



SA Power Networks

## 2020-25 Regulatory Proposal

AER Public Forum

4 April 2019



# Agenda

- About SA Power Networks
- 2020-25 Regulatory Proposal
  - Customer engagement
  - Balancing competing priorities
  - Addressing 2020-25 challenges
  - Expenditure and revenue forecasts
- Customer outcomes
- Summary

# About SA Power Networks



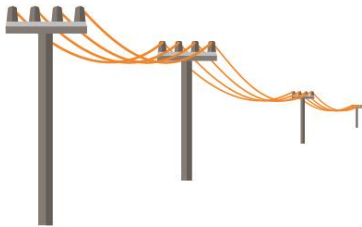
Deliver power to 99% of South Australia's population



Supply 860,000 homes and businesses



Provide network coverage over 178,000 sq km



\*Operate the oldest network in the NEM



\*Connect most roof-top solar per capita in the NEM

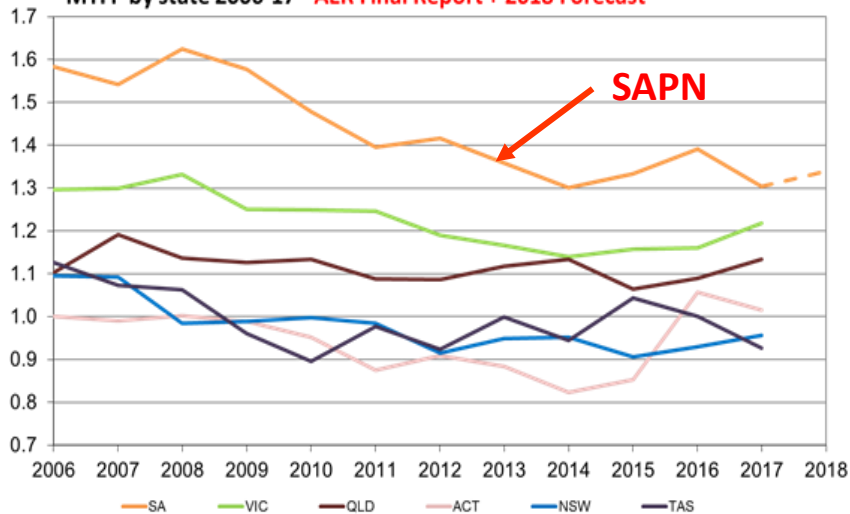
## We are efficient and have delivered for South Australians

- 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 aren't driving increases in SA
- Price trajectory < CPI



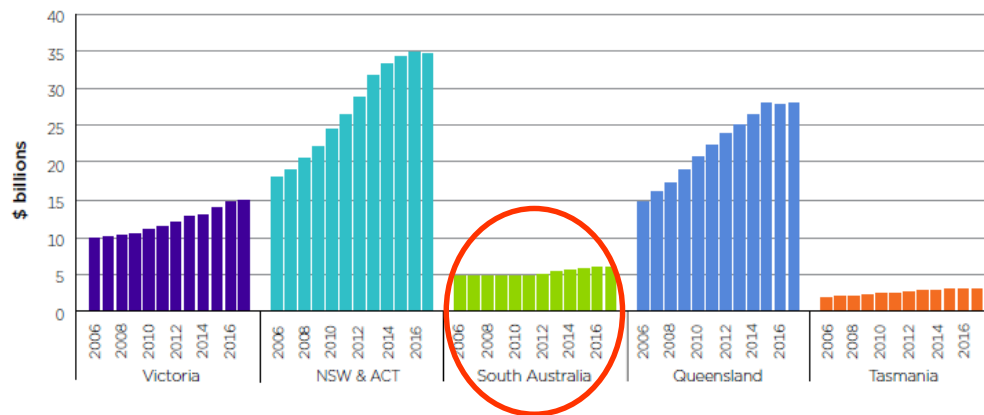
# Long term, efficient performance

MTFP by state 2006-17 - AER Final Report + 2018 Forecast



We are the most efficient distributor

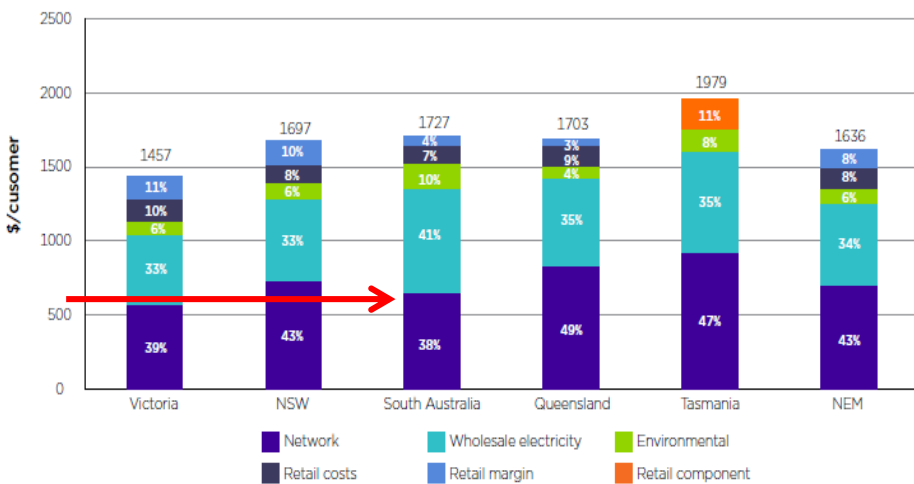
Figure 7.1: Regulatory asset base from 2006 to 2017, by NEM region, real \$2016-17



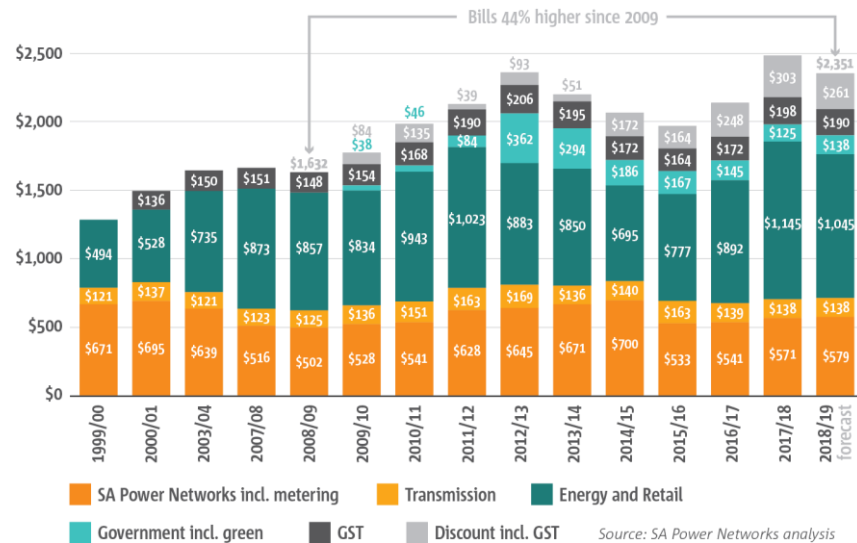
Source: AER economic benchmarking, Regulatory Information Notice responses.

We have very low RAB growth  
RAB per customer is \$5k, industry average is \$7k

Figure 1.4: Average residential bills by state, 2017-18, \$ per customer, real \$2016-17, excluding GST



We are one of the lowest cost networks



Our prices have tracked lower than CPI

SAPN

Source: SA Power Networks analysis

# Consumer engagement has shaped our Proposal

- Open, challenging, and constructive dialogue – “a critical friend”
- Improved understanding and relationships with SA customers & stakeholders



**5,437**  
individual  
participants



**127**  
engagement  
activities



**40**  
Reference Group  
meetings



**15**  
locations across  
Australia



**20**  
newsletters



**14,051**  
talkingpower.com.au  
visits



**32**  
submissions on  
2020-2025 Draft Plan

# Price is important, but so are other things

Three key, competing priorities:



Keep prices down



A safe and reliable network



Transition to the new energy future

- Differences in views across the various groups
- Engagement is ongoing



*“Work with customers to optimally integrate DER... to improve handling of bilateral energy flows.” Reference Group Directions Workshop participant*

*“The lights to stay on, it's worth paying for.” Port Lincoln Directions Workshop participant*

*“Supportive of “a little more” to support improved reliability to remote/poorly serviced customers.” Port Augusta Directions Workshop participant*

# Key changes arising from engagement



## *Keeping prices down\*:*

- \$129m Capex reduction from Preliminary Plan
- \$55m Opex reduction from Preliminary Plan
- \$184m Totex reduction from Preliminary Plan
- Proposed smooth revenue path to reduce price volatility
- Refinement of Tariff proposals



## *Safe and reliable network:*

- Targeted reliability and bushfire safety programs
- Sustainable investment to avoid future price shocks



## *Transition to the new energy future:*

- Lower-cost, non-network focussed approach developed with extensive input from industry and Government. Integrated with tariff design and demand management.

