



Mr Richard Sibly
Regulatory Development Manager
SA Power Networks
GPO Box 77
ADELAIDE SA 5001

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Lodged online: talkingpower@sapowernetworks.com.au

Dear Mr Sibly,

RE: Submission on SA Power Networks' Draft Plan 2020-2025

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 SA Power Networks for the opportunity to comment on its Draft Plan 2020-2025 (the Draft Plan). SACOSS commends SA Power Networks on its extensive and responsive 2020-2025 Customer Engagement Program (CEP), and looks forward to further constructive dialogue with a view to securing a regulatory proposal for 2020-2025 that meets the expenditure objectives and criteria, reflects the concerns of electricity consumers and promotes the achievement of the National Electricity Objective¹ (NEO). SACOSS has been encouraged by SA Power Networks' willingness to listen and respond to consumer feedback during the CEP. Whilst SACOSS recognises the value in a comprehensive and early CEP, we believe it is important to point out the resourcing pressures placed on

¹ National Electricity Law, section 7.

consumers and consumer organisations to meaningfully participate in the program, and we therefore believe it is important for the Australian Energy Regulator (AER) and SA Power Networks to remain open to consumer feedback throughout the entire regulatory process.

SACOSS is pleased SA Power Networks has acknowledged that ‘the cost of living, including electricity bills, is a major cause of concern for many customers’, and that it has ‘an important role to play in energy affordability’.² In the last 12-18 months, affordability issues have reached crisis point, with the greatest impact of increasing energy costs being on low income households.³ In South Australia, which has the least affordable electricity in the National Electricity Market (NEM),⁴ electricity bills in 2016-17 made up 5.5% of a low income household’s disposable income (after concession charges).⁵ Disconnections and energy bill debt levels increased during the 2016-17 period across the NEM, with South Australia having the largest proportion of electricity customers in debt (almost five in every 100 customers).⁶ The AER’s performance data for the first quarter of the 2017-18 financial year found the average residential bill debt for customers **not** receiving assistance via a hardship program in South Australia was \$919,⁷ and disconnection rates are continuing to rise.⁸ Now more than ever, ensuring consumers pay no more than is necessary to maintain a safe and reliable network is of critical importance.

With this in mind, SACOSS’ submission to SA Power Networks is focussed on ensuring the network is operated as efficiently as possible, with a view to reducing costs to consumers, particularly vulnerable consumers. SACOSS believes South Australian energy consumers are overwhelmingly concerned about price, and are not necessarily seeking that SA Power Networks ‘do more for less’⁹, but are rather seeking it efficiently and prudently maintain existing levels of service and reliability. ESCOSA’s consultation and customer research supports our view, with its Draft Decision on the SA Power Networks’ Reliability Standards Review finding there is little appetite for increased reliability or service levels, if that results in increased costs.¹⁰

We have provided a summary of our submissions and requests for further clarification at the end of this submission.

² SA Power Networks’ 2020-2025 Draft Plan, p. i

³ AER’s Annual Performance Report on Compliance and Performance of the retail energy market 2016-17, p.3

⁴ AER’s Annual Performance Report on Compliance and Performance of the retail energy market 2016-17, p.3

⁵ AER’s Annual Performance Report on Compliance and Performance of the retail energy market 2016-17, p.3

⁶ AER’s Annual Performance Report on Compliance and Performance of the retail energy market 2016-17, p.27

⁷ Data submitted under the AER’s Retail Market performance reporting guidelines (June 2012) for the period 1 July – 30 September 2017

⁸ AER, Rule Change Request, p.6

⁹ SA Power Networks’ 2020-2025 Draft Plan, p. i

¹⁰ ESCOSA, SA Power Networks reliability standards review, Draft Decision, August 2018, p. 2

Background

SA Power Networks is required to submit revenue and expenditure proposals to the AER for approval every five years. The Draft Plan contains revised forecasts of preliminary plans and proposals that were presented to consumers and stakeholders at a series of deep dive workshops. SA Power Networks is seeking feedback on its Draft Plan in order to 'shape and refine' its approach to the preparation of its 2020-2025 Regulatory Proposal, which is due for submission to the AER by 31 January 2019. This submission briefly outlines SACOSS' concerns, queries and requests for further clarification, which we are hopeful will assist SA Power Networks to identify efficiencies, and inform the development of the Regulatory Proposal to further reduce costs to consumers.

For the purposes of providing feedback on the Draft Plan, SACOSS believes it is useful to firstly summarise the broader objectives that apply to the regulation of electricity distribution network services in the National Electricity Market (NEM).

The National Electricity Objective

The National Electricity Objective (NEO) is the central feature of the framework that regulates electricity services in the NEM. The NEO requires electricity distribution network service providers to efficiently operate their networks in the long term interests of consumers:¹¹

The objective of this Law is 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-

- (a) price, quality, safety, reliability and security of supply of electricity; and*
- (b) the reliability, safety and security of the national electricity system.*

The Australian Energy Regulator (AER) has stated that the long term interests of consumers are promoted through balancing all the NEO's factors, providing consumers with 'a reasonable level of safe and reliable service that they value at least cost in the long run'.¹² The concept of efficiency is of central importance to the achievement of the NEO. The Australian Energy Market Commission (AEMC) states that the NEO '...is an economic concept and is intended to be interpreted as promoting efficiency in the long-term interests of consumers'.¹³ The Expert Panel reviewing governance arrangements in the National Electricity Market (NEM) also confirmed that 'the overall objective for the energy sector in Australia is that the long-term interests of consumers are efficiently served'.¹⁴

¹¹ National Electricity (South Australia) Act 1996, National Electricity Law – Schedule, section 7

¹² AER, Final Decision SA Power Networks Distribution Determination – Overview – October 2015, p.39

¹³ AEMC, Applying the Energy Objectives: A Guide for Stakeholders, 1 December 2016 p. 3. See also See Energy Consumers Australia Research Report No. 1, Interpreting the LTIC, 9 May 2016 and Transcript of Proceedings, Australian Competition Tribunal, No. ACT 11 of 2015, Adelaide, Wednesday, 1 June 2016, p. 2
<http://www.judgments.fedcourt.gov.au/judgments/Judgments/tribunals/acompt/2015/2015acompt002>

¹⁴ Dr Michael Vertigan AC, Professor George Yarrow, Mr Euan Morton, Review of Governance Arrangements for Australian Energy Markets, Final Report, October 2015, p.22

The expenditure objectives

The expenditure forecasts included in SA Power Networks' Draft Plan (and Regulatory Proposal) must meet the expenditure objectives contained in the National Electricity Rules (NER).¹⁵ The expenditure objectives are aimed at ensuring the forecast expenditure:

- meets or manages the expected demand for regulated services over the regulatory control period (expenditure **objective 1**)
- complies with all applicable regulatory obligations or requirements associated with the provision of regulated services (expenditure **objective 2**)
- where no applicable regulatory obligations or requirements associated with the provision of regulated services exist, maintains the quality, reliability and security of supply of regulated services (expenditure **objective 3**), and
- maintains the safety of the distribution system through the supply of regulated services (expenditure **objective 4**).

The expenditure criteria

The expenditure criteria in the NER¹⁶ require the AER to determine whether the expenditure allowance reasonably reflects:

- the **efficient** costs of achieving the objectives
- the costs that a **prudent** operator would require to achieve the objectives, and
- a **realistic** expectation of demand and cost inputs required to achieve the objectives.

