Australian Energy Regulator

Attention: Mr Warwick Anderson

Submission: Issues Paper – SA Power Networks revenue determination 2020-2025

22 May 2019

From: Partnership of SA Financial Counsellors Association; The Energy Project; Uniting Communities.

Submission to Australian Energy Regulator
Re: SAPN regulatory proposal 2020-25

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About Us

SAFCA

The SA Financial Counsellors Association supports the Financial Counselling and Low Income Support sectors in South Australia and the Northern Territory. The sector employs directly and indirectly over 500 individuals. These workers provide a much needed and valued service to all South Australians and Territorians.

Financial counsellors assist some 35,000 – 40,000 financially vulnerable South Australians and Northern Territorians and their families every year. This includes those on benefits and pensions, low income and people with high levels of debt.

SAFCA provides the professional development needed by financial counsellors to keep up with the latest developments in such areas as banking, utilities and debt collection practices around hardship and collections

Project Contact: Wendy Shirley. wendy@safca.org.au

Uniting Communities

Uniting Communities is a large Uniting Church based community service organisation in South Australia, providing about 100 different services.

Our input is driven by specific comments from a number of people who have received services from us and from staff who provide services. We also add the distilled experiences of thousands of individuals, families and communities with whom we work through services, including financial counselling, aged care services, disability services, homelessness support services, Lifeline and many more.

Project Contact: Mark Henley MarkH@unitingcommunities.org

The Energy Project

The Energy Project is a specialist energy consulting firm. We provide independent analysis, insights and advice on a range of energy related challenges faced by commercial, institutional and government clients.

We don't sell equipment. Rather, we work closely with clients to provide them with the tools needed to make sound business decisions about their energy needs.

Project Contact: Dr Andrew Nance andrew.nance@energyproject.com.au

ECA Disclaimer

"This project was funded by Energy Consumers Australia as part of its grants process for consumer advocacy projects and research projects for the benefit of consumers of electricity and natural gas.

The views expressed in this document do not necessarily reflect the views of Energy Consumers Australia (www.energyconsumersaustralia.com.au).

Section 1: CONTEXT

BACKGROUND

The partners making this submission have received funding from Energy Consumers Australia (ECA) to support our input into the regulatory proposal that South Australian Power Networks (SAPN) lodged with the Australian Energy Regulator (AER) in January 2019.

We note that two of the partners, SAFCA through Wendy Shirley, and Uniting Communities through Mark Henley have been members of the SAPN Customer Consultative Panel (SAPN CCP) over the past two years. We have attended, between us, all deep dives and Adelaide-based forums conducted by SAPN. We were also present at the launch of the SAPN draft plan and contributed to the response to the draft plan from the SAPN CCP.

This submission makes comments based on the various previous involvement that the partnership members have had with SAPN and indeed with ETSA Utilities for some of us.

The following comments are largely in line with the presentation made to the AER's forum held in Adelaide on April 4th 2019. We look forward to further engagement with SAPN in the lead up to their revised revenue proposal and thank ECA for the capacity to do so.

CONSUMER ENGAGEMENT

Members of the submitting agencies have been actively involved with SAPN's consumer engagement program which began a couple of years before lodgement was due. It has been an extensive engagement process which includes analysis of various tariff options and their impact and "deep dives" on several significant topics. This engagement led to the release of a draft plan, for which written comment was sought. Wendy and Mark were both members of the SAPN CCP that provided a written submission in response to the draft plan, with writer support from SAPN.

The entire consumer engagement process is detailed in the SAPN regulatory proposal.

We observe that the consumer engagement has been comprehensive and focused largely on the relevant issues. We further observe SAPN has enjoyed the goodwill of significant consumer input. There is no doubt SAPN has heard clearly from a range of customer perspectives about the key topics. What is less clear is how this extensive input has been interpreted and applied by SAPN in the regulatory proposal. Some topics have been heard and responded to, but we would suggest not all.

In our view, this is evidence of limitations to the influence "consumer engagement" can have on regulatory resets under current frameworks. This is a broader issue. The remainder of this submission is focused on SA Power Networks Regulatory Proposal 2020-25.

THREE CORE OBJECTIVES OF SAPN'S REGULATORY PROPOSAL

Central to the SAPN regulatory proposal are three core objectives summarised as:

1. Keep prices down;
2. Maintain safety and reliability; and
3. Transition to the new energy future.

We support these three objectives and believe they are very much in line with feedback provided through the various engagement activities conducted by SAPN.

In their regulatory proposal, SAPN presented the three issues as a Venn diagram as shown in figure 1. We support this approach and this submission is focussed on the areas of intersection.

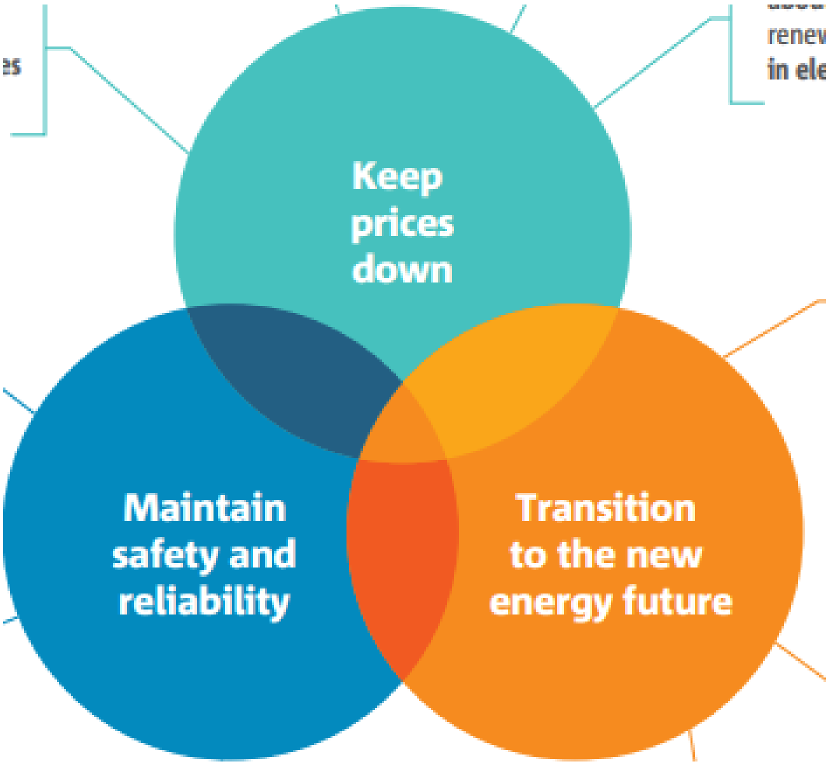


Figure 1: Source SAPN Regulatory Proposal.

We suggest the three objectives are akin to tectonic plates with the grinding and friction between plates creating the most stress on the earth's surface. We present this submission with the understanding that there are many aspects of the day-to-day work of SAPN and indeed many aspects of their regulatory proposal that sit on the firm ground of the stable parts of the tectonic plates.

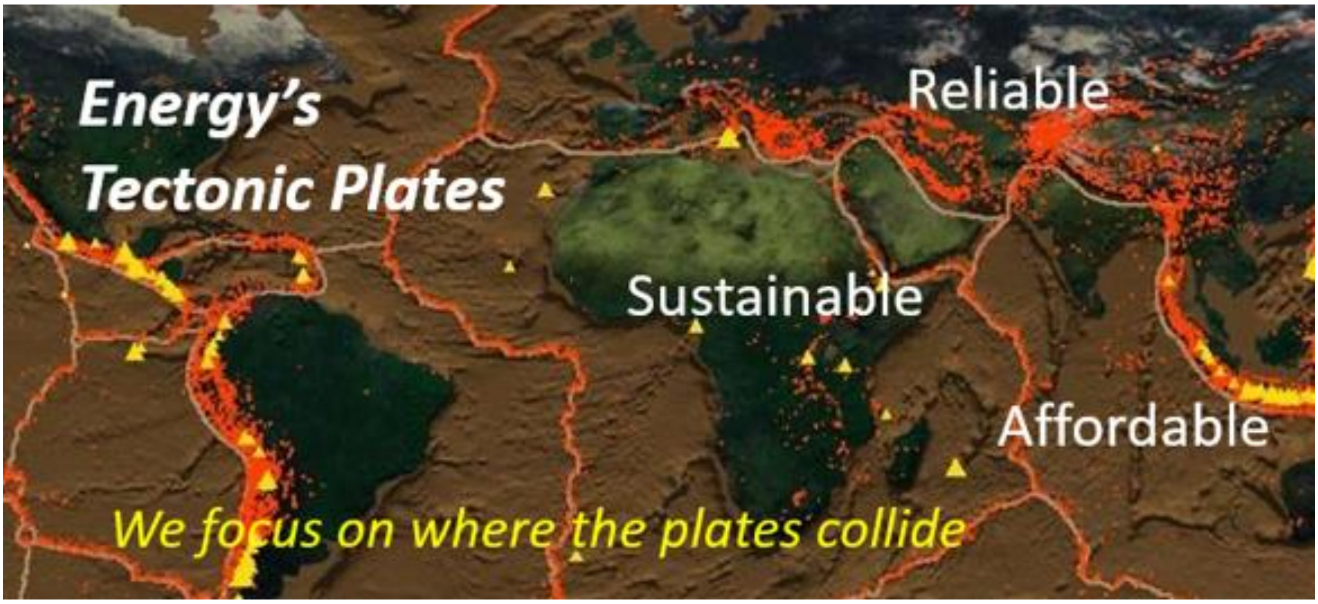


Figure 2: SAPN Objectives as Tectonic Plates.

