

**SUBMISSION – SA POWER NETWORKS DRAFT PLAN
2020-2025**

From

SA Power Networks Customer Consultative Panel

11 October 2018

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1 Introduction

The SA Power Networks (SAPN) Customer Consultative Panel (the Panel) was formed in 2017 by SAPN with the following purpose:

“Our Customer Consultative Panel and Reference Groups have been established to build stronger relationships with key stakeholders and enable deeper and more meaningful discussions on a more regular basis. We are committed to seeking and using feedback from our CCP and Reference Groups to develop and refine our strategies, initiatives and activities, and believe this approach will ensure our business is aligned with the needs and expectations of our customers and stakeholders, now and into the future.”

The structure of the Panel is as follows.

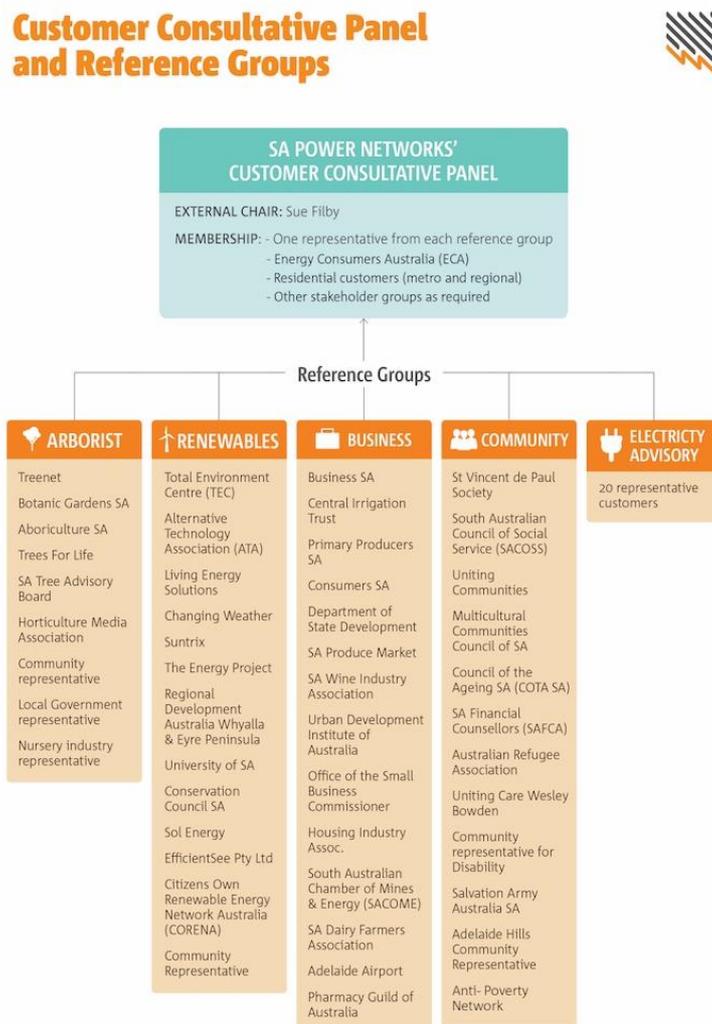


Figure 1 - SAPN Customer Consultation Panel and Reference Groups

This submission is in response to the SAPN “Draft Plan 2020-25”, and associated consultation and engagement process and was prepared by representatives from the following customer reference groups:

- Arborist
- Renewables

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- Business
- Community

This document has been written under significant time pressure and so should be read more as a series of comments rather than as a comprehensive submission.

SAPN has stated that the Draft Plan is not SAPN’s revenue proposal per se and its audience is the general public. The Panel acknowledges that it has had greater access to information and key SAPN representatives than the general public and appreciates the investment SAPN has made in providing greater depth in context and rationale to the Panel around aspects and concerns of the Draft Plan. It follows that this submission is provided within this context.

It is also understood that this submission is in addition to feedback and submissions from other stakeholders and will assist SAPN in finalising its 2020-25 revenue proposal. The Panel also acknowledges the attendance and participation at most meetings of members of the AER CCP in observing the development of this submission and clarifying aspects of the regulatory process and experiences of other network service providers.

The content of this submission reflects a diversity of views and interests across the Panel and should not be interpreted as a consensus or unified view, however there was significant agreement amongst Panel members, so unless otherwise stated, the views expressed in this document represent a view of a majority of the Panel members.

The Panel welcomes the opportunity to further discuss any aspects of this submission.

2 Review Process

The review process undertaken by the Panel and the commentary arising from this are a reflection of not only the Draft Plan but also the experience Panel members and their representative reference groups have had in the engagement process that SAPN has undertaken so far in accordance with the SAPN consultation plan given in Figure 2.

