



19 May 2019

Mr Warwick Anderson
General Manager, Networks Finance and Reporting
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Email: SAPN2020@aer.gov.au

Dear Mr Anderson

RE: SAPN Regulatory Proposal 2020-25

Origin Energy appreciates the opportunity to provide a submission in response to SA Power Networks' regulatory proposal for the period 2020-25.

Origin supports the progress that the AER has made in driving SA Power Networks (SAPN) towards achieving more efficient expenditure levels.

SAPN indicate that its proposed revenue for the 2020-25 regulatory period will result in an annual average increase in network tariffs of 0.3 per cent. However, this outcome is largely driven by a significant P0 reduction in 2020-21. Based on SAPN's proposal, without this initial reduction annual revenues would otherwise increase by the order of 2.0 per cent per annum. In an environment where returns are at historic low levels and the network utilisation rates are falling, we would expect to see greater price reductions not increases. For these reasons we consider that the AER ought to closely scrutinise SAPN's proposed opex step changes and changes in its depreciation profile.

Network Revenue

The largest driver of increases to SAPN's proposed revenues are depreciation and opex step changes.

It is essential that the AER fully scrutinise the justification for the introduction of new asset classes with lower lives to ensure that this represents an appropriate re-classification away from longer life asset categories. It needs to be made clear what the relationship is between refurbishment expenditure and any change in the engineering life of the underlying asset.

SAPN's increase in opex is largely attributable to step changes. We are concerned that base costs ought to be well known to the business at this stage in the maturity of the regulatory framework. Changes to business as usual maintenance expenditure must be supported by a strong engineering justification and a robust risk management case.

Alternative Control Services

As part of the AER's final framework and approach, the AER classified a number of services previously classified as negotiated services as alternative control services. While we did not respond to this decision at the time, we endorse the AER's decision.

However, we have a number of concerns regarding the fees proposed by SAPN, notably cancellation fees.

SAPN has derived the charges for its fee-based services from the relevant labour rates, average time to perform the work, and other known costs. SAPN states that its fee-based services have been developed to provide full cost recovery for each individual service.

However, we do not agree that a number of charges are based on their cost recovery and we are concerned that they may be significantly over-recovery relative to the cost of delivery.

For the 2015-20 regulatory period, SAPN proposed cancellation fees for a number of services equal to the actual cost of performing the service. We do not believe this is cost reflective and have raised our concerns with SAPN. However, we note that not only have the cancellation fees remained equal to the level of service provision, but they have increased substantially in its 2020-25 proposal.

As Origin understands, when a service order is cancelled, the retailer sends the cancellation via a B2B transaction which is an automated system for market participants. As a result, the cost to submit and process a cancellation service order should be minimal because of this automation. Furthermore, because the process for a cancellation is automated and therefore consistent across all services, cancellation fees should also be consistent across all services. However, SAPN's prices show a cancellation fee that equals the actual fee for service. For example, the fee for the cancellation of a special meter read (fee code NDS 388) is \$11.00 whereas the fee for the cancellation of a disconnection at a meter (fee code NDS 403) is \$87.00. It is not clear why an automated cancellation would attract different prices when the process is the same.

Furthermore, SAPN's approach recovers the costs of a service that has not been delivered. This is tantamount to a penalty rather than a recovery of incurred costs. We believe this is contrary to the NER.

We recognise that SAPN must manage its program of work including the efficient management of its own field workforce or the co-ordination of contracted service providers. When insufficient notice has been provided to change a service order, we accept that the work may have already been scheduled and is unable to be changed. In these circumstances, the onus must be on SAPN to specify when short notice cancellation fees apply and justify this timeframe and any difference in this fee. As the AER has previously determined, simply because a business incurs costs from an external contractor these cannot be pre-judged as efficient.

We believe that the SAPN cancellation charge should reflect a genuine estimate of the efficient costs incurred by SAPN to process the service order cancellation; not simply the cost of the service foregone.

The cancellation services we have specific concerns about are set out in table 1 below which also includes the cancellation fee for service NDS 388 to highlight the inconsistency in these fees. We have also highlighted other alternative supply charges that have increased substantially and require further justification by SAPN and scrutiny by the AER. These are set out in table 2.