We focus on the intersection of the objectives and recognise that there is friction, rapid change and instability at the meeting of the sometimes competing objectives. We believe that in any regulatory proposal it is the stresses from change that can most significantly impact on consumers, adversely or constructively. We also recognise that the colliding pressures can and should be forces for constructive change.

Areas of Upheaval

In line with the colliding tectonic plates analogy, we highlight areas of continuing, rapid change that are essential context for SAPN for the next regulatory period. We provide these observations using the three overarching themes SAPN has utilised.

Keep Prices Down

The first area of continuing upheaval relates to the cost of electricity - an essential service. This is recognised by SAPN as one of their 3 overarching themes.

In July 2018, the ACCC released a report that considered the cost of electricity and produced the following graph (figure 3) showing the cost of electricity Australia wide, compared to CPI and wages change over the last decade.

The reality is that electricity prices have escalated rapidly over the period, despite a short period of falling prices in June 2014 and a couple of years of stable prices. This flattening of prices for a short period was not experienced as price relief for lower and modest income households nor for many small businesses.

In July last year, the ACCC released their report considering ongoing high energy prices, “Restoring electricity affordability & Australia's competitive advantage.”[1]

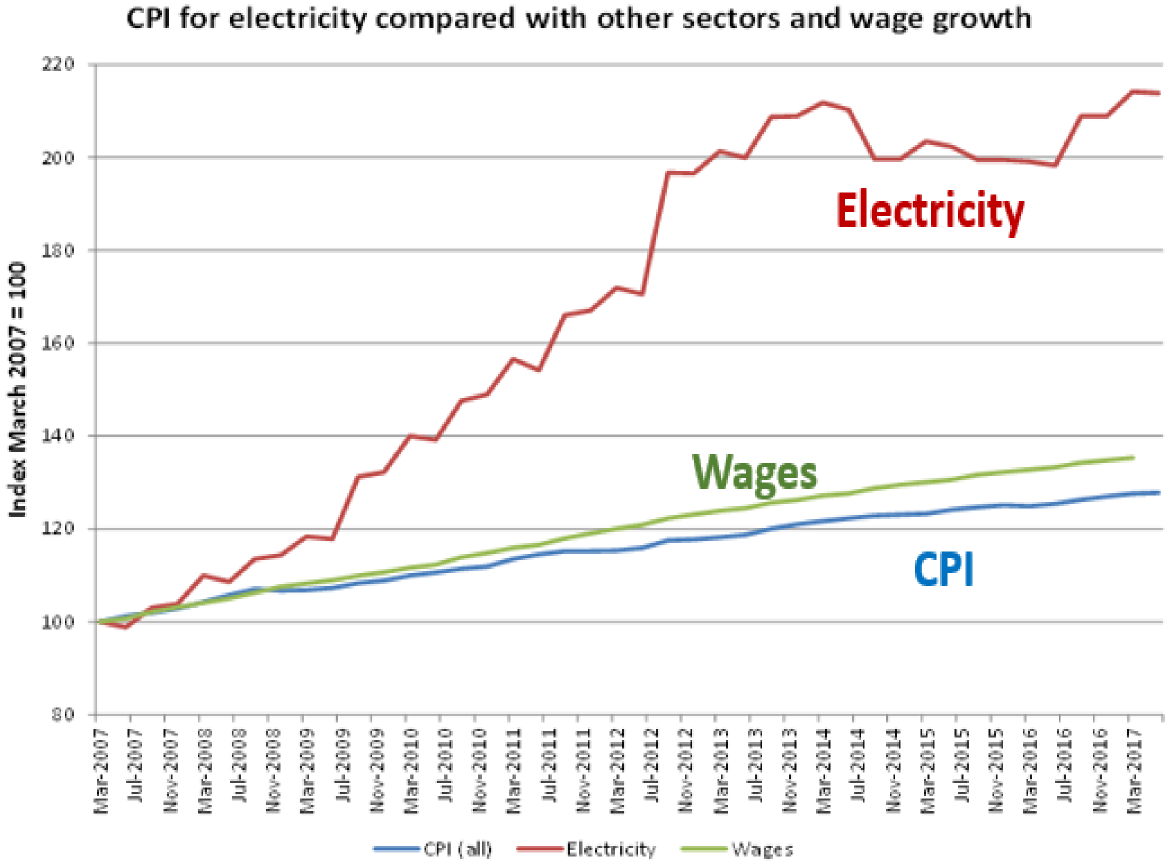


Figure 3: Source - ACCC report: Restoring electricity affordability & Australia's competitive advantage, July 2018.

The price change story for South Australia is shown in figure 4, the index of electricity retail prices for various jurisdictions for nearly 2 decades. The graph shows that for South Australia there was a rapid price rises June 2003-04 when full retail contestability commenced in the state. Since then there have been significant price rises from 2007 through to 2012 and a further period of steep price rises from 2015, with some levelling off over recent months.

[1] https://www.accc.gov.au/publications/restoring-electricity-affordability-australias-competitive-advantage

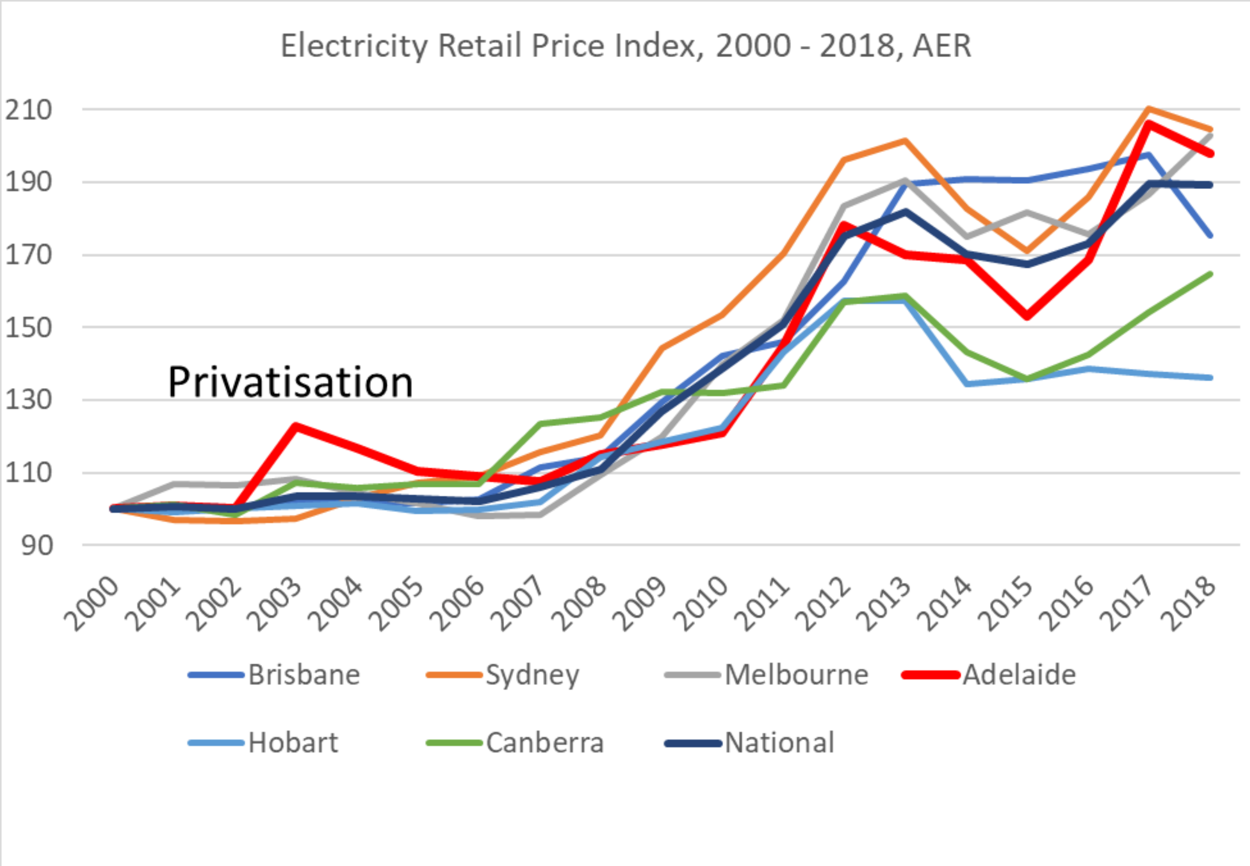


Figure 4: Source - AER, State of the Energy Market, 2018.

These very high electricity prices and continuing price increases have had significant deleterious impact on South Australian consumers. About 10,000 households per year are disconnected from electricity supply in South Australia due to inability to pay and electricity bills remain the number one presenting issue for financial counselling clients. Appendix 1 summarises some specific examples of the impacts of electricity price rises as experienced daily by financial counsellors. The following case study from a Financial Counsellors notes provides one person's experience:

Amanda is a 26-year-old single mother. She lives alone in a privately rented property. The lease is held jointly with her mother who makes a contribution to the rent as this was an affordability issue for Amanda. She has been in receipt of Parenting Payment and FTB since the birth of her daughter in February 2018. She was previously in receipt of Newstart Allowance.

Her total utility arrears are $2,987 with electricity at $1,831 and gas $1,156. She is in receipt of concessions and a discounted plan with a provider. She has had several failed payment plans. She had a disconnection raised which triggered her contact with a financial counsellor.

