

18 August 2017

Mr Nathan Petrus
Director Consumer Protection and Pricing
Essential Services Commission
GPO Box 2605
ADELAIDE SA 5001



Business SA
Chamber of Commerce
and Industry South Australia

ABN 000 14 725 309 328
Level 1, 136 Greenhill Road
Unley South Australia 5061
T: +61 8 8300 0000

Dear Mr Petrus

I write in response to ESCOSA's request for submissions on its draft report for the Inquiry into the reliability and quality of electricity supply on the Eyre Peninsula.

Working for your business.
Working for South Australia

Executive Summary

- Business SA reaffirms your finding that for many businesses on the Eyre Peninsula, the loss of telecommunications during the State-wide blackout, including internet, was equally problematic relative to the loss of electricity itself.
- Business SA acknowledges the significant complexity involved in decisions to improve reliability, renewable energy export capacity and mining potential on the Eyre Peninsula and the balancing act between costs falling on all South Australian consumers, reliability to Eyre Peninsula consumers, and benefits to the State more broadly from future renewable energy and mining projects.
- From ESCOSA's analysis, enduring reliability issues on the Eyre Peninsula are more related to shortcomings in the distribution, not transmission, network and Business SA supports coordinated network planning efforts to ensure that upgrades related to material reliability improvements are prioritised.
- ElectraNet's decision to build a new interconnector to either New South Wales or Victoria will be a key contributing factor in any case to build up the transmission capability of the Eyre Peninsula to export renewable energy.
- While Business SA is very conscious of ensuring Eyre Peninsula businesses have adequate reliability, upgrades will also be paid for by South Australian businesses more broadly and need to be carefully considered in light of recent extreme price increases, particularly over the past two years.

Should you require any further information or have questions, please contact me on (08) 8300 0000 or andrewm@business-sa.com.

Yours sincerely,

Andrew McKenna
Senior Policy Adviser





Why this matter is important to South Australian businesses

As South Australia's Chamber of Commerce and Industry, Business SA is the peak business membership organisation in the State. Our members are affected by this matter in the following ways:

- The increase in electricity prices, particularly over the last two years, has had a devastating impact on South Australian business and unreliability issues have also resulted in many businesses feeling their only option is to install back-up diesel generation to guarantee supply, even very small businesses in metropolitan Adelaide.
- South Australia has the highest proportion of non-firm renewable generation in the National Electricity Market (NEM) and the exit path of Alinta's Northern Power Station which began in mid-2015 has put significant pressure on South Australia's wholesale electricity market, effectively leaving two key players to hedge the base-load electricity needs of industry meaning large market customers, which consume as little as 160MW hours per annum, have experienced peak energy cost increases from seven cents per KWh to as high as 22 cents today.
- South Australia's small market customers, which include most small businesses, have also been caught up in the energy crisis and although the impacts have been delayed due to the nature of annual price reviews, last year bill increases were approximately 10% on average, depending on the retailer, and small businesses have been hit again this year with circa 20% bill increases effective from 1 July 2017.
- Up until mid-2015 when South Australia's wholesale electricity prices began to rise dramatically, network costs had been the primary driver of the significant increases in electricity costs over the past decade and South Australian businesses cannot afford to return to the spending patterns associated with that period which have been compounded through rising regulated asset bases.
- South Australia's blackout on 28th September 2016 crystalised the importance of reliability to business, costing at least \$450 million¹ overall including \$8.33 million for Eyre Peninsula businesses, and it is important that ElectraNet and SAPN, along with generators and Governments, take reasonable steps at appropriate costs to mitigate impacts of similar events in future.

Key Policy Points

1. In Business SA's initial submission to ESCOSA's 2013 review of SA Power Networks' (SAPN) service stands, we stated:

'We prefer the continuation of regionally based reliability standards. It is important to continue monitoring and reporting on the quantity and impacts of Low Reliability Distribution Feeders, particularly given the majority tend to be in rural and regional South Australia. Not only will this highlight what is most in need of upgrading, it will ensure SAPN maintains a focus on improving outcomes for rural and regional customers.'

While we acknowledge ESCOSA's decision then to shift SAPN to reliability standards based on network feeder categories was to better align with the Australian Energy Regulator (AER) Service Target Performance Incentive Scheme, the recent spate of unreliability has highlighted the need to ensure that reliability in specific rural and regional areas is appropriately regulated for.

¹ Business SA, adjusted cost following additional public company results since Blackout Survey Results report, <http://business-sa.com>



2. Business SA supports the State Government's endeavours to address reliability on the Eyre Peninsula through instructing ESCOSA to undertake this inquiry.

The blackout events highlighted the vulnerability of Pt Lincoln customers which were particularly exposed given businesses expected the regional city's backup generator to provide support in the event of a network failure. Furthermore, the September 28 blackout on the Eyre Peninsula lasted for more than two days while the majority of the State was back up the same night.

Business SA's final estimate of the cost of the blackout was \$450 million and in our Blackout Survey Results², we indicated the likely cost to the Eyre Peninsula alone was \$8.33 million with the median cost to businesses \$9,626, almost twice the State-wide median cost of \$5,000. Eyre Peninsula businesses were also heavily impacted by a loss of communications, including internet, which for some businesses was more problematic than impacts from the loss of electricity alone.

