
SA Power Networks

# 2020–25 Revised Regulatory Proposal

**An overview for South Australian electricity customers**

December 2019

# What this document is about

## This Overview document forms part of the SA Power Networks 2020-25 Revised Regulatory Proposal to the Australian Energy Regulator, along with Attachments 1 – 18 and other supporting information.

**Acknowledgement of Country**

SA Power Networks acknowledges the Australian Aboriginal and Torres Strait Islander peoples of this nation. We acknowledge the traditional custodians of the lands on which our company is located and where we conduct our business. We pay respects to ancestors and elders, past and present. SA Power Networks is committed to honouring Australian Aboriginal and Torres Strait Islander peoples' unique cultural and spiritual relationships to the land, waters and seas and their rich contribution to society.

**Company information**

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

**Disclaimer**

This document contains certain predictions, estimates and statements that reflect various assumptions concerning, amongst other things, economic growth and load growth forecasts that, by their nature, may or may not prove to be correct and are subject to ongoing change and development.

Whilst care was taken in the preparation of the information in this overview, and it is provided in good faith, SA Power Networks, its officers and shareholders accept no responsibility or liability for any loss or damage that may be incurred by any person acting in reliance on this information or assumptions drawn from it for a different purpose or in a different context.

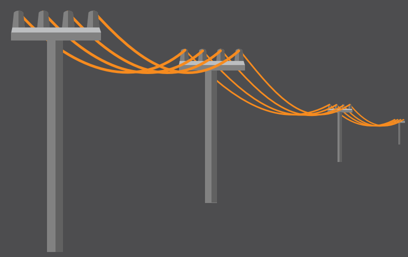
# Glossary

| Acronym | Full name |
|---|---|
| ACS | Alternative Control Services |
| ADMS | Advanced Distribution Management System |
| AER | Australian Energy Regulator |
| capex | Capital Expenditure |
| CBD | Central Business District |
| CESS | Capital Expenditure Sharing Scheme |
| CPI | Consumer Price Index |
| DER | Distributed Energy Resources |
| DMIA | Demand Management Incentive Allowance |
| DMIS | Demand Management Incentive Scheme |
| DMO | Default Market Offer |
| EBSS | Efficiency Benefit Sharing Scheme |
| ESCoSA | Essential Services Commission of South Australia |
| IT | Information Technology |
| kVA | kilo Volt Amps |
| kWh | kilo Watt hour |
| LED | Light Emitting Diode |
| LGA | Local Government Association |
| LV | Low Voltage |
| MW | Mega-Watts |
| MWh | Mega Watt hour |
| NEM | National Electricity Market |
| NER | National Electricity Rules |
| opex | Operating Expenditure |
| Original Proposal | 2020-25 Regulatory Proposal |
| PLWG | Public Lighting Working Group |
| PTRM | Post Tax Revenue Model |
| RAB | Regulated Asset Base |
| repex | Replacement Expenditure |
| Revised Proposal | 2020-25 Revised Regulatory Proposal |
| SAPN CCP | SA Power Networks Customer Consultative Panel |
| SCS | Standard Control Services |
| STPIS | Service Target Performance Incentive Scheme |
| TSS | Tariff Structure Statement |
| VCR | Value of Customer Reliability |

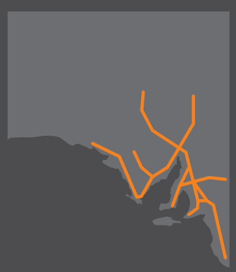
# At SA Power Networks, we:

**Deliver power to 99%** of South Australia’s population

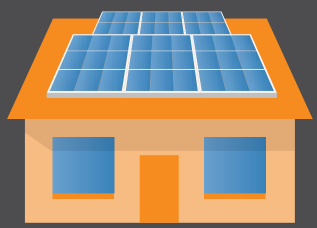
**Supply 900,000** homes and businesses



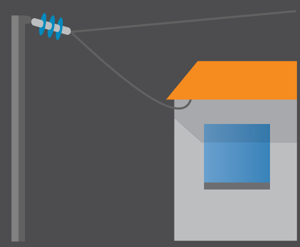
**Operate the oldest network** in the National Electricity Market



