SACOSS
South Australian Council of Social Service

# Submission to the Australian Energy Regulator on the SA Power Networks Electricity Distribution Determination 2025-30: Issues Paper

May 2024

*Submission on the AER's SA Power Networks' 2025-30 Electricity Distribution Determination: Issues Paper. May 2024.*

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## Introduction

The South Australian Council of Social Service (SACOSS) is the peak non-government representative body for non-government health and community services in South Australia, and has a vision of *Justice, Opportunity and Shared Wealth for all South Australians*. SACOSS does not accept poverty, inequity or injustice. Our mission is to be a powerful and representative voice that leads and supports our community to take actions that achieve our vision, and to hold to account governments, businesses, and communities for actions that disadvantage South Australians experiencing vulnerability.

SACOSS' purpose is to influence public policy in a way that promotes fair and just access to the goods and services required to live a decent life. We undertake policy and advocacy work in areas that specifically affect disadvantaged and low-income consumers in South Australia. With a strong history of community advocacy, SACOSS and its members aim to improve the quality of life for people disadvantaged by the inequities in our society.

SACOSS has a long-standing interest in the delivery of essential services. Our research shows the cost of basic necessities like water and electricity disproportionately impacts people on low-incomes or experiencing disadvantage. SACOSS participates and engages in regulatory processes relating to the provision of essential services to promote better outcomes for South Australian households, and to ensure people's needs are met by affordable, clean, reliable and efficient energy and water systems.

SACOSS would like to thank the Australian Energy Regulator (AER) for the opportunity to comment on the *SA Power Networks Electricity Distribution Determination 2025-30: Issues Paper*[1] (the Issues Paper). SACOSS strongly supports the AER's identification of issues and proposed assessment of SA Power Networks' 2025-30 Regulatory Proposal[2] (SAPN's Proposal), as set out within the Issues Paper.

In September 2023, SACOSS made a submission to SAPN on its Draft Proposal which we have attached to this submission. We are seeking that the AER take into consideration our submissions on the Issues Paper, in addition to our submissions made to SAPN on its Draft Proposal in September 2023 when undertaking an examination of SAPN's current proposal and the drivers of expenditure (including consumer preferences).

In the context of the current energy affordability and cost of living crisis in South Australia, and the disproportionate impact of energy costs on low-income households, SACOSS is extremely concerned about the unprecedented network expenditure increases proposed in SAPN's Proposal for 2025-30. SAPN is proposing to recover $5,164 million from its customers over 2025-30 which is 31.2% higher than SAPN's approved revenue for 2020-25,

[1] Australian Energy Regulator, SA Power Networks Electricity Distribution Determination 2025-30: Issues Paper, March 2024

[2] SA Power Networks 2025-30 Regulatory Proposal Overview, January 2024

and in real terms will result in a $335.1 million, or 7.5%, increase in revenue for 2025-30 from the current regulatory period.[3] This significant uplift includes a proposed 21.9% increase in capital expenditure (capex) and an 18.8% increase in operating expenditure (opex), coupled with a higher interest rate environment than the previous period. SAPN has stated its significant proposed increases in expenditure are being driven by:

- increased demand due to electrification
- maintaining an ageing network
- consumers' service-level preferences identified through consumer engagement.

SACOSS comments on these stated drivers in more detail within this submission, and we are calling on the AER to thoroughly examine those drivers to ensure all proposed expenditure is realistic, prudent and efficient. Throughout SAPN's engagement process SACOSS has highlighted the overwhelming importance of energy affordability, particularly in light of the disproportionate impact of energy costs on low-income households and the growing inequity in the recovery of network costs due to the high penetration of roof-top solar in this State. We are not convinced SAPN's Proposal adequately addresses those concerns and we do not see affordability reflected as a driving consideration in the Proposal.

In the absence of the successful orchestration of distributed energy, South Australian low-income households, renters and others who face barriers to accessing renewable technologies like rooftop solar, will be paying disproportionately more for the network through higher levels of grid-consumption. Those households will be relying on the AER to do what it can to address the growing energy divide throughout the transition, including by ensuring SAPN recovers no more than is necessary for the safe and reliable delivery of network services in South Australia.

This submission will firstly provide some background on increasing electricity and network prices in South Australia, with our submission on SAPN's Draft Proposal providing evidence of the energy affordability crisis in this State as communicated to us by our members. This submission will then aim to address the majority of the questions posed in the Issues Paper.

In summary, SACOSS submits that:

- In the context of the current energy affordability and cost of living crisis, we are extremely concerned about the unprecedented network expenditure increases proposed in SAPN's Proposal for 2025-30, resulting in a 7.5%, increase in revenue (from the current regulatory period) to be recovered from consumers in 2025-30.
- In our view, the significant increases in capital and operating expenditure proposed for 2025-30, do not reflect the affordability or equity concerns raised by SACOSS over the past two years.

[3] Australian Energy Regulator, SA Power Networks Electricity Distribution Determination 2025-30: Issues Paper, March 2024, p. 5

- We acknowledge SAPN has identified 'affordable and equitable energy supply' as a key theme arising from its engagement, but SACOSS does not see evidence of affordability reflected as a driving consideration in the Proposal.
- SACOSS is very supportive of the AER's initial assessment of SAPN's Proposal and the key areas of consideration identified by the AER for in-depth review as set out in the Issues Paper (50%-60% of capex and just over 10% of opex).
- SACOSS is generally comfortable with the AER undertaking a high-level review of SAPN's proposed depreciation and tariff schedule.
- We do not believe SAPN's 'price stability' narrative has merit. We consider the 'depreciation cliff' and the expiry of the State Government's premium Feed-in-Tariff Scheme in 2028 are irrelevant factors in a consideration of the services and expenditure required by SAPN to deliver network services at least long-term cost to consumers. We believe these factors do not address affordability concerns, are outside of what should properly be considered by SAPN when proposing expenditure to meet the expenditure objectives, and do not represent an opportunity for SAPN to increase its expenditure to levels that maintain current network bill impacts.
- We are calling for the AER to place greater weight on identifying opportunities for price decreases for South Australian households, rather than balancing out expenditure increases for the business.
- We are seeking that the AER provide deeper analysis of forecast grid-delivered electricity demand as a driver of expenditure in the Draft Determination.
- We have serious reservations around whether SAPN's consumer engagement has delivered a consumer-centric proposal.
- We believe consumer engagement should be approached as an 'eco-system' where all feedback (including consumer, consumer stakeholder, stakeholder and Consumer Challenge Panel) plays a role.
- We do not believe SAPN's Final Proposal adequately addressed SACOSS' affordability submissions on the Draft Proposal, or the submissions of the South Australian Government on affordability and cost of living pressures. SACOSS has serious concerns about SAPN's approach to 'averaging' submissions on its Draft Proposal. We do not consider this important stage in SAPN's engagement process should have been reduced to a quantitative exercise.
- We agree with the observations of CCP30 and the Consumer Advisory Board in relation to the limitations of framing the engagement using three scenarios (Basic, Maintain and New Value).
- We strongly support the AER applying the *DER Integration Expenditure Guidance Note* in undertaking an analysis of the proposed 'economic benefits' of increasing (or decreasing) export capacity for solar households.
- The proposal to introduce export tariffs is a welcome move from SAPN and represents a positive step forward in the equitable distribution of network costs.

## Energy prices and network charges in South Australia

From 1 July 2023, South Australians experienced dramatic energy price increases for both standing offer and market offer customers. Notably, SACOSS' Cost of Living Snapshot for the March Quarter 2024 shows the Annual Consumer Price Index (CPI) Increase for electricity in Adelaide was 13.5%, compared to a National increase of 2% (see Figure 1, below).[4] This represents a significant disparity between National price trends and the CPI for electricity in Adelaide over 2023-24. For the March Quarter 2024, the CPI for electricity continued to rise in Adelaide (by 1.1%), while it dropped across the country by -1.7%.

| **Essential Commodities** | **March Quarter CPI Increase** | | **Annual CPI Increase** (March 2023 – Mar 2024) | |
|---|---|---|---|---|
| | **Adelaide %** | **Australia %** | **Adelaide %** | **Australia %** |
| Food | 0.8 | 0.9 | 3.6 | 3.8 |
| Fruit and Vegetables | 2.2 | 2.5 | 0.7 | -0.2 |
| Housing | 1.2 | 0.7 | 7.3 | 4.9 |
| Rent | 2.2 | 2.1 | 6.4 | 7.8 |
| Utilities | 0.9 | -1.4 | 10.7 | 1.6 |
| • Electricity | 1.1 | -1.7 | 13.5 | 2.0 |
| • Water | 0.0 | 0.0 | 3.9 | 5.7 |
| • Gas | 0.6 | -1.5 | 4.9 | -2.3 |
| Health | 1.9 | 2.8 | 4.1 | 4.1 |
| Transport | 0.0 | 0.5 | 3.8 | 3.6 |
| • Petrol | -1.9 | -1.0 | 5.2 | 5.2 |
| **CPI All Groups** | **0.7** | **1.0** | **4.3** | **3.6** |

**Figure 1: Cost of Living Snapshot: March Quarter 2024. Source: SACOSS, 2024[5]**

The ACCC's December 2023 *Inquiry into the National Electricity Market Report*[6] analysed retailers' pricing data which collectively applies to over 5 million residential customers and 400,000 small business customers in the NEM, providing pricing information current up to August 2023. The ACCC found that effective prices were considerably higher in 2023, with South Australians facing the highest prices in NEM regions (Figure 2, below).

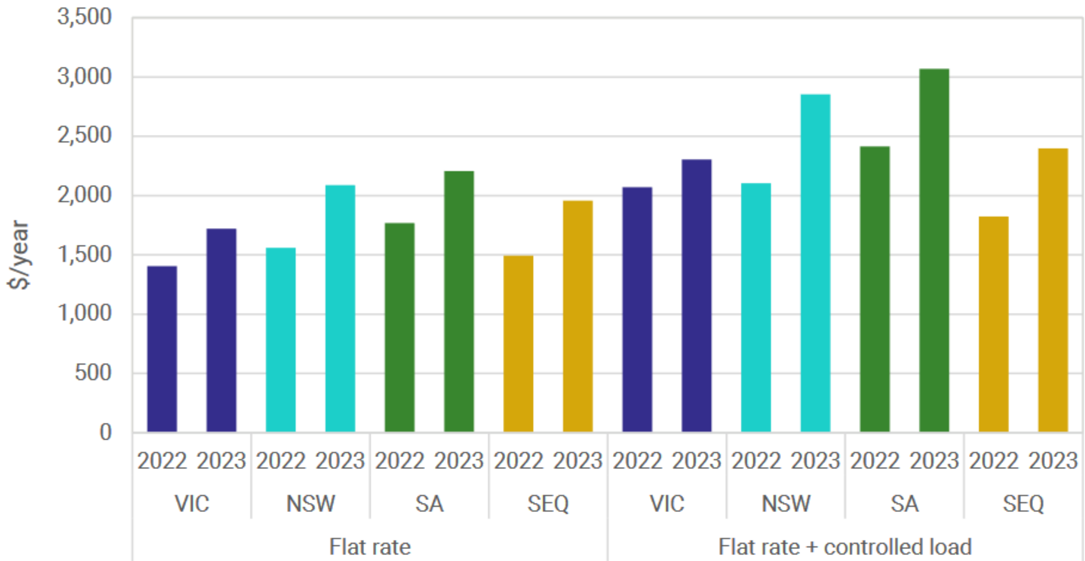
[4] SACOSS, Cost of Living Snapshot: Consumer Price Index – March Quarter 2024

[5] SACOSS, Cost of Living Snapshot: Consumer Price Index – March Quarter 2024

[6] ACCC, Inquiry into the National Electricity Market Report, December 2023

**Figure 3.1 Prices are considerably higher for customers on flat rate market offer plans in 2023**

*Customer-weighted average unconditional annual price, residential customers by tariff type and year, all regions, nominal, GST inclusive.*




*Customer-weighted average unconditional annual price, small business customers on flat rate tariffs by year, all regions, nominal, GST inclusive.*

**Figure 2: Residential customers paid higher effective prices in 2023. Source: ACCC, December 2023**[7]

The ACCC also sought information on the components that make up retailers' costs to supply electricity for the period of 1 July 2022 to 31 June 2023, including information on '*wholesale, network, environmental and retail costs, and margins, as well as revenues, customer usage, customer numbers and other financial information*'.[8] In addition to finding that South Australian energy consumers paid the highest effective price for electricity in the NEM, the ACCC's analysis also shows South Australians paid the highest c/ kWh for network costs (17.3 c/kWh compared to a NEM average of 12.9 c/kWh), and the highest percentage of network costs (transmission and distribution) at 49% of the cost stack (Figure 3, below).

[7] ACCC, Inquiry into the National Electricity Market Report, December 2023, p. 45

[8] ACCC, Inquiry into the National Electricity Market Report, December 2023, p.15

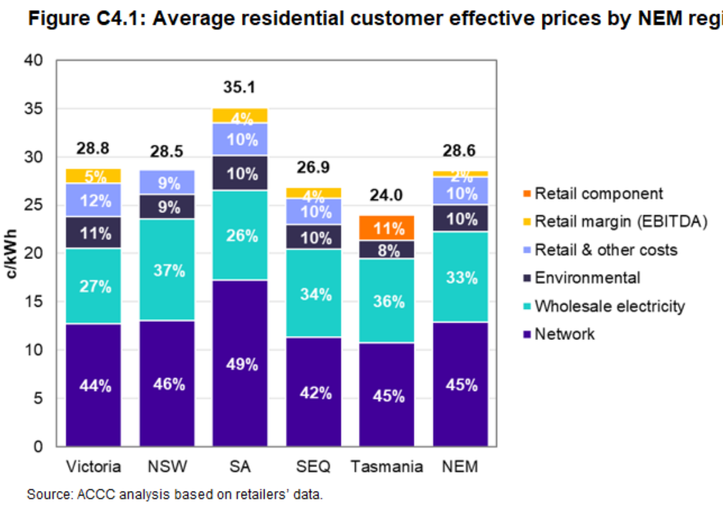



**Figure 3: Average residential customer effective prices by NEM Regions 2022-223. Source ACCC, 2023[9]**

Whilst analysis of distribution network costs vary, the ACCC's December 2023 Report shows Distribution Network costs per customer as at 2022-23 in South Australia were $538, nearly $30 above the NEM average of $509, and $107 higher than Victoria:

**Supplementary Table C5.1b**

Residential Customers - Distribution costs, real $2022–23, excluding GST

| $/customer | Victoria | NSW | SA | SEQ | Tasmania | NEM |
|---|---|---|---|---|---|---|
| 2017–18 | 477 | 651 | 570 | 692 | 657 | 596 |
| 2018–19 | 458 | 645 | 596 | 649 | 714 | 586 |
| 2019–20 | 486 | 615 | 663 | 664 | 767 | 594 |
| 2020–21 | 449 | 592 | 613 | 565 | 713 | 551 |
| 2021–22 | 424 | 599 | 584 | 533 | 758 | 539 |
| 2022-23 | 431 | 566 | 538 | 480 | 599 | 509 |

**Figure 4: Residential Customers - distribution costs real 2022-23. Source, ACCC 2023[10]**

The AER's *2024-25 Annual Pricing Proposal*[11] published in May 2024 saw an increase of $51 for 'average annual' distribution network charges for South Australian households for 2024-25, increasing from $516 in 2023-24, to $567 in 2024-25. Including transmission charges, South Australian households will be paying (on average) $71.45 more for network services in 2024-25 (Figure 5, below).