The expenditure factors

In deciding whether or not it is satisfied that the proposed expenditure reasonably reflect the criteria, the NER requires the AER to have regard to the following expenditure factors:¹⁷

- the most recent annual benchmarking report
- the actual and expected expenditure of the DNSP during any preceding regulatory control period
- the extent to which the expenditure forecast includes expenditure to address the concerns of electricity consumers identified during the course of its engagement with electricity consumers
- the relative prices of operating and capital inputs
- Capex and Opex trade-offs
- Whether expenditure is consistent with incentive schemes
- whether arrangements are at arm's length
- whether expenditure could be included as a contingent project for the purpose of the Rules
- the extent to which SAPN has considered and made provision for efficient and prudent non-network options
- any relevant final project assessment report
- any other factor the AER considers relevant and have notified SAPN in writing.

¹⁵ National Electricity Rules, Rule 6.5.6(a) and 6.5.7(a)

¹⁶ National Electricity Rules, Rule 6.5.6(c) and 6.5.7(c)

¹⁷ National Electricity Rules, Rule 6.5.6(e) and 6.5.7(e)

In addition to the obligation placed on the AER to consider the extent to which the expenditure forecast addresses the concerns of electricity consumers identified during the course of its engagement (the consumer engagement factor)¹⁸, the NER also places an explicit obligation on network service providers to demonstrate how they have engaged with electricity consumers and sought to address any relevant concerns identified as a result of that engagement.¹⁹ As referred to above, SACOSS is pleased that SA Power Networks have identified that ‘keeping prices down’ is of primary importance to consumers.

SACOSS notes that SA Power Networks refers to *customer* engagement, whereas the NEL and the NER refer to *consumer* engagement. The AER acknowledges ‘consumer’ and ‘customer’ have distinct meanings, but also acknowledges that these terms are used interchangeably.²⁰ In this submission, SACOSS will refer to both customers and consumers.

The Draft Plan

Capital Expenditure – 2015-2020 expenditure performance: \$367m underspend

The Draft Plan identifies a reduction in planned spend from the 2015-2020 period of \$367m, which will result in a lower Regulatory Asset Base (RAB) and therefore lower costs to consumers in future regulatory periods. SACOSS notes SA Power Networks’ explanation for the underspend, including:²¹

- actively deferring some work programs
- the development of different methods to defer the high cost of replacement
- actual customer demand being lower than forecast, which allowed prudent referral of a number of augmentation projects
- lower than forecast costs for Kangaroo Island cable project.

The AER’s Final Decision for the 2015-2020 regulatory determination allowed SA Power Networks to recover \$3,837.5m from consumers, which was 19.1% less than the expenditure that was initially proposed by SA Power Networks and 15.4% less than its revised regulatory proposal of \$4,534.5m. The RAB would have been significantly higher had the AER approved SA Power Networks’ 2015-2020 regulatory proposal, and SACOSS commends the AER for its regulatory oversight in ensuring SA Power Networks continues to operate prudently and efficiently in the long term interests of consumers.

Whilst SACOSS is pleased SA Power Networks’ underspend for 2015-2020 will result in a lower RAB for 2020-2025 and future determinations, we are still not entirely satisfied with the reasons provided by SA Power Networks for the underspend (particularly in relation to 2015-2016).²²

¹⁸ National Electricity Rules, Rule 6.5.6(e)(5A) and 6.5.7(e)(5A)

¹⁹ National Electricity Rules, Rule 6.8.2(c1)(2)

²⁰ AER, Consumer Engagement Guideline for Network Service Providers, November 2013, p. 6

²¹ SA Power Networks’ Draft Plan 2020-2025, p.38

²² See SA Power Networks’ Draft Plan 2020-2025, Figure 6.9, p.45 which demonstrates the significant underspend in 2015-2016

SACOSS questions whether the underspend was as a result of SA Power Networks undertaking activities more efficiently, or choosing not to undertake activities at all. SACOSS considers that if SA Power Networks have committed to an activity that meets the objectives, reflects the criteria and the expenditure has been approved by the AER, then that activity should be undertaken in that regulatory period. If the activity is undertaken more efficiently, then that is one thing, but on the information provided, we are not convinced the underspend in 2015-16 was as a result of efficiencies or prudent decision-making.

We believe it is important to point out that SA Power Networks has had the benefit of the \$367m for the current regulatory period, which consumers have been paying for, and will retain 30% under the Capital Expenditure Sharing Scheme (CESS). In 2015-2016, SA Power Networks spent around half of what was allowed in augmentation expenditure (augex),²³ and around \$40m less than was allowed in replacement expenditure (repex).²⁴ Notably, SA Power Networks have identified significant repex and augex for the 2020-2025 period. SACOSS is concerned that consumers not be required to pay twice for the same outcome. SACOSS is seeking assurances from SA Power Networks that we can have confidence in its 2020-25 proposal, given the \$367m underspend from the previous regulatory period. SACOSS is also seeking SA Power Networks provide a more robust explanation around how they have corrected the errors in forecasting (or otherwise) that resulted in the underspend (bearing in mind the significant difference between the 2015-2020 regulatory proposal and the actual / forecast expenditure for that period).

Feedback on forecast capital expenditure (CAPEX)

SA Power Networks' total forecast capex for 2020-2025 is \$1,850m. The Draft Plan outlines forecast capex under four broad categories:

- Replacement expenditure: \$726m (an increase of \$112m from the 2015-2020 actual / forecast expenditure).
- Augmentation expenditure: \$457m (including \$73m for reliability and \$83m for safety – being increases in 2015-2020 actual / forecast expenditure of \$37m and \$38m respectively).
- Customer connections: \$196m (increase of \$29m from 2015-2020 actual / forecast expenditure and increase of \$32m from preliminary plan of November 2017).
- Non-network expenditure: \$471m (the large proportion of which is IT expenditure in the amount of \$261m, with \$108m for fleet, and \$76m for property).

Replacement expenditure (REPEX)

SA Power Networks is forecasting repex of \$726m for the 2020-2025 period. SA Power Networks proposed \$700m (initially \$772m) in repex for the 2015-2020 regulatory period,

²³ See SA Power Networks' Draft Plan 2020-2025, Figure 6.7, p.45 which demonstrates the significant Augex underspend in 2015-2016

²⁴ See SA Power Networks' Draft Plan 2020-2025, Figure 6.7, p.45 which demonstrates the significant Augex underspend in 2015-2016

and the AER allowed \$655m, excluding overheads, in its Final Decision.²⁵ The AER noted at the time that \$655m represented 57% more repex than SAPN spent in the 2010-15 regulatory control period. SA Power Networks actual / forecast expenditure for 2015-2020 shows that it spent \$614m in repex, which is \$41m less than was allowed.

SACOSS observes that SA Power Networks is forecasting \$112m more than actual / forecast repex (or a 10% increase), for the 2020-2025 period, which it states is necessary to maintain the current service levels (expenditure objective 3) and achieve an appropriate asset risk profile.²⁶

SACOSS is seeking clarification from SA Power Networks on the reason for the \$41m underspend in 2015-2020, which, if it was as a result of efficiencies and prudent decision making, does not explain the increase in the forecast for 2020-2025 of \$112m. SA Power Networks has highlighted the aged asset profile in comparison to other distribution network service providers,²⁷ and SACOSS accepts that SA Power Networks has the oldest electricity network in the NEM. However, SACOSS notes that SA Power Networks did not spend \$41m in the 2015-2020 period to repair / replace the ageing network, and is now asking for an additional \$112m.

