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2 Regulatory Asset Base

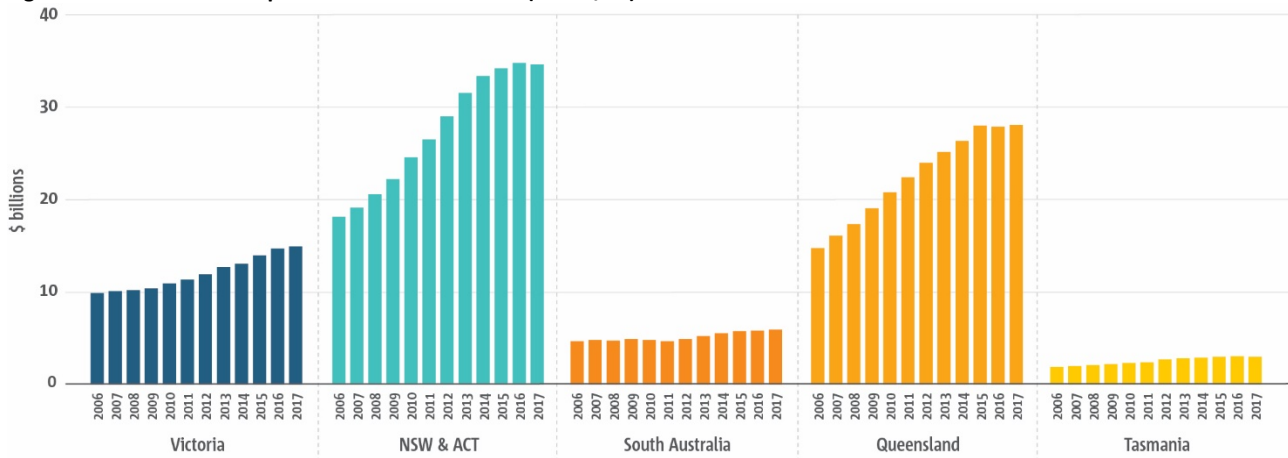
2.1 Overview

Original Proposal	AER Draft Decision	Revised Proposal response
Roll forward of regulatory asset base (RAB) for the 2015-20 regulatory control period (RCP):		
\$4,417.7 million	\$4,393.3 million	\$4,357.0 million
	Methodology accepted with minor revisions.	Updated roll forward with actual 2018/19 and forecast 2019/20 capex and consumer price index (CPI).
Roll forward of RAB for the 2020-25 RCP:		
\$5,059.6 million	\$4,558.9	\$4,972.5
Depreciation based on forecast capex	Accepted forecast depreciation approach. RAB forecast updated for Draft Decision capital expenditure (capex).	Updated roll forward with Revised Proposal capex and forecast CPI.

SA Power Networks has a demonstrated history of a modest RAB per customer and overall RAB growth.

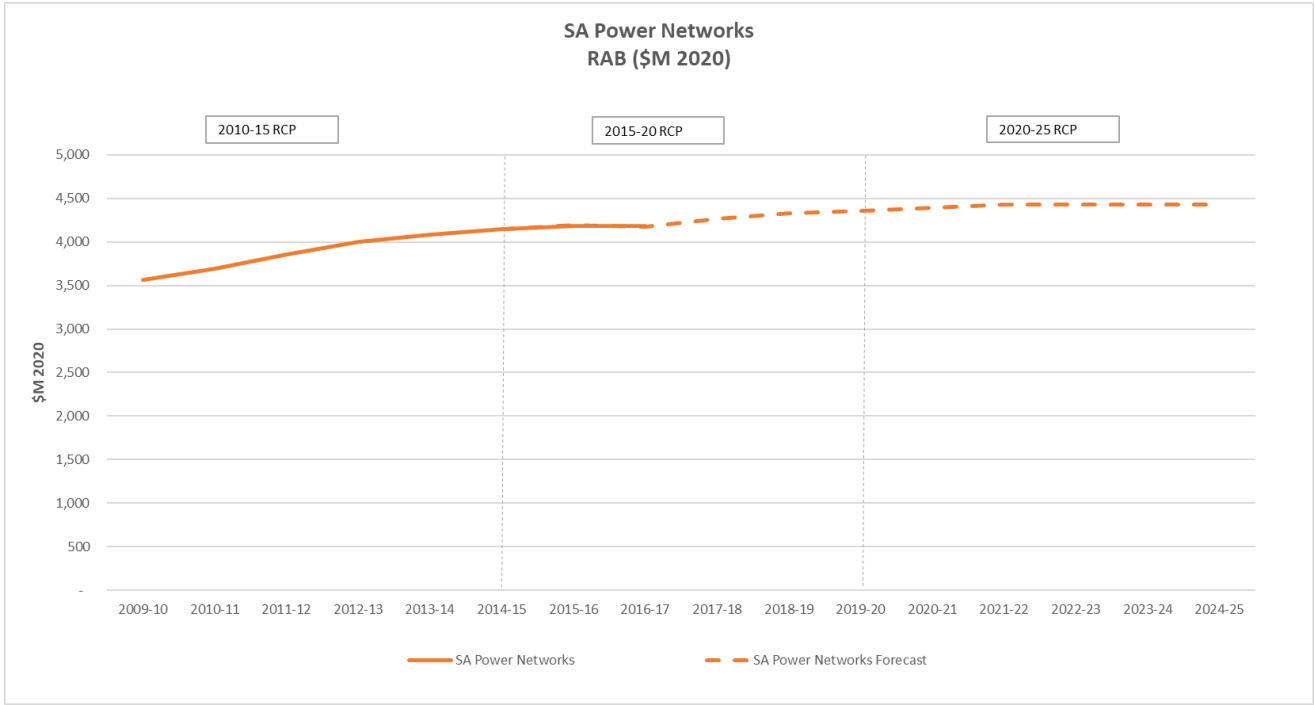
The Australian Competition and Consumer Commission's (ACCC) chart at Figure 2-1 clearly shows the modest historic growth in RAB for South Australia, noting that this includes ElectraNet’s RAB which doubled over the same period.

