

9 January 2023

Mr Adam Wilson  
Chief Executive Officer  
Essential Services Commission of South Australia  
GPO Box 2605  
Adelaide SA 5000

Sent via email: [escosa@escosa.sa.gov.au](mailto:escosa@escosa.sa.gov.au)

Dear Mr Wilson

### **Inquiry into Retail Energy Prices**

SA Power Networks strongly supports and welcomes the opportunity to provide a submission to the inquiry being held by the Essential Services Commission of South Australia into evidence of, or the potential for, a party in the electricity industry and/or the gas industry to earn or have earned sustained super profits to the financial detriment of South Australian energy consumers.

Throughout 2022, we have been engaging extensively with our customers and key stakeholders on our future plans and priorities. They have consistently told us that what is important to them is:

- an affordable and equitable energy supply;
- a reliable, resilient and safe electricity network;
- improved customer experience, including more choice and empowerment; and
- the enablement of more clean energy to unlock future value for our State.

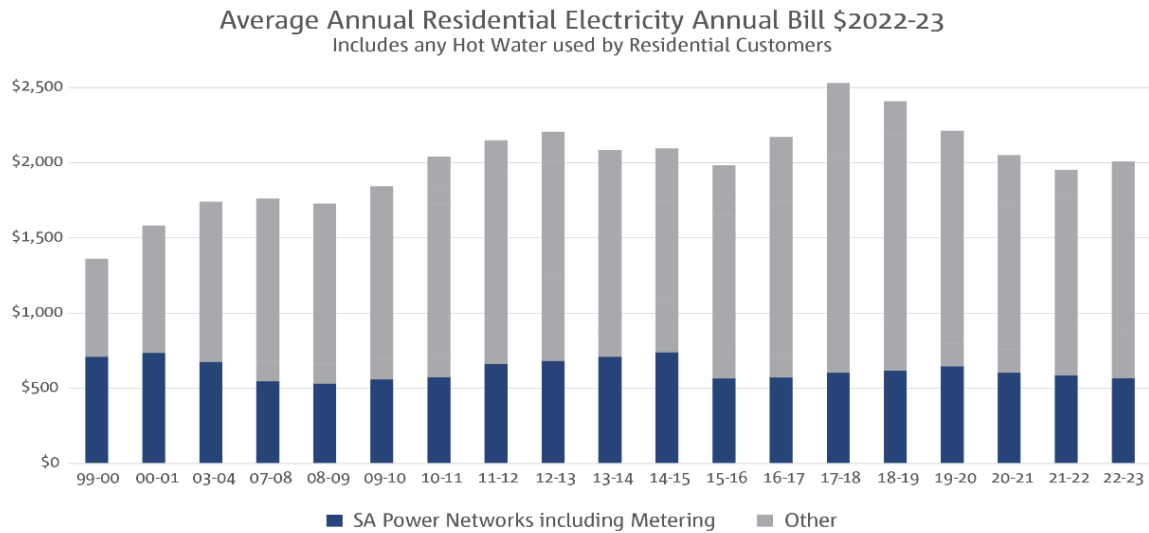
SA Power Networks has delivered and continues to deliver a safe, reliable and affordable electricity supply to South Australians. Since its privatisation, the average number of minutes off supply for SA Power Networks customers has reduced from 185 minutes to only 135 minutes each year, whilst our component of the annual average residential electricity bill has reduced in real terms by approximately 20%. SA Power Networks continues to rank as the number one distribution network service provider for economic efficiency under the Australian Energy Regulator's (AER) independent assessment. We have also enabled record levels of rooftop solar to connect to the distribution network and we want to continue to be the enabler of low cost and renewable distributed energy resources on the network.

As a monopoly business our revenue is independently determined and capped by the AER on a 5-yearly basis. This follows an extensive process of engagement with customers and stakeholders to understand the services they require and their willingness to pay for the level of service they might seek. The AER also approves our network tariff structures every five years and our annual network price changes. Generators and retailers have no equivalent level of scrutiny regarding their pricing and efficiency and there is little to no transparency for what amounts to approximately 40% of a residential customer's electricity bill.

## Current Electricity Prices

SA Power Networks' distribution charges comprise around one third of the total annual residential retail bill. Since privatisation, while total retail electricity bills have increased substantially, SA Power Networks' component of annual average residential electricity bills has reduced in real terms by approximately 20% from around \$710 in 1999-00 to \$570 in 2022-23 as shown in Figure 1 below. We also forecast our component of the average residential bill to remain stable for at least the next decade.

