



SA Power Networks

AER Pre-determination conference

Doug Schmidt – General Manager Regulation

30 October 2019





We are efficient and have delivered for South Australians for over 100 years

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- Strong safety and reliability performance
- Most efficient distributor on a state-wide basis
- Consistently benchmark well across all categories
- No over-investment in RAB
- Network costs not driving price increases in SA
- Price trajectory < CPI

Recap - Our 2020-25 Regulatory Proposal

Meets all obligations for safety, reliability and customer service

- ✓ delivers targeted improvements for some customers
- ✓ adapts the network for changing customer choices

Reduces electricity prices

8% fall in average distribution charges from 1 July 2020, with further decreases in subsequent years



Saves customers

\$40 & \$111

Annual customer bills will be lower from 1 July 2020 by \$40 for the average residential customer and \$111 for small to medium businesses



Holds revenue stable*

▶ at \$3,915m compared with the 2015-20 period of \$3,909 million

Capital expenditure (capex) stable

▶ at \$1,741 million compared with \$1,728 million in 2015-20

Regulated asset base stable

▶ rising only 1% from \$4,418 million at 1 July 2020 to \$4,478 million at 30 June 2025



Operating expenditure (opex) increase

▲ 13% due to step changes and growth

Lower rate of return

▼ 5.43% compared with 6.13% during 2015-20

- Responded to need for affordability, yet considered customers' broader concerns
 - Targeted improvements for some customers
 - Transition for changing customer choices
- Delivers long-term outcomes
 - Continued safety and reliability performance
 - Price path < CPI
- In the long-term interests of customers

* all figures in \$ June 2020

Customers have told us their priorities

Three key, competing priorities:



Keep prices down



A safe and reliable network



Transition to the new energy future

- Price is important, but it's not the only concern





Keeping prices down

We accept much of the AER Draft Decision

- ✓ Good price outcomes for customers
- ✓ WACC, Tax and Productivity adjustment driving lower prices
- ✓ Recognised as efficient distributor
- ✓ Tariff Structure Statement accepted

“We see that SA Power Networks has been relatively efficient over time.”

AER, Draft Decision



Transition to the new energy future

The AER acknowledged the need for network transformation

- ✓ Future Networks proposal mostly accepted
- ✗ LV Monitoring and AEMO security of supply require further justification
- ✓ Innovative ‘Solar Sponge’ tariff accepted
- ✓ Industry collaboration and engagement

“Our Draft Decision reflects SA Power Networks’ need to develop new ways to address the evolving needs of customers.”

