

22 August 2017

Mr Nathan Petrus
Director Consumer Protection and Pricing
Essential Services Commission of South Australia
GPO Box 2605
Adelaide SA 5001

Dear Nathan,

Draft Report – Inquiry into reliability and quality of electricity supply on the Eyre Peninsula

SA Power Networks provides the following submission to the Essential Services Commission of South Australia's (**the Commission's**) Draft Report. We understand the complex and difficult issues involved in this Inquiry, and we will continue to engage with the Commission's process constructively, with an eye to better future outcomes for customers on Eyre Peninsula.

1. Reliability improvement to customers on Eyre Peninsula -

SA Power Networks has addressed, and will continue to address, distribution reliability of supply issues for customers on Eyre Peninsula. This focus has resulted in the average underlying distribution system reliability¹ of customers' electricity supply gradually improving over time. Underlying distribution reliability excludes interruptions from generation and transmission related outages and outages during major severe weather events. The major cause of the decline in the reliability of customers' electricity supply in recent history has been due to transmission and generation related outages.

The Draft Report implies that there are SA Power Networks project options to improve reliability to some customers on Eyre Peninsula that would have a net benefit, and that the Australian Energy Regulator (**AER**) may fund those projects, pursuant to a suitable proposal from us. The regulatory framework within the National Electricity Rules (**NER**), and the AER's application of the framework, challenge this view. We point out that:

- The NER are strongly orientated to ensuring that distribution network service providers (such as SA Power Networks) are funded for efficient maintenance of reliability performance in line with jurisdictional standards (refer NER 6.5.7).
- As part of our last regulatory reset, we submitted a reliability improvement project for Elliston on the back of our community engagement at the time relating to poorly performing feeders. The Elliston project had the least (negative) differential between the costs and benefits of the 10 similar projects. The proposal was rejected by the AER.
- In support of the Commission's current inquiry, SA Power Networks submitted nine potential options, from a whole of industry perspective, that could improve reliability to customers on Eyre Peninsula. The Commission's analysis of these options showed that only two of the nine had a net benefit under the calculation approach adopted. Benefits for both of these options related to mitigation of failures of the upstream (non-distribution) electricity system (ie transmission and generation failures/shortfalls). Under the current regulatory framework,

¹ Refer Commission's Draft Report – Inquiry into the reliability and quality of electricity supply on the Eyre Peninsula Figure 3.1 Pg.8

which does not take a whole of industry perspective, these two options would likely fail AER tests if proposed by SA Power Networks.

That said, the current regulatory framework allows funding to improve reliability where the cost of the improvement is less than the customers' willingness to pay measured using the Australian Energy Market Operator's (AEMO's) value of customer reliability. The funding can be provided directly by the AER when approved in a distributor's regulatory determination or indirectly via incentives provided by the AER's Service Target Performance Incentive Scheme. Unfortunately, given the relatively large costs, and relatively few customers, involved in improving reliability outcomes across Eyre Peninsula locations, neither of circumstances are considered likely to eventuate. To ensure improved reliability outcomes for Eyre Peninsula customers under the current regulatory framework, a jurisdictional imperative, such as an amendment to the reliability service standards for Eyre Peninsula customers, is a more likely pathway.

2. Joint planning

The Draft Report infers that SA Power Networks may not be engaging in adequate joint planning as required by the NER. On the contrary, SA Power Networks and ElectraNet undertake joint capacity planning on an annual basis as required by the NER. This joint planning is about delivery of the lowest cost options for addressing an 'identified need' (eg capacity constraint) within the electricity transmission and distribution networks. An identified need might otherwise be where a network service provider is not complying with other regulatory obligations (eg a reliability service standard) and investment in the network is required to comply with that obligation. If the Commission believes that such joint planning aimed at reliability outcomes might be improved, we consider the Draft Report should clarify that this is a matter related to future amendments to the regulatory framework, as opposed to our compliance with the current framework.

3. Quality of supply

In the Draft Report, the Commission states that there is anecdotal evidence of poor quality of supply in parts of Eyre Peninsula. SA Power Networks has no evidence that there is a systemic quality of supply problem on Eyre Peninsula. Where localised quality of supply issues are identified, SA Power Networks addresses the issues within the timeframes agreed with the Commission.

4. Service Standard Framework for 2020-25 Regulatory Control Period

The Commission is aware SA Power Networks has commenced the second phase of our Community Engagement Program, which includes several workshops held around South Australia (SA). Preliminary feedback is that customers in general may be willing to fund appropriate targeted improvements in the reliability of electricity to 'poorly served' customers in regional areas of SA. We look forward to engaging with customers and the Commission to explore this feedback in more detail as part of finalising the Service Standard Framework for the 2020-25 Regulatory Control Period (RCP).

If you wish to discuss our submission in more detail or raise any issues, please feel free to contact either Grant Cox (0403 582 024) or myself.

Yours sincerely,



Wayne Lissner

A/General Manager Corporate Strategy