Provide network coverage over **178,000km²**

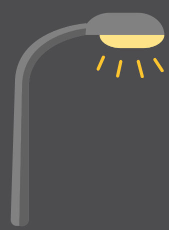


**Connect the most rooftop solar per capita** in the National Electricity Market



**Enable 25,000** new or altered connections each year

**Read about 1 million meters** and provide data to retailers



**Maintain 230,000 street lights** for councils and South Australian Government

# Foreword

**Rob Stobbe**
Chief Executive Officer

## We are pleased to submit our 2020-25 Revised Regulatory Proposal (**Revised Proposal**) for managing South Australia's electricity distribution network.

To say that this proposal is being made in interesting and challenging times is an understatement.

Challenging in terms of how we manage the competing priorities of price, reliability and safety, and setting a course for the future, when we also are being asked to deliver more for less and do it with a level of equity.

Our efficient and innovative approaches to managing and maintaining the network mean that, while we need to more urgently tackle the challenge of an ageing asset base, we are proposing to spend at about the same level in total in the five years 2020-25 as we did in 2015-20. We will do this while providing a wider range of services to support more distributed generation and the transition to the new energy future.

We have been very encouraged by the positive involvement and response from customers and stakeholders to our ongoing consultation in developing our proposal. Their contribution has led to a maturing level of debate about the meaning of equity in delivering electricity to a range of customers with different circumstances and needs.

We are very conscious of ensuring we keep a lid on prices for the economically vulnerable and for businesses.

But our customer engagement also highlights that it is not equitable for some customers to be without power for days on end. Our Revised Proposal includes some targeted spending to avoid the issues these customers face living at the edges of our network or being subject to repeated patterns of extreme weather.

It also is not equitable for us to "kick the can down the road" as our stakeholders now categorise the very real risk that by deferring expenditure on an ageing network today, we push additional costs onto future years and onto the next generations of customers.

The Regulator asked us to provide further information and more substantial justification for aspects of our Original Proposal. We have worked hard to develop these as we consider a 25% cut to current levels of capital expenditure, for the most efficient distributor (on a state-by-state basis) is unreasonable and unsustainable. We, along with our customers and stakeholders, believe there is a genuine need for ongoing capital investment in areas such as replacing aged assets and reliability improvements for worst-served customers.

We also provide further evidence to support areas that may be seen as 'internal' investment such as IT, property and fleet, that will improve service outcomes for customers and help us ensure the safety of our people and the community.

In real terms, our Revised Proposal will mean an average reduction of $62 for residential customers and $276 for business customers in 2020/21, without having compromised safety or reliability, and while implementing new services to support the energy revolution underway. Our 2020-25 charges will return to the lowest levels they have been over the last decade. We look forward to our customers receiving the benefit of these lower charges in future retail tariff offerings.

While delivering price relief in the short term, our Revised Proposal also provides efficient investment in the network for the long-term interest of customers.

**Rob Stobbe**
Chief Executive Officer

# Our 2020-25 Revised Regulatory Proposal

## Key outcomes for customers

| | Original Proposal | AER Draft Decision | Revised Proposal |
|---|---|---|---|
| **Residential bills** Lower annual residential customer bills (based on annual consumption of 4,000kWh) | $40 | $63 | $62 |
| **Small business bills** Lower small business customer bills (based on annual consumption of 20,000kWh) | $111 | $283 | $276 |

## Revenue and expenditure

| | Original Proposal | AER Draft Decision | Revised Proposal |
|---|---|---|---|
| **Revenue** Our proposed revenue allowance is slightly higher than the AER's Draft Decision | $4,214m | $3,905m | $3,916m |
| **OPEX** We have reduced our real forecast operating expenditure further | $1,530m | $1,466m | $1,442m |
| **CAPEX** Our revised capital program better balances affordability, service and community risk | $1,741m | $1,263m | $1,712m |