AER, Draft Decision



Maintain safety and reliability

We have grave concerns with the 27% reduction in capex

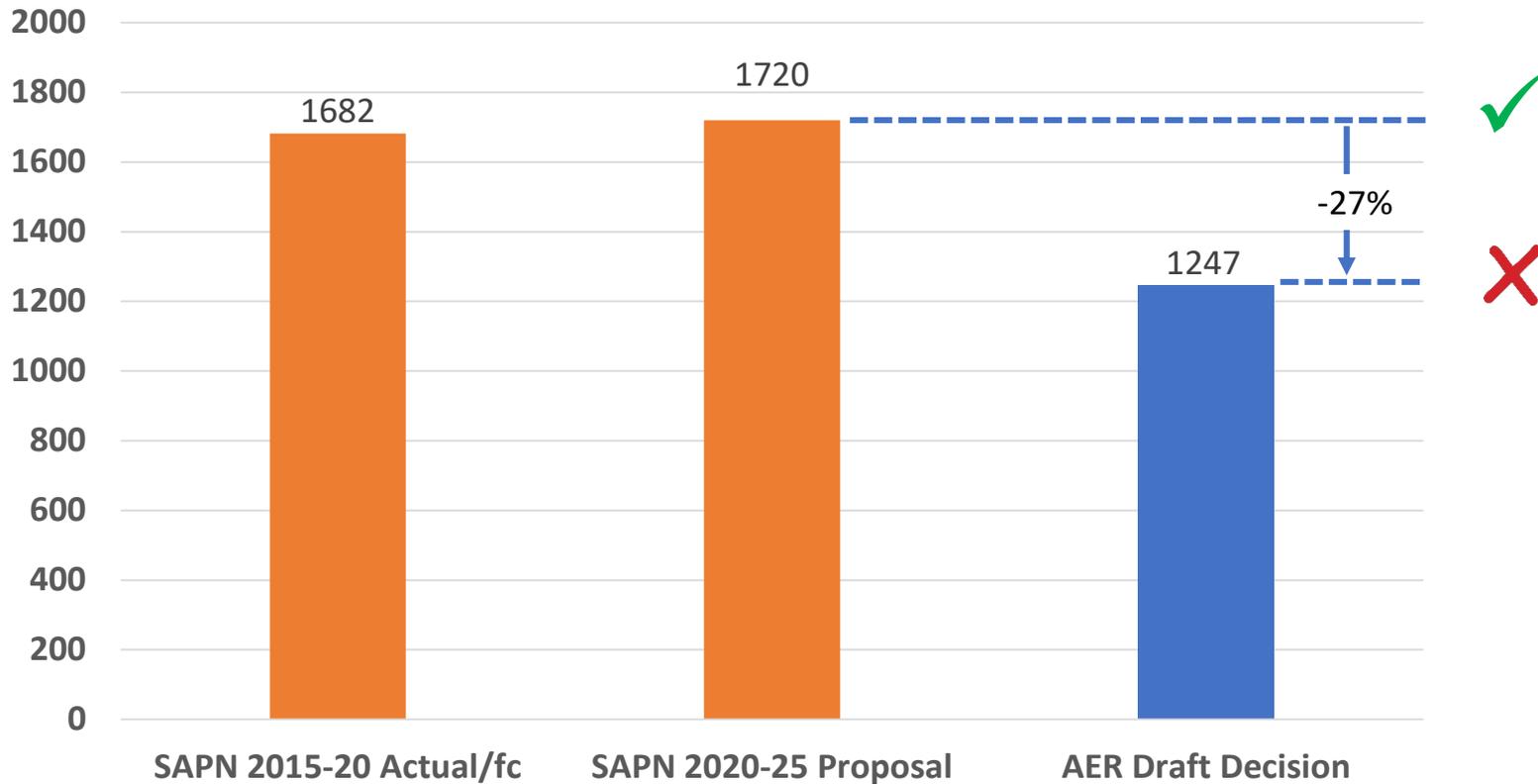
- ✗ A reduction of \$435m compared to current period spend of \$1682m
- ✗ Insufficient to maintain the oldest network in the National Electricity Market
- ✗ Reliability for worst served customers
- ✓ Cyber security and bushfire risks
- ✗ 20% cut to repex is unsustainable

“SA Power Networks has not justified the prudence or efficiency of its forecast capex.”

