Consumer
Challenge
Panel

Advice to the AER regarding the SA Power Networks' regulatory proposal 2025-30

Response to Issues Paper

AER Consumer Challenge Panel (CCP) Sub-Panel CCP30

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Acknowledgement of Country

We acknowledge the Traditional Custodians of the various lands on which the AER operates, and where SA Power Networks own and operate their networks and facilities. We honour the customs and traditions and special relationship of those Traditional Custodians with the land as well as those where this report is being prepared. We respect the elders of these nations, past, present and emerging.

Confidentiality

To the best of our knowledge this report does not present any confidential information.

Contents

1. Overview

Context

This response to the issues paper is prepared by the AER's Consumer Challenge Panel 30 and offers our view on the matters and questions raised in the issue paper and the public forum.

SAPN began their planning for the 2025 – 30 regulatory period as a world leader in integrating renewable energy and into one of the older distribution networks in Australia.

At the same time, there is a growing public appetite for a transition to a net zero energy future which already includes high levels of CER (consumer energy resources) in SA. Coupled with this trend is the move toward electrification of energy, with a high likelihood that some, maybe many current gas applications will be electrified while the electrification of transport is a substantial shift in energy use from liquid fuels, about half of Australia's current energy use, to electricity.

Throughout the planning for the 2025-30 regulatory proposal, cost of living pressures for households and businesses became an ever more present concern. SAPN have a number of opportunities to improve electricity affordability, with a significant number of assets being fully depreciated in the coming period. Also, the SA Government's generous feed-in tariffs are planned to expire in 2028, reducing customer bills. Admittedly, we do not regard this is a SAPN cost as it is exogenously determined, so outside SAPN's control, it is a 'pass through' to consumers that SAPN applies.

We do not believe that SAPN has fully considered the importance of meaningfully passing through these cost savings to consumers in this climate of difficult economic times and associated cost pressures for households and many businesses.

Taking a longer-term view in considering any pending reset, it's the accumulation of the impact of recent resets that have the largest impact on the bill for customers, so the 2025-30 reset is in part informed by previous regulatory proposals and associated AER determinations. Core issues associated with capex, opex and tariffs permeate all resets, but some of the more specific detail is reset specific (eg aspects of ICT, Fleet, priority geographic locations)

In the next reset, 2025-30, several perennial topics will again need consideration, including worst served customers, SAPN's 'call' that their network is ageing and need substantial upgrading, maintaining service levels and safety, insurance premiums, CER, IT and more.

With a list of continuing topics, the omnipresence of energy affordability concerns added to a period of rapid change in energy supply and use, renewable energy growth and other changes, the complexity of managing, maintaining and being 'future ready' is a substantial challenge for energy businesses and their customers – uncertainty reigns!

Consumer Engagement

With this complex setting, SAPN began their engagement with consumers and other stakeholders early and developed a comprehensive program to explore the breadth and depth of consumer sentiment. Included in their process were 'stretching' engagement approaches, including the application of a 'citizens jury' engagement methodology that they named a 'People's Panel' and the appointment of a reset reference group that was a working group of the SAPN Consumer Advisory Board. To SAPN's credit this group was appointed to challenge and were effective in so doing, they were not a 'tame' reference group.

Early in the engagement process, SAPN committed to apply the outcomes of the 'People's Panel' which they largely did. Despite challenges to some aspects of the People's Panel recommendations, SAPN persisted with their IAP2 'collaboration' level engagement.

The challenge question is whether the vast complexity of a distribution network can be adequately considered over three weekends – the duration of the People's Panel, excluding reading a briefings? This is not to question the sincerity and intent of SAPN, People's Panel members or any other people involved in the process – striking the right balance in spending for a capital intensive network is just really hard and requires a serious time commitment!

The question that the AER, and many others, would likely want simply answered is something like: did the consumer engagement process deliver clear preferences that SAPN faithfully applied?

The CCP30 response to this question is a murmured 'no', but again we stress that this is not a criticism of anybody involved. The intent has been genuine and the responses diverse. It is this diversity of responses that SAPN has needed to apply to its regulatory proposal and that we have previously said has required 'judgement calls' by SAPN, which some key stakeholders have said, in essence, don't adequately deal with the pressing cost of living pressures of many customers.

The following pages seek to unpack the challenges, complexity and diversity of views with which all parties have grappled.

<u>Next Steps</u>

CCP30 recognises that SAPN was accepted onto the Early Signal Pathway process, as described by the Better Resets handbook[1]. They are the third network business accepted onto the ESP process, summarised as:

> "This offers an alternative process for networks to engage with us, allowing them to get earlier formal feedback on aspects of their regulatory proposal – such as at the issues paper stage, in exchange for certain commitments. While this process is currently optional, our aim is that the early signal pathway approach eventually becomes part of the business-as-usual approach to regulation." – Better Resets Handbook, page 5

Regarding next steps, we agree with the topics that the AER has identified for targeted review, as part of the Early Signals Pathway. The proposed targeted review topics get to the nub of the challenges that we have summarised and the necessity for prudency and efficiency to apply, even in uncertain times.

[1] Better Reset Handbook - December 2021.pdf (aer.gov.au)

2. Introductory comments

South Australia Power Networks (SAPN) lodged their regulatory proposal for the 2025-30 period (*the Proposal*) in January 2024. In response, the AER released an Issues Paper in March 2024, and held a public briefing on 9th April 2024.

This report presents comments on the Issues Paper from the AER's Consumer Challenge Panel 30 (CCP30). It is the latest of a series of documents prepared by CCP30 under the guidance of the AER's Early Signal Pathway. Most recently, the Assurance Report of February 2024 provided an overview of the engagement and how it influenced the proposal, particularly against the requirements of the AER's Better Resets Handbook. The perspectives presented in the Assurance report should be considered to be a compendium to this report.

