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Mr Warwick Anderson
General Manager Network Pricing
Australian Energy Regulator
GPO Box 3131
Canberra, ACT, 2601

By email: QLDSA_FandA@aer.gov.au

Dear Mr Anderson,

RE: Preliminary Position Paper: framework and approach: SA Power Networks RD 2025 - 2030

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 would like to thank the Australian Energy Regulator (AER) for the opportunity to comment on its *Preliminary Position Paper on the Framework and Approach for SA Power Networks 2025-30*, dated March 2023 (the F&A Paper).

SACOSS is concerned about the devastating impacts of the increasing costs of electricity on low-income households and people experiencing disadvantage or in vulnerable circumstances. Now more than ever, it is vital to ensure consumers pay no more than is necessary for the safe and reliable delivery of network services in South Australia. Given the current cost of living and energy affordability crisis, governments and market bodies must do all that they can to prioritise affordability and efficiency considerations in decision-making processes in order to ensure the long-term interests of consumers are achieved.

SACOSS urges the AER to include only those services and schemes in its Framework and Approach to SA Power Networks (SAPN) regulatory determination for 2025-30, where is can be clearly demonstrated that:

- those services are necessary for the delivery of a safe and reliable network,
- benefits will accrue to consumers,
- those who directly benefit from the service pay
- all expenditure is efficient and justified, and
- no additional unnecessary costs for households will be incurred.

Evidence from consumers (drawn from SAPN's early engagement activities and feedback from SACOSS member organisations) shows that the most important consideration for South Australian households is price. At a time when every dollar counts, consumers are looking for a reduction in network costs and not an increase in services. This is particularly true for low-income households. Low-income South Australians are disproportionately affected by increases in energy costs and costs of other essential services. We know that the energy transition is increasing those costs across all elements of the price stack, and it is of primary importance that, above all else, the AER uses its regulatory powers to protect and benefit consumers who are unable to avoid these costs through switching to personal sources of renewable generation.

Common distribution services

Provision of basic energy advisory services

SACOSS does not support the classification of basic energy advisory services as a standard control, common distribution service, as proposed by SAPN.

Whilst there may be a need for better energy advisory supports, the provision of these services should be delivered by Governments, regulators or industry bodies and funded by tax revenue or industry levies. Energy advisory services should not be provided by private electricity distribution network businesses where costs are recovered from all consumers through energy bills, disproportionately impacting low-income consumers.

Electric vehicle charging infrastructure

SACOSS does not support classification of the provision of EV-related infrastructure services as a standard control, common distribution service, as proposed by SAPN.

In 2021-22, South Australia had the highest electricity price per unit in the National Electricity Market (NEM), with network costs above the NEM average. Energy costs, including network costs have a disproportionate impact on low-income South Australians who pay more than double the percentage of their income on energy (5%) when compared to average income South Australians (2%). Hardship households in SA use 73% more energy than the average SA household which means those households spend around 8% of their disposable income on energy. [1.]

It is widely accepted that energy costs are regressive, and therefore every cost incurred by SAPN that is passed on to all customers disproportionately impacts low-income South Australians. It is unlikely people on low incomes will be able to afford to access electric vehicles in the coming years. Electric vehicle infrastructure is not a network distribution service all customers would benefit from or should be required to pay for. It should more appropriately be delivered by the market or governments.

Across all service classification and scheme decisions, the AER must consider whether the network service is necessary for the safe and reliable delivery of electricity, and identify who benefits and who pays.

We support the AER's preliminary decision to not classify EV-related infrastructure services.

Export Services and Connection services (enhanced connection services)

The F&A Paper proposes to recognise export services as part of the standard control, common distribution grouping, but not list them as a separate activity. The AER states this approach:[2]

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[1] Australian Energy Regulator, Annual Retail Markets Report 2021-22, November 2022, p. 129

[2] AER, Preliminary Position paper: Framework and Approach Papers for Ergon Energy, Energex, SA Power Networks and Directlink 2025-30, March 2023, p.7

'treats the export service the same as a consumption service and distributors will be able to operate their networks in relation to forecast network demand requirements, regardless of the direction of that demand. This includes the planning, design, repair, maintenance, construction and operation of the distribution networks, as well as works to fix damage and demand management activities'.