AER, Draft Decision

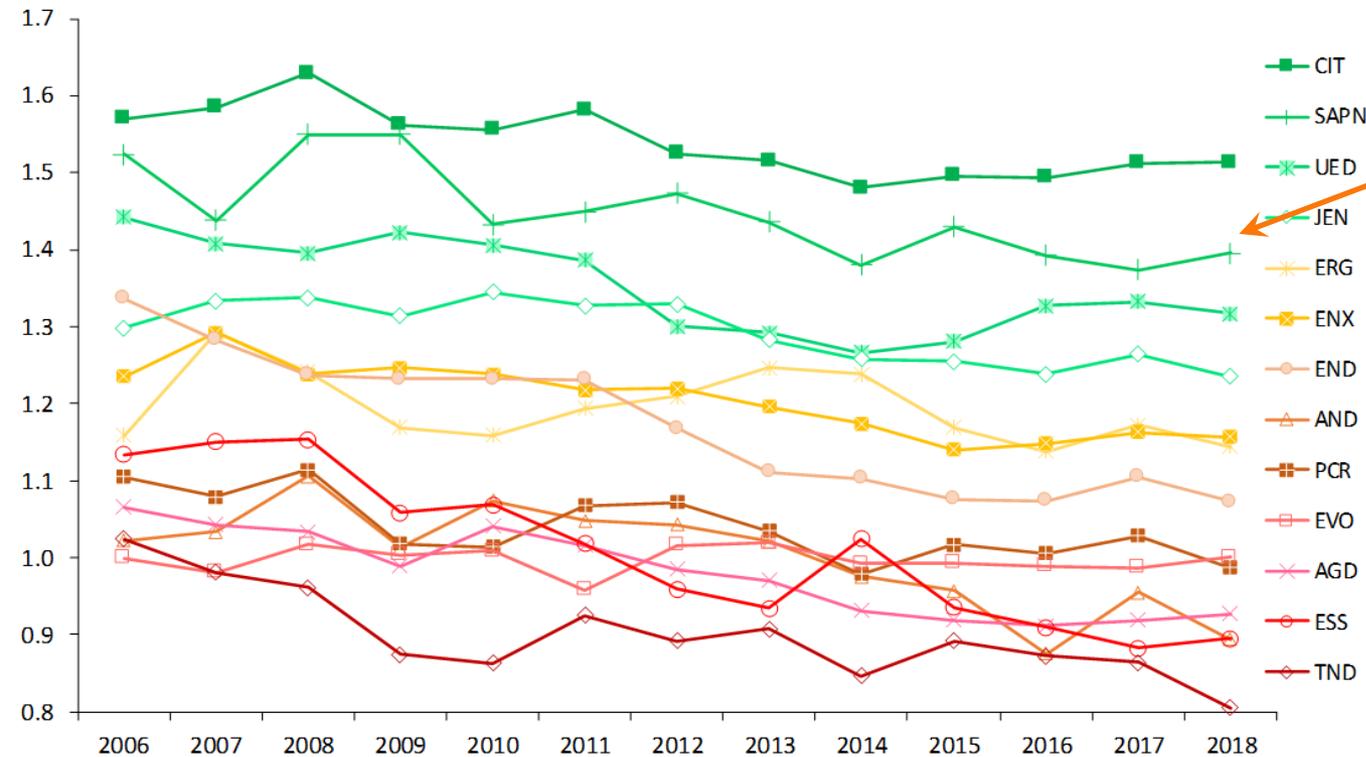
27% reduction will compromise safety, reliability and service

Capital Expenditure (\$m, 2020)



Our concerns with the AER's Draft Decision

Figure 4.4 DNSP capital multilateral partial factor productivity indexes, 2006–18



We are near the capex efficiency frontier

But the \$435m cut is significantly below our current capex spending, implying we have been materially inefficient.

