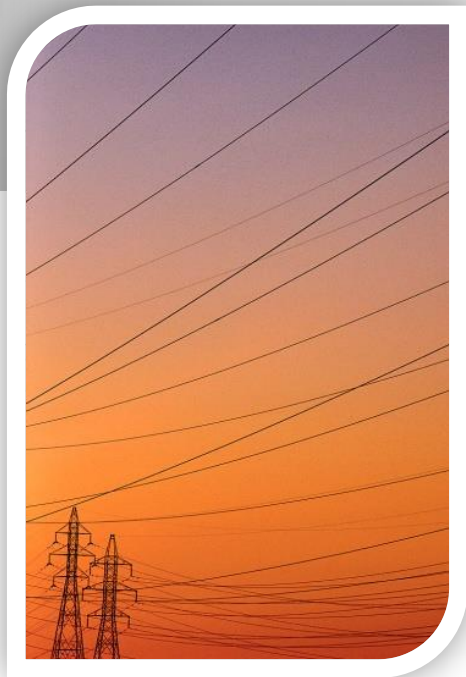


Australian Energy Regulator



**AER Preliminary decision for
SA Power Networks 2015–20**

**Conference
13 May 2015**

Today's agenda

- Welcome – Paula Conboy, AER Chair
- Presentations from:
 - Sebastian Roberts, General Manager, AER
 - Bev Hughson and Bruce Mountain, AER Consumer Challenge Panel
- Time for questions after presentations

Our preliminary decisions

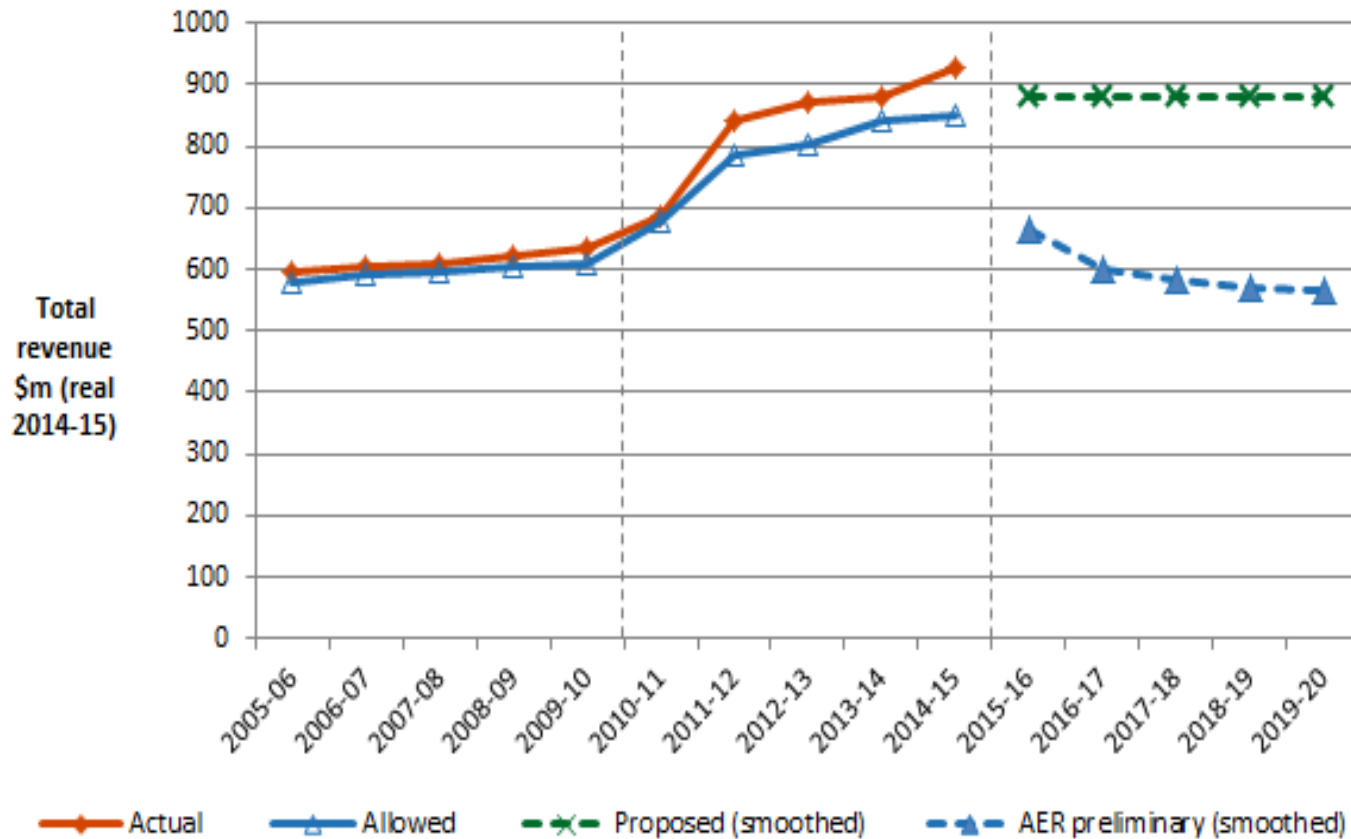
- Our preliminary decision reflects changes to the National Electricity Rules in 2012
- There are 24 constituent decisions covering revenue, operating and capital allowances, amongst other things
- We set the revenue a business may recover from customers, not its costs
- Preliminary decision – used to set prices for 2015–16