*\*excluding effect of tax decision*



# Striking the balance between competing objectives



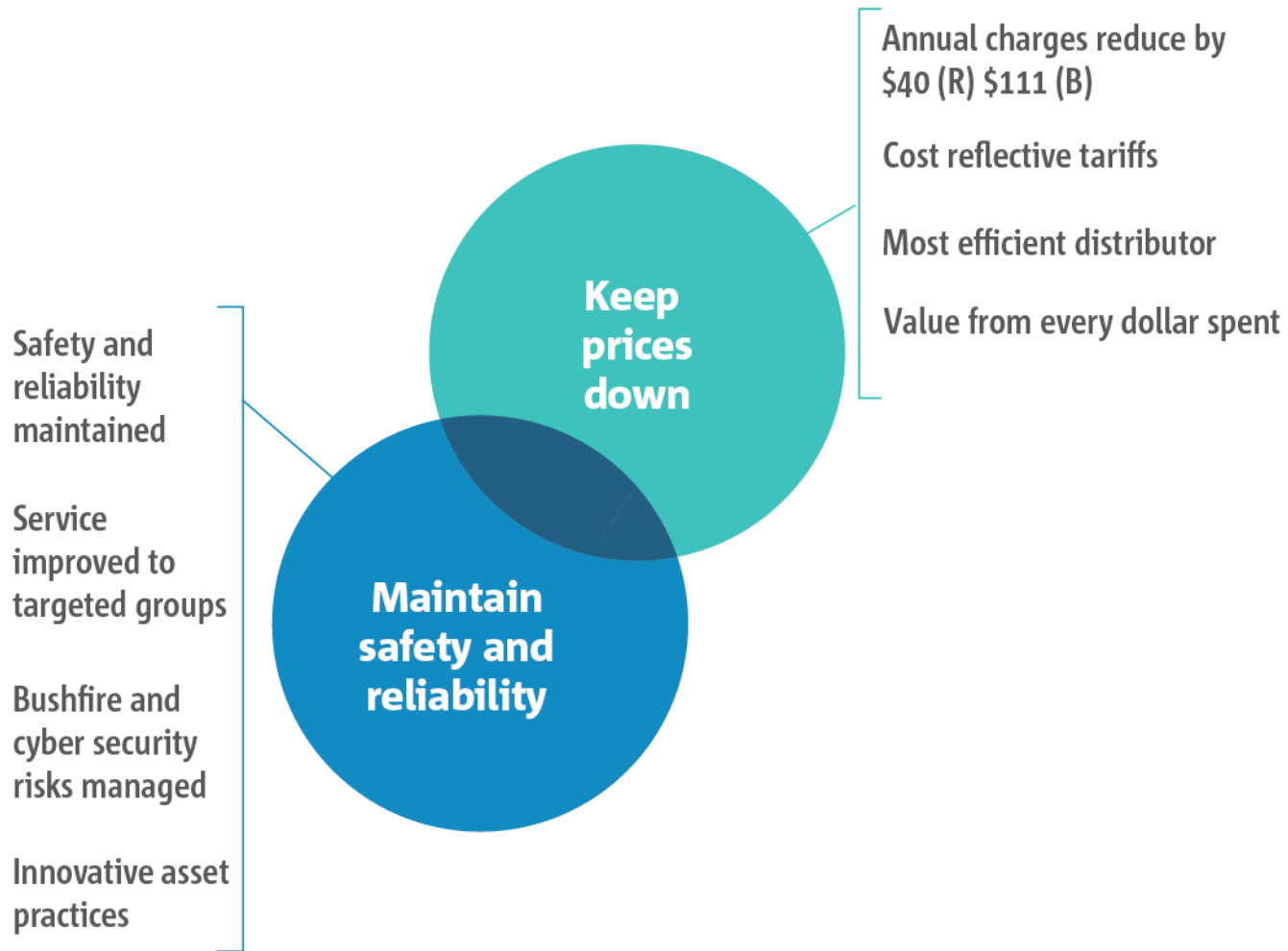
Annual charges reduce by  
\$40 (R) \$111 (B)

Cost reflective tariffs

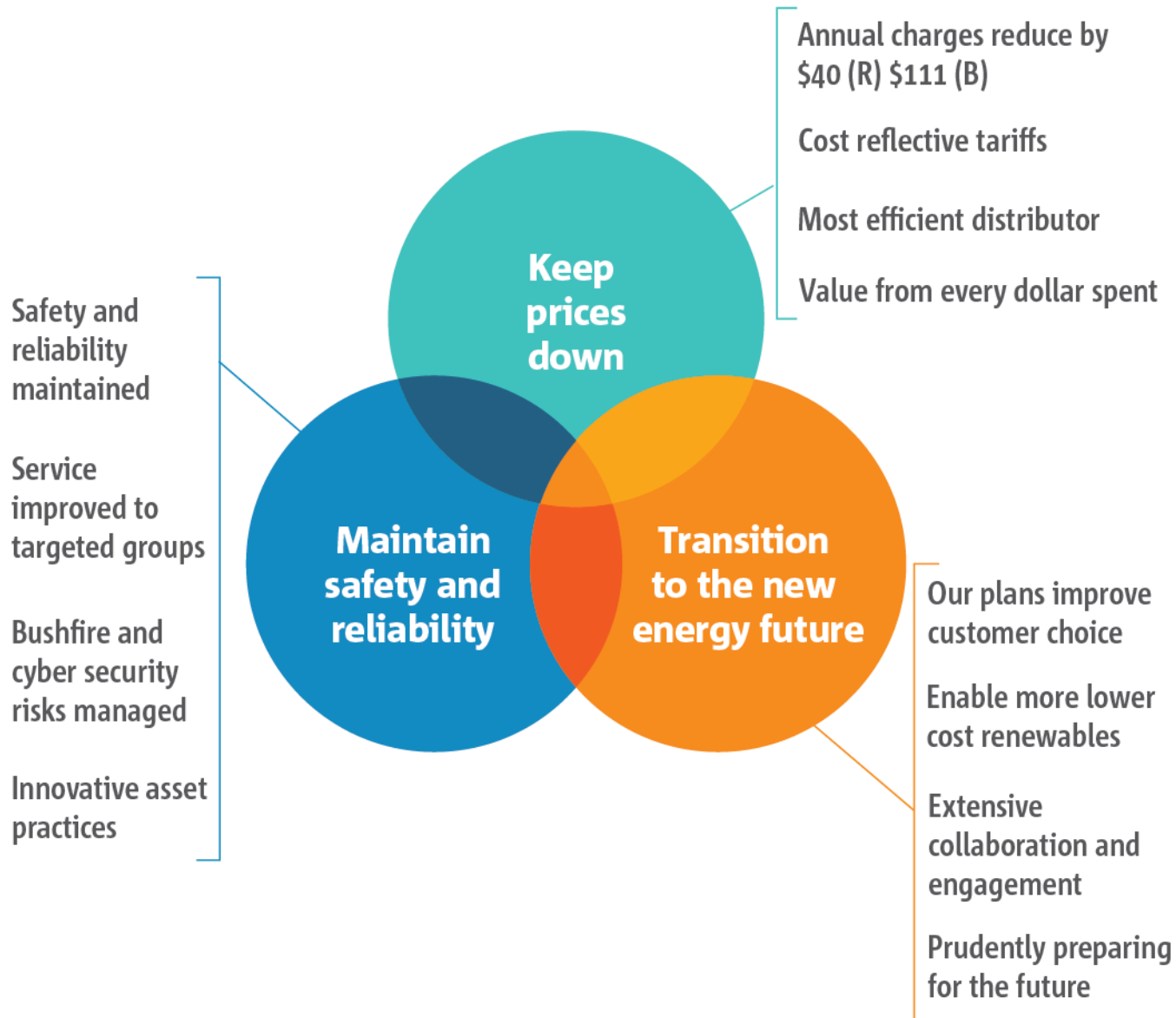
Most efficient distributor

Value from every dollar spent

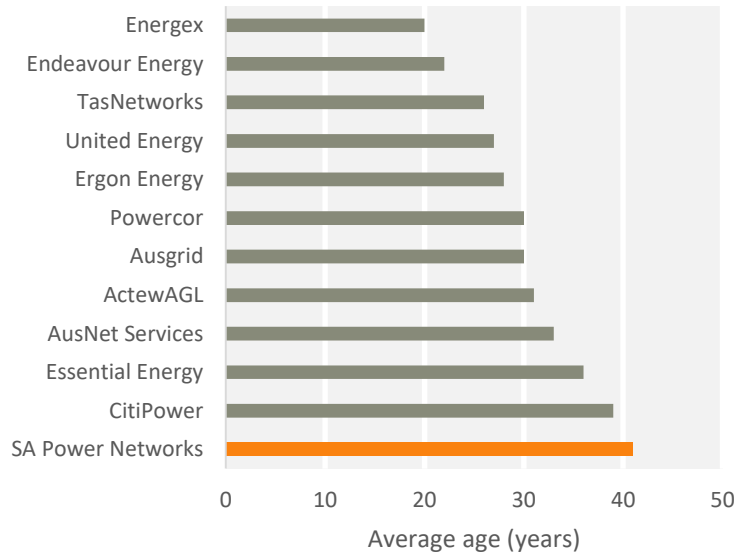
# Striking the balance between competing objectives



# Striking the balance between competing objectives



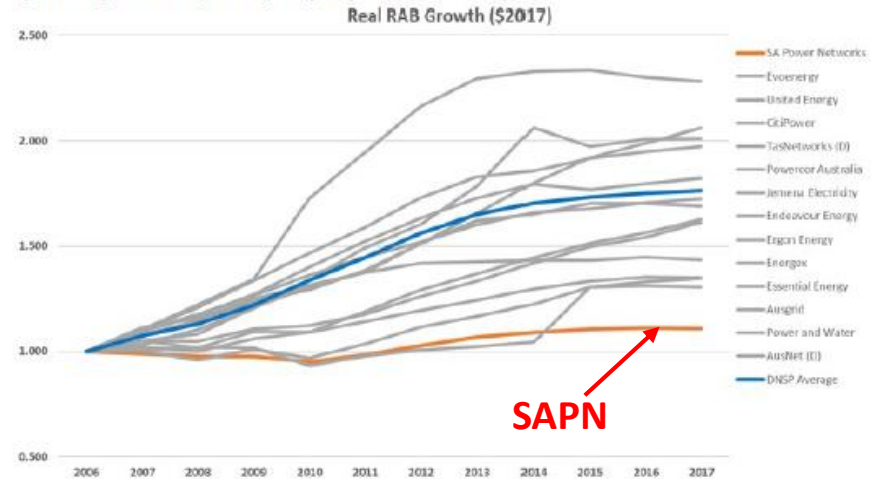
# Key challenge #1 - Managing an ageing network