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



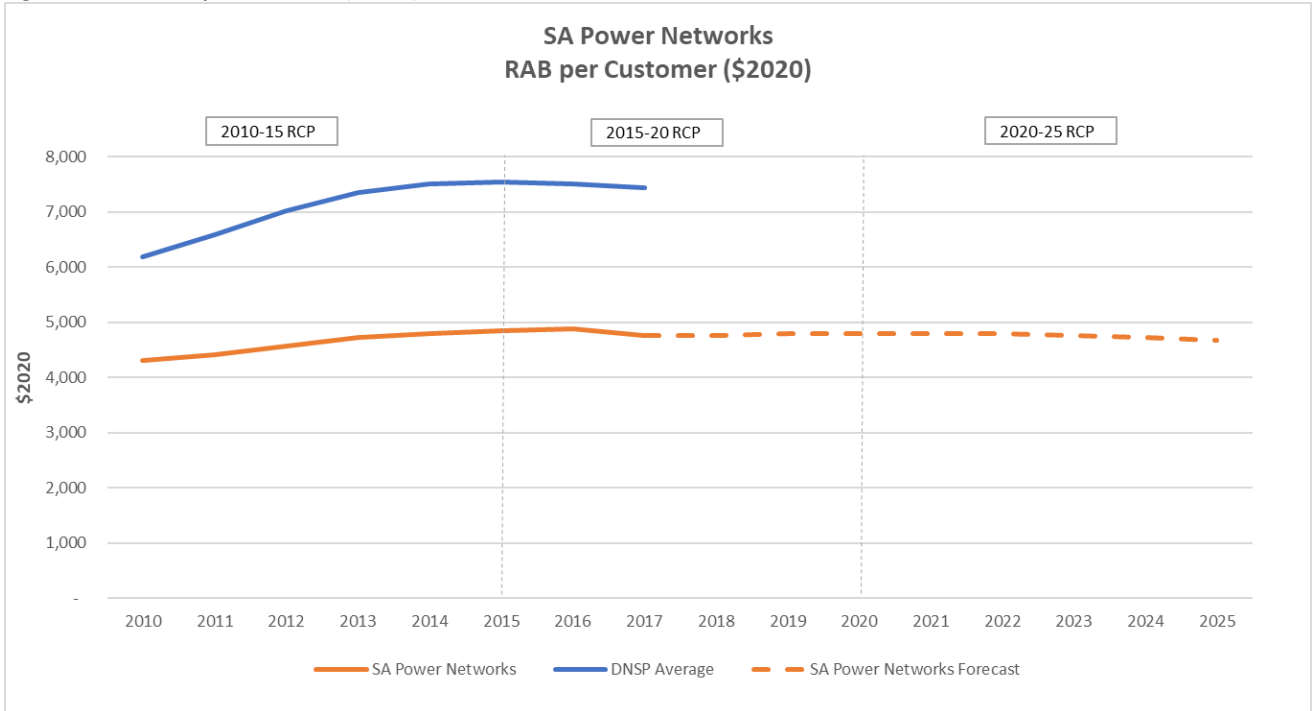
SA Power Networks’ Regulatory Proposal (Original Proposal) for the 2020–25 RCP continues this history. Figure 2-2 illustrates the proposed RAB to 2025 in real terms.