AER process

- Some highlights of the AER's process:
 - This decision implements the AER's better regulation program
 - Extensive consultation with stakeholders
 - Input from Consumer Challenge Panel
 - Consideration of 31 submissions on SA Power Networks' proposal
 - Engineering input from AER's Technical Advisory Group
 - Consultancy input on willingness to pay survey

SA Power Networks – total revenue

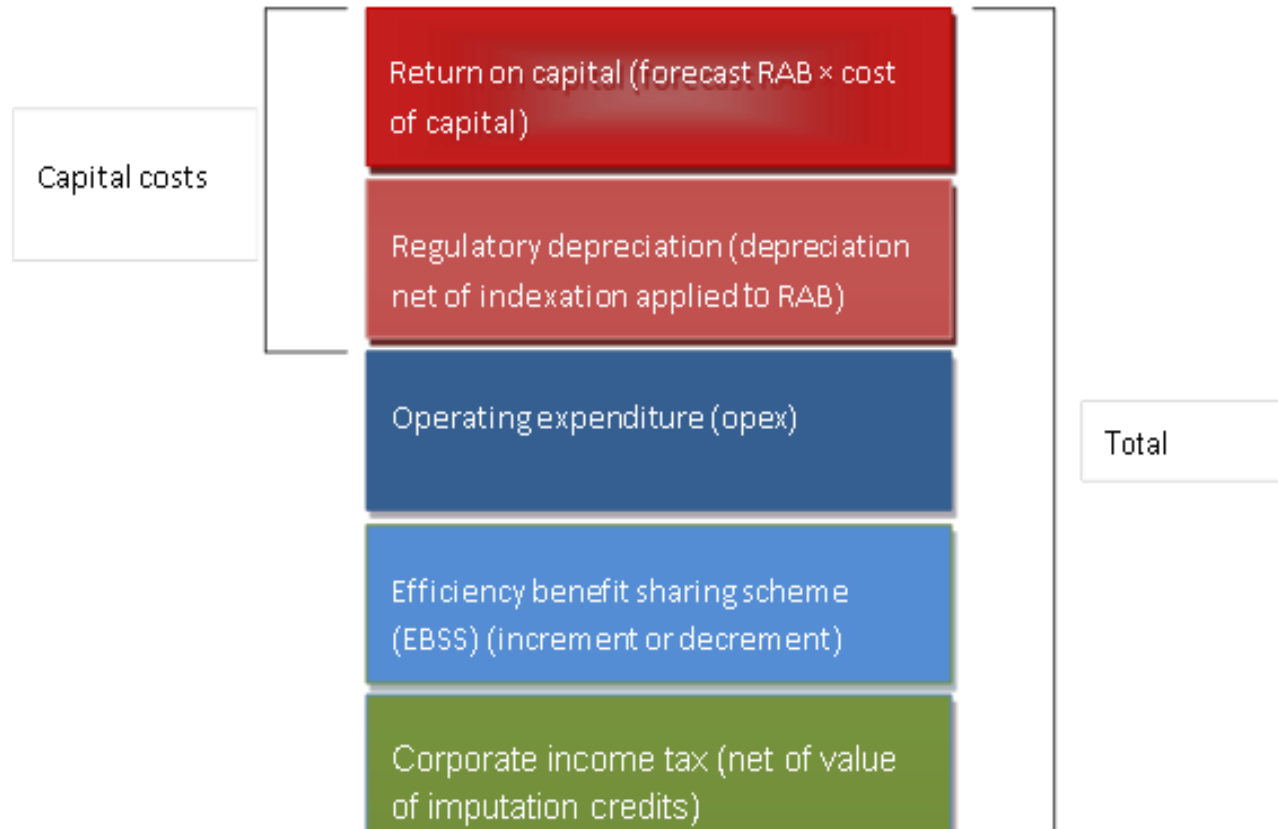
SA Power Networks' past total revenue, proposed total revenue and AER preliminary decision revenue allowance (\$ million, 2014–15)