Table 1: Proposed ACS Cancellation Fees (GST Exclusive)

| Service Description | Fee Code | 2018-19 Price (Negotiated Services) ¹ | 2020-21 Price ² |
|--|----------|--|----------------------------|
| Disconnection at meter (if cancelled same fee applies) | NDS 403 | \$38.30 | \$87.00 |
| Reconnection at meter (if cancelled same fee applies) | NDS 404 | \$38.30 | \$87.00 |
| Reconnection after hours (if cancelled same fee applies) | NDS 405 | \$90.60 | \$87.00 |
| Network access management fee | NDS 381 | \$286.00 | \$508.00 |
| Network access management fee – cancellation fee | NDS 429 | \$286.00 | \$508.00 |
| Special meter visit | NDS 387 | \$90.60 | \$87.00 |
| Cancellation of a special meter read visit | NDS 388 | \$14.20 | \$11.00 |

Table 2: Proposed ACS prices versus current Negotiated Services Prices (GST Exclusive)

| Service Description | Fee Code | 2018-19 Price (Negotiated Services) ³ | 2020-21 Price ⁴ | Increase % |
|---|----------|--|----------------------------|------------|
| Temporary line insulation (eg tiger tails) | NDS 371 | \$400.00 | \$838.00 | 109.50 |
| Site Inspection | NDS 398 | \$238.00 | \$328.00 | 37.82 |
| Re-inspection for compliance | NDS 345 | \$331.00 | \$393.00 | 18.73 |
| Asset information request | NDS 377 | \$87.00 | \$164.00 | 88.51 |
| Asset information request - Ground level transformers | NDS 379 | \$141.00 | \$328.00 | 132.62 |
| Swing & Sag Calculations up to 11kV | NDS 419 | \$1,279.00 | \$1,989.00 | 55.51 |
| Swing & Sag Calculations > 11kV | NDS 428 | \$1,706.18 | \$2,646.00 | 55.08 |
| Meter inspection fee | NDS 364 | \$36.00 | \$57.00 | 58.33 |
| Temporary supply - overhead or underground on existing pole | BCS 141 | \$824.00 | \$1,153.00 | 39.93 |
| Temporary supply - Existing pit/pillar | BCS 145 | \$326.00 | \$476.00 | 46.01 |
| Permanent abolishment of LV service | NDS 301 | \$270.00 | \$633.00 | 134.44 |
| Temporary disconnect and reconnect - customer - line truck | NDS 302 | \$540.00 | \$1,051.00 | 94.63 |
| Temporary disconnect and reconnect - single person crew | NDS 330 | \$250.00 | \$464.00 | 85.60 |
| Connections specification fee - \$0-\$100k project | NDS 346 | \$108.00 | \$3,280.00 | 2,937.04 |
| Connections specification fee - \$101k-\$200k project | NDS 341 | \$3,200.00 | \$5,740.00 | 79.38 |
| Temporary disconnect and reconnect - retailer - line truck | NDS 430 | \$250.00 | \$1,054.00 | 321.60 |
| Alter/relocate/replace of overhead/underground service | BCS 106 | \$282.00 | \$1,290.00 | 357.45 |
| Multiphase upgrade - O/under or O/head | BCS 109 | \$544.00 | \$1,310.00 | 140.81 |
| Multiphase upgrade - O/under or O/head | BCS 110 | \$118.00 | \$549.00 | 365.25 |
| Multiphase upgrade - existing pit/pillar | BCS 111 | \$436.00 | \$1,290.00 | 195.87 |

¹ SA Power Networks, Network Negotiated Services & Public Lighting 2018/19, <https://www.sapowernetworks.com.au/public/download.jsp?id=310854>

² SA Power Network, Attachment 17 – Tariff Structure Statement, pp. 126-142.

³ SA Power Networks, Network Negotiated Services & Public Lighting 2018/19, <https://www.sapowernetworks.com.au/public/download.jsp?id=310854>

⁴ SA Power Network, Attachment 17 – Tariff Structure Statement, pp. 126-142.

Closing

Origin supports the AER's approach and progress in driving efficient revenue outcomes. As part of its assessment of SAPN's regulatory proposal, we consider that the AER ought to critically assess SAPN's proposed opex step changes and changes to the asset lives of certain refurbishment expenditure.

We also believe that the AER should not approve the ACS cancellation charges that we have identified. We firmly believe that the current fees for the cancellation of service orders do not reflect the efficient costs incurred by SAPN; especially as these services are automated. Furthermore, these charges represent a penalty to consumers not a fee for service.

If you have any questions regarding this submission, please contact [REDACTED] in the first instance on [REDACTED].

Yours sincerely

[REDACTED]

Keith Robertson
General Manager, Regulatory Policy