10 March 2023

Mr Adam Wilson
Chief Executive Officer
Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

By email: escosa@escosa.sa.gov.au

Dear Mr Wilson,

RE: Electricity Distribution Code Review: Draft Decision, January 2023

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 Electricity Distribution Code Review*, dated January 2023 (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 Electricity Distribution Code* (the Code) to apply from 1 July 2025 (the Review). The Code sets out consumer protections that apply to SA Power Networks, including customer service standards and network reliability standards.

ESCOSA's Draft Decision sets out four main areas of proposed change to the Code:

- the application of the Code
- minimum network reliability standards
- distributed energy resources, and
- obligations for the timely repair of street lights

SACOSS supports ESCOSA's Draft Decision on all aspects of the Review. We commend ESCOSA on its considered, thorough and well-reasoned decision-making, resulting in a Draft Decision that reflects consumers' expectations and broadly promotes the long-term interests of consumers in South Australia with respect to the price, quality and reliability of electricity distribution services.

SACOSS considers it is important to place this Review in the current context of increasingly unaffordable energy and broader cost of living pressures. South Australians are currently experiencing an energy affordability crisis, and SACOSS is overwhelmingly concerned about the disproportionate impact of energy prices on people experiencing vulnerability in South Australia. The AER's *Annual Retail Markets Performance Report 2021-22* published in November 2022, provided an insight into the impact of increasing energy costs on South Australian energy consumers to 30 June 2022, but we know energy prices have continued to rise over the past eight months, and are projected to increase even further in the coming years.[1] The AER's Report shows that, as at 30 June 2022:[2]

- South Australia had the highest electricity price per unit in the National Electricity Market (NEM), with wholesale costs typically higher in South Australia, and network costs above the NEM average.
- The median market offer in SA was the same as the standing offer (Default Market Offer) of around 45 cents per kWh, the highest in the Nation. In 2020-21, the median market offer in SA was around 36 cents per kWh, where the standing offer was around 42 cents per kWh.[3] This represents a 25% increase in the median market offer in SA over the 12 months to 30 June 2022.
- In terms of affordability (calculated on the basis of the AER's Pricing and Affordability methodology), SA has the second most unaffordable energy behind Tasmania, this is despite SA having amongst the lowest average household electricity usage in the Nation (4,526 kWh), with Tasmania having a much higher average annual electricity usage of 8,393 kWh.
- Electricity in SA in 2021-22 was more unaffordable than last year, with low income consumers spending 5% of their disposable income on electricity, compared to around 2% for average income consumers.
- Importantly, it is estimated that hardship households in SA use 73% more energy than the average SA households (7,830 kWh average annual hardship household usage, compared to 4,526 kWh for average households). Which means energy is more unaffordable for hardship households in SA, at **around 8% of disposable income**.[4]

The network charge component (both transmission and distribution) of an energy bill accounts for approximately 43% of the total residential retail bill, with distribution costs making up around 30%.[5]

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[1] Australian Energy Regulator, *State of the Energy Market 2022 Full Report*, p. 189
[2] Australian Energy Regulator, *Annual Retail Markets Report 2021-22*, November 2022, p.31-45
[3] Australian Energy Regulator, *Annual retail markets report 2020-21*, November 2021, p. 33
[4] Australian Energy Regulator, *Annual Retail Markets Report 2021-22*, November 2022, p. 129
[5] Australian Energy Regulator, *Statement of Reasons: SA Power Networks' 2022-23 Annual Pricing Proposal*, May 2022

Jurisdictional service and reliability requirements are a driver of network expenditure, and therefore costs to consumers[6]. Given the current energy affordability crisis, and the direct relationship between jurisdictional minimum network service standards and costs to consumers, SACOSS is particularly supportive of ESCOSA's decision to:

- maintain the minimum network performance targets in the current Code to apply in the 2025-30 period,
- not establish regional minimum network reliability standards, but to continue to require regional reporting for the 2025-30 period,
- retain the minimum customer service standards in the current Code for the 2025-30 period, and
- not introduce network planning requirements into the Code for high-impact low-probability (HILP) events.