Indicative bill impact

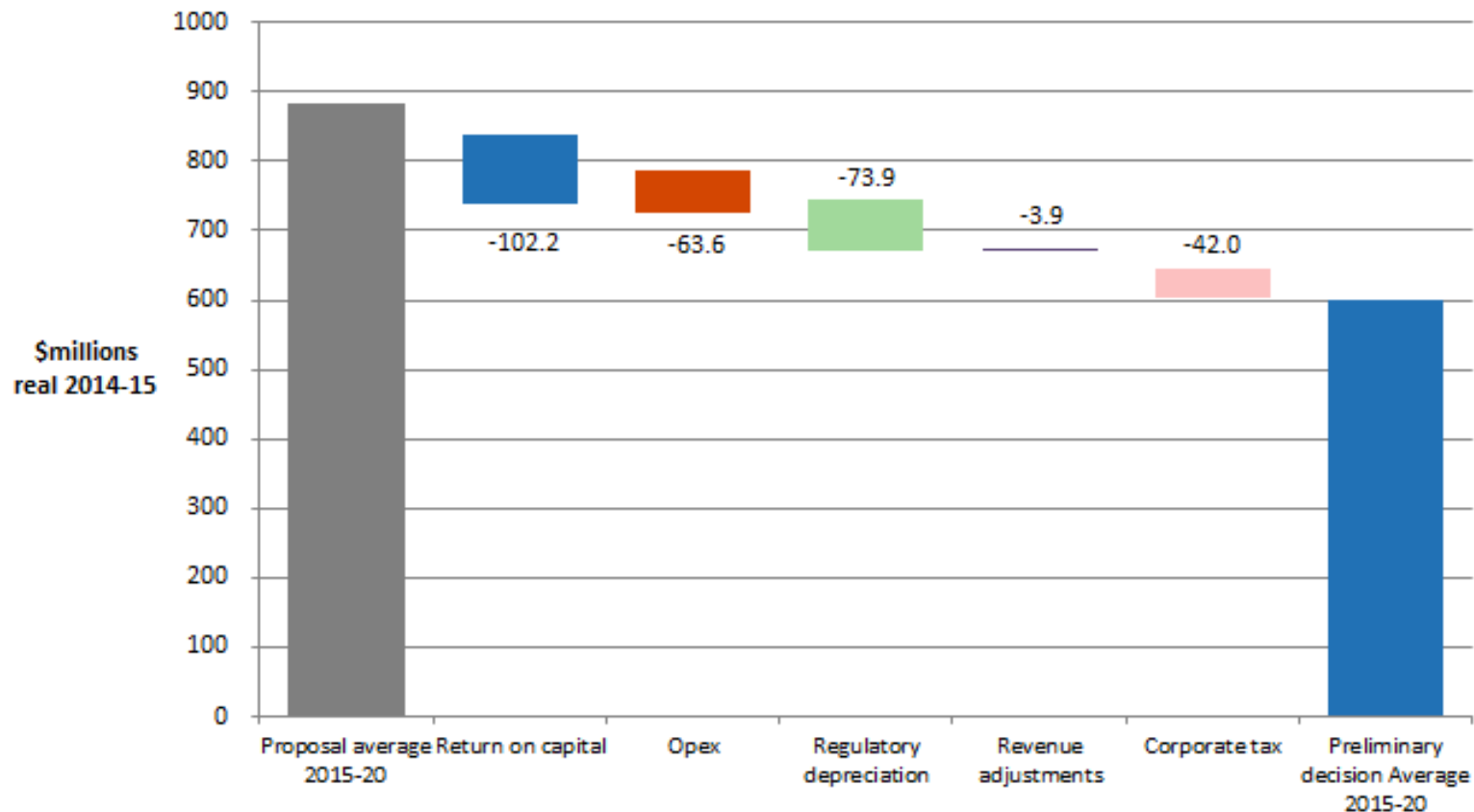
Network business	Business proposal	AER preliminary decision	Percentage difference	Expected bill reduction for average household by end of 2015–20
SA Power Networks	\$4745 million	\$3211 million	-32 per cent	\$197

