

02 August 2017

Mr Chris Pattas
General Manager
Australian Energy Regulator

Dear Mr Pattas

Application for waiver from AER Ring-fencing Guideline – Electricity Distribution: SA Power Networks' Negotiated Distribution Services

Please find attached SA Power Networks' waiver application in response to the AER's Ring-Fencing Guideline (**guideline**) applying to electricity distribution network service providers (**distributors**).

The new guideline requires significant interpretation and assessment of impacts on our operations. We are undertaking a significant amount of work to implement many changes, but it has become clear that functional separation of our existing negotiated distribution services (NDS) from our direct control services will create inefficiencies and provide no discernible customer benefit. It is also highly probable that some or all of our NDS may be reclassified at our 2020 revenue determination, which would remove the need to functionally separate them from our direct control services.

As noted in the AER's Explanatory Statement¹ which accompanied the guideline:

- SA Power Networks has a large number of services classified as NDS that are classified as alternative control services in other jurisdictions;
- Compliance with the separation requirements imposed on these services will incur significant costs and disruption; and
- A temporary waiver for SA Power Networks would better manage these impacts.

Our application (attached) is set out according to the requirements listed in section 5.2 of the guideline.

Our contact for this application is Bruno Coelho, 08 8404 5676

Yours sincerely



Wayne Lissner
A/General Manager Corporate Strategy

¹ AER, *Electricity distribution Ring-fencing Guideline Explanatory Statement*, November 2016, Page 74

SA Power Networks application for waiver from AER Ring-fencing guideline – Electricity Distribution: Negotiated Distribution Services

Details of the services in relation to which the distributor is applying for the waiver

This waiver application relates to all Negotiated Distribution Services (NDS) currently allowed to be offered and provided by SA Power Networks, with the exception of some metering services (Type 1-4 metering). Our NDS are set out in the AER's October 2015 revenue determination as including:

- Non-standard network services;
- Non-standard connection services;
- New and upgraded connection point services;
- Non-standard small customer metering services;
- Large customer metering services;
- Public lighting services;
- Stand-by and temporary supply services;
- Asset relocation, temporary disconnection and temporary line insulation services;
- Embedded generation services; and
- A wide range of 'Other Services' – a complete list is provided in Appendix A of this application.

Metering services will be subject to a new contestability based framework from 1 December 2017. In applying for this waiver we note:

- We will not provide any new meters post 1 December 2017;
- We will negotiate with the Financially Responsible Market Participants (FRMPs) to transfer our approximately 300 type 1-4 meters to other service providers by 1 December 2017; and
- We will not offer the currently listed 'other services – application for an account or new supply', as this service will be irrelevant post 1 December 2017.

The obligation in respect of which the distributor is applying for a waiver

SA Power Networks is applying for a waiver in respect of the functional separation obligations listed in section 4.2 (offices, staff, branding and promotions) and clause 4.4.1(a) of the guideline.

The reasons why the distributor is applying for the waiver

The reasons SA Power Networks is applying for this waiver are:

- ***To maintain the current 2015-20 regulatory agreement***
Our current five-year revenue determination was published in October 2015. The five-year regulatory control period gives SA Power Networks investment certainty for that time over the services that we are allowed to offer and perform. NDS were identified as being services we were allowed to offer and perform with discretion afforded on how we deliver these services – including how we share staff and locations across these and direct control services. To now impose functional separation during our existing regulatory control period on the delivery of regulated distribution services that we are allowed and expected to offer under the current service classifications is a fundamental change and counter to the compact inherent in the regulatory framework. Any changes made to the agreed list of services that we are allowed to perform under the current regulatory determination must be considered within the next Framework and Approach and revenue determination processes;
- ***Consistency with other distributors***
The vast majority of SA Power Networks' NDS are classified as direct control services in other AER jurisdictions, e.g. non-standard connection services, public lighting, new and upgraded connection point services, stand-by and temporary supply services, and a wide range of other services. Direct control services are not subject to functional separation requirements. This inconsistency may be temporal, as the process of reclassification of these services will soon be considered as part of the Framework and

Approach for our 2020-25 revenue determination and we expect most if not all of our NDS to be reclassified. The expectation that these services will be reclassified as direct control services is based on factors including the lack of obvious contestability, and no one else providing the services. Given the classification in other jurisdictions, it is reasonable to expect that the vast majority will be classified as alternative control services, providing consistency across jurisdictions;