SACOSS is also concerned to ensure that consumers not pay more in repex where the expenditure has been forecast on the basis of an overly conservative risk approach. SACOSS will be seeking that the AER fully examine SA Power Networks' proposed risk management approach to ensure that SA Power Networks have a prudent, as opposed to overly conservative, risk approach towards asset management. SACOSS notes Figure 6.6 in the Draft Plan which identifies a significantly increased level of risk, which SA Power Networks says is based on a higher volume of defects in Non-Bushfire risk areas.²⁸

SACOSS also considers that there is an overlap between the forecast expenditure for repex and the expenditure forecast for augex (in particular the \$83m augex / safety component). The Draft Plan identifies \$72m for 2020-2025 in repex safety expenditure. SACOSS is seeking further clarification from SA Power Networks around whether the activities of 'replacing some outdated network components' as part of its \$19m proposed bushfire risk management program, and the replacement expenditure component of the \$24m metropolitan HV program, which are currently identified in safety augex, should more properly be funded within repex.

SACOSS is concerned to ensure customers are not incurring costs identified in one category, that are also picked up elsewhere, and is seeking assurances from SA Power Networks that this is not the case. SACOSS supports SA Power Networks in prudently achieving its objective to maintain current service levels, at the most efficient cost. SACOSS also notes

²⁵ AER, Final Decision SA Power Networks distribution determination, Attachment 6 – Capital Expenditure, October 2015, p 6-74

²⁶ SA Power Networks' Draft Plan 2020-2025, p.45

²⁷ SA Power Networks' Draft Plan 2020-2025, Figure 6.2, p.45

²⁸ SA Power Networks' Draft Plan 2020-2025, Figure 6.6, p.40

that expenditure identified in the repex category is calculated in accordance with the AER's Repex Model.

SACOSS observes that SA Power Networks has not included a breakdown of actual / forecast expenditure for repex for the 2015-2020 period within the Draft Plan, to allow for a comparison of differences with the forecast expenditure for 2020-2025.

Augmentation Expenditure (AUGEX)

SA Power Networks is forecasting augex of \$457m for the 2020-2025 period. SA Power Networks proposed \$592.1m in augex for the 2015-2020 regulatory period, and the AER allowed \$481.1m in its Final Decision.²⁹ SA Power Networks actual / forecast expenditure for 2015-2020 shows that it spent \$453m in augex, which is \$28m less than was allowed.

SA Power Networks has identified around \$87m less expenditure for capacity augex than the 2015-2020 actual / forecast, but has increased the forecast for reliability and safety augex by \$75m from actual / forecast in 2015-2020. PLEC augex has increased by \$10m to \$55m for the 2020-2025 period.

Overall, SACOSS considers that the augex category contains many components, which arguably overlap each other and repex. SACOSS considers that SA Power Networks' augex for bushfire mitigation and other safety augex as well as reliability augex do not reasonably reflect the prudent and efficient amount to maintain network safety and comply with its regulatory obligations. We submit that the \$73m proposed reliability augex is not necessary to *maintain* network service levels over the 2020-2025 regulatory control period.³⁰

Capacity (\$168m)

SA Power Networks has forecast a reduction in capacity driven augex, on the basis of AEMO's 2017 South Australian Electricity Demand Forecasts, which predict that net summer demand will decrease at an annual average rate of 1% over 2020-2025.³¹

The Draft Plan indicates that capacity related augex is required to manage voltage instability, including low voltage monitoring,³² and have identified \$19m to help more customers connect to export energy from their solar and battery systems. The Draft Plan has also identified \$24m for the new Metropolitan HV compliance program in safety related augex, as well as \$37m in strategic related augex for the LV operational model, amounting to \$80m in proposed capital expenditure across categories to address the high DER penetration.

²⁹ AER, Final Decision SA Power Networks distribution determination, Attachment 6 – Capital Expenditure, October 2015, p 6-10

³⁰ See ESCOSA, SA Power Networks reliability standards review, Draft Decision, August 2018, p.23 which states that \$27m in expenditure is sufficient to maintain jurisdictional service standards

³¹ AEMO, 2017 South Australian Electricity Demand Forecast, July 2017 p.6 see: https://www.aemo.com.au/-/media/Files/Electricity/NEM/Planning_and_Forecasting/SA_Advisory/2017/2017-South-Australia-Demand-Forecasts.pdf

³² SA Power Networks' Draft Plan 2020-2025, p.42

SACOSS is seeking clarification from SA Power Networks about the total expenditure associated with ‘future networks’, and whether there is an overlap between the capacity augex, the proposed strategic related augex and safety augex, as those expenditures relate to future networks. SACOSS is keen to ensure that SA Power Networks’ various programs comprise the efficient approach of a prudent operator.

Strategic (\$68m)

The Draft Plan identifies \$37m in strategic related augex to develop an operational model of the LV network. The Draft Plan also identifies \$10.1m opex associated with the LV operational model. SA Power Networks has stated that the expenditure proposed represents a minimum ‘no regrets’ approach to manage future network challenges, and SA Power Networks accepts CCP14 comments³³ that further significant consideration of options will be beneficial.³⁴

SACOSS is pleased that SA Power Networks has accepted the CCP’s concerns about the consideration of alternatives to address the high penetration of DER in SA. As outlined above, SACOSS is seeking clarification from SA Power Networks on the total expenditure proposed to address voltage concerns and impacts associated with DER, across expenditure categories, in order to provide a clearer picture of total expenditure and ensure that total expenditure identified to address the future networks issue is prudent and efficient.

SA Power Networks have identified \$31m in expenditure to continue the roll-out of the Supervisory Control and Data Acquisition system (SCADA) to country substations, and to provide for the hardware and software upgrades for the ADMS and OMS.

In its 2015-20 proposal, SA Power Networks proposed \$18.1 million (\$2014–15) to target and replace aging 33kV, 19kV and 11kV manual reclosers in bushfire risk areas with SCADA controlled units.³⁵ The AER’s Final Decision for 2015-202 noted that the AER considered the *‘proposed SCADA reclosers program, as an augex program, does not reasonably reflect the capex criteria because we provide a repex allowance to fund replacement of aging reclosers. In other words, we consider that the efficient approach of a prudent operator would be to replace those ageing reclosers as provided for through the repex allowance’*.³⁶

SACOSS is seeking clarification from SA Power Networks of the basis for the SCADA program, and whether the expenditure for the program is more reasonably incorporated into the \$726m identified for repex. SACOSS is also seeking clarification as to whether a more

³³AER Consumer Challenge Panel CCP14, Response to the SA Power Networks approach to the challenges of the high penetration of embedded generation as part of their 2020-20 Regulatory Proposal early engagement, 29 June 2018 see: <https://www.aer.gov.au/system/files/Subpanel%2014-%20Response%20to%20SA%20Power%20Networks%20approach%20to%20the%20challenges%20of%20the%20high%20penetration%20of%20embedded%20generation%20as%20part%20of%20their%202020-25%20Regulatory%20Proposal%20early%20engagement%20-%2029%20June%202018.pdf>

³⁴ SA Power Networks’ Draft Plan 2020-2025, p.23

³⁵ AER, Final Decision SA Power Networks distribution determination, Attachment 6 – Capital Expenditure, October 2015, p 6-100

³⁶ Ibid, p.100

efficient approach of a prudent operator would be to undertake the hardware and software upgrades for ADMS and OMS as part of the \$261m proposed Non-Network augex IT spend.

Safety (\$83m)

In its 2015-2020 proposal, SA Power Networks proposed \$103m for bushfire mitigation and other safety capex, including \$21.3m for the 'core' safety program, and \$82.2m for bushfire safety related capex. The Bushfire-safety related capex included:

- \$38.9m for bushfire mitigation
- \$25.6m for 'bushfire safer places' program
- \$17.7m for a 'backup protection program'.³⁷

In its Final Decision for 2015-2020, the AER stated that it was 'not satisfied that SA Power Networks' capex for bushfire mitigation and other safety augex reasonably reflects the prudent and efficient amount to maintain network safety and comply with its regulatory obligations'.³⁸ The AER approved \$21.3m in safety related augex for SA Power Networks' core safety program, and did not approve any expenditure for the bushfire mitigation program.

