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Business SA
Chamber of Commerce and Industry South Australia
ABN 000 14 725 309 328
Level 1, 136 Greenhill Road
Unley South Australia 5061
T: +61 8 8300 0000

Working for your business.
Working for South Australia

Mr Adam Young
Assistant Director – Network Regulations
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3000

Dear Mr Young

I write in response to the AER's request for submissions on your Preliminary Framework and Approach to SA Power Networks regulatory determination for the period 1 July 2020 to 30 June 2025 (referred to hereafter as the F&A paper).

Executive Summary

- In Business SA's 2018 pre-election survey, energy reliability and costs were the number one issue facing local businesses.
- The F&A is an ideal opportunity for the AER to consider how it is measuring the long-term outcomes on electricity consumers from its decisions related to SA Power Networks revenue allowances, including through reference to data from the final report of the ACCC retail electricity price inquiry due in June 2018.
- The last major bushfire mitigation program proposed by SA Power Networks was rejected by the AER and it is important to consider how any future program should fit within a nationally consistent approach, or at least to match best practice amongst the states.
- From Business SA's experience, SA Power Networks has commenced its preliminary consultations with consumers in an open and constructive manner which is a positive sign for the 2020-25 regulatory determination process.
- Considering the spate of electricity reliability issues experienced in South Australia since 2015, any incentive rates for SA Power Networks from 2020-25 should be based on more updated data than AEMO's 2014 Value of Customer Reliability data.

Should you require any further information or have questions, please contact
Andrew McKenna, Senior Policy Adviser, on (08) 8300 0000 or andrewm@business-sa.com.

Yours sincerely,

Anthony Penney
Executive Director, Industry and Government Engagement

Why this matter is important to South Australian businesses

As South Australia's Chamber of Commerce and Industry, Business SA is the peak business membership organisation in the State. Our members are affected by this matter in the following ways:

- The increase in electricity prices, particularly over the last two years, has had a devastating impact on South Australian business at a time when the State's economy is attempting to transition following the closure of Holden's manufacturing operations in October 2017.
- South Australia's small market customers, which include most small businesses, have also been caught up in the energy crisis and although the impacts have been delayed due to the nature of annual price reviews, in 2016 bill increases were approximately 10% on average, depending on the retailer, and small businesses were again hit with circa 20% bill increases effective from 1 July 2017.
- Up until mid-2015 when South Australia's wholesale electricity prices began to rise dramatically, network costs had been the primary driver of the significant increases in electricity costs over the past decade and South Australian businesses cannot afford to return to the spending patterns associated with that period which have been compounded through rising regulated asset bases.
- South Australia's blackout on 28th September 2016 crystalised the importance of reliability to business, costing at least $450 million[1]overall and it is important that reasonable steps are taken at appropriate costs to mitigate against impacts of similar events in future.

Key Policy Points

1. Business SA acknowledges the need to ensure that all spending to improve reliability to electricity consumers on the Eyre Peninsula, whether it be by Government, ElectraNet or SA Power Networks, is appropriately targeted and the aggregate price impact on consumers, particularly businesses, is minimised.

   The Essential Services Commission of South Australia (ESCOSA) recently inquired into reliability and quality of electricity supply on the Eyre Peninsula. While we recognise that some of ESCOSA's calculations on per annum costs of various reliability improvement options on the Eyre Peninsula are based on estimates subject to further refinement, ESCOSA's report[2] does make it clear that most of the reliability shortfalls, outside of significant weather events over the past 12 months, are due to shortcomings in the distribution, not transmission, system.

2. Under the National Electricity Law, the national electricity objective is to:

   'to promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity with respect to:

   - Price, quality, safety and reliability and security of supply of electricity, and
   - the reliability, safety and security of the national electricity system.

[1] Business SA, adjusted cost following additional public company results since Blackout Survey Results report, http://business-sa.com
[2] Inquiry into the reliability and quality of electricity supply on the Eyre Peninsula, ESCOSA, May 2017

It is not clear in the F&A paper how the AER will be monitoring the long-term performance of SA Power Networks. Considering the underlying growth in assets should fundamentally be correlated with demand on the system, the AER could track RAB values each year against growth in peak demand, at least over the last decade. This will help contextualise spending and also provide some discipline on both the AER and SA Power Networks to consider the long-term interests of consumers.

While Business SA does not doubt the AER has the long-term interests of consumers in mind, from a South Australian perspective it is not enough to just rely on benchmarking between the states, particularly given the significant overspend in public owned networks in New South Wales and Queensland. South Australia performing well compared to those states should not be the only benchmark when considering our network is under a fundamentally different ownership structure.