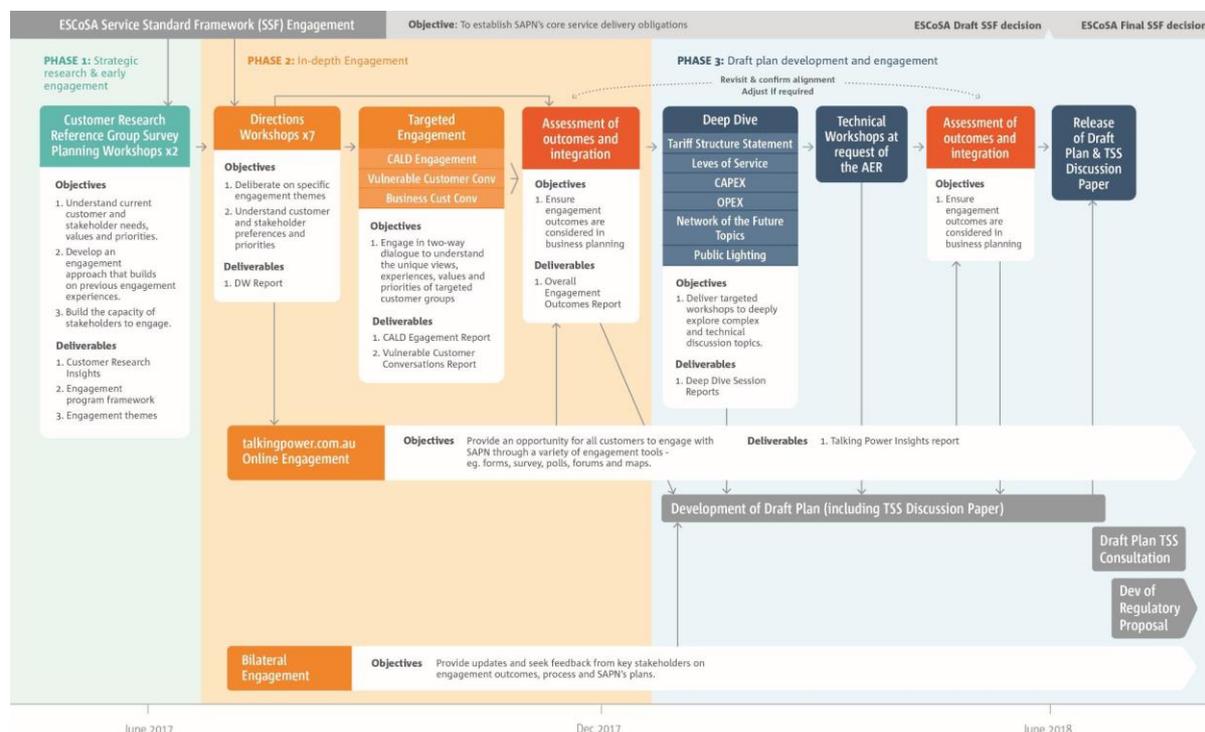


Figure 2 - SAPN Engagement process

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While the early consultation and engagement processes were comprehensive and productive, the SAPN process from the issue of the Draft Plan has been somewhat unclear. The approach understood by the Panel at its first meeting was for the Panel to:

1. Develop a response to the Draft Plan, including highlighting points of agreement and main aspects of disagreement
2. Enter into discussion with SAPN about areas of significant disagreement
3. Revise the initial response document to reflect any changes in understanding / Draft Plan positions, achieved through dialogue (assumed to be post 5th October into November)

This approach was then not supported by SAPN on 24th September, the reasons given being the timing of submissions and that the material aspects of the revenue proposal were to be effectively locked down by the end of October 2018. Consequently, this is the only documented response that the Panel is able to make to the Draft Plan. We consider that an opportunity for meaningful subsequent engagement has been missed.

The approach the Panel has followed in reviewing the Draft Plan and additional information provided by SAPN is to consider it through the following objectives as outlined in the Draft Plan headlined by the CEO message of “doing more for less”. The following objectives provided by the CEO, Mr Rob Stobbe are affirmed by the Panel as being reflective of customers’ priority values.

- Keeping a lid on prices
- Maintain reliability
- Continue a transition to a new energy future

The Panel used these objectives as a lens to form an initial view of aspects of the Draft Plan via ratings that guided further focussed discussion sessions and requests for the provision of further information from SAPN. The members of the Panel have then provided their balanced views and suggestions, where appropriate, based on all the information available. As mentioned above, while all Panel members have had the opportunity to provide comment and input, at times views were not unanimous and diverse views have been recorded.

3 Executive Summary

The Panel has considered the Draft Plan from SAPN as an indicator of its intentions for the Regulatory Proposal that it will lodge with the AER by 31 January 2019 for the period 2020-25.

The Panel believes that the goals outlined by the CEO are excellent. However, we believe the Draft Plan falls short of achieving these goals, particularly in the areas summarised below and further clarified in this submission.

The Panel encourages SAPN to recognise the following summary feedback in finalising its regulatory proposal:

1. **Three Themes of the Draft Plan**

The Panel has strong support for the 3 themes of the Draft Plan, from the CEO's introduction:

- Keeping a lid on prices
- Maintain reliability
- Continue the transition to "Network of the Future"

The Panel encourages SAPN to carry these three 'core themes' into the January 2019 regulatory proposal and to consider each significant spending area against its contribution to achieving each of these three themes. From a consumer perspective, the Draft Plan appears to give much higher emphasis to maintaining reliability than to putting a lid on prices and transitioning to the network of the future. There is little evidence that SAPN's decision making, for both the likely regulatory proposal and ongoing expenditure decisions, embraces the need to lower expenditures, and make investments that consistently support future challenges while not compromising reliability.

Given the consistent and strong feedback from customers, this imbalance needs to be redressed for the January 2019 proposal.

2. **"Keeping a lid on prices"**

Keeping a lid on prices does not emerge from the Draft Plan as a strong consideration in its framing. The proposed price reductions for 2020-15 compared with 2015-20 are modest. The price path for 2020/21 to 2024/25, in real dollars¹ is (-1.5%) for the first year and 0% change for the remaining 4 years.

There is also a view from some members of the Panel that costs per Megawatt hour have risen considerably while demand has declined. Other members of the Panel do not feel they have sufficient knowledge and expertise to make an informed comment on this. Further discussion with SAPN is sought on this.

In any event, the Panel feels that SAPN has not responded to flattening sales and modified its investments to a rate that the South Australian community can afford. Any investment above stable pricing for customers need to be justified in terms of additional customer value generated and this is not evident in the Draft Plan.

The Panel recommends that SAPN reassesses its proposed revenues and aims for a more substantial saving for customers than the \$37 / year average proposed for residential

¹ Assuming CPI of 2.4%, the currently applied AER inflation estimate (eg see Evoenergy 2019-24 Draft determination).

customers. The Panel has identified the following possible improvements following a further comprehensive review by SAPN of its “business as usual” investment foundations.

2.1 Capex expenditure

The Draft Plan proposes an 8% increase for capex, 2020-25 compared with actual / forecast for 2015-20. This is difficult to justify in an environment of a flat to declining change in demand. Aspects of greatest concern from the Capex budget are:

- a. replex (18% increase, from 2015-20 to 2020-25),
- b. augex – reliability (103% increase),
- c. augex – safety (98% increase),
- d. non-network – property (49% increase),
- e. non-network – telecoms (300% increase though smaller dollar amount than other categories).

2.2 Opex expenditure

Opex appears to be higher than necessary, including corporate costs being 26% of total opex. We also believe that projected labour costs are higher than for businesses generally in SA and not consistent with a low wage growth environment.

2.3 Justification of cost rises

In other areas of high costs and proposed step changes there may be opportunities to reduce expenditure, but it may also be that the expense can be justified in terms of additional benefits to consumers. Customer service costs seem high but managing customer expectations was well received during consultation processes. For much of the opex areas of spending, there is inadequate consideration of the benefits to consumers.

2.4 Productivity.

It is reasonable to expect that a modern efficient business like SAPN can deliver a productivity benefit to its community each year. This has not been demonstrated in the data provided.

2.5 IT costs

IT costs are substantial and straddle both capex and opex, without identified consumer benefit. Higher IT capex costs would be expected to result in lower opex costs, or vice versa, yet there is little evidence of opex / capex trade-offs in the draft plan. A much stronger consumer benefit narrative is needed to justify the very high proposed IT spending.

3. **Network of the future**

This should be a stronger positive for SAPN in the January 2019 proposal, as it is an area where SAPN has demonstrated national leadership and is at the forefront globally of network transformation and is the only Australian network business to fully utilise their Demand Management Incentive Allowance (DMIA). The ENA modelling on future networks identifies significant savings as the network providers facilitate customers to reduce energy costs through distributed energy resources and demand management. This narrative is missing and there is no indication SAPN is actively investigating its role in significantly reducing total energy bills. The future networks investments are modest and largely proposed as additional to business as usual. The reality is that all SAPN investments at this time will be expected to be valuable assets for the next 10 to 50 years and therefore must be made with a future network mindset.