The diversity of views emerging from the engagement

We maintain a high opinion of the engagement taken by SAPN as part of their proposal process. The commitment by the company to the engagement process was outstanding. Over time it became clear that just because engagement is professional, extensive and detailed, it does not always lead to an unambiguous, singular and well-supported outcome.

We observed this development throughout the latter stages of the engagement by SAPN. Strong cases were made regarding the risks of an ageing asset population, the need to accommodate increasing levels of embedded generation, and the opportunity to adopt new technologies in ICT and electric vehicles.

Over that period however, a diversity in the needs and expectations of the various customer cohorts emerged. This diversity is highlighted in the way SAPN gained customer support for various specific aspects of their proposal, yet the reset subcommittee of the SAPN Customer Advisory Board and others continued to refer to the 'elephant in the room' – that is, rising energy prices and overall energy affordability over the long term.

The diversity in levels of support for the proposed investments is clear in the range of responses to the draft proposal. Some are highly supportive, with Democracy Co noting '100% support for the decisions by the Peoples' Panel.' Having observed much of the engagement, we do not dispute that conclusion as being a valid observation at the time.

Yet the SACOSS submission to the Draft Plan noted:

> *"We acknowledge SAPN has identified 'affordable and equitable energy supply' as a key theme arising from its engagement, but SACOSS does not see affordability reflected as a driving consideration in the Draft Proposal.[2]"*

Similarly, a private submission to the Draft Proposal states:

> *"During the 'Broad and Diverse' and the 'Focussed Conversations' there was a loud and clear voice about leaving no one behind during Australia's energy transition, especially the vulnerable. Yet that focus seems to have lost priority during the peoples panel and this draft proposal.[3]"*

Finally, in their submission to the Draft Proposal, the SA Energy and Water Ombudsman comments:

[2] Submission on SA Power Networks'; 2025-30 Draft Regulatory Proposal, SACOSS, Sept 2023 (p4)
[3] Submission to the SAPN Draft proposal by an Energy Customer Advocate - https://www.talkingpower.com.au/85775/widgets/420165/documents/271757

> *"While we acknowledge that consensus won't be reached on all topics considered by the People's Panel, it is a concern that the two areas where consensus wasn't reached were "equity and vulnerable customers" and "customer experience and interactions". These constitute large parts of two of the four key themes arising from the engagement undertaken by SA Power Networks: an affordable and equitable energy supply and customer experience, choice and empowerment."*

Our hypothesis is that in the process of guided discussion about a particular investment, be it more electric vehicles or refurbished transformer workshops for example, there is often strong support for the particular investment. It is reasonably seen as a 'good idea', consistent with adopting new technology or better working practices. This is particularly powerful when the counterfactual is portrayed as a likely degradation of service, as was the case in much of the SAPN engagement.

However, when the cost of all the 'good ideas' is aggregated and considered in the hard light of increasing costs of living generally, the long-term cost impact and affordability is of concern to some customer cohorts. We are also clear that SAPN made efforts to specify and present and aggregate as well as discrete cost impacts.

This means some initiatives must, despite having a strong argument for investment, be placed to one side or scaled back in the interest of reducing long-term costs. Not all good ideas – despite having a positive payback or other good outcome – can be acted upon nor afforded by all customers.

Given the diversity of views to the Draft Proposal, and with the understanding that the Proposal is not significantly different to the earlier draft, CCP30 maintains its support for the AER to undertake a detailed review of SAPN's capital and operating expenditure plans as summarised in the Issues Paper.

Summarising the CCP position in regard to the issues paper

We are in strong agreement with the AER and the SAPN Reset Subcommittee, as well as many of the public responses to the proposal, that affordability was not fully considered in the SAPN proposal, particularly in the manner in which many customers experience cost of living pain.

As the engagement progressed to the proposal, we have arrived at the following observations:

1. It is not clear in SAPN's proposal where the compromises have been made between the proposed increases in capital investment and operating cost, and the wider community concerns of cost of living and, in particular, energy prices.
2. Whilst we respect SAPN's extensive analysis and information regarding ageing assets - predominantly poles and conductors - the conversation about how ongoing innovation, IT investment and more advanced risk management can in part mitigate the risks to reliability, safety and bushfire risk was not in any way extensive. Given the opportunities presented by advanced ICT applications and high DER/CER resources, we believe that this aspect could have had a higher profile discussion and provided greater opportunity for cost reductions.
3. We have examined SAPN's capex proposals through two customer-centric lenses, being:
    - How does the expenditure benefit customer outcomes in a 'return on investment' approach, and
    - Despite there being a 'positive business case', is the investment critical in terms of an opportunity to reduce expenditure in the opportunity (however small) to address affordability?

The SAPN Consumer Advisory Board (CAB)

Importantly, SAPN provided detailed costs for programs considered by customers throughout the engagement process, but these costs were not always challenged. While the CAB believes these costings were provided in good faith and commends SAPN for the extensive work in providing this information, the CAB was not able to verify the efficiency or accuracy of cost calculations. Our observation is that their report is accurate in noting that the CAB certainly challenged many of SAPN's statements and actions throughout the engagement that led to the proposal. As with much of the engagement, the CAB's advice was received by SAPN, but there are questions as to how well the CAB was used to assist SAPN in making the difficult 'judgement calls' in cases of diverse customer expectations, especially as that diversity was evident within the CAB itself.

We also agree that the CAB model has the elements of an effective model for further 'business as usual' engagement by SAPN, and we note our recent positive discussions with SAPN regarding their future intentions with the next iteration of their consumer and stakeholder advisory processes.

3. Addressing the questions in the issues paper

In this section re respond to the questions raised in the AER's Issues Paper, as a basis for this advice to the AER.

