



SA Power Networks

# AER Pre-determination conference

Doug Schmidt – General Manager Regulation

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## 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

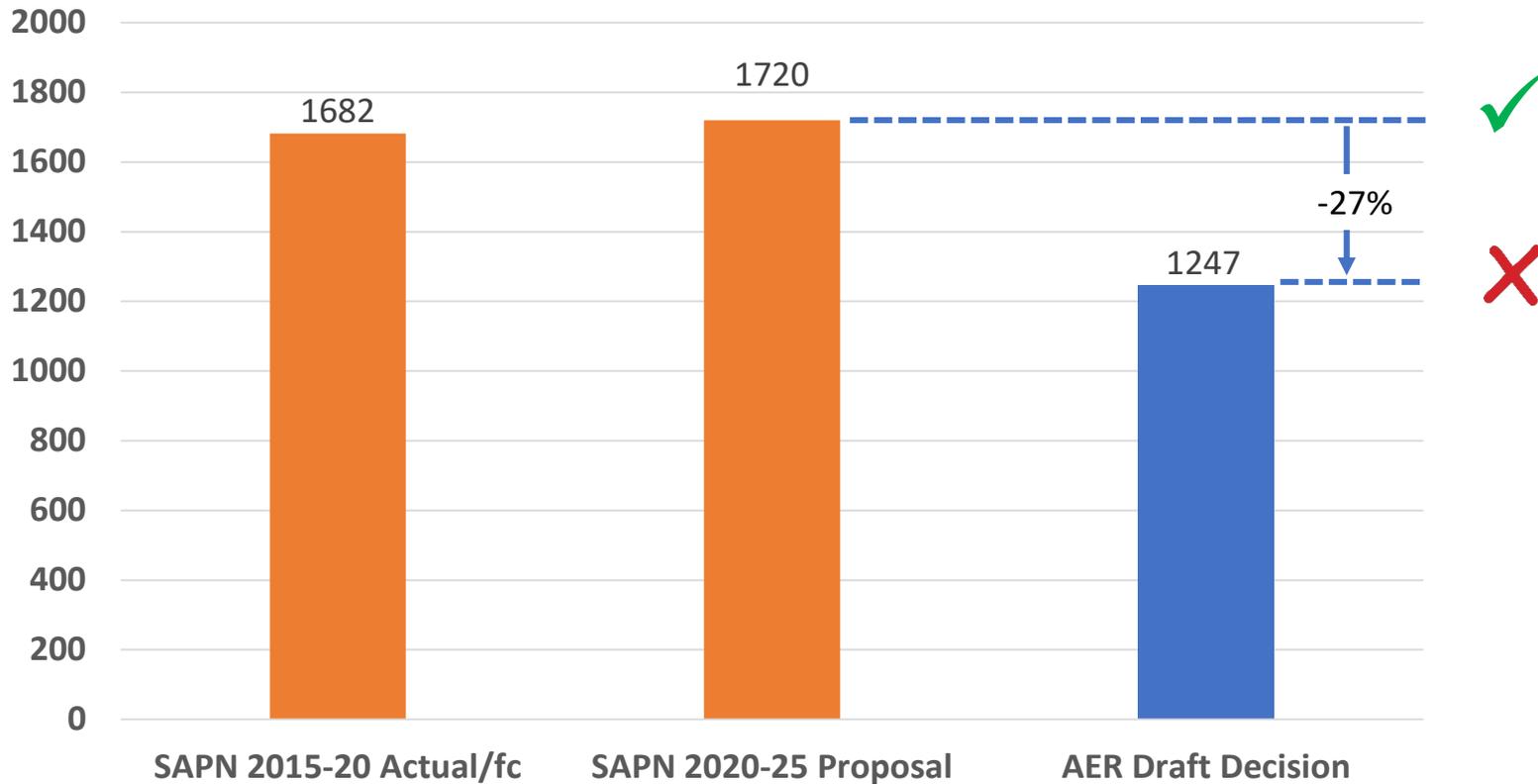
- ✗ A reduction of \$435m compared to current period spend of \$1682m
- ✗ Insufficient to maintain the oldest network in the National Electricity Market
- ✗ Reliability for worst served customers
- ✓ Cyber security and bushfire risks
- ✗ 20% cut to repex is unsustainable