[9] ACCC, Inquiry into the National Electricity Market Report, December 2023, Appendix C

[10] ACCC, Inquiry into the National Electricity Market Report, December 2023, Appendix C

[11] AER, Statement of Reasons, SA Power Networks 2024-25 Annual Pricing Proposal, May 2024

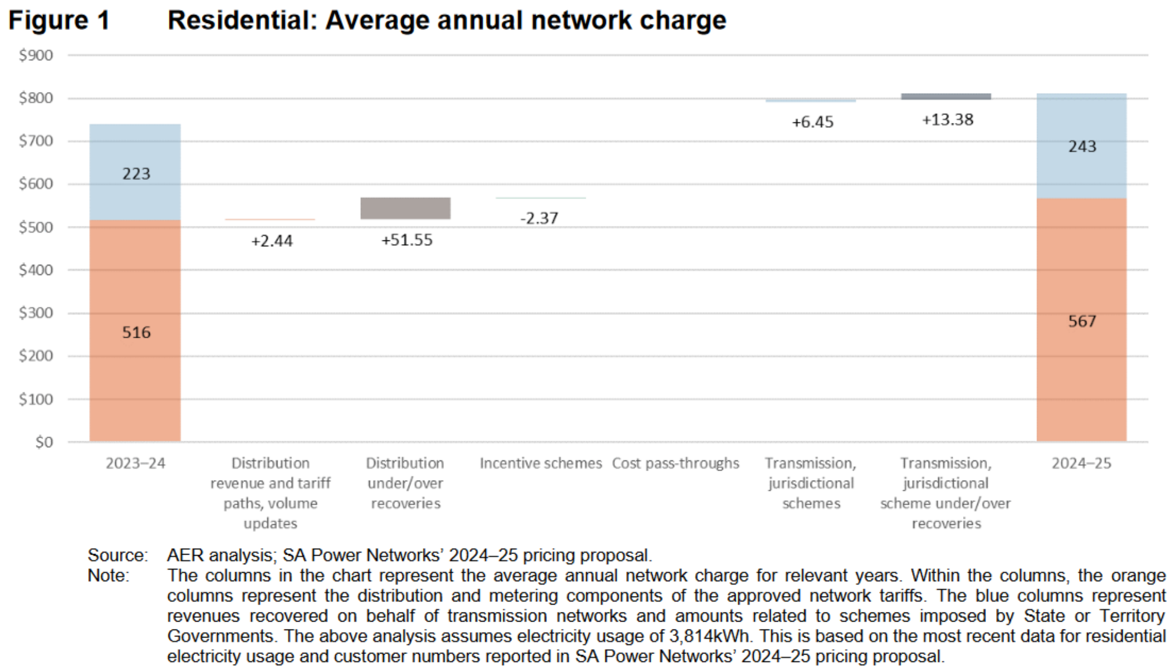



**Figure 5: Residential Average Annual network charge. Source: AER, 2024[12]**

The AER's estimate of network costs for the Default Market Offer 2024-25 calculations largely reflects the Pricing Proposal, with the network cost component increasing by $82, or nearly 10% for 2024-25 from 2023-24 levels.[13]

Notably, the AER's Default Market Offer 2023-24 for standing offer customers in SA increased by 24% [14] on 2022-23 levels, and the Draft Determination for 2024-25 only shows a small 2.5% decrease in the regulated offer[15] (even with affordability considerations prioritised by the AER), pointing to a stabilisation of standing offer prices at high levels for 2024-25.

SACOSS considers the increase in network charges for 2024-25 will contribute to energy affordability and energy security concerns for low-income South Australian households at a time of extreme cost of living pressure. Also, due to the 'averaging' of usage and charges, the $71.45 increase is likely to underrepresent the actual bill impact on households that do not have access to renewable technologies; including renters and people on low-incomes. Given that network revenue is recovered from households through grid consumption, the AER's analysis of 'average' residential grid electricity usage of 3,814kWh is likely to be much lower than the energy consumed from the grid by non-solar households (particularly larger

[12] AER, Statement of Reasons, SA Power Networks 2024-25 Annual Pricing Proposal, May 2024

[13] AER, Default Market Offer 2024-25 Draft Determination, 19 March 2024, p. 16

[14] AER, Default Market Offer prices 2023-24: Final Determination, p.6

[15] AER, Default Market Offer 2024-25 Draft Determination, 19 March 2024

households). South Australia's average residential grid consumption is impacted by the reduced grid consumption of (the estimated) 40% of households who are able to access energy from behind the meter.[16] Importantly, SAPN is predicting more than 60% of homes will have rooftop solar by 2030,[17] increasing the energy divide and amplifying the need to ensure network costs are as low as possible into the future.
SACOSS is deeply concerned about the continued use of 'average' usage to determine bill impacts and the DMO. There is no longer an average annual grid-consumption / usage amount for households in South Australia due to the significant and increasing per-capita penetration of rooftop solar. We have been calling for public reporting of solar, non-solar and solar with battery consumption data from distributors to gain a clearer picture of the inequitable distribution of network costs in this State. This information is essential to address equity concerns throughout the transition. Households unable to access energy from behind the meter consume more energy from the grid and are paying disproportionately more for the network than is depicted in the AER's (and SAPN's) analysis, with those households also more likely to be paying a higher percentage of their income on regressive energy costs. Notably, California has acknowledged this inequitable recovery of network costs, and has introduced income-graduated fixed charges in an attempt to ensure that overall systemwide costs are equitably distributed.[18] In the absence of pricing reform in Australia, this inequitable distribution of network costs places even greater importance on the need for the AER to ensure SAPN spends no more than is necessary to deliver network services.

Increasing energy bills represent a significant cost of living issue for South Australian households – electricity is essential to life and wellbeing, and many households are unable to reduce their usage, adding to the increasing unaffordability of energy. SACOSS has consistently highlighted the regressive nature of electricity bills and the disproportionate impact on low-income households, as demonstrated in research from Energy Consumers Australia and the CSIRO.[19]

[16] Australian Government, Clean Energy Regulator, Small-scale installation postcode data updated on 19 April 2024 shows 400,434 households have installed a 'small generation unit -solar' in South Australia.

[17] SA Power Networks 2025-30 Regulatory Proposal Overview, January 2024, p. 50

[18] Energy Institute at HAAS, Reality checking California's Income-Graduated Fixed Charge, 13 May 2024 and

[19] ECA & CSIRO, 2023, *Stepping Up: A smoother pathway to decarbonizing homes*

## The Early Signal Pathway

**Questions on the ESP**

1) What are your views on the scope of our in-depth targeted review for SA Power Networks'? Are there any other aspects of the proposal that require an in-depth review?
2) Are stakeholders comfortable with the AER undertaking a high-level review of SA Power Networks' proposed depreciation and tariff schedule?
3) Do you consider that we should accept parts of SA Power Networks' proposal at the draft determination stage? If so, what areas?

**What are your views on the scope of our in-depth targeted review for SA Power Networks'? Are there any other aspects of the proposal that require an in-depth review?**

SACOSS is very supportive of the AER's initial assessment of SAPN's Proposal and the key areas of consideration identified by the AER for an in-depth review as set out in the Issues Paper (50%-60% of capex and just over 10% of opex), to ensure the significant increases in proposed spending are realistic, prudent and efficient.

**Are stakeholders comfortable with the AER undertaking a high-level review of SA Power Networks' proposed depreciation and tariff schedule?**

SACOSS is generally comfortable with the AER undertaking a high-level review of SAPN's proposed depreciation and tariff schedule. We acknowledge SAPN's efforts to design an equitable export tariff for inclusion in the proposal, and we also acknowledge SAPN's intention to soften the impact of default Time of Use (ToU) network tariffs for smart meter households by reducing the peak period.

That said, there are broader issues that must be addressed by the National Energy Market Bodies as a matter of priority around the assignment of existing smart meter customers to a ToU retail tariff by retailers in South Australia.

In effect, SA households with smart meters are being transferred to a ToU Plan by their energy retailer, with:

- no consent
- no advanced notification
- no education on peak / off-peak or solar sponge tariffs
- no information on the need to change energy use patterns, and
- no option to choose a flat rate tariff (if that suits the household).

The most recent AER data for Q2 2023-24, shows that in SA:

- 89.95% of AGL's smart meter customers in SA are on a time of use tariff

- 97.7% of Alinta's smart meter customers in SA are on a time of use tariff
- 99.9% of Origin's smart meter customers in SA are on a time of use tariff

It is often impossible for households (particularly households with children / carers) to shift energy use patterns to the low tariff window between 10am and 3pm. These households face peak electricity tariffs between 3pm and 1am, and 6am to 10am (14 hour peak period); the times when most family members are home and busy with cooking, washing, homework etc. Low-income households are also less likely to have smart appliances that would enable them to set times for operation during off-peak periods in advance.

These issues have been raised by SACOSS for several years, and are more pressing now given the accelerated smart meter roll-out taking place between 2025-2030. Unfortunately, the policy to move towards cost-reflective network tariffs by both the Australian Energy Market Commission (AEMC) and the AER has resulted in an unfair outcome at a household level, with many households experiencing significant bill shock associated with a lack of awareness of time of use tariffs and an inability to change usage patterns. SACOSS considers a theoretical analysis of network tariff structures is insufficient to properly understand the impact of retail tariffs based on these structures at a household level. We know that some households are facing peak rates of 78 cents per kWh for 14-hour peak periods, and we also know the 'real world' impacts of these extremely high rates have not been modelled by the networks when developing network tariff design, even though retail tariff changes are a direct consequence of the ToU network tariff policy.

SACOSS will continue to point to the unfair impact of mandatory ToU retail tariffs on households in this State, and to call for reform. In line with recommendations from the ACCC's *Retail Electricity Pricing Inquiry Report* from 2018,[20] SACOSS is calling for retailers to be required to retain a choice of flat rate tariff, and also for explicit informed consent to be obtained prior to any changes to an existing customer's payment structure and charges (or reversion to a fair and efficient DMO in the absence of consent).

We refer the AER to the following submissions by SACOSS on the impact of ToU retail tariffs in South Australia:

- Submission to South Australia's Green Paper on the Energy Transition, August 2023
- Submission to the AEMC on the Review of the Regulatory Framework for Metering Services: AEMC Draft Report, 9 February 2023

Additionally, SACOSS is seeking confirmation from the AER on the exact cost drivers of network expenditure underpinning the ToU tariff structures. We are repeatedly told that

[20] ACCC, Retail Electricity Pricing Inquiry – Final Report, June 2018, Recommendation 14 p. xix

peak periods drive network expenditure, but we can also see that residential network grid consumption is predicted to reduce through to 2033.[21] Are the network expenditure drivers related to increased solar generation during the day, or increased peak usage? How much expenditure is actually being driven by peak usage? What existing capacity does the network have to deliver electricity at peak periods? Is this demand capacity being exceeded and does this capacity constraint and associated costs justify the application of default ToU tariffs to all households in this State?

**Do you consider that we should accept parts of SA Power Networks' proposal at the draft determination stage? If so, what areas?**

Given SACOSS' broader concerns with the validity of the stated drivers of expenditure (particularly demand and consumer preferences), coupled with our overriding concerns around affordability issues not being substantively addressed by SAPN in the Proposal, we would not be comfortable with the AER accepting elements of the expenditure proposal at the Draft Determination stage.

## Key Drivers of Proposed Revenue

> **Question on key drivers of proposed revenue**
>
> 4) What are your views regarding the merits of SA Power Networks' price stability narrative and do you think there is an opportunity to decrease prices?

**What are your views regarding the merits of SA Power Networks' price stability narrative and do you think there is an opportunity to decrease prices?**

As noted in the Issues Paper, SAPN has consistently presented the narrative that proposed increases in network expenditure and revenue will be offset by several external factors, allowing SAPN to increase expenditure whilst managing 'affordability and equity considerations'.[22] SAPN's stated external factors include:[23]

- a reduction in depreciation as some assets will reach the end of their economic lives and become fully depreciated within the 2025–30 period
- the expiry of the SA Government's premium feed in tariff in June 2028 reducing the overall retail bill
- forecast increases in network energy throughput (or volume) dampening the need for price increases.

[21] AEMO, South Australian Electricity Report, November 2023, p. 23

[22] SA Power Networks, 2025-30 Draft Regulatory Proposal, launched 26 July 2023, p. 6

[23] Australian Energy Regulator, SA Power Networks Electricity Distribution Determination 2025-30: Issues Paper, March 2024, p. 5-6

As outlined in our submission to SAPN on its Draft Proposal, SACOSS does not consider SAPN's 'price stability' narrative has any merit, and we refer the AER to our previous submissions on this point (attached). [24] SACOSS does not support SAPN's plan to use external factors to offset the impact of increasing network expenditure and costs to consumers. SACOSS strongly submits the 'depreciation cliff' and the expiry of the State Government's premium FiT Scheme are not relevant factors in a consideration of the expenditure required by SAPN to deliver network services at least long-term cost to consumers, and the demand narrative requires thorough investigation by the AER having regard to AEMO's grid-delivered electricity forecasts in South Australia.

A fully depreciated asset means that consumers have paid for that asset, it does not necessarily follow that the asset needs to be replaced or augmented – that will depend on the nature and condition of the asset. The asset may be at the end of its economic life, but that does not equate to it being at the end of its physical life. The reduction in depreciation represents an opportunity for South Australian households (having fully paid for the assets) to receive the benefit of reduced network costs, it does not represent an opportunity for SAPN to increase expenditure outside of what is prudent and efficient, especially in the context of the current energy affordability crisis.

SACOSS has consistently and repeatedly expressed our concern about SAPN's use of the 2028 expiry of the State Government's Feed-in-tariff Scheme in all engagement materials dealing with 'average annual distribution bill impacts' for 2025-30. We have set out these arguments in our submission to SAPN on its Draft Proposal (attached). To be clear, the SA Government's premium feed in tariff can in no way be characterised as a distribution network cost, it is a green scheme cost recovered through network charges. If SAPN are to refer to **retail bill** 'reductions' as a way of supporting or justifying increased network expenditure, then equally relevant are the impacts of retail bill increases. We know that South Australian households have faced significant increases in wholesale retail costs (a 68% increase for the Default Market Offer in 2023-24), and will be facing increasing smart meter costs recovered from all customers through retail costs throughout 2025-30. Transmission costs are also likely to increase into the future.

Therefore, as noted in our previous submission on the Draft Proposal, of more relevance to a consideration of balancing desired service levels with the costs facing South Australian consumers in 2025-30 are several factors which are likely to put upward pressure on energy prices during that period, including:

[24] SACOSS, Submission to SA Power Networks on its Draft Regulatory Proposal 2025-30, 12 September 2023, p. 18 -21

- Transmission growth – large network investments required to support the energy transition, as flagged by the AER.[25]
- A more challenging external environment with higher interest rates and the impact on allowed rates of return.[26]
- Market volatility and increases in retail wholesale costs in South Australia, despite low wholesale spot prices and record amounts of solar PV generation.[27]
- The accelerated deployment of smart meters to commence in July 2025 and be completed by 2030, including metering costs and unknown costs to consumers associated with site remediation.[28]

SAPN has highlighted the impact of forecast increases in energy network throughput on reducing prices during the next regulatory period. The following AEMO graph on South Australia's maximum demand forecast is included in SAPN's Proposal to support the need for investment in capacity growth, as well as to support the narrative of reduced network prices in the long term:

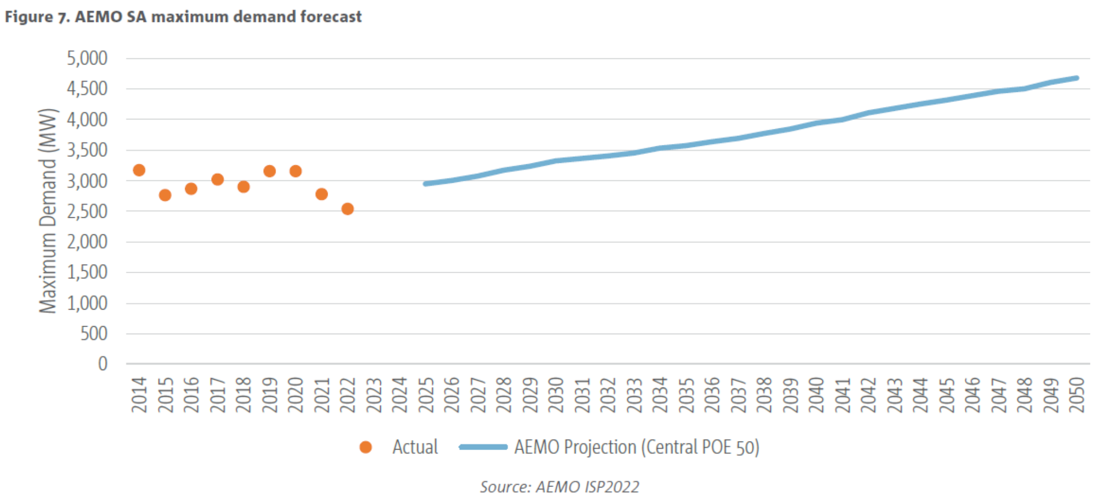



**Figure 6: AEMO Maximum Demand forecast. Source SAPN, 2024[29]**

However, what is central to the drivers of distribution network expenditure, as well as network cost recovery, is the level of grid-delivered electricity. AEMO's *SA Electricity Report* from November 2023 forecasts business 'delivered' (from the grid) energy will increase from

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[25] AER, State of the Energy Market Report 2022, p. 181

[26] AER, 2023 Electricity network performance report, p.18

[27] AER, Default Market Offer Prices 2023-24: Final Determination, May 2023, p.26 which saw South Australians experience a 68% increase in the wholesale cost component of the DMO, the largest increase of all DMO jurisdictions.