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



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



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

2.2 SA Power Networks' Proposal (Original Proposal)

In our Original Proposal, SA Power Networks rolled forward the RAB using the AER's roll forward model (**RFM**) and post tax revenue model (**PTRM**) in accordance with the National Electricity Rules (**NER**).

In doing this, SA Power Networks:

- determined the roll forward of the RAB value from 1 July 2015 to 30 June 2020 to be \$4,417.7 (nominal, \$ million) for Standard Control Services (**SCS**);
- 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; and
- proposed to apply the forecast depreciation approach to establish the opening RAB at 30 June 2025, consistent with the AER's Framework and Approach paper.

2.3 AER's Draft Decision

In its draft decision on our Original Proposal (**Draft Decision**), the AER determined an opening RAB value of \$4393.3 million (nominal, \$) as at 1 July 2020 (as compared to our proposed opening RAB value of \$4417.7 million (nominal, \$)). The AER largely accepted our proposed methodology but made revisions to a number of minor items including CPI, capitalised provisions and 2019-20 nominal vanilla weighted average cost of capital (**WACC**).

The AER determined a forecast closing RAB value of \$4558.9 million (nominal, \$) as at 30 June 2025 as compared to our proposed closing RAB value of \$5059.6 million (nominal, \$). The difference between our proposed value and the AER's proposed value reflects the Draft Decision on the inputs determining the forecast RAB in the PTRM, namely forecast capex (Attachment 5 – Capital expenditure) and forecast CPI (Attachment 3 – Rate of Return). The AER also adjusted forecast straight-line depreciation with these revised inputs (Attachment 4 – Regulatory depreciation).

The Draft Decision accepted our proposal for the forecast depreciation approach to establish the opening RAB at 30 June 2025.² This approach is consistent with the AER's Framework and Approach paper and the capex incentive objective.

The Draft Decision considered that capex incurred for the years 2014/15 to 2017/18 is consistent with the capex criteria in the NER and can therefore be included in the RAB.

2.4 SA Power Networks' response to the AER Draft Decision

SA Power Networks accepts the following aspects of the AER's Draft Decision in relation to our RAB:

- to apply the forecast depreciation approach to establish the opening RAB at 30 June 2025;
- that neither the overspending requirement³ nor the margin requirement⁴ have been satisfied, and accordingly no adjustment to the RAB is required in respect of these matters under clause S6.2.1(g) of the NER⁵;

²AER, *Draft Decision for SA Power Networks Distribution Determination 2020-2025, Attachment 2: Regulatory Asset Base (Attachment 2)*, page 7.

³NER, cl. S6.2.2A(c).

⁴NER, cl. S6.2.2A(d).

⁵AER, *Draft Decision for SA Power Networks Distribution Determination 2020-2025, Attachment 5: Capital expenditure (Attachment 5)*, page 97.

- that there is no requirement to adjust the RAB for any satisfaction of the capitalisation requirement⁶ under clause S6.2.1(g) of the NER⁷;
- that capex incurred for the years 2014/15 to 2017/18 was consistent with the capex criteria and can therefore be included in the RAB; and
- to determine the opening RAB at 1 July 2020, except for:
 - updating actual and forecast capex for 2018/19 and 2019/20 respectively (which is discussed in section 2.5.1 below); and
 - updating the forecast CPI for 2019/20 (which is also discussed in section 2.5.1 below).

However, SA Power Networks has not incorporated the AER's Draft Decision as to the forecast closing RAB value at 30 June 2025, because we do not accept the AER's Draft Decision in relation to:

- forecast capex for the 2020-25 RCP; or
- regulatory depreciation.

2.5 Revised Proposal

2.5.1 Roll forward of RAB for 2015–20 RCP

We address the following matters below:

- our application of actual capex for 2018/19 and updated forecast capex for 2019/20 into the RFM;
- our update to the forecast CPI that we adopted in our Original Proposal; and
- the ability for the AER to reduce the value of the RAB in accordance with clauses S6.2.2A(f), (i) and (j) of the NER.