Amanda has tried to have Centrepay deductions for her utility costs. The last plan failed due to the change in her Centrelink payments and she did not renew the arrangement. The provider had requested that Amanda make a lump sum payment of $510 before being put back onto a new payment plan.

During a call from the financial counsellor the provider agreed to cancel the disconnection but cannot guarantee that a further disconnection will not be raised. They will not enter into a payment plan until a lump sum payment has been made.

There is other evidence of the upheaval being experienced by energy customers. Figure 5 shows electricity disconnections for an inability to pay electricity bills, for South Australia households over the last eight years. High levels of electricity disconnections have been experienced for the last six years in particular. We do not regard the reality that more than 10,000 households are disconnected from the supply of electricity each year as a reasonable occurrence in an advanced society.

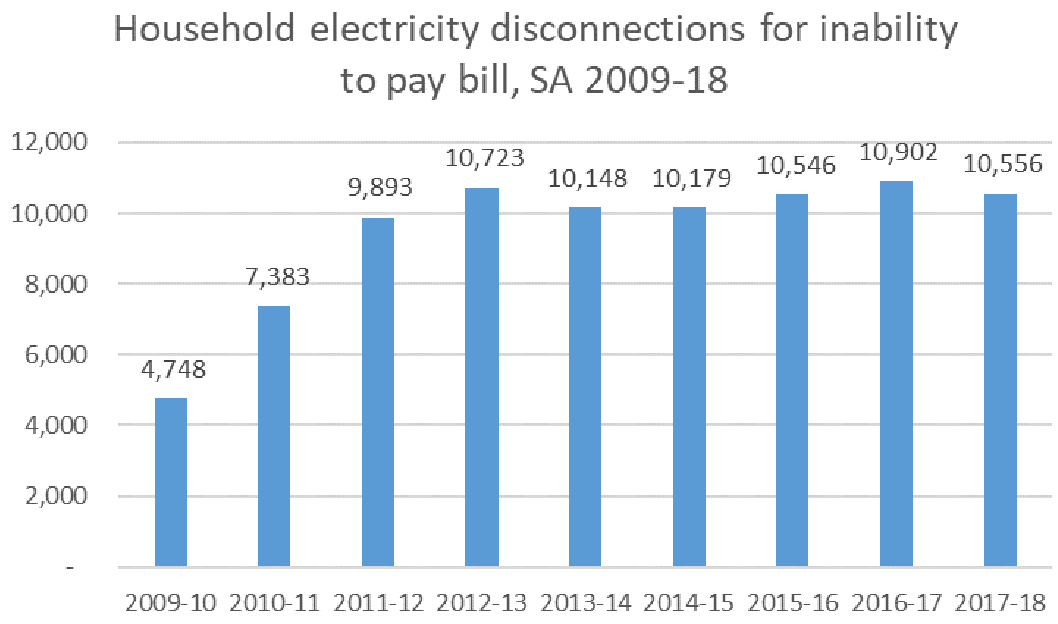


Figure 5: Source - AER, State of the Energy Market Report.

The following case study from a Financial Counsellors notes highlights the upheaval vulnerable energy consumer's experience:

> This person has mental health concerns & is struggling to pay living costs based on the income he receives - Newstart Allowance. The client has in increasing electricity bill that is causing him stress and adding to this depression & anxiety.
>
> Regular payments have not been made to the electricity account as the client feels he cannot afford the increasing his bill. Seasonal electricity use is high due to heating & cooling costs. Client lives in community housing and feels the lack of insulation contributes to his high electricity account.
>
> He owes more than $2,000. This means that he is not eligible for an EEPS payment. Benevolent society options are being explored to reduce the account to below $2,000 so that an EEPS application can be made.
>
> The client indicated he is applying for DSP, which is a long & difficult process.

The cost of electricity is one part of energy bill stress. The other part is income and consequently the amount of money that households have got to be able to spend on energy. The following table gives current rates of Newstart allowance.[2] We observe that the single rate of Newstart is

[2] https://www.humanservices.gov.au/individuals/services/centrelink/newstart-allowance/how-much-you-can-get.

approximately equal to the current median rent in South Australia, so clearly renting modest housing is out of reach for Newstart recipients. We further observe that an extra $23 per week to meet the costs of a child also fails to recognise true cost of living.

If you're	Your maximum fortnightly payment is
Single, no children	$555.70
Single, with a dependent child or children	$601.10
Single, aged 60 or over, after 9 continuous months on payment	$601.10
Partnered	$501.70 each
Single principal carer granted an exemption from commitments for any of the following: • foster caring • non-parent relative caring under a court order • home schooling • distance education • large family	$776.10

Table 1: *Current Rates of Newstart Allowance* Source – Department of Human Services.

In figure 6 we present current labour market data for South Australia showing that the labour underutilisation rate, i.e. underemployment, is at a rate more than double the unemployment rate and this we suggest gives a better indication of the number of people who do not have adequate income from employment.

In addition to high rates of underemployment, we also highlight that wages are not keeping up with cost of living with figure 7 showing that all wage price index forecasts for the last seven years have dramatically overstated the actual outcome. The reality is that wage growth is stagnant for many Australians. Inadequate hours of work coupled with low wages for hours worked means that people who are working poor as well as those on benefit payments are extremely financially stressed.

Any increases in electricity bills have detrimental impacts on the ability of people to live healthy lives. Rising energy bills impact on the health of struggling households for a number of reasons:

- Limiting energy use for heating and cooling means there is a higher likelihood of sickness; and
- Electricity is generally the second bill paid by lower income people after rent and health expenditure. In particular medicines can be forgone in order to pay electricity bills.

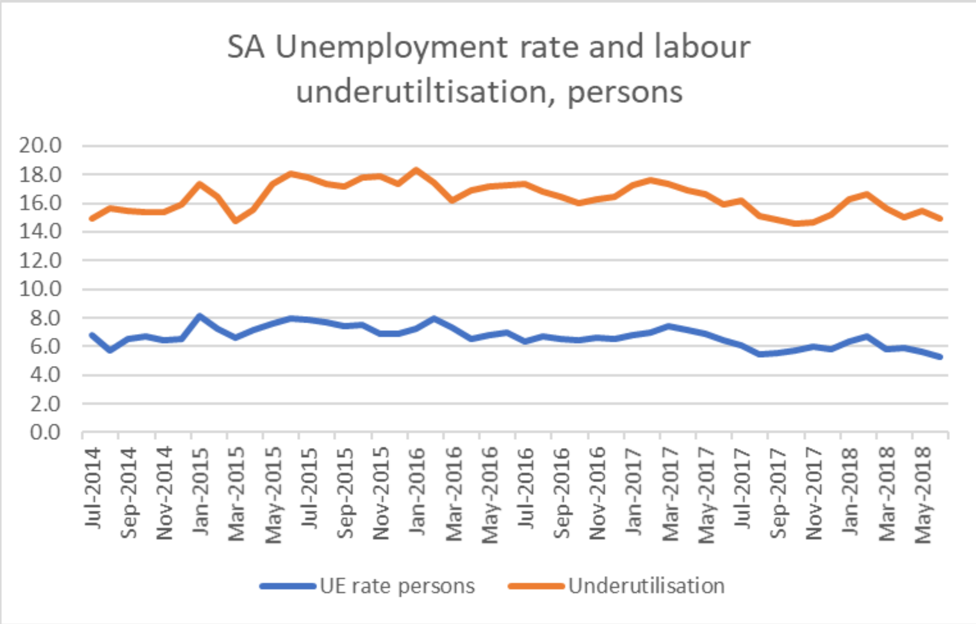


Figure 6: *SA Labour Utilisation* Source - ABS, Cat. No. 6202.0 - Labour Force, Australia.

Low wage growth is demonstrated in the following figure.

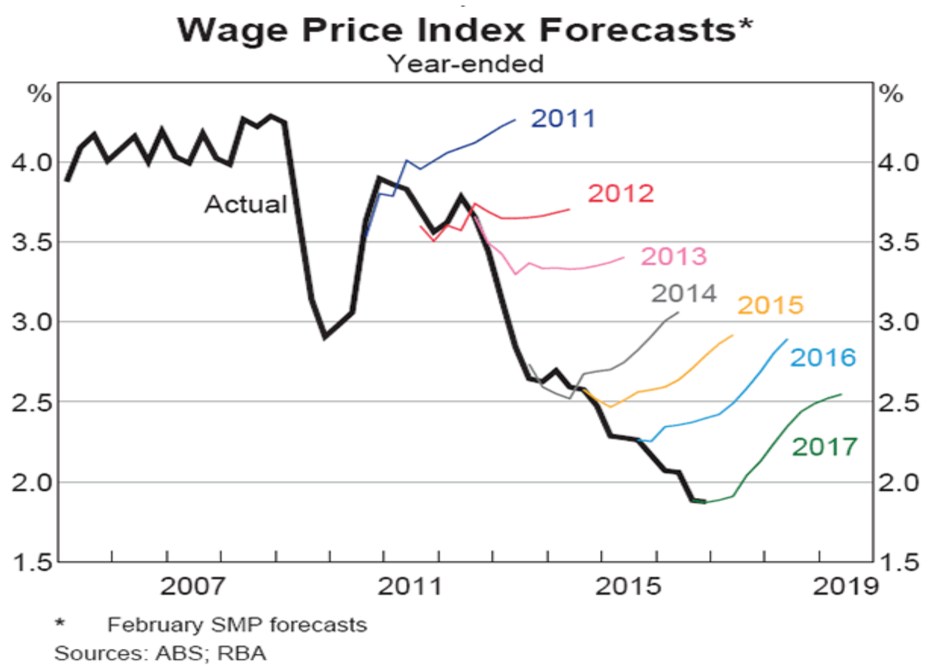


Figure 7: Source - RBA, reported on ABC News.[3]

In their 2018 report, the ACCC identified achievable savings across the electricity price stack for each Australian jurisdiction. This is shown as table 2 below. We observe that the table identifies wholesale costs as the largest area for savings across Australia, with network costs the source of substantial potential savings for New South Wales in south-east Queensland.