Early Signal Pathway

1. What are your views on the scope of our in-depth targeted review for SA Power Networks'? Are there any other aspects of the proposal that require an in-depth review?

CCP30 has supported the application of the Early Signal Pathway process to SAPN's revenue proposal, despite the fact that both the capital and operating expenditure components of the proposal significantly exceed the current period actual spend.[4] The ability for the AER to work with SAPN 'along the way' is consistent with better engagement practices generally and has the potential to improve the efficiency and effectiveness of reset process, as compared to the more traditional propose / respond model.

We agree with the AER's intention to examine the key building blocks of operating cost and capital investment closely, based solely on the fact that the step increases in expenditure are significant, and consumers deserve clarity and expert challenge on the elements of the proposal.

CCP30 also encourages the AER to consider much of the capital expenditure proposal with a lens that provides a longer-term view of SAPN's asset management plans. We recognise that investment can be 'lumpy', and it is important to consider the consistency of the cases made and approvals given in the past regulatory period, and how those investments influence the current proposal. For example, we seek clarity for the value realised from ICT investments and short term / long term trade-offs that SAPN may have made in previous investments.

2. Are stakeholders comfortable with the AER undertaking a high-level review of SA Power Networks' proposed depreciation and tariff schedule?

CCP30 agrees that a detailed review of proposed depreciation and tariff structures by the AER is not warranted. SAPN carried out extensive and transparent engagement on tariffs, including, commendably, and assessment of price impacts across a range of customer cohorts. That engagement is well-reflected in the proposal.

We also recognise that SAPN has benefitted from considerable internal expertise in its tariffs considerations and assessments and the current SAPN tariffs team continues to provide high quality and well informed perspectives to its analysis. We observe other networks utilising SAPN tariffs analysis, this recognises the leadership that SAPN has exhibited on this difficult topic.

3. Do you consider that we should accept parts of SA Power Networks' proposal at the draft determination stage? If so, what areas?

We are comfortable with stakeholder engagement and consumer understanding regarding SAPN's proposed default residential and small business export tariffs. We note the support from the small business community regarding the 40MWh pa tariff class threshold. We also support the AER's acceptance of the SAPN approach to depreciation.

[4] AER better Resets Handbook, s 4.2.1.1, p20

Proposed revenue and price

4. What are your views regarding the merits of SA Power Networks' price stability narrative and do you think there is an opportunity to decrease prices?

CCP30 notes that while SA Power Networks is proposing a significant increase in expenditure relative to the current period, SA Power Networks explain that the impact to customers' bills is offset by:

- A reduction in depreciation as some assets will reach the end of their economic lives and become fully depreciated within the 2025–30 period,
- The SA Government's premium feed in tariff will expire in June 2028 reducing the overall retail bill, and
- Forecast increases in network energy throughput (or volume) dampening the need for price increases.

SAPN highlighted a number of times that the significant increase in investment can be made without a significant rise in the distribution component of an electricity bill. The proposal notes:

"Despite the significant uplift in proposed expenditure, falling depreciation allowances over 2025-30 mean that customers' prices in real terms will remain roughly comparable to today. The expiry of the SA Government Premium Feed-in tariff scheme in 2028 will also provide some price relief to customers."

We believe that the opening position should be that this money should be returned to SA energy consumers to fundamentally address the affordability concerns. Any use of that money to fund increased investment must be based on very strong and transparent cases that highlight the fact that savings that could have been passed back to consumers are being 'clawed back' to meet increasing investment needs. We are certainly not suggesting that this issue was hidden from consumers, but in our opinion, it could have been much clearer.

We continue to encourage the AER to consider that the price outcome should include the benefit of these as the 'starting point' in calculating price impacts.

There is even a case to be made that negative revenue adjustments should be presented to consumers conceptually as 'their money being returned'.

We also raise some queries regarding the nature of increased metered energy consumption in mitigating prices. SAPN notes that close to 44% of customers have generation – and in some cases storage - on the customer side of the meter. This will create some significant distortions from a 'standard' energy load factor, where we would expect customer load to be 'peakier', with less energy consumed (billed) on average per customer. We encourage the AER to consider how SAPN has considered the energy consumption forecasts in a high-DER environment and how that may impact unit (c/kWh) prices.

This issue of converting revenue to price was modelled by SAPN in their engagement, but the nuances of price in a high-DER environment were unclear.

While the expiry of the SA Government PV feed in tariff in 2028 will, ceteris parabis, reduce energy bills for customers, we regard this as outside of SAPN's responsibility , it is purely a pass through that they manage.

We support the AER's proposed treatment of the revocation and substitution of the 2020-25 distribution determination.

Engagement

5. *Do you think SA Power Networks' consumer engagement meets the expectations set out in the Handbook in delivering a consumer-centric proposal? Please give examples.*

This matter has been explored in depth in the CCP30 Progress Reports, Conclusions Report and Assurance Report and stand by the observations made in those reports, at the relevant points in time.

Consumer Engagement is crucial in contemporary economic regulation as AER says in the Issues paper:

> SA Power Networks supplies an essential service to South Australian consumers. We expect high-quality, consumer-centric proposals driven by high quality consumer engagement. High quality consumer engagement is critical to developing proposals that support delivery of services that meet the needs of consumers at a price that is affordable and efficient"

CCP subpanels from the establishment of CCP have reinforced this approach.

CCP30 also highlights that consumer engagement is not a precise process and that reflecting the heterogeneity of consumer views is rarely straightforward.