Revenues shown in $ nominal

Opex shown in real $2020 and excludes debt raising costs

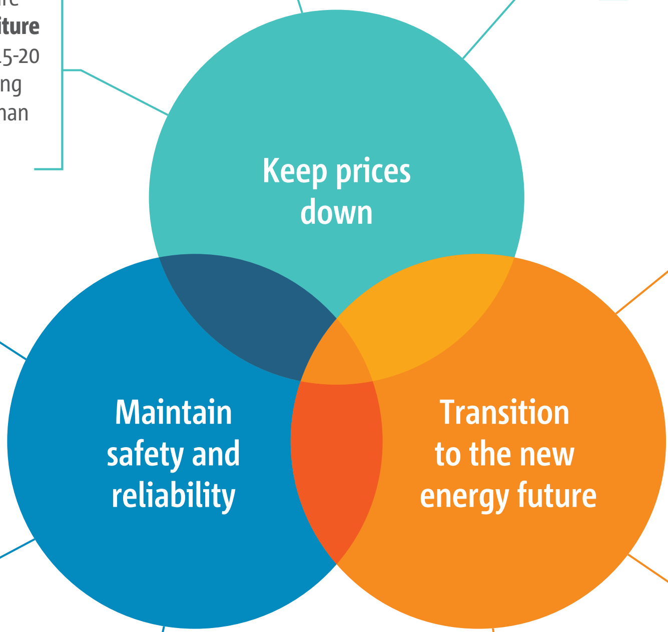
Capex shown in real $2020 and before disposals

## Customers’ key priorities and our Revised Proposal

We will work with customers and retailers to **implement new cost-reflective tariffs.**

**Our annual charges will reduce by $62** for the average residential customer and **$276** for the average small business customer.

We have addressed AER and stakeholder concerns and are **proposing capital expenditure** in line with the current 2015-20 period. Our revised operating expenditure is also lower than the AER’s Draft Decision.




We have revised our programs to **improve visibility and management** of our low voltage network, critical to maintaining system security and reliability, whilst enabling new customer services.

Following further consultation with stakeholders, we are resubmitting two programs to **deliver more equitable reliability outcomes** for worst-served customers.

We are **balancing immediate customer price impacts** while investing in **longer-term safety and reliability outcomes** for customers.

We continue to collaborate with government and industry to **develop least cost solutions to transition to the new energy future.**

We are working with the National Market Operator to **manage grid stability challenges** posed by growing solar penetration in South Australia.

We are **investing in systems to support our industry-leading management of our ageing assets** and to manage increased cyber security risk.

# Contents

# 1. Introduction

SA Power Networks is the principal electricity distribution network service provider in South Australia. We are licensed by the Essential Services Commission of South Australia (**ESCoSA**) to operate our network and we are regulated by state and national legislation. As a regulated monopoly, and in accordance with the National Electricity Rules (**NER**), every five years we submit a regulatory proposal to the Australian Energy Regulator (**AER**) outlining our plans and expenditure requirements for the next five year 'regulatory control period'.

The South Australian electricity distribution network is extensive, serving about 900,000 residential and business customers in communities across an area of 178,000 square kilometres. Much of the network was built in the 1950s, 60s and 70s. That, combined with a widely dispersed but relatively small population, means we have the oldest network and the least number of customers per kilometre of line of any distributor in the National Electricity Market (**NEM**).

Despite the challenges of a long, skinny and mainly radial network configuration, extremes of weather and environment, we have delivered electricity reliably, safely and cost-effectively to customers. The 2019 AER benchmarking report[1] has confirmed we provide the most efficient distribution services in the NEM on a State-wide basis.

So that we can continue to deliver for South Australians, on 31 January 2019, we submitted our 2020-25 Regulatory Proposal to the AER (**Original Proposal**), together with all necessary supporting documents, for the 1 July 2020 – 30 June 2025 period.

Our Original Proposal was shaped by customer and stakeholder feedback received through a comprehensive customer engagement program which featured:

- Strategic research and early engagement (February to July 2017);
- In-depth engagement (August-December 2017);
- Development of a "Draft Plan" (January – August 2018);
- Draft Plan consultation (August – September 2018); and
- Regulatory Proposal development (October 2018 – January 2019).

