

5 January 2024

Department of Energy and Mining
By Email: dem.consultation@sa.gov.au

Dear Sir / Madam,

Electricity (General) Regulations 2012 Amendments – Submission by SA Power Networks

South Australia's future prosperity is reliant on delivering clean, reliable, and affordable energy, and ensuring every member of our community can share in its benefits. The electricity distribution system that we operate has a central role in this transition.

A key aspect of SA Power Networks' submission to the SA Government's *Green Paper on the Energy Transition* in 2023, was the critical need for an integrated energy plan that can manage State-based risks while still accounting for NEM level planning and progress. We see the Government's proposed 'planning and forecasting function' as a key lever to achieve several critical outcomes:

- Develop clearer visibility of the most technically feasible and economic mix of investments in grid, distribution and consumer scale generation and storage, and renewable firming options
- Determine potential future threats to security of supply, including shortfalls in capacity or underfrequency response. This would help to identify potential policy levers to address those threats and provide an effective advocacy tool at National level
- Provide a technical and economic basis to make decisions on the role of interdependent fuel sources in South Australia
- Unlock the significant economic and environmental benefits of Consumer Energy Resources (CER)
- Drive demand-side flexibility, which will be the key to unlocking spare network capacity, enabling customers to receive the full benefit from their energy-related investments, and ensuring an efficient transition for all customers
- Demonstrate the value of investing in the energy efficiency of South Australia's built environment and in particular, its existing housing stock, as a key mechanism to achieve the best whole-of-energy-system outcomes

Ultimately, an effective planning and forecasting function will maximise our State's ability to meet its net zero target, and to do so in a way which is more equitable, economic and efficient. This will mean a smoother energy transition for all South Australians. Formalising this function within the Department of Energy, including the obligation to report to the Minister, is an important step to inform better policy and strategic decision making about the State's energy transition. On the basis that the regulations do not create additional powers to influence energy market outcomes, we strongly support this direction.

While SA Power Networks appreciates the need to formalise a legislative structure as a key first step, there are several areas of concern which, if not addressed well, would compromise the intent of this important new function. Our key concerns are set out below.

1. Objectives

The proposed regulations focus specifically on assessing the 'least cost pathway' for the development of the South Australian power system. As a minimum, we consider that the regulations should acknowledge that any such pathway must be consistent with SA Government greenhouse gas emission reduction commitments.

Further, just as the National Electricity Objective (NEO) lays out a range of factors that need to be balanced to ensure the long-term interests of customers, we consider that the planning and forecasting function should consider broader objectives. We believe there are also significant risks in having an objective which does not formally acknowledge the need to balance cost of the pathway with reliability and security of supply, and that this should be further considered.

The Government may also wish to consider an explicit reference to equity, since least cost and equitable are not necessarily synonymous.

It is noted that the *Consultation Paper* discusses proposed benefits of 'informing the optimisation, location and scale of the necessary generation, storage, and other supporting infrastructure'. Although open to interpretation, it appears that there is a strong focus on supply-side policy and investment, as a result of this planning.

As set out in our *Green Paper* response, we consider that one of the biggest opportunities to flow from this proposed function, is better harmonisation of demand and supply-side planning. As a basic principle, policy and investment decisions in South Australia's homes and businesses (that is, behind the meter), will impact the level of investment needed on the supply-side. It is assumed that reference to our 'power system' does not include the built environment and/or behind-the-meter measures to optimise energy use. If this is the case, it should be addressed.



As an extension of the above, it is worth considering 'least cost energy services' as a key objective of the planning function. This is an approach which is being used by other jurisdictions to achieve a more cost-effective mix of supply and demand side measures. It has been explored in detail by the Energy Efficiency Council of Australia, which purports that if c/kWh is used as the sole metric of affordability, it can lead to perverse outcomes, such as discouraging efficiency to increase utilisation rates of the network in ways that would not actually reduce bills. It is a concept worthy of further consideration as part of this legislative proposal. The reference to 'energy services', rather than an energy pathway, is also more consistent with the NEO.

2. Resourcing

We consider that to implement this new function effectively, it will take considerable resourcing. Beyond the work of scenario modelling and forecasting itself, for effective outcomes, there will need to be a significant commitment to consultation (public, industry, tiers of government). Of critical importance would be the cross-agency coordination needed to develop and implement policies which interact with South Australia's energy landscape.

Equally, we consider that significant efficiencies could be possible if the new function can integrate effectively with existing market bodies and state-based authorities. Our business provides a significant amount of information to the Office of the Technical Regulator, the Australian Energy Market Operator and the Australian Energy Regulator. It is important that, wherever possible, additional requirements for information are streamlined with existing processes. This is an area where we seek to work closely with the OTR to maximise efficiency.

For example, State demand growth forecasts are presently undertaken by AEMO and used by SA Power Networks to forecast network demand and subsequent network constraints. Clarification is sought with respect to the nature of forecasting to be performed by the Planning and Forecasting function and any inputs required from SA Power Networks. We would be keen to avoid duplication of effort and any discrepancies from AEMO's demand forecasts. We would urge the Planning and Forecasting function to work to enhance existing processes rather than create new or distinct outputs that could otherwise create industry confusion and uncertainty.

Further, given that the costs of resourcing this function would be recovered through the licence fees of market participants, SA Power Networks would like to understand how contributions would be determined and whether the new function is likely to mean a significant increase in licence fees (which flow through to our customers). Given the State significance of this function, we propose that it would be appropriate for the SA Government to consider additional State Budget resources as part of the forward estimates.

3. Implementation and Consultation

As outlined above, a key concern is how this new function will integrate with existing processes in an efficient and effective way.



We consider that the SA Government must be clear on how the function will complement (and build upon) existing AEMO functions and how the function will be used to influence better outcomes for South Australia at the NEM level (i.e. will the OTR's report be used as a State-based advocacy tool for key ISP projects?).

It is noted that other jurisdictions are using a subsidiary of AEMO to do similar planning and forecasting work. We question, particularly regarding the ISP, whether South Australia will be at any disadvantage, as a consequence of performing this function independently.

Under the National Electricity Rules SA Power Networks is required to undertake joint planning activity with ElectraNet to ensure efficient planning outcomes and to identify the most efficient options to address identified needs. It would be valuable to understand whether the Planning and Forecasting Function will interact with this joint planning activity. Any such interaction with this process would need to be carefully considered to avoid duplication of effort and to avoid detrimental impact on efficient joint planning activity.

The above questions demonstrate the need for a formal governance / advisory body to sit across the new function and ensure that it is consulted on, resourced, and implemented effectively, and that it would perhaps be appropriate to formalise this in the regulations. It is noted that the proposed regulations also do not include a public consultation clause and we believe it is important to clarify if/how the public will be consulted in this process. We note that perhaps this could be via a consumer representative(s) on the respective advisory board.

SA Power Networks is encouraged by this State Government initiative to strengthen State planning, and maximise the economic, social and environmental opportunities associated with a more efficient energy transition.

While we strongly support the Government's direction, we urge that it seeks to leverage and integrate with existing frameworks and bodies as far as possible. We also consider that effective governance and consultation should be paramount in the design.

Should you wish to discuss this submission in further detail, please contact Cecilia Schutz, Advocacy and Policy Manager, on 0433 606 473.

Yours sincerely



Andrew Bills
Chief Executive Officer