We consider that SAPN has developed a well-considered and ambitious engagement program with a clear-thinking CAB reset reference group that was prepared to challenge SAPN, it is to SAPN's credit that they chose to appoint members of this group who would constructively challenge them. We emphasise that constructive and forthright challenge can be difficult to deliver and to receive. The openness and maturity of all people involved has been impressive for CCP30 as observers, with (necessary) frustrations sometimes evident as good outcomes for consumers were genuinely sought.

The People's Panel approach was challenging for SAPN and stretched consumer engagement practice by Australian energy networks as an industry. We note that the language of the "Peoples'Panel" is the same as the very successful engagement program conducted by Jemena Electricity Network for their Victorian distribution reset for 2022-27, however, we observe that the SAPN process was different, more aligned with a "citizens Jury" approach from consumer engagement practice. We consider both People's Panel approaches to be high quality engagement, but methodologically different. This is why we are comfortable in saying that the SAPN process was also a 'stretching' process for the NSP industry.

In addition, the forums and interest group / regional forums were also high quality engagement, well designed and appropriately targeted.

SAPN has received a substantial commitment in time and effort from the many people engaged, and this is also reflected in the efforts of staff, in what has been an exhaustive and comprehensive process. One indicator of the extent of consumer and stakeholder 'buy in' to the engagement program was the level of response to the Draft Plan, which we suggest was at an unprecedented level for an Australian NSP.

We have suggested (in our Assurance Report) that the challenge for SAPN has been to distil the extensive input from extensive engagement into clear elements of the regulatory proposal with unambiguous consumer benefit, all within a changing and uncertain energy system. Effective engagement does not always deliver agreed answers.

6. Do you think SA Power Networks' proposal adequately captures the cost-of-living concerns raised by stakeholders?

The short response to this question from CCP30 is "no". Is making this response we recognise the complexity of current cost of living considerations for capital heavy infrastructure businesses of the ilk of SAPN. Telling for us was that significant stakeholder responses to the draft proposal, as well as the information provided the CAB and other community bodies, continue to highlight the disquiet from some community representatives regarding the short- and long-term impacts of the proposed increase in expenditure. We also recognise that the concern is not universal across stakeholder responses, however CCP30 observed enough disquiet about cost-of-living issues from some stakeholders for us to conclude that this is a topic that needs further consideration before SAPN lodges their (anticipated) revised revenue proposal.

Key questions to be considered in this matter are:

a) Does SAPN fully understand the savage impacts that cost of living pressures, including (but not limited to) energy costs, are having on a significant proportion (we suggest 35-40%) of their customers?

b) Can SAPN clearly specify where it has taken on board advice from , the diversity of consumer input, particularly the CAB reset subcommittee feedback from the draft proposal, the CCP, the AER?

c) Has SAPN clearly explained reasons where their proposal differs from the feedback regarding affordability?

Depreciation

7. Do you have views on whether SA Power Networks' proposed regulatory depreciation approach is capable of acceptance at the draft determination stage?

We support the AER's position that the depreciation approach can be accepted, with the provision that the change in depreciation should be considered as 'a return to customers' and not included in the baseline comparison of any revenue increase.

The section of the Issues paper considering 'depreciation' also considers RAB impacts and includes figure 5 that shows a projected increase in the Regulated Asset Base (RAB) between the start and end of the 2025-30 regulatory period. The Issues Paper summarises impacts as follows:

> *"SA Power Networks proposes a forecast RAB of $6,539.3 million ($ nominal) by the end of the 2025–30 period, which is $1,316.4 million higher than the estimated RAB at the end of the 2020–25 period. This follows an increase of $861.9 million ($ nominal) in the estimated RAB over the 2020–25 period. In real terms ($2024–25), the proposed RAB will be $556.9 million higher by the end of the 2025–30 period."*

RAB increases provide a long-term cost burden for consumers and exposes them to risk from future periods of higher rate of return charges, they also challenge 'intergenerational equity' considerations. In a period of significant cost of living pressures, extreme caution is required with current decisions that increase the RAB and increased burden on future customers. With a decrease in costs for customers arising from the extent of deprecation impact over the 2025-30 regulatory period, we ponder on whether a RAB increase of the magnitude proposed could have been moderated to assist present and future customers with lower electricity costs.

Capital expenditure.

$m, June 2025	2020-25 Actual/forecast	Draft Proposal (July 2023)	Regulatory Proposal	Variance from Draft ($ m)
Capex (before $21m disposals)	$1977m	$2453m[1]	$2401m	-$52m

8. Does the proposed scope of the capex review for SA Power Networks seem appropriate?

With the planned significant (almost 22%) increase in capital expenditure, CCP30 strongly supports a detailed review of SAPN's capital investment plans. This has been a consistent view in a number of our reports through the SAPN Early Signal pathway process.

We do not have major concerns with SAPN's connection estimates nor their capital contributions arrangements. They are both reasonably consistent with previous costs and align with the general observations expressed in the various engagement forums. Similarly, we agree with the AER's intention not to examine overheads in detail.

However, we note that every other category, other than ICT, represents a significant increase on the expected expenditure in the current regulatory period.

ICT

Our recollection is that there was extensive consideration of the ICT allowance for SAPN in the previous reset, including a major SAP upgrade and licence refresh. We suggest whilst a detailed review of recurrent ICT costs is not necessary, it would be useful to look at SAPN's ICT spend in the light that the current spend included a number of additional items. We also encourage the AER to consider ICT spend by other utilities as a form of benchmarking – when the opportunity exists. We anticipate that the 2024 network Benchmarking report may be useful.

Network Augmentation

The most significant cost proposal from the Draft Plan is the significant increase in Augmentation expenditure. This is a topic that was grappled with during the engagement process and is discussed in a number of the submissions to the Draft Plan. The SA Government said in response to the Draft Plan:

> *"The Division considers that SAPN should seek to identify savings to the proposed $521 million of augmentation expenditure (augex) particularly for the expenditure related to capacity augex that includes connection point upgrades and substation and sub-transmission capacity."*

The proposal lodged has reduced capex by $52m from the draft plan, but this is still about a 24% increase on capex for the current period. Augex has been reduced by $9m from the draft plan but remains substantial and is an appropriate proposal aspect for targeted review.