**We have the oldest network in the NEM**

**We have the lowest RAB growth**

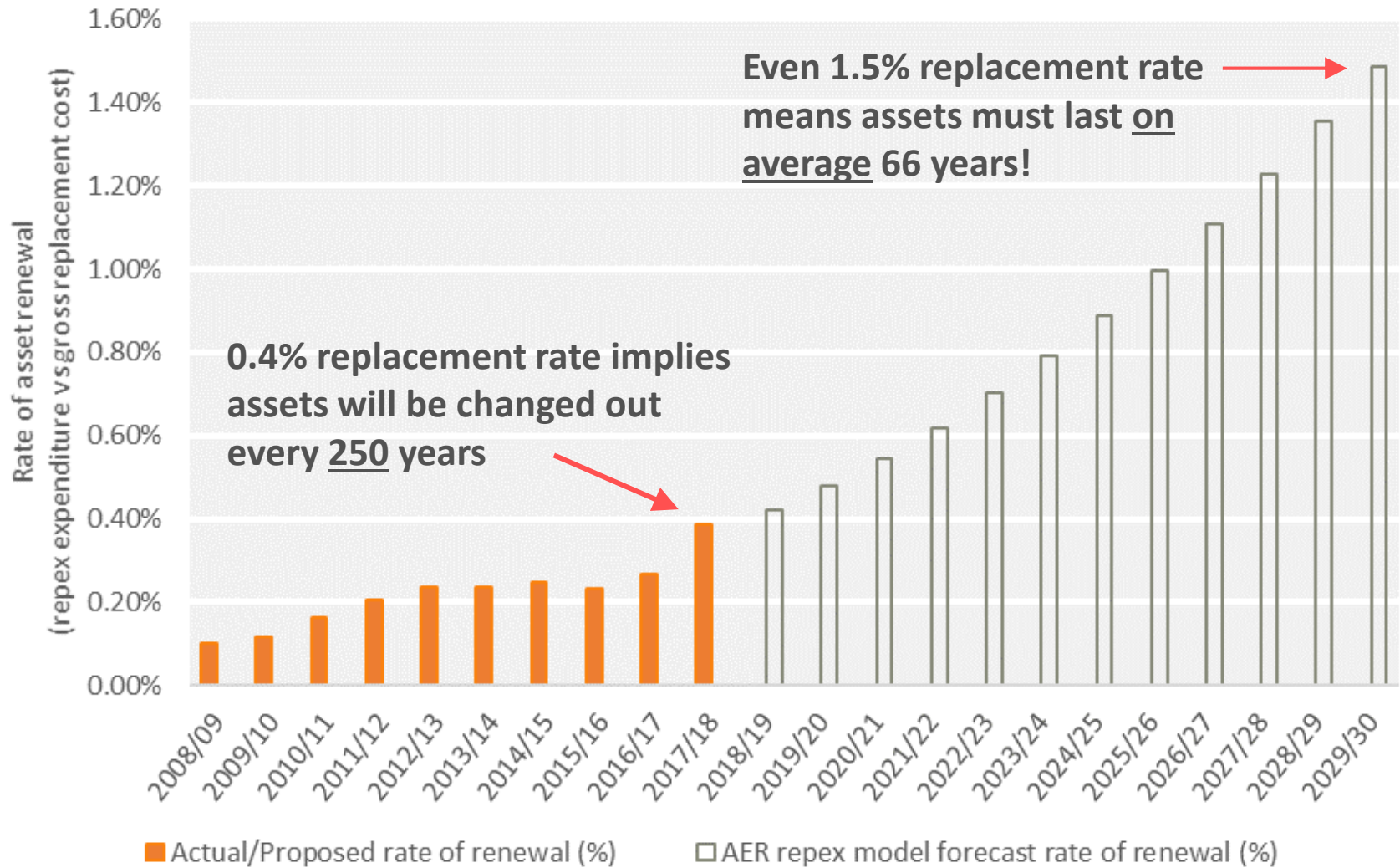
Figure 5-7: Figure 5 7: RAB growth by DNSP, 2006-17\*



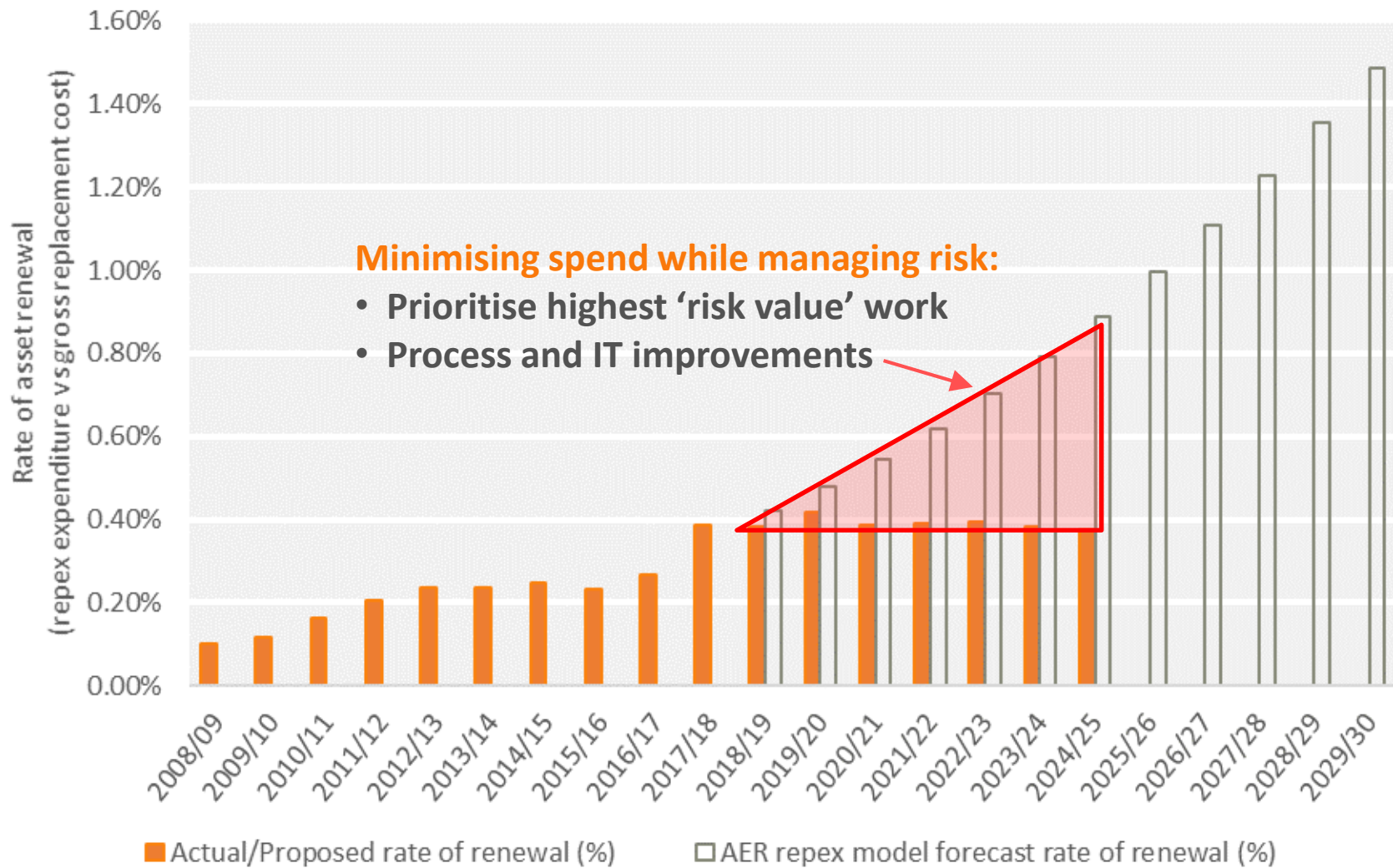
**SAPN**

Source: AER Regulatory Information Notice and Performance data for DNSPs across the NEM (2016-2017 data)

# Asset replacement rates must increase



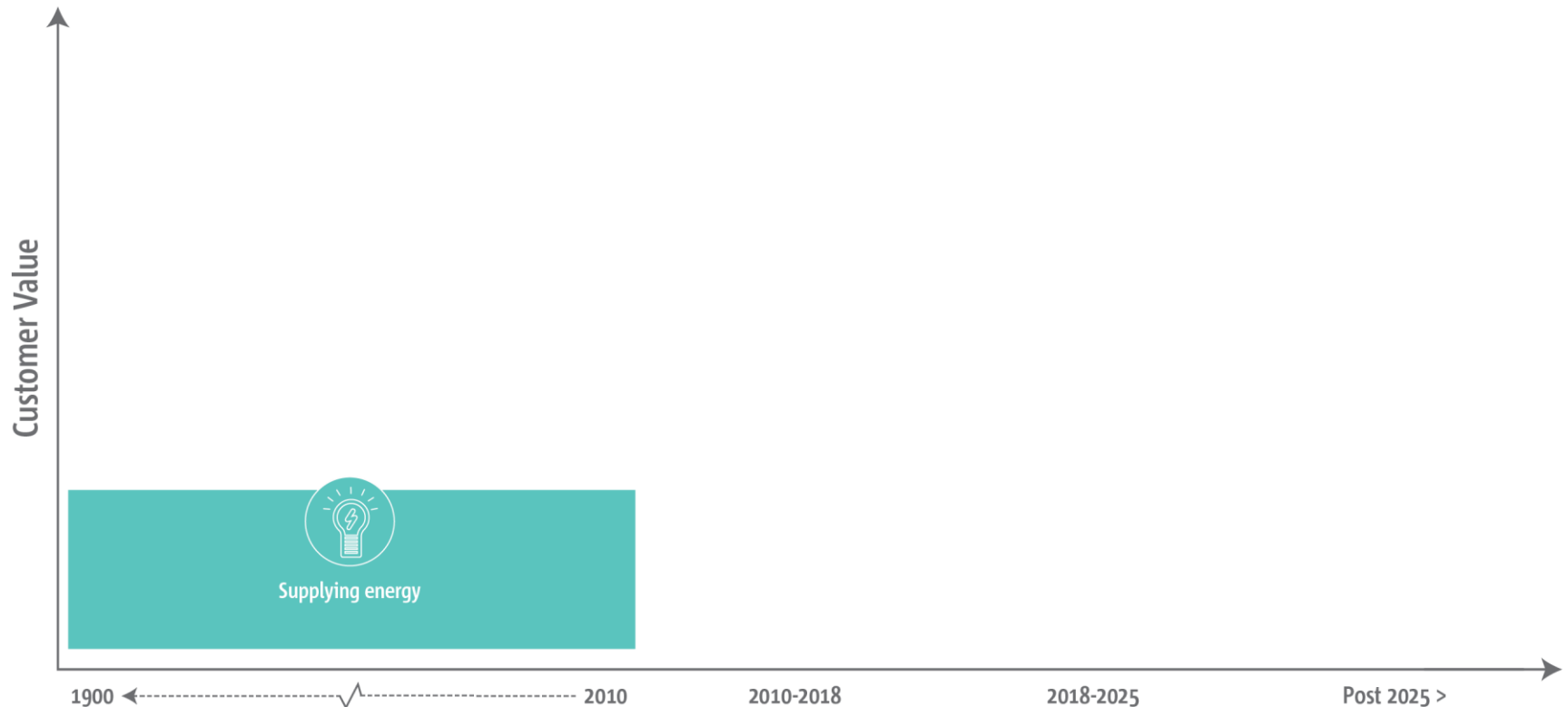
# Continually innovating to keep costs down