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

AER, Draft Decision

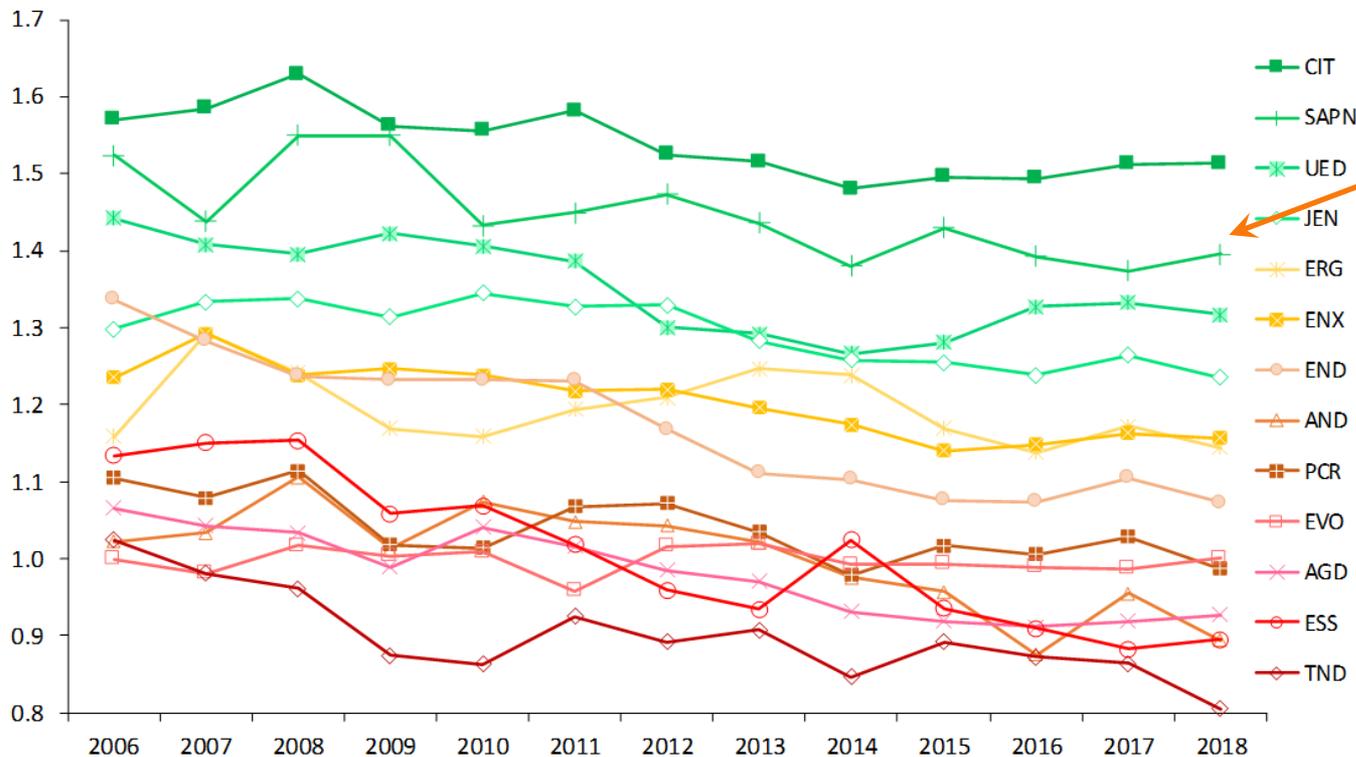
# 27% reduction will compromise safety, reliability and service

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.