[3] https://www.abc.net.au/news/2018-11-03/rba-wage-price-index-forecasts-1/10462288

Table 3.1 ACCC average annual residential bill savings by 2020-21 by State

Achievable savings ($ per annum)

Region	2017-18 Bill	Networks	Wholesale	Enviro	Retail	Reduction	2020-21 Bill	% Reduction
Victoria	1,457	39	192	34	26	291	1,166	20
NSW	1,697	174	155	43	37	409	1,288	24
South East Queensland	1,703	147	192	18	62	419	1,284	25
South Australia	1,727	$\boxed{13}$	227	89	42	371	1,356	21
Tasmania	1,979	113	226	75	–	414	1,490	21

Table 2: Source – ACCC.

We also recognise that for South Australia, and specifically for SAPN, the savings for distribution network costs, as proposed by the ACCC are modest.

While SAPN has been eager to highlight they are an efficient network business and the potential for savings through distribution network costs are very modest, we make the following observations:

- Electricity prices are still rising for SA consumers with electricity bills still the number one presenting issue for Financial Counselling (and other) clients to community services;
- SAPN is recognised as not being the main source of ACCC identified savings. However, it is our strong opinion that in order to be true to their stated commitment to “keep prices down” it is imperative SAPN understands the price pain being experienced by consumers, and is able to reflect this understanding. SAPN must be clear in their public statements about how they understand the burden high electricity prices places on a large number of South Australian households and some small businesses; and
- SAPN is not expected to be the source of main electricity price reductions in South Australia, but they are still expected to do the very best that they can to “keep prices down.” This means being diligent in reviewing every cost and looking for areas of savings, no matter how modest individual savings are.
- Under any given revenue cap, declining levels of consumption force prices to rise – improved network utilisation is critical.

Maintain Safety and Reliability

This priority is more a part of ‘business as usual’ for this proposal and does not, to our reading, include significant new context for safety and reliability, other than as pertaining to keeping prices low, the new energy future and some cyber security investment which is part of an opex step change.

Transition to the New Energy Future

The third major theme for this regulatory proposal is the combination of elements summarised by SAPN as “transition to a new energy future.”

It is important to recognise that energy markets globally are going through a period of major transition and we would suggest that we do not yet know where this transition will end and what the shape of future energy markets will look like. It is our opinion the transition will take a few more years, probably more than the five-year period of this regulatory proposal. We state this because we think it is important there is a shared understanding that we are all dealing with uncertainty and there is considerable value in the regulator, policy-makers, network businesses and consumers sticking to some shared principles while accepting the reality of an uncertain future and recognising that nobody has all the answers.

For the partners to this submission, some of the key principles for dealing with uncertainty in emerging markets include:

- Best endeavours - no blame. This means all stakeholders do their best to implement the National Energy Objective, to operate in the best long-term interests of consumers, and accept that hindsight will lead to the recognition of poor decisions being made. It is important there is no blame associated with accepting mistakes, it is simply an important part of learning and adjusting to uncertain futures;
- Transparency;
- Being very cautious about any new commitments to high cost long-term investments that have a fair potential of being under-utilised or redundant before the fair anticipated useful life has concluded;
- Vigilance in consumer protection. Periods of rapid change provide opportunities for “snake oil sellers” to emerge and seek to exploit vulnerable, gullible or just less cautious consumers;
- Shared research and shared exploration of emerging possibilities; and
- Low carbon emissions and lower future prices are both desirable and achievable.

We accept the global energy markets are in a period of rapid transition and South Australia is at the forefront of several aspects of this change - particularly the integration of renewable energy into the grid. It is important SAPN stays at the forefront of understanding and applying the technical and system operation practices. The challenge is to enable SAPN to remain “on the cutting-edge” of maintaining highly efficient expenditure.

One of the significant “future network” issues SAPN is dealing with now relates to installed capacity of small-scale solar PV and efficient network operation, shown in figure 8, along with various forecasts about likely levels of future installed solar capacity.

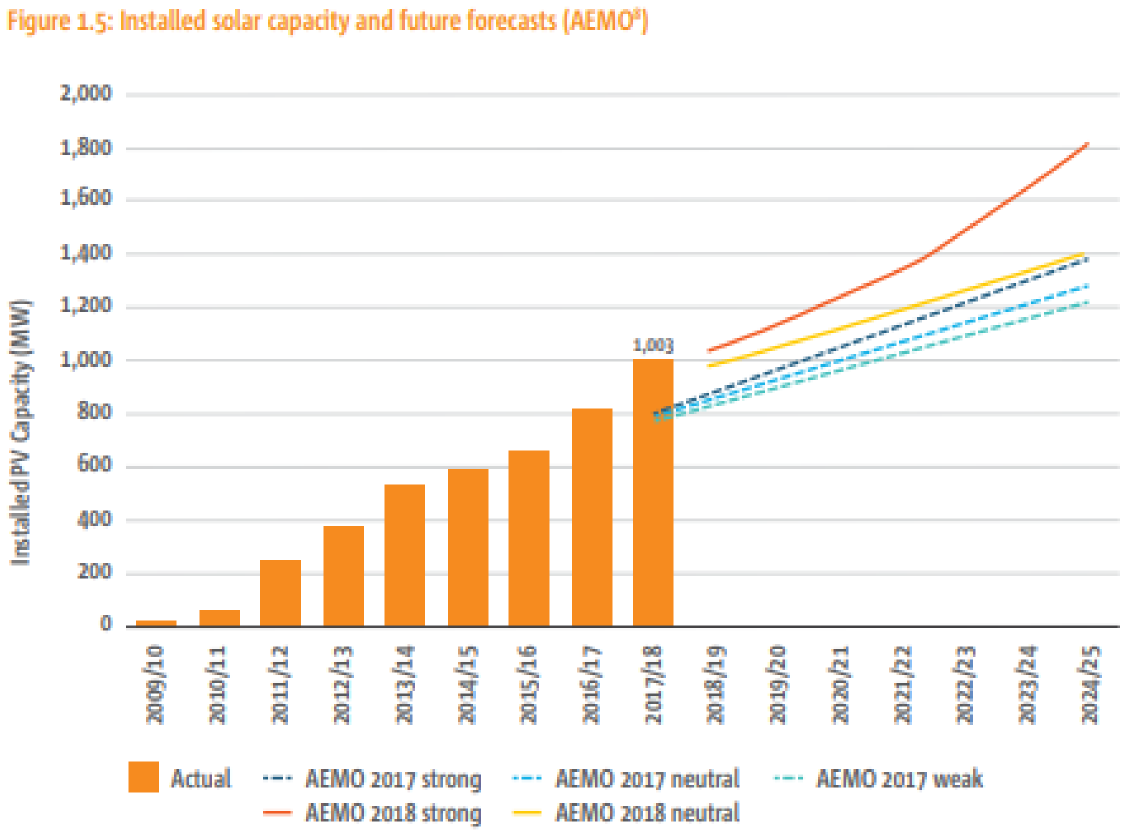
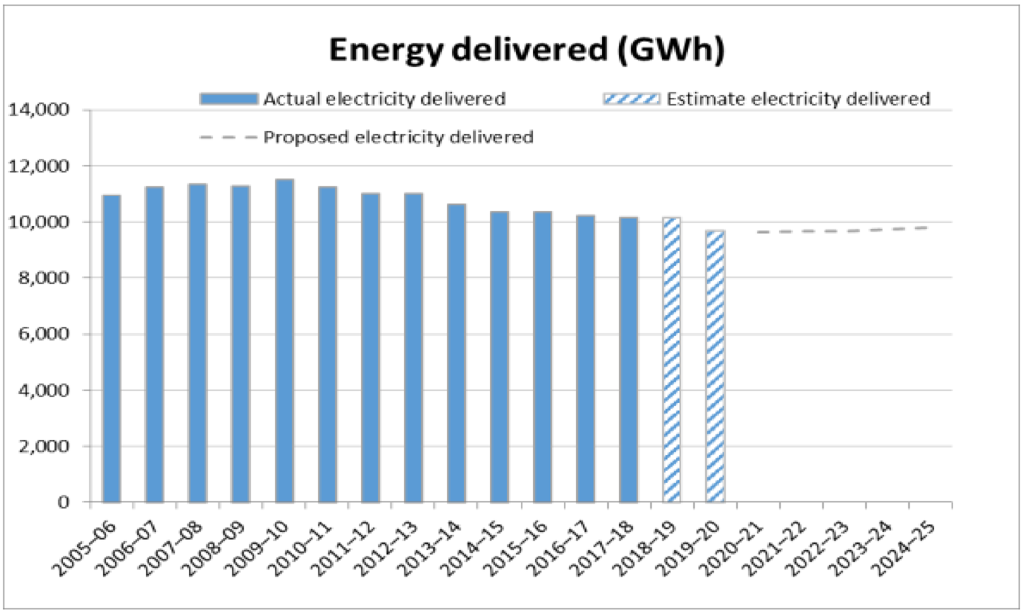


Figure 8: Source - SAPN regulatory proposal.

