Attachment H.7

SAPN _Distribution Network Pricing Rules

02 July, 2015

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1 INTRODUCTION

In our original regulatory proposal (**Original Proposal**) for the 2015-20 Regulatory Control Period (**RCP**) SA Power Networks proposed new capital and operating expenditure associated with the introduction of cost-reflective network tariffs for small customers. In its Preliminary Determination, the AER did not approve this expenditure.

This document sets out our response to this aspect of the AER's Preliminary Determination, and provides further detail in support of our Revised Proposal in relation to the transition to more cost-reflective network tariffs.

2 MOTIVATION

SA Power Networks is required to set tariffs in accordance with the pricing principles in Chapter 6 of the National Electricity Rules (**NER**). In November 2014 the Australian Energy Market Commission (**AEMC**) published a Rule change to strengthen the pricing principles in the NER in line with recommendations from the Power of Choice review[1]. The new Rules require networks to:

- Transition to more cost-reflective network tariffs based on Long Run Marginal Cost (**LRMC**).
- Develop price structures that are reasonably capable of being understood by consumers, having regard to consumers' ability to relate price structures to their usage decisions and respond to price signals.
- Manage the impacts on consumers by gradually moving to new network prices over several years.
- Consult with consumers and retailers in the development of network prices.

This Rule change was in draft at the time of our Original Proposal and is now final. The new Rules set a timeframe for new tariffs based on the new pricing principles to be in place from 1st July 2017 in South Australia[2].

3 OUR REGULATORY PROPOSAL

In our Original Proposal for the '2015-20 RCP' we proposed to commence a transition to cost-reflective network tariffs for residential and small customers, consistent with our expected regulatory obligations under the pricing principles in the new Rules (in draft at the time of our submission).

We proposed:

- To phase in a new residential tariff based on monthly peak demand for small market customers.
- To make the new tariff available on an opt-in basis initially, becoming mandatory for all new customers and customers upgrading their supply arrangements (e.g. to install 3-phase power, solar photovoltaic (**PV**), etc) from July 2017.
- To discontinue installing basic accumulation meters, and to install interval-capable meters as standard, from July 2015, to facilitate uptake of the new tariff.

[1] AEMC Rule Determination, National Electricity Amendment (Distribution Network Pricing Arrangements) Rule 2014, 27 November 2014
[2] Ibid, section 6.4.3

- To move from quarterly meter reading to monthly meter reading for customers taking on the new tariff initially, and for all customers from July 2017. Monthly meter reading enables accurate monthly billing so that customers can respond effectively to the monthly price signal in the new tariff. The economies of manual meter reading are such that, as customers move to the new tariff, it quickly becomes more cost-efficient to transition to monthly reading for all customers than to maintain separate read routes for monthly- and quarterly-read customers.
- To undertake a comprehensive customer and retailer engagement program to ensure that customers and retailers understand the tariff, and to support customers in responding to the new price signals.

Our tariff strategy was reflected in material cost components in the following areas of our Original Proposal:

- Standard Control Services (**SCS**) capital expenditure, primarily related to our customer and retailer engagement program but also including some Information Technology (**IT**) costs associated with tariff implementation.
- A step change in SCS operating expenditure over the 2015-20 RCP for customer and retailer engagement, primarily due to additional customer support resources in our call centre, as well as costs related to the transition to monthly billing.
- An uplift in Alternative Control Services (**ACS**) capital expenditure attributable to the incremental cost of interval meters compared to basic accumulation meters.
- A step change in ACS operating expenditure over the 2015-20 RCP due to the transition to monthly meter reading.

4 AER PRELIMINARY DETERMINATION

In its Preliminary Determination, the AER did not agree with our proposal to install interval meters as standard, nor did it approve our proposal to move to monthly meter reading. The AER took the view that the associated costs are unwarranted given the retailer-led rollout of smart meters expected to commence from 2017 under the new regulatory framework proposed in the AEMC's draft Rule change on metering competition.

The AER went on to reject all other spending associated with the introduction of cost-reflective tariffs, on the grounds that our proposed approach to tariff reform was dependent on our metering proposal, which the AER had not approved.

