



SA Power Networks 2020-25: our draft decision

Pre-determination conference

30 October 2019

Agenda

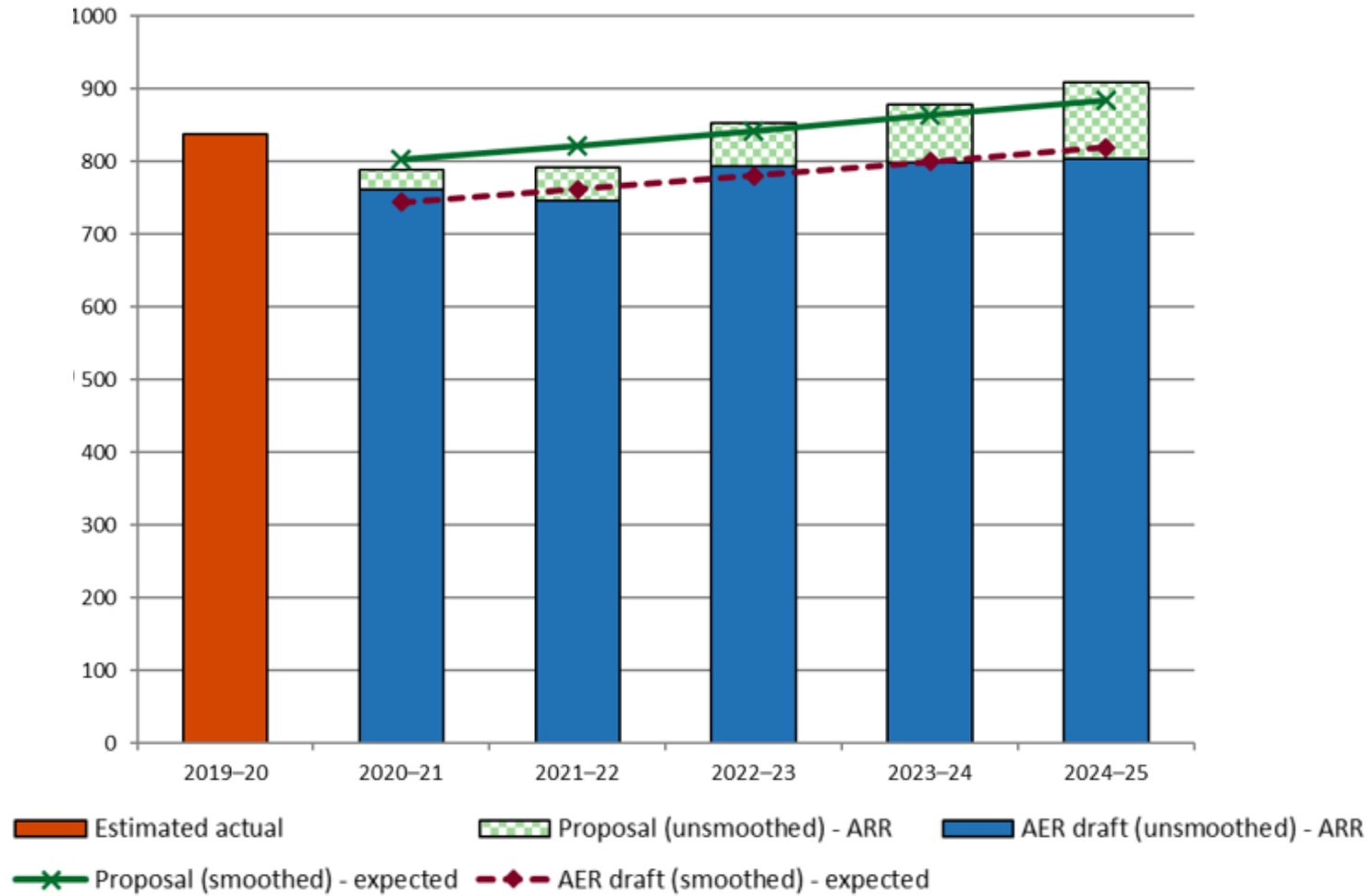
- Welcome and introductions
- AER's draft decision
- Question and answer session
- Insights from the Consumer Challenge Panel