# Key challenge #2 – transition to the new energy future <sup>15</sup>

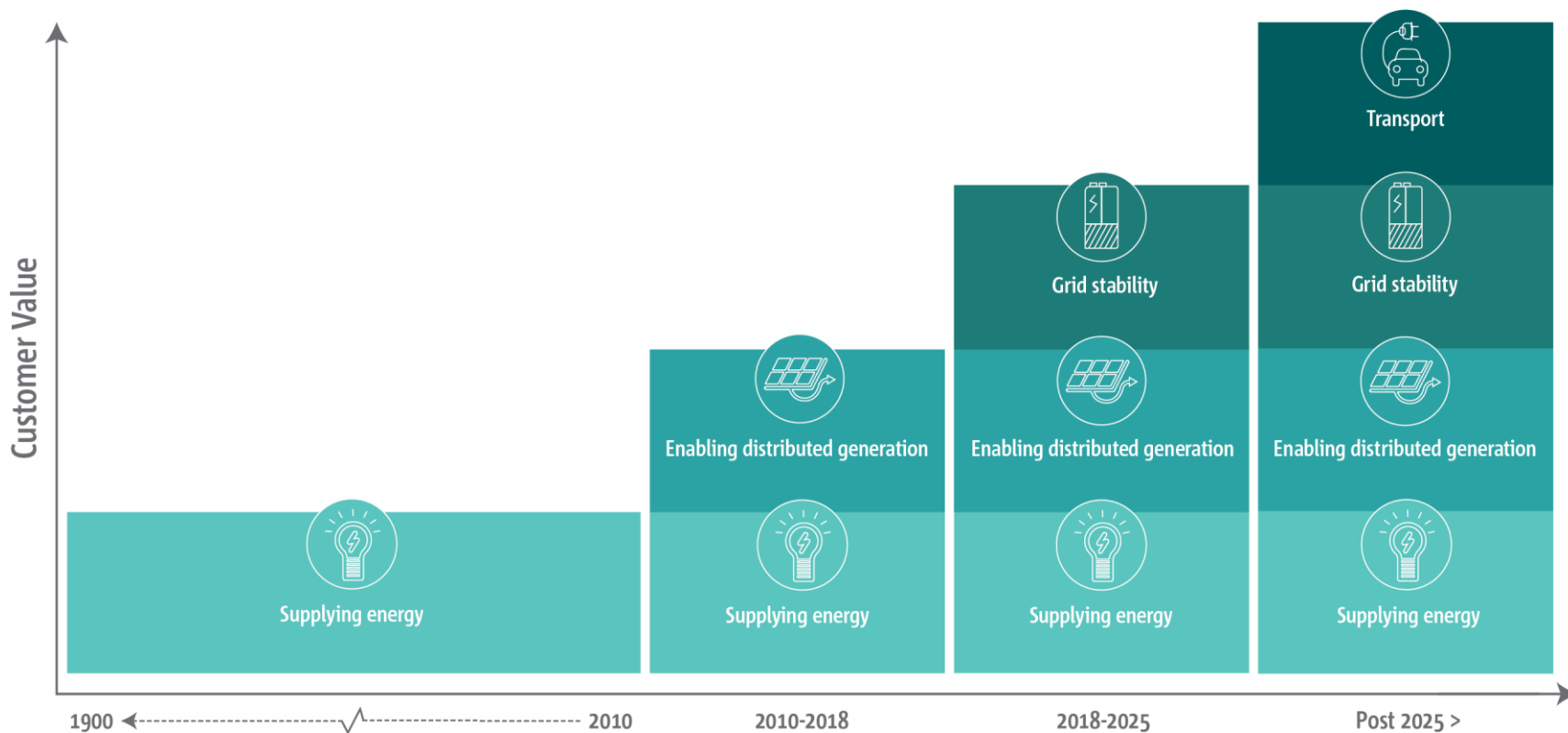
- Traditional role as a '*one-way network*' supplying energy:

Power Station -> Transmission -> Distribution -> Customer



# Enabling greater customer value

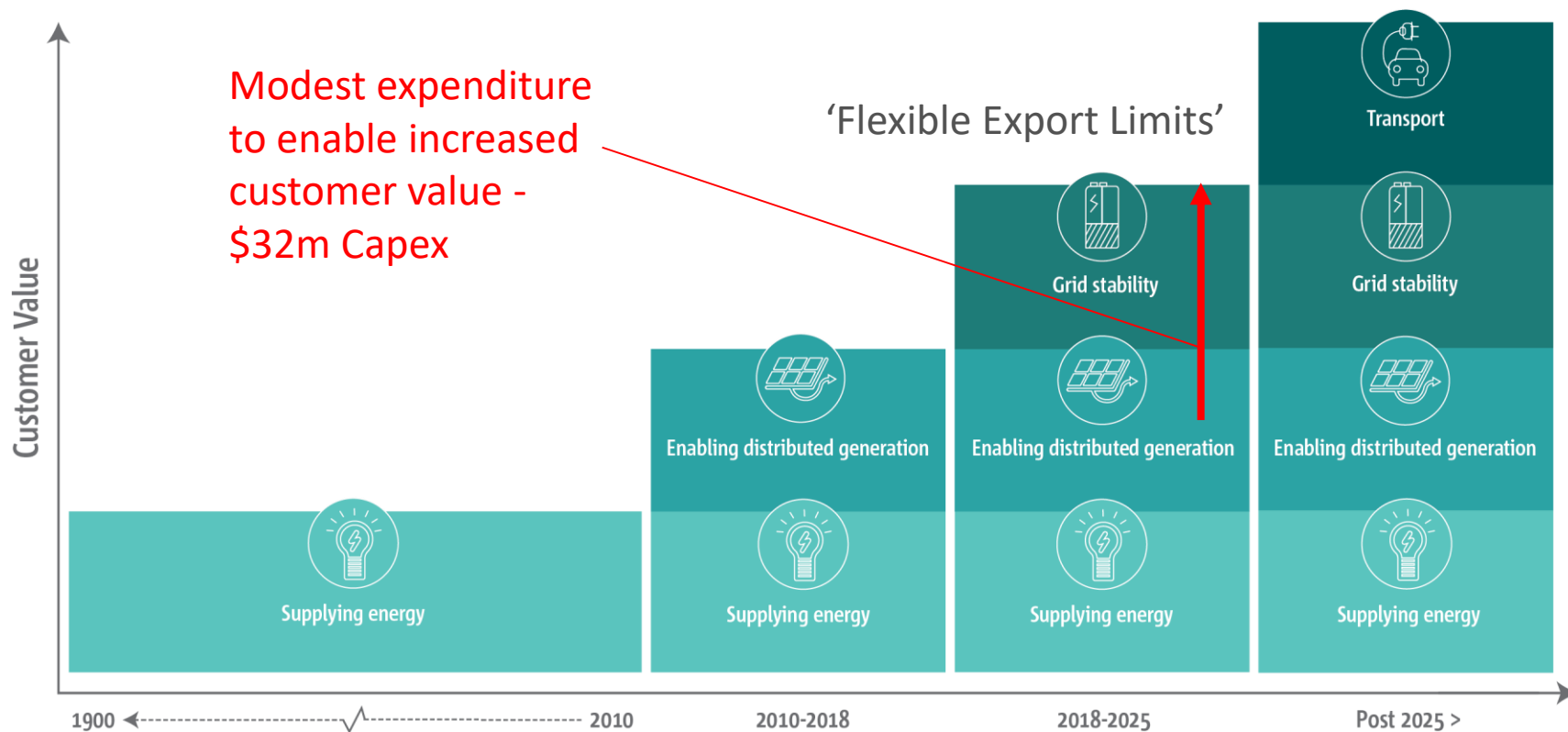
- Customer driven change
- Dramatic take-up of distributed resources in SA
- 2019: 1:3 customers have solar, potentially 100,000 batteries over next 2 – 3 years
- 2025: 1,500 MW solar, 500 MW batteries in state with 1,500 MW demand
- Forecast of significant electric vehicle take up post 2025





