

Attachment 2

Regulatory Asset Base

2020-25
Regulatory Proposal
31 January 2019

This section outlines:

- › the forecast for the roll forward of SA Power Networks' Regulatory Asset Base for Standard Control Services to 1 July 2020 and to 30 June 2025.

Company information

SA Power Networks is the registered Distribution Network Service Provider (**DNSP**) for South Australia. For information about SA Power Networks visit www.sapowernetworks.com.au

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Disclaimer

This document forms part of SA Power Networks' Regulatory Proposal (**the Proposal**) to the Australian Energy Regulator (**AER**) for the 1 July 2020 to 30 June 2025 regulatory control period (2020-25 **RCP**). The Proposal and its attachments were prepared solely for the current regulatory process and are current as at the time of lodgment.

This document contains certain predictions, estimates and statements that reflect various assumptions concerning, amongst other things, economic growth and load growth forecasts. The Proposal includes documents and data that are part of SA Power Networks' normal business processes, and are therefore subject to ongoing change and development.

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Note

This attachment forms part of our Proposal for the 2020-25 RCP. It should be read in conjunction with the other parts of the Proposal.

Our Proposal comprises the overview and attachments listed below, and the supporting documents that are listed in Attachment 18:

Document	Description
	Regulatory Proposal overview
	Customer and stakeholder engagement report
Attachment 3	Rate of Return
Attachment 4	Regulatory depreciation
Attachment 5	Capital expenditure
Attachment 6	Operating expenditure
Attachment 7	Corporate income tax
Attachment 8	Efficiency benefit sharing scheme
Attachment 9	Capital expenditure sharing scheme
Attachment 10	Service target performance incentive scheme
Attachment 11	Demand management incentives and allowance
Attachment 12	Classification of services
Attachment 13	Pass through events
Attachment 14	Alternative Control Services
Attachment 15	Negotiated services framework and criteria
Attachment 16	Connection policy
Attachment 17	Tariff Structure Statement
Attachment 18	List of Proposal documentation

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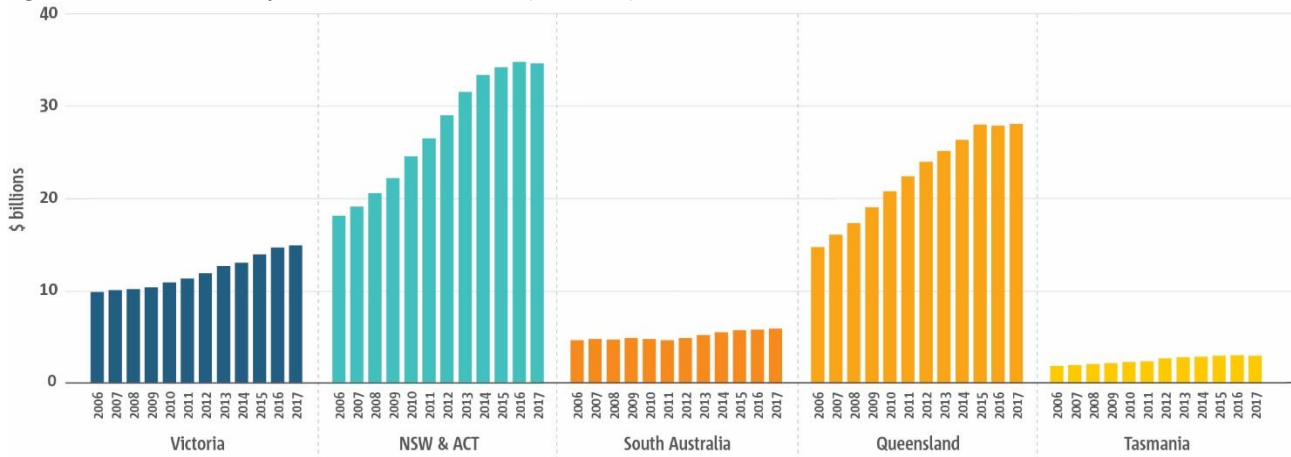
2 Regulatory Asset Base

2.1 Overview

SA Power Networks has a demonstrated history of a modest regulatory asset base (**RAB**) per customer and overall RAB growth.