4. Consumer Engagement

We feel that SAPN is unclear about what it wants to achieve from consumer engagement / partnership. It has undertaken some very good engagement, but that most Panel members feel this has not been followed through consistently. Using the IAP2 spectrum as a basis, we observe that SAPN started the engagement for the 2020-25 regulatory proposal by applying ‘involve’ level approaches but drifted back to mainly ‘inform’ as the process moved through the third phase. The lack of any evident engagement plan beyond June 2018 is disappointing and seems to imply that the opportunity is now closed for any input/listening.

An open collaborative approach could benefit SAPN by:

- Aligning its delivery more closely with services that customers value
- Building stakeholder support for difficult trade-offs that are inevitable as the energy transition challenges the business to change.
- Improving its innovation by introducing diverse perspectives.

Support for ongoing collaboration which improves decision making is not evident at the moment.

For the January 2019 proposal, we believe SAPN will need to be clear about what it has heard and learned from its range of engagement activities and in particular how they have applied consumer and other stakeholder input. This will then set the tone for SAPN’s model for on-going customer engagement and participation, which should in turn improve levels of trust from consumers and consumer groups.

5. Tariffs

We do not give much attention to the TSS in our submission due to the lack of conclusive information available. There is a view that a tariff that includes 14 hours in a day at “peak price” cannot be about sending cost reflective price signals since the network will very rarely be experiencing peak demand for 14 hours in a day. We believe there are many opportunities for customers to load shift and for demand management that would reduce SAPN costs overall, and a strong commitment to working with consumers to unlock these behaviours needs to be demonstrated in the proposal.

4 Main Feedback

Given its importance, the structure of this submission provides commentary initially in considering the Consultation and Engagement process, which builds on the observations in the previous section. The remaining feedback follows the structure of the Draft Plan delineated by associated section headings. Each section has a narrative generally covering the more material feedback. It is then followed by a summary rating table with accompanying suggestions where appropriate. The ratings are against each of the three focus areas. Where ratings are applied the following convention applies:

MMV	Major misalignment with value
SAV	Somewhat aligned with value
HAV	Highly aligned with value
INS	Too early / insufficient information to evaluate

Figure 3 - Ratings definitions

Please note that the above ratings were applied based on the level of information provided by SAPN to date and the Panel’s understanding of SAPN’s rationale including customer support for its proposal. Subject to SAPN’s response to submissions made to the Draft Plan in its revenue proposal, these ratings may change.

4.1 Consultation and Engagement

The Panel provides feedback via this submission on the consultation and engagement process in three stages:

- Recent history
- This process
- Going forward

The context of feedback is via reference to the IAP2 Public Participation Spectrum as shown below.

iap2 public participation spectrum

developed by the international association for public participation

	INFORM	CONSULT	INVOLVE	COLLABORATE	EMPOWER
PUBLIC PARTICIPATION GOAL	To provide the public with balanced and objective information to assist them in understanding the problems, alternatives and/or solutions.	To obtain public feedback on analysis, alternatives and/or decision.	To work directly with the public throughout the process to ensure that public issues and concerns are consistently understood and considered.	To partner with the public in each aspect of the decision including the development of alternatives and the identification of the preferred solution.	To place final decision-making in the hands of the public.
PROMISE TO THE PUBLIC	We will keep you informed.	We will keep you informed, listen to and acknowledge concerns and provide feedback on how public input influenced the decision.	We will work with you to ensure that your concerns and issues are directly reflected in the alternatives developed and provide feedback on how public input influenced the decision.	We will look to you for direct advice and innovation in formulating solutions and incorporate your advice and recommendations into the decisions to the maximum extent possible.	We will implement what you decide.
EXAMPLE TOOLS	<ul style="list-style-type: none"> • Fact sheets • Websites • Open houses 	<ul style="list-style-type: none"> • Public comment • Focus groups • Surveys • Public meetings 	<ul style="list-style-type: none"> • Workshops • Deliberate polling 	<ul style="list-style-type: none"> • Citizen Advisory committees • Consensus-building • Participatory decision-making 	<ul style="list-style-type: none"> • Citizen juries • Ballots • Delegated decisions

Figure 4 - IAP2 Public Participation Spectrum

In general, the Panel is wanting to engage with SAPN in the Collaborate part of the spectrum noting the keywords “partner with the public...” in the participation goal.

4.1.1 Recent History

The Panel feels that SAPN has been inconsistent in its effectiveness in this area. There are experiences some of the Panel members have had that are referenced as good examples of consultation and engagement that include the elements of a shared vision and joint development of solutions. These examples include:

- Arborists Reference Group – vegetation management outcomes to meet a lower expenditure allowance in the current regulatory period.
- In 2016 SAPN ran 2 citizen juries:
 - SAPN worked collaboratively with stakeholders to propose a low income tariff based on alternative distribution of the PV/FiT charges.
 - SAPN ran a session with carefully selected people to represent the demographic of customers to explore pricing resulting in a set of principles which have not been visibly used in this process and would add depth to the revenue proposal.

4.1.2 The Current Process

There are differing views among the Panel members in regards to the adequacy and effectiveness of the consultation and engagement process so far. The Panel acknowledges the significant progress and improvement in this area since the previous pre-revenue proposal consultation and engagement process.

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The positive experiences can be summarised as informative, effective and with authentic two-way communication between SAPN and consumer groups in the context of the lead up to the revenue proposal.

Alternatively, some of the Panel considered the SAPN engagement process to date against the IAP2 spectrum of public participation and provided a more critical response as follows.

Since February 2017 the consultation and engagement associated with developing this Draft Plan, it was observed that SAPN has operated in the “Inform - Involve” range of the spectrum, with the “deep dives” particularly in the “Consult – Involve” range of the IAP2 Spectrum.

Since the release of the Draft Plan the engagement has tended to be in the “Inform – Consult” range. A substantial volume of information has been provided by SAPN, particularly through the deep dive processes, with the Panel regularly referred back to this information in our consideration of the Draft Plan.

It is felt by some that at times there was little interest in further collaboration and in some instances the impression was that SAPN was dismissive of the value of consumer input. On the other hand, at times considerable effort was made to at least involve consumer perspectives.

Some members of the Panel, who have had longer term experience with ETSA Utilities / SAPN express disappointment at the apparent retreat to the left of the IAP2 spectrum since the very effective collaborative / empowering citizens jury processes conducted in 2016 to develop principles and PV FIT approaches. On this point, it is surprising that there is scant reference to the outcomes of these high value – high engagement processes in the development of the Draft Plan.