This chart was presented on the 1st of February forum, showing capex ($m, June 2025)

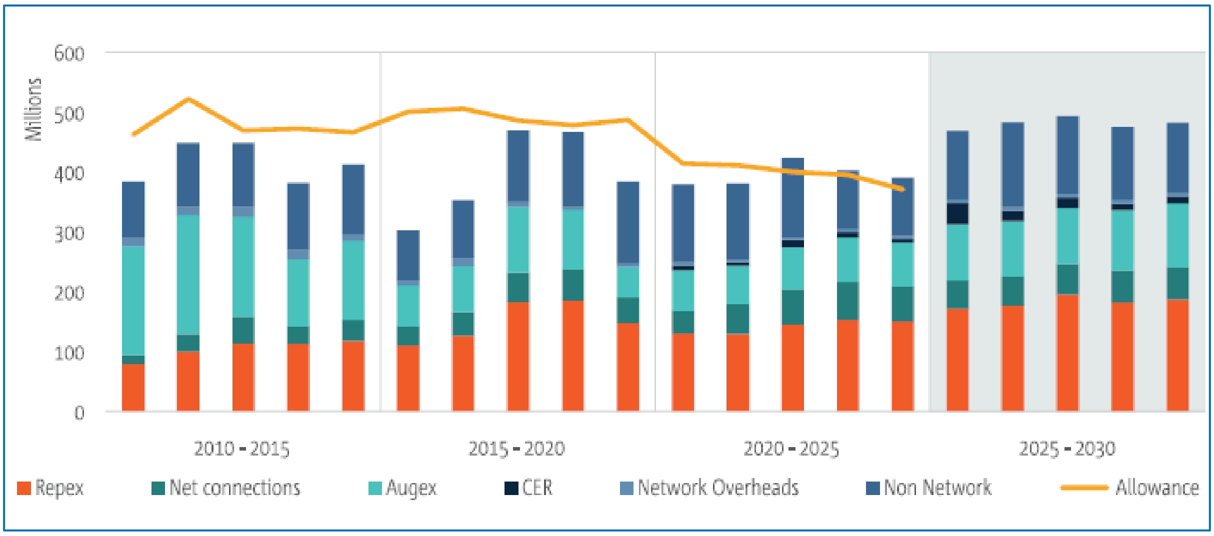

Figure 1: Capital investment trend (SAPN)

For CCP30 this chart also shows the rise in "non-network capex" which should also be reviewed.

We also observe that from 2010- 2025, capex expenditure has been at the allowance level for only 5 of those 15 years, with two of the years being forecast results 2024-25. SAPN says that the 2020-21 underspends were associated with COVID, which is reasonable. CCP30 asks if there are similar 'acceptable' reasons for the underspend in most years 2010-2020 and the extent of the CESS benefit achieved by SAPN for these underspends.

It would appear that SAPN has had the opportunity to be spending more on repex, in particularly over the last decade, which would have mitigated the stated urgency for greater spend in the 2025-30 regulatory period. There is a question as to whether CESS benefits claimed are now being sought as capex in the next regulatory period, providing the risk that customers are paying more than 100% for some capex costs flagged for 2025-30?

Fleet and property

The proposal notes the increase in these support assets (Fleet +36%, Property 57%) as being driven, in part, by the age and poor condition of depots. We support the change in forecasting methodology for fleet to a base / step / trend approach and the longer-term approach to property investment.

What is unclear is the need to increase expenditure beyond the average expenditure over past years. In particular, we are interested in how the property and fleet investments will produce lower operating costs, as well as faster and more productive work dispatch, with ultimate benefit to consumers and the community.

We note a comment that an increased workload is part of the need for increased investment[5], so we would expect that the investment in these support areas could be reduced if the AER does not support the increased expenditure in the major work categories of repex and augmentation. Similarly, it is unclear how SAPN's contracting strategy could alleviate the need for more of their own resources, such as vehicles and expanded depot facilities, as contracted work would provide their own fleet and property resources.

Regarding fleet, the proposal notes the increased investment as yielding a more efficient delivery of services and a lower total cost of ownership[6]. Therefore, we suggest that the efficiency benefits will

[5] SAPN proposal Attachment 5 (Capital) – section 7 (p 22)
[6] SAPN proposal Attachment 5 (Capital) – section 9.7 (p 70)

flow back to SAPN, and as such the additional cost should not be borne by consumers as higher expenditure.

Demand forecasts

While forecasts are not a specific cost factor, they drive a number of aspects of costs that are reflected in the revenue proposal and so demand forecasts is an appropriate for targeted review.

Demand forecasts were not tested to any great depth with the community to validate the 'sense' with SAPN's calculations and assumptions. This is an area where the broader expertise of the CAB would have been useful. We suggest a broader assessment of the risks inherent in the forecasts and identification of mitigating factors would be useful. Checking with demand projections from AEMO, both in the 2024 ESOO (Electricity Statement of Opportunities) and the 2024 Integrated System Plan, due for releases in June 2024 would likely be constructive.

Cybersecurity

We note the significant increase in non-network capital expenditure. The Innovation aspect is discussed below. Regarding the cybersecurity of the ADMS, we trust that the AER will consider the true cost for the security of the system to be like that of other distributors. Its also an expenditure that had particularly strong support from the People's Panel.

Maintaining reliability

SAPN note the strong support for maintaining reliability from many of the submissions to their draft proposal. The theme was to maintain reliability at lowest possible cost.