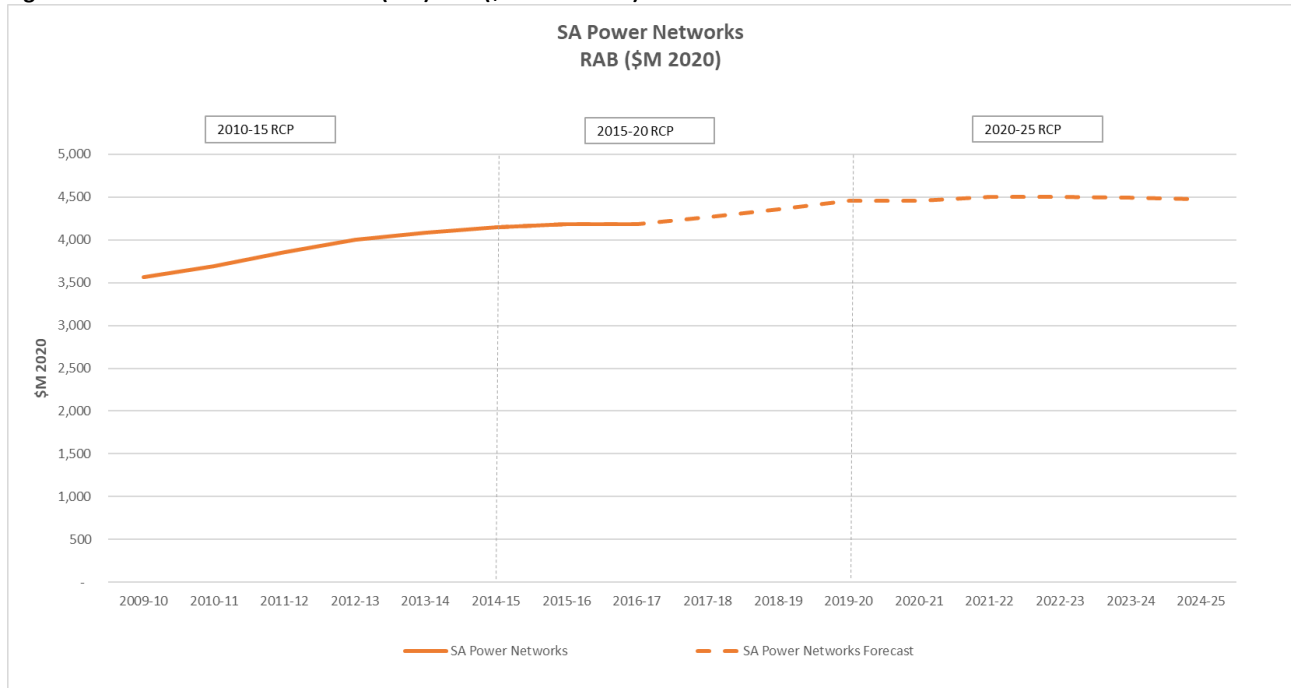
The Australian Competition and Consumer Commission's (**ACCC**) chart at Figure 2.1 clearly shows the modest historic growth in RAB for South Australia, noting that this includes ElectraNet’s RAB, which doubled over the same period.