The Draft Plan identifies \$83m in expenditure for safety, including \$19m for the 'continuation' of SA Power Networks' bushfire mitigation program. The Draft Plan indicates that \$16m was spent on bushfire mitigation in the 2015-2020 period. SACOSS is seeking further clarification from SA Power Networks on the nature of its Bushfire mitigation program, including what has been achieved, and what is left to do? Also, as outlined earlier, as the bushfire mitigation program includes replacing some outdated network components,³⁹ how does the safety-related bushfire mitigation expenditure of \$19m identified in the Draft Plan intersect with the replacement program expenditure?

The Draft Plan also identifies safety related augex of \$24m associated with a new program to address vulnerabilities resulting from greater instabilities in the high voltage network caused by extensive wind and solar generation.⁴⁰ SACOSS is seeking clarification as to how the Metropolitan HV compliance program intersects with the expenditure to address the high penetration of DER and future networks related expenditure (see under capacity, above). SACOSS is seeking clarification as to whether the expenditure associated with the Metro HV Program should more reasonably be provided for through the repex allowance.

Reliability (\$73m)

The Draft Plan identifies \$73m in forecast expenditure under reliability related augex. Including \$37m on measures to maintain underlying reliability, as well as \$17m to finalise

³⁷ AER, Final Decision SA Power Networks distribution determination, Attachment 6 – Capital Expenditure, October 2015, p 6-41

³⁸ AER, Final Decision SA Power Networks distribution determination, Attachment 6 – Capital Expenditure, October 2015, p 6-41

³⁹ SA Power Networks' Draft Plan 2020-2025, p.43

⁴⁰ SA Power Networks' Draft Plan 2020-2025, p.43

the 'hardening the network' program, and \$19m to improve service levels for poorly served customers.

The AER's 2015-2020 regulatory determination approved \$43.6m for reliability related augex. The AER stated that this reflected SA Power Networks' proposed capex to meet ESCOSA obligations (\$27m) and to invest in hardening the network (\$16.6m). The AER did not allow \$13.3m for reliability improvement programs, as these programs did 'not reasonably reflect the capex criteria and are not required to maintain network reliability or satisfy regulatory obligations'.⁴¹ According to the Draft Plan, of the \$43.6m allowed by the AER, SA Power Networks spent \$36m (actual / forecast) in reliability related augex during the 2015-2020 period, being \$7.6m or 17% less than was allowed.

ESCOSA has presented a very thorough Draft Decision on the SAPN Reliability Standards Review, which recommends maintaining reliability at current levels, as no clear economic benefit was found in setting targets to improve performance.⁴²

In the 2013 Expenditure Objectives Rule determination, the AEMC stated that:

'in light of the evidence provided it should be made clear in the NER that where the jurisdiction determines a regulated standard for reliability it is this level of reliability that expenditure in an NSP's regulatory proposal should be based on and not any other level. In practice this means that the NSP should propose no more expenditure than is necessary to comply with the reliability standard, and for the AER not to approve any more expenditure than required by the standard'.⁴³

Given ESCOSA's Draft Decision to maintain reliability levels, and the AEMC's comments about expenditure forecasts, SACOSS submits SA Power Networks should propose no more reliability expenditure than is necessary to maintain current levels. ESCOSA's Draft Decision identifies that, absent a step change, SA Power Networks has indicated that \$27m over five years would be identified to maintain jurisdictional standards for 2020-2025, being a similar amount to that identified for 2015-2020 (\$27m). SACOSS is seeking clarification from SA Power Networks as to why it has identified \$37m to maintain underlying reliability performance standards to 2025, and not a lower amount as outlined by ESCOSA.

The AER's 2015-2020 final decision approved \$16.6m for hardening the network capex 'because we consider it reasonably reflects the efficient costs a prudent operator would require to comply with the capex objective to maintain reliability'.⁴⁴ SACOSS is seeking clarification from SA Power Networks as to why additional expenditure during the 2020-2025 period of \$17m is required to maintain reliability. Can SA Power Networks provide us with details of the hardening the network program from 'end to end'? What has been

⁴¹ AER, Final Decision SA Power Networks distribution determination, Attachment 6 – Capital Expenditure, October 2015, p 6-46

⁴² ESCOSA, SA Power Networks reliability standards review, Draft Decision, August 2018, p.24

⁴³ AEMC Rule Determination National Electricity Amendment (Network Service Provider Expenditure Objectives) Rule 2013, 19 September 2013, p.16

⁴⁴ AER, Final Decision SA Power Networks distribution determination, Attachment 6 – Capital Expenditure, October 2015, p 6-46

achieved to date, what is SA Power Networks intending to achieve in 2020-2025? How do these plans fit in with ElectraNet's plans for the Eyre Peninsula,⁴⁵ and to what extent are ElectraNet and SA Power Networks working together to achieve overall outcomes?

The Draft Plan has identified \$19m in reliability augex to improve the service levels for 19,000 of its poorly served customers. In the previous 2015-2020 determination, the AER refused to approve expenditure for reliability improvement programs as they did not reasonably reflect the capex criteria and were 'not required to maintain network reliability or safety regulatory obligations.'⁴⁶ ESCOSA's Draft Decision is to **not** to set standards to achieve targeted improvements in specific regions⁴⁷, and (as outlined above) to set performance targets to maintain reliability. On the basis of ESCOSA's Draft Decision, SACOSS considers that there is no reliability obligation to improve service levels, and further expenditure for reliability improvement programs is not required for SA Power Networks to maintain reliability. SACOSS therefore believes \$19m in reliability augex should not be allowed by the AER.

SACOSS considers that consumers should only be required to pay for reliability expenditure which meets the objectives, and is prudent and efficient. Consumers should not be paying for improvements and network hardening when there is no regulatory requirement to do so. SA Power Networks can proceed with this expenditure, but it should not be recovered from consumers, and should not be included in the RAB.

PLEC (\$55m)

Section 53A of the *Electricity Act* 1996 provides for a program for the undergrounding of powerlines. Section 58A(3) provides that the Minister 'must ensure that the total cost of the work to be carried out at the expense of electricity entities in each financial year, is not less than the mount fixed or determined in the regulations'.

Part 9, regulation 44 of the *Electricity (General) Regulations* 2012 sets out the prescribed amount for undergrounding work for the purposes of section 58A(3) of the *Electricity Act*.⁴⁸ The 2014-15 funding prescribed by legislation, according to the 2014-15 PLEC Annual Report, was \$6.6m. The PLEC Annual Report for 2015-16 identified a \$6.7m contribution from SA Power Networks. The PLEC Annual Report for 2016-17 identified \$6.85m prescribed by legislation for PLEC funding for that year, with \$3.43m funded by councils. It also identified \$10.28m in funding *committed for* the 2017-18 PLEC Program. It is unclear as to whether this is total funding for 2017-18, or the prescribed contribution by SA Power

⁴⁵ It is worth noting that despite the claims of poor reliability, ESCOSA's inquiry in to the reliability and quality of electricity supply on the Eyre Peninsula found that 'reliability of electricity supply on the Eyre Peninsula was relatively stable between 2006-2007 and 2015-2016'. The Inquiry received representations suggesting poor quality of supply (voltage variations) in parts of the Eyre Peninsula, 'although complaints data suggested there were few problems'.

