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Email: submissions@aemc.gov.au

Dear Mr Khan

ANNUAL NETWORK PRICING ARRANGEMENTS – ERC0149

SA Power Networks provides the following comments on IPART's proposed rule change request that seeks to modify the annual network pricing arrangements for electricity network service providers.

Timeliness of Annual Pricing Process

SA Power Networks has had its annual pricing proposals reviewed by the AER since May 2010. Prior to that, the process was managed by ESCoSA.

The processing of SA Power Networks annual pricing proposal is time constrained as the March CPI is not available until the last week of April and Transmission prices are generally not available until the middle of May. To date, we have found that the AER has been able to complete its reviews and approve network prices by the last week of May or the first week of June. SA Power Networks considers that this is an adequate time for retailers to undertake their necessary processes.

SA Power Networks also notes that retail price regulation no longer applies in SA as of February 2013.

As SA Power Networks is under a price cap regime a critical input into the development of the annual pricing proposal is the annual inflation rate as at the March Quarter. Under the price cap regime there is no true-up on under recovered revenue from one regulatory year to another.

Accordingly, any consideration of an alternative to the current processing and approval of annual prices is necessarily constrained between the end of April and the 1 July start date for network price increases. Such consideration needs to take account of the existing steps undertaken as follows:

- Transmission price setting by the TNSP;
- Distribution price submission to the AER by the DNSP with estimated TUoS prices;
- Distribution price submission to the AER by the DNSP with final TUoS prices;
- Distribution price submission review and approval by the AER; and
- Inclusion of approved network prices into retail offers and into customer bills for usage post 1 July (note – the requirements for this point may vary across jurisdictions. In NSW, IPART does this to determine regulated prices).

While SA Power Networks appreciates the desire to provide customers with sufficient notice of price changes any expectation that all the steps in this process can be completed by 2 June is unrealistic and that a more realistic timeframe for all stages for retail prices to be available is the middle of June (say two weeks notice ie 16 June).

One opportunity that could assist this latter time being achieved is if the Transmission prices can be set and announced by the end of April as this would remove the need for the AER to receive two separate pricing proposals from distributors. Associated with this would be the need to change the lodgement date for the distribution pricing proposals from the current 30 April to say the 5 May.

Variation in Prices from Expected Price Trends

SA Power Networks pricing proposals has applied a 'vanilla' approach to price increases in each of the last three pricing proposals. There has not been any attempt to make structural or differential price changes for customers with tariff elements being increased by the same factors for all customers. The exceptions to this has been where the application of locational transmission prices for very large customers (above 40 GWh pa) and the jurisdiction-specific constraint on changes to the supply charge for small customers (below 160 MWh pa) which is capped at a \$10 pa nominal increase.

Notwithstanding this approach of applying the "vanilla" approach (to achieve the allowed increase in revenue through the price cap regime) network prices and other charges have been impacted by a number of economic regulatory changes which have impacted the quantum of the price to consumers. These include:

- The lodgement of the 2010-11 price changes and price structure changes outcomes arising from the AER's final decision on the pricing determination for the period 2010-2015;
- The amendment to the 2011-12 price changes (lodged on 30 April 2011) as result of the Australian Competition Tribunal findings on the gamma and easements appeal. This resulted in the distribution X-factor for 2011/12 increasing from -5.75% to -18.10%;
- The 2012-13 network prices were amended for the change in the way that solar FiT payments were recovered from customers. In February 2012 SA Power Networks received AER approval to convert from a post-event pass-through for PV FiT payment recovery to the jurisdictional scheme arrangement (JSA) available under the NER. The basis of the JSA is that solar FiT payments are recovered in the year they are paid with an annual true up process. This change removed the allowance for solar FiT payments from SA Power Networks distribution charges (the 2012/13 X-factor went from -7.00% to -4.97%). A transparent charge under the JSA arrangements meant that a recovery of solar FiT payments of \$160M was being recovered from customers in 2012-13. This amount comprised an estimated solar FiT payments for 2012-13 of \$80M expected and recovery of \$80M from previous years;
- In 2013/14, ElectraNet (and Murray Link) had their revenues reset. This has resulted in a 16% decline in prices which is greater than that forecast in the AER's draft decision.