AER approach – building blocks



SA Power Networks – building blocks

AER's preliminary decision and SA Power Networks' proposed annual building block costs (\$ million 2014–15)



Rate of return

%	AER decision 2010–15	SAPN's proposal 2015–16	AER preliminary decision 2015–20
Nominal risk free rate (return on equity)	5.89%	3.43%	2.55%
Nominal post-tax return on equity	11.09%	10.45%	7.1%
Nominal pre-tax return on debt	8.87%	5.74%	4.35%
Nominal vanilla WACC	9.76%	7.62%	5.45%

Rate of return parameters

%	AER decision 2010–15	SAPN's proposal 2015–20	AER preliminary decision 2015–16	AER preliminary decision 2016–20
Nominal risk free rate (return on equity) (a)	5.89%	3.43%	2.55%	2.55%
Equity risk premium (b) = (c*d)	5.20%	7.02%	4.55%	4.55%
MRP (c)	6.50%	7.72%	6.50%	6.50%
Beta (d)	0.8	0.91	0.7	0.7
Nominal post-tax return on equity (e) = (a) + (b)	11.09%	10.45%	7.1%	7.1%
Nominal pre-tax return on debt (f)	8.87%	5.74%	4.35%	Updated annually
Gearing	60%	60%	60%	60%
Nominal vanilla WACC = 0.4*(e) + 0.6*(f)	9.76%	7.62%	5.45%	Updated annually
Forecast Inflation	2.52%	2.55%	2.55%	2.55%