This growth in likely additional small-scale PV generation needs to be understood against actual and forecast energy delivered. Figure 9 identifies negative or static changes in electricity demand over the next regulatory period. We suggest this is a function of two major changes:

1) Increased energy efficiency of appliances used by consumers; and

2) Declining participation in the South Australian economy of large energy using businesses.



Source: SA Power Networks, *Economic benchmarking RINs*; SA Power Networks, *2020-25 reset RIN*.

Figure 9: Source - SAPN Regulatory Proposal.

We also suggest that lower demand than in the past should provide some benefits for consumers, particularly through lower augmentation capital expenditure and improvements in efficiency of connections.

Other Context

We are cognisant of the fact that there are matters pertinent to the regulatory proposal which are being considered by the AER across network businesses. These will impact on the SAPN proposal, but they will not be considered directly in consideration of this proposal.

These topics include the decision by the AER to apply a 0.5% productivity requirement on operating costs over the life of the regulatory period. This decision was finalised soon after the SAPN regulatory proposal was lodged, with active debate occurring before the January lodgement date.

Similarly, over the last couple of years there have been a series of AER initiated reviews, including inflation and the post-tax revenue model, rate of return, profitability and taxation.

The taxation decision is one that appears to impact on SAPN to a much greater degree than some other Australian network businesses, and it is a topic that we expect to engage on between now and the lodgement of the revised revenue proposal.

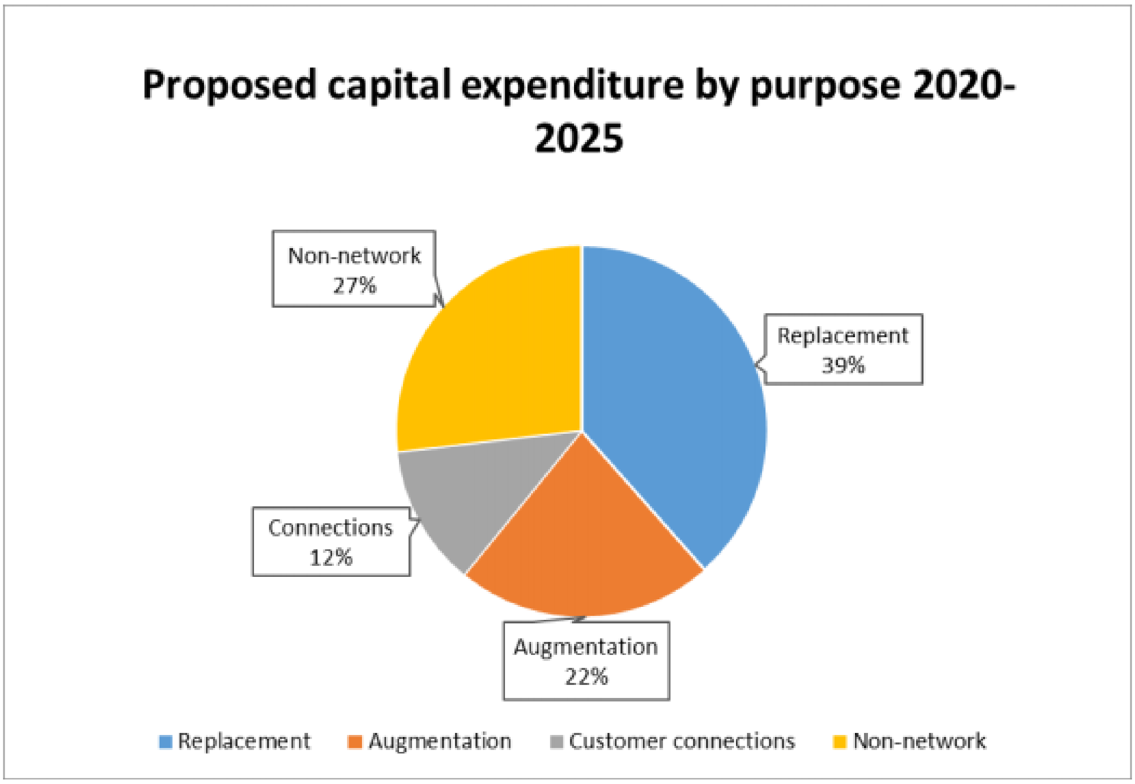
Section 2: Regulatory Proposal

CAPEX

In introducing their proposed capital expenditure program for 2020-25, SAPN summarises the key challenges they face with the following excerpt from the regulatory proposal attachment 5, capital expenditure:

> ***“5.3 The key challenges we face***
> *Our challenge is to prudently and efficiently balance the following requirements:*
> - *ensuring our ageing network remains safe, reliable and fit for the future;*
> - *responding to the demand from customers to reduce prices; and*
> - *supporting ongoing customer demand for renewable energy technologies and new services.*
>
> *These challenges have been the subject of intensive engagement and discussion with our customers and stakeholders over the past two years. We have heard varying views but there is consistent support for the objectives of holding down prices, maintaining reliability and safety, and investing wisely for the future.*
>
> *We are focused on efficient investment to maintain reliability and safety, renew ageing network assets, invest in technology to maintain our ability to deliver our existing services and to deliver new and different services that customers demand, and ensure the network is in a fit state to support customers as they make future choices about how they meet their energy needs.”*

SAPN provide the following overview of the proposed capital expenditure.



Source: AER analysis; SA Power Networks, *Regulatory Proposal Attachment 5.*

Figure 10: Source - SAPN Regulatory Proposal.

The Partners agree with the three challenges that SAPN has outlined. Our overarching view about capital expenditure is that the proposed expenditure for the standard network elements, specifically replacement expenditure and augmentation expenditure are both reasonable. In an environment of declining or low growth, it makes sense that augmentation levels are modest with a greater proportion of capital expenditure dedicated to replacement expenditure.

The two areas of expenditure that we do not think are as clear cut are connections costs and non-network costs, including IT, which are significant costs and we are yet to be convinced that the benefits to customers have been fully articulated.

Consumer Connections

As part of this Energy Consumers Australia supported project, The Energy Project has provided a separate submission focussed on customer connection issues, which can be read in conjunction with this submission. That submission has two key themes: Firstly, in relation to expenditure on connections and the pricing of services. Secondly, in relation to the 'user experience' of accessing connection services.

The Regulatory Proposal includes a revised Customer Connection Policy, reclassification of some connection services to allow for 'more cost reflective pricing' and a capital expenditure program for connections of $213m net of customer contributions ($563m gross, Attachment 5).

We have approached SAPN in relation to these matters and they have agreed to engage with us and other stakeholders on connection issues. The first step will be a workshop to develop a shared understanding of the issues from a customer's perspective.

IT Costs

The following figure presents IT expenditure from the current period that is given as table 5-38 in the SAPN regulatory proposal. We expressed two concerns from this figure, the first being that IT expenditure for the current regulatory period has exceeded the allowance by $27.7 million, just under 10%. We also note the trend-line for actual expenditure year-on-year is steadily increasing by comparison to the trend-line for the allowance for the period. We are concerned about the risk of ever-increasing IT costs.

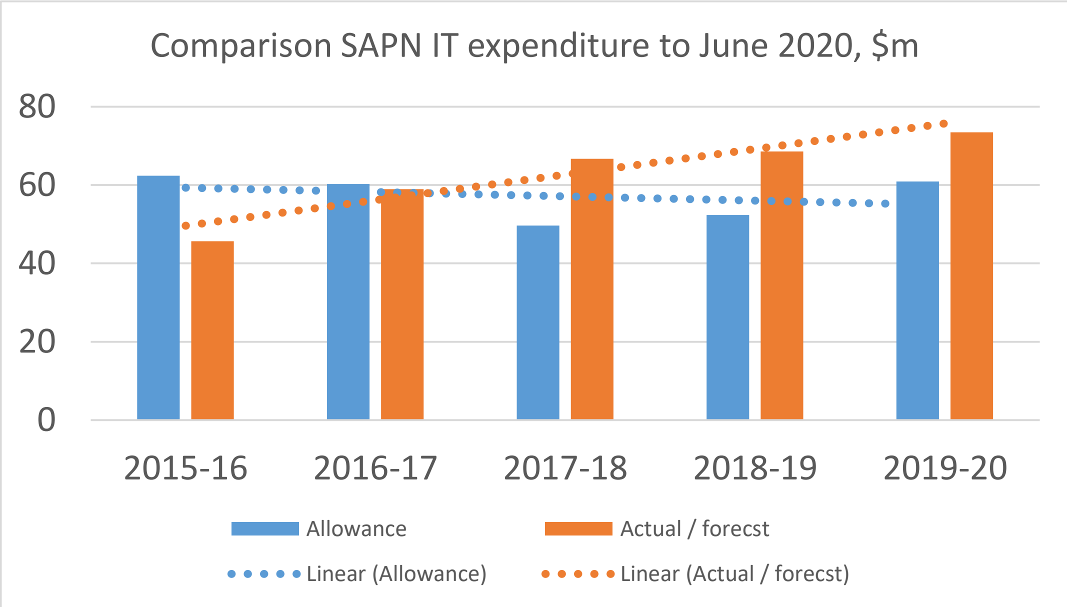


Figure 11: Source - SAPN regulatory Proposal.