The ACCC's pending final report of its retail electricity price inquiry should provide good long-term context on consumer price outcomes for South Australian consumers. Accordingly, we expect the AER will refer to this data as it moves further through the 2020-25 regulatory determination process for SA Power Networks.

3. Prior to the AER's determination on SA Power Networks' 2015-20 regulatory proposal, Business SA's submission raised concerns about the grounds upon which SA Power Networks' bushfire mitigation spending proposal was formed. While we were not against measures to improve bushfire safety per se, we were not convinced to the extent that all of the proposed $221 million cost should be recovered from electricity consumers, particularly in the absence of no new local safety requirements being imposed on SA Power Networks.

   We note the following statement from the 2009 Victorian Bushfires Royal Commission in its 2010 report:

   '*The Commission makes its recommendations for the benefit of the entire community. For that reason it considers it inappropriate that electricity consumers bear the entire cost of implementing those recommendations*.'[3]

   The Victorian Powerline Bushfire Safety Taskforce was established to consider how the Victorian Government should implement the recommendations of the Victorian Bushfires Royal Commission and we acknowledge the following statement from their 2011 report:

   '*The Victorian Government will need to decide how the costs of improving bushfire safety are paid*.'[4]

   Since this time, the Victorian Government has introduced an f-factor scheme to incentivise better alignment between the bushfire risk reduction practices and priorities of the distribution businesses and the bushfire risk exposure of the Victorian community posed by the distribution network.[5]

   While Business SA is not necessarily advocating for an identical scheme for South Australia, it does seem like a practical scheme to incentivise distribution businesses to reduce the number of fire-starts at least cost impact to consumers. For example, at $15,000 per fire start which is the current Victorian incentive, a comparable value of this program for South Australia should cost no more than $750,000 per annum based on actual fire starts in South Australian bushfire risk areas.

[3] Victorian Bushfires Royal Commission Final Report, Vol. 2, Ch. 4 July 2010, p.158
[4] Victorian Powerline Bushfire Safety Taskforce Report 2011, p. 14
[5] Victorian Department of Environment, Land, Water and Planning, f-factor Incentive Scheme: Regulatory Impact Statement, October 2016, p. 15

4. Under 2.3.1, Efficient Tariff Structures, Business SA highlights that whatever price signals SA Power Networks sends through its tariff structures, particularly for small market customers, there is nothing to oblige retailers to pass on those tariffs to the market. This is more likely to occur in a market such as South Australia which is highly concentrated. While there is no simple solution to this issue given the retail electricity market is for all intents and purposes unregulated, it is worth noting that the anomaly exists and it should be recognised by the AER while still encouraging retailers to work with distribution networks to better align price signals; to bring about required outcomes which are in the best long term interests of consumers.

5. Business SA acknowledges the AER intends to apply Value of Customer Reliability (VCR) rates from 2014 in calculating incentive rates for SA Power Networks across 2020-25. Business SA contends that consumers understanding of the value of reliability has significantly improved since that point with several load shedding events on top of a state-wide blackout and numerous other storm related events which caused major issues in the distribution network. It would seem prudent to consider the continued validity of VCR rates from 2014 and whether or not they remain relevant for future determinations.

6. The AER's F&A should have regard to quality of supply issues, particularly considering SA Power Networks recently observed a 'significant increase in customer complaints arising from voltages exceeding prescribed limits and in October 2017, experienced the largest number of customer enquiries ever recorded, nearly twice the historical 10-year average.'[6]This is particularly relevant in a period of growing rooftop solar electricity generation to ensure any additional costs are appropriately accommodated for through cost-reflective price signals.

7. Under existing AER guidelines, distribution networks can provide third-party access to a network asset through a rental arrangement. This service is classified as 'access to a RAB asset' and consumers receive a 10% share of additional revenues, an outcome of a legacy arrangement which should be reviewed. Business SA supports SA Power Networks being incentivised to maximise the value of their assets, but these assets are subject to economic regulation and consumers ultimately pay SA Power Networks a return to maintain them. If ordinarily SA Power Networks receive a 30% share of cost savings made for consumers, there is no fundamental reason why leasing assets paid for by consumers should operate on a different basis.

   Business SA suggests the AER review this existing guideline through the F&A process to ensure consumers receive a share of asset rental revenues commensurate with their funding of the actual assets themselves.

[6] SA Power Networks, Distribution Annual Planning Report, 2017/18 to 2021/22', December 2017, P. 43