

7 February 2018

Ms Rowan McKeown
Senior Policy Officer
Essential Services Commission
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Business SA
Chamber of Commerce
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Working for your business.
Working for South Australia

Dear Ms McKeown

I write in response to ESCOSA's request for submissions on its 'objectives and process' paper for the upcoming SA Power Networks 2020 reliability standards review.

Executive Summary

- Events which have transpired over the past couple of years have brought a much sharper focus to electricity reliability across the entire State and highlighted the cost to the economy of not having a satisfactory level of reliability.
- Business SA acknowledges the inherent trade-off with respect to the cost and value of collecting data to determine and monitor reliability standards for SA Power Networks. However, considering this review process occurs only once every five years, there is good reason to ensure the first review following an unprecedented level of reliability shortfalls in South Australia is informed by adequately granular data.
- South Australia's regions make a substantial economic contribution to the State, particularly our export markets, and through this process ESCOSA must ensure that electricity reliability standards for regions are more clearly defined and monitored.
- Reliability cannot come at any price and through this process ESCOSA needs to be mindful of the significant price rises already incurred by businesses and consumers more broadly over the past couple of years when determining if and how to increase any particularly reliability standard for SA Power Networks.

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

Yours sincerely,

Anthony Penney

Executive Director, Industry and Government Engagement





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:

- At an estimate cost of \$450 million¹, South Australia's 2016 state-wide blackout crystallised the importance of electricity reliability for business and set the tone for a trend towards many small businesses taking reliability issues into their own hands with back-up diesel generators, typically not the most economic nor environmentally efficient outcome for the grid at large.
- 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 values of regulatory asset bases.
- For South Australia's small market customers, which include most small businesses, 2016 bill increases were approximately 10% on average, depending on the retailer, and small businesses again absorbed 20% bill increases on 1 July 2017.

Key Policy Points

1. Business SA acknowledges that individual businesses' experiences of reliability are just that, their experiences, and ESCOSA needs to be careful in relying solely on reliability data at an aggregated feeder level which may not necessarily reflect the experiences of individual consumers.

Business SA recognises there must always be a balance between the provision of reliable and affordable electricity to all customers and particular costs involved for maintaining reliability for some small subsets of customers.

It may be the case that it will be more economical and efficient to set reliability standards on some form of aggregated level, be that by region, or by feeder type, however this does not mean to say that reporting reliability outcomes at a more granular level cannot occur.

Business SA understands the granularity of data used in ESCOSA's recent inquiry into reliability on the Eyre Peninsula goes beyond the typical level of analysis which would go to determining whether SA Power Networks complied with mandated reliability standards. Subsequently, in light of this current review occurring only once every five years, ESCOSA should be requesting the same granularity of data across South Australia to determine how reliability standards for the next five years from 2020 are determined.

2. Business SA recognises that voltage supply testing over recent 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.

ESCOSA should also be considering whether quality of supply standards should be set in conjunction with reliability standards, particularly as SA Power Networks' recently stated that 'rapid growth in solar PV installations has accelerated the number of quality of supply issues reporting causing significant local effects in terms of voltage fluctuation, often affecting surrounding customers.'²

¹ Note the estimated result from our Blackout Survey Report has been updated to reflect additional costs reported by BHP in February 2017. Note Adelaide Brighton Cement has also reported power outage costs of \$9m for 2016 but did not isolate to specific incidents. Based on the latest available information, Business SA now estimates the total costs of September 2016's State-wide blackout to be approximately \$450 million.

² SA Power Networks, Distribution Annual Planning Report, 2017/18 to 2021/22, page 23



More specifically, SA Power Networks observed a 'significant increase in customer complaints arising from voltages exceeding prescribed limits and in October 2017, experienced the largest number of customer enquiries every recorded, nearly twice the historical 10-year average.'³

3. The reality of how consumers view reliability outcomes is that little consideration goes into which layer of the electricity sector is responsible for the lights going out. ESCOSA's process may only relate to determining reliability standards for the South Australian distribution network but consideration should be made as to how such standards might fit within a broader reliability standard to cover the distribution, transmission and generation components of the electricity industry. This would allow for adequate consideration of how consumers value reliability across the board, and to what extent the distribution network, transmission network and generation sector are responsible for delivering a required level of reliability, both as individual components and as a collective.
4. There is no doubt that regional South Australia has suffered more from unreliable power over the past eighteen months, and Business SA supports ESCOSA's focus on the Eyre Peninsula and Adelaide Hills as two priority areas to address, including from a tourism perspective.
5. Business SA has some reservations about the fact that a draft decision will be released in March 2018, and whether this timeframe allows for adequate consideration and action of any suggestions put forward during this consultation process.
6. ESCOSA's use of discrete choice modelling to ascertain consumers' preferences for a range of reliability standards may well be the most statistically valid method to analyse consumers' value of reliability but there are still a number of matters that need to be considered for in the survey design and sample characteristics to produce credible results:
 - the value proposition for businesses and consumers with respect to reliability can vary significantly for a whole host of reasons, but largely the quantum of costs involved for businesses is typically much higher. For example, the median loss to South Australian businesses during the state-wide blackout was approximately \$5,000⁴;
 - akin to SA Water's planned consumer willingness to pay survey for its upcoming regulatory determination, any survey should consider preferences based on an individual starting value, in that case a customers' actual bill;
 - unless it is adequately explained, consumers are unlikely to be able to differentiate between how they value reliability from the distribution network, transmission network or generation sector. Accordingly, ESCOSA should consider undertaking a survey which measures the value of reliability more broadly, and then adjust for some relative factor to determine how to set SA Power Networks' reliability standards. Such a survey would also be quite helpful to inform energy policy decisions taken more broadly in South Australia;
 - AEMO's value of customer reliability values were prepared in 2013-14, almost five years ago, and considering the significant spate of recent reliability issues experienced in South Australia, Business SA questions their ongoing validity. A more tailored approach for South Australia is warranted to reflect that consumers are now in a much more informed position to advise on how they value reliability. Such an approach, which could be conducted in conjunction with AEMO, would assist ESCOSA to ensure appropriate standards are applied to SA Power Networks over 2020-25.
7. Business SA supports reliability standards being determined on a regional basis to better align with broader accountability structures in the State, and to reflect the nature of more localised reliability issues which have come to bear in recent years. There are no electorates for short or long rural feeders, and while this is a simplistic view to make the point, there needs to be a stronger degree of transparency around specifically where reliability issues actually occur.

Our policy position on this issue remains largely unchanged from our response to your 2013 review;

'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.'

³ SA Power Networks, Distribution Annual Planning Report, 2017/18 to 2021/22, page 43

⁴ Business SA, Blackout Survey Results, November 2016