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**Government
of South Australia**

Mr Sebastian Roberts
General Manager, Network Regulation
Australian Energy Regulator
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Dear Mr Roberts

Thank you for the opportunity to provide comment on the SA Power Networks Regulatory Proposal for 2015-2020.

The South Australian Government is pleased to see that its decision to deregulate electricity prices since February 2013 has resulted in real savings for South Australian consumers. The Australian Energy Market Commission's 2014 Residential Electricity Price Trends Report has found that South Australian consumers have saved 10 per cent on their annual electricity bills by switching to market contracts. The findings also forecast that South Australia will have the second largest percentage decrease in electricity prices of the mainland states.

While these findings are welcomed, the South Australian Government remains conscious of the significant community concern about high electricity prices. It is for this reason that we have been actively progressing work in areas of Affordable Living, engaging in the SA Power Networks precursory work on its Regulatory Proposal and participating in the COAG Energy Council's energy market reform agenda.

The Government appreciates the complexity faced by SA Power Networks with operating South Australia's electricity distribution network given the state's widespread sparse population. The Government is also mindful of the difficulty that SA Power Networks has experienced in ensuring security of supply during a number of major weather events in recent times.

SA Power Networks' costs represent over 35% of an average consumer's annual electricity bill. In the current regulatory period these costs have contributed to rises in electricity prices resulting from capital expenditure programs to replace ageing network assets and to meet increased peak demand requirements. For the 2015-2020 regulatory period SA Power Networks has proposed a significant increase in

both capital and operating expenditure, despite substantial market changes such as the stabilizing of peak demand.

It is with this in mind that the South Australian Government calls for the Australian Energy Regulator to identify any opportunities for real decreases in electricity prices. A review of the SA Power Networks' Regulatory Proposal shows a number of areas that warrant careful consideration by the AER. Those of particular interest form part of this submission as an attachment.

One area of specific concern relates to the significant increase in the proposed capital expenditure. The proposal seeks capital expenditure of \$2.53 billion (including costs associated with Alternative Control Services) which compares to a total capital expenditure allowance of \$1.59 billion previously. The Government notes that current financial market conditions have changed significantly since the last regulatory period which has resulted in SA Power Networks submitting a weighted average cost of capital of 7.62% compared to the previously approved 9.76%. This difference allows SA Power Networks to take advantage of the current favourable return conditions by increasing its capital expenditure program without considerably raising network prices for consumers. However, the Government provides that rather than escalating capital expenditure by close to 60% from the previous allowance, SA Power Networks are now in the unique position to consider a reduction to the costs it passes onto consumers while still maintaining a prudent capital program.

Should you require any further information on any element of the attached submission, please contact Mr Vince Duffy, Executive Director of the Energy Markets and Programs Division, Department of State Development on (08) 8204 1724.

Thank you for the opportunity to provide our views as part of the consultation process to the SA Power Networks Determination 2015-2020 and I look forward to the release of the AER's Preliminary Decision in April 2015.

Yours sincerely



Hon Tom Koutsantonis MP

Minister for Mineral Resources and Energy

30th January 2015