In Attachment 7 to the Preliminary Determination the AER also put the view that our proposed customer and retailer engagement expenditure over-estimated the number of additional call centre staff resources that would be required to support the new tariffs[3]. The AER did not propose an alternative allowance, as it had already rejected all spending associated with tariff reform as a consequence of its rejection of our metering proposal.

[3] Attachment 7 to the AER's Preliminary Determination, p. 7-86

5 SA POWER NETWORKS' response to AER PRELIMINARY DETERMINATION

5.1 Summary

We do not agree with the AER's decision to reject all expenditure related to the introduction of cost-reflective network tariffs. We have a new regulatory obligation to phase in cost-reflective pricing in the 2015-20 RCP under the new pricing principles in the NER, and will incur new expenditure as a result.

While we do not agree with the AER's analysis of the costs and benefits of installing upgradable interval meters, we accept the AER's preliminary decision in relation to our metering proposal, and no longer propose to install interval meters as standard.

Our response is set out in more detail in the sections that follow.

5.2 The requirement to transition to cost-reflective tariffs

The new distribution network pricing principles recognise that a transition to more cost-reflective network tariffs is required to address inequitable and unsustainable cross-subsidies that result from tariffs that are levied on energy consumption as is the norm for small customers today. Case studies undertaken by NERA Economic Consulting (**NERA**) for the AEMC examined outcomes of current network price structures and found that:

- In South Australia, a consumer with a 2.5kW north-facing solar array pays about $120 a year less than the cost of providing the customer's network service. The $120 is recovered from other consumers who face higher prices as a result.
- If the above customer's solar panels faced west, although the panels would produce less energy overall, they would produce more than double the amount at the time of peak demand, substantially reducing the cost to provide the network service. However, current price structures provide no incentive to reduce peak demand and hence use the network efficiently; customers benefit more from facing panels north.
- An average Victorian consumer who installs a 5kW air conditioner causes an extra $1,000 per annum in network costs, but only pays an extra $300. Other customers face higher prices in order to subsidise the remaining $700 per annum.
- Consumers on hardship programs tend to use a higher proportion of their energy at off-peak times, and as a consequence are the most likely to be over-paying for their network service under current price structures.

These findings align with our own research and experience. The issue of cross-subsidy is particularly prevalent in South Australia due to the very high penetration of both air-conditioning (more than 90% of households) and residential solar PV (more than 22% of households). In 2014 we estimated that the total subsidy of PV customers by non-PV customers in South Australia was around $16 million[4]. Modelling undertaken for SA Power Networks by consultant Energeia has shown that, if we do not adopt cost-reflective pricing, growing cross-subsidies will mean that by 2034 a customer without access to solar PV or other Distributed Energy Resources (**DER**) will be paying roughly 50% more in network charges than a customer who has adopted DER, for the same network service[5].

[4] Attachment 14.3 to SA Power Networks' Regulatory Proposal 2015-20, Tariff & Metering Business Case
[5] Attachment 5.3 to SA Power Networks' Regulatory Proposal 2015-20, Assessment of Future Tariff Scenarios for South Australia, report prepared by Energeia for SA Power Networks, July 2014

The South Australian business community is also supportive of cost-reflective tariffs. In its submission to the AER in response to our Original Proposal Business SA wrote:

> *"The aspects of the regulatory proposal we are in broad agreement with are: ... The move towards more cost reflective pricing and tariffs. Business SA believes it is important that businesses are able to control their energy costs, and that cross subsidies should be eliminated as far as practical. Cost reflective pricing and tariffs achieve this by shifting costs towards individual consumers and the impact their consumption patterns have on the overall cost of delivery"*[6]

We share the AEMC's view that current network pricing structures are not in the long term interest of consumers because they:

- provide weak incentives (at best) for customers to manage their peak demand, which leads to under-utilisation of network assets and higher overall cost to the community;
- artificially inflate the value of generation compared to other customer-side investments. In the long term, the overall cost of energy will be minimised when the demand-side market works efficiently and price signals are reflective of underlying cost, so that consumers invest appropriately in a mix of measures that reduce both energy consumed and peak demand; and
- lead to inequitable and unsustainable cross-subsidies between customer groups.