Morning tea break

- Insights from consumers (ECA, SACOSS, Uniting Communities)
- SA Power Networks
- Question and answer session
- Next steps and close

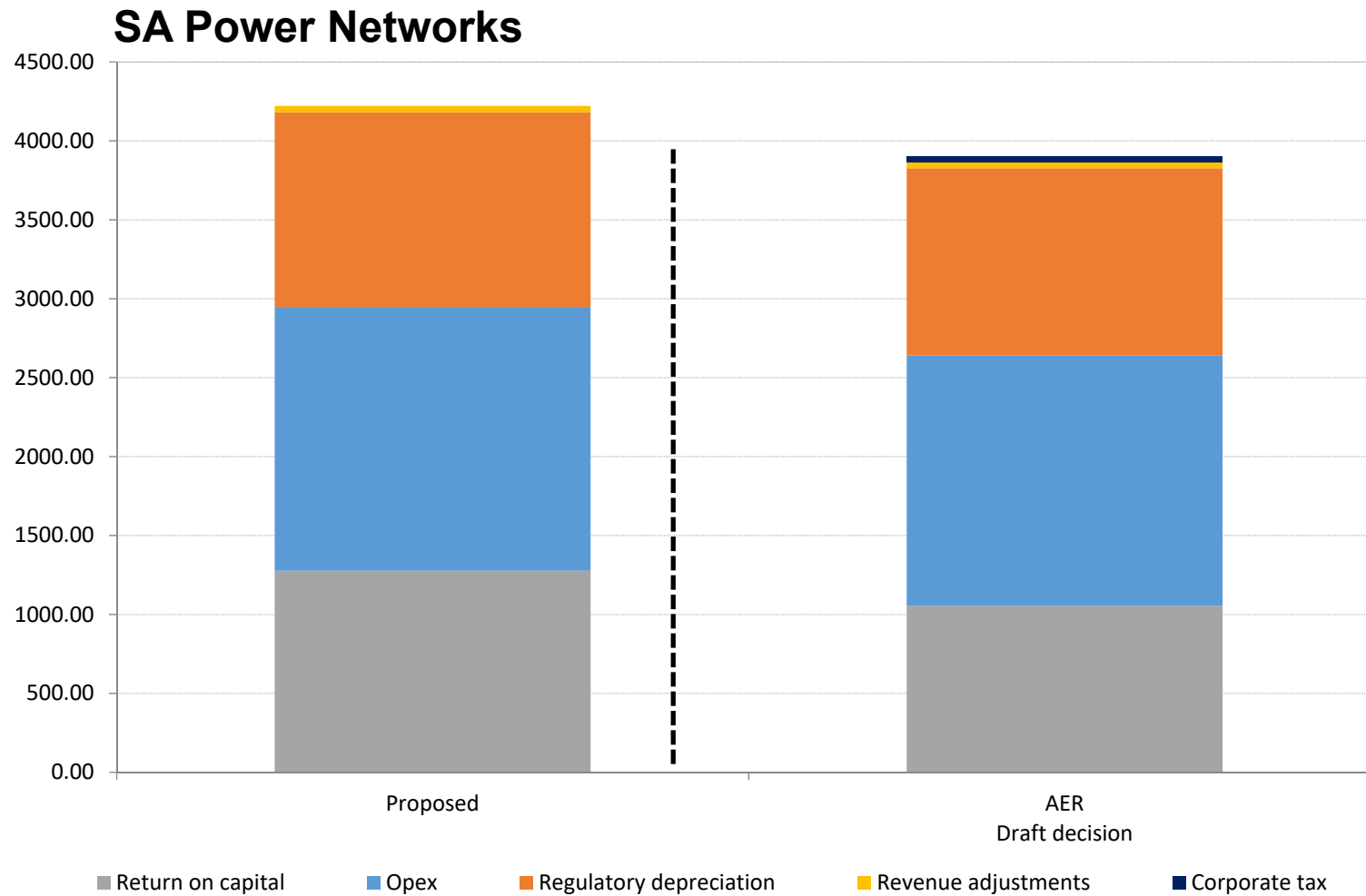
Proposed and approved revenue

Revenue for the 2020-25 regulatory control period (\$m, nominal)



How does our decision differ from the proposal?