Cost of debt - trailing average

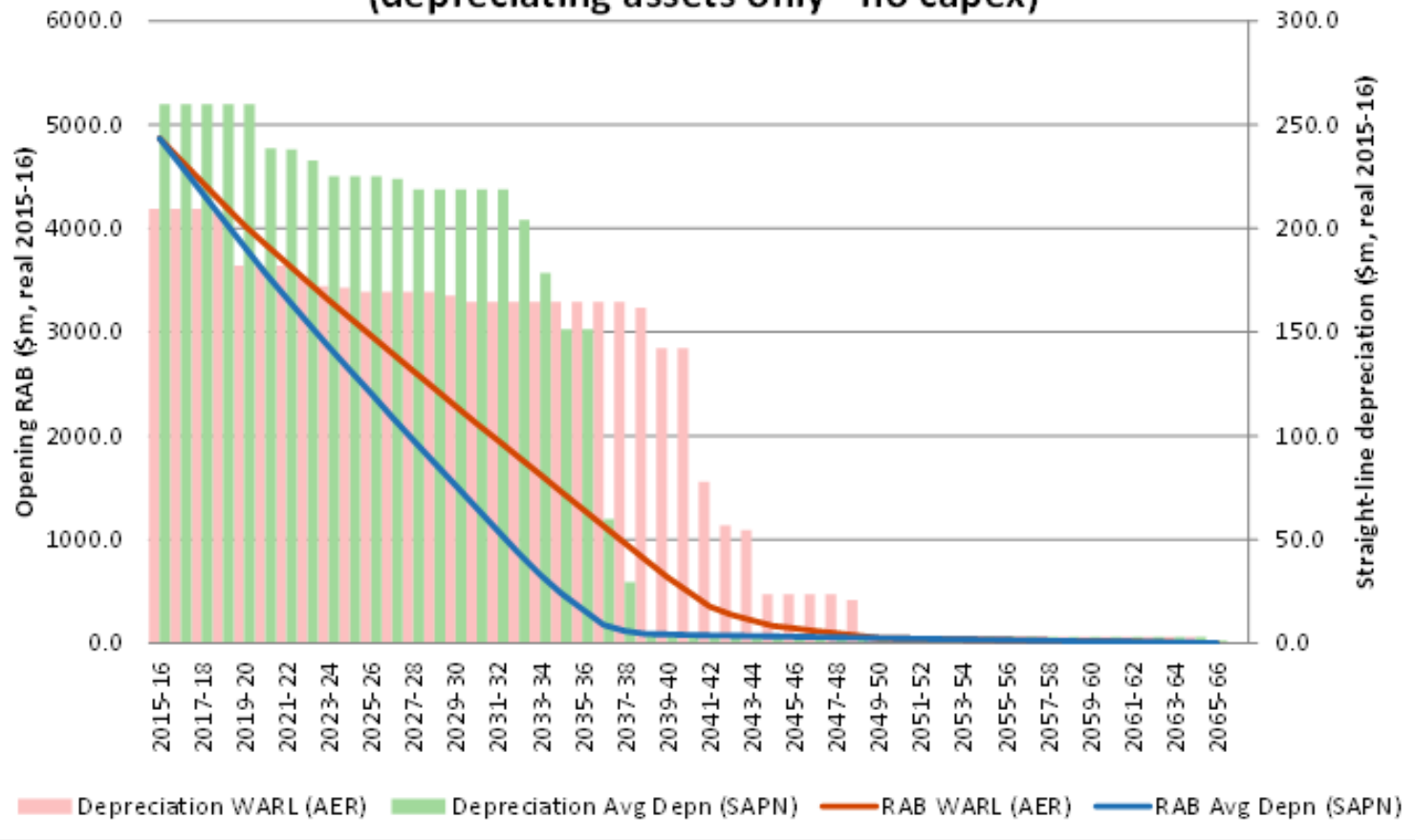
- Our starting point for existing debt is continuation of on-the-day approach
- Then new debt is incorporated as it is progressively refinanced each year
 - 10 year trailing average
 - 10% of debt notionally re-financed each year
- The benefit? Less price volatility for consumers

Depreciation – return of capital

- SA Power Networks proposed a depreciation allowance of \$936 million (\$nominal)
- Preliminary decision is 43% less at \$533.7 million (\$nominal)
- SA Power Networks will recover its capital investment but over a longer period of time