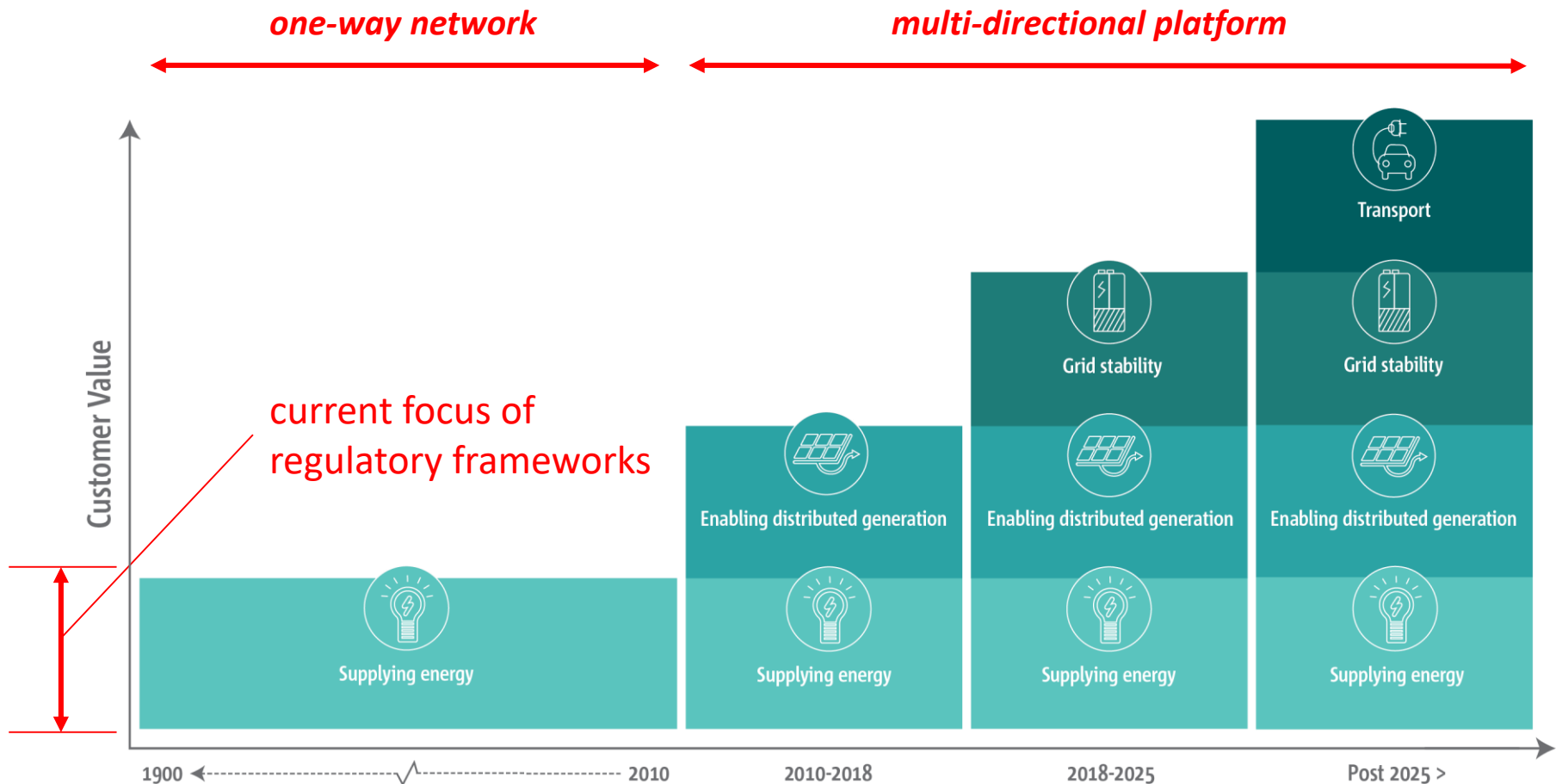
# Enabling greater customer value

- Customer driven change
- Dramatic take-up of distributed resources in SA
- 1:3 customers have solar, potentially 100,000 batteries over next 2 – 3 years
- By 2025 -> 1,500 MW solar, 500 MW batteries in state with 1,500 MW demand
- Forecast of significant electric vehicle take up post 2025



# Enabling greater customer value

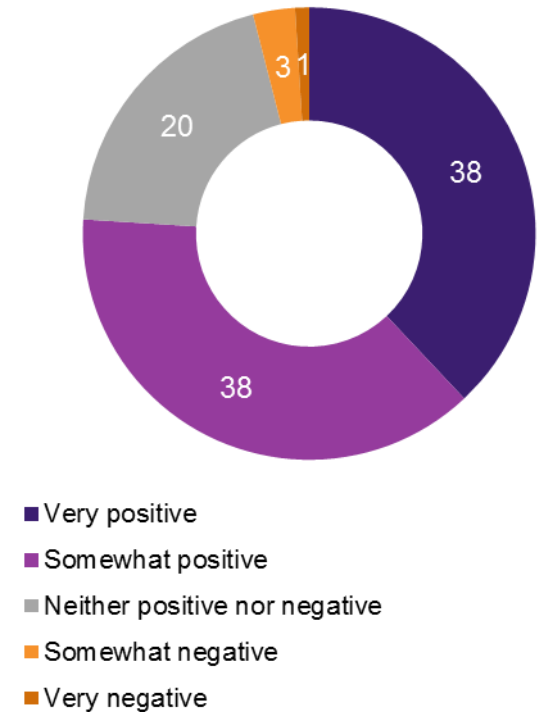
- Customer led transformation
  - enables improved customer choice
  - ability to share and trade energy resources
  - long term benefits to all customers



- Modest investment proposed to:
  - improve customer choice
  - leverage distributed energy resources
  - avoid/defer network constraints
- Plans informed by extensive engagement
  - advocacy groups, policy makers, market bodies, industry, plus customer research
- Integrated package
  - informed by Network Planning
  - complemented by tariff design and demand management initiatives

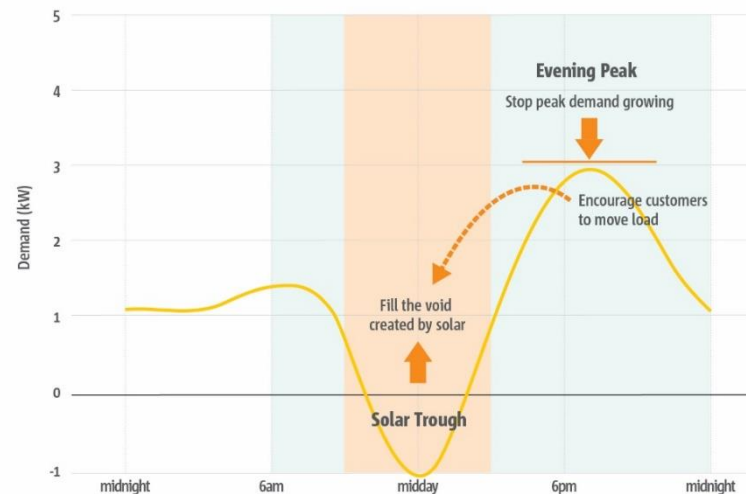
**Responses to SA Power Networks spending money to enable more solar (%)**

*Newgate research, Dec 2018*



# More cost-reflective pricing in 2020-25

- Tariff design follows extensive consultation:
  - Residential and Business customers
  - Retailers
  - Advocates
  - Market bodies
- Primary driver is encouraging residential load to fill solar 'trough' to lower future prices
  - Simple and understandable
  - Unwinding cross-subsidies
- 2020-25 tariffs:
  - Transition to cost reflectivity
  - Clear triggers for customer assignment
  - Part of an 'integrated package' of initiatives