**Figure 1.1: Customer expectations and network challenges – Original Proposal**

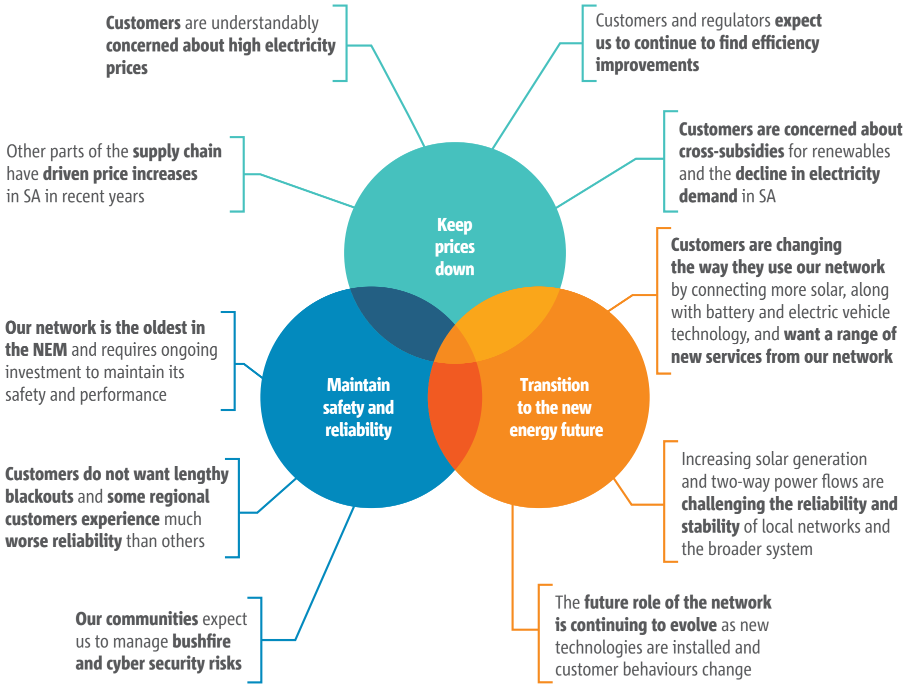



Figure 1.1 shows the feedback gained from our customer engagement program, reflected in our Original Proposal. It was clear that what mattered to South Australian customers was that, for the 2020-25 period, SA Power Networks must:

- keep prices down for our customers;
- maintain a safe and reliable network; and
- prudently plan for, and transition to, a new energy future.

Since the submission of our Original Proposal we have continued our engagement with customers and stakeholder representatives, who have confirmed the depth, transparency and value of those ongoing consultations.

These discussions have led to the emergence of a broader consideration of equity, including equitable levels of reliability for worst-served customers and the issue of 'kicking the can down the road' for future generations to carry the increased cost of needed but deferred investment (particularly on replacement of ageing assets).

We have also been engaging with AER staff, who have been assessing our Original Proposal and seeking clarification and/or further information.

On 8 October 2019, the AER published its Draft Decision on our Original Proposal and invited written submissions on that Decision.

SA Power Networks has carefully considered the further feedback from customers and stakeholders and the AER's Draft Decision and, in accordance with the NER, we have prepared this document, which together with Attachments and other supporting documents, forms our 2020-25 Revised Regulatory Proposal (**Revised Proposal**).

1 *AER, "Annual Benchmarking Report Electricity distribution network service providers", November 2019 https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/annual-benchmarking-report-2019*

# 2. Customer and stakeholder engagement


NORWOOD PARADE
CYCLES

# Our Revised Proposal engagement

Since lodging our Original Proposal in January 2019, our engagement has continued:

## 57 engagement activities

**624** participants

**15** Bilateral meetings

**10** workshops

**2** Field Trips

"Very realistic overview of some of the categories for which funding is being sought. A site visit is worth 1,000's of words"

Kelvin Trimper, Customer Consultative Panel

**6** Focussed conversations on:

- IT and Non-network capital expenditure
- Replacement expenditure and Assets and Work
- Other network capital expenditure
- Future networks x3

"I have been engaging with ETSA/ETSA Utilities/SAPN for a long time! I consider the engagement over the past couple of months to be the most open, frank and constructive that I have experienced. Not 'there' yet, but getting close"