SAPN has chosen to give limited information in its Draft Plan and has been equivocal about how it intends to use the responses from the Draft Plan. The lack of any evident engagement plan beyond June 2018 is disappointing and seems to imply that the opportunity is now closed for any further input/listening.

It is also felt that while the consultation process to date has been extensive, at this important stage in the process SAPN has set a tight timeframe for its current consideration of customer feedback. The danger with this approach is that the engagement may fail to get to the heart of customer concerns and SAPN does not appear to have a mechanism to work through issues that are not of its own focus. For example, issues have been brought up by the Renewables Reference Group and addressed with more information from SAPN – which is good but reactive. There is an opportunity for SAPN to resolve issues, to be innovative and to take time to understand new perspectives and then use those perspectives to approach challenges in new ways.

4.1.3 Going Forward

The Panel feels that SAPN is unclear about what it wants to achieve from consumer engagement / partnership. It would be very helpful for SAPN to consider and communicate where it wants to be on the IAP2 spectrum.

Support for ongoing collaboration which improves decision making is currently not evident. A “because we have to” or “propose / respond” culture will not lead to SAPN finding customer insights useful. By contrast, the Panel feels that there are economic, social and innovation reasons to suggest that a stronger customer perspective from the business will identify improved ways of approaching the business priorities. Genuine customer engagement will develop the social licence to change from the status quo. The use of the Draft Plan (or equivalent) could be more effective in finalising the revenue application. For example, ElectraNet involved members of its Consumer Advisory Panel and the Regulator to actively explore a small number of the more difficult aspect of their Preliminary proposal, though targeted ‘deep dives’. This was an effective approach.

A more open collaborative approach could benefit SAPN by:

- Aligning its delivery more closely with services that customers value.
- Building stakeholder support for difficult trade-offs that are inevitable as the energy transition challenges the business to change.
- Improving its innovation by introducing diverse perspectives.

For the January 2019 proposal, we believe SAPN will need to be clear about what it has heard and learned from its range of engagement activities, and in particular how they have applied consumer and other stakeholder input. This will then set the tone for SAPN’s model for on-going customer engagement and participation.

The Panel is also very keen to discuss and develop with SAPN a model for “business as usual” ongoing engagement with consumers and stakeholders rather than just the process leading up to the revenue proposal.

Recommendations

1. That SAPN advise its position on its “Promise to the Public” as per IAP2 Spectrum and ensure that position is internally consistent within the culture of the business.
2. The Panel is highly supportive of a commitment to discuss and agree a forward framework and practical steps towards moving further along the IAP2 Public Participation Spectrum approach for future revenue determinations and during regulatory control periods. (ie more towards a negotiated / customer empowered outcome).

Considerations of the Draft Plan, Section by Section

4.2 CEO Introduction

The Panel are strongly supportive of the narrative in the CEO’s headline messages as an introduction to the Draft Plan which included the message about doing “more for less” and the three customer value areas. The consumer benefit from transition to a new energy future is under-told (more on this in section 4.6). There also could be a stronger connection and clearer integration of messages from the CEO through every part of the document ie – “do more for less” and the 3 customer value themes.

4.3 Overview

The Panel does not agree with SAPN’s view that it is delivering a better result for the South Australian community when in fact it seems that the prices for every non-solar residential customer will rise compared to PV residential customers with increasing PV penetration. Price reductions are also very modest when considering the substantial electricity price increase in South Australia over the past decade. It could be said that SAPN has chosen to use a generalisation via an “average” customer, rather than acknowledging the dilemmas the current majority of its customers face.

4.4 Delivering Services Efficiently

It is commendable that SAPN is currently positioned in the “top quartile” of the benchmarks that they have provided with regard to demonstrating efficiency among other Australian DNSPs. However, this gives the appearance of a mindset constraint to push further in relentless pursuit of efficiency. Given the deteriorating trend in the AER benchmarking indicators across the industry, the

Panel encourages SAPN to consider not being constrained by just being in the “top quartile” of peers and explore further outperformance in both capex and opex. The message for SAPN is “how efficient can SAPN be?” rather than just how SAPN compares with its peers.

Recommendations

3. In the interests of customers SAPN considers going beyond the “top quartile” in reference to the AER Benchmarking.

4.5 Keeping Prices Down

Some of the Panel would prefer SAPN to adopt a mindset more along the lines of “spending what the community can afford” rather than “keeping a lid on prices”. Although a subtlety, the Panel feels that this proposed wording provides a stronger customer focus.

SA consumers continue to face very high electricity prices that have risen at a much faster rate than CPI, to which most incomes are tied, over the past decade. The following figure is from the recent ACCC report, “Restoring electricity affordability & Australia's competitive advantage” and shows that Australia wide, household electricity costs have increased at a dramatically faster rate than CPI and incomes.

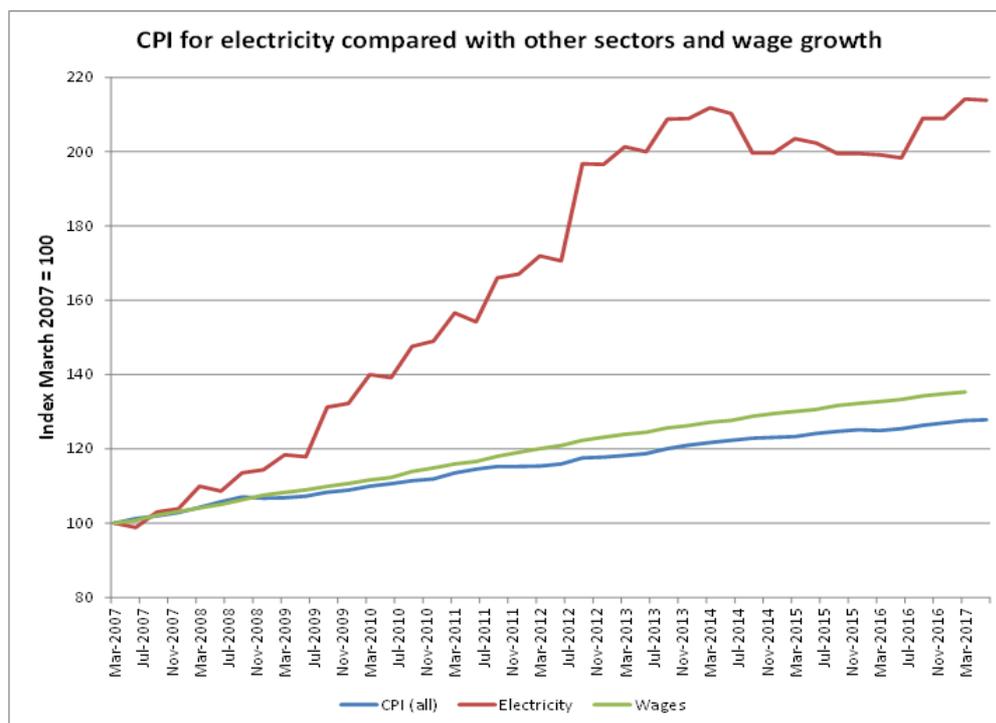


Figure 5 – CPI and wages growth vs Electricity Price Index²

The next graph, from the AER State of the Energy Market report shows electricity price movements for all states, with SA consistently having some of the highest prices in the nation, though all jurisdictions show similar price paths since 1991