- ***Cost and efficiency***

We have a highly integrated and multi-skilled workforce located in Adelaide and across South Australia. Individual staff may perform a range of tasks which fall across the spectrum of distribution services classified by the AER (i.e. standard control services, alternative control services, negotiated and unregulated distribution services). We seldom have staff dedicated to only providing services in one classification. This flexibility allows efficient allocation / balancing of work with resource availability. Functionally separating staff who perform NDS would reduce efficient delivery and negatively impact customer service (e.g. introducing delays in completing customer works in areas where there is a significant workload) and increase cost (e.g. in areas where workloads are lower, available resources may not be fully utilised). Additional costs would also be incurred to establish an independent and separate brand for NDS, as otherwise required by the guideline; and

- ***No anti-competitive conduct, nor lessening of customer choice***

Not imposing functional separation for these services will not in any way advantage any SA Power Networks affiliate, as they will be performed by SA Power Networks. To the extent components of these services are contestable, customers retain the choice of seeking alternative service providers. Further, under the current NDS classification, customers will continue to be subject to a set of Negotiated Distribution Service Criteria and our Negotiating framework, allowing negotiation of the terms and conditions and scope of work that they require.

The proposed commencement date and expiry date of the waiver and reasons for those dates

The proposed commencement is as soon as granted by the AER and no later than 1 January 2018. The proposed expiry date would be 30 June 2020, based on the expectation that most, if not all, of SA Power Networks' NDS will be reclassified from 1 July 2020.

Details of the costs associated with the distributor complying with the obligation if the waiver of the obligation were refused

We perform NDS, alternative control services, and direct control services in an integrated way. For example, a line crew in a regional location may on one day be asked to perform the following work:

- complete repairs to damaged power lines and equipment following recent storm activity (standard control services);
- replace broken street lights (NDS);
- undertake connection work for a new customer (partially standard control services, partially NDS).

Line crews are trained to provide a range of power line services and work is packaged together to be undertaken as efficiently as possible. Depot locations, resources and staffing levels are established to meet regulated reliability and customer service standards at least cost.

To comply with the guideline as drafted would:

- entail recruiting additional staff to separately perform direct control services and NDS and may also require additional service delivery locations to be procured;
- require a separate brand for NDS with application to web sites, letterhead/ documentation including contracts and invoicing, clothing and vehicle badging;
- entail increases in associated overheads (property, IT, vehicles and other plant and tools) to support the additional staff/locations; and
- reduce overall staff utilisation, thereby reducing productivity.

Nor is this just a regional issue. For example, the provision of a non-standard connection service in regional and urban areas by SA Power Networks may fall under both of the categories of standard control services and NDS. The same SA Power Networks field crew will often undertake the entire connection work, including any contestable element if required (unless the customer seeks an alternative service provider to provide the contestable element). Accounting separation, in accordance with the Cost Allocation Method, is employed to ensure that the costs are allocated efficiently.

Taking the example of connection services, if this waiver is not granted, in the vast majority of cases different crews will be required to complete different parts of the connection, introducing complexity, delay and cost for customers. Customers will see multiple crews completing the 'same' job – one for the part of the job that is direct control services and another crew for the part of the job that is NDS.

The regulatory control period to which the waiver would apply

The waiver would apply to the remainder of the current regulatory control period, to 30 June 2020.

Any additional measures the distributor proposes to undertake if the waiver were granted

As highlighted above and in our Ring-fencing Implementation Plan, SA Power Networks is undertaking a substantial ring-fencing implementation project to work towards guideline compliance.

We are establishing new entities, reviewing IT system change requirements and will be developing / revising work place procedures and protocols. We expect significant effort will be afforded to developing and implementing awareness and procedural training and education to implement new compliance requirements. We expect particular emphasis on identifying and managing areas of the business which use or could access 'electricity information' and might potentially use this information to favour any affiliate.

If the waiver is granted we will continue to provide customers of NDS with fair and reasonable terms and conditions of service subject to the existing Negotiated Distribution Service Criteria and Negotiating Framework, and continue to allocate costs appropriately.