Mark Henley, Uniting Communities

**17** Working Group meetings regarding:

- Public Lighting
- Business Tariffs
- Residential Tariffs
- Connections
- Distributed Energy Resources Integration

"It's about coming together and discussing and understanding each other's perspectives... it's about better understanding each other and hopefully agreeing on a lot more than we disagree on"

Andrew McKenna, Business SA

**6** Customer Consultative Panel meetings

**1** Retailer Roundtable

## Online engagement:

**49** Survey responses representing a 30% response rate

**161** Comments via online engagement platforms

**8,042** Talking Power visits

**10** Talking Power Newsletters

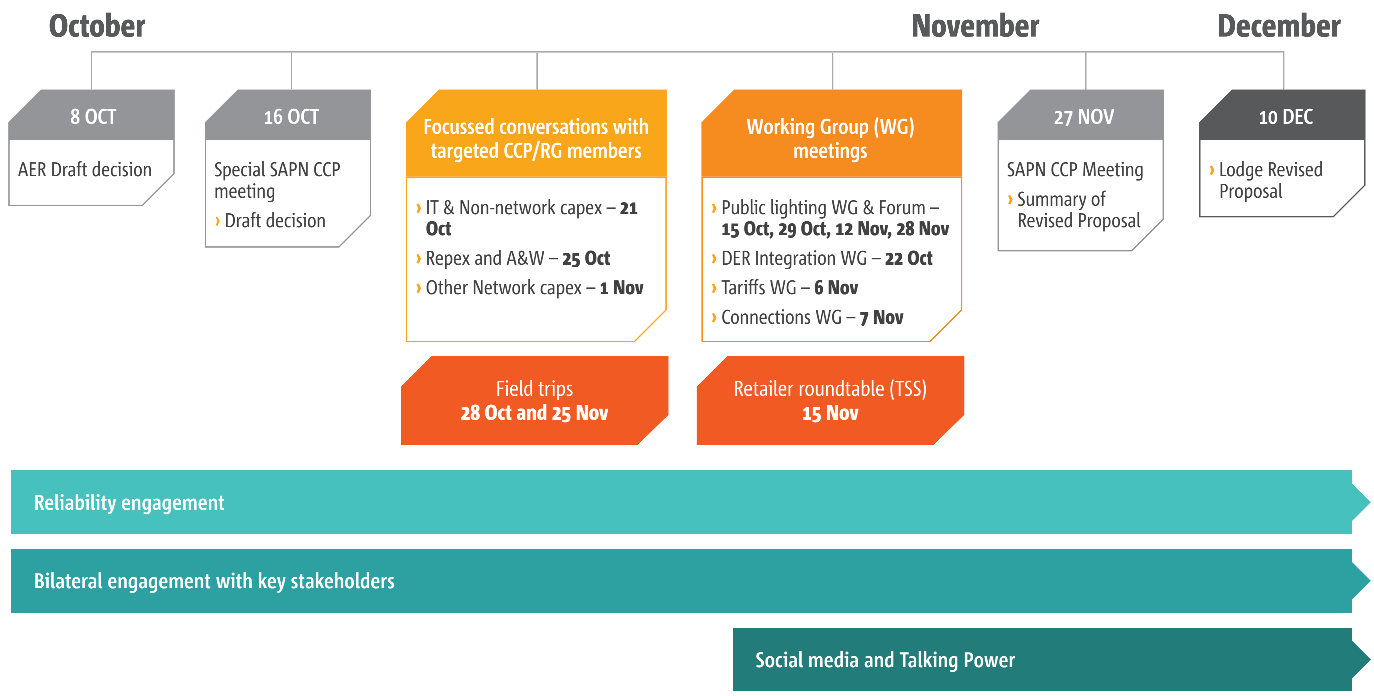
Engagement with our customers and stakeholders on our Regulatory Proposal did not end when we lodged our Original Proposal on 31 January 2019. Our dialogue with our Customer Consultative Panel (**SAPN CCP**) and other key customers, advocates and stakeholders continued throughout the year, and our work with this important group has significantly shaped this Revised Proposal.