SAPN have a strong case for the risk of lower reliability and increasing asset failure risks as their assets – particularly overhead lines – age. The case in this proposal follows strong arguments in the 2020-25 proposal that commendably looked across a number of regulatory periods. Beside these arguments, we raise two queries.

Firstly, despite the information in the proposal showing a rising trend of asset failures, we note that SA Power Networks achieved ten of their sixteen normalised reliability targets for the four feeder categories specified in the South Australian EDC, for the year ending 30 June 2023. For the six targets not achieved, five were within the reporting threshold (orange indicator) and one exceeded the reporting threshold (red indicator). See Figure 2 and 2 below.

	USAIDI		USAIFI	
EDC Feeder Category	Target	2022/23	Target	2022/23
Central Business District (CBD)	15	13	0.15	0.18
Urban	110	102	1.15	0.87
Rural Short (RS)	200	180	1.65	1.23
Rural Long (RL)	290	299	1.75	1.43
Overall Distribution System15	150	143	1.30	1.00

Figure 2: Reliability performance, 2022/23 (Source: SAPN Distribution Annual Planning Report 2023/24 to 2027/28, p73)

Table 43. Restoration of supply performance (CRoSn)

EDC Feeder Category	Length of Interruption (Hrs)	Target (%)	Actual (%)
CBD	≥ 1	11	9.8
	> 2	4	1.8
Urban	> 2	27	25.4
	> 3	11	12.9
Rural Short (RS)	> 3	27	26.2
	> 5	8	10.9
Rural Long (RL)	> 4	30	31.5
	> 7	10	11.3

Figure 3: Restoration of supply performance, 2022/23 (ibid)

In particular, the frequency of interruptions (USAIFI), which would reasonably reflect the number of failures, remains well within target for all categories of feeder other than CBD.

We would encourage the AER to consider the significant increase in the asset replacement category in light of the fact that SAPN continue to reasonably meet their network performance targets. We would encourage SAPN to investigate options to reduce interruption time, especially on longer feeders. We recognise that addressing this challenge is not a simple task.

Secondly, we look for greater clarity on the impact of innovation on network reliability and safety in the environment of ageing assets. This conversation has not featured much in the engagement nor the issues paper. SAPN has a reputation as a highly capable and innovative utility, and we would seek the consideration of alternatives to asset replacement as a way of maintaining reliability, especially in an environment of strong DER growth and related opportunities of microgrids, grid forming inverters and similar.

9. Are there areas not covered above that stakeholders consider we should look at? Why?

Through the study of the capital plans, we suggest a couple of aspects more relevant to the 'barbeque conversation' be considered. These include:

a) How has the recent investment by SAPN in their SAP upgrade and 'Asset and Works System', planned for this regulatory period deliver clear benefit in productivity and cost reductions in planned replacement capital and augmentation costs ?

Innovation

b) CCP has largely been supportive of utilities being funded for an amount of in-house innovation. As has been discussed in the past, innovation work by utilities has transcended the more traditional 'better ways of doing things, leading to more productive practices', to investigating the impact of new technologies, electrification and more effective utilisation of energy assets (both utility and customer owned). Therefore, we support in part the proposal for an allocation of capital and operating funds for 'innovation'.

In doing so, we highlight:

- Innovation funding should only be allocated only where the beneficiary of the work are customers or the community, and not aligned predominantly with productivity increases in the utility itself (in which case the innovation should be funded internally), and
- There is a level of oversight of the innovation expenditure by consumers, perhaps as part of the role of a customer consultative committee.

In this case, we are supportive of the first two needs identified by SAPN in the use of an innovation fund – 'community resilience' and 'levering the future market'.

10. Do you agree with SA Power Networks' approach of investing to provide export service levels based on customer preferences?

Support for the provision of an export service tariff has been, unsurprisingly, polarised. More work will be needed in this area. CCP30 is well aware of the extensive tariffs research and analysis that SAPN has undertaken (and continues to develop) and areas in which they have provided leadership. Some further discussion with consumer interests would be useful to explore likely 'winners and losers' from export tariff proposals, particularly impact on lower income households, including renters.

Operating expenditure

11. What do you think about the proposed scope of targeted review?

As context for this question, SAPN is proposing a total operating costs spend of $1,983.7m for the 2025-30 period which is 18.8% higher than projected costs for the current regulatory period and 11.1% higher than the approved opex allowance for the current regulatory period, adjusted for a recently identified and rectified error. As such the proposed opex for 2025-30 is a significant increase on current spending.

The summary of changes from 2020-25 to 2025030 opex costs are given as figure 8 in the Issues Paper:

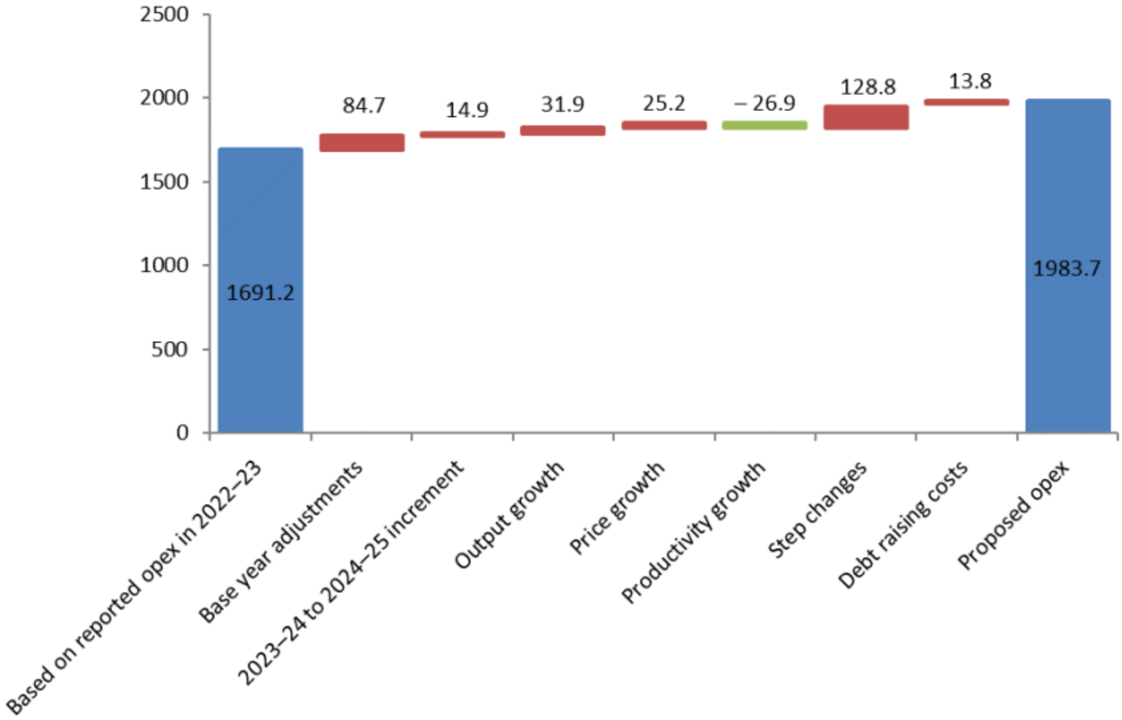

Figure 4: Breakdown of SAPN opex forecasts ($million, 2024-25)

The AER proposes to

> *"undertake a targeted review of SA Power Networks' forecasting approach to SaaS (Software as a Service) base adjustments, eight step changes and the category specific forecast related to the enactment of a small compensation claims regime."*

We consider these proposed targeted review topics in turn:

- Forecasting approach to SaaS: This is a significant proposed cost of $84.7 million real, and demonstrates that even larger Australian regulated natural monopolies are not insulated from the market power of very large, international, unregulated IT businesses that exercise monopoly market power. It is appropriate that the AER include this expenditure item as part of the targeted review to ensure that:
    - The costs are as prudent and efficient as possible, noting that all other AER reregulate network businesses confront the same software reality.'
    - All related costs that were previously treated as capex have been transferred from capex to opex, so there is no 'double counting' of these software costs.
    - There is proven net benefit to customers from past / current investment in SaaS services and that customers will benefit materially from any SaaS expenditure in 2025-30.
- Step changes

  There are 11 step changes proposed by SAPN, this is a substantial number of step changes and with a significant combined cost for customers.

Customers need to be reassured that each of the proposed step changes are of material benefit, so the 8 more substantial step changes proposed for targeted review are significant and warrant focus by the AER.

The step change proposals also need to be reviewed in the context of allowances for the current period (2020-25) and the benefit that they have delivered to customers, eg CER integrating and CER roll out, IT infrastructure refresh and network visibility. These are not new expenditure items, while they may have new components it is important to test if they are foreseeable continuations of current expenditure categories, and so a part of 'opex base' and not wholly new expenditure that requires a step change.

We note that the largest proposed step changes proposed are for:

* Cyber security uplift ($47.6m)
* operationalising cyber security ($17.4m)
* Insurance premium increases ($19.4m)
* "Network uplift program" ($18.0m)

The first three of these, in particular, were well canvassed by engagement sessions and by the People's Panel where there was strong agreement that adequate, or even extended expenditure on cyber security and insurance were supported. The prudency and efficiency of the proposed spending step changes are deserving of targeted review.

- Category specific forecasts

AER is proposing a targeted review of the "*enactment of a small compensation claims regime due to its materiality,"* a genuinely new category and based on a review by the Essential Services Commission of SA. We accept that this is a new expenditure and that it is material and so worthy of targeted review.

In summary, CCP30 accepts the opex expenditure items proposed for targeted review. There are probably more opex aspects being considered for targeted review than might be the ideal situation for an early signals pathway business, but circumstances are such that the issues being considered by network business are likely more complex than in the past with potentially higher impact on customers. CCP30 is of the view that this does not reflect any shortcoming in the SAPN approach, the complexity of the current circumstances and the extent of 'judgement calls' being made by SAPN are reflective of the current situation and so deserve regulatory scrutiny, so that consumers can be confident that they are paying the costs that need to be made.

12. What do you think about SA Power Networks' key changes from the Draft Proposal as set out in Section 4.4.2?

CCP30 regards the revision that SAPN has made from the Draft Proposal to be appropriate and responsive to consumer input. We observe that the final three iterations of the SAPN proposal expenditure, including pre-draft plan iterations that were presented to the CAB have each been reductions on the previous iteration, which is appropriate. We ponder on whether a further iteration of costs could further reduce the total allowance sought by SAPN, noting that SAPN has committed to a 'productivity' improvement.

13. Do you consider that SA Power Networks has adequately incorporated consumer feedback on the Draft Proposal into its Regulatory Proposal?

We have observed a substantial engagement program by SAPN and changes to the regulatory proposal that reflect consumer input. We have also observed a diversity of consumer views, particularly on cost of living and affordability topics. We have no doubt that SAPN has heard the concerns, we remain uncertain as to whether there is room for SAPN to further respond to these affordability concerns, in particular.

14. Do you consider SA Power Networks' opex forecast for the 2025–30 regulatory control period reasonably reflect the efficient costs of a prudent operator? Specifically, do you consider SAPN's proposed step changes, and base adjustment are required to produce an opex forecast that reasonably reflects the efficient costs of a prudent operator?