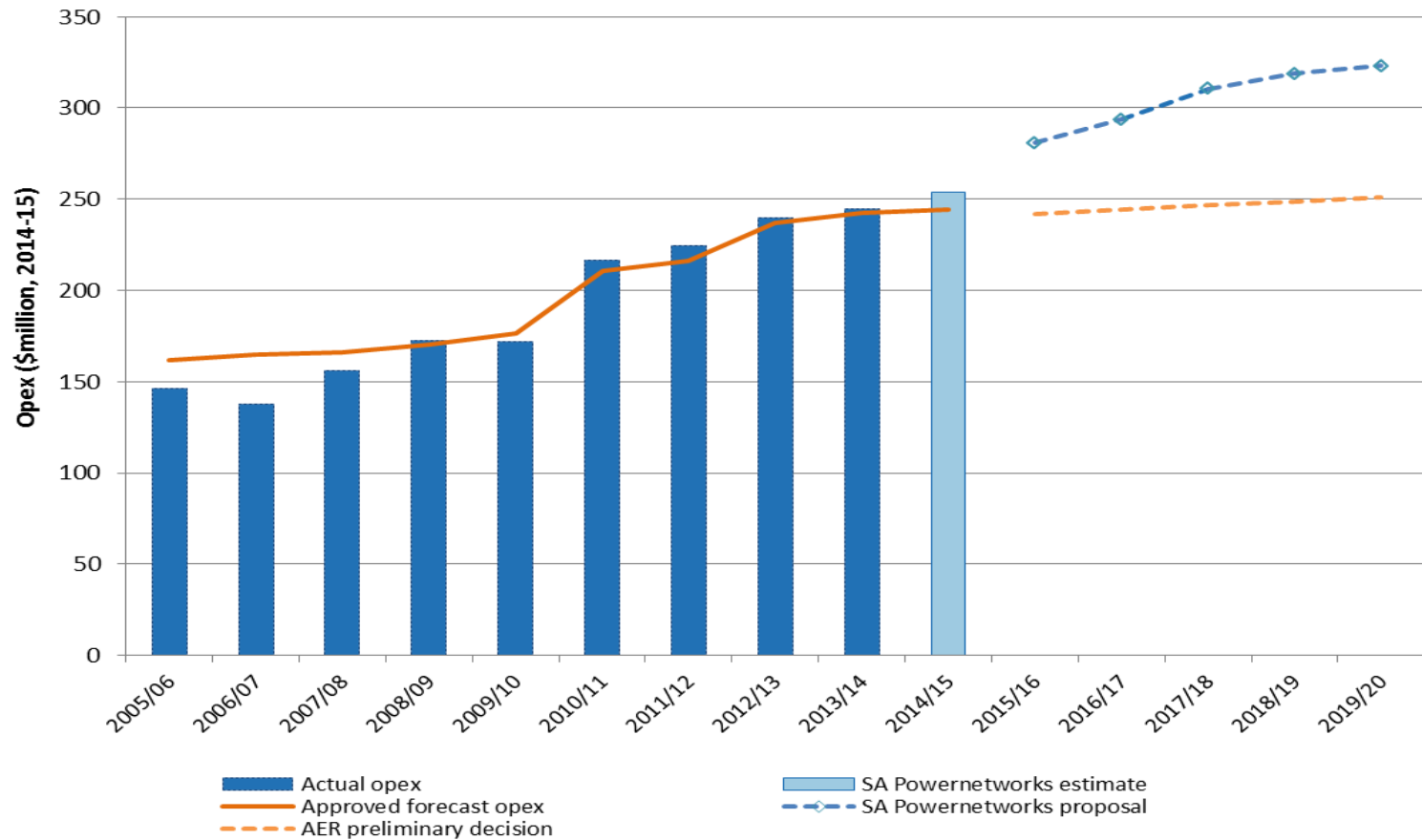
Depreciation

2015-16 opening RAB and depreciation over 50 years
(depreciating assets only - no capex)