We are satisfied the Draft Decision accords sufficient weight to South Australian electricity consumers' expectation that electricity distribution cost increases should be minimised, whilst reliability is maintained.[7] As set out in the Draft Decision[8], significant increases in capital expenditure (largely replacement expenditure and augmentation expenditure) are proposed by SA Power Networks to maintain network reliability, and to continue to meet current jurisdictional reliability targets across the State for the 2025-30 regulatory period. Across all categories, capital expenditure for 2025-30 proposed as part of SA Power Networks' 'Focussed Conversations' engagement is forecast by SA Power Networks to increase by around 45% on 2020-25 capital expenditure levels, with all costs to be recovered from consumers over the life of those assets.

In the context of the current energy affordability crisis and SA Power Networks' proposed significant uplift in expenditure (which it says is needed to maintain reliability and meet existing reliability targets), SACOSS strongly supports ESCOSA's Draft Decision to retain the existing requirements under the Code. SACOSS would not have supported increases in jurisdictional service standards or reliability targets, or the introduction of additional HILP requirements, which would have driven further increases in network expenditure (and therefore costs to consumers) into the future. We are pleased ESCOSA has provided a balanced, evidence-based decision taking into consideration all relevant matters including an analysis of historical performance data, legislative requirements, benchmarking and guidance from the Australian Energy Regulator, and consumer expectations. SACOSS strongly supports ESCOSA's Draft Decision on all matters considered.

Application of the Code

SACOSS supports ESCOSA's Draft Decision to amend the Code so it only applies to Distribution Network Service Providers (DNSPs) regulated by the AER in South Australia with 10,000 or more customers (i.e. SA Power Networks). SACOSS agrees with ESCOSA that this amendment will better reflect the application of the current Code, and will also better situate and align the scope of the Code within the broader regulatory framework.

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[6] The National Electricity Rules require the Australian Energy Regulator to make revenue allowances that provide for jurisdictional requirements to be met: NER 6.5.6(a)(2), 6.5.7(a)(2)

[7] SACOSS, *Submission to the Essential Services Commission of South Australia SA Power Networks 2020 reliability standards review Draft Decision*, 13 September 2028, pp. 3-4

[8] Essential Services Commission of South Australia, *Electricity Distribution Code Review: Draft Decision*, January 2023, p. 22, pp. 24-25, p. 28

Given ESCOSA proposes to remove all of the Code's existing provisions for the connection of embedded generators, SACOSS also supports the Draft Decision to amend the Code so it does not apply to embedded generators.

Minimum Network Performance Targets

ESCOSA's Draft Decision is to retain the minimum network performance targets in the current Code to apply in the 2025-2030 period.

We know energy affordability is of primary importance to South Australian energy consumers,[9] and SACOSS strongly supports ESCOSA's Draft Decision to depart from the approach it has historically used in resetting targets, which would have resulted in reliability outcomes that exceeded consumer expectations and increased costs. We support ESCOSA's revised approach set out in the Draft Decision to retain the targets in the current Code.

Regional Reliability

ESCOSA's Draft Decision is to continue to require regional reporting for the 2025-30 period, and not to establish regional minimum network reliability standards for the 2025-30 period.

As set out in the Draft Decision, SA Power Networks' *Annual Reliability Performance Report for 2021-22* noted that 'there has been no declining trend…of any region's normalised reliability performance over the long term'.[10] In the absence of any evidence of systemic decline in regional reliability, SACOSS strongly supports ESCOSA's Draft Decision to maintain reporting requirements and to not establish minimum network reliability standards for specific regions. SACOSS agrees with ESCOSA's Draft Decision that the reasons for deciding against establishing regional network reliability standards for the 2020-25 period remain valid,[11] and SA Power Networks should be expected to manage regional reliability within its overall distribution allowance.[12]

Stand Alone Power Systems (SAPS)

ESCOSA's Draft Decision is to not set minimum network reliability standards for SAPS feeders, as performance targets are provided for under the national frameworks. That said, ESCOSA will require SAPS feeders that have been established for two years to be included in regional reliability reporting. Guaranteed Service Level (GSL) payments for the connection of new supply addresses and the duration and frequency of interruptions will apply to SAPS customers.

