



Supporting
document 6.3

Distribution Licence Fee - Letter to AER 30.8.2019

**2020-25 Revised
Regulatory Proposal**
10 December 2019

30 August 2019

Mr Warwick Anderson
General Manager
Networks Finance and Reporting
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Dear Mr Anderson

SA Power Networks Increased Distribution Licence Fee

I refer to:

- the SA Power Networks (**SAPN**) regulatory proposal for the 2020-2025 regulatory control period (**2020-2025 Proposal**); and
- the submission made by the South Australian Minister for Energy and Mining (**Minister**) dated 15 May 2019 which, amongst other things, notified the AER that the Minister will be increasing SAPN's annual distribution licence fee under the *Electricity Act 1996* (SA) (**EASA**) for each year of the 2020-2025 regulatory control period (**RCP**).

Set out below is SAPN's request to reflect the increase in SAPN's annual distribution licence fee in the opex forecast for the 2020-25 RCP.

1. Increase in SAPN's distribution licence fee

- 1.1 As required by the EASA and the conditions of the distribution licence issued to SAPN under the EASA, SAPN must pay an annual licence fee of such amount as is fixed from time to time by the Minister (**Annual Licence Fee**).
- 1.2 The Annual Licence Fee for each year of the 2015-2020 RCP has been and is \$2,257,600.
- 1.3 The Minister's submission of 15 May 2019, advised the AER that that there would be a higher Annual Licence Fee payable by SAPN for the 2020-2025 RCP of around \$2,935,000 per annum.¹
- 1.4 SAPN was not notified of the Minister's decision to increase the Annual Licence Fee until after the closure of submissions on the 2020-2025 Proposal. In fact, the increase was first notified to SAPN by letter dated 20 June 2019 from Mr Vince Duffy, Executive Director of the Energy and Technical Regulation Division at the SA Department for Energy and Mining. The letter

¹ SA Minister for Energy and Mining – Submission on SA Power Networks Regulatory Proposal 2020-2025 – 16 May 2019, available at: <https://www.aer.gov.au/system/files/SA%20Minister%20for%20Energy%20and%20Mining%20-%20Submission%20on%20SA%20Power%20Networks%20Regulatory%20Proposal%202020-2025%20-%2016%20May%202019.pdf>.

from Mr. Vince Duffy states that “The ETR has also notified the AER and asked it to account for the notified increases in the AER final decision on the SAPN Determination”. A copy of that letter is attached for reference.

- 1.5 This increase in the Annual Licence Fee is significant, equating to almost \$3.5 million over the course of the 2020-2025 RCP.
- 1.6 If SAPN had become aware of this increase in the Annual Licence Fee before it had submitted its 2020-2025 Proposal, SAPN would have included the amount of the increase as a positive adjustment to its opex forecast (i.e. a positive 'step change'), on the same basis that SAPN included, and the AER approved, the amount of a decrease in SAPN's Annual Licence Fee as a negative adjustment to its opex forecast for the 2015-2020 RCP. The AER's approval of that step change for the 2015-2020 RCP is addressed in section 3 below.
- 1.7 Furthermore, if SAPN had become aware of the increase in the Annual Licence Fee during the period in which the AER was receiving submissions on the 2020-2025 Proposal (i.e. between 14 February and 16 May 2019), SAPN would have made a submission to the AER on that matter during that period.

2. Obligation to have regard to the Minister's submission

- 2.1 Although, for the reasons outlined above, SAPN did not raise the increased Annual Licence Fee in its 2020-2025 Proposal, clause 6.10.1(b) of the National Electricity Rules (**NER**) requires the AER, when making a draft distribution determination (**Draft Determination**), to have regard (amongst other things) to written submissions on SAPN's 2020-2025 Proposal.
- 2.2 As noted above, the Minister made a submission on 15 May 2019 and, in that submission (in the context of the topic of operating expenditure), clearly indicated that a higher Annual Licence Fee would be imposed on SAPN for each year of the 2020-2025 RCP.
- 2.3 We believe the AER is therefore obliged to have regard to that information submitted by the Minister when making its Draft Determination.

