considered whether targeted improvements are justified for these regions for the 2020-2025 period, and has determined in its Draft Decision that the net benefits of a one percent reduction in outage frequency in three regions, are **not** high enough to justify targeted regional improvements.<sup>14</sup>

SACOSS supports ESCOSA’s analysis and conclusion in its Draft Decision to not set standards to achieve targeted improvements in specific regions.<sup>15</sup> SACOSS acknowledges that region-based targets will provide a clearer picture of reliability and quality of supply in regional areas, and supports ESCOSA continuing to undertake a thorough analysis of the net benefits of future targeted improvements.

### **Best endeavours obligation**

SACOSS supports ESCOSA in continuing with SA Power Networks’ performance targets being of a ‘best endeavours’ nature. SACOSS cautiously supports the Draft Decision to require SA Power Networks’ to

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<sup>9</sup> With business customers in metropolitan Adelaide being the exception to this finding: see Oakley Greenwood Report, p.1

<sup>10</sup> SACOSS notes customers were asked if they were willing to pay annualised per-customer cost of the improvement they would benefit from, as opposed to the smeared costs of a state-wide pricing mechanism, and accepts this methodology as being ‘key to the consideration of economic efficiency’.

<sup>11</sup> ESCOSA, SA Power Networks reliability standards review – Draft Decision, August 2018, p.26

<sup>12</sup> SA Power Networks 2020-2025 Draft Plan: delivering better outcomes at a lower price, p.21 see link:

<https://www.talkingpower.com.au/38336/documents/84356>

<sup>13</sup> ESCOSA, SA Power Networks reliability standards review – Draft Decision, August 2018, p.26

<sup>14</sup> ESCOSA, SA Power Networks reliability standards review – Draft Decision, August 2018, p.26

<sup>15</sup> SACOSS notes SA Power Network’ current proposal outlined in its Draft Plan 2020-2025 to continue with its 10-year program to harden the network and reduce the impact of storms on customers in storm prone areas, as well as its proposal to improve service levels for 19,000 poorly served customers, at a combined cost of \$36m.

publish a Monitoring, Evaluation and Compliance Strategy (MECS), and report publicly on its failure to meet performance standards, on the basis that these requirements do not result in additional costs to customers.

### **Guaranteed Service Level (GSL) Scheme**

ESCOSA's Draft Decision outlines several changes to the current GSL Scheme. The GSL Scheme provides for inconvenience payments to customers where SA Power Networks' does not meet its service obligations. Of the five types of current GSL payments, two relate to reliability; duration payments and frequency payments, with duration payments accounting for 97% of GSL Scheme costs.<sup>16</sup>

As part of the Review, ESCOSA conducted a survey asking respondents about their willingness to pay for duration payments, with the results showing that customers were willing to pay \$6.4m per annum (an average of \$7 per year, per customer).<sup>17</sup> ESCOSA notes that a valid interpretation of the survey results is that 'customers are willing to pay less than they do now'.<sup>18</sup> SACOSS supports this interpretation and also supports ESCOSA's methodology and detailed consideration of the balance between the expectations of customers and need to contain costs.

ESCOSA's Draft Decision is to remove duration payments for one-off outages, and to introduce 'total annual duration payments, to apply at the end of each regulatory year'.<sup>19</sup> The total annual duration payments will apply in relation to all outages, including outages during Major Event Days (MEDS).

Whilst SACOSS previously submitted that payments for outages during MEDs should be removed on the basis that they are beyond SA Power Networks' control, we accept ESCOSA's analysis of customer expectations in its Draft Decision. The Draft Decision also revises the thresholds and values<sup>20</sup> of proposed total annual duration payments to contain the total scheme costs to within the amount customers are willing to pay, and SACOSS strongly supports this revision. ESCOSA states that the improvements to the Scheme made in the 2020-2025 Draft Decision will manage the absolute cost of the Scheme, estimating that had the revisions proposed in the Draft Decision applied in 2016-17, total duration and frequency payments would have cost \$16.4m as opposed to the \$28.4m incurred by customers under the current scheme.<sup>21</sup> SACOSS strongly supports reducing the overall costs of the Scheme, especially given the Scheme does not appear to be meeting its objectives.

In its rationale to remove duration payments for one-off outages, ESCOSA helpfully outlined the highly variable nature of GSL Scheme costs, citing the costs from the current period which have varied from \$2.5m in 2015-2016 to \$28.4m in 2016-17. SACOSS agrees with ESCOSA that differences in individual years will continue, and the AER needs to consider how to provide for this in its revenue determination.<sup>22</sup>

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<sup>16</sup> ESCOSA, SA Power Networks reliability standards review – Draft Decision, August 2018, p.31

<sup>17</sup> Ibid, p. 31

<sup>18</sup> ESCOSA, SA Power Networks reliability standards review – Draft Decision, August 2018, p.32

<sup>19</sup> ESCOSA, SA Power Networks reliability standards review – Draft Decision, August 2018, p.32

<sup>20</sup> See Table 5: Thresholds and values of proposed total annual duration payments, ESCOSA, SA Power Networks reliability standards review – Draft Decision, August 2018, p.34

<sup>21</sup> ESCOSA, SA Power Networks reliability standards review – Draft Decision, August 2018, p.4

<sup>22</sup> SACOSS observes that SA Power Networks' 2020-2025 Draft Plan currently provides for \$40m in operating expenditure associated with GSL Payments, which is largely consistent with the \$38.4m ESCOSA indicated customers are willing to pay.