[28] SACOSS, Annual Briefing to the Minister for Energy: August 2023, pp. 21-23

[29] SA Power Networks 2025-30 Regulatory Proposal Overview, January 2024, p. 34

around 9,100GWh in 2024 to around 14,700GWh in 2033[30] (see Figure 7, below), but residential grid-delivered energy **will decline** through to 2033.

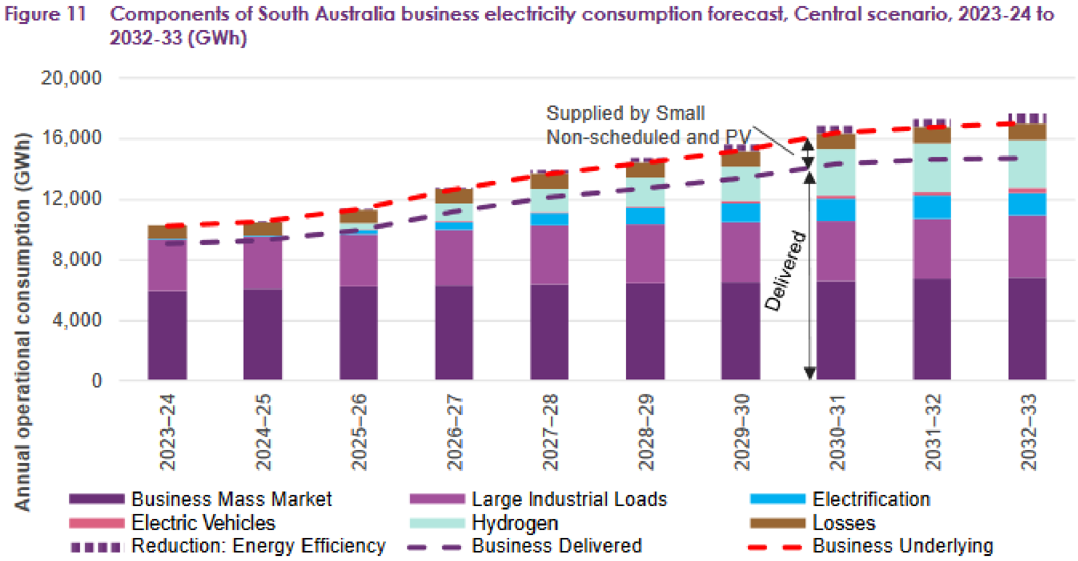


**Figure 7: South Australian business electricity consumption forecast 2023-24 to 2032-33. Source: AEMO, 2023**

SACOSS is keen to better understand the impact of increased business 'delivered' electricity on distribution network prices for residential customers in South Australia, and is seeking that the AER provide some deeper analysis on forecast grid-delivered electricity demand in the Draft Determination, with a focus on cost impacts at a household level.

Importantly, AEMO's Report forecasts a **net reduction of residential energy** delivered from the grid through to 2033 (see Figure 8, below).

[30] AEMO, South Australian Electricity Report, November 2023, p. 24

**Figure 10** presents a breakdown of residential sector electricity forecasts for South Australia. Underlying residential consumption is driven predominately by new connections growth and electrification (transport and conversion from gas appliances).

**Figure 10 Components of South Australia residential electricity consumption forecast, Central scenario, 2023-24 to 2032-33 (GWh)**

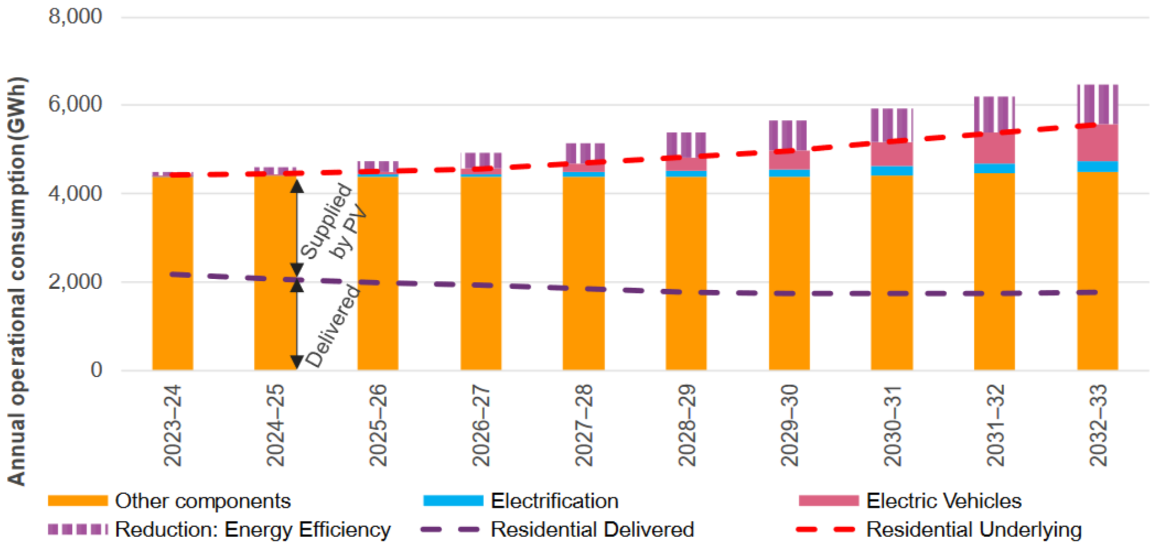


**Figure 8: Components of SA's residential electricity consumption forecast. Source: AEMO, 2023**[31]

AEMO states:[32]

> *'By 2032-33, residential rooftop PV is forecast to provide approximately 56% to 72% of underlying residential consumption, with grid-delivered electricity ranging from 1,800 GWh to 2,200 GWh across the scenarios.'*

South Australia's total forecast electricity consumption for AEMO's Central Scenario for 2023-24 to 2032-33 shows the increase in forecast operational consumption is primarily from the business sector, with increasing demand from electrification in the residential sector being met by rooftop PV, resulting in declining grid consumption at a residential level.

[31] AEMO, South Australian Electricity Report, November 2023, p. 23

[32] AEMO, South Australian Electricity Report, November 2023, p. 23

Figure 9 Forecast annual South Australia electricity consumption for the Central scenario, 2023-24 to 2032-33 (GWh)


Data source: AEMO forecasting portal, at http://forecasting.aemo.com.au/.

The forecast rise in operational consumption (sent-out) over the next decade is primarily from the business sector, while the residential sector shows a modest decline over this period due to increasing distributed PV uptake. Further breakdowns of the residential and business sector forecasts are presented in Section 2.2.2 and

**Figure 9: AEMO South Australia electricity consumption for the Central scenario. Source: AEMO, 2023[33]**

Declining residential grid consumption in South Australia through to 2033 has significant implications not only for SAPN's narrative around the need for increased expenditure to meet demand due to electrification, but also for the inequitable distribution of network cost recovery for residential customers into the future. As noted earlier in this submission, it is likely those households who face barriers to accessing renewable technologies will disproportionately shoulder the burden of paying for network system costs through grid-delivered electricity. The question of 'who pays?' is central to ensuring an equitable transition and must be at the forefront of considerations for businesses, governments and decision-makers.

SAPN's Proposal repeatedly refers to electrification and the uptake of electric vehicles as driving increasing demand[34] but, as noted above, AEMO's forecasts show at a residential level this demand is more than offset by rooftop solar (behind the meter generation). It is unclear from the Proposal whether SAPN is relying on the forecast of increasing business demand to support the need for additional investment and the long-term price reduction narrative. SACOSS is seeking that the AER thoroughly investigate the demand narrative, the likelihood of AEMO's demand scenarios, and the impact of increased business demand on residential costs given the reduction in residential demand and the predicted increase in rooftop solar generation.

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[33] AEMO, South Australian Electricity Report, November 2023, p. 22

[34] SA Power Networks 2025-30 Regulatory Proposal Overview, January 2024, p. 34

As set out in this submission and our previous submission on the Draft proposal, SACOSS has significant objections to all three of the stated 'external factors' being used to support a price stability narrative. We strongly submit this narrative should not be adopted by the AER and are seeking it is not a relevant consideration when making a regulatory determination that is in the long-term interest of South Australian consumers. We are calling for the AER to place greater weight on identifying opportunities for price decreases for South Australian households, rather than balancing out expenditure increases for the business.

As noted above, the 2025-30 regulatory period will present additional energy cost challenges for consumers associated with the accelerated deployment of smart meters, the energy transition and transmission costs, as well as higher interest rates. In addition, SAPN's significant proposed increases in capex and opex will increase energy costs for consumers in 2025-30 and into the future (through increases to the regulatory asset base). SACOSS strongly submits that any reduction in network revenue from a lower depreciation allowance should be passed onto consumers, not used to support increased expenditure.

As noted in our submission on the Draft Proposal, we know from our member organisations that a growing number of households are struggling to afford the basics right now, without facing additional cost pressures in coming years. Households should benefit from a reduction in energy prices where that opportunity is presented.

## Consumer Engagement

**Questions on consumer engagement**

5) Do you think SA Power Networks' consumer engagement meets the expectations set out in the Handbook in delivering a consumer-centric proposal? Please give examples.
6) Do you think SA Power Networks' proposal adequately captures the cost of living concerns raised by stakeholders?

**Do you think SA Power Networks' consumer engagement meets the expectations set out in the Handbook in delivering a consumer-centric proposal? Please give examples.**

SACOSS has serious reservations around whether SAPN's consumer engagement has delivered a consumer-centric proposal. Our submission to SAPN's Draft Proposal sets out our concerns with the engagement, including our concerns that the People's Panel deliberations were based on the outcomes of the Focussed Conversations, and the presentation of bill impacts to the Panel was framed within the context of SAPN's 'price stability' narrative.

SACOSS agrees with the observations of CCP30 and the CAB in relation to the limitations of framing the engagement using three scenarios (Basic, Maintain and New Value). SACOSS attended several of the Focussed Conversations and observed the 'Basic' scenario was not presented by SAPN as a plausible alternative. In addition, the participants in each focussed conversation tended to have a vested interest in the expenditure of that category, and there was little to no challenging of expenditure proposals presented by SAPN. At the end of each Focussed Conversation, participants were asked to 'vote' for their preferred scenario, which in SACOSS' view eliminated any nuance in customer preferences on the service / price balance, and constrained participants to supporting the presented 'Maintain' or 'New Value' scenarios. All the recommendations of the Focussed Conversations were presented to, and largely supported by, the People's Panel.

In relation to the depth of engagement, as outlined in our previous submission on the Draft Proposal, we are concerned the People's Panel's Final Report[35] does not adequately reflect a broader consideration of matters which are relevant to deliberations on price / service trade-offs and affordability, including:

- An appreciation of core network expenditure vs discretionary expenditure.
- Consideration of the cumulative cost impacts of the recommended expenditure and balancing expenditure between categories.
- Consideration of the long term-cost impacts for South Australian households of a significantly increased regulatory asset base as a result of recommended capital expenditure, beyond 2035.
- An awareness of the relevance of SAPN's consistent underspending below allowed revenue for capex and opex in previous regulatory periods.[36]
- Consideration of expected future increases in transmission network costs as a result of AEMO's ISP, the identified need for more transmission infrastructure to support the energy transition, and the impact of increased grid-scale renewable generation on the role of the distribution network.
- Consideration of increasing interest rates and the impact on network revenue and costs to consumers.
- The failure of increasing and excess solar PV generation to put downward pressure on retail wholesale costs in South Australia due to market liquidity.[37]
- The current cost of living crisis, and the disproportionate impact of the cost of network expenditure on low-income households in South Australia.

[35] SAPN People's Panel, Final Report – Balancing Service and Price, March 2023

[36] SA Power Networks, 2025-30 Draft Regulatory Proposal, launched 26 July 2023, Figures A24 and A25, pp. 87 - 88

[37] SACOSS, 2021-22 Briefing to Energy Minister, July 2022, pp. 10-12, and South Australian Productivity Commission*, Final Report: Inquiry into South Australia's renewable energy competitiveness*, 10 August 2022

- Different grid consumption / network bill impacts for solar vs. non-solar households.

As outlined in more detail below, we also have concerns about the role of consumer advocates and stakeholders in the engagement process, as well as significant concerns around SAPN's 'quantitative' approach to responding to submissions on its Draft Proposal, resulting in a lack of any substantive change to the Final Proposal.

**Do you think SA Power Networks' proposal adequately captures the cost of living concerns raised by stakeholders?**

Energy affordability was identified as a 'key challenge' in SAPN's Proposal Overview, but was missing from the summary of 'outcomes customers told SAPN matter', which SAPN identifies in the beginning of its Proposal Overview as including:[38]

- a reliable, resilient and safe network
- customer experience, choice and empowerment
- enabling clean energy and unlocking future values for South Australia.

SACOSS considers the absence of energy affordability from this summary fails to properly reflect the feedback from consumers, consumer advocates and stakeholders throughout the engagement process. SACOSS, the community organisations and people we represent, together with other consumer and small business representatives constantly and consistently pointed to the importance of energy affordability in balancing price / service trade-offs when developing SAPN's expenditure proposal.

In addition, SACOSS submits affordability considerations have, if anything, increased in importance to consumers since the development of SAPN's Proposal in January. SACOSS has recently conducted a range of in-person interviews with people facing food-insecurity across the State, where housing and energy costs were cited as significant cost pressures. The importance of energy affordability for Australian households was also highlighted in the CSIRO's recent Report on '*Understanding Attitudes toward the renewable energy transition*',[39] which found that energy affordability was a top-three concern for 82% of survey participants, and 64% of participants disagreed or strongly disagreed with paying more to achieve the energy transition.

Looking forward, in 2025-30 South Australian households will also be facing the likelihood of a higher interest rate environment, costs associated with the accelerated smart meter roll-out and increasing transmission costs. In this context, it is absolutely essential that South

[38] SA Power Networks 2025-30 Regulatory Proposal Overview, January 2024, p. 12

[39] CSIRO, Understanding Australian attitudes toward the renewable energy transition: Snapshot, 9 April 2024

Australian consumers pay no more than is necessary for distribution network services, and the role of the Regulator in ensuring this outcome is paramount.

As noted above, SACOSS' submission to SAPN on its Draft Proposal[40] highlighted many of the energy affordability challenges facing South Australian households, as well as the impacts of increasing energy costs on low and average-income households in this State (as communicated to us by member organisations). Importantly, we do not believe SAPN's Final Proposal adequately addressed SACOSS' affordability submissions on the Draft Proposal, or the submissions of the South Australian Government on affordability and cost of living pressures.