We recognise IT is an essential component of non-network expenditure and it comprises a number of aspects from customer communication through to network management and extends to cyber security.

It is also understood that the total IT budget proposal for the next regulatory period is $284.6 million over the five-year period, as shown in figure 12 below, from the SAPN regulatory proposal. The protected reduction in IT expenditure in the second half of the next regulatory period is also encouraging.

Figure 5-27: Actual and forecast IT capex 2014/15 to 2024/25

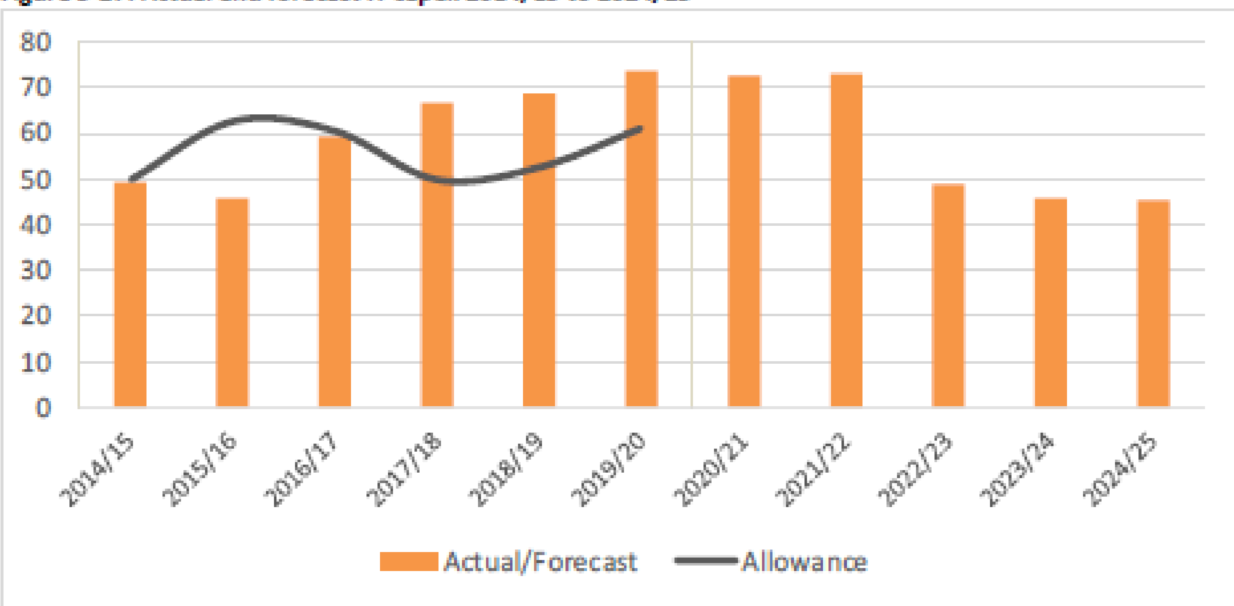


Figure 12: Source - SAPN regulatory Proposal.

However, the reality is that SAPN consumers are paying in excess of half a billion dollars for IT services over the course of a decade. This is a significant amount of money and the unresolved question for us is whether it represents good value for money for customers. We expect to explore this with SAPN in the period between now and the lodgement of their revised revenue proposal.

Other Non-Network Expenditure

We have also briefly considered Fleet, Property and Plant and Tools categories of non-network expenditure and recognise that actual and forecast expenditure for the current period for each of these is below the allowance and the proposal for the next regulatory period falls between allocations for current period “actuals” and “allowance.” On initial inspection, these aspects of the proposal seem reasonable, as does the superannuation proposal.

Proposed Contingent Project

SAPN has also proposed a contingent project that they describe as follows:

> *“SA Power Networks proposes to include proposed contingent capex in its distribution determination for the 2020-25 RCP, which it considers is reasonably required for the purpose of undertaking the proposed contingent project in response to new or altered requirements, directions or other obligations placed on SA Power Networks by AEMO in order to comply with AEMO's responsibility to maintain security of supply within South Australia. From hereon we refer to this as the “Electricity System Security” project.”*

The rationale for the foreshadowed contingent project is given in the chart below. It is also taken from the SAPN regulatory proposal attachment 5 and demonstrates the impact of solar PV on minimum demand. This contingent project consequently aligns well with the “network of the future” component of the future work program for SAPN, its customers and stakeholders with AEMO being a key stakeholder. The project comes with a price-tag of $79.2 million, which is substantial.

We are not yet able to comment definitively on the merits or otherwise of this “Electricity System Security” contingent project but highlight that we believe deep consumer engagement on this project will be very important, and we commit to seeking further dialogue with SAPN about this project.

Figure 5-31: Minimum demand in South Australia

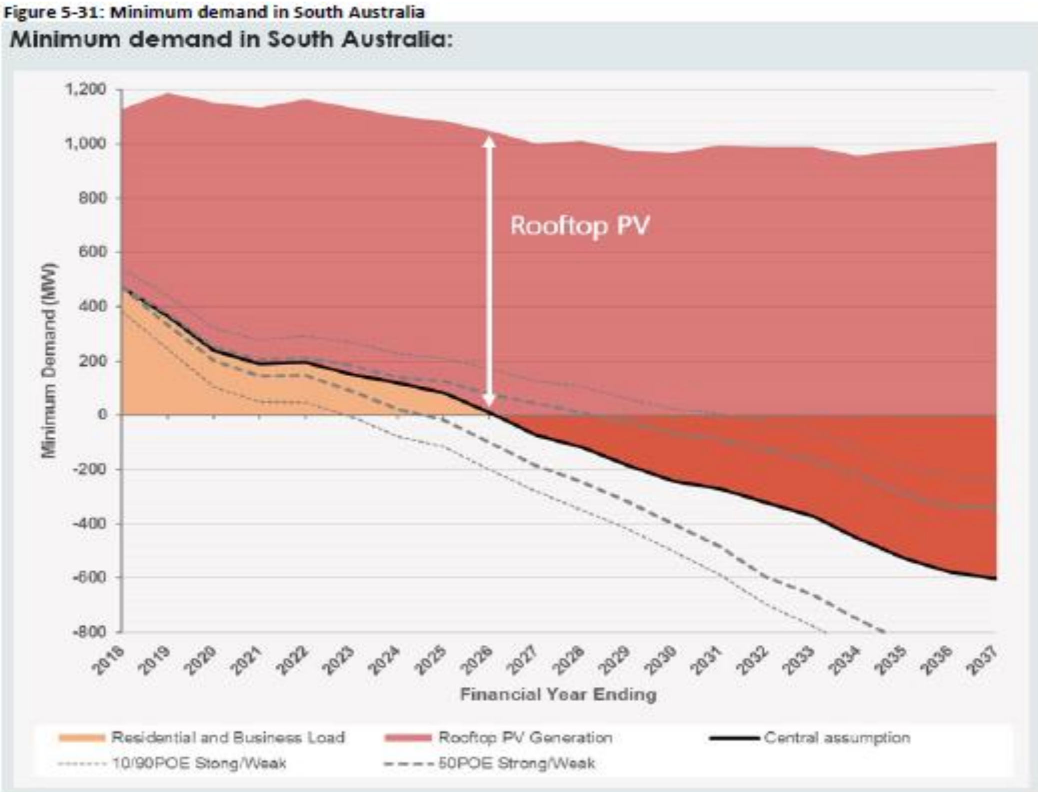
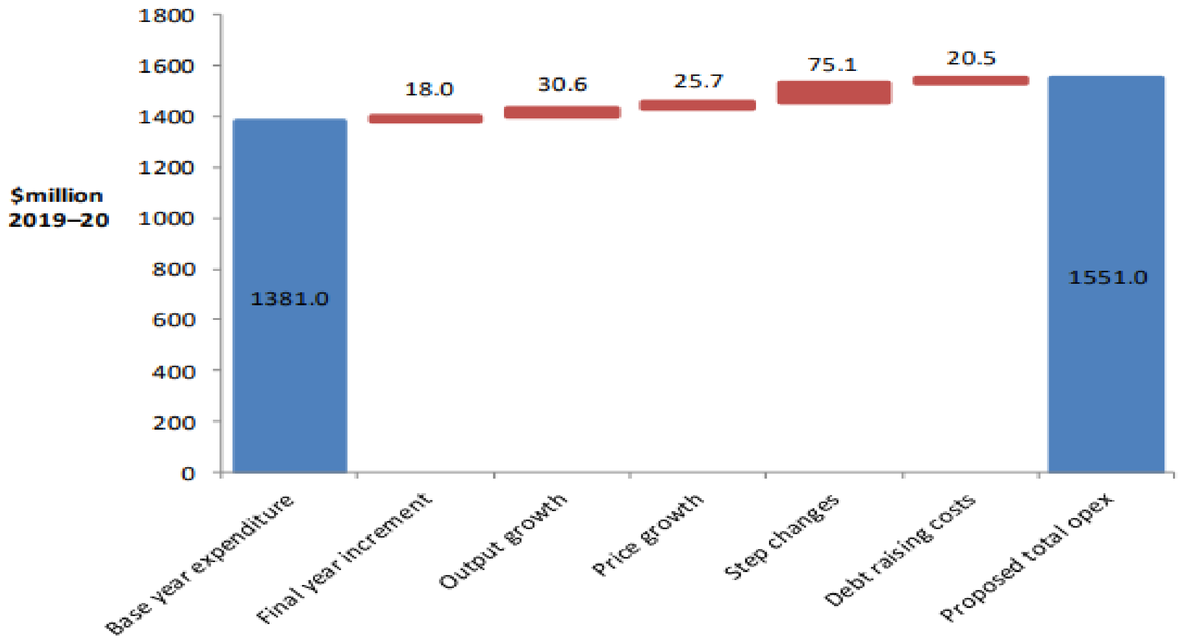


Figure 13: Source - SAPN regulatory proposal, Section 5.