SACOSS refers the AER to the Public Interest Advocacy Centre's (PIAC) submission on the NSW Distribution framework and approach paper from May last year.[3] We strongly agree with PIAC that the classification of export services as a standard control service (where the distributor may recover related costs from all customers) should be limited to an export service level where there is no material cost imposed on non-solar customers. Where additional export services are required by a customer, over and above a 'basic service level', then these services should be classified as alternative control services, and costs associated with providing these additional services should be recovered from the user benefitting from that service.

People locked out from accessing the benefits of solar, including renters, low-income households and other non-solar customers, should not be required to pay for network augmentation costs incurred to pay for a service that only benefits solar customers. St Vincent de Paul's Tariff Tracker[4] estimates solar customers in South Australia with a 3kw system spend (on average) $1,050 less on energy bills than non-solar customers, due to behind the meter usage (lower network consumption) and feed-in-tariffs. People who cannot access solar, for whatever reason, are facing increased energy costs they cannot avoid and need to be protected from further systemic inequities.

The AER needs to do all that it can to ensure a more equitable distribution of energy costs to consumers into the future. The AEMC's Rule change envisaged that expenditure related to network augmentation required to enable a high percentage of solar exports should be recovered through export tariffs to ensure an equitable distribution of costs. It is grossly unfair for non-solar customers to be paying network augmentation expenditure for an improved service those customers cannot access and do not benefit from.

SACOSS is strongly opposed to the AER's approach of treating the export service the same as the consumption service, unless export tariffs are in place to ensure equitable cost distribution.

The F&A Paper goes on to state that:[5]

> *'We consider customer requests for export capacity that go beyond that provided within the common distribution service grouping—requiring design and build that exceeds the minimum technical specification—are covered by the 'enhanced connection service' which is classified as an alternative control service under the connection service grouping. Our approach aims to provide clarity that the enhanced connection service can be provided for the purposes of enhanced exports, as well as consumption.'*

In relation to enhanced connection services, SAPN has proposed to update the classification of export connections to align with the classification for consumption-based

[3] PIAC, Submission to AER Preliminary Position Paper: NSW Distribution Framework and Approach, 24 May 2022, p.4

[4] St Vincent de Paul Society, South Australian Energy Prices July 2022: An update report on the South Australian Tariff-tracking project, August 2022, p.25

[5] AER, Preliminary Position paper: Framework and Approach Papers for Ergon Energy, Energex, SA Power Networks and Directlink 2025-30, March 2023, p.7

connection services. It proposes to delete the reference to large embedded generators from the classification table to align services, meaning large embedded generators would generally be treated as a negotiated connection (not an enhanced connection) with any augmentation or extension classified as a standard control service (and recovered from all customers).

SA Power Networks states that:[6]

> '*Recovering network augmentation costs via SCS is more consistent with the 'open access' nature of the regulatory framework. As more customers connect DER over time, network hosting capacity is intended to be equally shared across all DER customers, regardless of when they have connected to the network.*'

SACOSS asks that the AER thoroughly examine this proposal to ensure that non-solar customers are not subsidising network augmentation costs incurred to support large embedded generators. As outlined above, customers who do not have access to the benefits of solar should not be paying for network augmentation to allow for increased solar exports, especially given those customers already pay disproportionately more for network consumption costs they cannot avoid. It has clearly been established that in South Australia, the high penetration of solar has not resulted in any reduction in wholesale energy costs, and therefore non-solar customers are yet to see any of the benefits through lower energy bills.[7]

Network Ancillary services

Customer requests for electricity data and energy advice

SA Power Networks have called for the classification of 'bespoke' energy advisory services as an alternative control service. Like the AER, SACOSS is mindful of the potential for other service providers to provide competitive services in this area, and we are not convinced this service is necessary for the safe and reliable delivery of electricity. That said, if the AER does support the inclusion of this service, SACOSS would support all costs being recovered as an alternative control service, as only those who benefit should pay.