SAPN's Overview of its Proposal states:[41]

> '*Although responses to the Draft Proposal were mixed, all but two respondents re-affirmed their desire for us to maintain safety and reliability performance, and ensure we support the energy transition*'.

It goes on to state that:[42]

> '*Given that the **majority of responses** to our Draft Proposal largely supported the service-price balance proposed, and the People's Panel retained their recommendations, **we have seen no reason to materially alter the service-price balance proposed in our Draft Proposal***.'

SACOSS has serious concerns about SAPN's approach to 'averaging' submissions on its Draft Proposal. We do not consider this important stage in SAPN's engagement process should have been reduced to a quantitative exercise. We believe SAPN should have considered the merits of the arguments contained in the submissions, not the quantity of submissions received. We strongly submit the merits of the submissions from both SACOSS and the South Australian Government on the importance of energy affordability in shaping the service / price balance of the Proposal, were not adequately or substantively addressed by SAPN in its Final Proposal.

Similarly, SAPN's decision to adopt the recommendations of the People's Panel ('largely unchanged'[43]) fails to acknowledge or address concerns that were repeatedly raised (by

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[40] SACOSS, Submission to SA Power Networks on its Draft Regulatory Proposal 2025-30, 12 September 2023, p. 19

[41] SA Power Networks 2025-30 Regulatory Proposal Overview, January 2024, p. 16

[42] SA Power Networks 2025-30 Regulatory Proposal Overview, January 2024, p. 17

[43] SA Power Networks 2025-30 Regulatory Proposal Overview, January 2024, p. 16

SACOSS and others) throughout the length of the engagement process about the overwhelming importance of affordability and the impact of increased network expenditure on the short and long-term interest of consumers. SACOSS and other energy consumer representatives[44] submit that consumer engagement should be approached as an 'eco-system' where all feedback (including consumer, consumer stakeholder and Consumer Challenge Panel) plays a role. Direct consumer feedback is important, but so is the feedback of other consumer stakeholders, including expert perspectives on consumer interests. Both individual and wider perspectives on needs, preferences and interests should shape proposals to achieve the long-term interest of consumers. Given the framing of the Focussed Conversations, SACOSS is concerned that outside of the People's Panel recommendations, consumer representative and stakeholder feedback had little impact on the Proposal.

Importantly, as acknowledged in the Issues Paper, the AER must retain its role in assessing the prudence and efficiency of expenditure proposals driven by 'consumer preferences' to ensure all expenditure is efficient. Consumer engagement must not be viewed as a pathway to allow inefficient expenditure.  What guides the economic regulation of energy networks is the long-term interests of consumers, not consumers' needs or wants as identified by the businesses. There is significant information asymmetry between consumers and businesses, and SACOSS considers the need for simplification in the presentation of information (for example, bill impacts) can lead to the expression of consumer preferences that may not consider the full range of complexities and distributional impacts.

## Depreciation

**Question on depreciation**

7) Do you have views on whether SA Power Networks' proposed regulatory depreciation approach is capable of acceptance at the draft determination stage?

SACOSS broadly supports the AER's approach to dealing with SAPN's depreciation, noting the importance of assessing forecast expenditure to ensure the various proposed and existing asset lives remain appropriate.

[44] Public Interest Advocacy Centre, Draft Decision 2024-29 Revenue Determinations: Ausgrid, Endeavour and Essential Energy, 19 February 2024, p. 1-3

## Capital Expenditure

**Questions on forecast capital expenditure**

8) Does the proposed scope of the capex review for SA Power Networks seem appropriate?
9) Are there areas not covered above that stakeholders consider we should look at? Why?
10) Do you agree with SA Power Networks' approach of investing to provide export service levels based on customer preferences?

**Does the proposed scope of the capex review for SA Power Networks seem appropriate?**

SACOSS strongly supports the AER's assessment of the scope of the capex review for SAPN's Proposal as contained in the Issues Paper. As outlined earlier in this submission, we are seeking that the AER thoroughly examines the stated drivers for the significant (21.9%) increase in capital expenditure, including the claim of increased demand due to electrification and increasing consumer network service expectations.

Notably, the identified need to address increasing consumer service expectations does not align with SAPN's 2021 Customer survey which ranked 'reducing distribution network costs' as the top priority and ranked 'customer interface' of the lowest importance (see Figure 10, below),[45] nor does it align with the affordability narrative in circumstances where households are looking for every opportunity to reduce electricity prices (noting SAPN's Customer Research Report from 2021[46] and the CSIRO Report referred to earlier). In the current cost of living and energy affordability crisis, SACOSS' feedback from member organisations indicates households are under extreme financial pressure and are looking for opportunities to reduce costs, not pay for improved services.

[45] SAPN and Foresight, Empowering Customer Experience Transformation Research Report, 22 November 2021, p. 16

[46] SAPN and Foresight, Empowering Customer Experience Transformation Research Report, 22 November 2021, p. 16

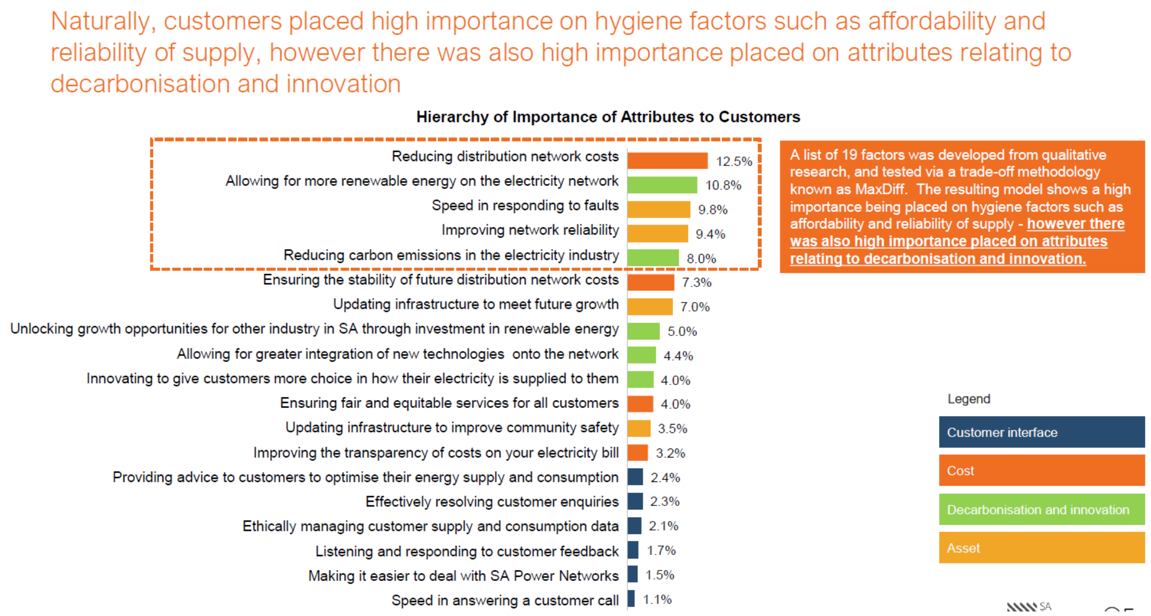


**Figure 10: Hierarchy of importance of Attributes to customers. Source: SAPN, 2021**

In relation to SAPN's entire capex program, we are relying on the AER to:

- critically analyse the stated drivers of expenditure
- delay or remove discretionary network expenditure for non-core services from SAPN's Proposal for 2025-30
- assess SAPN's risk approach underpinning much of the capital expenditure program, to ensure this approach is not overly conservative
- not approve more reliability expenditure than is necessary to maintain current levels (given ESCOSA's Draft Decision to maintain reliability levels, and the AEMC's comments about expenditure forecasts)
- consider the consistent underspending by SAPN in previous regulatory periods, ensuring customers are not paying twice for the same outcome, and
- thoroughly examine SAPN's forecasting approach to ensure the errors that resulted in the underspends are not repeated.

**Do you agree with SA Power Networks' approach of investing to provide export service levels based on customer preferences?**

We strongly support the AER applying the *DER Integration Expenditure Guidance Note* in undertaking an analysis of the proposed 'economic benefits' of increasing (or decreasing) export capacity for solar households. In an assessment of economic benefits, we are seeking that the AER take into consideration the impact of excess solar (and a peaky load) on the nature and liquidity of the wholesale contract market in South Australia, which has been identified as a significant factor in increasing wholesale prices faced by consumers in this State.[47]

As noted in our submission on the Draft Proposal, in the absence of the proposed export tariff to recover costs for CER expenditure from solar customers, SACOSS would not support expenditure for 'enabling distributed energy – export capacity' at levels of 95%, particularly given SACOSS has significant concerns about the willingness to pay research and the over-representation of solar households and under representation of renters in that study. South Australian households are yet to see the sharing of benefits from excess roof-top solar generation in lower bills, and we expect this outcome will be dependent on levels of orchestration that AEMO predicts may take 10 years.[48]

## Operating Expenditure

**Questions on forecast operating expenditure**

11) What do you think about the proposed scope of targeted review?
12) What do you think about SA Power Networks' key changes from the Draft Proposal as set out in Section 4.4.2?
13) Do you consider that SA Power Networks has adequately incorporated consumer feedback on the Draft Proposal into its Regulatory Proposal?
14) Do you consider SA Power Networks' opex forecast for the 2025–30 regulatory control period reasonably reflect the efficient costs of a prudent operator? Specifically, do you consider SAPN's proposed step changes, and base adjustment are required to produce an opex forecast that reasonably reflects the efficient costs of a prudent operator?

SACOSS strongly supports the AER's proposed scope for the targeted review of operating expenditure. We have serious concerns about the significant increases in proposed additional operating expenditure contained in the Proposal, comprising 11 step changes and two additional step changes, resulting in $128.8m in step changes over 2025-30. Overall, SAPN is seeking $1,983.7m in operating expenditure to be recovered from South Australian households over the 5-year regulatory period, representing an 18.8% increase in SAPN's actual / estimated opex for 2020-25. SACOSS submits this warrants a thorough assessment by the Regulator, particularly in light of consumer and stakeholder feedback on energy affordability and the current cost of living crisis.

[47] South Australian Productivity Commission, Inquiry into South Australia's renewable energy competitiveness: Final Report, 10 August 2022 (published 9 November 2022), p. 46 and AER, Default Market Offer Issues Paper, October 2023, p. 6-7

[48] AEMO, Electricity Statement of Opportunities, August 2023, p.4 and AER, Default Market Offer Issues Paper, October 2023, p.7

SACOSS is also concerned about the $40.4m increase in forecast opex from the Draft proposal stage, and we are seeking the AER closely examine the stated drivers and the justification for additional operating expenditure. As noted by the AER, all opex step changes should be limited, well justified and explored with consumers.

Notably, the step changes associated with the cyber security uplift were explored with consumers and not recommended at the Focussed Conversation stage (as they exceeded legislative requirements). The introduction of a small compensation scheme was also explored with consumers and not supported on the basis that it was a discretionary cost, where those costs would disproportionately fall on low-income households and there was no jurisdictional scheme in place. SACOSS understands SAPN has sought the State Government now provide for a jurisdictional small claims scheme and are waiting for that scheme to be enacted. To limit cost impacts on low-income households, SACOSS is calling for thorough monitoring and reporting of costs associated with the Scheme.

SACOSS supports the AER in examining the appropriateness of the base year, base adjustments and the justification for all opex step changes in its Daft Determination. The significant uplift in operating expenditure from previous periods calls into question the prudence of those expenditures, particularly in light of consumer sentiment around energy costs, energy equity and broader cost of living pressures. Opex has a direct impact on household bills over the regulatory period, and each expenditure should be proven to be justified, realistic, prudent and efficient.

We do not consider SAPN's current opex proposal adequately reflects the concerns around energy affordability raised by consumers and stakeholders throughout the engagement process, and are seeking that the AER only approve operating expenditure that is necessary for the delivery of network services at least long-term cost to consumers. As set out in our submission to SAPN on its Draft Proposal, at a time when every dollar counts, we are calling for the AER to take into consideration external growing cost of living pressures, to listen to the people who provide services to support the community, and to look to reduce network costs passed on to consumers in the 2025-30 period and beyond, by delaying or removing discretionary network expenditure for non-core services from SAPN's Regulatory Proposal for 2025-30.

## Incentive Schemes

> **Questions on incentive schemes**
>
> 15) Do stakeholders have feedback on the design of SA Power Networks' proposed CSIS?
>
> 16) Do you have any views on the proposed application of any of the above incentive schemes?

SACOSS does not support the introduction of an additional Customer Service Incentive Scheme, and considers ESCOSA's service standards, which SAPN are meeting, are currently sufficient and that no incentive is required.

We are keen for the AER to investigate the relationship between the Demand Management Incentive Scheme ($5.14m) and the proposed Innovation Allowance ($16m capex and $4m opex), to determine if there is any overlap between these two programs, and whether one should be funded over another. In both respects, SACOSS would expect the funded projects to be truly innovative with broader consumer benefits as an outcome, and not simply what would be expected to be part of usual prudent forward-looking business practices.

SACOSS has previously raised our objections to network businesses being rewarded with CESS payments for underspending without clear evidence of improved capex efficiency or prudent referral that contributes to the capex objectives.[49] SACOSS considers that if SAPN have committed to an activity that meets the objectives, reflects the criteria, and the expenditure has been approved by the AER, then that activity should be undertaken during that specific regulatory period.

## Tariffs

> **Question on tariffs**
>
> 17) Do you consider there are any aspects of SA Power Networks' proposed TSS that requires adjustment before our acceptance?

As previously submitted to SAPN, SACOSS strongly supports the introduction of export tariffs in the Proposal. We consider this to be a welcome move from SAPN and that it represents a positive step forward in the equitable distribution of network costs. With forecast higher penetration of roof-top solar and increased investment in transmission and distribution network infrastructure, ensuring the equitable distribution of network costs is of vital importance both now and into the future.

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[49] SACOSS, Submission to the AER on SA Power Networks Revised Proposal 2020-25, 16 January 2020, pp. 52-64

SACOSS strongly supports the introduction and future expansion of solar customer export tariffs to redress some of the inequities in network cost recovery.

In relation to default time-of-use network tariffs for smart meters customers, we refer to our broader observations and calls for reform to protect households from the impacts of mandatory assignment to retail ToU tariffs, including the unrealistic burden on households to change usage patterns, bill shock associated with increased tariffs at peak periods and unjustifiably high tariffs. The ACCC's recent Retail Pricing Inquiry Report showed unacceptable numbers of customers on ToU rates that are equal to or higher than the DMO in South Australia (See Figure 11, below).[50] These outcomes are directly linked to the policy of implementing cost reflective network tariffs and need to be addressed by the AEMC and AER.

