13 September 2018

Ms Rowan McKeown
Senior Policy Officer
Essential Services Commission
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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 Draft Decision for SA Power Networks Reliability Standards Review for 2020 to 2025, following on from our February 2018 submission to your 'Objectives and Process' paper.

Executive Summary

- Business SA supports ESCOSA's proposed move back to the region-based reliability standards that existed prior to 2015 and agrees that major town centres should be delineated from broader rural areas to reflect distinct reliability outcomes, enabling better targeting of areas with poor reliability outcomes.

- Business SA is encouraged by ESCOSA's thorough survey work to understand willingness to pay for reliability and Guaranteed Service Level (GSL) payments, although care needs to be taken in interpreting how to treat consumers on Low Reliability Distribution Feeders, particularly when they are most likely to be impacted by changes to GSL payments.

- South Australia's regions make a substantial economic contribution to the State, particularly our export markets which includes tourism and while it is only one factor to consider, tourism is experiencing record visitor expenditures and if we want those visitors to continuing traversing the width and breadth of our state, it is important that their expectations of electricity reliability are met.

- 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 few years when determining if and how to increase any particular 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 state's peak business membership organisation, and was founded in 1839. Our 3,200 members are affected by this matter in the following ways:

- At an estimate cost of $450 million[1], South Australia's 2016 state-wide blackout crystalised 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 a return to the spending patterns associated with that period which have been compounded through rising values of regulatory asset bases.

- South Australia's regions make a substantial economic contribution to the State, particularly our export markets, which includes tourism, and while there is always a cost-benefit trade-off with respect to reliability in some thinly populated areas of the state, we should not forget where the bulk of our export revenue actually comes from.

Key Policy Points

1. Business SA supports ESCOSA's proposed approach to determine SA Power Networks' reliability performance based on 10 key regions:

   Adelaide Business Area
   Adelaide Metropolitan Area
   Major Regional Centres
   Barossa, Mid-North and Yorke Peninsula
   Eastern Hills
   Eyre Peninsula
   Fleurieu Peninsula (including Kangaroo Island)
   Riverland and Murraylands
   South East
   Upper North

   As per our long-standing position on this matter, we support 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. These regional boundaries also broadly align with those utilised for Business SA's biennial regional voice surveys.

[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.

While Business SA accepts ESCOSA's rationale for separating out major regional centres based on their stronger historical reliability performance, if SA Power Networks fails to meet this standard, any shortfalls should be disaggregated for those specific regional towns where network performance contributed to the overall failure.

Considering the Eastern Hills is being partitioned from the Fleurieu Peninsula in a restructure of the regions which existed prior to 2015, Business SA requests that historical performance data for the Eastern Hills be similarly analysed in the final report. The Adelaide Hills are a major tourism and agricultural region, and while we recognise that major weather events have severely impacted this area in recent years, we are conscious of the wider consequences for not getting reliability right in areas of broader economic significance for South Australia. A review of SA Power Networks' performance in the Eastern Hills region should also consider how resilient the network needs to be in areas with frequent adverse weather events.

Business SA recommends the level of data granularity utilised for ESCOSA's Inquiry into reliability and quality of electricity supply on the Eyre Peninsula be similarly requested from SA Power Networks to provide fulsome analysis of the Eastern Hills region's performance over the past decade.

2. From Oakley Greenwood's contingent valuation results derived from its willingness to pay survey of South Australian electricity consumers, there was one reliability improvement scenario with a net benefit, $1.9 million; for an average 10 percent reduction in interruption frequency (associated with a 90-minute annual average reduction in outage duration) for 27,000 customers on Low Reliability Distribution Feeder (LRDF)s.

   While we understand that only one of four consumer segments were willing to pay to fund that reliability improvement, there should still be adequate consideration for the fact that it still resulted in a net benefit from consumers willing to pay, and we would also point out that when LRDF consumers were asked to fund their own reliability improvements, this was a much higher relative cost for each consumer as a result of being a very narrow cohort. Therefore, the results may have varied if LRDF consumers were asked to pay for their own reliability improvements on the basis that all consumers contributed the same cost, particularly in the context of 'state-wide pricing' which exists in South Australia.

   There may well be valid reasons not to oblige SA Power Networks to make long term investments to improve reliability in areas where technological advancements could supersede network investments, but if that is the case, it should be more clearly stated in the final report. For example, while it may not be considered prudent right now, those reasons should be outlined and it may also be the case that if SA Power Networks are going to need to experiment with future non-network solutions, that they be specifically targeted for LRDFs.