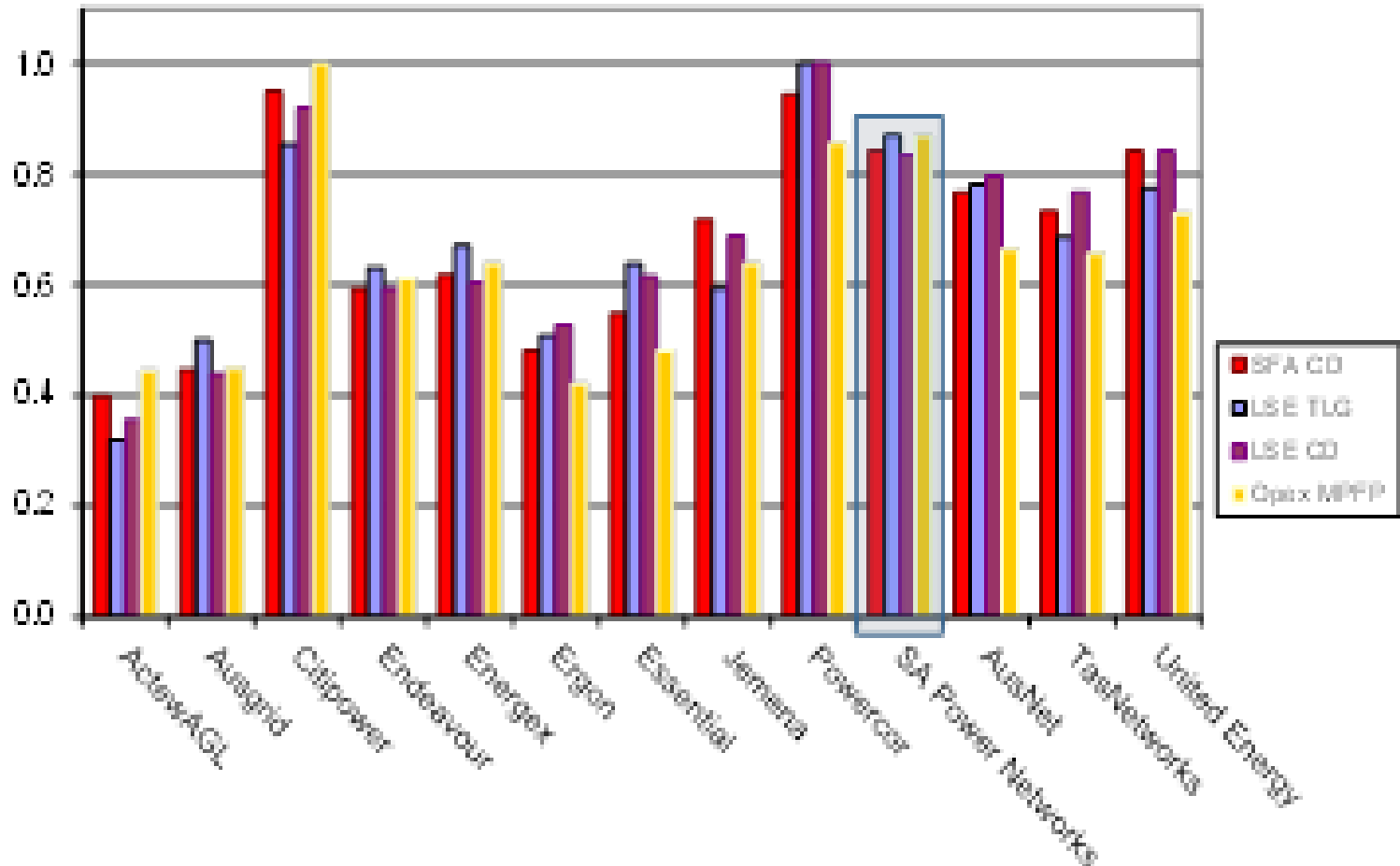
SA Power Networks - opex

SA Power Networks' proposal compared to AER alternative forecast and past opex (\$ million, 2014-15)



