The Hon Tom Koutsantonis MP
Member for West Torrens

MMRE15D00581

Government of South Australia

Treasurer
Minister for Finance
Minister for State Development
Minister for Mineral Resources and Energy
Minister for Small Business

Level 8
State Administration Centre
200 Victoria Square
Adelaide SA 5000

GPO Box 2264
Adelaide SA 5001

DX 56203 Victoria Square

Tel 08 8226 1866
Fax 08 8226 1896

minister.koutsantonis@sa.gov.au

Mr Sebastian Roberts
General Manager, Network Regulation
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

Dear Mr Roberts

The Government of South Australia has been a keen stakeholder in the Australian Energy Regulator's (AER) revenue determination process for SA Power Networks and welcomes this opportunity to provide further comments on SA Power Networks' revised proposal.

The premise of the Government's former submissions which call on the AER to identify real cost saving opportunities for South Australian electricity consumers is reiterated here. For this reason, this submission identifies a number of areas from SA Power Networks' revised proposal that the Government believes could contribute to lower network charges over the next regulatory period. These matters relate to SA Power Networks' revised proposal for capital expenditure on improving reliability and operating expenditure on vegetation management. In addition, to assist the AER with their decision relating to SA Power Networks' proposal on bushfire safer places, the Government provides information about the Country Fire Services' (CFS) Bushfire Safer Places (BSP).

Capital Expenditure – Reliability

The Government's original submission to SA Power Networks' regulatory proposal questioned the need for additional capital expenditure relating to reliability. This view was supported by the AER in its preliminary proposal.

In its revised proposal SA Power Networks provides that stakeholder concerns about reliability were focused on underlying reliability and not on the proposal to address reliability during severe weather events.

In relation to hardening the network in locations that are consistently affected by lightning and wind storms, the Government supports the AER's preliminary decision and provides further commentary on SA Power Networks' consumer engagement findings and the design of the regulatory framework with respect to reliability service standards.

We also remind the AER of our original submission which referenced the Essential Services Commission of South Australia (ESCOSA) Reports on Performance of SA Power Networks. That submission showed the average percentage of power outages caused by weather. While in 2013/14 weather contributed to 42% of interruptions, it followed two years where weather accounted for less than 30%, which is less than in the preceding years from 2000 to 2010.

With respect to SA Power Networks' consumer engagement results, the Government refers to the finding that 88% of customers supported protecting the network against lightning and storms. However, we also note the view of ESCOSA in its Final Decision on SA Power Networks' Jurisdictional Service Standards for 2015-2020, which stated:

> *"SA Power Networks' stakeholder workshops identified that the program of potential network and customer service improvements being proposed could be achieved within an overall increase of no more than CPI; with the exception of further undergrounding of the network which would be at significant extra cost to customers.*
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> *However, this same contextual framing was not provided to customers undertaking the online survey. Asking customers what they would like is not a value-free exercise and some contextual statements that an increase in service levels is likely to result in increased prices, or alternatively, that lower standards may result in price reductions, is considered a necessary minimum for such an exercise. As such, while there is some comfort in the findings relating to overall customer satisfaction with existing reliability levels - noting the continuation of the general satisfaction trend over the three customer surveys - the customer survey is of limited use for determining customers' willingness to pay for reliability improvements (or to accept decrements in reliability for reduced bills) as it did not include a value proposition or require customers to trade-off service levels and prices.*[1]

With respect to the regulatory framework, while under the National Electricity Rules the AER must have regard to the findings of SA Power Networks' consumer engagement it must do so within the context of the broader regulatory requirements. In regard to reliability, the framework, which includes the setting of network reliability standards by ESCOSA, the AER's Service Target Performance Incentive Scheme (STPIS) and the Guaranteed Service Level (GSL) scheme, has been designed to balance consumer expectations and the cost on electricity consumers. A clear trade-off exists between electricity prices and reliability levels, and as the regulator responsible for the setting of reliability standards, ESCOSA has determined the acceptable reliability levels in South Australia using an informed and transparent determination process.

In recognition of this trade-off, SA Power Networks is also required to comply with the GSL scheme. As noted by ESCOSA in its Final Decision on SA Power Networks' Jurisdictional Service Standards for 2015-2020, the GSL scheme "is designed to

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[1] SA Power Networks Jurisdictional Service Standards for the 2015-2020 Regulatory Period, Final Decision, page 21.

make payments to customers where it is too costly to provide the average service standards to an individual customer"[2].

In its preliminary decision, the AER approved $28.1 million on maintaining reliability, which, together with any incentives that SA Power Networks may receive under the STPIS, and weighing up the cost of any GSLs paid to individual customers, gives SA Power Networks the ability to allocate money to the most appropriate areas. This applies not only to SA Power Networks' proposal to harden the network against lightning and storms but also to the other proposed reliability improvements such as the low reliability feeders. In that case, SA Power Networks provides that because the lower service levels of these feeders does not materially contribute to the overall reliability standards, it is not incentivised under the STPIS to improve them. The Government does not support this view and provides that it is up to SA Power Networks, as a prudent and efficient operator, to determine where its network requires most work and apply funds accordingly.