[50] ACCC, Inquiry into the National Electricity Market Report, December 2023, p. 56

**Figure 3.6 Pricing approaches vary between retailers**

*Proportion of residential customers on time-of-use only tariffs paying equal to or more than the DMO by retailer (anonymised) and year, SA Power Networks distribution region*

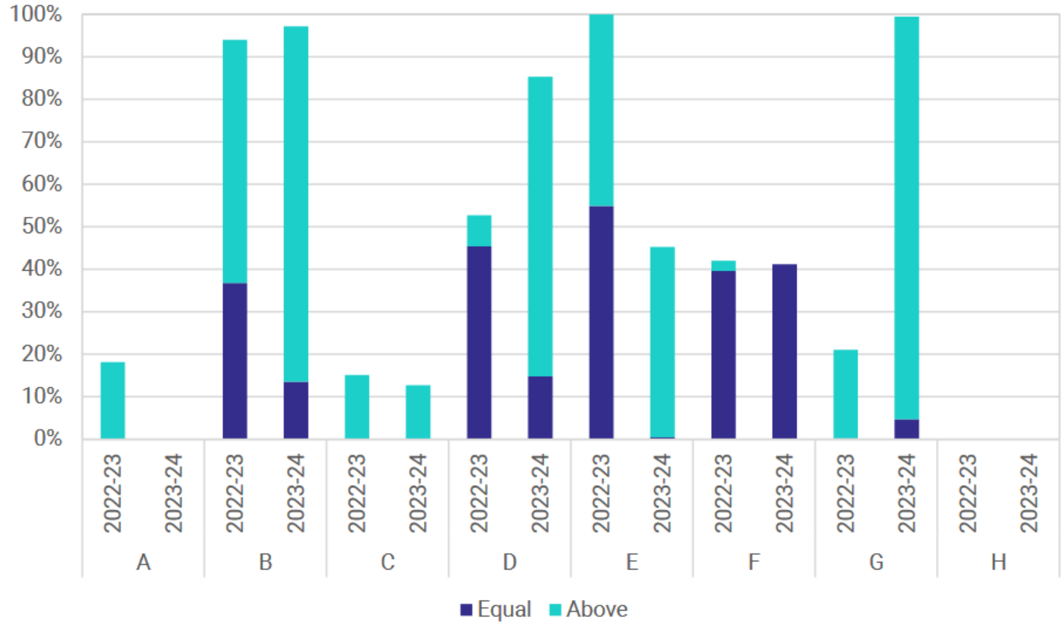


**Figure 11: Proportion of customers on ToU Tariffs that are paying equal to or more than the DMO in SAPN Region. Source: ACCC, 2023**[51]

## Metering

**Question on metering**

18) Do you consider SA Power Networks' proposed legacy metering cost recovery approach and its opex forecasts to be reasonable?

SACOSS has serious concerns about the cost implications of the accelerated smart meter roll-out for low-income households in this State. Noting that distribution network charges are only one aspect of the costs of the roll-out, we support a move to a more equitable cost recovery approach.

## Ancillary Network Services

**Questions on service offerings**

19) Do you consider that sufficient justification has been provided in the provision of new services?

20) Do you consider the proposed labour rates and fee-based prices to be reasonable?

[51] ACCC, Inquiry into the National Electricity Market Report, December 2023, p. 56

One of the changes made between the Draft Proposal and the Final Proposal was to remove expenditure associated with the Knock to Stay Connected Program ($0.3m per annum in opex),[52] and to fund this program as an Ancillary Network fee-based service.[53] SACOSS is currently seeking further information on how this will be implemented, but presumably participating retailers will be charged for the cost of SAPN delivering the service and those costs will be recovered from customers by the retailers. SACOSS has concerns about the potential flow-on cost impact on households of delivering this program on a fee-basis. The program was intended to avoid disconnections and the resultant impacts on households of living without an energy supply. The design and trials of the program saw reduced costs for retailers associated with fewer disconnections. The program was developed to assist energy customers in crisis, and SACOSS would not want to see additional cost burdens placed on those households. We are looking forward to getting clarification from SAPN on how it envisages the costs of the program will be allocated and recovered.

[52] SA Power Networks, 2025-30 Draft Regulatory Proposal, p.74

[53] Australian Energy Regulator, SA Power Networks Electricity Distribution Determination 2025-30: Issues Paper, March 2024, p. 46

# Submission on SA Power Networks' 2025-30 Draft Regulatory Proposal

September 2023

*Submission on SA Power Networks' 2025-30 Draft Regulatory Proposal. September 2023.*

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# Contents

## Introduction

The South Australian Council of Social Service is the peak non-government representative body for non-government health and community services in South Australia, and has a vision of *Justice, Opportunity and Shared Wealth for all South Australians*. SACOSS does not accept poverty, inequity or injustice. Our mission is to be a powerful and representative voice that leads and supports our community to take actions that achieve our vision, and to hold to account governments, businesses, and communities for actions that disadvantage South Australians experiencing vulnerability.

SACOSS' purpose is to influence public policy in a way that promotes fair and just access to the goods and services required to live a decent life. We undertake policy and advocacy work in areas that specifically affect disadvantaged and low-income consumers in South Australia. With a strong history of community advocacy, SACOSS and its members aim to improve the quality of life for people disadvantaged by the inequities in our society.

SACOSS has a long-standing interest in the delivery of essential services. Our research shows the cost of basic necessities like water and electricity disproportionately impact people on low-incomes or experiencing disadvantage. SACOSS participates and engages in regulatory processes relating to the provision of essential services to promote better outcomes for South Australian households, and to ensure people's needs are met by affordable, clean, reliable and efficient energy and water systems.

SACOSS would like to thank SA Power Networks (SAPN) for its continued engagement, and for the opportunity to comment on its *2025-30 Draft Regulatory Proposal*[1] (the Draft Proposal). In summary, we submit that:

- In the context of the current energy affordability and cost of living crisis, we are extremely concerned about the unprecedented network expenditure increases proposed in SAPN's Draft Proposal for 2025-30, resulting in a 25% increase in capital expenditure and 10 (potentially 12) operating expenditure step changes.
- In our view, the significant increases in capital and operating expenditure proposed for 2025-30, do not reflect the affordability or equity concerns raised by SACOSS over the past two years.
- We acknowledge SAPN has identified 'affordable and equitable energy supply' as a key theme arising from its engagement, but SACOSS does not see affordability reflected as a driving consideration in the Draft Proposal.
- We consider the 'depreciation cliff' and the expiry of the State Government's premium FiT Scheme are not relevant factors in a consideration of the services and expenditure required by SAPN to deliver network services at least long-term cost to consumers. We believe these factors do not address affordability concerns, are outside of what should properly be considered by SAPN when proposing expenditure

[1] SA Power Networks, 2025-30 Draft Regulatory Proposal, launched 26 July 2023

to meet the expenditure objectives, and do not represent an opportunity for SAPN to increase its expenditure to levels that maintain current network bill impacts.

- We are calling for SAPN to take into consideration external growing cost of living pressures, to listen to the people who provide services to support the community, and to re-examine its expenditure priorities for 2025-30 to focus on meeting core requirements, rather than progressing discretionary initiatives or investing to exceed reliability or legislative obligations.
- SACOSS is supportive of SAPN seeking allowed expenditure to maintain current core reliability and service levels, and to meet its jurisdictional and legislative obligations, and we will rely on the AER to assess SAPN's risk approach.
- The proposal to introduce export tariffs is a welcome move from SAPN and represents a positive step forward in the equitable distribution of network costs.

## Background

As part of the Regulatory Determination process, SAPN is required to submit revenue and expenditure proposals for the provision of distribution network services in South Australia to the Australian Energy Regulator (AER) for approval every five years, with all revenue recovered from South Australian electricity consumers through their electricity bills during that period. The AER is responsible for assessing how much money SAPN needs from consumers for the safe and reliable operation of its network. As noted by the AER, 'ensuring consumers pay no more than necessary for safe and reliable electricity is a vital part of the regulatory determination process'.[2]

To shape and inform its Draft Proposal for 2025-30, SAPN undertook extensive customer engagement starting in 2021 with a customer values research report,[3] and culminating in expenditure recommendations made by the 'People's Panel' in March 2023.[4] SAPN's engagement process is set out in some detail within the Draft Proposal. It was an extremely demanding and resource intensive process for all involved, and whilst SACOSS recognises the value in a comprehensive and early engagement program, we believe it is important to point out the resourcing pressures placed on consumers and consumer organisations to meaningfully participate. We therefore believe it is important for the AER and SAPN to remain open to consumer feedback throughout the entire regulatory process.

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[2] Australian Energy Regulator, SA Power Networks Distribution Determination 2020-25: Final Determination, p. 8

[3] SA Power Networks and Forethought Outcomes, Empowering Customer Experience Transformation: Research Report, 22 November 2021 as referred to and reflected in SA Power Networks' Customer Strategy 2022-26

[4] SA Power Networks People's Panel, Final Report – Balancing Service and Price, March 2023

## SACOSS' role in the engagement process

SACOSS has been represented on various SAPN reference and consultative groups throughout the majority of the engagement process. Since February 2021, SACOSS has chaired SAPN's Community Reference Group (CRG); a group of 'specialist customer representatives' from community service organisations as well as lived experience advocates, representing the interests of consumers experiencing vulnerability in South Australia.[5] As Chair of the CRG, SACOSS has been a member of SAPN's Community Advisory Board (CAB)[6] since January 2022, and from May 2022, SACOSS joined SAPN's CAB Reset Sub-committee.

The main role of the CAB is to:[7]

- Provide a forum that enables representative groups of the South Australian community and consumers to engage with SA Power Networks on priority issues and topics.
- Ensure the interests of customers are considered in decision-making.
- Provide a forum for listening, discussion and collaborative engagement with customers and stakeholders.
- Advocate for the needs and priorities of customers.
- Drive co-design with customers of services, products and processes.
- Ensure alignment with customer priorities in a rapidly changing environment.
- Build understanding and trust between stakeholders and SA Power Networks.

According to its Terms of Reference, the key role of the CAB Reset Sub-Committee is to 'provide strategic guidance and advice on SA Power Networks engagement process for its Regulatory Proposal for 2025-30 to ensure engagement is appropriate and effective with stakeholders and customers'.[8] SACOSS understands it is not the role of members of the CAB Reset sub-committee to influence the proposal, but rather to comment on SAPN's engagement strategy and process.

Over the past two and a half years, through our role as Chair of the CRG and representative on the CAB, SACOSS has provided consistent feedback to SAPN on our significant and growing concerns around energy affordability and energy equity in South Australia. We have highlighted the disproportionate impact of energy costs on low-income South Australian

[5] SAPN's Community Reference Group includes representatives from Uniting Communities, COTA SA, SA Financial Counsellors Association, Multicultural Communities Council of SA, Uniting Care Wesley Bowden, Disability and regional advocates.

[6] SA Power Networks' Community Advisory Board

[7] SEE CAB Terms of Reference, February 2022 and Talking Power Website

[8] SA Power Networks Reset Sub-committee, Terms of Reference – May 2022

households, and SAPN's role in ensuring South Australians pay no more than is necessary for the safe and reliable delivery of network services in this state. South Australians are currently experiencing an energy affordability and cost of living crisis, with electricity no longer affordable for some households, and in these circumstances, we are extremely concerned about the unprecedented network expenditure increases proposed in SAPN's Draft Proposal for 2025-30, resulting in a 25% increase in capital expenditure and 10 (potentially 12) operating expenditure step changes.

SAPN has indicated its Draft Proposal 2025-30 is seeking to 'play back' its understanding of what customers have told them over the engagement process, and to confirm that they 'have interpreted these perspectives correctly'.[9] Despite identifying 'affordable and equitable energy supply' as a key theme arising from its engagement, SACOSS does not see affordability reflected as a driving consideration in the Draft Proposal. We believe SAPN's Proposal is not reflective of the broader consumer voice at a time when South Australian households are experiencing an energy affordability and cost of living crisis.

SAPN's own research in 2021 (conducted prior to the soaring energy bill increases of the past 12 months) identified that '**reducing distribution network costs was the most important service attribute for customers**',[10] and SACOSS has consistently called on SAPN to ensure affordability is the primary, overarching priority across expenditure categories to put downward pressure on prices. We have urged SAPN to look for every saving possible to pass on to consumers to ensure that it spends no more than is necessary to deliver a safe and reliable network. The basic scenario presented throughout the engagement process (to maintain current expenditure - resulting in a reduction in distribution network costs) was not presented as a viable option by SAPN, and was instead used as a 'counterfactual' to demonstrate the service degradation that would result from maintaining current 2020-25 expenditure into 2025-30. The significant increases in capital and operating expenditure proposed for 2025-30 under the 'maintain' and particularly the 'new value' scenarios containing discretionary expenditure, do not reflect the affordability or equity concerns raised by SACOSS over the past two years.

SACOSS considers it is useful to summarise the nature of the current energy affordability and cost of living crisis facing South Australian households, including relevant data, energy prices and some of the responses from regulators, SA Water and government.

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[9] SA Power Networks, 2025-30 Draft Regulatory Proposal, launched 26 July 2023, p. 5

[10] SAPN and Foresight, 'Empowering Customer Experience Transformation Research Report', 22 November 2021. SAPN undertook over 435 hours of research, talking to or surveying over 1,270 customers and employees. The External Discovery Quantitative Phase of the study involved a 20 minute online quantitative study of 1,098 South Australian customers including 664 residential, 384 business and 50 vulnerable customers.

## Energy affordability and cost of living crisis in South Australia

**Debt and Hardship customer data - South Australia**
South Australia is currently facing an energy affordability crisis, and the future outlook does not hold much promise of relief for struggling South Australian households. The AER's *Annual Retail Markets Performance Report 2021-22* provides a picture of the experience of South Australian energy consumers to 30 June 2022, but we know prices have risen since that time, and are predicted to continue to rise into the future. SACOSS is calling on SAPN to have regard to the AER's upcoming *Annual Retail Market Performance Report 2022-23* to inform its understanding of more recent customer experience, and to influence the development of it's Final Proposal.

The AER's 2021-22 Report shows that, as at 30 June 2022:[11]

- South Australia had the highest electricity price per unit in the National Electricity Market (NEM), with wholesale costs typically higher in South Australia, and network costs above the NEM average.[12]
- the median market offer in SA was the same as the standing offer (DMO 4) of around 45 cents per kWh, the highest in the Nation. In 2020-21, the median market offer in SA was around 36 cents per kWh, where the standing offer was around 42 cents per kWh. [13] This represents a 25% increase in the median market offer in SA over the 12 months to 30 June 2022, and we know prices have continued to increase exponentially since that time.
- In terms of affordability (calculated on the basis of the AER's Pricing and Affordability methodology), SA has the second most unaffordable energy behind Tasmania, this is despite SA having amongst the lowest average household electricity usage in the Nation (4,526 kWh), compared to Tasmania, which has a much higher average annual electricity usage of 8,393 kWh.
- Electricity in SA in 2021-22 was more unaffordable than the previous year, with low-income consumers spending 5% of their disposable income on electricity, compared to around 2% for average income consumers.
- Importantly, it is estimated that hardship households in SA use 73% more energy than the average SA households (7,830 kWh average annual hardship household usage, compared to 4,526 kWh for average households). Which means energy is more unaffordable for hardship households in SA, at around 8% of disposable income. [14]

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[11] Australian Energy Regulator, Annual Retail Markets Report 2021-22, November 2022, p.31-45

[12] Australian Energy Regulator, Annual Retail Markets Report 2021-22, November 2022, p. 35

[13] Australian Energy Regulator, *Annual retail markets report 2020-21*, November 2021, p. 33

[14] Australian Energy Regulator, Annual Retail Markets Report 2021-22, November 2022, p. 129

AER's most recent Retail Performance data from Q3 2022-23 shows increasing numbers of customers repaying energy debt, and high debt levels across all indicators, clearly demonstrating an energy affordability crisis in South Australia:

- the number of customers repaying energy debt has increased from 22,331 in Q1 2022-23 to 27,561 in Q3 2022-23 (an increase of 23.4% in 6 months). This is slightly above the 22.4% increase in the number of customers repaying energy debt seen Nationally from Q1 2022-23 to Q3 2022-23 (increasing from 154,300 to 188,969).
- South Australia has the largest average residential energy debt (of customers not in a hardship program) in the NEM. The average debt of residential customers in SA is now $1,227, $228 above the National average. This represents an increase of $183 in the average amount of residential energy debt in SA from 2018/19 (pre-pandemic) levels.
- Average debt on entry into hardship programs in Q3 2022-23 was $1,727 (highest after Tasmania), and $471 above the national average of $1,256. However, the average debt on entry to hardship programs in SA has reduced by $610 from $2,337 in the 12 months since Q3 2021-22, which may point to retailers being more proactive in providing hardship supports in this state.
- Average debt of hardship customers has increased significantly from pre-pandemic levels - in Q3 2022-23 the average debt of a SA hardship customer was $2,535 – the highest in the Nation (overtaking Tasmania), up $672 from $1,863 in 2018-19, and $664 above the national average of $1,871. Average debt of hardship customers has increased by 7.2% in 12 months since Q3 2021-22 up from $2,364 to $2,535.
- 2,965 customers were disconnected for non-payment in SA over the 12months to Q3 2022-23, this is still well below pre-pandemic levels of 10,317 (or 1.33%) of customers disconnected in 2018-19. SA was above the National average of customers disconnected in 2021-22 (.56% as compared to .43% of customers).
- The number of customers on payment plans in SA increased by 276 in three months, from 15,473 or 1.9% of customer in Q2 2022-23, to 15,749 or 2.0% of customers in Q3 2022-23, but is still well below pre-pandemic levels (down from 2.7% of customers in 2017/18).
- Hardship customer numbers in SA increased by 453 (or 3%) in three months from 15,749 in Q2 2022-23 to 16,202 in Q3 2022-23, just slightly above pre-pandemic levels of 15,933 (or 2.05% of customers) in 2018-19.
- In total, the percentage of smart meter customers in SA on a time of use or flexible tariff, with an underlying distributor-based time of use or flexible network tariff, has increased from 52.3% 12 months ago, to 79.9% in Q3 2022-23.