Comparison of proposed and draft decision revenue 2020-25 (\$m, nominal)



Estimated impact on average annual electricity bills

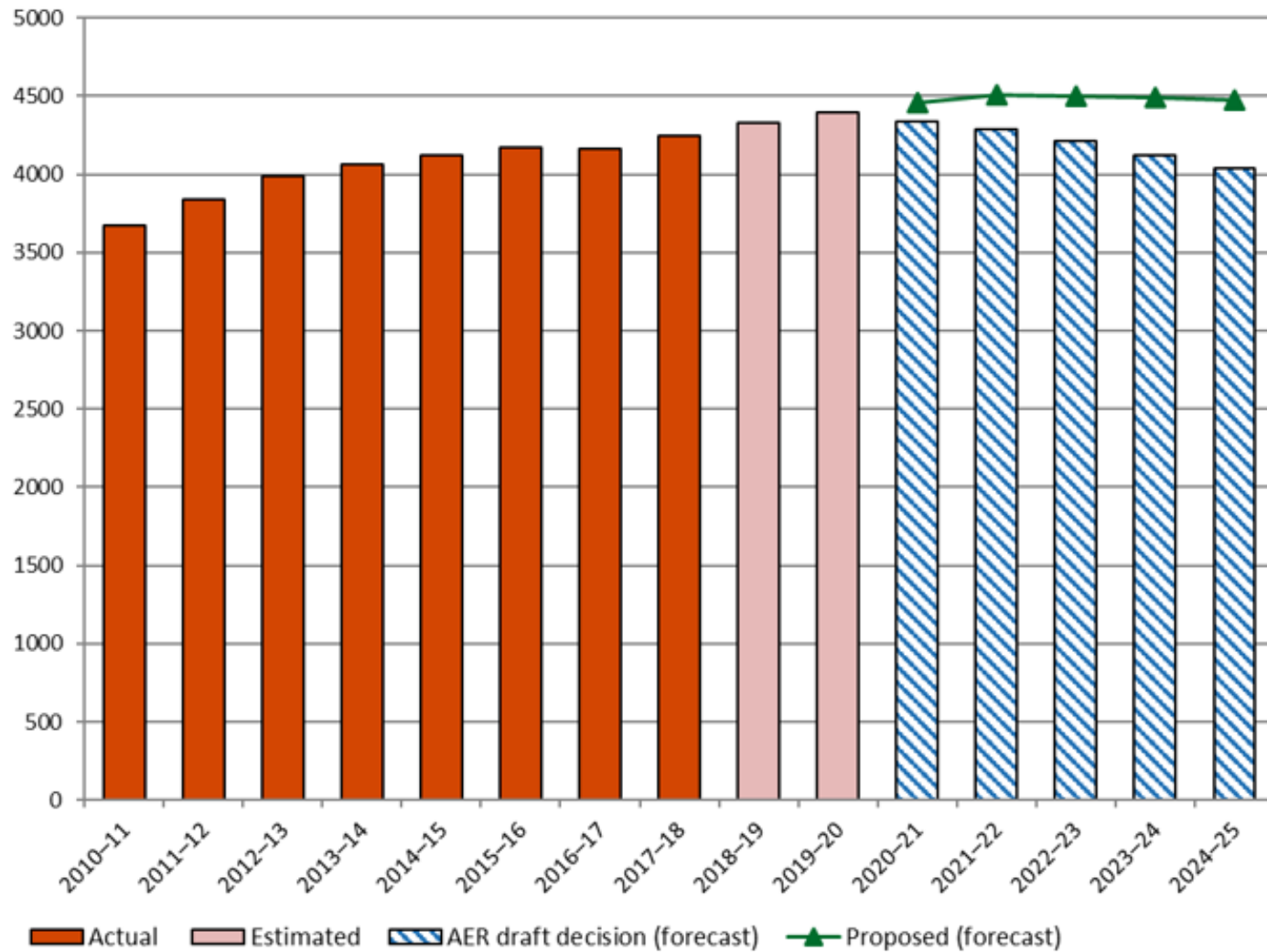
SA Power Networks (\$ nominal)