⁴⁶ AER, Final Decision SA Power Networks distribution determination, Attachment 6 – Capital Expenditure, October 2015, p 6-46

⁴⁷ ESCOSA, SA Power Networks reliability standards review, Draft Decision, August 2018, p.26

⁴⁸ The amount is to be determined by the Minister in accordance with a formula based on the 2011-12 financial year amount of \$6.093m p/a each financial year 2011/2012

Networks. If it is total funding committed (including contributions of councils), then two thirds⁴⁹ of the total PLEC amount of \$10.28m for the 2017-2018 financial year amounts to a contribution by SA Power Networks of \$6.85m. SACOSS submits it would be unusual for the funding contribution of SA Power Networks to increase by \$3.5m in one year, and is therefore submitting that the \$10.28m is total funding committed, not the prescribed amount.

The Draft Plan shows actual / forecast expenditure of \$45m for PLEC for the 2015-2020 period. From the various PLEC Annual Reports it appears that SA Power Networks' contribution has not been above \$7m for the previous three years, amounting to an estimated amount of \$35m actual / forecast over five years. SACOSS is seeking SA Power Networks provide further information on the exact amount of PLEC funding it has been asked to contribute in the 2015-2020 regulatory period.

The Draft Plan identifies \$55m over 5 years for SA Power Networks' contribution to the PLEC program (or around \$11m per annum). Can SA Power Networks provide further information as to how it arrived at this amount? Is PLEC funding determined by the Minister on an annual basis, and if so, how is SA Power Networks forecasting the amount over five years?

Customer connections (\$196m)

The AER approved \$190.8m for net connections capex in its 2015-2020 Final decision (after considering trends relative to recent expenditure and assessing that the forecast was consistent with expected construction activity in South Australia).⁵⁰ SA Power Networks' actual / forecast expenditure for the 2015-2020 period for customer connections was \$167m, or \$23.8m (12%) less than was approved by the AER.

The Draft Plan identifies \$196m for customer connections for the 2020-2025 regulatory period, or \$30m more than was spent last regulatory period. SACOSS is seeking further information on the economic forecast used by SA Power Networks to arrive at this amount.

Non-network (\$471m)

SA Power Networks is forecasting non-network expenditure of \$471m for the 2020-2025 period.

SA Power Networks proposed \$562.6m (initially \$663.3m) in non-network capex for the 2015-2020 regulatory period, and the AER allowed \$511.2m in its Final Decision.⁵¹ SA Power

⁴⁹ Annexure 2 to the Charter of the Powerline Environment Committee (PLEC) provides for SA Power Networks to contribute (around) two thirds of the identified costs, with Councils contributing the remaining third (and the Department of Planning, Transport and Infrastructure covering the costs of the relocation of mains).

⁵⁰ AER, Final Decision SA Power Networks distribution determination, Attachment 6 – Capital Expenditure, October 2015, p 6-73

⁵¹ AER, Final Decision SA Power Networks distribution determination, Attachment 6 – Capital Expenditure, October 2015, p 6-114

Networks actual / forecast expenditure for 2015-2020 shows that it spent \$479m in non-network capex, which is \$32m (or 6%) less than was allowed.⁵²

The Draft Plan forecasts spending on IT, property, fleet, telecommunications and plant and tools. SACOSS considers that there is room for efficiencies in the forecast non-network capex.

Non-network IT - \$261m

SA Power Networks' revised proposal for 2015-2020 included IT capex of \$299.7m. The AER's Final Decision found that SA Power Networks' forecast non-network IT capex 'associated with the customer information system, RIN reporting, and tariffs and metering IT capex projects does not reflect the efficient costs required to meet the identified business needs. We consider that forecast capex of \$264.9 million (\$2014–15) reasonably reflects a prudent and efficient level of IT capex for the 2015–20 regulatory control period'.⁵³

The Draft Plan shows IT actual / forecast expenditure for 2015-2020 in the amount of \$313m, or \$48m **more** than was allowed.

SA Power Networks is forecasting \$261m in IT related capex for the 2020-2025 period. The expenditure will relate to the following key work programs:⁵⁴

- Recurrent \$201m⁵⁵ – manage and update existing software and hardware for :
 - 80+ applications (\$75m)
 - end user devices (\$24m)
 - servers and operating infrastructure (\$30m), and
 - IT management, cyber security tools and products (\$16m)
- Specific large replacements (\$54m):
 - complete billing system replacement (\$13m)
 - upgrade SAP platform to enable continued vendor support (\$27m)
 - consolidation of GIS systems (\$14m)
- Non-recurrent \$60m:
 - continuation of Asset and Works program (\$48m)
 - modifications to systems for ring fencing and five minute rule change compliance (\$11m).

SACOSS notes that the recurrent IT expenditure of \$201m in addition to the specific large replacement expenditure of \$54m and the non-recurrent expenditure of \$60m adds up to

⁵² Even with an additional \$48.1 spent on IT for 2015-2020 (being the forecast / actual amount of \$313m identified in the Draft Plan minus the \$264.9 approved by the AER)

⁵³ AER, Final Decision SA Power Networks distribution determination, Attachment 6 – Capital Expenditure, October 2015, p 6-115

⁵⁴ SA Power Networks, Draft Plan 2020-2025, p.49

⁵⁵ SACOSS notes that the recurrent expenditure identified in the Draft Plan adds up to \$145m not \$201m, leaving \$56m for other recurrent expenditure programs?

\$315m in IT expenditure, not \$261m. SACOSS is seeking further clarification on the details of the IT expenditure forecast for 2020-2025

The Draft Plan states that (our emphasis):

*‘SA Power Networks’ IT systems improve the **efficiency of capital expenditure and energy service delivery** as they allow (SA Power Networks) to collect information on and understand (its) millions of network assets such as their age and condition and how the performance of the network assets affects (its) customers’.*⁵⁶

SACOSS is seeking clarification on the improved efficiencies that have resulted from the previous IT spend of \$313m.⁵⁷ Is it possible to track the total savings of the improved efficiencies? Noting that (if the \$261m is approved by the AER) over a 10 year period to 2025, SA Power Networks will have invested \$574m in Non-Network IT.

SACOSS is keen to ensure that this \$574m over 10 years represents prudent expenditure resulting in accountable efficiencies, noting that IT is depreciated over five years (as opposed to poles and wires which are depreciated over 50 years). SACOSS is seeking SA Power Networks provide the bigger picture of the IT expenditure from 2015-2020 through to 2020-2025, explaining how the IT program (over the 10 year period) is prudent, efficient and deliverable.

The Draft Plan states that (our emphasis): ‘customers have indicated that they would like us **to use technology to effectively manage the network**, specifically customers have asked us to:

- **improve reliability in poor performing areas**
- make prudent investments to enable us to **keep electricity prices down**
- enable the **energy transition** with appropriate preparation
- balance current network investment with future uncertainty
- provide accurate, reliable and timely outage communication, and
- improve outcomes in vegetation management.’⁵⁸

In order to achieve these outcomes, the Draft Plan 2020-2025 outlines multiple IT spends across different expenditure categories, not just non-network (LV management, SCADA, ADMS and OMS, cloud transitioning, Critical Infrastructure Compliance, billing replacement).

In addition to the \$261m identified for IT expenditure under Non-network, SACOSS is seeking further clarification from SA Power Networks on the **bigger picture** of the IT expenditure proposal (including IT expenditure across all categories), and how these various expenditures relate to each other. For example, how does the cyber security spend of \$16m (outlined above under recurrent) relate to the CIC opex step change (\$10.1m) and

⁵⁶ SA Power Networks, Draft Plan 2020-2025, p.45

⁵⁷ SACOSS notes SA Power Networks’ explanation that improved data and technology have allowed a repex forecast expenditure of \$200m lower than it would have been using previous methodologies, and refers to our commentary on repex expenditure within this submission.