The pressure to provide supports for people who are struggling to meet rising costs of living and energy costs is being felt across the community services sector, with calls to the National Debt Helpline in South Australia increasing by 25% in the past 12 months. Uniting Communities has also seen a 12.5% increase in the number of people seeking Emergency

Assistance services between June – August 2023. Notably, 45% of people seeking emergency assistance were new clients to the service, 74% of emergency assistance requests were for food, and there was a 10% increase in the number of people reporting they were homeless.

Between January and June 2023, 49% of people engaging with Uniting Communities Financial Inclusion program were seeking assistance with the cost of utilities and essential services – an 18% increase on the previous year. Uniting Communities have identified a notable shift in the proportion of clients seeking assistance with their financial well-being that either own or are paying off a mortgage - in 2022, only 5.3% of clients reported owning or paying off a mortgage, but in 2023 this percentage has increased to 16%.

Recent broad surveys show 53% of respondents were extremely concerned about electricity bills,[15] and Uniting Communities are constantly hearing about the strategies South Australian households are using to try and manage their expenses, including:

- families sleeping in one room when cold
- going to bed fully clothed
- reducing showers and turning off hot water services
- rarely inviting friends or family to avoid cooking/heating expenses
- going without nutritious food, medicines, or selling possessions to pay bills
- putting themselves in danger through using inappropriate heating sources – e.g., ovens, bringing outdoor heaters inside
- going without meals frequently.

In March 2023, St Vincent de Paul Society had seen demand for services in South Australia continue to climb by up to 40% compared to 2022. South Australian CEO Evelyn O'Loughlin said:[16]

> *'Inflation, rental increases, the cost-of-living crisis, and a lack of affordable housing are just some of the factors that are pushing more and more people to the brink of homelessness… We are hearing from people who have never had to reach out to a charity for help before, and who don't fit society's view of who would typically become homeless. People in employment and younger people who simply can't make ends meet are an emerging group requiring our help. A 10% increase in the number of women experiencing homelessness is also very alarming.'*

Small businesses are also facing extreme pressures, with a recent Business SA survey for the June Quarter 2023 showing nearly two thirds of businesses (65.7%) cited the 'cost of doing

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[15] SEC Newgate Australia, Mood of the Nation, August 2023

[16] St Vincent de Paul Society SA, New census figures estimating growth in homelessness no surprise, 22 March 2023

business' as their biggest concern. High energy costs have contributed to the soaring cost of business overheads in the three months to June, with one respondent saying the cost of energy 'greatly reduces the profitability and viability of the business', and their current plan is to close the business down in 2024/25.[17]

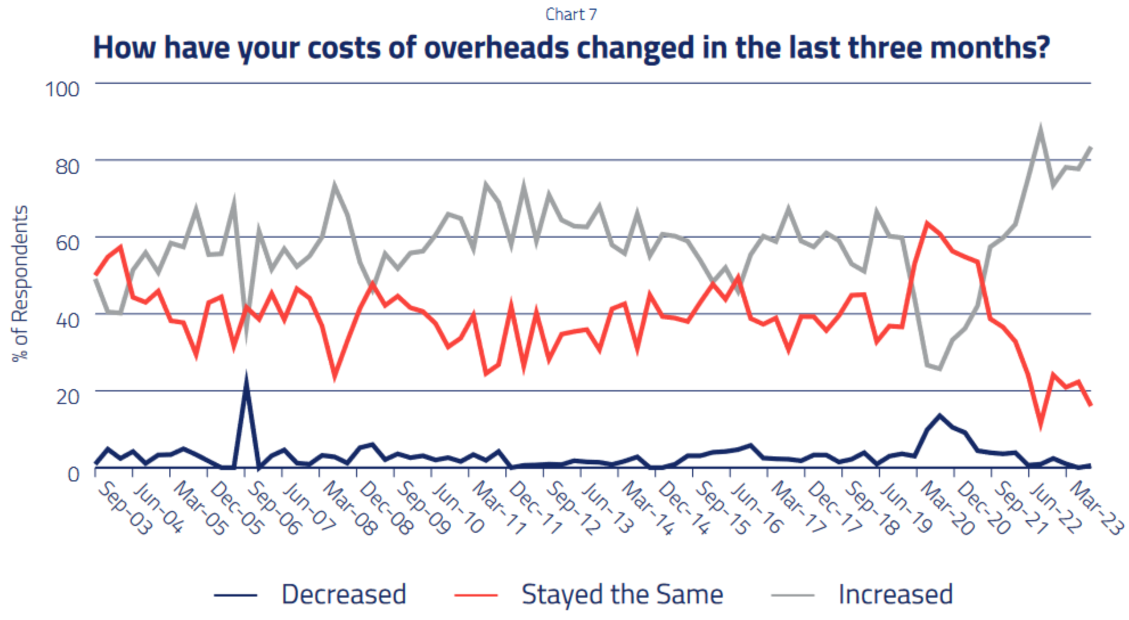


**Figure 1: June Quarter cost of overheads. Source: Business SA, 2023[18]**

Energy debt and energy stress is increasing in South Australia because people can no longer afford to pay for their ongoing energy usage. Given the projected increases in energy bills of around 50% over the next couple of years, [19] coupled with the costs of the smart meter roll-out in 2025-30, and the forecast increases in transmission costs, SAPN must ensure its Regulatory Proposal has energy affordability and equity as the primary consideration.

**Energy prices in South Australia**

From 1 July 2023, South Australians experienced dramatic energy price increases for both standing offer and market offer customers. Given the three-monthly billing cycle for electricity, we can expect to see the impact of these significant price increases on households by the end of September 2023.

The AER's Default Market Offer 2023-24 for standing offer customers in SA increased by 24% [20] on 2022-23 levels, and retailers have advised households of tariff increases for

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[17] Business SA, June Quarter 2023 – Survey of Business expectations, p.24

[18] Business SA, June Quarter 2023 – Survey of Business expectations, p. 13

[19] Secretary to the Treasury Speech, 8 November 2022 https://treasury.gov.au/speech/opening-statement-economics-legislation-committee-4

[20] AER, Default Market Offer prices 2023-24: Final Determination, p.6

market offers of up to 55% to apply from 1 July 2023.[21] Notably, South Australian residential standing offer customers without controlled load pay $524 (or 30%) more than the equivalent Victorian Default Offer customer, and South Australians pay nearly 40% more for network costs than Victorians ($766 as compared to $549) under the default offers.[22]

The ACCC's *Retail Pricing Inquiry Report* published in June 2023[23] shows South Australian households experienced a 9.1 per cent increase in their quarterly median electricity bills between the September quarters 2021 and 2022 - the highest of all NEM regions. In comparison, New South Wales residents saw a 6.4 per cent rise in their bills, and Victorians 0.6 per cent.[24]

Whilst this data relates to bill increases as at September 2022, the ACCC estimates that bills for market offers have increased between April 2022 and March 2023 by 20% in South Australia, and it expects the impact of higher prices will continue to flow into bills throughout 2023 and 2024.[25] The ACCC's Report also shows South Australian customers continue to pay the highest effective prices in NEM regions (see Figure 2), whilst there has been a decline in median residential usage.

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[21] See for example Alinta's Time of Use peak rate increase from 37.3c/kWh to 57.0 c/kWh to apply from 1 July 2023.

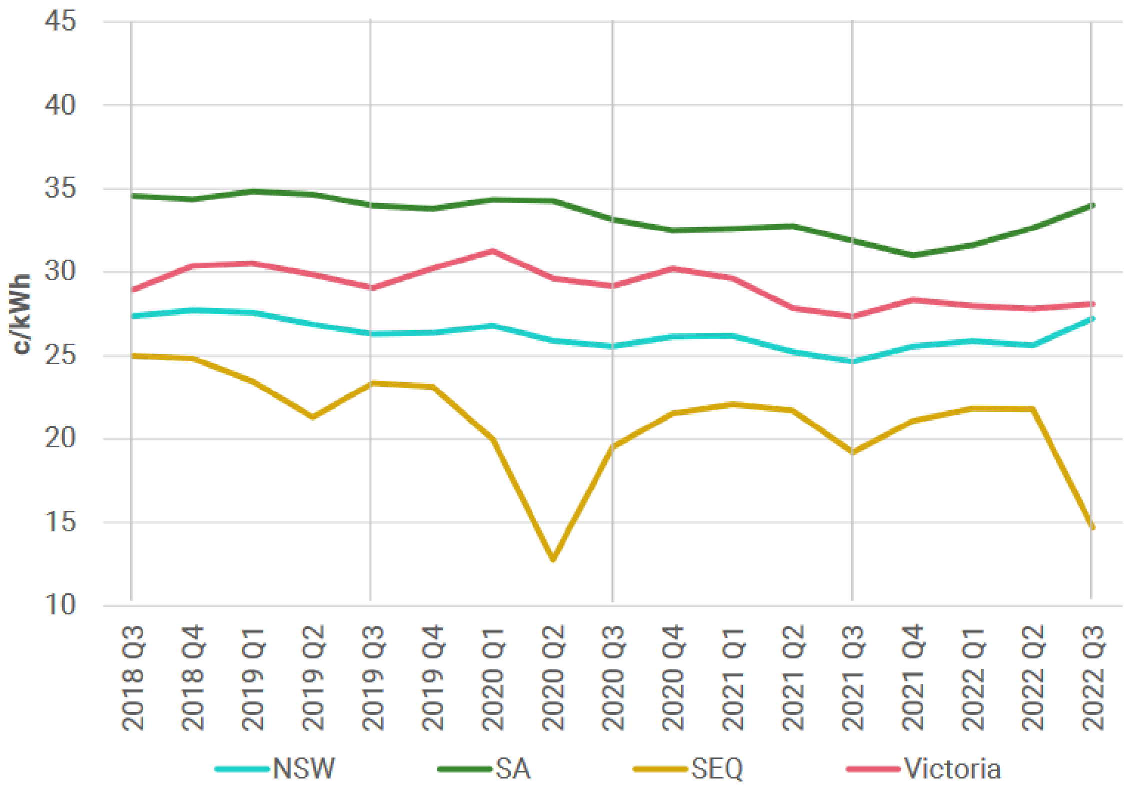
[22] Essential Services Commission of Victoria, Victorian Default Offer 2023-24 Final Decision, 25 May 2023, and AER, Default Market Offer prices 2023-24: Final Determination, p.67

[24] ACCC, Inquiry into the National Electricity Market, June 2023, p. 46

[25] ACCC, Inquiry into the National Electricity Market, June 2023, p. 8

**Figure 4.5 Residential customers paid higher effective prices in all regions except South East Queensland**

*Median effective prices paid by residential customers by region, all quarters, from third quarter 2018 to third quarter 2022*




Source: ACCC analysis of retailer billing data. Nominal dollars, excluding GST.

**Figure 2: Residential customers paid higher effective prices. Source: ACCC, 2023**[26]

Subsequent to the publication of the ACCC's June Report, the ACCC published a media release on 10 August 2023 '*urging households and small businesses to contact their energy company and ask if a cheaper electricity plan is available, in light of some recent price increases in the range of 10 to 20 per cent above the regulated safety net*.'[27]

Increases in energy bills represents a significant cost of living issue for South Australian households – electricity is essential to life and wellbeing, and many households are unable to reduce their usage, adding to the increasing unaffordability of energy. SACOSS has consistently highlighted the regressive nature of electricity bills and the disproportionate

[26] ACCC, Inquiry into the National Electricity Market, June 2023, p. 54

[27] ACCC, Australian Urged to compare electricity plans as market offers exceed safety net, 10 August 2023

impact on low-income households, as demonstrated in research from Energy Consumers Australia and the CSIRO (see Figure 3).

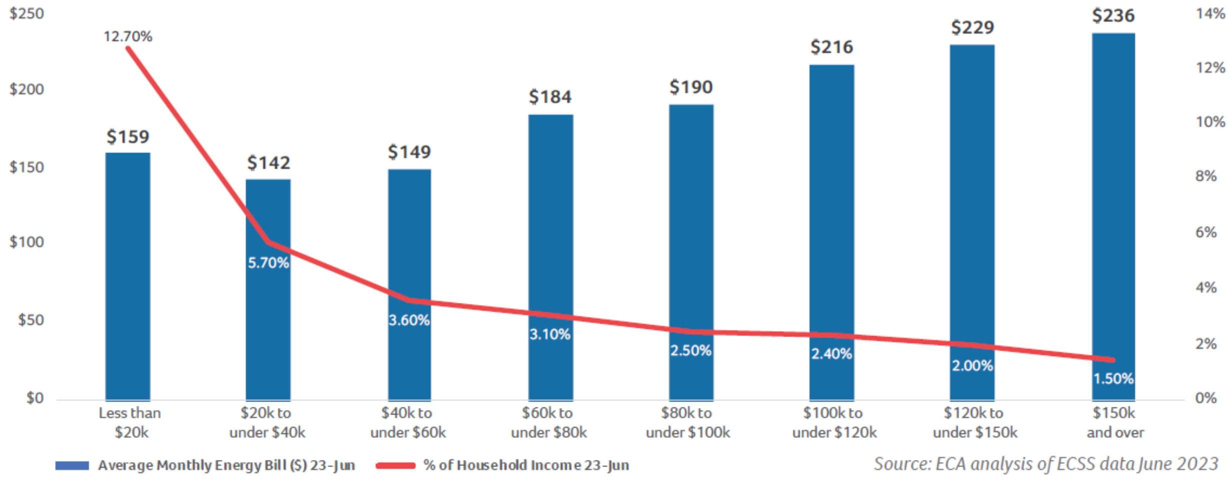



**Figure 3: Average monthly energy bill by Household income**[28]

Networks have a role to play in reducing energy bill costs and ensuring that consumers pay no more than is necessary for the safe and reliable delivery of network services. As outlined earlier, SACOSS does not consider the need to reduce costs is sufficiently reflected in SAPN's Draft Proposal, which proposes 'new value' services and unprecedented increases of 25% for capital expenditure and 10 (potentially 12) opex step changes.

**Responses to the energy affordability and cost of living crisis**

The other main regulated utility in South Australia, SA Water, has taken a different approach to its regulatory proposal for 2024-28. The rising cost of living pressures on South Australian households was a driving consideration in shaping SA Water's expenditure proposals.