As noted in the Tariff and Metering Business Case included as attachment 14.3 to our Original Proposal[7], we are also concerned that new demand-side technologies and products are emerging that will drive future waves of consumer investment that may be just as significant in their impact on the distribution network as air conditioning and solar PV, including:

- battery storage;
- home energy management systems; and
- electric vehicles.

With the proper price signals, emerging technologies such as these present opportunities for consumers to flatten their load profiles and thus increase utilisation of, and hence community value from, existing network assets. This could include, for example, charging electric vehicles overnight when electricity demand is low or in the middle of the day when there is an excess of solar capacity, or using battery storage to reserve daytime solar energy for use during the early evening peak in demand.

Conversely, in the absence of cost-reflective network tariffs, consumer adoption of these technologies could drive renewed growth in peak demand and the need for increased network infrastructure augmentation. For example, customers could plug in EVs to charge immediately on returning home from work on summer afternoons when the network is already under stress.

5.3 Cost-reflective tariffs to be phased in from 2017

The AEMC's final determination on the Distribution Network Pricing Rule change set a timeframe for new cost-reflective tariffs based on the new pricing principles to be in place

[6] Business SA submission on SA Power Networks Regulatory Proposal 2015-20, p13
[7] Attachment 14.3 to SA Power Networks' Regulatory Proposal 2015-20, Tariff & Metering Business Case, section 2.1.3

from 1st July 2017 in South Australia[8]. Our Original Proposal was entirely consistent with this timeframe.

At the time that we submitted our Original Proposal it was expected that customers would begin to adopt smart meters on an 'opt in' basis at some point midway through the 2015-20 RCP when the proposed new Rules for metering competition came into effect. There was, however, considerable uncertainty regarding the detail of the new Rules and the timing, pace and reach of the anticipated 'market led' smart meter rollout. As a consequence, we did not consider it prudent to rely on an unquantified future deployment of smart meters by other parties in South Australia in order to achieve our regulated obligations with regard to network tariff reform. We also did not consider it in customers' interest to continue to install non-upgradable 'dumb' accumulation meters in the knowledge that they could not support the tariffs we were required to introduce, and hence would inevitably have to be replaced within a few years, exposing customers to unnecessary cost and the inconvenience of another power outage.

In March 2015 the AEMC published the draft Rule on expanding competition in metering. The draft Rule departs from the original concept of a 'customer led' opt-in smart meter rollout, and proposes instead that all meters installed from July 2017 must be smart meters, with customers able to opt out only in very limited circumstances[9]. This in turn means that all new and upgrade customers from July 2017 can be moved to cost-reflective network tariffs at the time that they are making demand-side investments – precisely the outcome that our Original Proposal was intended to achieve[10].

While we do not agree with the AER's view that it is in customers' interest to continue to install obsolete meters, we are now confident that the metering competition Rule change will achieve a transition to interval metering in the timeframe required to enable network tariff reform. We therefore accept the AER's Preliminary Determination regarding metering, and no longer propose to install interval meters as standard.

The AER's decision to reject our proposal to install interval meters as standard does not, however, diminish the need for tariff reform or our responsibilities under the new Rules.

We still propose to make new tariffs mandatory from July 2017, assuming that the new metering competition rules commence at that time. We therefore do not accept the AER's decision to reject all non-metering expenditure associated with the introduction of cost-reflective tariffs, such as costs associated with customer and retailer engagement, education and support.

5.4 A tariff based on maximum demand

The AEMC estimates that up to 81% of consumers would face lower network charges in the medium term under a cost-reflective network price, and finds that pricing based on maximum demand (capacity) is more beneficial than alternatives such as critical peak pricing[11].