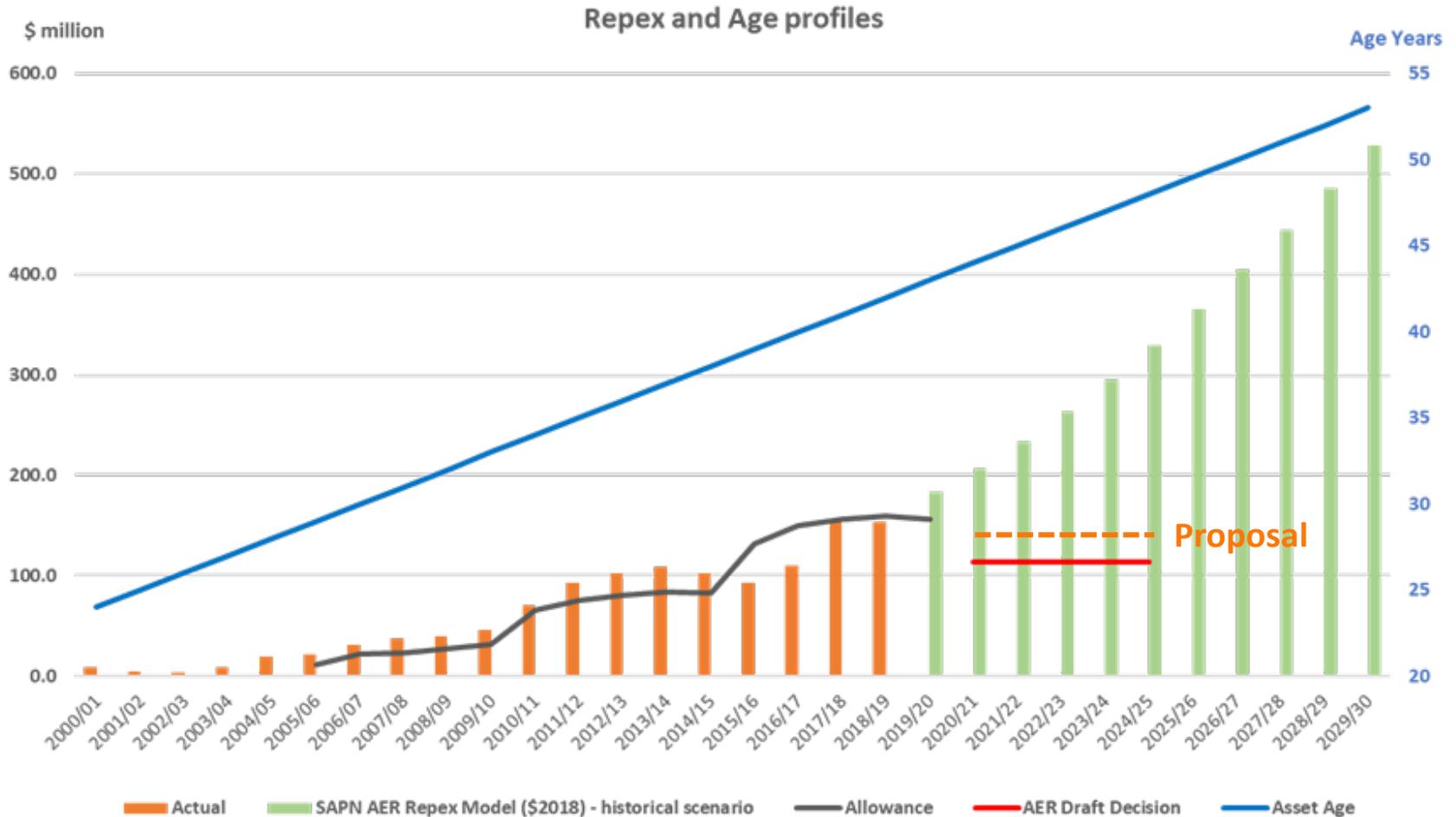
We consider the AER's Draft Decision does not:

- Explain where we have been inefficient
- Consider the long-term health of the network
- Consider the impact on safety, reliability and service levels

Source: Economic Insights, AER analysis.



Replacement rates are unsustainable – assets will not last 200+ years



✗ Current replacement rate <0.5% p.a. infers asset life 200+ years

✗ Investment in systems to optimise Repex was not approved



Are customers' long-term interests being served?

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“The NEO puts the long-term interests of consumers at the centre of our decision”

AER, Draft Decision

We do not believe 20% repex cuts are in the long-term interests of customers:

- Network safety and reliability will deteriorate
- Customer service levels will be impacted
- A ‘run-down’ network will be unable to host new customer technologies and provide new services
- Increased costs will be passed on to future customers



Revised Proposal will address AER's concerns 12

"... there are gaps in this information which prevent us from supporting its proposal... we will carefully consider additional material before making our final decision."

AER, Draft Decision

Key focus areas of Revised Proposal:

- Repex
- Augex (including reliability for worst served customers)
- ICT
- Property
- Connections



We are committed to ongoing engagement

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“We have asked SA Power Networks to engage further with consumers on their concerns...”