Figure 2-1: State RAB Comparisons for 2006 to 2017 (\$2016/17)



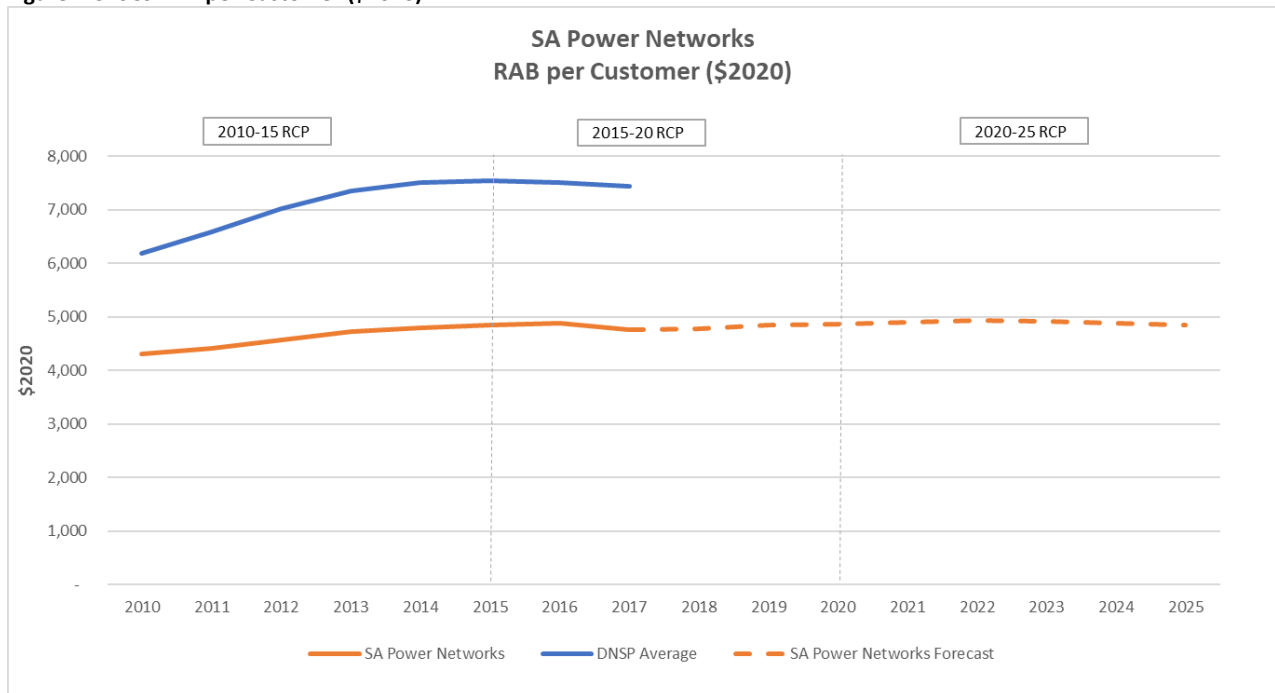
SA Power Networks’ regulatory proposal (**Proposal**) for the 2020–25 regulatory control period (**RCP**) continues this history. Figure 2.2 illustrates the proposed RAB to 2025 in real terms.

Figure 2-2: Standard control services (SCS) RAB (\$ Million 2020)



On a per customer basis, our RAB growth has been one of the lowest in the National Electricity Market (**NEM**) and well below the industry average, as shown in Figure 2.3.

Figure 2-3: SCS RAB per Customer (\$2020)¹



2.2 Rule requirements

Clause 6.5.1 of the National Electricity Rules (**NER**) describes the nature of the RAB for SCS. It requires the Australian Energy Regulator (**AER**) to develop and publish a model for the roll forward of the RAB and prescribes the requirements for the Roll Forward Model (**RFM**).

Clause S6.1.3(7) of the NER requires a building block proposal to contain a calculation of the RAB for each regulatory year of the relevant RCP, using the RFM, together with:

- details of all amounts, values and other inputs;
- a demonstration that the amounts, values and inputs comply with the relevant requirements of Part C of Chapter 6 of the NER; and
- an explanation of the calculation of the RAB for each regulatory year and of the amounts, values and other inputs involved in the calculation.