Over October, November and December 2019 we held a number of working group meetings, focussed conversations, tours and workshops, including a Roundtable discussion with Energy Retailers on implementation of our Tariff Structure Statement (**TSS**), to deeply explore key aspects of this Revised Proposal. We also formed two new working groups – focussing on Tariffs and Connections – to ensure we specifically addressed stakeholder and AER feedback on our Original Proposal, and to provide ongoing platforms to enable further collaboration to achieve better customer outcomes.

We have also engaged with our broader customer base through our large social media presence and our talkingpower.com.au website, which provided customers across the State the opportunity to have their say on aspects of our Revised Proposal.

See Figure 2.1 below for a full view of our Revised Proposal engagement activities.

**Figure 2.1: Revised Proposal engagement activities**



# Feedback and how it informed our Revised Proposal

Our customers and stakeholders told us their original three key priorities – keeping prices down, maintaining safety and reliability, and transitioning to the new energy future – were still important for us to consider in the development of our Revised Proposal. They also told us that equity – in terms of service levels and appropriate balancing of costs between current and future customers – needed to be forefront in our planning.

What we have heard from this ongoing engagement is outlined in Table 2.1.

Table 2.1: Customer and stakeholder feedback and our response

| What our customers have told us | Our response |
|---|---|
| **Keep prices down** | |
| Price reductions are welcomed. | We accept the AER's Draft Decision to reduce expenditure across many programs.<br>To ensure customer value from every dollar proposed, we are only submitting programs in Revised Proposal where:<br>› Thorough options analysis has been undertaken.<br>› Evidence gaps identified by stakeholders and the AER have been addressed.<br>Proposing more efficient ways of delivering programs, such as the revised LV Transformer Monitoring program and revised Property expenditure.<br>Proposing a negative step change as part of the revised LV Transformer Monitoring program to recognise operational savings from our updated approach. |
| Consider the impact on customer bills when considering options and programs for the Revised Proposal. | › No longer considering an adjustment to the Taxation building block.<br>› Base operating expenditure has been revised down.<br>› Accepting lower estimates for step changes approved.<br>› Including a negative step change.<br>› Including the AER's 0.5% productivity adjustment. |
| Equity is important.<br>Keeping prices down now is a high priority, but not at the expense of poorer service and higher prices for future generations. Sustainable levels of replacement expenditure, delivered efficiently through the Assets and Work IT program, will ensure a more equitable distribution of costs between current and future customers. Ongoing engagement with stakeholders and customers will be important. | Proposing $682 million of replacement expenditure, which can be only achieved through $42 million investment in the Assets and Work program. This approach will enable us to more efficiently manage increasing risk while maintaining service levels, and keep a lid on prices for future generations. We will continue to engage with the SAPN CCP on this emerging challenge. |
| Stakeholders are concerned with the size of the proposed IT expenditure. They accept that some IT investment is required just to keep the business operating, and some is required to improve the way we manage the business and the network. They want confidence that we have done our best to manage costs and that any benefits achieved are passed on to customers. | We have consulted with stakeholders on how we are addressing all AER feedback in our Revised Proposal IT business cases. This has included consideration of more alternatives to demonstrate that we are selecting the most cost-efficient option. We have also specified our benefits more clearly. We have explained to stakeholders that we are currently engaging in a large-scale replacement program and our IT capex will decrease significantly over the 2020-25 period. We have decided to not seek funding for our Worker Fatigue project. |
| Customers and stakeholders want the AER to check the prudency of our expenditure proposals. | › Detailed business cases and forecasting models will be submitted to the AER.<br>› Independent consultants have reviewed our replacement expenditure forecasting. |
| Labour escalations should be aligned with the South Australian average of low wages growth. | Labour escalations are independently forecast by economic consultants and are consistent with the utilities sector. Our Revised Proposal responds to inconsistencies in the AER's methodology applied to our Draft Decision. |