AER, Draft Decision

Comprehensive engagement program:

Workshop 1 - ICT, Property & Fleet

Workshop 2 - Repex and Assets & Works

Workshop 3 - Reliability, Connections and other Capex

Workshop 4 - Retailer Roundtable

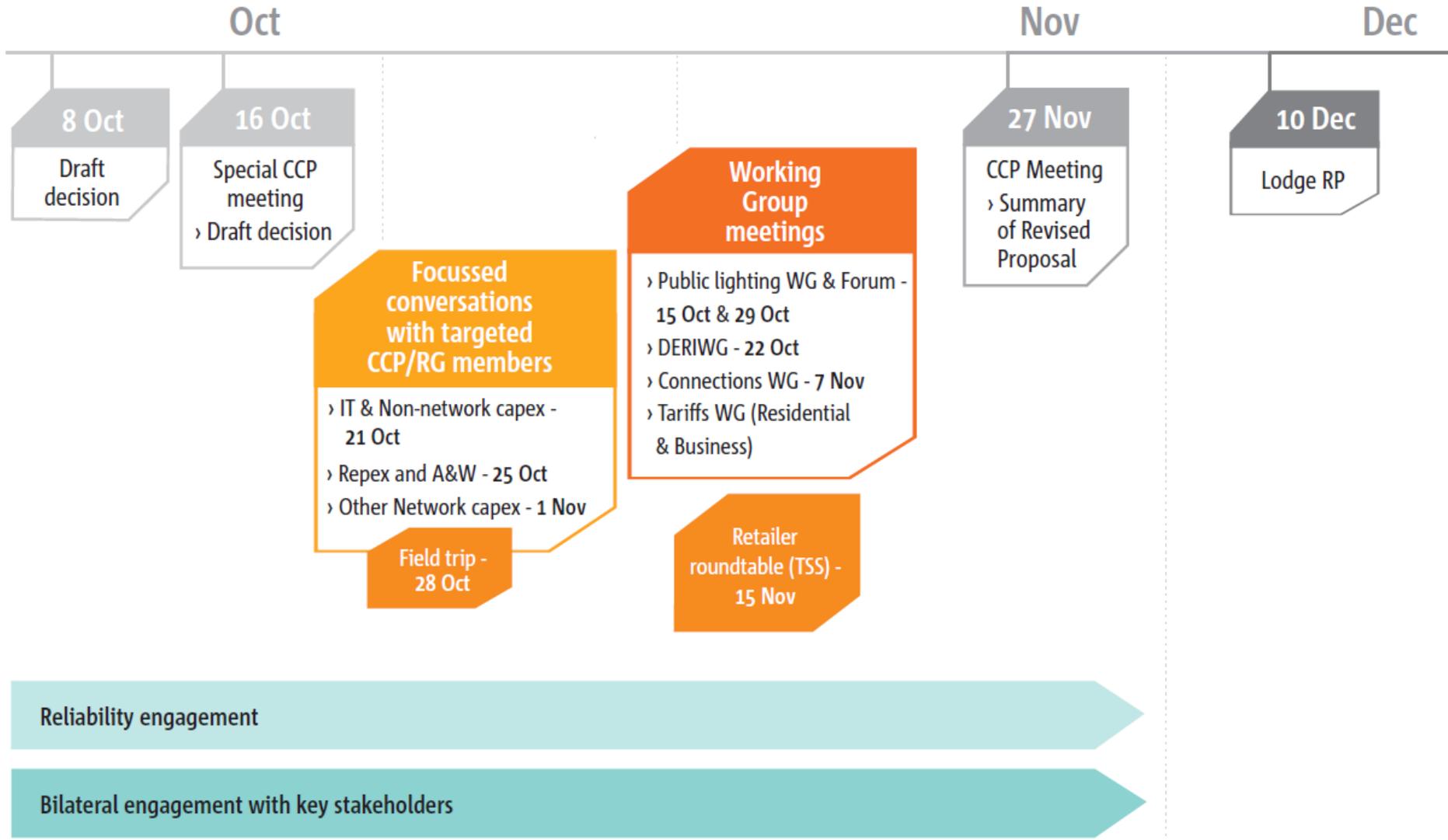
Site Visits - ICT, Property, Repex, Reliability

Workshop 5 - Wrap Up

Plus numerous working group meetings

We acknowledge the time and effort of customers, stakeholders and AER staff

Revised Proposal engagement





Next steps

We will:

- Continue to consult with customers and stakeholders
- Continue to engage with AER staff

Our Revised Proposal will:

- Address concerns and information gaps outlined by the AER
- Provide improved justification for expenditure proposals
- Balance and reflect customer feedback

Thank you



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