Clause S6.1.3(10) of the NER requires a building block proposal to contain a Post Tax Revenue Model (**PTRM**) completed to show its application to the RFM.

Other provisions relating to the RAB are set out in clause S6.2 of the NER. In particular:

- sub-clause S6.2.1(e), (f) and (g) specify the method of adjustment of the value of the RAB between RCPs; and
- sub-clause S6.2.3 specifies the method of adjustment of the value of the RAB for each regulatory year within a RCP.

¹ Data source: AER, Electricity distribution network service provider performance data 2006-2017 (escalated to \$2020), 5 November 2018.

2.3 SA Power Networks' Proposal

SA Power Networks has rolled forward the RAB using the AER's RFM and PTRM in accordance with the NER.

In doing this, SA Power Networks has:

- determined the roll forward of the RAB value from 1 July 2015 to 30 June 2020 to be \$4,417.7 (nominal, \$ million) for SCS; and
- determined the roll forward of the RAB value from 1 July 2020 to 30 June 2025 to be \$5,059.6 (nominal, \$ million) for SCS.

2.3.1 Roll forward of RAB for 2015–20 RCP

SA Power Networks has applied the methodology set out in clause S6.2 of the NER and has used the AER's RFM and PTRM to roll forward the RAB from 1 July 2015 to 30 June 2020.

As required by clause 6.5.5(b)(3) of the NER, depreciation has been applied using the same prime cost methodology and same asset lives as applied in the distribution determination for the 2015–20 RCP (**2015 Determination**).

The roll forward of the RAB to 1 July 2020 will utilise forecast depreciation, in accordance with the 2015 Determination.

SA Power Networks has made a number of assumptions in the roll forward of the RAB to 1 July 2020. These assumptions are as follows:

- actual inflation for the 2019/20 regulatory year is not available so forecast CPI escalation for the 2019/20 regulatory year of 2.25% has been applied based on the Reserve Bank forecast as of November 2018; and
- at the time of preparing this Proposal, actual capital expenditure (**capex**) for the 2018/19 and 2019/20 regulatory years are not available so forecast capex for the 2018/19 and 2019/20 regulatory years has been applied.

These assumptions will be updated with the latest available information for our revised regulatory proposal for the 2020–25 RCP (**Revised Proposal**), due to be lodged in December 2019. The actual data for the 2019/20 regulatory year will not be available for the AER's final determination therefore the difference between this amount and the actual amount will be reflected in the roll forward of the RAB to 1 July 2025.

In accordance with clause S6.2.1(e) of the NER, the RAB balance at 30 June 2020 is required to incorporate an adjustment for the difference between the estimated capex for the 2014/15 regulatory year incorporated into the 2015 Determination and the actual capex for the 2014/15 regulatory year. The adjustment is calculated in the RFM and summarised below.

Prior to making any decision on the RAB, the AER may determine that the amount of the actual capex that would otherwise have increased the RAB balance at 30 June 2020 in accordance with clause S6.2.1(e) of the NER, should be reduced if one or more of the following are satisfied:²

- the overspending requirement;
- the margin requirement; and
- the capitalisation requirement.

² NER S6.2.2A(a) and S6.2.2A(b).

If the AER makes such a determination, clause S6.2.1(g) of the NER requires the RAB balance at 30 June 2020 to be reduced by that amount.

SA Power Networks is of the view that no adjustment is required to be made to the RAB balance at 30 June 2020 in accordance with clause S6.2.1(g) of the NER for the following reasons:

- The **overspending requirement** is not satisfied as the sum of all capex incurred by SA Power Networks in the relevant review period³ does not exceed the capex allowance for that period.
- The **margin requirement** is not satisfied as the amount of capex to be rolled forward to the RAB balance at 30 June 2020 does not include capex that represents a margin paid by SA Power Networks where the margin is referable to arrangements that do not reflect arm's length terms. Refer to section 6.9 of Attachment 6 – Operating expenditure for further information in relation SA Power Networks' arm's length contracts with related parties.
- The **capitalisation requirement** is not satisfied as the amount of capex to be rolled forward to the RAB balance at 30 June 2020 does not include capex that should have been treated as opex under the capitalisation policy submitted to the AER by SA Power Networks as part of its regulatory proposal for the 2015–20 RCP.