Metering services

SACOSS refers the AER to our submission to the AEMC on the review of regulatory arrangements for metering services[8], where we repeat previous submissions urging the AEMC to consider reverting responsibility for metering back to Distribution Network Service Providers (DNSPs).[9] Failing that, we sought the AEMC should at the very least consider assessing the long-term costs and benefits to consumers of regulatory changes that would vest the responsibility for appointing the Metering Coordinator with the DNSP, not the retailer, with the DNSP paying for the entire metering service.

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[6] SA Power Networks, Request to Replace Framework and Approach for the 2025-30 Regulatory Proposal, 7 November 2022

[7] South Australian Productivity Commission, Inquiry into South Australia's renewable energy competitiveness: Final Report, 10 August 2022 (published 9 November 2022), p. 7

[8] SACOSS, Submission to the AEMC on the Review of the regulatory framework for metering services, 9 February 2023

[9] Joint submission from ACOSS, ACTCOSS, NCOSS, NTCOSS, QCOSS, Renew, SACOSS, TASCOSS Total Environment Centre and Uniting to the Review of the Regulatory Framework for Metering Services – Directions Paper, 8 November 2021 Public Interest Advocacy Centre, Submission to AEMC Directions Paper Review of regulatory framework for metering services, 11 November 2021

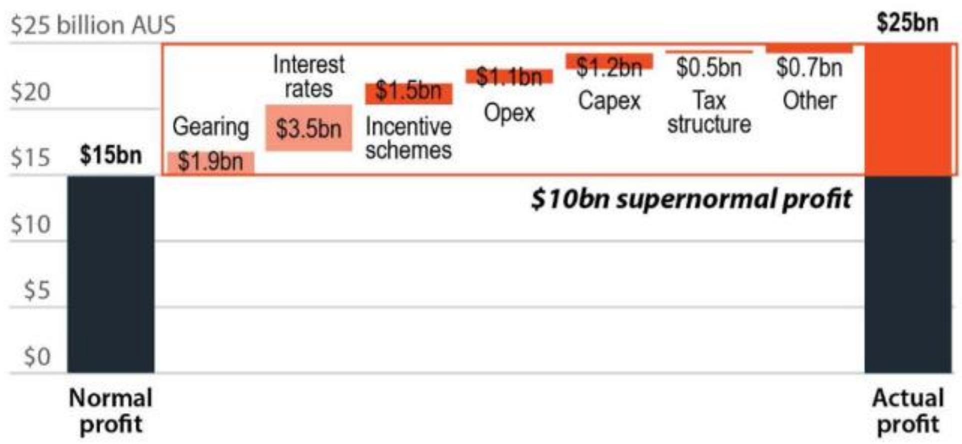
We acknowledge the AER's assessment that the AEMC's review may impact the future roles for distribution network service providers, and we support the AER considering the implications of this review at a future stage of the regulatory determination process.

Incentive Schemes

Speaking broadly, SACOSS urges the AER to thoroughly examine whether consumers will benefit from the application of the various incentive schemes, or whether the benefits will accrue to network businesses to be passed onto consumer as network supernormal profits.

A recent Report[10] (based on AER data) identifies incentive schemes contributed $1.5bn (paid for by consumers) towards supernormal network profits between 2014-2021, as illustrated in the graph below:

Figure 1: Incremental Contributions to Supernormal Profits, 2014–2021



Source: AER data; IEEFA analysis. Derived from Figure 4.6 of AER. Electricity network performance report 2022, p. 32.

Can the AER assure consumers that they are paying no more than is necessary for the safe and reliable delivery of network services? Do the multiple incentive schemes in place drive efficiencies that benefit consumer in the long term, or does the benefit accrue to the business at consumers' expense?