This finding aligns with SA Power Networks' own analysis of the likely impact on customer behaviour of different tariff structures, which compared capacity-based tariffs against Time of Use (**ToU**) and Critical Peak Pricing (**CPP**) tariffs[12]. This has found that the price signal inherent in ToU tariffs is too weak in the South Australian context to deliver material change in customer behaviour during the small number of extreme demand days associated with summer heatwaves. CPP, on the other hand, has the potential to provide a stronger price

[8] Attachment 14.3 to SA Power Networks' Regulatory Proposal 2015-20, Tariff & Metering Business Case, section 6.4.3
[9] AEMC Draft Rule Determination, Expanding competition in metering and related services, March 2015
[10] Attachment 14.3 to SA Power Networks' Regulatory Proposal 2015-20, Tariff & Metering Business Case, section 3.3
[11] AEMC Rule Determination, Distribution Network Pricing Arrangements, November 2014
[12] Attachment 14.3 to SA Power Networks' Regulatory Proposal 2015-20, Tariff & Metering Business Case, section 3.1

signal, but has been ruled out after an analysis of historical data suggested that the number of 'critical peak' event days is likely to vary significantly year-on-year due to SA's highly variable summer weather patterns, leading to excessive revenue and bill volatility.

SA Power Networks has been a leader in the introduction of cost-reflective network tariffs based on maximum demand. We first began offering such tariffs to large commercial and industrial customers on an opt-in basis in 1999, and in 2010 made tariffs based on agreed maximum demand mandatory for business customers with maximum demand greater than 100A or 75kVA. The residential and small business segments, which represent the majority of customers, have historically remained on inclining-block tariffs (**IBT**), in part because those customers do not have meters capable of measuring maximum demand.

In July 2014, following a series of customer trials in North Adelaide, we published a new tariff for small market customers based on monthly peak demand. This tariff is currently available on an opt-in basis to customers with a participating retailer that already have (or are willing to pay for) interval meters.

From 1st July 2015 we are making a monthly maximum demand tariff mandatory for all new business customers that have multi-phase meters, and all business customers that are upgrading their supply arrangements with new multi-phase meters.

Our proposal to phase in cost-reflective tariffs more broadly in the residential and small business segments by making the maximum demand tariff mandatory from July 2017 is, therefore, not only consistent with the new pricing principles in the NER to which we must abide, it is also consistent with our long-term approach to tariff reform. As such, our estimate of the efficient expenditure required to phase in the tariff is founded on more than 15 years of experience.

5.5 Customer and retailer engagement

In Attachment 7 to its Preliminary Determination[13] the AER wrote:

> *"We accept that SA Power Networks may incur some additional consultation costs in developing its new tariff structures. For instance, the structure of its tariff must be reasonably capable of being understood by retail customers so SAPN may incur some additional costs in meeting this requirement"*

We agree with the AER's statement that SA Power Networks is likely to incur additional costs in introducing cost-reflective tariffs. We therefore disagree with the AER's decision to exclude all such costs in its Preliminary Determination.

In its Preliminary Determination the AER made reference to the network pricing principle in NER clause 6.18.5 (i), which states:

> *6.18.5*
>
> *(i) The structure of each tariff must be reasonably capable of being understood by retail customers that are assigned to that tariff, having regard to:*
>
> *(1) the type and nature of those retail customers; and*

[13] Attachment 7 to AER Preliminary Determination, p. 7-86

> *(2) the information provided to, and the consultation undertaken with, those retail customers*

The AEMC elaborates on the intent of this Rule in the distribution network pricing Rule change final determination, as follows:

> *"When DNSPs are introducing new tariff structures they will need to take into account the differing levels of knowledge and ability to understand tariff structures of various types of consumers. For example, residential consumers have little familiarity with demand tariffs. If a DNSP sought to move all of its consumers on to demand tariffs it would need to be able to demonstrate that residential consumers were capable of understanding, and therefore responding to the price signals of such tariffs."*[14]

Customers have become accustomed to the fact that their electricity costs are directly related to the total amount of energy they consume, and generally understand how to save energy in order to save money. Market research undertaken as part of SA Power Networks' capacity tariff trials in 2013 and 2014[15] has shown that customers, in general, are not aware that their peak demand also has an impact on costs, and do not know what their peak demand is or how to manage it.

In our Original Proposal we proposed an extensive customer engagement program to ensure customers are provided with the information, tools and support they require to understand the new tariffs and respond to the price signals in them. We also proposed that retailers would require education and support to enable them to incorporate the tariff in their product offerings, and understand the potential impacts on customers. We forecast a step change in operating expenditure due to these initiatives, a significant component of which was in additional staffing in our call centre.