² ACCC report, “Restoring electricity affordability & Australia's competitive advantage”

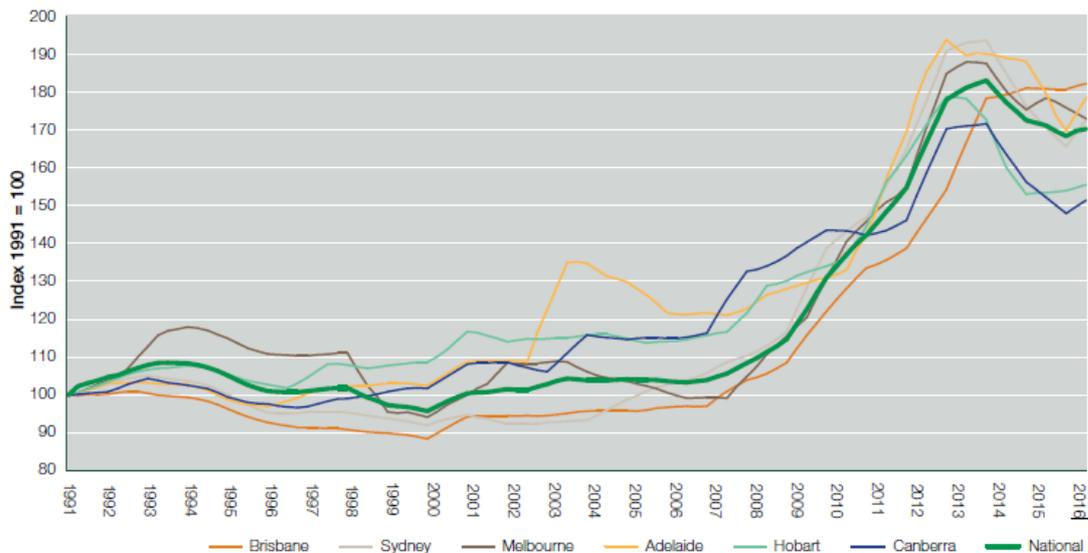


Figure 6 - National Electricity Price Indices Trend

The harsh reality of high and rapidly rising electricity costs is under-pinned by the number of people disconnected from the essential service of electricity due to inability to pay, over 10,000 households per year (data from AER).

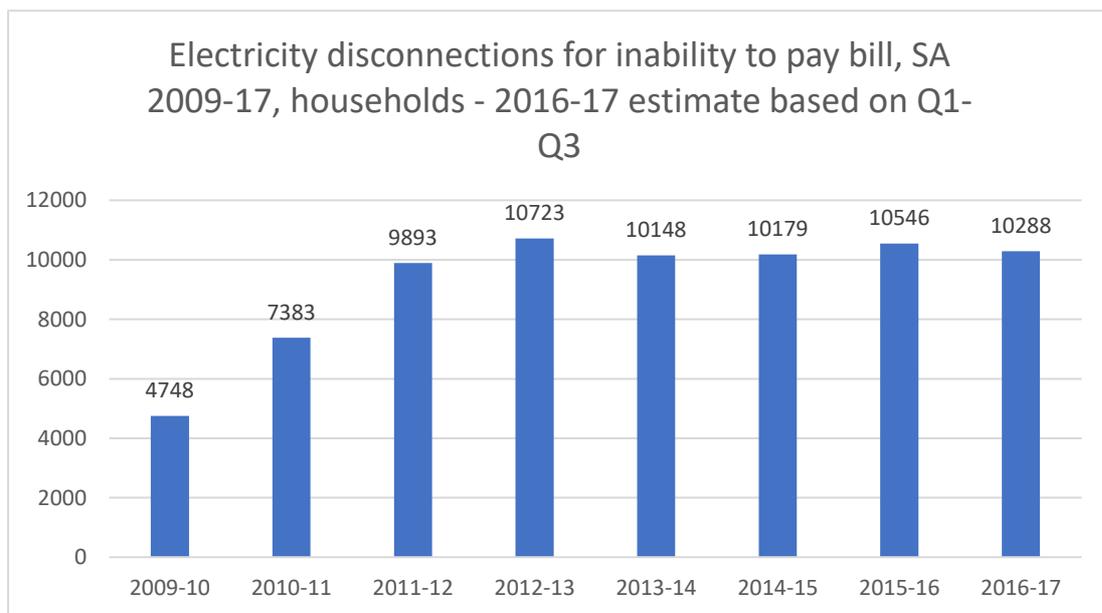


Figure 7 - SA Customer Disconnection Trend³

While SAPN is but one part of an energy bill, there is a responsibility for all parties that add costs to electricity bills to be doing everything that they can to ensure that electricity is more affordable. This is particularly so for the approximately 40% of households who will struggle to pay at least one electricity bill over the next 12 months.

Figure 8 illustrates an increasing trend in cost per unit of electricity transported that the Panel urges SAPN to keep front of mind when developing its total expenditure plans.

³ Sourced from AER

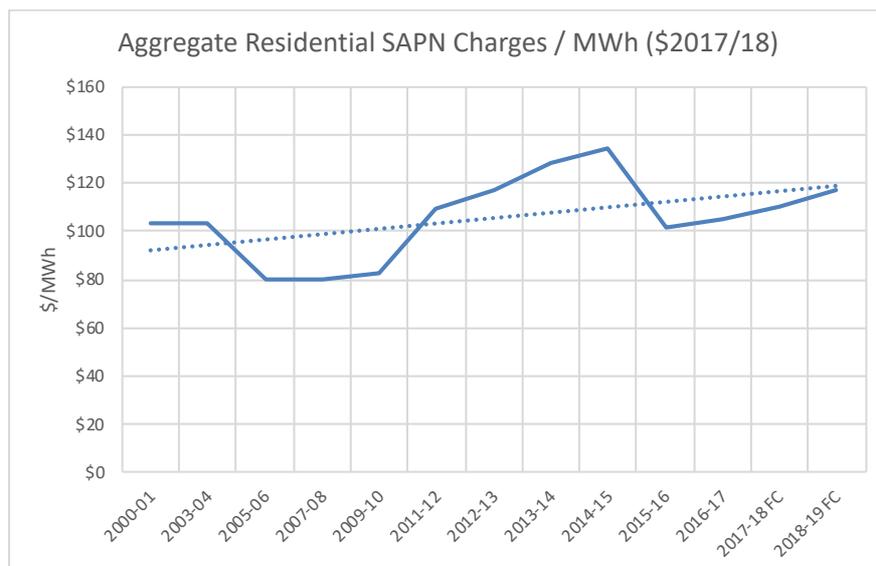


Figure 8 - SAPN Total Residential Charge / MWh⁴

4.6 Enabling the Distributed Energy Transition

Some of the Panel feel that the mindset of SAPN could more preferably be “how SAPN is taking SA consumers to the clean, cheaper future we hear about”? This should be a stronger positive for SAPN in the January 2019 proposal, as it is an area where SAPN has demonstrated national leadership and is at the forefront globally of network transformation.