⁵⁸ SA Power Networks, Draft Plan 2020-2025, p.46

cloud hosting.⁵⁹ SA Power Networks has also outlined spends in augex, under strategic and safety expenditure, to enable the energy transition and balance current network investment with future uncertainty. SACOSS is seeking clarification on the IT spends included in the non-network expenditure that relate to the energy transition, which are additional to the strategic and safety related augex.

In relation to using technology to improve reliability in poor performing areas, SACOSS believes SA Power Networks' conclusion that customers need improved reliability is not supported by ESCOSA's Draft Decision and Oakley Greenwood's contingent valuation survey. SACOSS submits that customers are overwhelmingly concerned about price and SACOSS supports all activities that lead to the efficient and prudent operation of SA Power Networks focusing on lower costs for consumers.

Property (\$76m)

The AER allowed \$71.8m in property related capex for the 2015-2020 period.⁶⁰ The forecast / actual expenditure for the 2015-2020 period is \$51m,⁶¹ or \$20m (27%) less than was allowed.

SA Power Networks is forecasting \$76m in property related expenditure for the 2020-2025 regulatory period, or \$25m more than it spent in the last regulatory period, with no additional construction projects proposed in the Draft Plan.

SACOSS submits that property related expenditure for the 2020-2025 period should reflect SA Power Networks' forecast / actual property capex for the 2015-20 period of \$51m, allowing it to continue to prudently maintain and refurbish its existing 42 sites in line with previous expenditure.

Fleet (\$108m)

The AER's 2015-2020 determination considered that SA Power Networks' forecast standard control fleet capex of \$122.9 million reasonably reflected the efficient costs that a prudent operator would require to meet the capex criteria.⁶² The \$122.9m included forecast new fleet capex of \$16.7m and IVMS fleet capex of \$3m. SA Power Networks' actual / forecast expenditure for 2015-2020 on fleet capex is \$92m, or \$31m less than was allowed.

The Draft Plan identifies \$108m in forecast fleet capex for 2020-2025. SACOSS submits that SA Power Networks' fleet expenditure for 2020-2025 should reflect the actual / forecast expenditure for 2015-2020, in so far as that expenditure related to prudent fleet replacements and maintenance.

⁵⁹ SACOSS notes the capex / opex trade-off for cloud host transitioning: spending \$10.1m in opex IT, saves \$11.8 in capex.

⁶⁰ AER, Final Decision SA Power Networks distribution determination, Attachment 6 – Capital Expenditure, October 2015, p 6-130

⁶¹ SA Power Networks, Draft Plan 2020-2025, p.37

⁶² AER, Final Decision SA Power Networks distribution determination, Attachment 6 – Capital Expenditure, October 2015, p 6-132

Feedback on forecast operating expenditure (OPEX)

SA Power Networks' initial proposal for forecast opex for the 2015-2020 period was \$1,527.2, which it revised down to \$1,422m. The AER allowed \$1,251.4 in total opex for the 2015-2020 period.

The Draft Plan 2020-2025 outlines total forecast opex of \$1,468m. SA Power Networks has identified year number four (2018-2019) as its base year, with costs of \$281m per annum forecast. This amounts to a base of \$1,405m. The Draft Plan identifies \$12.7m in step changes, with a trend of \$50m, amounting to total opex of \$1,468m.

Base

As outlined above, the Draft Plan identifies 2018-2019 as the most efficient and suitable year to be used as a foundation for the future period. The Draft Plan acknowledges the significant underspend in 2015-2016 and the increased costs associated with significant storm events in 2016-2017.

SA Power Networks has indicated that 2017-2018 had a low incidence of extreme weather days resulting in lower emergency response and GSL payments. The Draft Plan indicates that SA Power Networks have averaged the costs of the GSL Scheme over the first three years of the regulatory period to provide for a 'normal' year of GSL payments to be included in the Base Year.⁶³ Given the highly unusual and excessive payments from 2016-2017, SACOSS questions whether an averaging of the first three years truly represents normal GSL payments. SACOSS submits SA Power Networks and the AER should have regard to ESCOSA's findings that (our emphasis):⁶⁴

*'The difference between the \$10.1m per annum for the 2015-2020 and the actual cost of the scheme highlights how the AER provides for GSL expenditure. The allowance for the 2015-2020 period was made with reference to the 2013-2014 base year, a year in which GSL payments were the highest to date. However, **the average cost up until that time (from 2005-2006 to 2012-2013) was lower; \$2.3m.** Costs of GSL payments in the current period have continued to be highly variable (\$2.5m in 2015-16 and \$28.4m in 2016-17).'*

SACOSS submits the AER and SA Power Networks use a more realistic method of calculating a 'normal' year of GSL payment for inclusion in the Base Year, we believe 2016-17 should not be included in the calculation.

Step

The Draft Plan proposes step changes (and trade-offs) amounting to \$12.7m.

Low Voltage Management future networks

The Draft Plan identifies \$10.1m in opex associated with the new capex LV Management program. The costs are associated with operating costs to obtain data, procure IT platforms

⁶³ SA Power Networks, Draft Plan 2020-2025, p.54 (see footnote 22)

⁶⁴ ESCOSA, SA Power Networks reliability standards review, Draft Decision, August 2018, p.33

and operate and maintain the capabilities required to obtain visibility of and manage the low voltage network. SACOSS acknowledges the reduction in forecast opex of \$16m from first planned, as a result of customer and CCP feedback.

SACOSS is seeking clarification as to whether the \$10.1m represents net operating costs, or whether there are some savings identified from the cloud / IT spend?

Cloud transition

The Draft Plan identifies cloud transitioning – cloud hosting opex of \$7.5m, with a capex trade-off of \$8.7m, and cloud transitioning - work scheduling opex of \$3.1m with capex trade-off of \$3.1m. The Draft Plan notes that SA Power Networks expects the AER to thoroughly review the efficiency trade-off, and SACOSS supports a review.

SACOSS is seeking SA Power Networks identify the efficiencies that have resulted from moving to cloud based technologies, noting that opex has not dropped off, and additional costs have been added in.

Critical Infrastructure Compliance

The Draft Plan identifies \$10.6m in opex to comply with the *Security of Critical Infrastructure Act 2018*. SA Power Networks has identified that the restrictions placed on location and ownership of supporting IT functions, will increase the costs of those functions.

SACOSS is seeking clarification from SA Power Networks as to whether some of the costs associated with CIC compliance are covered by the IT cloud transition expenditure from 2015-2020 and forecast expenditure for 2020-2025.

Billing replacement

The Draft Plan identifies \$3.4m in additional opex associated with the ongoing capex program for legacy billing system replacement, stating that a further step change is required for additional incremental software licence and cloud subscription costs for the 2020-2025 period (as identified in the 2015-2020 proposal).

In its initial proposal to the AER for the 2015-2020 regulatory period, SA Power Networks included a step change of \$6.9m to replace the billing and customer related management system. SA Power Networks then revised this down to \$3.6m to reflect a delay in implementation by one year, and reduced software and maintenance costs.⁶⁵ The AER engaged Nous Group to review SA Power Networks' IT capex, and recommended the implementation of cloud based options (where a third party provides the CRMS and SA Power Networks subscribes to it). SA Power Networks estimated the additional step up in opex would be \$4.0 million (\$2014–15) by applying these changes, and the AER accepted this forecast.

SA Power Networks therefore have \$4m opex locked in for billing replacement from 2015-2020, which is included in the Base Year. The additional \$3.6m opex step change for 2020-

⁶⁵ AER, Final Decision SA Power Networks distribution determination, Attachment 7 – Operating Expenditure, October 2015, p 7-84

2025 brings the total opex for billing replacement to \$7.6m. This is in addition to identified opex costs for cloud transitioning (\$10.6m).