Customer Service Incentive Scheme

SACOSS questions whether the CSIS is necessary for SAPN. South Australia's local regulator, the Essential Services Commission of South Australia (ESCOSA) already sets minimum customer service standards for SAPN to meet under the Electricity Distribution Code (which is currently being reviewed)[11]. SAPN has consistently met and exceeded all service standards.

SACOSS acknowledges SAPN has a broad range of internal service standard measures it uses to monitor and improve customer service. SACOSS is not convinced that the CSIS would result in improved levels of service beyond that which is already achieved. SACOSS is therefore concerned that the CSIS would function essentially as a financial reward to SAPN for continuing to deliver the current levels of service.

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[10] Simon Orme, IEFFA Guest Contributor, No relief from electricity network supernormal profits, 30 March 2023, p.10

[11] ESCOSA, Electricity Distribution Code Draft Decision, January 2023.

STPIS

It is unclear to SACOSS from the F&A Paper as to whether the AER is intending to apply the default revenue at risk of ± 5 per cent for SAPN. SACOSS does not support maintaining the revenue at risk at ± 5 per cent. A STPIS set at ± 5 per cent is relatively high-powered and can result in higher prices for customers where the network is able to raise reliability standards above the threshold. Consumers may prefer lower prices at lower reliability/service quality levels.

SACOSS considers it may be preferable to set a STPIS at ± 2 per cent, or alternatively set penalties for not achieving threshold service quality levels without providing rewards for exceeding the threshold.

Export Services Incentive Scheme

SACOSS questions whether SAPN needs to be incentivized to provide export services. SAPN is currently proposing expenditure to upgrade network capacity to enable customer export service at a 95% service level, with costs to be recovered from all customers. Given this high level of service will only benefit solar customers, SACOSS questions whether an incentive scheme to deliver these services is equitable or necessary. An export service level set at a lower percentage may deliver the same system benefits, but may result in a lower feed-in-tariff payment for solar customers. SACOSS does not support incentives for additional network expenditure that would result in non-solar customers paying to enable solar customers to recoup greater feed-in-tariffs through increased export service capacity.

Expenditure forecast assessment guidelines

The AER's preliminary position is to apply the *Energy Forecast Assessment Guideline*[12] (EFA Guidelines) in its assessment of SA Power Networks' regulatory proposal for 2025-30. SACOSS strongly supports the application of the Guideline to SA Power Network's proposal.

To achieve the long-term interests of South Australian consumers, it is vital that all proposed network expenditure is efficient, prudent and realistic. South Australian energy consumers are relying on the AER to ensure that all expenditure is economically justified, and the long run cost of achieving the expenditure objectives is minimized. This is of primary importance to consumers, underpinning the National Energy Objectives and the framework for economic regulation of monopoly networks as established under the National Energy Laws and Rules.

With this in mind, SACOSS understands that SAPN has been approved by the AER to participate in the 'Early Signal Pathway' process as set out in the Better Resets Handbook.[13] This means that SAPN's expenditure proposals will be subjected to a 'targeted review'. The Handbook indicates that a targeted review differs from the AER's 'standard approach' in the following ways:

- *as consumer engagement expectations are met, we will have greater certainty that the elements of a proposal reflect the preferences and desired outcomes of network consumers*
- *focusing our assessment on the key drivers and contentious aspects of the proposal, which are the issues that will have a greater influence on whether we accept or reject an element of the proposal*
- *more easily and efficiently examining issues because the network business has followed our standard forecasting approaches, provided supporting evidence in line with our expectations, and consulted with its consumers*
- *less use of bottom up analysis where expectations are met*.

[12] AER, Energy Forecast Assessment Guideline for Electricity Distribution, November 2013

[13] AER, Better Resets Handbook – towards consumer centric proposals, December 2021

It is unclear to SACOSS how this 'targeted review' will impact the AER's assessment of SAPN's expenditure proposals for 2025-30. We understand SAPN will be proposing a significant increase in capital expenditure which will greatly impact the regulatory asset base and long-term price outcomes for consumers, well into the future. In these circumstances, we believe consumers should be provided with greater clarity and transparency around what the approach of the AER will be to assessing the prudency and efficiency of *all* SA Power Networks' expenditure proposals, including those the business says have been supported by consumers through its engagement process and meet the expectations set out in the Handbook.