3. Step changes in the previous RCP

- 3.1 In accordance with the Expenditure Forecast Assessment Guideline (**EFAG**), where there are material cost increases or decreases, including, for example, those associated with changes driven by new, changed or removed regulatory obligations that are not captured in SAPN's base year opex or in the rate of change, the AER may approve step changes to reasonably reflect the opex criteria.
- 3.2 In the 2015-2020 RCP, the AER made an allowance for a step change which related to a change in SAPN's Annual Licence Fee for that RCP.
- 3.3 In its 2015-2020 regulatory proposal (**2015-2020 Proposal**), SAPN applied for a base year cost reduction (i.e. negative step change) of \$1.1 million to reflect advice from the Minister received on 11 September 2014 of a reduced Annual Licence Fee for each year of the 2015-2020 RCP (i.e. a total adjustment of \$5.5 million). This amount was subsequently amended to \$5.0 million upon receipt of further advice from the Minister (which was received by SAPN after the submission of its 2015-2020 Proposal).
- 3.4 In its 2015-2020 Draft Determination, the AER approved and included an adjustment for the change to the Annual Licence Fee (equal to \$5.0 million) in its alternative opex forecast and

stated that this adjustment was due to 'a reduced cost incurred by SA Power Networks in delivering its regulatory obligations and therefore classified as a step change'.²

- 3.5 We submit that an equivalent allowance (i.e. an allowance for a change in SAPN's Annual Licence Fee) should be made for the upcoming 2020-2025 RCP because:
- (a) the current EFAG is the same guideline that was in effect at the time of the AER's 2015-2020 Draft Determination, and therefore the AER's approach to and assessment of this type of step change should be identical;
 - (b) there is nothing in the EFAG that would allow the AER to treat positive and negative adjustments to opex forecasts (i.e. positive and negative step changes) differently on the basis that the adjustment results in either an increase or decrease in SAPN's total revenue requirement for a RCP;
 - (c) the AER approved a negative step change for the 2015-2020 RCP which reflected a reduction in the Annual Licence Fee, and recognised that this step change resulted from a reduced cost incurred by SAPN in delivering its regulatory obligations; and
 - (d) there is no material difference between the current circumstances and the circumstances which resulted in the negative step change in the 2015-2020 RCP, other than:
 - (i) the increase in the Annual Licence Fee will result in an increase in SAPN's total revenue requirement in 2020-25 as compared to a decrease in the 2015-20 RCP; and
 - (ii) the change to the Annual Licence Fee was notified to SAPN after the lodgement of its 2020-25 Proposal.

We request for the reasons outlined above the AER have regard to increasing SAPN's operating expenditure to accommodate this increase in Electricity Distribution Licence fee.

If you have any questions or would like to discuss any aspects of this submission, please contact Richard Sibly on 08 8404 5613 or at richard.sibly@sapowernetworks.com.au.

Yours sincerely



Doug Schmidt
General Manager Regulation

² AER, Attachment 7 – Operating expenditure – SA Power Networks' determination 2015-20, page 105.



Government
of South Australia

Department for
Energy and Mining

Our Ref: D19051888

20 June 2019

Mr Rob Stobbe
Chief Executive Officer
SA Power Networks
GPO Box 77
ADELAIDE SA 5001

Dear Mr Stobbe

I am writing in relation to the SA Power Networks (SAPN) Determination 2020-25.

Section 20(3) of the *Electricity Act 1996* and section 24 of the *Gas Act 1997* provide for the Minister for Energy and Mining to fix the level of electricity and gas supply industry licence fees as "an amount that the Minister considers to be a reasonable contribution towards administrative costs".

The Energy and Technical Regulation Division (ETR) has completed a review of the Electricity Distribution Operations and has recommended that the Minister:

- o increase SAPN's distribution licence fee from \$2,257,600 per annum to \$2,935,000 per annum for the period 2020/21 to 2024/25.

The ETR recommends that SAPN note the increases and adjust its budget accordingly. The ETR has also notified the AER and asked it to account for the notified increases in the AER final decision on the SAPN Determination.

Should you wish to discuss this decision please contact Ms Rebecca Knights, Director, Energy Policy and Programs, on 8429 3185.

Energy and Technical Regulation Division

Address Level 8 11 Waymouth St Adelaide 5000 | GPO Box 320 Adelaide SA 5001 | DX452

Tel (+61) 08 8429 3181 | Email vince.duffy@sa.gov.au | www.energymining.sa.gov.au | ABN 83 768 683 934





Government
of South Australia

Department for
Energy and Mining

Yours sincerely

A handwritten signature in blue ink, appearing to read "Vince Duffy".

Vince Duffy
EXECUTIVE DIRECTOR
ENERGY AND TECHNICAL REGULATION DIVISION