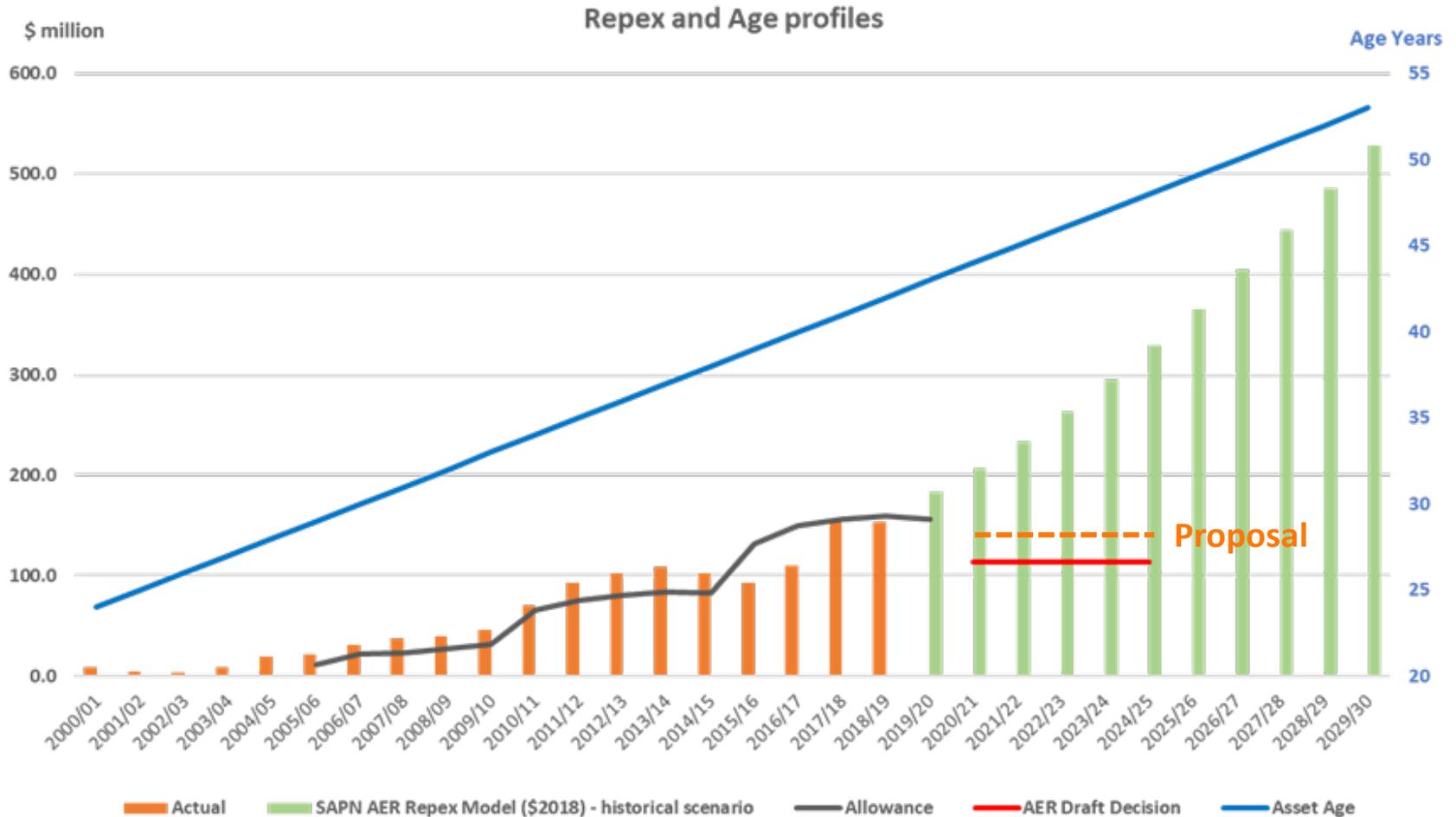
We consider the AER's Draft Decision does not:

- 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

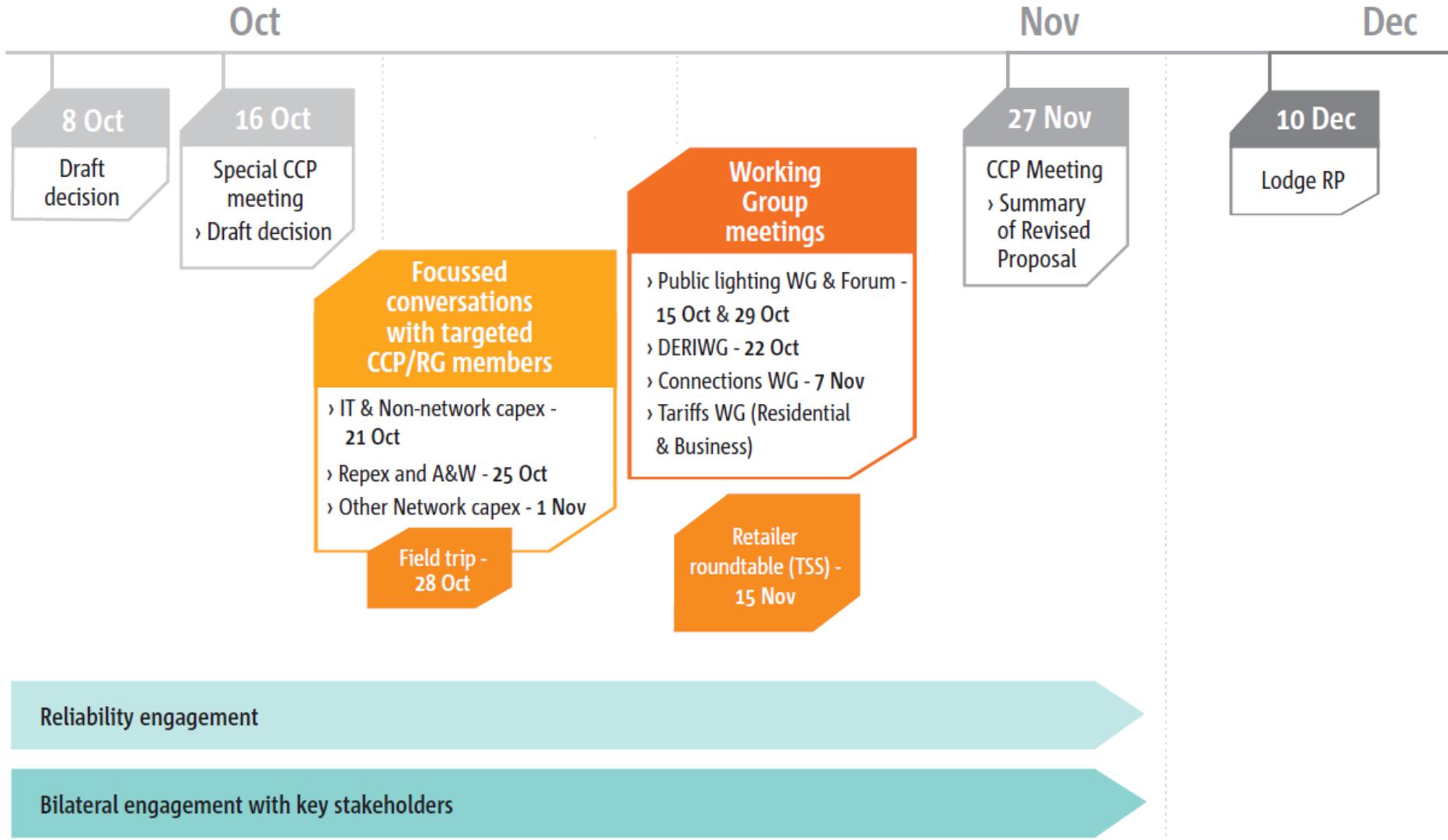
**Site Visits** - ICT, Property, Repex, Reliability

**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



[sapowernetworks.com.au](http://sapowernetworks.com.au)