3. Business SA recognises that ESCOSA have used the Australian Energy Market Operator (AEMO)'s value of customer reliability (VCR) values as a basis of comparison and to validate their willingness to pay survey results. Those 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. Notwithstanding, we do accept that the Australian Energy Regulator (AER) has recently been tasked with developing a new VCR methodology, and note the rule change requires the methodology and value estimates to be updated on a five yearly basis. Considering the AER has until December 2019 to determine new VCR values, there is still time to sense check any conclusions from ESCOSA's determination of SA Power Networks reliability standards to apply from mid-2020 onwards, a point which should be clarified in your final report.

4. Business SA acknowledges that while 73% of customers were satisfied with reliability in 2018, this was down from 88% in 2013, a 17 percent decline. This is a substantive movement and while not surprising in light of recent reliability events, it should still be cause for concern and necessitate a sharp focus for ESCOSA setting the reliability standards to a level which is satisfactory and meets community expectations, including that of businesses. This should also be articulated more clearly in the executive summary of the final report.

   While many South Australian businesses have had to take matters into their own hands in recent years, they are still paying the same if not a higher price for a level of reliability they have historically received and the national electricity objective has not changed, that 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:
   - Price, quality, safety and reliability and security of supply of electricity; and
   - The reliability, safety and security of the national electricity system.

5. Business SA understands ESCOSA's focus on better targeting of Guaranteed Service Level (GSL) payments to ensure the costs of the whole scheme are affordable, and appropriately drive SA Power Networks to improve their performance, including the reintroduction of annual average restoration time targets for each region. This is particularly important in the context of a year like 2016/17 where GSL payments were $28.4 million but would have only been $16.4 million under the proposed structure which replaces duration payments with annual total duration payments. However, we do recognise that for some existing instances, for example a one off 50-hour outage, an impacted customer who receives $605 now, would only receive $150 which is materially less and needs to be carefully considered.

   We also note the willingness to pay survey results actually show a slight majority willing to pay for duration payments, 52 per cent, which has to be considered against ESCOSA's decision not to require SA Power Networks to improve reliability on LRDFs based on a majority of consumers being unwilling to provide a subsidy. Likewise, there may be other mitigating factors that need to be considered for when deciding an appropriate regulatory response, including that many consumers on LRDFs will actually receive substantially lower GSL payments under ESCOSA's proposed structure. As the draft report finds, since 2010, 37 per cent of GSL duration payments went to consumers on LRDFs. Consequently, changes to the whole structure will disproportionately impact on a narrow consumer cohort.