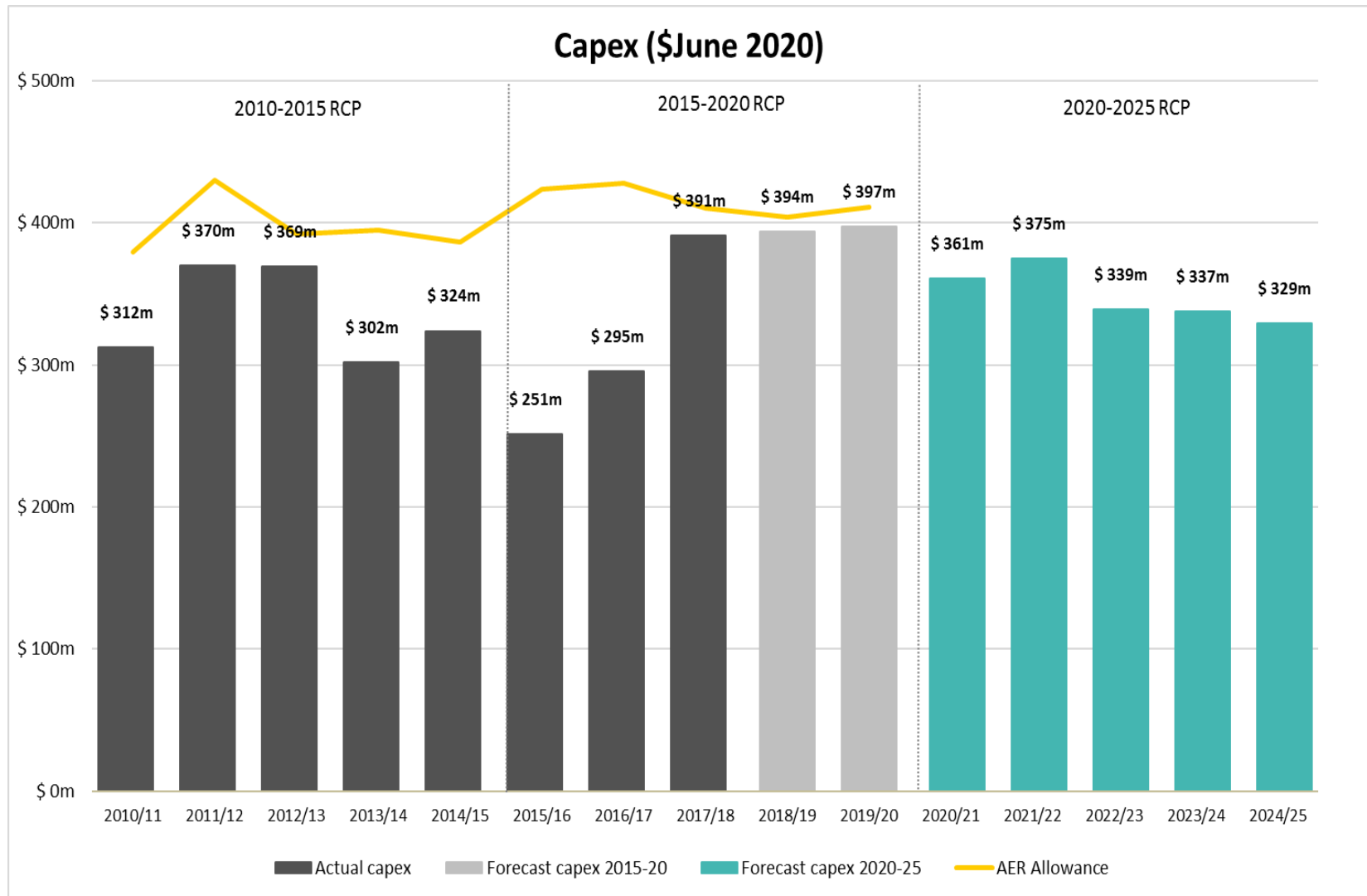
# Incorporating recent decisions

- AER Rate of Return Guideline
- AER Regulatory Tax Review
- ESCoSA Service Standard Framework

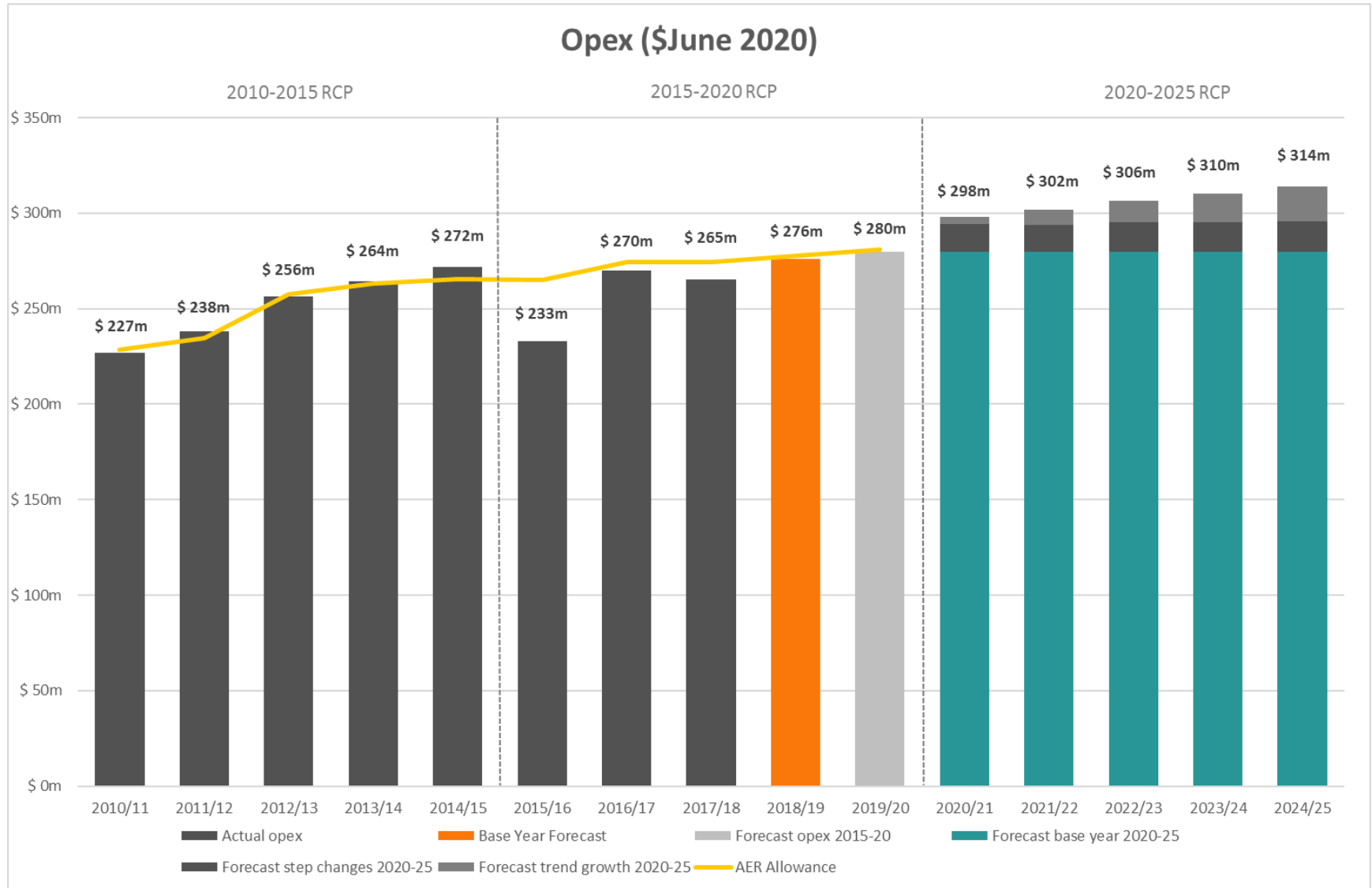
Our Revised Proposal will include:

- AER Opex Productivity Adjustment

# Capital expenditure by period

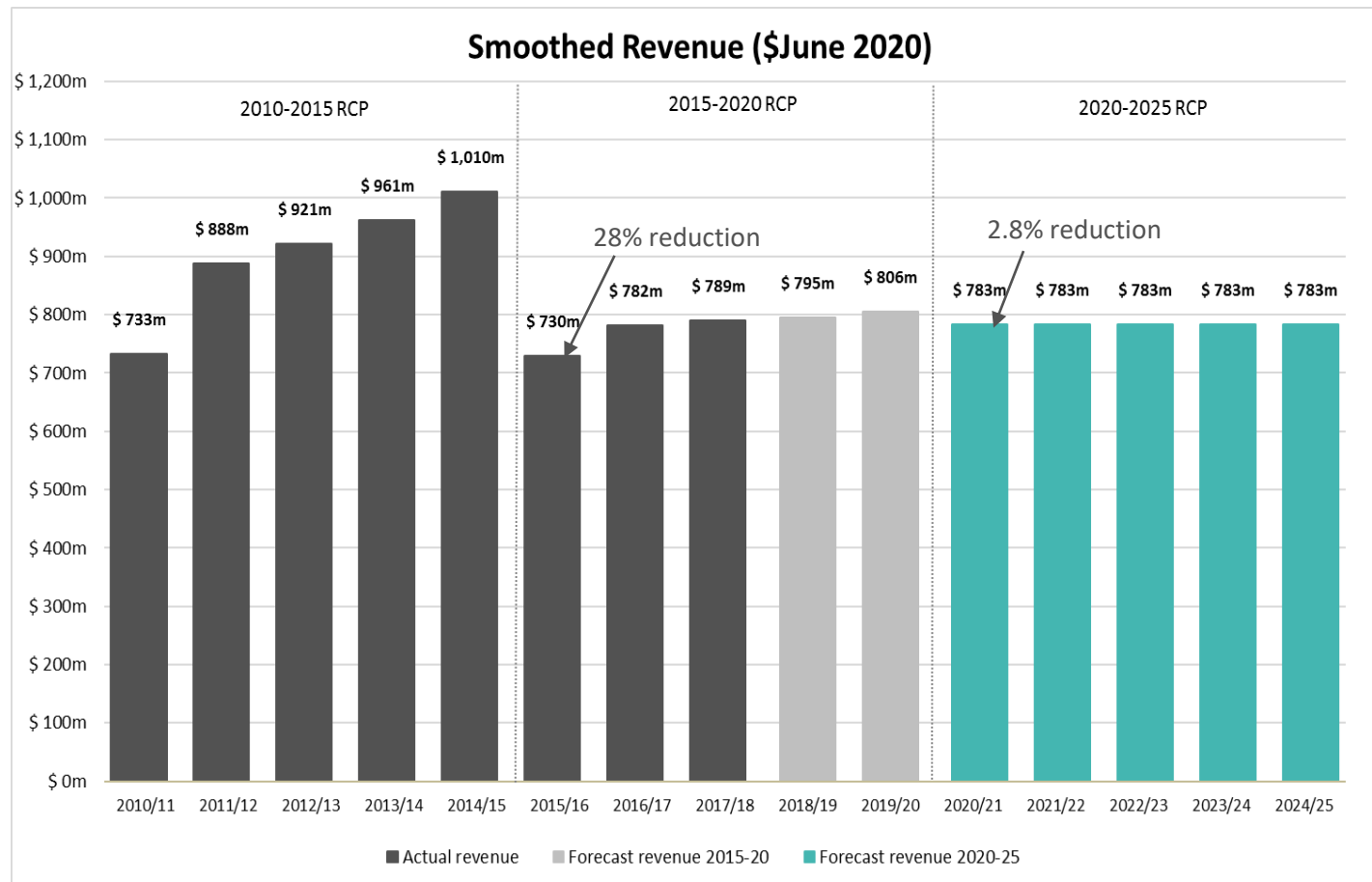


# Operating expenditure by period



# Forecast revenue is comparable to current period

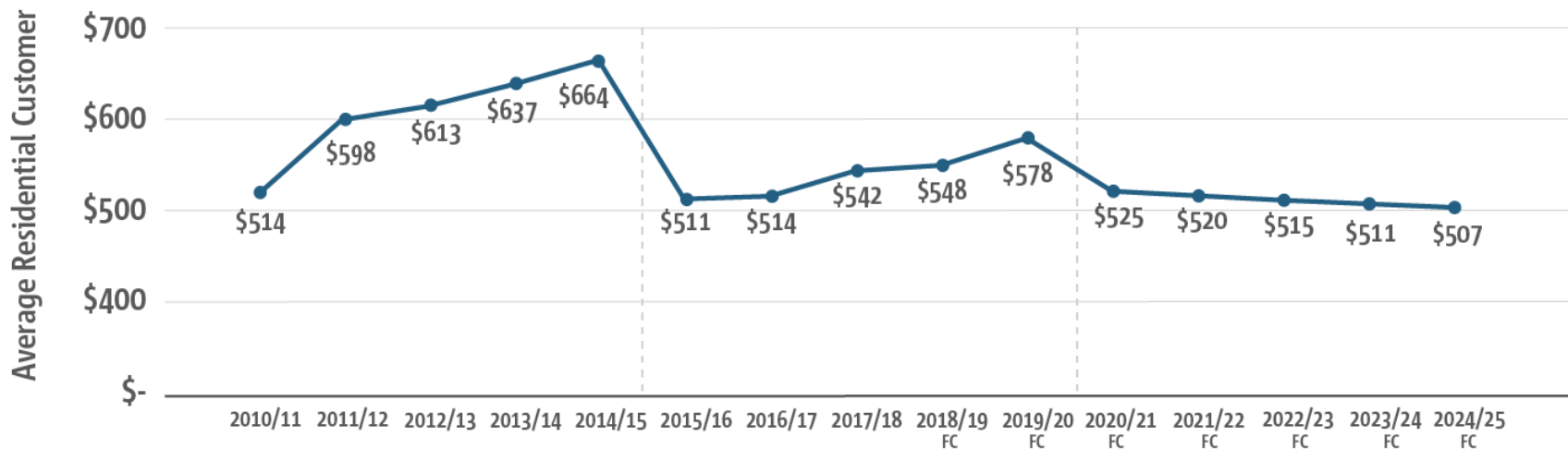
- Forecast revenue of \$3,915 million is comparable to 2015-20 revenue of \$3,909 million (\$June 2020)



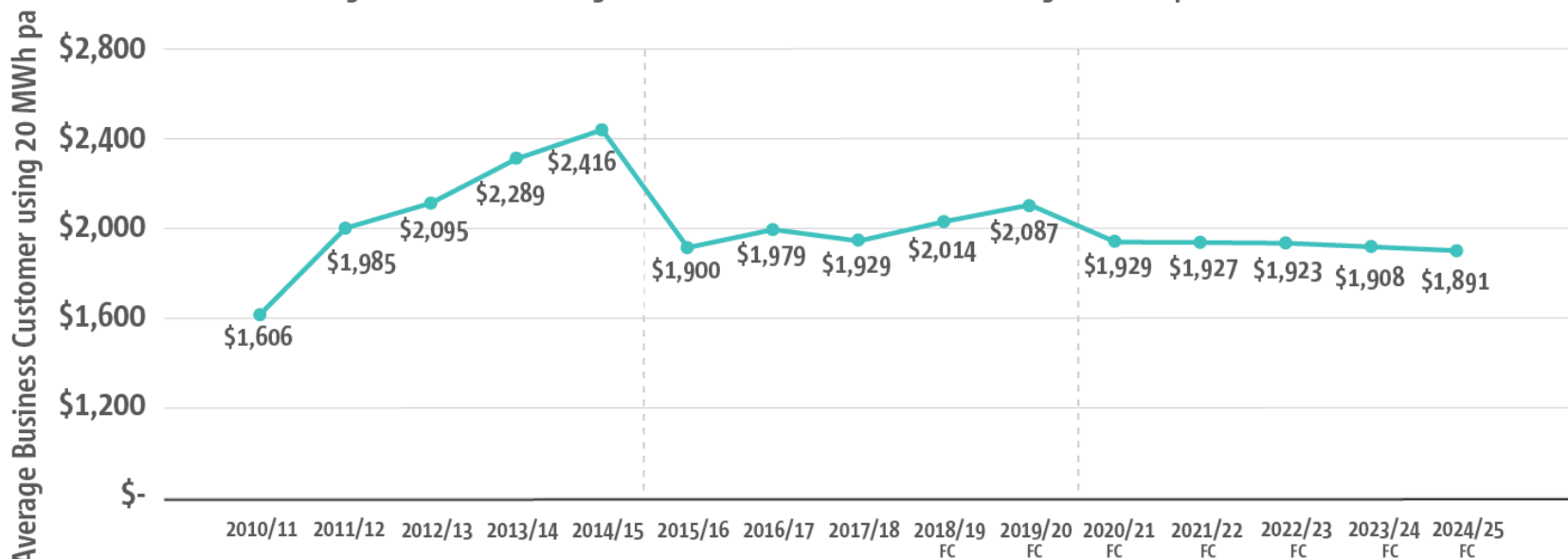


# Customer charges will continue to reduce

### Average Distribution Charges for Residential Customers - Real \$2020



### Average Distribution Charges for Small Business Customer using 20 MWh pa - Real \$2020



# Customer outcomes



Price reductions (\$40 residential, \$111 small/medium business)



Reliability



Safety



Sustainable public infrastructure



New energy future

# This Proposal is not



Unsustainable short-term cost cutting



Increasing safety and reliability risks beyond acceptable limits



Transferring today's costs to future customers

# 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

\* all figures in \$ June 2020



## Summary

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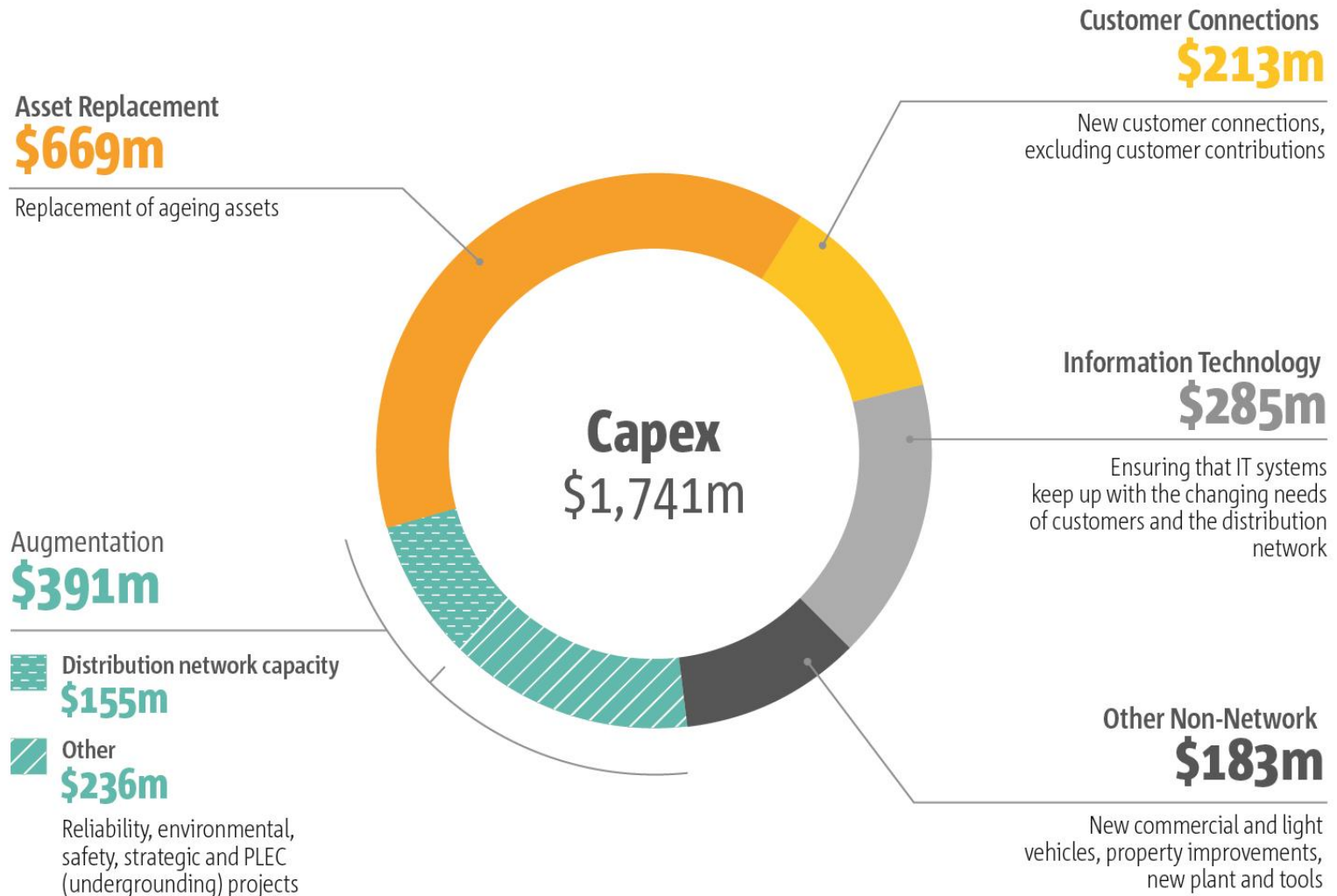
- SA Power Networks is an efficient organisation
- We have delivered for South Australians for many years
- This is a bare-bones Proposal, with minor enhancements identified through customer engagement
- This Proposal delivers real price reductions to customers, whilst addressing their key priorities
- We believe this is a balanced Proposal in the long term interests of consumers



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

# Appendix

# 2020-25 Regulatory Proposal - capex





# 2020-25 Regulatory Proposal - opex

**Customer Services**  
**\$159m**

Customer management, call centre, maintaining customer systems

**Emergency Response**  
**\$202m**

Restoration of supply to customers and restoration of assets in response to unplanned outages