The main strategy for SAPN is future energy networks and yet the draft plan suggests that much of the expenditure proposed is drawn from yesterday’s experience not tomorrow’s new reality. Every \$ spent directly on the network over the next 5 year period needs to build a future energy network and yet it is proposed merely as some strategic investments and some additional investments. If the assets are to last for 40 years+ then we need some assurance they will not be sunk costs. While it looks like an add-on in the draft plan, discussions with SAPN suggest that future networks thinking is beginning to be quite well embedded in the organisation. It is not necessarily informed by customer values though.

The Draft Plan could provide a higher level of discussion in the value proposition to customers as the network transforms, regions become more self-sufficient for energy and the role of SAPN is increasingly to enable customer investments in distributed energy resources (DER). For example:

- The higher importance of the LV network compared to the “higher voltage sub transmission” parts of the network / supply chain.
- Support for DER and associated supply and demand side diversity creating new ways to guarantee reliability when it is needed.
- Access to markets – eg ancillary services and cheap surplus renewable energy.

⁴ Source – SAPN provided information supplied to ACCC electricity enquiry and has missing year data

Recommendations

4. Improve the narrative around the value proposition of transition to the future and demonstrate how all investments are aligned to enabling that future.

4.7 Capital Expenditure

The Panel note that 75% of the capex is for network and 25% for non-network expenditure. As with all expenditure, the Panel expects that all categories are rigorously tested for value to the customer.

The Draft Plan proposes an 8% increase for capex, 2020-25 compared with actual / forecast for 2015-20. This is difficult to justify in an environment of flat to declining change in demand. Aspects of greatest concern from the capex budget are:

- a. repex (18% increase, from 2015-20 to 2020-25)
- b. augex – reliability (103% increase)
- c. augex – safety (98% increase)
- d. non-network – property (49% increase)
- e. non-network – telecoms (300% increase though smaller dollar amount than other categories).

The Panel understands and accepts that SAPN uses a return on risk / value approach to identify and prioritise a significant amount of network opex and capex and that this framework is generally consistent with AER models. It is also understood that SAPN has made undertakings to ESCOSA and OTR about managing the risk to a certain level. However, despite conversations SAPN have had with ESCOSA and the OTR, the Panel is unclear of how these risk / value parameters have been determined and if the quantified value reconciles with affordability and preparedness to pay by the customer.

There also appears to be a number of categories that have a very “BAU” feel to them even after further discussion with SAPN as noted in the table below. This leaves a level of doubt with the Panel on whether or not this reflects “do more with less” as stated by the CEO.

Draft Plan Area	Overall Comments	Suggestions for revenue proposal / supporting docs	Keeping Prices Down	Safe and Efficient Network	Transitioning to a new energy future
Replacement	Further debriefing from SAPN advised: <ul style="list-style-type: none"> • Overall strategy is to defer replacement as far as possible • Replacement is generally same with same functionality and capacity. • There is no foreseeable “surprise hump” in future resets at this time 	Demonstrate how this level of expenditure provides true value and is recognised as such by SA customers.			

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Draft Plan Area	Overall Comments	Suggestions for revenue proposal / supporting docs	Keeping Prices Down	Safe and Efficient Network	Transitioning to a new energy future
	<ul style="list-style-type: none"> • There are no foreseeable stranded assets or material non-network solutions. • Meets commitments made to ESCOSA and the OTR. <p>The Panel remain concerned about an 18% increase in this area and its true value to customers despite presenting as an obligation to ESCOSA and the OTR.</p>				
Augmentation - Capacity	<p>All augmentation costs should be coming down compared to 2015-20 given declining MPFP and low / declining demand growth. Reduction in expenditure trend is noted and consistent with the Panel's expectations in a flat / declining demand environment – but is it enough?</p> <p>Majority of expenditure is in the low voltage network which is consistent with the Panel's views about transitioning to a new energy future and integrating distributed energy resources.</p>				
Augmentation - Strategic	<p>Concern with the level of OT expenditure vs lack of demonstration of benefit to customers.</p>	<p>Demonstrate how this level of expenditure provides true value is recognised as such by SA customers.</p>			
Augmentation - Reliability	<p>SAPN confirmed the % improvement in service for Eyre Peninsula customers and why it does not</p>	<p>Demonstrate how this level of expenditure provides true value and</p>			

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Draft Plan Area	Overall Comments	Suggestions for revenue proposal / supporting docs	Keeping Prices Down	Safe and Efficient Network	Transitioning to a new energy future
	<p>materially affect the overall reliability performance. Also it excludes ElectraNet’s performance.</p> <p>SAPN clarified that the BAU component of spend is \$37M and only NPV positive projects relating to hardening the network and poorly served customers would be prioritised.</p> <p>As per replacement capex, the Panel remains concerned about the significant 100% increase in this area and its true value to customers</p>	<p>is recognised as such by SA customers.</p>			
<p>Augmentation - Safety</p>	<p>SAPN provided further advice to explain the BAU programs vs an overview of the additional expenditure justification.</p> <p>SAPN expects that only the protection compliance upgrade to be above the historical BAU level and extended for the next two regulatory periods are in part driven by increasing penetration of renewable energy.</p>	<p>Demonstrate how this level of expenditure provides true value and is recognised as such by SA customers.</p>			
<p>Augmentation - Environmental</p>	<p>Seems to be a “BAU” approach and the Panel queries if this has been properly tested against true customer value.</p>	<p>Demonstrate how this level of expenditure provides true value and is recognised as such by SA customers.</p>			
<p>Augmentation - PLEC</p>	<p>Seems to be a “BAU” approach and the Panel queries if this has truly been tested against true customer value.</p>	<p>Demonstrate how this level of expenditure provides true value and is recognised as such by SA customers.</p>			