Benchmarking performance

Opex efficiency scores

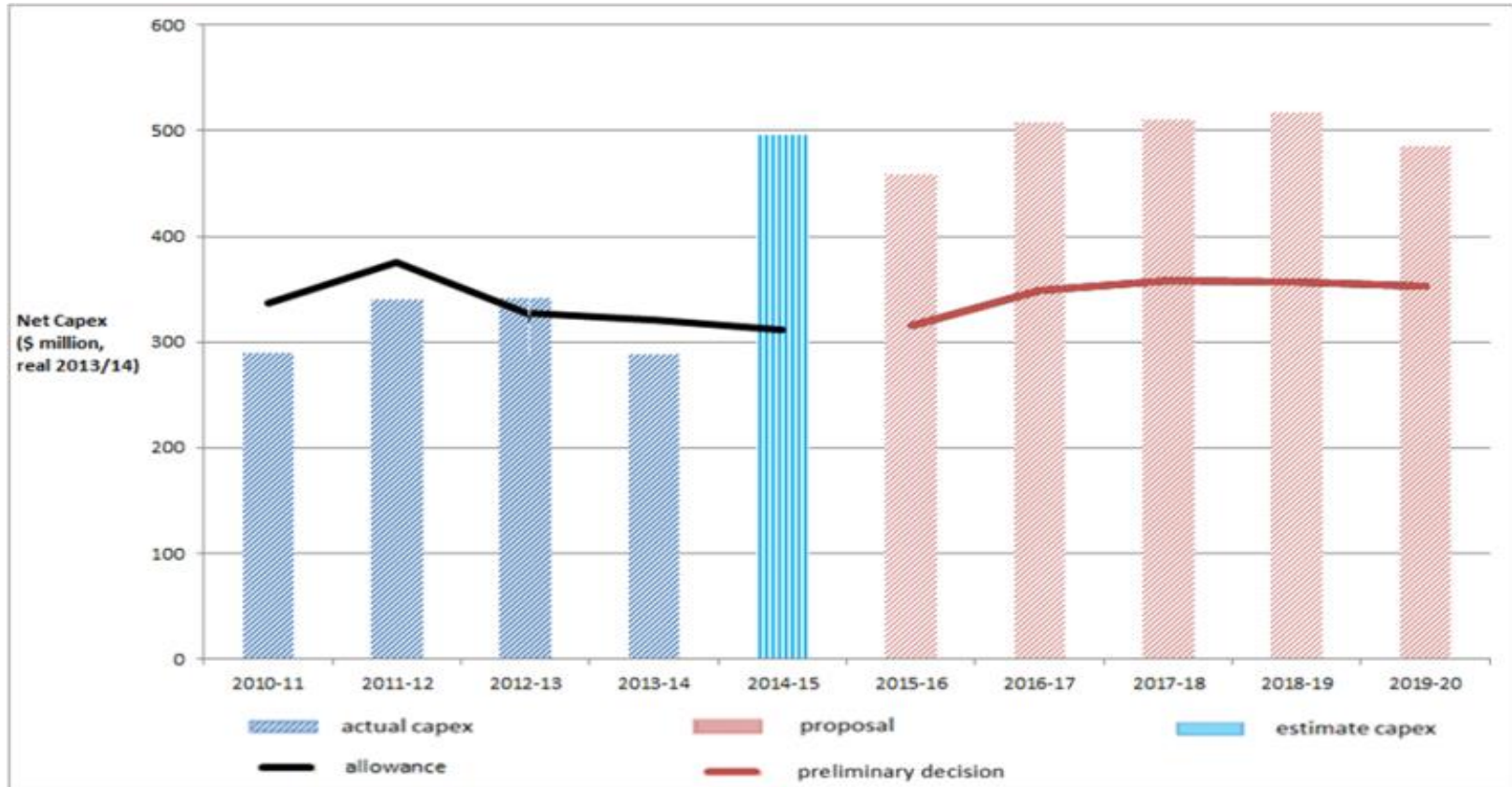


Opex step changes

	Proposal	AER preliminary decision
IT initiatives	\$44m	\$0
Vegetation management	\$32m	\$0
Asset inspections	\$42m	\$0
Demand side participation	\$34m	\$0
Other	\$65m	\$9m
Total	\$217m	\$9m

SA Power Networks - capex

AER preliminary decision compared to SA Power Networks' past and proposed capex (\$million, 2014-15)



Safety proposals

Safety Program	Proposal	AER decision
Bushfire mitigation	\$228	\$0
Road safety	\$78	\$0
Other	\$13.5	\$13.5
Total	\$319.5	\$13.5

Bushfire program

- Legislative test for the AER
 1. Is additional capex needed for improved safety and reliability of the network?
 2. Is the additional capex a prudent and efficient investment?

SA Power Networks did not provide evidence to reasonably satisfy these tests.
- For instance, for the undergrounding of powerlines (~\$128 mill), SA Power Networks submitted a willingness to pay survey
 - Using this survey as the only supporting evidence is problematic – How does it satisfy the legislative tests?
 - Some problems with the survey
- Around half the proposal is for undergrounding
 - But \$40 million over the regulatory period is already available through the SA government's PLEC program

Metering services in SA

- Our preliminary decision approves two types of metering service charges:
 - Upfront capital charge (for all new and upgraded meters installed from 1 July 2015)
 - Annual charge comprising of two components:
 - capital—metering asset base (MAB) recovery
 - non-capital—operating expenditure and tax.
- No upfront charge for replacement meters

CCP presentations

Next steps in SA reset

- All queries, forum registrations etc. to SAelectricity2015@aer.gov.au

Date	Step
27 May 2015	AER jurisdictional consumer forum
3 July 2015	Submissions on AER preliminary decision close
3 July 2015	SA Power Networks' revised proposal due
24 July 2015	Submissions on SA Power Networks' revised proposal close
31 October 2015	AER releases final decision for SA Power Networks