(\$ nominal)	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25
AER draft decision						
Residential annual bill	1941 ^a	1878	1889	1901	1912	1921
Annual change ^c		–63 (–3.3%)	12 (0.6%)	12 (0.6%)	11 (0.6%)	9 (0.5%)
Small business annual bill	9120 ^b	8837	8889	8942	8990	9030
Annual change ^c		–283 (–3.1%)	52 (0.6%)	53 (0.6%)	48 (0.5%)	40 (0.4%)
SA Power Networks' proposal						
Residential annual bill	1941 ^a	1919	1932	1945	1957	1966
Annual change ^c		–22 (–1.1%)	13 (0.7%)	13 (0.7%)	12 (0.6%)	10 (0.5%)
Small business annual bill	9120 ^b	9023	9080	9138	9189	9233
Annual change ^c		–97 (–1.1%)	56 (0.6%)	58 (0.6%)	52 (0.6%)	44 (0.5%)

- a) Annual bill for 2019–20 is sourced from [AER, Final determination, Default Market Offer Prices 2019–20](#), and reflects an average consumption of 4000 kWh for residential customers in South Australia.
- b) Annual bill for 2019–20 is sourced [AER, Final determination, Default Market Offer Prices 2019–20](#), and reflects an average consumption of 20000 kWh for small business customers in South Australia.
- c) Annual change amounts and percentages are indicative. They are derived by varying the distribution component of the 2019–20 bill amounts in proportion to yearly expected revenue divided by forecast energy as provided by SA Power Networks. Actual bill impacts will vary depending on electricity consumption and tariff class.

Regulatory asset base

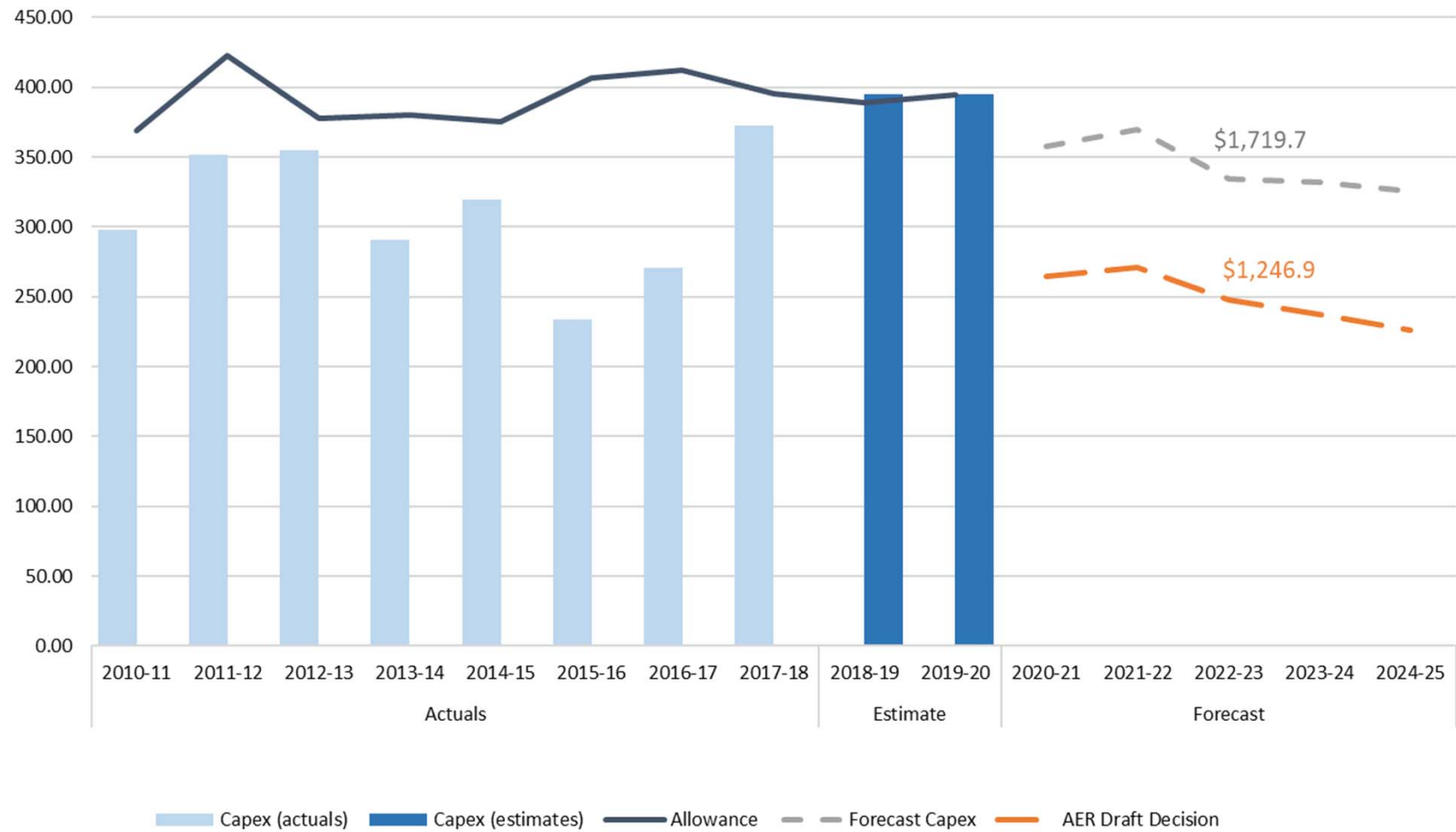
Actual and Projected RAB (\$m, 2019-20)