OPEX

The following chart shows a summary of the major proposed changes in operating expenditure for the 2020 to 25 regulatory period, a 12% increase.



Source: AER analysis; SA Power Networks, *2020–25 Reset RIN.*

Figure 14: Source - AER Issues paper.

We note the SAPN regulatory proposal uses its draft plan as a starting point for developing their "bridge graph," a $62 million increase on the draft plan that was the subject of engagement with consumer groups and stakeholders. We are surprised that proposed operating costs increased in the regulatory proposal given the amount of debate arising from the draft plan.

We suggest, the AER analysis given above, is a more useful guide to operating cost changes as it compares regulatory periods.

The following brief comments follow the standard "base, step, trend" considerations.

Base Year

SAPN says:

> *"We have nominated the 2018/19 regulatory year as our base year. The base year must reflect a suitable foundation for the forecast opex for the 2020-25 RCP. We believe that the 2018/19 regulatory year best represents this as it:*
>
> - *will be the most recent regulatory year for which actual audited data will be available for the AER's final decision;*
> - *best reflects the future costs required to efficiently maintain and operate our network; and*
> - *incorporates the efficiency gains that we will have achieved up to 30 June 2019."*

We consider this to be non-controversial and so are prepared to accept this base year.

Proposed step Changes

The following table is taken from SAPN's regulatory proposal, attachment 6, operating costs. It lists six proposed step changes with a total value of $75 million over the length of the regulatory period.

	2020–21	2021–22	2022–23	2023–24	2024–25	Total
Cable and Conductor minor repair	14.2	13.5	13.5	13.5	13.5	68.2
Critical Infrastructure Compliance	2.4	2.4	2.4	2.4	2.4	12.1
Cloud transition—Hosting	1.0	1.2	1.6	1.7	1.8	7.2
Cloud transition—Scheduling	0.8	0.8	0.8	0.8	0.8	3.8
LV Management	–	0.4	0.9	1.1	1.3	3.8
GSL Reliability	(4.0)	(4.0)	(4.0)	(4.0)	(4.0)	(19.9)
Total	**14.3**	**14.3**	**15.3**	**15.5**	**15.8**	**75.1**

Source: SA Power Networks, *2020–25 Regulatory Proposal Attachment 6.*

Table 3: Source - SAPN regulatory proposal.

We consider step changes should only apply where there are exogenous shocks, that is new cost burdens applied from outside of the day-to-day operation of the business.

We consider that “critical infrastructure compliance” and “GSL Reliability Duration Payments” are the two-step changes that meet that criterion, with critical infrastructure compliance being imposed by the Commonwealth Government and GSL reliability relating to Essential Services Commission South Australia (ESCoSA) analysis and consequent requirements.

The other proposed changes are relevant to the day-to-day operation of the business, albeit in a changing environment, but do not meet step change criteria from our perspective.

Trend

The overarching trend for future demand for South Australia is ‘flat’ with limited growth likely in the foreseeable future, although there are a couple of large mining projects which could potentially ramp up demand in some regional locations later in the regulatory period.

The only aspect of trend expenditure that requires comment is labour price growth, with SAPN providing the following projections.

Table 6-8: SA Power Networks annual labour price growth for the 2020-25 RCP

	2020/21	2021/22	2022/23	2023/24	2024/25
BIS Oxford Economics %	1.16%	1.53%	1.72%	1.62%	1.36%
Deloitte Access Economics %	0.40%	0.60%	0.70%	0.57%	0.57%
Average labour price growth %	**0.78%**	**1.07%**	**1.21%**	**1.09%**	**0.96%**

Table 4: Source - SAPN regulatory proposal.

We are surprised at the high labour price growth projected by BIS Oxford economics particularly for the later years of the regulatory period. Given the low wage growth across the economy, shown in our figure 7, we do not consider the BIS Oxford economics projections to be reasonable for the regulatory period from the current point of view. We think that Deloitte Access economics projections are more in line with current reserve Bank of Australia projections. We consequently believe that the Deloitte Access Economics labour price growth projections should be those applied, not an average distorted by what we regard to be unreasonably high projections.

Opex Productivity

We note there was a process to consider an annual opex productivity requirement that ran parallel with the latter months of development of the SAPN regulatory proposal. This is reflected in SAPN’s regulatory proposal in their table 6.2 which provides reflection on feedback from the draft plan, that table starts as follows:

What we heard	Our Response	Evidence
Productivity Customers and stakeholders sought a productivity adjustment to be applied.	Productivity growth of 0.0% has been included in our opex forecast. (discussed further in section 6.7.3.3 below)	We have incorporated productivity growth of 0.0% for the reasons set out in our submission to the AER’s separate review and consultation process on productivity, which is currently ongoing.

Table 5: Source - SAPN regulatory proposal.

We agree with SAPN that customers and stakeholders were telling them annual productivity adjustments should be applied, and we expect the AER's decision of requiring a 0.5 annual productivity improvement will be applied.

Tax

While the SAPN regulatory proposal was being developed, the AER, encouraged by consumer groups, conducted a review of taxation arrangements for Australian energy network businesses. A new guideline has been developed as a consequence.

This guideline has the effect of reducing the SAPN tax allowance and hence decreasing their revenue by a level that they argue is greater than for their peers. We also understand part of the response SAPN has made to the new tax guideline has been to review definitions of some operating and capital cost items and realign them, having implications for other aspects of the proposal

We have not had the time to carefully consider the arguments on this vexed question and intend to obtain independent advice and work closely with SAPN and other stakeholders to consider the implications of the new tax guideline, for SAPN and their customers, in the development of the revised revenue proposal.

Tariff Structures

The SAPN Proposal includes a draft Tariff Structure Statement (TSS) that proposes a number of changes to the way households and businesses are charged for their electricity.

As part of this Energy Consumers Australia supported project, we will be preparing case studies of the impacts of these tariffs. We will use real consumption data and demographic information from past projects and real consumption data from business tariff clients of The Energy Project. These case studies will be developed with SAPN and socialised amongst stakeholders to illustrate some of the risks and opportunities for consumers.

Incentive schemes

We have not yet considered the application of the various incentive schemes and will undertake this is the coming months. We do however highlight that in keeping with their stated commitment to new energy futures, SAPN has been one of very few network businesses to fully utilise the Demand Management Incentive Allowance (see figure 15 overleaf), for which we commend their efforts.

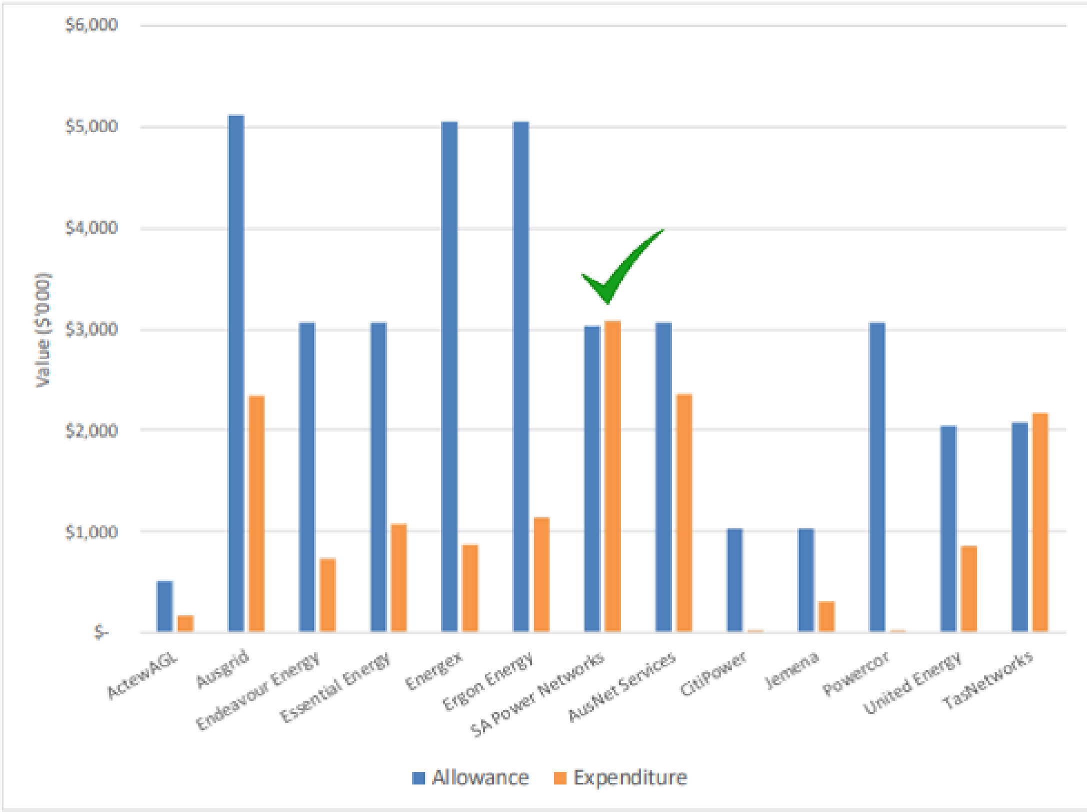


Figure 15: Source - AER DMIA 2016-17.