Operating expenditure - Vegetation Management

The Government does not support SA Power Networks' revised proposal for operating expenditure step changes totalling $33.2 million over the 2015-2020 regulatory period. Further, as provided in our submission to the AER's Preliminary Decision, the Government provides that this operating expenditure should actually be reduced from the 2013/2014 base year to take into account a number of changes that have occurred since the AER's previous regulatory decision.

Without reiterating the full breadth of our arguments contained in that submission, the AER must consider that the 2010-2015 decision appears to have allowed additional revenue for a one-off event to allow SA Power Networks to become compliant with the requirements of the *Electricity (Principles of Vegetation Clearance) Regulations 2010* which it was not meeting. In addition, those regulations were amended in February 2010 to provide for a more light-handed approach to vegetation clearance in Non Bushfire Risk Areas. The Government also wants to ensure that the 2013/2014 base year is correctly adjusted to take out the portion of the $35.1 million cost pass-through allowance which the AER approved in July 2013.

In addition, at a broader level, the Government provides that it is not appropriate for electricity consumers at large to fund even more extensive vegetation management programs which only serve to benefit parts of the community.

The current regulations represent a balanced approach to vegetation management that provides appropriate safety. Any additional costs for other reasons, such as aesthetics, may be entirely appropriate but should not be funded by all electricity consumers. As submitted by SA Power Networks, section 55A of the *Electricity Act 1996* provides for local councils to assist SA Power Networks in funding vegetation management programs. Noting the Local Government Association's support for SA Power Networks' enhanced program, the Government submits that the provision in the Act serves exactly that purpose and enables

[2] SA Power Networks Jurisdictional Service Standards for the 2015-2020 Regulatory Period, Final Decision, page 31.

Councils that value aesthetics as important to fund the cost differential themselves. Councils represent the interest of their communities and any unique requirements of those communities should not be subsidised by all electricity consumers.

Capital Expenditure – Safety: Bushfire Safer Places

In its revised proposal SA Power Networks includes a revised proposal of $26.8 million to reinforce electricity supply to 12 CFS designated BSPs.

To assist the AER in its assessment of this proposal the Government provides further information about the hierarchy of BSPs, as developed by the CFS, which can be found on the CFS website: http://www.cfs.sa.gov.au.

The Government also notes that the State Bushfire Coordination Committee is the peak bushfire management committee that has responsibility for all aspects of bushfire management in South Australia. SA Power Networks is a member of this committee. General functions of the Committee include:

- as far as is reasonably practicable to promote the State-wide coordination and integration of policies, practices and strategies relating to bushfire management activities; and
- to prepare, or initiate the development of, other plans, policies, practices, codes of practice or strategies to promote effective bushfire management within the State.

Noting concerns raised by stakeholders to SA Power Networks' initial bushfire mitigation program, the Government considers that any proposals for bushfire management should be taken to the Committee for consideration to ensure that SA Power Networks is not undertaking expenditure unnecessarily.

BSPs serve to provide relative safety from bushfires and should be used by persons living in bushfire areas when creating their Bushfire Survival Plan. The BSPs are divided into 3 categories ranked safest to least safe:

- **Bushfire Safer Settlement** – is the inner Adelaide Metropolitan area and provides the highest level of bushfire safety of the 3 categories. It may be used for people to stay in or as a place for first resort for those people who have decided that they will leave high risk locations early on a bad fire weather day.
- **Bushfire Safer Precinct** – this includes a number of outer suburbs and rural settlements which have met established CFS criteria. These precincts provide relative safety and may be used as a place for people to stay in or as a place of first resort for those people who decide to leave high risk locations early on bad fire weather days. The CFS provides a list of the BSP by council area on their website. It is assumed that SA Power Networks' proposal refers to this category in its proposal.
- **Last Resort Refuge** – this includes spaces or buildings which could be used as a place of last resort. This is an area that provides relative safety with a minimum level of protection against a bushfire. This category should only be used when a person's Bushfire Survival Plan cannot be actioned. A list of Last Resort Refuge is also available on the CFS website.

On a final matter, the Government wishes to remind the AER of its submission that does not support the AER's preliminary decision which accepted a $1.3 million step change in operating expenditure resulting from the implementation of the connection charging framework under the National Energy Customer Framework (NECF). As previously noted SA Power Networks' has been applying the substantial requirements from the NECF since South Australia's implementation of the framework on 1 February 2013. The calculation requirements under the AER's Connection Charging Guideline are not too dissimilar to SA Power Networks' existing connection charging regime.

I trust that this information, together with the Government's previous submissions, assists the AER in determining a balanced outcome for SA Power Networks and South Australia's electricity consumers. Should you have any questions in relation to this submission, please contact Mr Vince Duffy, Executive Director of the Energy Markets and Programs Division, Department of State Development on (08) 8226 5500.

Yours sincerely

Tom Kou

Hon Tom Koutsantonis MP
Minister for Mineral Resources and Energy

4 ~~July~~ 2015
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