In its submission to the AER on this aspect of our Original Proposal, Business SA wrote:

> *"We consider there needs to be more information and education for businesses regarding the likely impact of new tariffs, the timetable and likely price trajectories for these tariffs so businesses can understand their future costs, and the options available to businesses to mitigate and manage any cost increases under new tariff structures"*[16]

Although it did not accept any costs associated with the transition to cost-reflective tariffs, the AER did consider our proposed customer and retailer engagement expenditure in Attachment 7 to the Preliminary Determination[17], writing that:

[14] AEMC Rule Determination, Distribution Network Pricing Arrangements, November 2014, p. 166
[15] Attachment 14.3 to SA Power Networks' Regulatory Proposal 2015-20, Tariff & Metering Business Case
[16] Business SA submission on SA Power Networks Regulatory Proposal 2015-20, p13
[17] Attachment 7 to the AER's Preliminary Determination, p. 7-86

> *"In considering this proposed step change, we also assessed SA Power Networks' proposed forecast for additional consumer call centre staff. We note:*
>
> - *As at March 2015 SA Power Networks only employs 17 FTEs in its call centre to answer general enquiries and building and contractors. We do not consider hiring an additional 26 call centre FTEs by 2020 is a reasonable estimate given that all that may change is the tariff structure.*
> - *SA Power Networks considers indicators of the reasonableness of its customer call centre costs are:*
>   - *the volume of calls it received when it trialled its capacity based tariff with some consumers, and*
>   - *the forecast volume of calls it typically receives from PV customers.*
>
> *We question whether these are good indicators. For instance, retailers were not involved in SA Power Networks' capacity tariff trial. We would expect that when tariffs are changed the retailer would be the first point of contact for the customer and only complex calls would be referred to SA Power Networks. We would also expect PV customers would typically contact SA Power Networks on a range of different matters - not just tariffs. This was confirmed by SA Power Networks in a response to an information request."*

In response to the above, we note that the quoted figure of 26 FTEs included resources associated with the transition of customers from accumulation meters to interval meters under our Original Proposal, as well as two new FTEs dedicated specifically to supporting small-to-medium business customers through the transition to cost-reflective tariffs. The actual number of front-line call centre support staff peaked at 17 in our original estimate[18].

We also consider that the statement "all that may change is the tariff structure" understates the potential customer impact of the transition to cost-reflective tariffs based on maximum demand. Residential customers have been billed based on the amount of energy consumed for the last 60 years. Our tariff trials in North Adelaide found that residential customers required considerable education and support to help them to understand the concept of maximum demand and relate it to their own behaviour. All customers in our trial received a one hour personal consultation at the start to explain the tariff in detail and answer questions. In spite of this, these customers went on to contact the call centre an average of eight times each over the summer period, with a typical contact time of 3.5 – 5 minutes per call.

We agree with the AER that the retailer should be the customer's first point of contact for billing enquiries. In making our original estimate we took into consideration the fact that this was also our expectation when solar tariffs were introduced, but the reality was that a great many customers elected to contact SA Power Networks directly with their enquiries related to solar PV rather than contact their retailer or solar installer, and continue to do so. In fact, although solar PV is now commonplace and well understood in the community, our average rate of customer calls per new solar PV approval continues to increase, from an average of 1.3 calls per approval in 2011 to approximately 1.7 calls per approval on average in the last two years[19].

[18] Refer Attachment 14.3 to SA Power Networks' Regulatory Proposal 2015-20, Tariff & Metering Business Case, including the table on p. 23

[19] See: SA Power Networks, Response to Information Request AER 025, 18 February 2015. As the AER has noted, these calls relate to a range of matters, not just billing enquiries. Similarly, we expect customers transitioning to demand tariffs to seek advice on a range of related

Nonetheless, we accept the AER's view that it would be more efficient for the retailer to be the first point of contact for residential customers, and only refer complex matters to SA Power Networks' call centre. We have taken this into consideration in preparing our Revised Proposal, and have modified our approach to place greater emphasis on supporting retailers in supporting residential customers rather than supporting these customers directly. We propose to focus our own resources on second-line support and on supporting business customers, for whom the transition to cost-reflective tariffs presents more complex and varied challenges and opportunities, and for whom retailers generally pass through our tariff structures largely transparently.