Capex

We, in our Original Proposal, and the AER, in its Draft Decision, applied forecast capex data for the 2018/19 regulatory year. We now have access to the actual 2018/19 capex data and have therefore applied that actual data into the RFM, which is consistent with the AER's proposed approach to use actual data in its final decision.⁸

The actual data for the 2019/20 regulatory year will not be available for the AER's final decision. The forecast for 2019/20 has however been updated since our Original Proposal and we have therefore applied that updated forecast into the RFM. The difference between this forecast amount and the actual amount will be reflected in the roll forward of the RAB to 1 July 2025.

CPI

We have updated forecast CPI for 2019/20 to 1.75% which is consistent with the latest available Reserve Bank forecast. This is a placeholder forecast until the AER makes its final decision in which it will use the actual CPI.⁹

As noted above, we accept the Draft Decision that capex incurred for the years 2014/15 to 2017/18 is consistent with the capex criteria and can therefore be included in the RAB. We also consider that the actual capex for 2018/19 is consistent with the capex criteria and can therefore be included in the RAB. We have set out our reasoning in relation to 2018/19 in Attachment 5 – Capital expenditure.

⁶NER, cl. S6.2.2A(e).

⁷AER, Draft Decision, Attachment 5, page 97.

⁸AER, Draft Decision, Attachment 2, page 14.

⁹Ibid, page 15.

Reduction of previous RAB

As noted above, we accept the AER's Draft Decision, which was consistent with our Original Proposal, that there is no requirement to adjust the RAB as at 1 July 2020 under clause S6.2.1(g) of the NER on account of the overspending requirement, margin requirement or capitalisation requirement. That remains the case now that we have actual capex data for 2018/19, because:

- the **overspending requirement** continues not to be satisfied (as capex in 2018/19 is not relevant to this requirement);
- the **margin requirement** continues not to be 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;¹⁰ and
- apart from the observations by the AER in its Draft Decision in respect of which the AER has nevertheless determined that there should be no adjustment¹¹, 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 operating expenditure (**opex**) under the capitalisation policy that we submitted to the AER as part of our 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	3,884.9	3,931.8	4,088.9	4,234.7
Plus capex, net of contributions and disposals	251.7	274.3	374.2	376.6	387.0
Less straight line depreciation	(208.9)	(284.8)	(292.3)	(303.7)	(318.3)
Plus nominal actual inflation on opening RAB	63.8	57.3	75.1	73.0	74.1
Difference between actual and forecast capex for 2014/15					(20.4)
Closing RAB	3,884.9	3,931.8	4,088.9	4,234.7	4,357.0

2.5.2 Roll forward of the RAB for 2020–25 RCP

In modelling 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;
- applied forecast capex as set out in Table 2-2 below (and as discussed in further detail in Attachment 5 – Capital expenditure);
- calculated depreciation on a straight-line basis as included in Table 2-2 below (and as discussed in further detail in Attachment 4 – Regulatory depreciation); and
- applied a forecast rate of 2.36% for inflation on the opening RAB, as discussed in section 3.6 of Attachment 3 – Rate of Return.

¹⁰ 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.

¹¹ AER, *Draft Decision, Attachment 5, page 97.*

The projected RAB for SCS at the end of each regulatory year of the 2020–25 RCP, as calculated using 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	4,357.0	4,495.2	4,636.4	4,751.4	4,861.9
Plus capex, net of contributions and disposals	359.1	376.3	364.5	368.8	365.9
Less straight line depreciation	(323.6)	(341.3)	(358.8)	(370.4)	(370.0)
Plus nominal actual inflation on opening RAB	102.8	106.1	109.4	112.1	114.7
Closing RAB	4,495.2	4,636.4	4,751.4	4,861.9	4,972.5

2.5.3 Impact of depreciation on forecast capex

As per our Original Proposal and the AER’s Draft Decision, 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 AER’s 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>
capex	<i>capital expenditure</i>
CPI	<i>Consumer Price Index</i>
Draft Decision	<i>AER, Draft Decision—SA Power Networks Distribution Determination 2020 to 2025</i>
NEM	<i>National Electricity Market</i>
NER	<i>National Electricity Rules</i>
opex	<i>operating expenditure</i>
Original Proposal	<i>Regulatory Proposal for the 2020-25 RCP</i>
PTRM	<i>Post Tax Revenue Model</i>
RAB	<i>Regulated Asset Base</i>
RCP	<i>Regulatory Control Period</i>
RFM	<i>Regulatory Control Period</i>
SCS	<i>Standard Control Services</i>
WACC	<i>Weighted Average Cost of Capital</i>