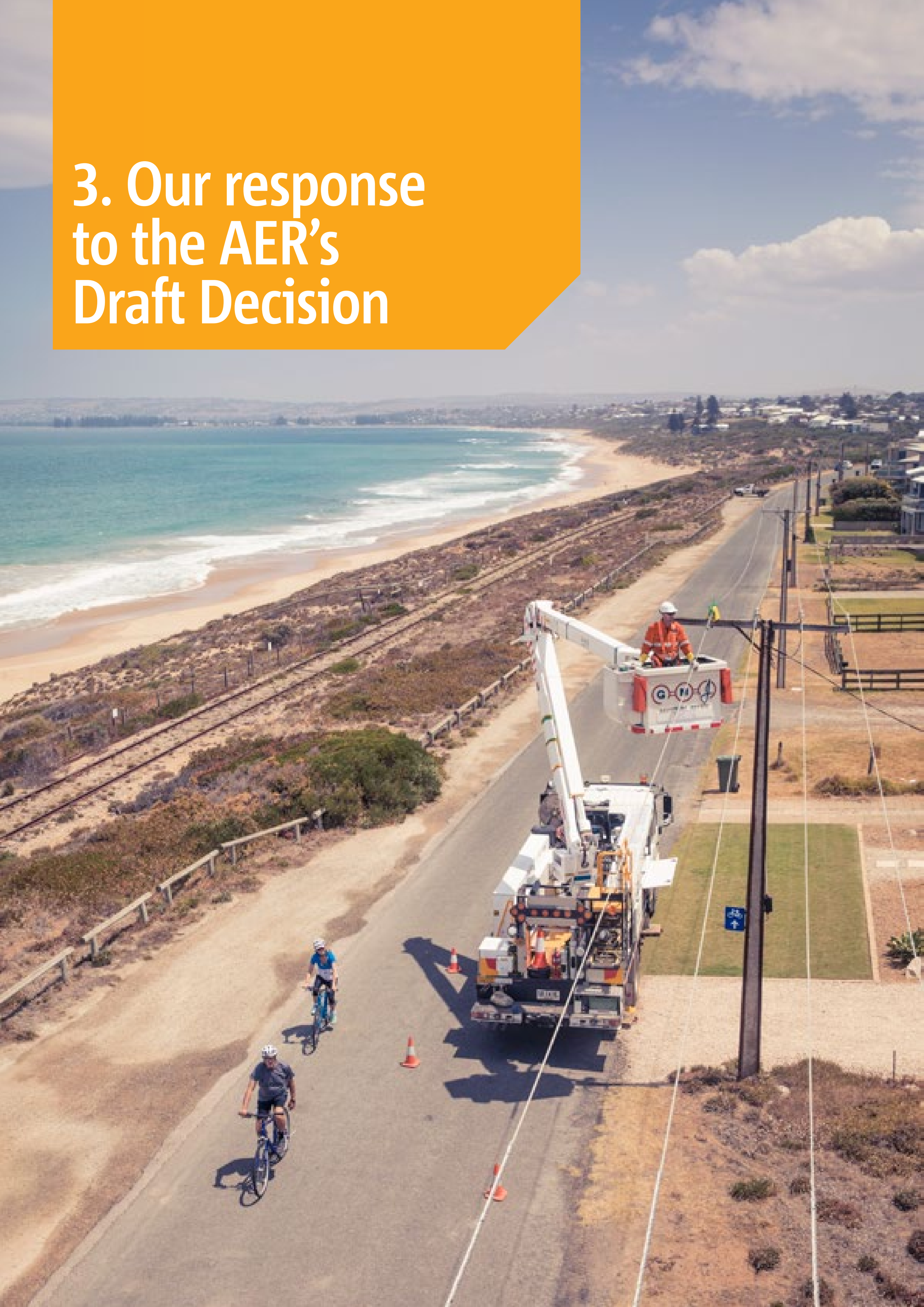
| What our customers have told us | Our response |
| --- | --- |
| **Maintain safety and reliability** | |
| Equity is important.<br>It is not fair that some customers receive significantly worse reliability performance than others. There was unanimous stakeholder support for modest, targeted investment in improving reliability for those worst-served customers. | The Low Reliability Feeder program has been included in Revised Proposal. For a modest investment this program will deliver significantly improved reliability to targeted groups of worst-served customers. |
| Stakeholder views were divided on the proposed Hardening the network program, which targets customers most impacted by weather. | The Hardening the Network program has been included for assessment by the AER. |
| Investment in modernising Central Business District (CBD) assets is necessary to ensure South Australian businesses can operate with confidence. | A CBD cable program and North Terrace cable ducts program have been included in the Revised Proposal. We will continue the 33kV to 11kV conversion program at historic levels, per the AER's Draft Decision. |
| Increasing problems relating to the quality of customers' electricity supply should be addressed. | Including a revised Quality of Supply program in Revised Proposal. |
| Cyber security is an important consideration, but needs to be managed carefully to ensure there's no duplication of effort or resources. | We are proposing a new Utilities Cyber Maturity Uplift step change to address new industry requirements. Individual systems, such as the Advanced Distribution Management System (ADMS) replacement project, have separate security requirements that are addressed within individual business cases, not via the Utilities Uplift proposal. |
| **Transition to the new energy future** | |
| Visibility of the Low Voltage network is important to set South Australia up for a future of distributed energy resources. | Including revised LV Transformer Monitoring program in Revised Proposal. |
| Work with customers and retailers to ensure a smooth transition to new tariffs. | Establishment of our Tariff Working Group to work collaboratively on the implementation of new tariffs from 1 July 2020 that support the new ways that customers are using the network.<br>Ongoing engagement with retailers. |
| Australian Energy Market Operator (AEMO)'s security of supply concerns should be addressed, but as efficiently and prudently as possible. Stakeholders want to understand the customer bill impacts of any proposed project. | Including a Contingent Project to address AEMO's security of supply concerns. Customer bill impacts have been discussed with stakeholders. |
| Ongoing engagement and collaboration with customers, policy-makers and industry is critical. | Ongoing engagement through our Distributed Energy Resources (DER) Integration Working Group, plus a commitment to ongoing broad engagement with customers and industry. |