In addition to introducing total annual duration payments, ESCOSA's Draft Decision in relation to the GSL Scheme is to:

- consolidate frequency payment thresholds to one level (more than nine outages per annum)
- reintroduce annual average restoration time target, as applied pre 2010 for each region
- remove GSL payments for late attendance at appointments
- continue the GSL payment for timeliness of new connections
- remove the GSL payment for repair of faulty street lights
- introduce a performance standard for repair of faulty street lights.

In relation to the reintroduction of restoration targets, ESCOSA notes that there is no 'proposal to link GSL payments, or other financial incentives, to these restoration targets'.<sup>23</sup> ESCOSA states the restoration targets will be 'a unique part of the reliability standard framework in that they are a measure of reliability that only reflects the experience of customers who have outages'.<sup>24</sup> SACOSS is cautious about supporting additional targets, where customers may incur additional costs. SA Power Networks' Draft Plan 2020-2025 identifies \$214m in emergency response expenditure for restoration of supply to customers. SACOSS cautiously supports the reintroduction of the restoration targets on the basis that those targets do not require additional emergency response or operational expenditure. The existing practices employed by SA Power Networks should be adequate to meet restoration targets imposed. It is worth noting the significant increase (as opposed to a reduction) in allowed expenditure after the removal of the restoration targets in 2010.<sup>25</sup>

### **Customer Service Standards**

ESCOSA has decided to introduce an SMS communications standard. The standard will require that when SA Power Networks provides information about outages by SMS, it must be timely, current and accurate. SACOSS notes that ESCOSA's proposal does not require SA Power Networks to:<sup>26</sup>

- Introduce an SMS service (it already has one)
- Set a time-frame for sending SMS messages
- Meet targets for increasing the percentage of customers it currently sends messages to.

On this basis, SACOSS submits customers should incur no additional costs associated with SA Power Networks complying with this new standard as existing systems and practices are sufficient to meet the standard imposed. SACOSS cautiously supports the introduction of this new standard, but notes that we have not seen any evidence to suggest information about outages in the normal course of events is currently not timely, current or accurate (leaving aside information provided during the exceptional storm events).

### **Communicating quality measure: for monitoring**

ESCOSA's Draft Decision is to require SA Power Networks to monitor and report on a communications quality measure, as agreed with ESCOSA.<sup>27</sup> ESCOSA notes there is no current standard or performance target for communications quality, and that initially ESCOSA will require SA Power Networks to monitor and report on the Customer Service Benchmarking Australia (CSBA) measures (for planned and unplanned interruptions,

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<sup>23</sup> ESCOSA, SA Power Networks reliability standards review – Draft Decision, August 2018, p.38

<sup>24</sup> Ibid, p.38

<sup>25</sup> AER, Final Decision SA Power Networks distribution determination, Overview, October 2015, see: p. 12 which cites 'few changes to the operating environment facing SA Power Networks with respect to risk or regulatory obligations'.

<sup>26</sup> ESCOSA, SA Power Networks reliability standards review – Draft Decision, August 2018, p.44

<sup>27</sup> ESCOSA, SA Power Networks reliability standards review – Draft Decision, August 2018, p.45

new connections and complaints). In its rationale, ESCOSA states that the composite measure developed by CSBA has been adopted by other electricity distributors including AusNet Services, TasNetworks and AGIG.

Once again, in the absence of real evidence of consumer dissatisfaction with SA Power Networks' communications quality, SACOSS does not see the need for an additional standard to be imposed, where customers may bear the costs of SA Power Networks meeting the standard.

### **Performance Monitoring and Reporting**

The Draft Decision proposes making the following changes to the current performance and monitoring system, requiring SA Power Networks to:

- report directly to its customers on all matters currently captured in performance reporting (prepare quarterly and annual reports in addition to reports following significant performance events)
- publish a Monitoring, Evaluation and Compliance Strategy (MECS)
- include in its annual performance reporting, a set of regional 'report cards' (for all 10 region-based categories, the report cards are prepared in addition to reporting against standards and targets)
- continue to report on the performance of low reliability feeders, which will be defined with respect to regional performance targets
- publish time-series data (from 2005-06 onwards) that is consistent with the overall revised framework.

SACOSS supports improved accountability to customers, but does not support potential additional costs to customers associated with changes to reporting obligations.

SACOSS submits SA Power Networks' existing internal reporting systems and processes should be sufficient to comply with the changes to the performance and monitoring system proposed by ESCOSA, but SACOSS does not support changes to the monitoring and reporting system if this means SA Power Networks then sought approval for increased expenditure, as customers should not bear the costs of obligations which properly reside with the regulator.

ESCOSA has noted that the additional reporting obligations on SA Power Networks should be integrated into its broader communications and engagement strategy. If ESCOSA determines to proceed with its Draft Decision in relation to performance and monitoring, SACOSS suggests that the performance reports should not only be published by SA Power Networks, but should also be accessible through a link on ESCOSA's website, as customers may still expect the regulator to provide performance information.

SACOSS notes ESCOSA has indicated that the changes will not result in ESCOSA abrogating its performance reporting responsibilities. In the event that the changes proceed, SACOSS supports ESCOSA's commitment to 'continue to scrutinise the performance of SA Power Networks, and redirect effort from preparing reports to auditing, data assurance and analysis'.<sup>28</sup>

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<sup>28</sup> ESCOSA, SA Power Networks reliability standards review – Draft Decision, August 2018, p.47

We thank you in advance for consideration of our comments. If you have any questions relating to the submission, please contact Jo De Silva via [jo@sacoss.org.au](mailto:jo@sacoss.org.au) or 08 8305 4211.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Ross Womersley', enclosed within a thin black rectangular border.

Ross Womersley  
Chief Executive Officer