The roll forward for SA Power Networks' RAB over the 2015–20 RCP is as set out in Table 2-1 below.

These calculations are extracted from a completed version of the AER's RFM and PTRM. The closing RAB value as at 30 June 2020 forms the opening RAB value for the roll forward of the RAB from 1 July 2020.

Table 2-1: SCS RAB roll forward to 30 June 2020 (nominal, \$ million)

	2015/16	2016/17	2017/18	2018/19	2019/20
Opening RAB	3,778.4	3,881.9	3,933.1	4,093.2	4,260.1
Plus capital expenditure, net of contributions and disposals	248.7	278.7	377.3	388.7	401.3
Less straight line depreciation	(208.9)	(284.8)	(292.3)	(303.7)	(319.0)
Plus nominal actual inflation on opening RAB	63.8	57.3	75.1	81.9	95.9
Difference between actual and forecast capex for 2014/15					(20.6)
Closing RAB	3,881.9	3,933.1	4,093.2	4,260.1	4,417.7

2.3.2 Roll forward of the RAB for 2020–25 RCP

SA Power Networks has modelled the roll forward of the RAB for the 2020–25 RCP on the closing RAB value as at 30 June 2020, as shown in Table 2-1 above.

SA Power Networks has applied the methodology set out in clause S6.2 of the NER and has used the AER's PTRM.

Forecast capex has been applied as set out in Table 2-2 below and discussed in Attachment 5 – Capital expenditure.

Depreciation has been calculated on a straight- line basis as included in Table 2-2 below and discussed in Attachment 4 – Regulatory depreciation.

³ We note that the 'review period' applicable to SA Power Networks for the purpose of clause S6.2.2A of the NER consists of the 2014/15, 2015/16, 2016/17 and 2017/18 regulatory years (and not the 2013/14 regulatory year because that year is excluded by the transitional rule in clause 11.60.5(a) of the NER).

Inflation on the opening RAB has been applied at a forecast rate of 2.47%, as discussed in section 3.6 of Attachment 3 – Rate of return.

The projected RAB for SCS at the end of each regulatory year of the 2020–25 RCP, as calculated in the PTRM, is as set out in Table 2-2.

Table 2-2: SCS RAB roll forward to 2025 (nominal, \$ million)

	2020/21	2021/22	2022/23	2023/24	2024/25
Opening RAB	4,417.7	4,571.9	4,732.1	4,844.8	4,951.8
Plus capital expenditure, net of contributions and disposals	371.5	394.0	364.7	371.6	373.4
Less straight line depreciation	(326.4)	(364.7)	(368.9)	(384.3)	(387.9)
Plus nominal actual inflation on opening RAB	109.1	112.9	116.9	119.7	122.3
Closing RAB	4,571.9	4,732.1	4,844.8	4,951.8	5,059.6

2.3.3 Impact of depreciation on forecast capex

SA Power Networks proposes that depreciation for establishing the closing RAB value as at 30 June 2025 be based on forecast capex. This is consistent with the Framework and Approach paper for the 2020–25 RCP and clause S6.2.2B of the NER.

Shortened Forms

ACCC	<i>Australian Competition and Consumer Commission</i>
AER	<i>Australian Energy Regulator</i>
NEM	<i>National Electricity Market</i>
NER	<i>National Electricity Rules</i>
PTRM	<i>Post Tax Revenue Model</i>
RAB	<i>Regulatory Asset Base</i>
RCP	<i>Regulatory Control Period</i>
RFM	<i>Roll Forward Model</i>