CUSTOMER CONSULTATION PANEL SUBMISSION – SA POWER NETWORKS DRAFT PLAN 2020-25

Draft Plan Area	Overall Comments	Suggestions for revenue proposal / supporting docs	Keeping Prices Down	Safe and Efficient Network	Transitioning to a new energy future
Connections	<p>The forecasting methodology is consistent with other jurisdictions and unremarkable. However, the Panel has some concerns about the risk of over forecasting connection capex.</p>				
Non-network - IT	<p>SAPN presented a) its IT costs as sitting “within the pack” of peer Distribution businesses in Australia and b) the “recurring” vs non-recurring component of IT spend.</p> <p>Despite a reduction in expenditure compared to the current period the Panel’s residual concerns include:</p> <ul style="list-style-type: none"> • Seems to be a very high bid, with insufficient attention to discussing consumer benefit. Ie IT is supposed to increase business efficiency, yet with zero opex productivity improvement, seems to be a major IT spend with no associated opex savings and no clear consumer benefit. • Has SAPN been captured and effectively monopolised by an expensive multinational IT supplier (SAP) where hurdles to change supplier become increasingly higher. 	<p>Demonstrate how this level of expenditure provides true value and is recognised as such by SA customers.</p>			

CUSTOMER CONSULTATION PANEL SUBMISSION – SA POWER NETWORKS DRAFT PLAN 2020-25

Draft Plan Area	Overall Comments	Suggestions for revenue proposal / supporting docs	Keeping Prices Down	Safe and Efficient Network	Transitioning to a new energy future
	<ul style="list-style-type: none"> • SAPN’s message about “letting the AER’s IT expert advisors” determine if the expenditure is prudent and efficient. • Whether the costs of ringfencing compliance apportioned to the regulated business are fully offset (or better) than the costs allocated to the unregulated business given relative scales of revenue (ie unreg = approx. 25% of total revenue) 				
Non-network - Property	<p>The Panel has made some enquiries into typical “totex” expenditure vs property value and finds that the industry standard is somewhere around 2.5% equating to 12.5% over the RCP which is in stark contrast to the 37% proposed by SAPN. The Panel does not agree with SAPN’s arguments regarding property footprints and nature of use.</p> <p>There is also concern regarding ownership vs lease model insofar as being adaptable to the evolving electricity supply chain.</p>	Further justification required.			
Non-network - Fleet	The proposed replacement expenditure of 63% of the fleet value seems to be high but may well sit within an expected range of a	Further justification required.			

Draft Plan Area	Overall Comments	Suggestions for revenue proposal / supporting docs	Keeping Prices Down	Safe and Efficient Network	Transitioning to a new energy future
	smoothed replacement program depending on the value for each fleet type / replacement cycle. SAPN also clarified that the majority of the fleet was owned by SAPN. The Panel remains unconvinced about the optimisation of (a) the fleet replacement cycles and (b) the ownership vs lease model.				
Non-network - Telco	The expenditure level is small but the increase is 300% and the Panel is not convinced of the prudence or efficiency of the increase.	Demonstrate how this level of expenditure provides true value and is recognised as such by SA customers.			
Non-network – Plant and Tools	Seems to be a “BAU” approach and the Panel queries if this has truly been tested against true customer value.	Demonstrate how this level of expenditure provides true value and is recognised as such by SA customers.			

4.8 Operating Expenditure

The Panel understand that the Draft Plan reflects the AER’s approach to opex forecasting using a base – step - trend methodology. The Panel does not have enough information to form a view about the selection of an efficient base year. However, it does have views on the step and trend aspects.

4.8.1 Step changes

The Panel notes that the step changes proposed result in a 4% increase over the current period and is not convinced about the increase in costs vs the net benefit to customers given opex goes straight to the revenue line. In particular, it questions the value for the consumer in transitioning data storage to “the Cloud”.

4.8.2 Productivity

SAPN has offered no productivity savings in its opex forecast. The explanation provided is that many externally imposed costs – eg regulatory reporting are already being absorbed. SAPN also emphasises its top quartile efficiency position against its peers. While the Panel accepts that on the

current AER assessment methodology, SAPN is currently at the efficient frontier, it also notes that this is a dynamic and changing situation.

All businesses experience times where unexpected and / or external costs need to be absorbed while remaining profitable or solvent to remain in business. It should be no different for a regulated monopoly business.

Given that every opex dollar goes to the revenue line, the Panel remains concerned that this does not align with “doing more for less” or “keeping a lid on prices” values. The Panel notes that SAPN has been able to outperform the opex allowance in the current regulatory period, demonstrating its ability to respond to the EBSS incentive framework.

While SAPN’s productivity is currently good, its opex multilateral partial factor productivity (MPFP) has been declining in trend terms for much of the last decade. The most recent AER data shows that SAPN MPFP is below that of Citipower, Powercorp and on a par with TND and Evo, so it cannot be regarded as ‘exceptional’⁵.

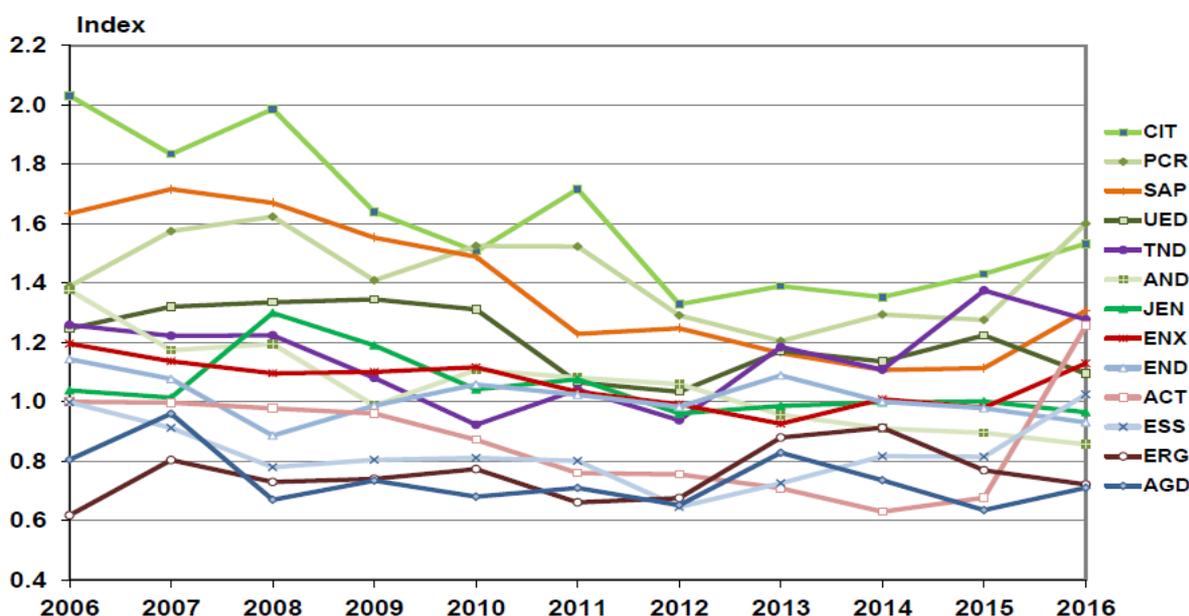


Figure 9 - Opex multilateral partial factor productivity (MPFP), 2006–16⁶

Consumers have a reasonable expectation that efficient businesses, including energy businesses, will improve their efficiency over time. For SAPN to propose zero productivity improvement over 5 years is unacceptable.