Reasons why the distributor considers the waiver should be granted with reference to matters specified in clause 5.3.2(a), including benefits, or likely benefits, of the grant of the waiver to electricity consumers

With reference to the three matters in 5.3.2(a) of the guideline:

i. the National Electricity Objective;

As noted above, granting of the waiver will avoid unnecessary duplication / inefficiency and cost for SA Power Networks' regulated customers and not compromise customer choice of an alternative service provider for those services which are contestable. If the waiver is not granted, it will increase the cost of providing distribution services to customers. Such cost increases are unjustified given that these services are classified as direct control services in other jurisdictions.

ii. the potential for cross-subsidisation and discrimination if the waiver is granted or refused;

SA Power Networks maintains separate accounts for its NDS to capture and isolate the direct costs incurred in providing these services and allocates overhead costs to these services in accordance with the AER-approved Cost Allocation Method (CAM). These services are not cross-subsidised. Also, we would continue to provide terms and conditions for services (including price) subject to the approved Negotiated Distribution Service Criteria and Negotiating Framework.

iii. whether the benefit, or likely benefit, to electricity consumers of the distributor complying with the obligation (including any benefit, or likely benefit, from increased competition) would be outweighed by the cost to the distributor of complying with that obligation.

As noted above, SA Power Networks' multi-skilled workforce provides flexibility to efficiently allocate resources to balance workloads with resource availability. The cost of functionally separating our NDS will potentially negatively impact customer service and increase cost, and will not result in any additional customer benefits.

Appendix A –Negotiated distribution services – ‘other services’²

- a. The following services provided in connection with the Electricity Metering Code or the rules:³
 - i. application for an account or new supply
 - ii. provision of a copy of various codes
 - iii. provision of old billing data
 - iv. meter testing at the request of a distribution network user
 - v. after-hours reconnection
 - vi. reconnection due to a distribution network user’s fault, and
 - vii. disconnection services provided to a retailer, or a distribution network user.
- b. Provision of reactive power and energy to a connection point or receipt of reactive power and energy from a distribution connection point.
- c. Investigation and testing services.
- d. Asset location and identification services.
- e. Transportation of electricity not consumed in the distribution system.
- f. Transportation of electricity to distribution network users connected to the distribution system adjacent to the transmission system.
- g. Repair of equipment damaged by a distribution network user or a third party.
- h. Provision of:
 - i. high load escorts
 - ii. measurement devices
 - iii. protection systems, and
 - iv. pole attachments, ducts or conduits (excluding for the provision of telecommunications services).
- i. Costs incurred by SA Power Networks as a result of a customer not complying with SA Power Networks’ standard connection and supply contract or other obligation.
- j. Additional costs incurred by SA Power Networks where service provision could not be undertaken and/or completed as planned due to the actions, or inaction, of a customer or their agent.
- k. Provision of a television or radio interference investigation where it is determined that the distribution system is not the cause of the interference.
- l. Provision of a supply interruption investigation where it is determined that the distribution system was not the cause of the interruption.
- m. Provision of information to distribution network users or third parties not related to connection enquiries.
- n. Cost recovery associated with supply larceny, including the costs associated with repairing or replacing damaged equipment and investigation costs where SA Power Networks determines that larceny of supply has occurred.
- o. Emergency recoverable works, including the repair of damage caused to the distribution network by a third party, where costs are recovered.
- p. Third-party connection work charges for work not undertaken by SA Power Networks. Includes but not limited to:
 - i. Specification services
 - ii. Works design compliance
 - iii. Works reinspection.
- q. Provision of access permits or clearance to work on or near the distribution system.
- r. Off-peak conversion services.
- s. Carrying out planning studies and analysis relating to distribution, including sub-transmission and dual function asset connection applications.
- t. Work required for network tariff change requests.
- u. Recovery of debt collection costs.
- v. Negotiation for the provision of services.
- w. Attendance at the customer's premises to perform a statutory right where access is prevented.
- x. Other lighting services.
- y. Attendance at the customer's premises at the customer's or their agent's request, where it is determined that the fault was not related to SA Power Networks' equipment or infrastructure.
- z. Provision of relevant regional energy consumption data to Local Government Councils.
- aa. Third-party funded network upgrades, enhancements or other improvements including 'make-ready' work for NBN Co.

² AER, *Final Decision – SA Power Networks determination 2015-16 to 2019-20*, October 2015, Attachment 13.

³ With the exception of (i), other metering services listed under (a) will continue to be relevant after 1 December 2017 to the extent that these services pertain to our type 5 and 6 meters (classified as alternative control services) as the National Electricity Rules allow SA Power Networks to be appointed as the default Metering Coordinator for its existing type 5 and 6 metering stock until such a time as a FRMP appoints a new MC. These provisions are set out under clause 11.86.7 of the National Electricity Rules.