SA Water's 2024-28 Regulatory Business Plan acknowledges the cumulative impact of cost of living pressures in South Australia and explains how SA Water has modified its approach to prioritising investments having regard to affordability considerations.[29] The Plan notes that:[30]

> *'While many respondents reported that water bills were not their largest bill, the cumulative impact of increasing power bills and the rising cost of living was putting pressure on all customers. Consumer and frontline community organisations expressed concern about the affordability of water services for vulnerable customers. The cost impact of RD24 investments needs to be carefully considered.'*

[28] ECA & CSIRO, 2023, *Stepping Up: A smoother pathway to decarbonizing homes*

[29] SA Water, 2024-28 Regulatory Business Plan, p.7-9

[30] SA Water, 2024-28 Regulatory Business Plan, p.104

Given the current energy affordability and cost of living crisis in South Australia, SA Water has outlined that it proposes to invest in the period 2024 to 2028 to deliver services at the lowest immediate cost, noting there may be a need for growing capital expenditure in future periods:[31]

> *'This submission seeks to balance managing customer affordability with efficiently delivering the services they rightly value and expect. […] To continue to meet core deliverable requirements while managing affordability, many initiatives that were supported through engagement, including willingness to pay studies, have not made the final submission. This decision followed discussion with the CCG and PBEF who advised SA Water to prioritise meeting obligations and delivering core services rather than progressing discretionary initiatives at this time.'*

The AER has also taken into consideration the growing cost pressures due to market volatility on South Australian households in its decision-making. The AER's DMO 2023-24 decision paused the planned increases in the retail allowance percentage for SAPN residential customers to 'reflect a balance in consideration between consumer burden and increased risks faced by consumers in a volatile market'.[32] The AER also reaffirmed its commitment 'to making network determinations that reflect the input of consumers and support efficient investments in the future of energy networks, but do so at the least possible costs to consumers', in its *State of the Energy Market Report*.[33]

Similarly, the Essential Services Commission of South Australia (ESCOSA) determined to retain the performance targets and reporting thresholds in the *Electricity Distribution Code* to apply in the 2025-30 period to 'meet consumer expectations that reliability is maintained while increases to the cost of distribution services are minimised'.[34]

The Federal Government's Energy Bill Relief Plan is also an acknowledgment that 'rising power prices are among the biggest burden on families and businesses right now.'[35]

SACOSS is calling on SAPN to follow SA Water's lead and to re-examine expenditure priorities for 2025-30 to focus on meeting core requirements, rather than progressing discretionary initiatives or investing to exceed reliability or legislative obligations. For example, as a profitable business, SAPN can chose to spend on increased cyber security

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[31] SA Water, 2024-28 Regulatory Business Plan, p. 7

[32] AER, Default market offer prices 2023-24 – Final Determination, May 2023, p. 43

[33] AER State of the Energy Market Report 2022, p.2

[34] Essential Services Commission of South Australia, Electricity Distribution Code Review - Final Decision, p.2

[35] The Hon Dr Jim Chalmers MP, 'Energy Rebates to ease pressure on households and small businesses', 9 May 2023

measures exceeding legislated requirements as a business decision, but this cost should not be recovered from consumers.

Relevantly, consumer advocates in Queensland are calling for the two government owned network distributors (Energex and Ergon) to **voluntarily** not add the cost of their GSL payments to their revenue recovery for 2025-30 revenue setting. This would mean GSL payments would not be paid by consumer, there would be clear financial incentive for the DNSPs to achieve the minimum service levels set by the scheme, and the DNSPs would be seen as helping to reduce consumer costs and achieve high levels of service performance. SACOSS is urging SAPN to consider how it can, as a business, voluntarily reduce costs to consumers.

## SAPN's Draft Proposal 2025-30

SAPN's Draft Proposal for the 2025-30 Regulatory Period contains significant increases in forecast expenditure, including:

- $2,422m in capital expenditure – a **$481m (or 25%) increase** on 2020-25 levels
- $1,930m in operating expenditure – a **$300m (or 18%) increase** on 2020-25 levels (currently including 10 opex step changes - with two further step-change placeholders identified by SAPN, but not included in the Draft Proposal as dependent on regulatory change).[36]

The Draft Proposal states that despite these significant expenditure increases, underlying distribution bills will remain roughly consistent with today's bills and are forecast to reduce in the 2030-35 period. As outlined below, this is largely due to the end of distribution asset lives over the next 10 years resulting in a significantly lower depreciation allowance component of revenue to 2035, offsetting the increases in return on capital up to 2035. SAPN has not included bill impacts of an increased Regulatory Asset Base (RAB) post-2035 in its proposal.

SAPN indicates the Draft Proposal is 'substantively consistent with the recommendations of [SAPN's] People's Panel'.[37] SAPN's analysis shows that 65% of total capex and opex step changes were 'shaped by customers', either through People's Panel recommendations (36%) or through 'Focussed Conversation' recommendations (29%). Throughout SAPN's Draft Proposal it is clearly stated that proposed expenditure is based on the

[36] This expenditure will relate to the accelerated smart meter deployment to commence in July 2025 through to 2030, as well as funding for the 'National Claims Scheme' SAPN has lobbied the State Government to introduce under Part 7 of the *National Energy Retail Law*.

[37] SA Power Networks, 2025-30 Draft Regulatory Proposal, launched 26 July 2023, p. 7

recommendations of the People's Panel,[38] and we therefore consider it is necessary to briefly touch on our response to the People's Panel recommendations.

In the context of the current energy affordability crisis, and future challenges associated with the energy transition, SACOSS does not support the recommendations for additional 'new value' expenditure made by either the People's Panel or the Focussed Conversations. As a member of the CAB we did not support the inclusion of all those recommendations within the Draft Proposal.

The People's Panel's recommendations are contained in the People's Panel Final Report, dated March 2023.[39] It is not clear how many of the original 51 members of the People's Panel remained for the final deliberations, or contributed to the Report. In SACOSS' view, the People's Panel's Final Report does not reflect a broader consideration of matters which are relevant to deliberations on price / service trade-offs and affordability, including:

- An appreciation of core network expenditure vs discretionary expenditure.
- Consideration of the cumulative cost impacts of the recommended expenditure and balancing expenditure between categories.
- Consideration of the long term-cost impacts for South Australian households of a significantly increased regulatory asset base as a result of recommended capital expenditure, beyond 2035.
- An awareness of the relevance of SAPN's consistent underspending below allowed revenue for capex and opex in previous regulatory periods.[40]
- Consideration of expected future increases in transmission network costs as a result of AEMO's ISP, the identified need for more transmission infrastructure to support the energy transition, and the impact of increased grid-scale renewable generation on the role of the distribution network.
- Consideration of increasing interest rates and the impact on network revenue and costs to consumers.
- The failure of increasing and excess solar PV generation to put downward pressure on retail wholesale costs in South Australia due to market liquidity.[41]
- The current cost of living crisis, and the disproportionate impact of the cost of network expenditure on low-income households in South Australia.
- Different grid consumption / network bill impacts for solar vs. non-solar households.

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[38] SA Power Networks, 2025-30 Draft Regulatory Proposal, launched 26 July 2023, p. 42, p. 64

[39] SAPN People's Panel, Final Report – Balancing Service and Price, March 2023

[40] SA Power Networks, 2025-30 Draft Regulatory Proposal, launched 26 July 2023, Figures A24 and A25, pp. 87 - 88

[41] SACOSS, 2021-22 Briefing to Energy Minister, July 2022, pp. 10-12, and South Australian Productivity Commission, *Final Report: Inquiry into South Australia's renewable energy competitiveness*, 10 August 2022

We appreciate these matters may have been discussed throughout the deliberations, but this is not clear from the Report. To a large extent, the People's Panel Final Report includes recommendations to support additional expenditure / services based on what the Panel had 'learnt/ heard' about the importance of the expenditure from SAPN.[42] We understand five members of the People's Panel have made a submission on the Draft Proposal reaffirming the expenditure recommendations of the Panel contained in its March 2023 Report.

## How the Draft Proposal 2025-30 addresses energy affordability and equity concerns

SAPN has outlined that 'affordability and equity' will be managed through:[43]

- Underlying distribution bills for 2025-30 remaining roughly consistent with today's bills due to fully depreciated assets, resulting in a reduction in the depreciation allowance component of network revenue to 2035.
- A material reduction in bills due to the expiry of the South Australian Government's solar PV Feed-in-Tariff (FiT) Scheme in 2028.
- Increases in electrification (and therefore additional network throughput) reducing c/kWh unit network costs – so customers who maintain current levels of consumption will see reduced bills.
- Enabling the energy transition and significantly reduced energy bills in the future.

SACOSS strongly submits the 'depreciation cliff' and the expiry of the State Government's premium FiT Scheme are not relevant factors in a consideration of the services and expenditure required by SAPN to deliver network services at least long-term cost to consumers.

The cost of the PFiT scheme is paid for by consumers, not SAPN, and the depreciation allowance is also paid for by consumers – the reduction in both these costs in future periods does not represent an opportunity for SAPN spend more on network services. These two factors are not relevant to the expenditure objectives,[44] the expenditure criteria,[45] or the expenditure factors[46] under the National Electricity Rules, and should not be used to support 'consumer preferences' for increased network expenditure, or to provide evidence of affordability considerations.

[42] SAPN People's Panel, Final Report – Balancing Service and Price, March 2023, see for example the 'critical evidence' supporting the decisions: p. 13, p.15, p.16 etc.

[43] SA Power Networks, 2025-30 Draft Regulatory Proposal, launched 26 July 2023, p. 6

[44] National Electricity Rules, Rule 6.5.6(a) and 6.5.7(a)

[45] National Electricity Rules, Rule 6.5.6(c) and 6.5.7(c)

[46] National Electricity Rules, Rule 6.5.6(e) and 6.5.7(e)

SACOSS submits a reduced depreciation allowance and the expiry of the PFiT Scheme are factors outside of what should properly be considered by SAPN when proposing expenditure to meet the expenditure objectives, and do not represent an opportunity for SAPN to increase its expenditure to levels that maintain current network bill impacts.

Throughout the engagement process SACOSS has consistently called for the costs of the premium FiT scheme to be removed from engagement materials on bill impacts. The PFiT is a jurisdictional 'green scheme' that has no relevance to the revenue required to operate a safe and reliable network. The costs are more properly included in the 'green / jurisdictional scheme' part of the cost stack. We believe the inclusion of the costs (per customer) of the scheme in graphs depicting current and future bill impacts has had the effect of distorting customers' understanding of the bill impacts associated with proposed expenditure to support additional services. Despite SACOSS' feedback, SAPN continued to present the cost of the PFiT scheme in estimates of 'average annual distribution bills' for 2022-23, relative to current bills excluding PFiT costs post 2028:

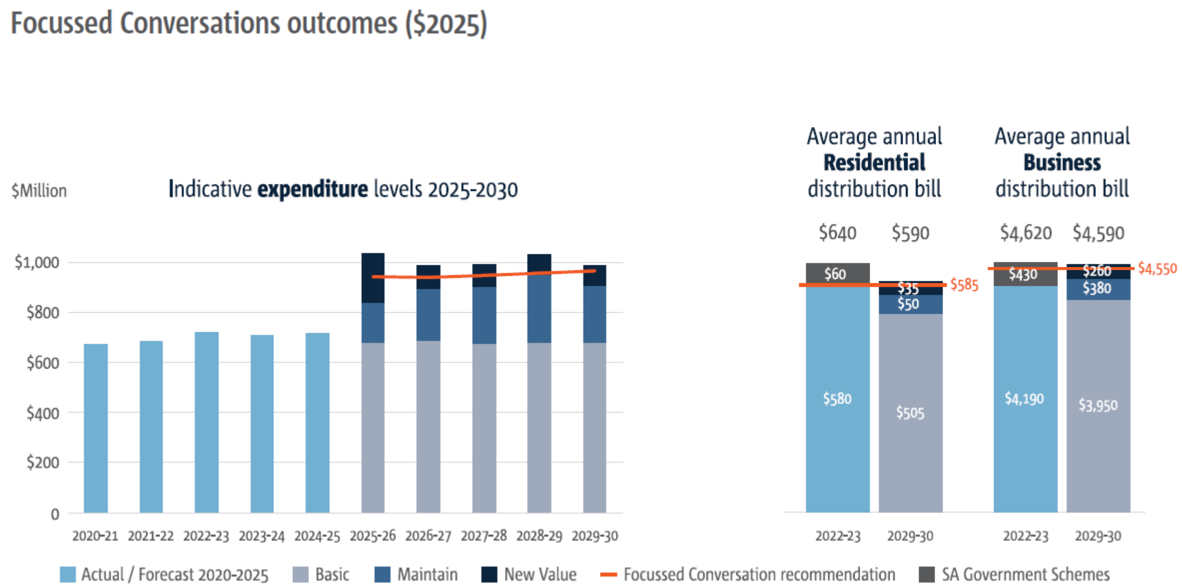


**Figure 4: Graph showing bill impacts from People's Panel Booklet prepared by SAPN and Democracy Co**[47]

Further, SACOSS considers the forecast increases in electrification, increased demand, and reduced c/kWh unit costs, as well as significantly reduced bills as a result of electric vehicles and renewable technology, are not factors that address SACOSS' affordability and equity concerns for the next regulatory period.

The Draft Plan outlines the 'gradual increase' of demand on the distribution network over the coming decades.[48] It also depicts reduced demand on the network over the past several years due to the uptake of solar PV. Based on AEMO's projections, South Australia's

[47] SAPN, Recommendations to People's Panel Booklet, p. vii

[48] SA Power Networks, 2025-30 Draft Regulatory Proposal, launched 26 July 2023, p. 32

maximum demand forecast will return to levels seen in around 2020, 2019 and 2014 by 2030. SACOSS considers this demand projection will not have a significant impact on reduced unit costs between 2025-2030. Bearing in mind that South Australians face the highest price per unit of electricity in the National Electricity Market, with higher than average networks costs, and will also be facing increasing transmission and metering costs, SACOSS considers SAPN should be looking to reduce or defer expenditure that is not necessary to maintain current levels of reliability and safety in 2025-30, to the 2030-35 regulatory period.

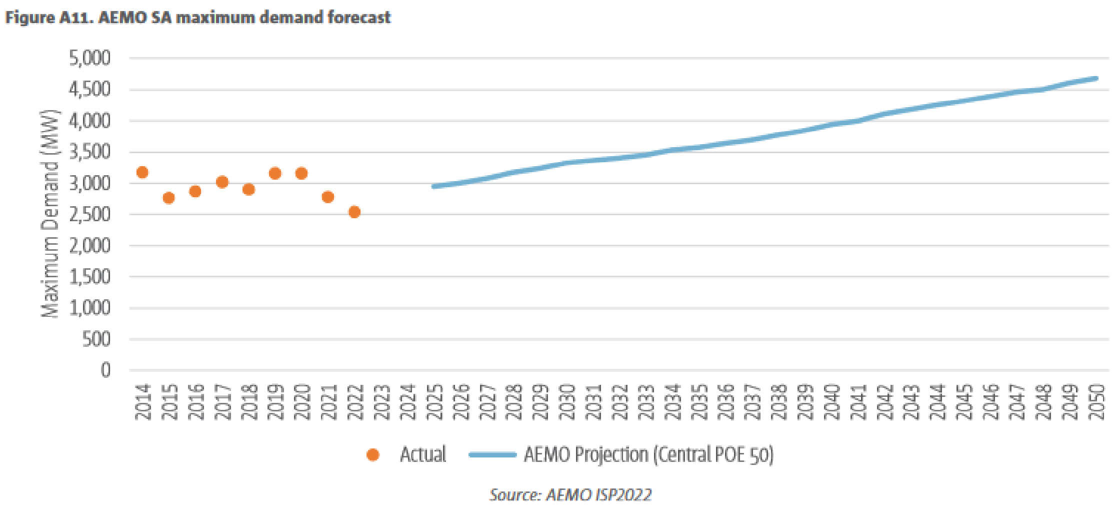


**Figure 5: AEMO maximum demand forecast. Source: AEMO ISP 2022**

SACOSS has consistently highlighted the barriers low-income households and renters face in reducing their energy bills through access to solar PV, electric vehicles and other technologies. Most actions households can take to reduce their energy bills have high upfront costs – which is a barrier that is particularly difficult to overcome for low income households. Rising housing costs are pushing more low-income households into rental properties where they face additional barriers (such as the on-average poorer quality of housing and lack of landlord permission for retrofits).