Concluding Comments

SAPN is moving into another regulatory period that will be dominated by rapid change and uncertainty. They are not alone in this with energy networks around the world also dealing with unprecedented energy market uncertainty. This provides an opportunity to build on the consumer engagement reflected in their graphic below to develop a pro-active future network engagement plan, working with consumer interests and other stakeholders to respond to changing markets with shared challenges and seeking shared solutions.

Figure 5.3: Future Network engagement

Figure 16: Source – SAPN Regulatory Proposal Overview.

SA is leading the World in integrating renewable energy into the electricity grid, there is no well-developed roadmap, just the opportunity for shared mistakes and shared solutions.

SAPN has identified three broad priority areas for its 2020 to 25 regulatory proposal: keep prices down, maintain reliability and safety, and transition to the new energy future.

These priorities sometimes "crash" into each other and we suggest that reliability factors may have taken some precedence over "keeping prices down." There is room for some rebalancing between these two, sometimes competing principles.

Appendix 1 Case Studies

Case Study 1: Utilities and wrongful disconnection

This case study concerns a client who first attended our service around a year ago. The client usually attends appointments with his mental health worker. He is a 26 year old man on a Disability Support Pension with mental health issues.

The client is careful with his spending and does his best to stay on top of his financial obligations, notwithstanding his limited income. One of the issues I assisted him with was his electricity account.

The focus of this case study is regarding wrongful disconnection by the provider.

The timeline of events is as follows:

I first spoke to the provider on 12 September to organise a payment arrangement under the Staying Connected program, and Centrepay deductions were set up at that time.

On 19 September 2017, I contacted the provider and they confirmed that a Centrepay payment had been received on September 14 2017. I closed the file at this point in time;

On 6 April client contacted me and said that he had received a letter from the provider threatening disconnection, and he did not understand why he was receiving these letters when Centrepay was set up on our last conversation;

On this same day, I contacted the provider and spoke to someone in complaints who informed me that it appears it had the incorrect CRN for client and this is the reason Centrepay failed. Due to the missed payments the client had been removed from the Staying Connected program. I provided the client's correct CRN number and Centrepay was again set up. The woman informed me she could not put the client into the Staying Connected program until they received 4 payments, however she said she would lock the case to herself and the client would then automatically be transferred into the Staying Connected program. She stated there was no need for me or the client to call after the 4th payment was made.

On 20 July I received a message from the client saying that his power had been disconnected and he was staying at his girlfriend's home. He booked an appointment for Monday 23 July.

On 23 July, with the client present, we called the provider and were informed that the client was not transferred into the Staying Connected program as we assured he would be, however they were still receiving $60/fortnight payments from Centrepay and his power should not have been disconnected. The man we spoke to organised for the power to be reconnected by midnight that day, entered the client into the Staying Connected program, and sent through a compensations application.

These issues with this provider caused the client a great deal of stress, particularly as he did everything he was meant to do and had no control over the situation. Sadly, during this same time the client and his girlfriend were experiencing devastating loss and grief over the stillborn deaths of their twin boys which occurred in early May.

The disconnection and problems with the provider only compounded the client's level of stress.

Case Study 2: Complex Family Needs

This is a client that had been referred by her provider as she wasn't meeting usage.

The client said she has a 13 year old daughter with severe Autism & her & her partner had given up their full time jobs to take care of her. Their only income is Centrelink Newstart & Carer's Payment. The client said that their daughter has to have 2 televisions on in the lounge room all day every day & when she goes to sleep at night needs the tv left on in her bedroom.

The client said they spend around $300 to $400 per fortnight on food for their daughter, which might mean they have gone without food so she can eat. Their daughter is still in nappies which also is an added expense.

The client can only afford $50 per fortnight on her electricity & her usage is $76 per fortnight. The client is paying $40 per fortnight on gas & usage is $41.

Do you believe the casework issue is systemic?

The client is aware of what she owes AGL but isn't able to increase payments. The client said her partner is considering getting back into employment because they are struggling financially.

How is this impacting you client?

The client isn't able to get any respite at the moment until the NDIS plan becomes active. The client said they prioritise paying rent, gas & electricity & after food's bought, there's nothing left.

Case Study 3: Help to negotiate payment plan with Energy Provider and accessing food/other ER services.

Client was transferred through to us from NDH to advocate on his behalf to electricity provider as he could no longer afford the lump sum payment he had previously agreed to when he was due to be disconnected.

Client had agreed to pay $600 on 30/07 but due to sustained unemployment knew that he was not able to meet this agreed payment and feared having his power disconnected.

He had gotten behind in this bill after voluntarily leaving his job and had expected to secure work again within a couple of weeks of doing so.

This did not happen and several months later he was still looking for work. As at time of call he was still unemployed and with no means to meet his payment to the provider.

He was on NSS and lived in private rental property on his own. No rental arrears as he stated he always ensured he paid this first even if it meant not eating.

During the course of conversation it came up that client was very embarrassed at his situation, regretted leaving his job without having secured another and because of this had been made to feel that he was lazy and unwilling to work by others in his life, which had delayed him asking for help.

He was struggling to pay rent, buy food and personal care items on his NSS payment. He advised he was currently washing his clothes in dishwashing liquid as he didn't have the money for washing powder nor could he buy deodorant. He relied on public transport to get around as he did not have a car, nor could he currently afford one.

After explaining what our services are and how we can help, I provided him with local ER services within reasonable travel distance for him to contact to get food/vouchers etc.

I explained how the fc would be able to advocate for/with him regarding his electricity provider in a non-judgemental manner and keep his electricity connected also letting him know that if was able to contact us in the future if he needed further guidance or assistance before it got to a critical point.

Do you believe the casework issue is systemic?

Yes, many people believe they will land employment or other means of financial security (i.e.: superannuation) much quicker than they actually do and don't plan for "worse case scenario" situations.

However, as is the case with this client, this becomes a learning opportunity. He confirmed he will think twice before choosing to voluntarily resign from paid employment in the future as he did not want to find himself in this situation again.

Case Study 4: Pensioner in Housing SA Unit

Living in rent assisted home, but unable to purchase food regularly, pay for her phone which is consistently cut off, and can barely afford her rent. She is paying $50 per fortnight directly out of her CentreLink to stay on top of her electricity bills. She is left with an excess of $150-$200 when her bill arrives, especially after the summer and winter period. Her consumption is normally not higher than 10-11kWh/day.

While attending this home, I noticed that this all electric Housing SA household was only being charged for Peak electricity on the bill, even though, there were two readings, and one was low enough that it indicated possible off peak consumption. After checking the meter and noticing that there were definitely two meters at the property for all residents, and as they were clearly marked M and J, the client was being charged for both at Peak pricing. We rang her retailer, and after four phone transfers, I was told that both meters were on Peak electricity only, and the bill was correct.

Not being satisfied with this outcome, I discussed my findings with a qualified Electrician that agreed with my conclusion that there must be Off-Peak electricity at this property.

We rang back the retailer, asked them to investigate again, and the first person I spoke to checked with the Distributor, who acknowledged that there is Peak and Off Peak at this property. The retailer put a hold on the current bill, and is crediting the householder back to January 2018 when she switched over to this particular retailer. We are now looking into whether she had Off Peak with her previous retailer.

Unfortunately, when I let the customer know about this, she told me she just received a notice from Housing that her weekly rent payments are increasing by $94. She is being forced to move in with her daughter, as the cost of living is too high for her to remain independent. This Pensioner is really having a hard time with the idea of not living in her own home. Although, the scenario around the Off Peak discrepancy is not common, this Pensioners living experience is very common.

Case Study 5: Mental Health and Hardship

Client has mental health concerns & is struggling to pay living costs based on the income he receives - Newstart Allowance. The client has in increasing electricity bill that is causing him stress and adding to this depression & anxiety.

Regular payments have not been made to the electricity account as the client feels he cannot afford the increasing his bill. Seasonal electricity use is high due to heating & cooling costs. Client lives in community housing and feels the lack of insulation contributes to his high electricity account.

He owes more than $2,000. This means that he is not eligible for an EEPS payment. Benevolent society options are being explored to reduce the account to below $2,000 so that an EEPS application can be made.

The client indicated he is applying for DSP, which is a long & difficult process.

System changes that may assist a case like this include

- more flexible EEPS criteria would possible assist the client
- retailer hardship arrangements that payment arrangements must be affordable even if below a person's usage
- retailer flexibility such as payment matching offered by utility providers
- laws to mandate minimum energy efficiency standards of all rental properties (public, private and community housing)

Case Study 6: Hardship and Disconnections

Mark is a single 45 year old male. He lives alone in a Housing SA property. He has been in receipt of Newstart Allowance continuously since 2012 having been unable to secure employment due to mental health.

His electricity arrears are $4568.90. He is not currently in receipt of government concessions. His energy provider had contacted client to request payment or raise disconnection.

Mark’s mental health issues meant that he ignored the bills and did not answer his telephone. The notice of disconnection was the trigger for Mark contacting UCWB for assistance. His current usage is $90pf with assistance from UCWB his provider has agreed to a short term plan of $30pf with a 3 month review. They have offered a higher discounted offer and agreed 1:6 payment matching. An application for concessions has now been made. A referral for a home energy audit to identify any excessive usage has also been made.

Earlier intervention by the energy provider, as no regular payments had been received for approximately 2 years, may have assisted to identify lack of concessions and possible government grant assistance for client.