6 OUR REVISED PROPOSAL

6.1 Summary

We propose to phase in cost-reflective network tariffs based on maximum demand in the 2015-20 RCP, making the new tariffs mandatory from July 2017.

The interval metering required to support these tariffs will be provided for by the AEMC's Competition in Metering Rule change, which will make interval meters mandatory for all new installations and meter replacements from 1st July 2017.

Our proposal aligns the new pricing principles established in the Distribution Network Pricing Rule change issued in November 2014, and the AEMC's required timeframe for transition to cost-reflective tariffs.

Our Revised Proposal differs from our Original Proposal in the following aspects:

- We no longer propose to install 'smart ready' interval meters as standard to enable the new tariffs. As a consequence, the incremental cost of these meters is no longer included in our ACS capital expenditure forecast.
- We no longer propose to transition customers to monthly manual meter reading, as all new meters installed by retailers from July 2017 will support (at least) monthly reading[20]. The associated step change in ACS operating expnediture is therefore no longer required.
- Our capability to mandate the tariff for customers from 1st July 2017 is now contingent on the commencement of the new competitive metering framework on that date; we note that the associated Rule change is still in draft, and as such the proposed commencement date could change.
- We have re-estimated our forecast resource requirements for customer and retailer education and support, taking into account the following factors:
    - The majority of customers will transition to the new tariff at the time at which they receive a smart meter from their retailer under the new metering competition Rules from July 2017. We expect this to increase the likelihood that a customer with a query about the tariff will contact their retailer rather than SA Power Networks, in particular for queries that relate to the meter (e.g. "how do I read my meter to see my maximum demand?"), when compared to our Original Proposal, in which we were providing the customer's interval meter.

matters, such as how to manage their demand, whether they can opt in or opt out of the tariff, whether they retain arrangements such as off-peak hot water or solar feed-in tariffs, and so on.

[20] The new national minimum specification states that all meters must be capable of being read remotely. Daily reading is the norm for such meters in Victoria.

- We propose to place greater emphasis on retailer education and support and on supporting retailers in bundling the tariff into their retail offerings, and less on actively promoting the new tariff to new customers directly. We expect this to reduce the likelihood of customers contacting SA Power Networks directly, and to increase retailer's capability to provide front-line customer support in relation to the new tariffs.
- We have taken into consideration feedback received in submissions in response to our Original Proposal from Business SA[21] and the SA Wine Industry Association[22], both of which highlighted the need for adequate support and education for small and medium businesses to help them to manage the transition to cost-reflective tariffs. This reflects our own experience with moving larger businesses to cost-reflective tariffs, which has been that business customers can be among those most affected by tariff change, and tend to require individual support as they have unique opportunities to manage their demand for energy that are specific to the nature of their business. Since our Original Proposal we have also been approached by other industry groups representing different business sectors in South Australia requesting meetings to discuss the impact of demand-based tariffs, and how these can be managed. Taking these matters into account we have increased our forecast of the number of staff dedicated to business support, to ensure that the general reduction in support resources relative to our original forecasts does not leave a shortfall in this area.
- Our resource estimates no longer include staff associated with processing the transition from accumulation metering to interval metering; these resources are still required, but the requirement arises as a consequence of the Competition in Metering Rule change, and the resources are included in that element of our Revised Proposal.

- We have removed $0.912 million in IT capital expenditure that was allocated to tariff implementation. This was associated with supporting demand tariffs across legacy manually-read meter types and is no longer required. Other IT costs associated with tariff implementation have already been incurred in the 2014/15 financial year.

The sections below summarise the forecast increase in SCS capital expenditure and operating expenditure during the 2015-20 RCP associated with our Revised Proposal. The spreadsheet attached as Appendix A provides the detailed model used to develop estimates that we consider reasonably reflect the efficient cost to meet our new regulatory obligation under the Distribution Network Pricing Rule.