Looking forward to 2014-15, SA Power Networks has prepared expected price trends in its pricing proposal, and copied this information onto its website for ease of access to customers and retailers. The final prices will vary as a result of actual CPI, any Service Performance Incentive Scheme outcomes recovered in 2014-15 but earned in 2012-13, changes in PV FiT payments and recovery (the scheme is still open to new applicants until September 2013) and the outcome of SA Power Network's application for a vegetation management cost pass-through. Prices will also vary slightly through the known distribution x-factor and transmission price changes.

So, despite best endeavours by the AER and SA Power Networks, there have been a number of reasons why prices have varied from those that can be anticipated in advance. Customers can be informed of expected price changes with 'vanilla' pricing and the future price trends outlook (as is currently available from the SA Power Network's website) but should be made aware that actual prices will only result when all factors are known and can be taken into account.

The historic price changes for a typical residential customer is documented in attachment 1, and shows the impact of the price changes discussed above.

Attachment 2 shows the information that SA Power Networks provides on the likely price path. It is aimed to be a simple, informative piece of information for customers and retailers. It is not about trying to explain the complexities of network pricing, regulatory decisions, pass-throughs and adjustments.

Changes in Pricing Outcomes for Individual Customers and Customer Segments

In the periods to 2010, SA Power Networks was required to ensure that no individual customer faced price increases exceeding a formulaic threshold. This ensured price certainty for every customer, but it stifled any attempt at tariff reform and tariff restructuring. The only time when this control did not apply was at the time of transitioning from one 5-year determination to the next 5-year determination.

The National Electricity Rules currently require that the average distribution price increase to different customer segments cannot be more than 2% above the average price increase for all customers. This effectively prevents significant rebalancing of the distribution component of tariffs in any year across different customer segments eg from the residential segment to the business segment. The Rules, however, do not require any control on individual tariff element price changes between years. This does enable tariff reform to be undertaken.

SA Power Networks encourages the AEMC to retain the current pricing arrangements in the Rules, pending any further rule change proposals that might arise under the Power of Choice proposals. A shift to a blanket protectionist approach to tariffs at this time could adversely impact any tariff reforms that may arise from the Power of Choice

Issues from Advancing the Date for Submission and Approval

As discussed above SA Power Networks operates under a price cap until June 2015. The Victorian distributors operate under a price cap until December 2016. These businesses need to include a CPI in the average price increase calculation that is not available until late April (SA)/October (Victoria). It is not possible to true-up any estimate of CPI under a price-cap, so it is not possible to advance the pricing proposal timeline for these businesses.

Under a revenue-cap it may be possible for businesses to have their pricing proposal submission date advanced if they are permitted to use an estimated CPI with a consequential true-up error correction in the subsequent year. Notwithstanding this option, it would be unwise to suggest that transmission prices should be prepared without time to analyse the outcomes of the preceding summer. Extreme summer demands can occur through to mid-March in SA and a period of time for

analysis should be allowed after that. It is unreasonable to expect that transmission prices should be available prior to the second week of April.

For your information we advise that SA Power Networks have been able to determine the TUoS component of network prices and to submit an amended pricing proposal to the AER within one week of receiving the transmission prices. So, any arrangement which enabled transmission prices to be known a week prior to the date for distribution lodgement would have the benefit of simplifying the current distribution lodgement process outlined above

New Tariffs

SA Power Networks supports the request that the network services provider should be able to demonstrate that adequate consultation has occurred with retailers and other stakeholders (including customer representatives) prior to proposing a new tariff structure to the AER in its annual pricing proposal. There was a similar requirement in South Australia under ESCoSA's EDPD that applied up to the 2009-10 prices. SA Power Networks has already committed to consult with stakeholders (including retailers and customer representatives) prior to introducing any new small customer tariff aimed at cost-reflective pricing.

Please call James Bennett, Manager Regulation on 08 8404 5261 if you wish to discuss aspects of this submission.