Rate of return

	Previous Regulatory Period (2015–20)	SA Power Networks' Proposal (2020–25)	AER draft decision (2020–25)	Allowed return over regulatory control period
Nominal risk free rate	2.96%	2.44%	1.32% ^a	
Market risk premium	6.5%	6.1%	6.1%	
Equity beta	0.7	0.6	0.6	
Return on equity (nominal post-tax)	7.5%	6.1%	4.98%	Constant (%)
Return on debt (nominal pre-tax)	5.28%	4.98%	4.93%	Updated annually
Gearing	60%	60%	60%	Constant (60%)
Nominal vanilla WACC	6.17%	5.43%	4.95%	Updated annually for return on debt
Forecast inflation	2.5%	2.47%	2.45%	Constant (%)

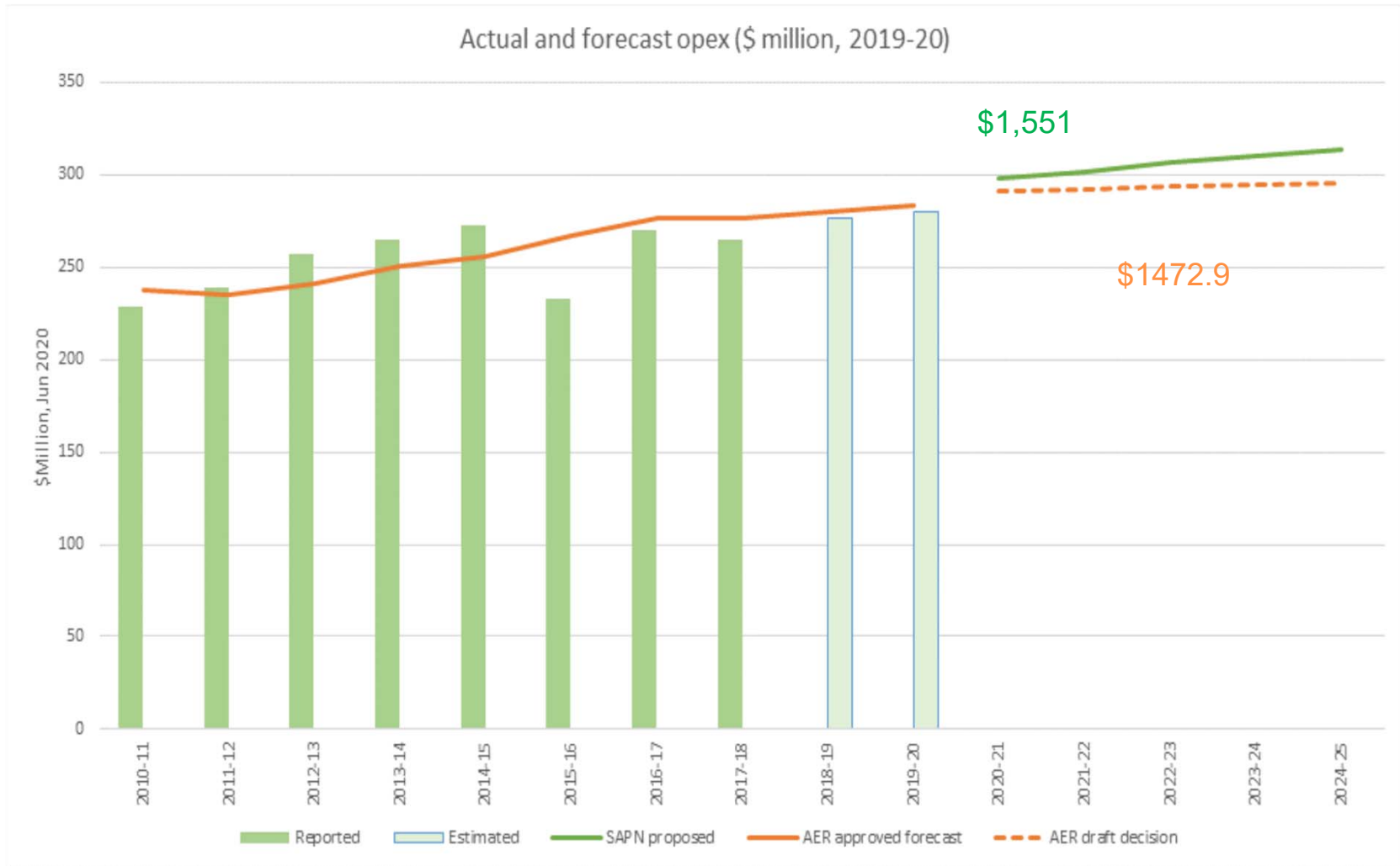
Our draft decision capex forecast (\$m, 2019-20)



Our draft decision on DER management capex (\$m,2019-20)

Category	Proposal	Our substitute estimate	Difference (per cent)
LV management program (DSO transition program)	30.3	30.3	-
Quality of supply (QoS)	44	38.1	-13.4
LV monitoring	18	0	-100.0
Voltage regulation	14.3	7	-51.0
Modelling adjustments		-0.7	
Total	106.6	74.7	-30.0

Our draft opex forecast (\$m, 2019-20)



Incentive schemes to apply in 2020-25

- The following incentive schemes will apply in the next period:
 - EBSS
 - CESS
 - STPIS
 - DMIS
 - DMIAM
- The schemes encourage networks to pursue expenditure efficiencies and demand-side alternatives, while maintaining service performance.

Revenue adjustments

- Small differences between proposed and allowed revenue adjustments
 - result from minor adjustments we made to the proposed carryover amounts.
- Our draft decision includes:
 - EBSS carryover amount of $-\$30.7$ million (\$2019–20)
 - CESS carryover amount of $\$69$ million (\$2019–20).

Tariff structure statement (TSS)

- We have approved SA Power Networks' TSS proposal.
- Good engagement with consumers
- SA Power Networks to continue refining its TSS

Next steps

Milestone	Date
→ Public forum on draft decision	30 October 2019
Revised proposal due	10 December 2019
Submissions on draft decision and revised proposal due	15 January 2020
AER final decision published	April 2020