[21] Business SA submission on SA Power Networks Regulatory proposal, January 2015
[22] SA Wine Industry submission on SA Power Networks Regulatory proposal, January 2015

6.2 SCS capital expenditure impact

Table 1 below shows the forecast capital cost of our revised proposal to phase-in cost-reflective tariffs.

Table 1: Cost-reflective tariffs capital expenditure forecast for the 2015-20 RCP (2013/14 $)

CAPEX New tariff introduction	Total ($,000)	2015-16	2016-17	2017-18	2018-19	2019-20	
Project team and PM	852	426	426	0	0	0	(1)
Education and training	1,249	848	402	0	0	0	(2)
Policy and procedures	127	100	27	0	0	0	(3)
Industry engagement	343	123	219	0	0	0	(4)
Total CAPEX	**2,571**	1,497	1,074	0	0	0	(5)

Notes:

1. The work includes the establishment of a dedicated team within Customer Relations to undertake a significant business process change project in the first 24 months of the 2015-20 RCP to prepare the business for the mid-2017 launch of the tariff across the residential and small business customer base.
2. External training of retail partners and their support staff on the tariff as well as education and training of internal support staff, development of supporting materials such as fact sheets and customer support scripts, etc.
3. Development, in collaboration with retailers, of detailed policies and procedures in relation to the tariff, including hardship policies, to ensure a smooth transition and minimise any negative customer impacts.
4. Engagement with retailers, stakeholder groups including Business SA, SACOSS, solar industry groups and others to raise awareness and understanding of the tariff transition across the community and within industry.
5. Figures are in 2013/14 dollars.

Appendix A provides further details of the methods used to develop these forecasts.

6.3 SCS operating expenditure step change

Table 2 below shows the forecast step change in operating costs resulting from our revised proposal to phase-in cost-reflective tariffs.

Table 2: Cost-reflective tariffs operating expenditure forecast for the 2015-20 RCP (2013/14 $)

OPEX New tariff introduction	Total ($,000)	2015-16	2016-17	2017-18	2018-19	2019-20	
Customer advice and support staff	1,421	0	102	406	406	507	(1)
Business advice and support staff	1,852	0	463	463	463	463	(2)
Policy and procedures	108	0	27	27	27	27	(3)
Advertising – production	161	0	127	0	34	0	(4)
Advertising – media	717	0	233	157	161	166	(4)
Customer information packs	677	6	6	216	218	230	(5)
Total OPEX	**4,936**	6	958	1,269	1,310	1,394	(6)

Notes:

1. Revised estimate of support staff resource requirement based on revised strategy. Estimates are based on modelling estimated call centre contact rates arising from the introduction of the new tariff, as well as ongoing retailer support, assuming retailers assume front-line support responsibilities. The cost profile is based on an additional 1 customer support Full Time Equivalent (FTE) in 2016-17 to support initial opt-in and small business customers transitioning to the tariff in advance of the mid 2017 tariff launch, as well as to support retailers in preparation for the launch of the tariff, increasing to 4 FTEs in 2017-18 to support the estimated 34,000 customers expected to transition to the tariff in the first year following the launch. Thereafter the number of customers transitioning to the tariff each year is relatively constant. As the majority of customer contacts are expected to occur in the first year after moving to the tariff, customer support FTE requirements remain relatively constant, rising slightly to 5 FTEs in 2020.
2. Dedicated team of 4 FTEs to support small and medium business customers in the transition to cost-reflective tariffs including an allowance for vehicles.
3. 0.2 FTE for ongoing management of policies related to cost-reflective tariffs, including hardship policy.
4. Concept development, campaign production and content delivery for press, digital and broadcast media to educate customers on impact of peak demand on network costs and encourage understanding to enable community response to new price signals. Estimates based on previous customer education initiatives.
5. Customer information packs. Unit cost estimate of $6 per customer is based on cost of customer information packs produced for tariff trials and previous demand management programmes. Volume estimates have been revised based on revised forecasting of solar uptake, retailer-led meter rollout and replacement rates in line with the AER's Preliminary Determination.
6. Figures are in 2013/2014 dollars.

Appendix A provides further details of the methods used to develop these forecasts.

A COST ESTIMATION MODEL

Refer attached spreadsheet.