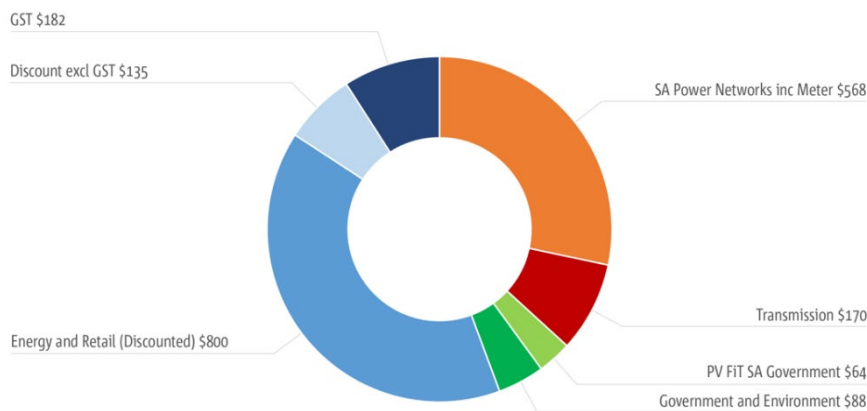
**Figure 1**



Since 2019 the AER has determined a Default Market Offer (DMO) which is the maximum price that retailers can charge electricity customers on default contracts known as standing offer contracts. Based on the 2022-23 DMO and the annual average usage for a residential customer in South Australia<sup>1</sup>, a customer on a standing offer will pay \$2,007 in 2022-23, comprised of the components outlined in Figure 2.

**Figure 2**

**Average Annual Residential Bill 2022-23 \$2,007 Excluding Discount. Annual Usage 4,724 kWh**  
Includes any Hot Water used by Residential Customers



<sup>1</sup> The average annual residential usage is determined by total residential consumption (including any controlled load use by some customers) divided by the number of residential customers. The Default Market Offer pricing has been used to determine the retail bill for the average customer in 2022-23.



## ***Electricity Innovations to Reduce Cost Impacts***

SA Power Networks has introduced network pricing signals aimed at encouraging customers to consume more electricity when there is spare capacity in the network (and when energy is cheap) and to consume less at times when network capacity is limited. This encourages customers to use energy from the cheapest sources of rooftop and larger-scale solar, promotes increased utilisation of the existing network, reduces the need for network augmentation and lowers the unit network price for all customers. Modelling commissioned by SA Power Networks forecasts that the average distribution cost, in c/kWh, will continue to decline through to 2050 due to increased energy network throughput, as it becomes increasingly economic for customers to move away from alternative fuel sources in their homes and transport.

Our residential interval meter network tariffs provide pricing signals to encourage customers to shift loads to the middle of the day when there is an abundance of energy in the network. Between 10am and 3pm is the cheapest time of the day for residential customers to access the distribution network. Load shifting can be achieved via appliances with time clocks such as washing machines, dishwashers and pool pumps, as well as pre-heating and pre-cooling houses. Solar generation can be stored via batteries to enable self-supply in the evening when energy is more expensive. Electric vehicle charging is also an emerging opportunity as is the broader shift to 'smart homes', which will be focused on optimising electricity and network use, delivering benefits to consumers, the network, and the market. Load shifting can also be achieved by retailers having their controlled load (hot water) shifted to the middle of the day, away from the traditional off-peak overnight period. We have seen some retailers adapt to this arrangement with up to half of their controlled load shifted to the low cost 10am to 3pm time window.

During our engagement with customers, a recurring theme has been how difficult they find our industry to navigate, and uncertainty as to who they can trust to provide good advice on retail offers and investments that may help reduce their energy costs. This complexity and lack of trust in turn leads to inaction. We observe that the provision of trusted energy advice could enhance competition in the market, putting downward pressure on price. SA Power Networks is considering the role it might play in providing such advice as we develop our 2025-30 Regulatory Proposal.

SA Power Networks plays a key role in delivering a safe, reliable, and affordable energy supply to South Australians. A great deal of our innovation is centered on optimising network use and our network pricing will continue to encourage increased utilisation of the existing distribution network, along with the connection of more renewable consumer energy resources, at least cost for all customers. This will help deliver lower electricity costs for South Australians.

### ***Summary***

We strongly support this review to ensure that customers are paying no more than is absolutely necessary for this essential service. SA Power Networks supports any actions that might be taken to improve energy affordability.

In our role as distribution network service provider, we have reduced our component of the residential bill by 20% in real terms since privatisation, whilst also trying to provide customers with opportunities and incentives to reduce their energy costs. Our modelling suggests that our costs will remain steady over the mid-term and reduce over the long-term on a c/kWh basis. However, we have seen continual increases in the wholesale and retail components of the bill that we consider are worthy of review.



Based on feedback from a recent extensive engagement process, we consider that a more effective advisory service to customers could enhance energy affordability by supporting customers to make more efficient energy choices.

If you have any queries or require further information in relation to our submission, please contact Helen White on [REDACTED] or [REDACTED].

Yours sincerely

[REDACTED]

Patrick Makinson

EXECUTIVE GENERAL MANAGER GOVERNANCE AND REGULATION