SACOSS has long supported improved consumer engagement by network businesses, as set out in our 2018 submission on the New Reg process.[14] However, we remain cautious about whether businesses should be incentivized to improve their engagement practices by way of a reduction in regulatory scrutiny of expenditure proposals under an 'early signal pathway' and 'targeted review' process.

Where the 'Early signal pathway' and 'targeted review' approach are adopted by the AER, the Framework and Approach should clearly set out the interplay between the AER's obligations to establish the economic justification for that expenditure under the Laws and Rules, and the broad principles and expectations contained in the Better Resets Handbook. Under the current Preliminary Position Paper, there is no clarity about how the Better Resets Handbook will impact the approach of the AER to SA Power Networks' Regulatory proposal, except to indicate that SAPN will be aligning its proposal with the Handbook.[15] Now that SAPN has been approved for the Early Signal Pathway, SACOSS is seeking clarity and transparency within the F&A around how this will impact the AER's approach to assessing the proposal in its entirety.

For example, where the AER considers its expectations around establishing 'consumer preferences' for network expenditure have been met in accordance with the Handbook, SACOSS is seeking the AER clearly set out in its Framework and Approach how it will determine the economic justification for that expenditure in accordance with the EFA Guidelines and its obligations under the National Laws and Rules. As set out in the EFA Guideline, the concept of efficiency underpins the NEO, and is central to ensuring consumers pay no more than is necessary for the safe and reliable delivery of network services.

It is worth noting the Handbook states that it, and the early signal pathway, will operate within the regulatory framework set up by the Rules and Law.[16] Under the National Electricity Rules (NER)[17] the extent to which the network's expenditure forecast includes expenditure to address the concerns of distribution service end users as identified by the DNSP in the course of its engagement with 'end users or groups representing them' is identified as *a* factor in determining whether the expenditure reflects the expenditure criteria,[18] not the determining factor.

While the NER refers to 'concerns' of end users or groups representing them, the Handbook refers to 'consumer preferences'. In line with the NER, SACOSS considers 'consumer preferences' for

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[14] SACOSS, Submission to the AER on the New Reg Process, 24 April 2018, p.4.

[15] AER, Preliminary Position paper: Framework and Approach Papers for Ergon Energy, Energex, SA Power Networks and Directlink 2025-30, March 2023, p19

[16] AER, Better Resets Handbook – towards consumer centric proposals, December 2021, p. 4

[17] National Electricity Rules

[18] National Electricity Rules, Clause 6.5.6(e)5A, and Clause 6.5.7(e)5A.

proposals should not be the determining factor in an approval of any network expenditure, particularly where that expenditure will significantly increase the RAB and long-term price outcomes for consumers. South Australian energy consumers, and particularly low-income consumers, are relying on the AER to establish a Framework and Approach that provides for economic justification of expenditure and ensures households pay no more than is necessary for the safe and reliable delivery of network services, both now and into the future.

SACOSS acknowledges the work that is currently underway to incorporate an emissions reduction objective into the NEO, and is aware this change may impact the framework and guidelines used by the AER to assess regulatory proposals. While SACOSS supports an 'emissions reduction' objective, we remain concerned that those who can least afford it may shoulder the burden of the costs. We have joined with ACOSS and the other Councils of Social Service to ask Energy Ministers to support the inclusion of a social equity objective within the NEO to ensure a more equitable distribution of costs throughout the transition.[19] SACOSS will be monitoring how the AER will approach an assessment of regulatory proposals in light of the forthcoming changes.

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,

Dr Rebecca Tooher
Director of Policy and Advocacy
South Australian Council of Social Service

[19] ACOSS et al, Joint Coss Letter to the Energy Ministers re: social equity objective in the NEO, 9 August 2022