**GSL Payments**  
**\$31m**

Payments to customers for inconvenience during extended outages

**Network Maintenance**  
**\$267m**

Asset inspections, line and substation maintenance

**Network Operations**  
**\$230m**

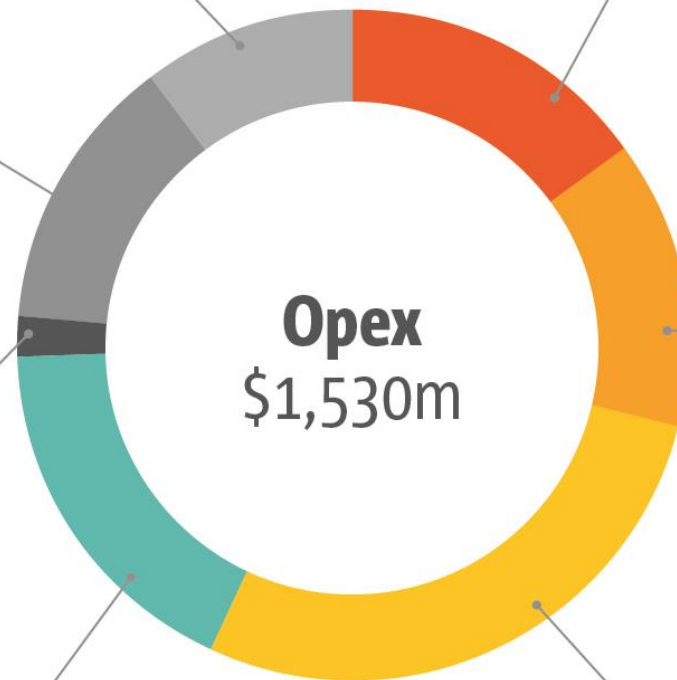
Distribution licence fee, asset management planning, asset system maintenance, network monitoring, communications and bushfire insurance

**Vegetation Management**  
**\$215m**

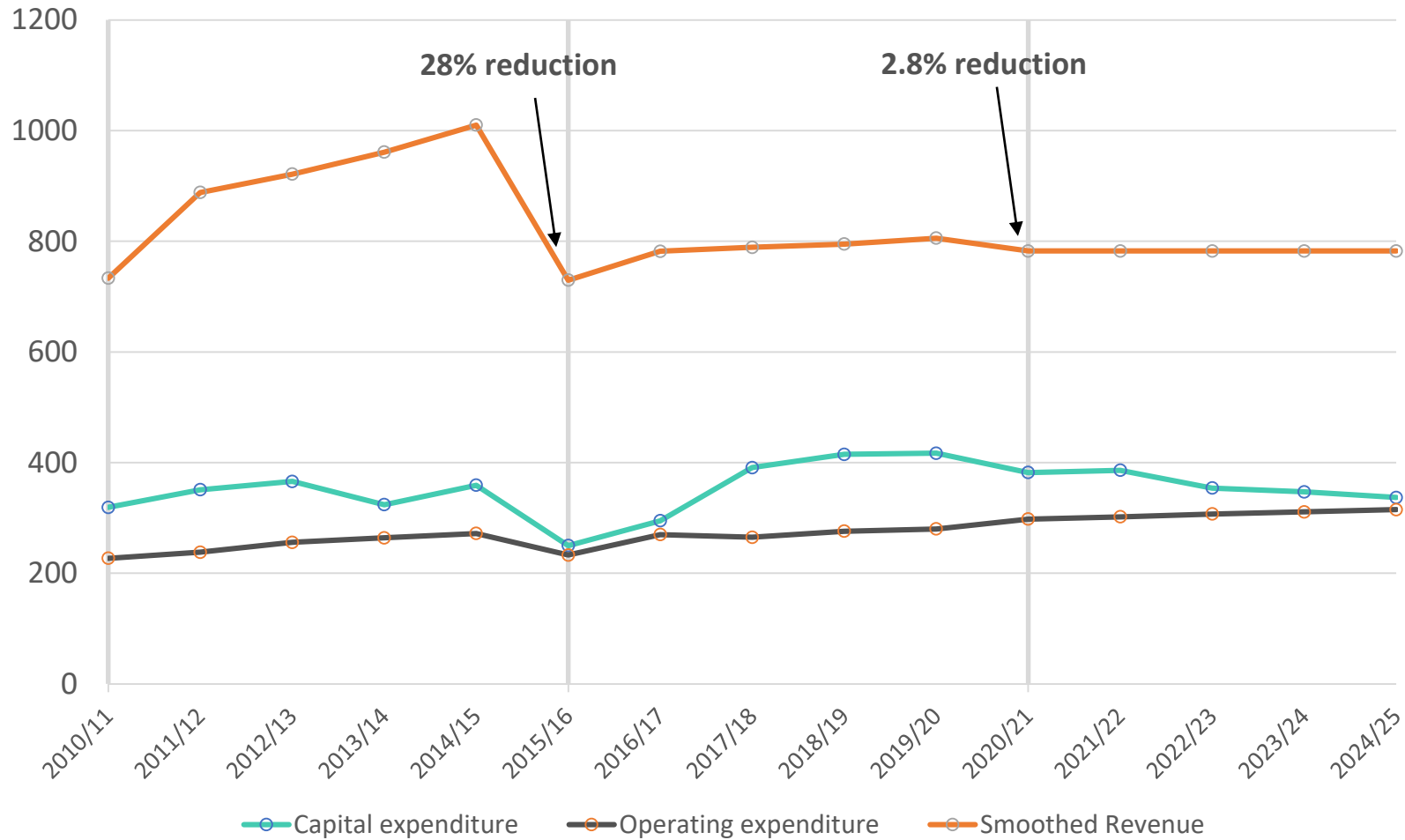
Management of compliance and cyclic cutting of vegetation

**Corporate Costs**  
**\$428m**

Corporate groups such as Finance, IT, Property, Insurance etc, allocated in accordance with AER approved Cost Allocation method (CAM)



# Revenue, capex and opex trends (\$m 2020)



# IT investment reducing from current period

- Acknowledge customer and stakeholder concerns around IT
- Proposed IT capex lower than current period
- IT enables efficiencies across new work programs

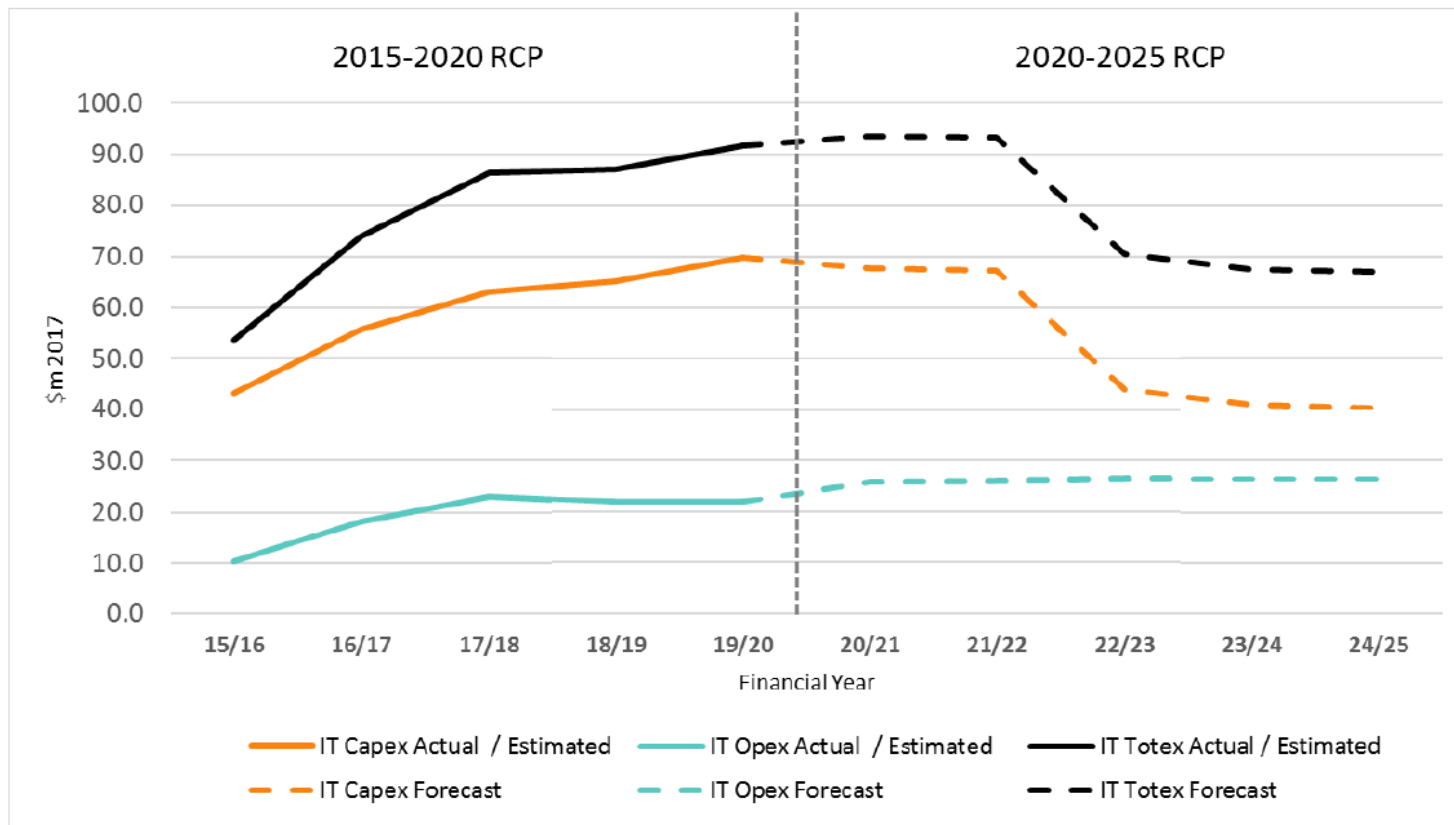


Figure ES.1: Actual/Estimated and Forecast IT totex, capex and opex across the 2015–20 and 2020–25 RCPs