Yours sincerely,



Wayne Lissner
HEAD OF REGULATION

Historic Price Increases – SA Residential Customer Using 5 MWh pa

SA Residential Customer 5 MWh pa Network Charges excl GST						
	DUoS	Meter	TUoS Pass-Thru	PV Pass-Thru	Total	
2009/10	\$ 360	\$ 19	\$ 85		\$ 465	
2010/11	\$ 374	\$ 21	\$ 106		\$ 501	
2011/12	\$ 487	\$ 26	\$ 133		\$ 646	
2012/13	\$ 527	\$ 28	\$ 144	\$ 111	\$ 810	
2013/14	\$ 592	\$ 31	\$ 127	\$ 89	\$ 839	
Nominal Increase						
2010/11	3.7%	11.3%	24.1%		7.8%	
2011/12	30.4%	20.7%	25.5%		28.9%	
2012/13	8.2%	8.7%	8.3%		25.4%	
2013/14	12.3%	9.6%	-11.9%	-19.6%	3.6%	
Components of Total Increase						
2010/11	2.9%	0.5%	4.4%		7.8%	
2011/12	22.7%	0.9%	5.4%		28.9%	
2012/13	6.2%	0.3%	1.7%	17.2%	25.4%	
2013/14	8.0%	0.3%	-2.1%	-2.7%	3.6%	
note						
2009/10 meter price is from the Price Reset. There wasn't a separate meter price in 2009/10						
2009/10 DUoS includes the small pass-through for licences, undergrounding and PV						
2010/11 and 2011/12 DUoS prices were discounted for EDPD amounts to be returned to customers						
The principal increases in network prices occurred in 2011/12 DUOS from the Australian Competition Tribunal decision issued at the time of the pricing proposal, and the 2012/13 PV Pass-Through which was approved for implementation two months before the pricing proposal.						
Other increases have been in line with CPI, X-factors, EDPD adjustments and STPIS adjustments.						

Price Path Information – from SA Power Networks' Website

Overall price trends during the 2010-2015 regulatory control period



The expected overall price trends over the course of the regulatory control period are built up from the following components:

- SA Power Networks' distribution prices for standard control services, in accordance with the AER's 2010 determination, as amended by the May 2011 decisions of the Australian Competition Tribunal (in relation to the inclusion of easements in the regulatory asset base and corporate taxation allowance), and as further amended by the AER in February 2012 when the existing determination was revoked and substituted for feed-in tariff payments;
- SA Power Networks' prices for alternative control metering services, in accordance with the AER's 2010 determination, as amended by the May 2011 decision of the Australian Competition Tribunal (in relation to corporate taxation allowance);
- Transmission related prices, determined from ElectraNet's approved 2013/14 prices following their 2013 revenue cap determination. The 2014/15 price increases have been assumed at CPI+2.7%, in line with the AER's regulatory control period decision; and
- Forecasts for future period recovery of the SA Government PV FIT payments to qualifying generators under the JSO arrangement.

The projection for SA Power Networks' charges only for the remainder of this 2010-15 regulatory period is shown below in Table 1. Charges may vary significantly in 2015/16 following the 2015-20 regulatory reset outcomes for SA Power Networks.

Table 1 – SA Power Networks' distribution price trends over the regulatory period (nominal).

\$ nominal excl GST <i>Future CPI assumed 2.52%</i>	DUoS only excl GST \$/MWh pa		
	2012/13	2013/14	2014/15
Residential	105	118	120
Residential & Hot Water	78	87	88
Business Single	105	118	119
Business 2-Rate	82	92	93
Business Low Voltage Demand	52	58	59
Business High Voltage Demand	37	42	43
Zone Sub-Station Locational	12	14	14
Sub Transmission Locational	5	6	6

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The 'bundled' NUoS prices in Table 2 are the projected increases for the remainder of the 2010-15 regulatory control period. In addition to SA Power Networks' distribution charges, the bundled NUoS price includes the pass-throughs of the transmission and SA Government PV feed-in payments.

Table 2 – SA Power Networks' distribution price trends over the regulatory period (nominal).
Includes pass-through costs for transmission and SA Government PV Feed-In as well as SA Power Networks' charges.

\$ nominal excl GST <i>Future CPI assumed 2.52%</i>	NUoS only excl GST \$/MWh pa		
	2012/13	2013/14	2014/15
Residential	156	163	163
Residential & Hot Water	115	120	120
Business Single	163	169	170
Business 2-Rate	126	131	131
Business Low Voltage Demand	85	88	88
Business High Voltage Demand	70	72	72
Zone Sub-Station Locational	27	27	28
Sub Transmission Locational	27	26	27