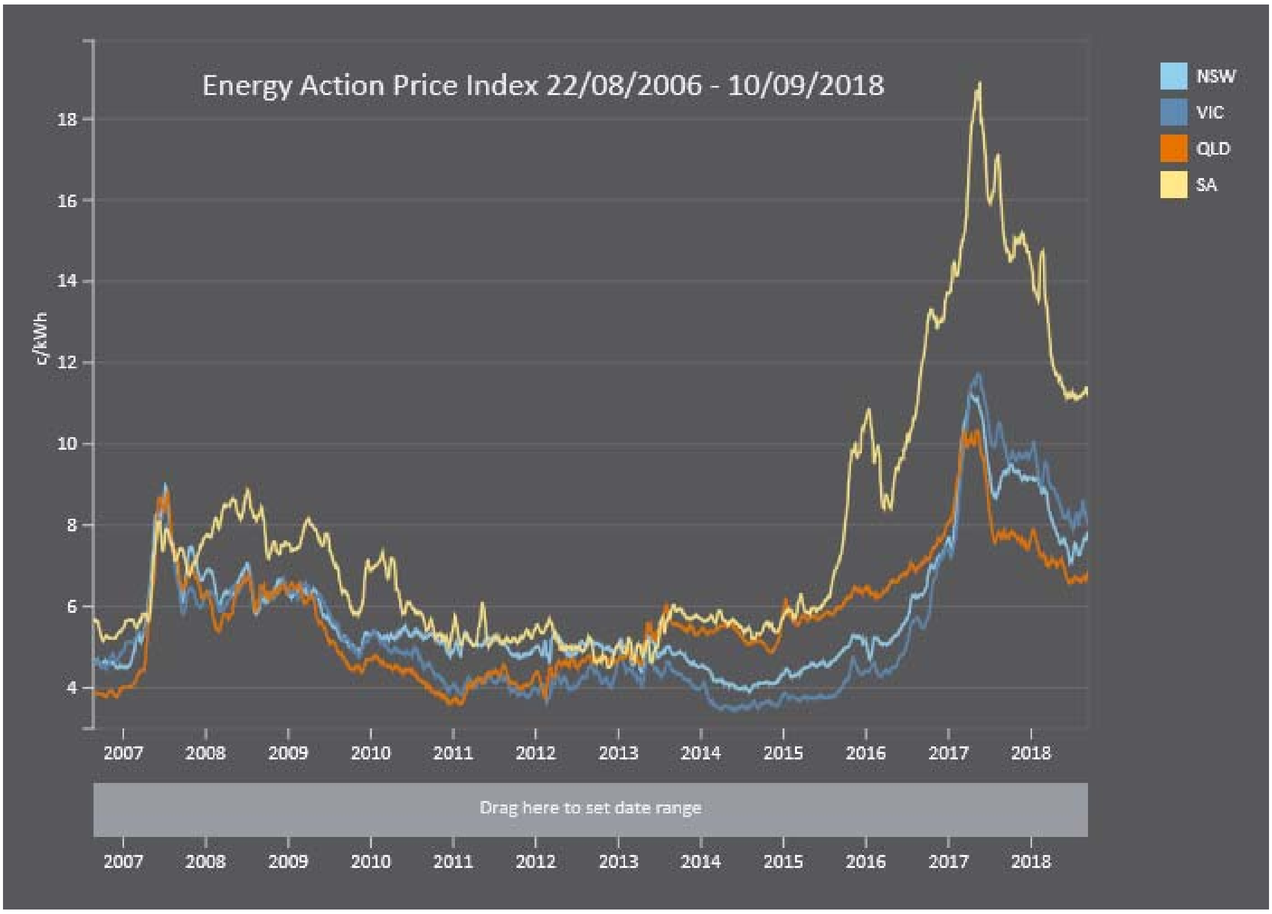
   Business SA acknowledges ESCOSA's draft report finding that:
   'duration payments for one-off outages do not effectively target customers experiencing ongoing and persistent reliability issues. Though payments are made to these customers, they are also made to customers who typically have average or good reliability.',

   However, the reality is that proportionately, a high percentage of LRDF customers receive GSL payments compared to other customers which must be appropriately considered for in the aggregate response to reliability outcomes for LRDF customers.

6. Business SA recently conducted our second biennial Regional Voice survey where we had over 450 responses from businesses across regional South Australia. This survey was conducted in partnership with regional Chambers of Commerce and Regional Development Australia boards. Businesses were surveyed on a range of issues and on aggregate, electricity costs came out as the number one challenge with electricity reliability and quality of supply coming in at number four. Considering the range of issues facing businesses that they were asked to choose from, over twenty, the fact that two of the top five related to electricity is quite concerning.

While Business SA recognises and supports the need to ensure SA Power Networks are appropriately incentivised to deliver reliability in a cost-effective manner, if as a state we genuinely want to encourage economic growth outside Adelaide, we need to ensure amongst other factors that electricity reliability is at acceptable levels. For example, we are conscious of the growing importance of tourism across the state and the need for tourism operators to have adequate reliability of electricity, including for telecommunications. In fact, tourism expenditure in South Australia rose to a record $6.7 billion in the 12 months to March 2018[2].

7. While by some metrics electricity prices in South Australia have eased off their 2017 highs, they are still considerably above long-term averages and in deciding upon SA Power Networks' reliability standards, ESCOSA needs to bear in mind the broader context of where South Australian electricity costs sit today. For example, the Energy Action price index which tracks reverse auction outcomes for commercial and industrial electricity customers demonstrates that prices remain considerably elevated for South Australian businesses[3]. Furthermore, the recent Australian and Competition Commission (ACCC) Retail Electricity Pricing Inquiry found small South Australian businesses faced the highest electricity costs in the nation, and the third highest in the world.



[2] State Budget 2018/19, Budget Statement, Chapter 8: Regional South Australia, p120
[3] Energy Action, Energy Action Price Index, http://www.energyaction.com.au/energy-procurement/aex-reverse-auction/energy-action-price-index