Can SA Power Networks provide a complete picture of the relationship between the cloud transitioning costs and the billing replacement costs? SACOSS is also seeking clarification on the length of the implementation of the billing replacement program approved for the 2015-2020 period (was it approved to be implemented over nine years?). Have any additional capex efficiencies been identified as a result of the implementation of the cloud based billing system, over and above those noted in the Draft Plan?

GSL Scheme

The Draft Plan proposes a negative step change (reduction in opex) of \$22m as a result of changes to the GSL Scheme proposed by ESCOSA. SA Power Networks proposes expenditure of \$40m down from \$62m from the current period.

Given the cost of the GSL Scheme is highly variable (ranging from the highest cost in 2016-17 of \$28.4m to the lowest cost in 2007-2008 and 2008-2009 of \$0.5m) how have SA Power Networks arrived at \$8m per annum to estimate the costs of the Scheme? As outlined earlier in this submission, excluding 2016-17, the average cost of the scheme since 2005-06 was \$2.98m per annum.

ESCOSA has indicated the revised GSL Scheme is designed to contain scheme costs within customers' willingness to pay \$6.4m per annum.⁶⁶ SACOSS is seeking further clarification from SA Power Networks around the methodology used to estimate the costs of the GSL Scheme for 2020-2025.

Trend

Output change

SAPN has provided a preliminary estimate of 0.57% growth per annum.

ESCOSA has noted the declining levels of demand in South Australia, stating that 'falling demand means distribution network expenditure will necessarily focus more on maintenance, repair, replacement and in places localised network reinforcement than on expanding network capacity'.⁶⁷ SACOSS agrees with ESCOSA and refers to [AEMO's March 2018 Electricity Demand Forecasting Insights](#) which states consumption met by grid supplied electricity is forecast to remain relatively flat for the next 20 years. SACOSS acknowledges that SA Power Networks have applied the AER's preferred formula in determining network growth. SACOSS is seeking further assurance that the \$24m increase in opex to account for forecast growth in outputs, is a realistic estimate.

Price growth

SA Power has identified a labour real price growth forecast of +1%, amounting to price growth of \$26m.

⁶⁶ ESCOSA, SA Power Networks reliability standards review, Draft Decision, August 2018, p.33

⁶⁷ ESCOSA, SA Power Networks 2020 reliability standards review: objectives and process, December 2017, p.8

The Wage Price index⁶⁸ indicates a quarterly change (March 2018- June 2018) of +.5% for Australia. SACOSS understands that NSW regulatory determinations are starting at CPI +.5%. SACOSS is seeking clarification as to whether +1% is a realistic forecast given the current labour market in Australia.

Productivity

SA Power Networks acknowledges the submissions made by stakeholders and customers that an additional productivity growth factor be applied to reduce costs.⁶⁹ SA Power Networks states that it does not support this approach and it has not applied any further productivity growth factor in the Draft Plan.⁷⁰ The Draft Plan states that ‘escalating costs driven by a changing environment will be met by efficiency gains. No further productivity adjustment is proposed.’⁷¹

SACOSS notes the AER’s recent advice published on 12 September 2018 that it is currently reviewing and refining its approach to forecasting operating expenditure (opex) productivity growth.⁷² The AER has indicated that the proposed review is ‘part of our continuous improvement of our regulatory toolkit and will help to ensure that energy consumers pay no more than is necessary for the safe and reliable distribution of electricity.’⁷³

The AER will be publishing a consultation paper on the review in October 2018. SACOSS supports the AER’s review, and we will be taking a keen interest in how it impacts on SA Power Networks’ approach to forecasting productivity growth.

SACOSS also supports the comments of CCP14 in relation to SA Power Networks’ trend opex productivity. In its submission to the AER on the Framework and Approach Paper, CCP14 questioned the AER’s assumption of a zero productivity change over the reset period, and SACOSS agrees with CCP14’s statement that:⁷⁴

‘While this is based on a view that a zero assumption is an improvement on fall in productivity over the last 10 years, in the current environment network business customers are under continual pressure to improve their productivity to stay in business. Most residential consumers, particularly vulnerable consumers, are not receiving real increases in their income. We see no reason why networks should be treated any

⁶⁸ <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6345.0>

⁶⁹ SA Power Networks, Draft Plan 2020-2025, p.56

⁷⁰ SA Power Networks, Draft Plan 2020-2025, p.56

⁷¹ SA Power Networks, Draft Plan 2020-2025, p.54

⁷² <https://www.aer.gov.au/communication/aer-to-review-its-approach-to-forecasting-opex-productivity-growth-for-electricity-distribution>

⁷³ ibid

⁷⁴ CCP14, Submission to the AER, Preliminary Framework and Approach, SAPN Regulatory control period 1 July 2020, 4 May 2018, p. 9 https://www.aer.gov.au/system/files/CCP14%20-%20Submission%20to%20Preliminary%20Framework%20and%20Approach%202025%20-%204%20May%202018_0.pdf

differently from their customers. This means that the efficiency frontier at the end of the reset period is higher than the base year.'

SACOSS believes there should be more pressure on networks to have positive opex productivity in line with other businesses in the competitive market, particularly given the current climate of energy affordability. Specifically, SACOSS is seeking clarification from SA Power Networks as to why its IT expenditure has not led to greater productivity.

Revenue Building Blocks

The Draft Plan provides forecasts of the revenue building blocks which allow for SA Power Networks to recover its efficient costs and provide an adequate return to investors, in accordance with the building block method established under the National Electricity Rules. SA Power Networks has identified a return on capital of \$1,217m based on a RAB of \$4,386 and a weighted average cost of capital of 5.5%. The Draft Plan also provides for \$1,024m in regulatory depreciation and \$1,468m in operating expenditure, with an \$8m amount for incentive scheme carry over and \$176m in tax, amounting to total revenue forecast of \$3,893m.

Return on Capital

SACOSS notes that whilst the RAB is lower for the 2020-2025 period, the forecast opening RAB of \$4,386m represents an increase of \$1,881.1m from the opening RAB of 2005-2006 (see Attachment 'A').

SACOSS supports the AER's Draft Rate of Return Guideline being used by SA Power Networks to provide an estimate of WACC of 5.5% for the 2020-2025 period.

Tariff Structure Statement

SACOSS has not developed its position in relation to SA Power Networks' Tariff Structure Statement at this stage. We understand the CCP is currently looking at tariff structures more broadly, and will wait on the results of the CCP's inquiry to inform our views.

Summary of Submissions

SACOSS has summarised our queries and requests for further clarification from SA Power Networks, below.

The \$367m underspend

SACOSS is seeking:

- assurances from SA Power Networks that we can have confidence in its 2020-25 proposal, given the \$367m underspend
- a more robust explanation around how SA Power Networks have corrected the errors in forecasting (or otherwise) that resulted in the underspend (bearing in mind the significant difference between SA Power Networks' 2015-2020 regulatory *proposal* and the actual / forecast expenditure for that period).

Capital Expenditure

Repex

SACOSS is seeking:

- clarification from SA Power Networks on the reason for the \$41m underspend in 2015-2020, and how that relates to the increase in the forecast for 2020-2025 of \$112m
- the AER fully examine SA Power Networks' proposed risk management approach to ensure that SA Power Networks have a prudent, as opposed to overly conservative, risk approach towards asset management
- further clarification from SA Power Networks around whether the activities of 'replacing some outdated network components' as part of its \$19m proposed bushfire risk management program, and the replacement expenditure component of the \$24m metropolitan HV program (which are currently identified in safety augex) should more properly be funded within repex
- assurances from SA Power Networks that customers are not incurring costs identified in one category, that are also picked up elsewhere.