The Panel understands the AER are currently developing a Productivity Factor and encourages it to be applied in its revenue determination for SAPN.

⁵<https://www.aer.gov.au/system/files/AER%202017%20distribution%20network%20service%20provider%20benchmarking%20report.pdf>

⁶ Source AER Benchmarking report (DNSP’s), 2017, Figure 17

4.8.3 Labour Escalation

The Panel has been advised about the rationale for using cpi + 1% for internal labour escalation. The Panel has been informed that this is the average of two external remuneration specialist forecasts for the electricity supply industry and recognition of the skillsets of the industry. The Panel represents a wide range of customers and feels that in the current economic climate and given that no productivity savings are being offered, and also in light of investment in technology and more efficient practices, SAPN’s position is not well supported.

All groups CPI for the Australia June Quarter 2017 to June Quarter 2018 was 2.1%, so SAPN is proposing a labour escalator of 3.1%. However, from the graph below, SA’s wage price index is running at 2.2%, August 2017. This is approximately the same as inflation, so there is no justification for SAPN labour costs be rising at a rate greater than CPI. Community expectations are that wage increases should be shared across the community, without preferential rises for some people (eg electricity service providers) and not others.

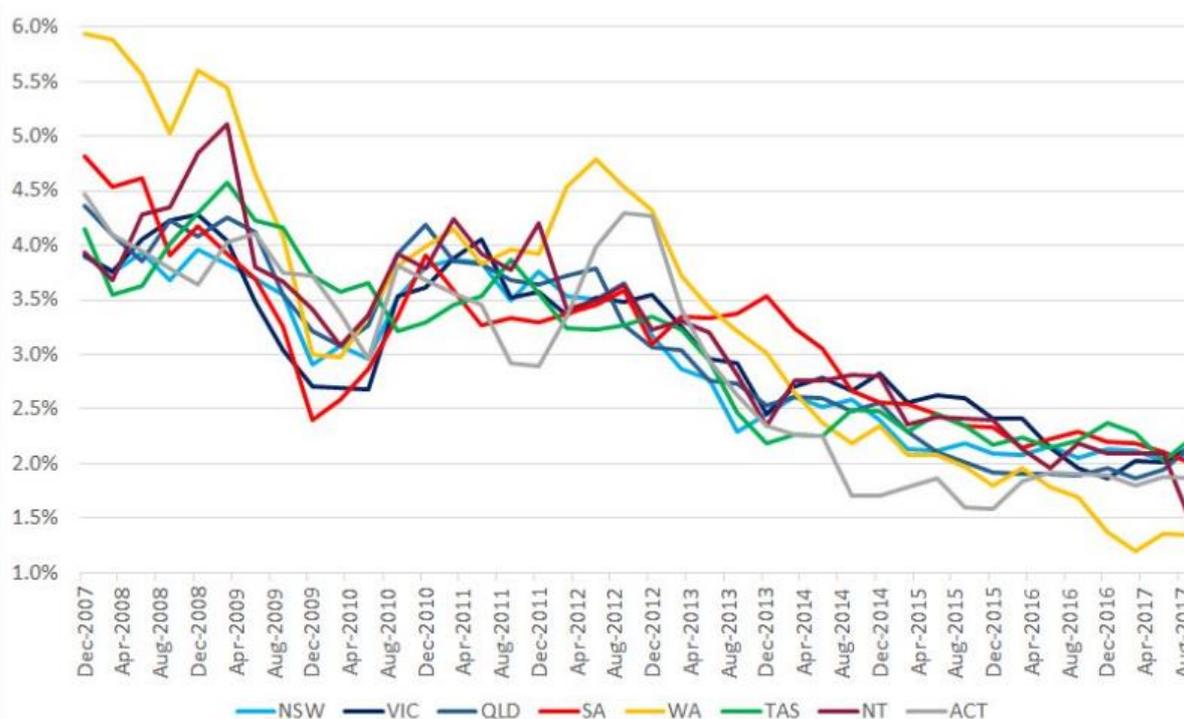


Figure 10 - Australian wage Price Index, Australian States, 2007-2017⁷

The following table provides further feedback on the opex proposal.

⁷ Source ABS 6345.0

Draft Plan Area	Overall Comments	Suggestions for revenue proposal / supporting docs	Keeping Prices Down	Safe and Efficient Network	Transitioning to a new energy future
Network Maintenance					
Vegetation Management	Significant improvements in all areas of vegetation management.	Maintain this level of stakeholder engagement and collaboration. Implement this model across other relevant reference groups.			
Corporate Costs	These costs represent 26% of total opex and 10% of annual revenue.	Demonstrate how this level of expenditure provides true value to and is recognised by SA customers. Demonstrate that SAPN’s Corporate costs are efficient across broader industry comparisons.			
Network Operation					
GSL Payments					
Emergency Response					
Customer Services	Customer service costs seem high but managing customer expectations was well received during consultation processes.	Demonstrate how this level of expenditure provides true value to and is recognised by SA customers.			

4.9 Revenue Building Blocks

This section covers other aspects of the revenue building blocks that are not included in the above sections.

Draft Plan Area	Overall Comments	Suggestions for revenue proposal / supporting docs	Keeping Prices Down	Safe and Efficient Network	Transitioning to a new energy future
DMIS	This is a good news story for SAPN and should be a significant part of the SAPN future network story, being one of very few DNSPs in Australia who spend their DMIS allowance.				
RAB forecast	The Panel feels this needs to come down through lowering capex, with an eye to reduced burden on future consumers.	Refer capex section.			
Tax allowance	The tax allowance sought is regarded as reasonable and in line with ATO requirements. Even though partnership structures do not pay tax, it is still paid as per ATO requirements.				
Overall revenue requirement	This is “the sum of all parts” and the Panel is not convinced it is the best that SAPN can do for consumers. Seems too much of a BAU approach and SAPN is a very profitable business.				

These tables reflect visually the Panel’s earlier observation that more focus appears to have been given to network reliability than keeping prices down or pro-activity associated with developing the network of the future.

4.10 Tariff Structure Statement

The Panel does not give much attention to the TSS in this submission due to the lack of conclusive information available. There is a view that a tariff that includes 14 hours in a day at “peak price” cannot be about sending cost reflective price signals since the network will very rarely be experiencing peak demand for 14 hours in a day. We believe there are many opportunities for customer load shifting and demand management that would reduce SAPN costs overall, and a strong commitment to unlocking these behaviours needs to be demonstrated in the proposal.

There is also a concern about the sustainability of non-solar PV residential customers paying a continuing increase in its share of network charges as PV penetration increases and urges SAPN to seek to address this anomaly through its TSS.