We are already seeing the beginnings of this divide expressed in consumer sentiment surveys which show that households on lower incomes or under financial pressure are less likely to have rooftop solar and are also more likely to remain on the gas network. More than half of consumers are concerned that energy will become unaffordable for them within the next three years.[49]

Also, we know the primary cost benefit of solar PV is through the use of energy generated behind the meter, resulting in reduced grid consumption costs. We also know that forecast

[49] ECA, 2023, *Consumer Sentiment Survey June 2023*

bill impacts and affordability calculations are based on average annual usage. It is clear that households who face barriers to accessing solar will face higher average usage than solar households, and therefore the calculations of bill impacts based on 'average annual usage' can be misleading. Non-solar households will see higher bills, and will pay a significantly higher percentage of network costs, as compared to solar households in South Australia. CSIRO's technical modelling shows clearly that households that can afford to invest in efficient, all-electric homes benefit from significant energy savings compared to households that can't or don't:

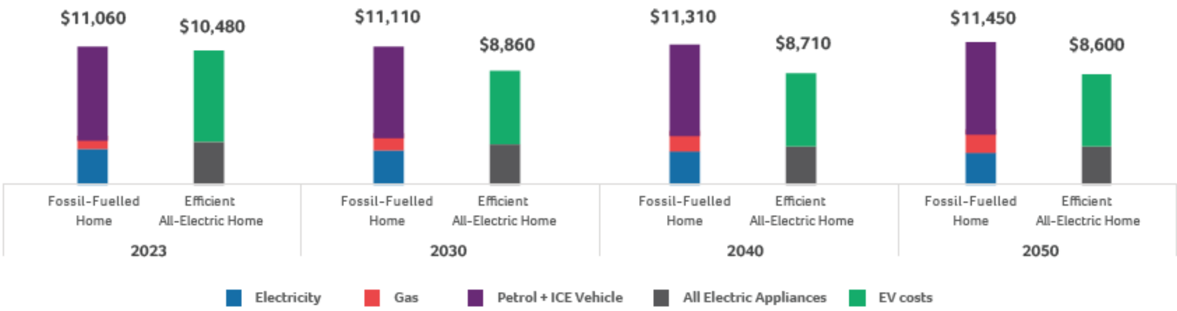


**Figure 6: Total Household Energy Spending in select years**[50]

More relevant to a consideration of balancing desired service levels with the costs facing South Australian consumers in 2025-30 are several factors which are likely to put upward pressure on energy prices during that period, including:

- Transmission growth – large network investments required to support the energy transition, as flagged by the AER.[51]
- A more challenging external environment with higher interest rates and the impact on allowed rates of return.[52]
- Market volatility and increases in retail wholesale costs in South Australia, despite low wholesale spot prices and record amounts of solar PV generation.[53]
- The accelerated deployment of smart meters to commence in July 2025 and be completed by 2030, including metering costs and unknown costs to consumers associated with site remediation.[54]

The 2025-30 regulatory period will present additional energy cost challenges for consumers associated with the accelerated deployment of smart meters, the energy transition and

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[50] ECA & CSIRO, 2023, *Stepping Up: A smoother pathway to decarbonizing homes*

[51] AER, State of the Energy Market Report 2022, p. 181

[52] AER, 2023 Electricity network performance report, p.18

[53] AER, Default Market Offer Prices 2023-24: Final Determination, May 2023, p.26 which saw South Australians experience a 68% increase in the wholesale cost component of the DMO, the largest increase of all DMO jurisdictions.

[54] SACOSS, Annual Briefing to the Minister for Energy: August 2023, pp. 21-23

transmission costs, as well as higher interest rates. We know from our member organisations that a growing number of households are struggling to afford the basics right now, without facing these additional cost pressures in coming years.

## Broad feedback on the expenditure proposals

This submission will not attempt to address each expenditure topic and item within the Draft Proposal, but will instead make broader comments around our preferred approach to proposed expenditure and service levels.

At a time when every dollar counts, we are calling for SAPN to take into consideration external growing cost of living pressures, to listen to the people who provide services to support the community, and to look to reduce network costs passed on to consumers in the 2025-30 period and beyond, by delaying or removing discretionary network expenditure for non-core services from its Regulatory Proposal for 2025-30.

SACOSS is supportive of SAPN seeking allowed expenditure to maintain current core reliability and service levels, and to meet its jurisdictional and legislative obligations. We do not support expenditure that exceeds legislative obligations (for example the IT Cyber Security spend). As a profitable business, SAPN can chose to make those investments outside of the Regulatory Proposal. We will rely on the AER to assess SAPN's risk approach underpinning much of the capital expenditure program, to ensure this approach is not overly conservative.

Relevantly, SAPN's 2025-30 expenditure revenue and price summary[55] shows consistent underspends of allowed capital expenditure from 2010 through to 2022, and an underspend of allowed operating expenditure from 2015 and projected through to 2025. SACOSS considers that if SAPN have committed to an activity that meets the objectives, reflects the criteria and the expenditure has been approved by the AER, then that activity should be undertaken in that regulatory period.

As outlined above, SAPN have identified significant expenditure for the 2025-2030 period, and we are concerned that consumers not be required to pay twice for the same outcome. SACOSS is seeking assurances from SAPN that we can have confidence in its 2025-30 proposal, given the consistent underspends from previous periods. SACOSS is also seeking SAPN provide an explanation around how they have corrected the errors in forecasting (or otherwise) that resulted in the underspends.

[55] SA Power Networks, 2025-30 Draft Regulatory Proposal, launched 26 July 2023, p. 87 and 88

**Reliability expenditure**

ESCOSA has made a well-considered Final Decision on the *Electricity Distribution Code* to apply in the 2025-30 period. The Final Decision determined to retain the performance targets and reporting thresholds in the Code to apply in the 2025-30 period to 'meet consumer expectations that reliability is maintained while increases to the cost of distribution services are minimised'.[56]

In the 2013 Expenditure Objectives Rule determination, the AEMC stated that:

> *'in light of the evidence provided it should be made clear in the NER that where the jurisdiction determines a regulated standard for reliability it is this level of reliability that expenditure in an NSP's regulatory proposal should be based on and not any other level. In practice this means that the NSP should propose no more expenditure than is necessary to comply with the reliability standard, and for the AER not to approve any more expenditure than required by the standard'.*[57]

Given ESCOSA's Draft Decision to maintain reliability levels, and the AEMC's comments about expenditure forecasts, SACOSS submits SAPN should propose no more reliability expenditure than is necessary to maintain current levels. In relation to regional reliability, ESCOSA found that 'while in some regions there have been recent individual years of performance worse than the historical average, there is no evidence of decline in long-term regional reliability for any particular region.'[58] On this basis, we do not support proposed expenditure to exceed current levels of reliability in the regions.

We agree with ESCOSA's expectations around CBD reliability:[59]

> *The Commission expects SA Power Networks to make sufficient investment to deliver minimum network performance standards for CBD feeders, and that the efficient expenditure required to do so will be included in SA Power Networks' regulatory proposal. The AER is responsible for determining the efficient expenditure SA Power Networks requires to satisfy its jurisdictional regulatory obligations.*

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[56] Essential Services Commission of South Australia, Electricity Distribution Code Review - Final Decision, p.2

[57] AEMC Rule Determination National Electricity Amendment (Network Service Provider Expenditure Objectives) Rule 2013, 19 September 2013, p.16

[58] Essential Services Commission of South Australia, Electricity Distribution Code Review - Final Decision, p.3

[59] Essential Services Commission of South Australia, Electricity Distribution Code Review - Final Decision, p.2

**Export Tariffs and enabling DER export capacity**

SACOSS strongly supports the introduction of export tariffs in the Draft Proposal. This is a welcome move from SAPN and represents a positive step forward in the equitable distribution of network costs. With the electrification of households and vehicles, forecast increases in household electricity demand, higher penetration of roof-top solar, increased investment in transmission and distribution network infrastructure, ensuring the equitable distribution of costs is of vital importance now and into the future.

We know households on low-incomes, renters and people experiencing disadvantage face significant barriers to accessing technologies to reduce their grid consumption, leading to an unfair distribution of network costs. SACOSS strongly supports the introduction and future expansion of solar customer export tariffs to redress some of the inequities in network cost recovery.

The Draft Proposal is proposing an export tariff to recover capital costs of 'investment in additional export capacity to maintain a target export service level of 95% for most solar customers'.[60] This expenditure represents around 3% of total capital expenditure (around $76.8m in capex), and will benefit solar customers. The 95% target export service level is not a jurisdictional target, but has been suggested by SAPN and supported by the Peoples Panel. Alternatively, SAPN could make no additional investments in additional export capacity and solar customers could expect to export all their surplus energy for 80% of the time, and may have their solar output reduced for 20% of the time, at no cost to consumers.

Should SAPN *not* propose an export tariff to recover these costs from solar customers, non-solar customers would disproportionately pay significantly more for this expenditure than solar customers (who receive the benefit). SACOSS does not support the expenditure for 'enabling distributed energy – export capacity' in the absence of the export tariff proposal.

**Energy advisory service / personal on demand services**

Whilst not in the Draft Proposal, SAPN is seeking feedback on whether SAPN should provide an Energy Advisory Service, and whether costs should be recovered from all customers or provided on a fee per service basis.  Given the regressive nature of electricity costs, SACOSS has been very clear on our position that an Energy Advisory Service should not be provided by SAPN or funded through customers' bills (at a cost of $25m over 5 years under the 'new value' scenario).

SACOSS acknowledges the current lack of available clear and comprehensive energy advice for consumers. Notably, the AEMC's Final Report on the review of regulatory frameworks

[60] SAPN, Draft Regulatory Proposal 2025-30, Enabling Clean Energy, p. 65

for metering services,[61] recommended the collaborative development of a communication strategy on the smart-meter roll-out, potentially driven by governments through the Energy and Climate Change Ministerial Council, and actioned well before the accelerated roll-out commences in 2025.[62] Following this recommendation, SACOSS has called on the State Government to include an allocation within the 2024-25 State Budget to adequately resource (potentially in conjunction with the Federal Government) the development of a comprehensive communication strategy to educate South Australians about the smart meter deployment, and this could be leveraged to include energy advice more broadly.

SACOSS is asking SAPN to consider whether the provision of personal and on demand services are necessary for the delivery of a safe and reliable network, and whether the costs of these services will be recovered from customers on a fee per use basis. We note SAPN's 2021 Customer survey ranked 'customer interface' of the lowest importance.[63] We also do not support the introduction of an additional Customer Service Incentive Scheme, and consider ESCOSA's service standards, which SAPN are meeting, are sufficient and no incentive is required.

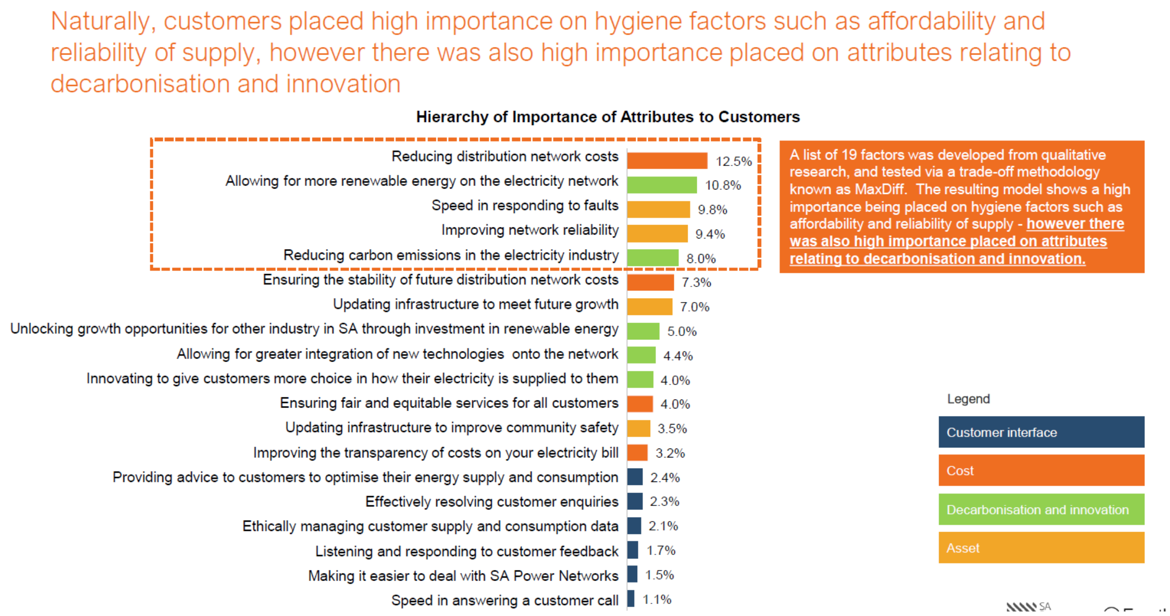


**Figure 7: Hierarchy of importance of Attributes to customers. Source: SAPN, 2021**

[61] AEMC, Final Report: Review of the Regulatory Frameworks for Metering Services, 30 August 2023

[62] AEMC, Final Report: Review of the Regulatory Frameworks for Metering Services, 30 August 2023, p. 76

[63] SAPN and Foresight, Empowering Customer Experience Transformation Research Report, 22 November 2021, p. 16

**Equity and vulnerable customers**

SACOSS strongly supports SAPN's growing role in advocating for improved outcomes for customers experiencing vulnerability, particularly around concessions and energy efficiency measures for South Australian households. We acknowledge the difficulty for networks around engaging directly with consumers experiencing vulnerability, and recognise SAPN's ongoing efforts to find a way to address the inequities in our energy system through advocacy and community grants, at least cost to consumers.

Over the past several years, we have strongly supported SAPN's 'knock before you disconnect' trial program that has been adopted by other networks interstate as 'business as usual', and has now been codified by the Energy Charter.[64] Given the accelerated smart meter deployment in 2025, and the risk of retailer-led remote disconnections, we support the inclusion of $1.5m in opex over 2025-30 to provide for a 'knock before you disconnect' program, and are seeking SAPN undertake monitoring and reporting of the program to assess its impact and costs.

Overall, SACOSS considers one of the most important things SAPN can do as a network is ensure all customers are equitably paying for safe and reliable network services at least long-term cost.

**Regulatory Asset Base**

As outlined above, we are extremely concerned about the proposed increases in capital and operating expenditure set out in the Draft Proposal. Notably, the significant 25% increase in capex will result in a 13-14% increase in the Regulatory Asset Base (RAB), and, as noted by the AER:[65]

> *'The value of the RAB substantially impacts a network business's revenue requirement, and the total costs a network's consumers ultimately pay. Given some network assets have a life of up to 50 years, network investment will impact retail energy bills long after the investment is made.'*

In 2022 the total real value of RABs for network service providers (both distribution and transmission) in the National Energy Market (NEM) increased on 2021 by 0.36% - comprised of a 0.1% growth in distribution networks RABs, and a 1.2% growth in transmission network RABs. Since 2014 the increases in RABs across the NEM have been modest following reductions in actual capex. [66] However, the AER expects transmission network RABs per customer to grow in the future as several major projects are developed.[67] Given the long-term cost impacts of an increasing distribution network RAB of 13-14% on South Australian

[64] Energy Charter, Knock to Stay Connected Customer Code

[65] AER, *State of the Energy Market 2022 – Full Report*, September 2022, p. 80

[66] AER, 2023 Electricity network performance report, p.18

[67] AER, 2023 Electricity network performance report, p.2

consumers, SACOSS considers SAPN should provide significant evidence to support the need for a 25% increase in capital expenditure. We do not consider a reduction in depreciation allowance over the 2025-35 period, or the expiry of the PFiT scheme are relevant considerations, and we question whether the recommendations of the People's Panel are sufficient to support this level of additional expenditure, particularly in times of such transformational change and increasing cost pressures. We will rely on the AER to ensure robust scrutiny of all capital (and operating) expenditure proposals within the overarching objective of promoting the long-term interests of consumers.