Augex

SACOSS is seeking:

Capacity

- clarification from SA Power Networks about the total expenditure associated with 'future networks' (including voltage concerns and impacts associated with DER), and whether there is an overlap between the capacity augex, the proposed strategic related augex and safety augex, as those expenditures relate to future networks (this request for further information also relates to safety augex and strategic augex).

Strategic

- clarification from SA Power Networks of the basis for the SCADA program, and whether the expenditure for the program is more reasonably incorporated into the \$726m identified for repex.
- clarification as to whether the hardware and software upgrades for ADMS and OMS should be undertaken as part of the \$261m proposed Non-Network augex IT spend.

Safety

- further clarification from SA Power Networks on the nature of its Bushfire mitigation program, including what has been achieved, and what is left to do
- how does the safety-related bushfire mitigation expenditure of \$19m identified in the Draft Plan intersect with the replacement program expenditure?
- clarification as to how the Metropolitan HV compliance program intersects with the expenditure to address the high penetration of DER and future networks related expenditure (see under capacity, above).

- clarification as to whether the expenditure associated with the Metro HV Program should more reasonably be provided for through the repex allowance.

Reliability

- clarification from SA Power Networks as to why it has identified \$37m to maintain underlying reliability performance standards to 2025, and not a lower amount as outlined by ESCOSA.
- clarification from SA Power Networks as to why additional expenditure during the 2020-2025 period of \$17m is required to maintain reliability.
- SA Power Networks provide SACOSS with details of the hardening the network program from 'end to end'? What has been achieved to date, what is SA Power Networks intending to achieve in 2020-2025? How do these plans fit in with ElectraNet's plans for the Eyre Peninsula, and to what extent are ElectraNet and SA Power Networks working together to achieve overall outcomes?

SACOSS submits:

- \$19m in reliability augex should not be allowed by the AER as consumers should only be required to pay for reliability expenditure which meets the objectives, and is prudent and efficient.

PLEC

SACOSS is seeking:

- SA Power Networks provide further information on the exact amount of PLEC funding it has been asked to contribute in the 2015-2020 regulatory period.
- SA Power Networks provide further information as to how it arrived the amount of \$45m for 2015-2020?
- confirmation that PLEC funding is determined by the Minister on an annual basis, and if so clarification as to how SA Power Networks forecast \$55m over five years.

Customer Connections

SACOSS is seeking:

- further information on the economic forecast used by SA Power Networks to arrive at \$196m.

Non-network

SACOSS is seeking:

IT

- further clarification on the details of the IT expenditure forecast for 2020-2025 (noting the anomaly in the total amounts outlined in Table 6.2)
- clarification on the improved efficiencies that have resulted from the previous IT spend of \$313m

- tracking of the total savings from the improved efficiencies resulting from the IT expenditure
- SA Power Networks provide the bigger picture of the IT expenditure from 2015-2020 through to 2020-2025, explaining how the IT program (over the 10 year period) is prudent, efficient and deliverable.
- further clarification from SA Power Networks on the **bigger picture** of the IT expenditure proposal (including IT expenditure across all categories not just non-network), and how these various expenditures relate to each other.
- clarification of the IT spends included in the non-network expenditure that relate to the energy transition, which are additional to the strategic and safety related augex.

Property

SACOSS submits:

- that property related expenditure for the 2020-2025 period should reflect SA Power Networks' forecast / actual property capex for the 2015-20 period of \$51m.

Fleet

SACOSS submits:

- that SA Power Networks' fleet expenditure for 2020-2025 should reflect the actual / forecast expenditure for 2015-2020, in so far as that expenditure related to prudent fleet replacements and maintenance.

Operating Expenditure

Base

SACOSS submits:

- the AER and SA Power Networks use a more realistic method of calculating a 'normal' year of GSL payment for inclusion in the Base Year (we believe 2016-17 should not be included in the calculation).

Step

SACOSS is seeking:

LV Management

- clarification as to whether the \$10.1m represents net operating costs, or whether there are some savings identified from the cloud / IT spend?

Cloud transition

- SA Power Networks identify the efficiencies that have resulted from moving to cloud based technologies, noting that opex has not dropped off, and additional costs have been added in.

CIC

- clarification from SA Power Networks as to whether some of the costs associated with CIC compliance are covered by the IT cloud transition expenditure from 2015-2020 and forecast expenditure for 2020-2025

Billing replacement

- a complete picture of the relationship between the cloud transitioning costs and the billing replacement costs
- clarification of the length of the implementation of the billing replacement program approved for the 2015-2020 period (was it approved to be implemented over nine years?).
- to know whether additional capex efficiencies been identified as a result of the implementation of the cloud based billing system, over and above those noted in the Draft Plan?

GSL Scheme

- further clarification from SA Power Networks around the methodology used to estimate the costs of the GSL Scheme for 2020-2025.

Trend

SACOSS is seeking:

Output change

- further assurance that the \$24m increase in opex to account for forecast growth in outputs is a realistic estimate.

Price growth

- clarification as to whether +1% is a realistic forecast given the current labour market in Australia.

Productivity

- clarification from SA Power Networks as to why its IT expenditure has not led to greater productivity.
- SACOSS supports the AER's review of its approach to forecasting opex productivity growth, and we will be taking a keen interest in how it impacts on SA Power Networks' forecasting.

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 or 08 8305 4211.

Yours sincerely,



Ross Womersley
Chief Executive Officer

Attachment 'A'

Table 1 AER's final decision on SA Power Networks' RAB for the 2010–15 regulatory control period (\$ million, nominal)

	2010–11	2011–12	2012–13	2013–14	2014–15 ^a
Opening RAB	2900.0	3096.8	3287.9	3502.0	3674.4
Capital expenditure ^b	271.0	325.7	335.2	291.3	335.4
Inflation indexation on opening RAB	96.6	48.9	82.2	102.6	48.9
Less: straight-line depreciation	170.7	183.6	203.3	221.5	242.0
Closing RAB	3096.8	3287.9	3502.0	3674.4	3816.7
Difference between estimated and actual capex (1 July 2009 to 30 June 2010)					–24.3
Return on difference for 2009–10 capex					–14.0
Closing RAB as at 30 June 2015					3778.4

Source: AER analysis.

(a) Based on estimated capex. We will update the RAB roll forward in the substitute decision.

(b) Net of disposals and capital contributions, and adjusted for CPI.

Table 2 AER's final decision on SA Power Networks' RAB for the 2015–20 regulatory control period (\$ million, nominal)

	2015–16	2016–17	2017–18	2018–19	2019–20
Opening RAB	3778.4	4064.1	4279.3	4482.8	4680.9
Capital expenditure ^a	402.6	404.1	397.5	400.6	416.5
Inflation indexation on opening RAB	94.5	101.6	107.0	112.1	117.0
Less: Straight-line depreciation	211.3	290.4	301.0	314.6	332.0
Closing RAB	4064.1	4279.3	4482.8	4680.9	4882.4

Source: AER analysis.

(a) Net of forecast disposals and capital contributions.

Table 1: AER conclusion on ETSA Utilities' opening RAB (\$m, nominal)

	2005–06	2006–07	2007–08	2008–09	2009–10 ^a
Opening RAB	2504.9	2593.4	2628.9	2701.6	2767.0
Actual net capex (adjusted for actual CPI and weighted average cost of capital)	149.4	122.5	119.9	170.0	193.5
Regulatory depreciation (adjusted for actual CPI)	-61.0	-87.0	-47.3	-104.6	-106.6
Closing RAB	2593.4	2628.9	2701.6	2767.0	2853.8
Difference between actual and forecast capex for 2004–05					-0.3
Return on difference					-0.2
Removal of metering assets					-81.0
Opening RAB at 1 July 2010					2772.4

(a) Based on estimated net capex.