3. Business SA acknowledges ESCOSA's findings that between 1 July 2016 and 31 December 2016, the Unplanned System Average Interruption Duration Index (USAIDI) for the Eyre Peninsula was nearly 3,400 minutes, or approximately 57 hours, of which generation/transmission outages comprised approximately 2,600 minutes (43 hours). This compares with the 10-year average of 530 minutes (9 hours) with an average of 400 minutes (7 hours) over the past three years.

Recognising the State-wide blackout was not the entire cause and even setting aside the causes of the blackout established by various inquiries, the reality is that businesses and consumers on the Eyre Peninsula have suffered immensely from unreliable electricity in the last six months of 2016 and reasonable steps must be taken to mitigate against future occurrences. While Business SA acknowledges reliability standards cannot be uniform across the entire state due to economic reasons, we also cannot accept such significant shortcomings in reliability in regional areas when those same consumers should have commensurate protections under the National Electricity Law.

4. In relation to ESCOSA's finding that:

'While the NER require transmission and distribution businesses to undertake joint planning, the split responsibilities along the electricity supply chain may not always align to deliver the best possible outcomes for customers, in comparison to a single overall responsibility. In addition, the electricity supply chain is no longer linear, due to changes in technology (for example, consumers can also be generators). The previously clear distinction between monopoly and contestable services is becoming blurred, with the emergence of distributed generation and mini-grids, which may compete with incumbent network businesses. In the case of the Eyre Peninsula, where new technologies and new business models are emerging, more effective joint planning, with some independence in the joint planning process, may lead to better customer outcomes than the current approach. Recent changes to joint planning frameworks internationally may provide a useful reference point for South Australia.'

Business SA acknowledges the recent independent Finkel Review of the NEM's transition to low carbon, maintaining security, reliability and affordability, recommended joint planning in respect to renewable energy zones across the NEM. In respect to the Eyre Peninsula's substantial renewable export capacity, the future planning role of AEMO may be able to cover off on network upgrades that can both improve the capacity of the Eyre Peninsula to export renewable electricity, while concurrently remediating reliability issues in the distribution network. In any case, ESCOSA should recommend how a process that is already recommended can overcome the need for another separate process which would not only cost taxpayers or energy consumers, but may end up making recommendations which could be superseded by an AEMO process looking at 'whole of NEM' renewable energy zones.

² Business SA, Blackout Survey Results, December 2016



5. Business SA recognises that voltage supply testing over coming months will help ESCOSA determine the veracity of quality of supply issues on the Eyre Peninsula and we would expect that any recommendations would be implemented in other regions experiencing quality of supply issues, including but not limited to the Riverland.
6. Business SA acknowledges ESCOSA's comments in relation to technical solutions to remedy impacts of lightning strikes could include customer-owned backup generation given the significant proportion of business customers which already have on-site generation.

While that may be the case, Business SA cautions against assumptions that individual businesses taking matters into their own hands is necessarily either in their interest, nor in the interests of the economy more broadly. From our experience, many businesses that have purchased generators since the blackout have done so more due to insufficient assurances of reliability from authorities, rather than it necessarily being the most cost effective option for them as individual businesses.

The national electricity objective states:

The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to –

- (a) Price, quality, safety, reliability and security of supply of electricity; and*
- (b) The reliability, safety and security of the national electricity system.*

If back-up generators are the most efficient investment for such businesses, and they have to pay the same network charges as customers in more reliable locations, it begs the question of whether those generators should be subsidised?

7. For any generation options proposed by SAPN, there should be an assessment of how any such plants could operate as peaking generators feeding into the market more broadly when not required for back-up generation purposes. Accordingly, such generators may need to be operated commercially rather than by the network operator. Whatever the outcome, the benefits should be maximised across the market to ensure least cost impacts on all South Australian electricity consumers, including those on the Eyre Peninsula.
8. Business SA acknowledges ESCOSA's comment that ElectraNet has indicated that some of its options may deliver reliability of supply at certain connection points that is better than that required under the Electricity Transmission Code. It would be useful to consumers if that aspect of what is proposed to improve reliability on the Eyre Peninsula could be further explained, for example which options are specifically referred to?
9. The first of SAPN's options would make the most use of existing generation assets but Business SA queries how dependent this option is on any decisions ElectraNet may take to upgrade the transmission network and supersede its requirement to contract the Port Lincoln generator. We are also concerned as to where network spending, which is ultimately recovered from consumers, is best targeted in so far as which aspects of the delivery of reliability should various levels of the market accommodate.



10. If the generation market is not adequately servicing the Eyre Peninsula, then the role of AEMO should come into play to determine how that situation can be remedied. However, if SAPN can improve its response to distribution network reliability shortcomings, through relatively low-cost measures such as targeted hardening of the network and through upgrades of remote monitoring and control of switches on poor performing feeders, that seems a natural role for a distribution network provider to play, particularly given the more consistent issues related to reliability on the Eyre Peninsula appear to emanate at the distribution level, not the transmission or generation level, despite obvious shortcomings during the blackout.

Akin to Business SA's advocacy prior to the blackout for an independent review of the NEM's transition to low carbon which protected both reliability and affordability, many such issues need to be viewed in the broader context of options available to ensure all costs and benefits of various options across the spectrum are weighed against one another and not just viewed in the context of what a distribution provider, transmission provider or generator alone may be able to achieve.

Accordingly, we support ESCOSA's draft recommendation that there may be benefits in pursuing a change to the NER, to strengthen the requirements for joint planning, but we are mindful that AEMO should also been involved given the integral nature of sufficient generation to the reliability outcomes.