Opex Step Changes

$m, June 2025	2020-25 Actual/forecast	Draft Proposal (July 2023)	Regulatory Proposal	Variance from Draft ($ m)
Opex (excl $13m debt raising costs)	$1670m	$1930m	$1971m	+$42m

The proposal as lodged includes changes from the Draft Plan:

a) Base year adjustment, mainly moving SaaS from capex to opex
b) Increased wage costs
c) An extra $15m in step changes: New Claims Scheme in SA, AEMC review driven smart meter roll out, Cyber security increases.

Most of these opex increases are for matters that apply to all network service providers. They are the useful subject of targeted review to ensure efficiency and comparability with other network businesses.

Incentive schemes

15. Do stakeholders have feedback on the design of SA Power Networks' proposed CSIS?

We note the work that SAPN has undertaken in designing a CSIS that meets with consumer approval. We do note however that a number of responses to the draft proposal suggest that the CSIS does not adequately include more incentives for timely customer response and customer satisfaction. The customer satisfaction aspect of service delivery features in the design of the CSIS in other utilities, and we suggest that the AER could highlight this opportunity to SAPN in the draft decision.

In addition, we request that the targets be considered against the question of 'are they challenging enough?'

16. Do you have any views on the proposed application of any of the above incentive schemes?

With incentive-based regulation there is a delicate balance between providing networks with adequate incentive to continuously improve their practices, maintain network performance and to appropriately share improvement with consumers, particularly over time.

We agree that SAPN has continued to improve its performance against allowance over recent regulatory periods and have collected EBSS and CESS benefit payments as a consequence.

However, various CCP sub-panels over time have raised the concern that some efficiency claims by utilities have been, over time and with the benefit of hindsight, demonstrated to be a result of actions that are shown to be not efficient or effective the longer term.

We raise the same concern in this review. We have some concerns that SAPN may be seeking additional allowance to make up for previous underspend that resulted in incentives scheme payments. Therefore, a key question is whether past underspends have been sustainable over the longer term?

CCP30 recognises that there is no clear counterfactual against which past incentive benefits can be compared, but we think it is a question worthy of further AER review that includes historical performance. Asset replacement is a primary focus, as is augmentation expenditure where projects are deferred, or costs reduced.

Tariffs

17. Do you consider there are any aspects of SA Power Networks' proposed TSS that requires adjustment before our acceptance?

SAPN noted in their 1st February presentation that there were "diverse views on the introduction of Export Tariffs."

This noted, our observation is that SAPN has been a leader in the development of responsive tariffs that respond directly to network needs and are cognisant of consumer interests. The clarity in the disparate impacts to various cohorts of the community grew as the engagement proceeded. We think that export charges for PV exports to the network are very modest.

CCP30 notes that SAPN has been at the forefront of tariff development in changing electricity markets and is satisfied that SAPN's engagement on network tariffs has been appropriate that the key elements of the Tariff Structures Statement, including export tariffs, are appropriate.

Metering

18. Do you consider SA Power Networks' proposed legacy metering cost recovery approach and its opex forecasts to be reasonable?

SA Power Networks has subsequently departed from this approach and proposed to reclassify these services as standard control services. It also provided a revenue cap control mechanism consistent with the approach set out in our guidance note for metering services.

CCP30 remains supportive of this reclassification, similar to the position by other utilities, on the expectation that a smart meter rollout is substantially completed within the 2025-30 regulatory period.

We do note recent news articles regarding poor communication for tariff reallocation of customers after a meter change, and strongly counsel SAPN, the retailers and the AER on the importance of clear and timely information to energy customers regarding metering changes and tariff reallocation.

Service offering

19. Do you consider that sufficient justification has been provided in the provision of new services?

The service offerings that are proposed by SAPN are:

- Multi-site outages
- Retailer bypass request
- Knock before you disconnect

CCP30 understands that these have been explored in some detail, mainly with retailers and are acceptable to them, so are not challenged by CCP30.

The 'offering' most discussed in engagement with consumer interests was the "knock before you disconnect," approach which we observed has strong support from consumer groups, with the measure also being applied very successfully by other networks too. We understand that the approach has proven to be very successful in enabling disadvantaged consumers to find a way to address their consumption and affordability difficulties. The approach is very much in line with AER's "Statement of Expectations" that was released in response to COVID 19 and affordability concerns and continues to be regarded as valuable by AER retail focus. So we regard "knock before you disconnect" to be consistent with recent and current 'best practice.'

CCP30 believes that there is strong support for SAPN applying 'knock before you disconnect' and conducting this 'service offering' at marginal cost, since it is cost effective for impacted customers, retailers and SAPN, in the SA context.

20. Do you consider the proposed labour rates and fee-based prices to be reasonable?

The labour rate adjustments are 'reasonable' in the context of energy sector pay rates, which we observe tend to be generous by comparison with many other industry sectors, where energy business customers earn their income, including the large employing sectors in SA: hospitality, retail and care services – all low paid by comparison with energy sectors. We encourage examination into the labour rates, and material escalations, in this very volatile market. (As a reference point, median taxable income in Australia is currently about $51,000 and $95,000pa is the 80th percentile income - From Productivity Commission estimates using ATO Individuals Sample File 2020-21, a very high proportion of energy sector workers are in the top quintile of the Australian Income distribution)

Questions on public lighting

We have not examined the public lighting proposal in detail, and therefore provide no response.

21. Do you consider SA Power Networks' public lighting proposal generally incorporates stakeholder inputs from this pre-lodgement engagement? If not, did the network communicate these potential departure points to stakeholders and provide adequate explanation during pre-lodgement engagement?

22. Do you support SA Power Networks' proposed suite of public lighting services and prices?

23. Do you have any other comments on SA Power Networks' public lighting proposal and their pre-lodgement engagement?