SACOSS supports ESCOSA's Draft Decision on SAPS, acknowledging the national frameworks provide for reliability outcomes for SAPS customers. In order to provide a complete picture of regional reliability

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[9] Energy Consumers Australia, Energy Consumer Surveys: South Australia Findings, November 2022: 67% of South Australian consider the most important potential challenge ahead is having affordable energy prices for all Australians.
[10] Essential Services Commission of South Australia, *Electricity Distribution Code Review: Draft Decision*, January 2023, p.27
[11] Essential Services Commission of South Australia, *Electricity Distribution Code Review: Draft Decision*, January 2023, p.29
[12] Noting SA Power Networks has proposed additional expenditure for a 'regional reliability program' in its engagement on the 2025-30 regulatory proposal.

outcomes, SACOSS also supports the inclusion of reliability reporting requirements for SAPS that have been established for two years.

SACOSS supports GSL payments being extended to cover SAPS customers.

Planning requirements for high-impact low -probability (HILP) events

ESCOSA's Draft Decision is to not introduce requirements for network resilience planning into the Code. SACOSS strongly supports ESCOSA's Draft Decision not to introduce additional jurisdictional requirements relating to planning for HILP events into the Code. As properly noted by ESCOSA, incorporating SA Power Networks' internal planning criteria into the Code would drive additional expenditure to meet those requirements (that may not be efficient), resulting in further costs to consumers. Consumers may end up paying more than is necessary to build resilience and mitigate risks to the network, in circumstances where it may be more efficient (and less cost to consumers) for network repair costs to be passed through as damage actually occurs (ex-post funding).

SACOSS acknowledges the impacts of climate change, and the uncertainty surrounding increased risks of unpredictable extreme weather events. We consider the AER's *Note on Network Resilience*[13] published in April last year, usefully sets out the required evidence networks need to provide in order to demonstrate ex-ante resilience related funding is in the long-term interests of consumers. SACOSS does not consider there is any need for the imposition of resilience related planning requirements at a jurisdictional level.

Minimum Customer Service Standards

ESCOSA's Draft Decision is to retain the minimum customer service standards in the current Code for the 2025-30 period. SACOSS does not consider there is a need to codify the customer service measures used internally by SA Power Networks. SACOSS agrees with the Draft Decision that the minimum customer service standards within the Code provide a baseline for SA Power Networks' customer service outcomes, and in the absence of evidence that the existing service standards act as a barrier to improving customer service as measured by SA Power Networks' metrics, there is no need to revise the existing service standards.

In making its Final Decision on the Review of the Code, ESCOSA has indicated it will take into consideration additional evidence of consumer views that are provided through SA Power Networks' engagement program. SACOSS strongly submits that additional service standards should not be included in the Code for the 2025-30 period, unless it can be clearly established that those additional standards would not result in increased costs to consumers, both for the 2025-30 period, and into the future. In any event, in circumstances where ESCOSA's service standards operate as a baseline, it is unnecessary to codify SA Power Networks' internal standards as the service standards under the Code do not limit SA Power Networks from including new or innovative customer service measures as part of its internal business practices.

Distributed Energy Resources and Street Light GSL

SACOSS supports ESCOSA's Draft Decision to remove redundant clauses in the Code relating to Distributed Energy Resources (DER), that are now covered under national frameworks, or are better addressed by the Technical Regulator. We also support the removal of the GSL payment for street light repair from the Code.

[13] Australian Energy Regulator, *Network Resilience – a note on key issues*, April 2022

We thank you in advance for consideration of our comments. If you have any questions relating to this submission, please contact Georgina Morris via georgina@sacoss.org.au or 08 8305 4214.

Yours sincerely,

Ross Womersley
Chief Executive Officer