| Stakeholders are concerned about the impact of declining demand on network prices. | We have modelled the impacts of declining demand and are proposing a revenue price path over 2020-25 that will reduce the risk of annual price increases for customers. |
| **Tariffs and Alternative Control Services** | |
| Work with customers and retailers to ensure a smooth transition to new tariffs, and consider the impacts on customers who will be worse off.<br>Incorporate the Default Market Offer (**DMO**) implications of small customer tariffs (residential and business) explicitly into the Revised Proposal.<br>Develop communication strategies for 1 July 2020 reassignment of customers to TSS tariffs, including implications for that customer and retailer. For implementation in 2020 Q2. | Establishment of our Tariff Working Group to work collaboratively on the implementation of new tariffs from 1 July 2020. Further work to be done on identifying and engaging with customers who are most severely impacted.<br>Ongoing engagement with retailers, including a commitment to providing retailers with draft pricing schedules and system configurations, and inclusion of DMO implications in Revised Proposal. |
| Predictability in prices for Alternative Control Services is important. Some customers want the option to pay more for a faster service. For Public Lighting, maintenance practices should consider the risk to the community. | We have changed the nature of some fees to ensure prices are predictable and have introduced priority service fees (where applicable).<br>For Public Lighting, the level of light column replacements has been increased to address community safety concerns.<br>We have committed to providing customers with early visibility of price lists. There will be ongoing engagement and education through our Connections and Public Lighting Working Groups. |

Our commitment to working with our customers and stakeholders to ensure our plans are aligned to broader customer and community expectations will continue beyond lodgement of this Revised Proposal.

To view a short video recapping our Regulatory Proposal engagement program, visit https://youtu.be/63lCywtS908

We are grateful for the enormous effort and commitment of members of the SAPN CCP and other reference and working groups over the past three years, and thank them for their advice, feedback, challenge and support. We look forward to our ongoing work together.

# 3. Our response to the AER's Draft Decision



# A 25% per cent cut to current levels of capital investment in a network that is ranked second by the AER's own benchmarking in capital partial factor productivity does not make sense.

SA Power Networks accepts much of the AER's Draft Decision, but we have very real and specific concerns about the severe cuts to our proposed capex program, particularly for replacement of our ageing assets, which is essential for maintaining safety and reliability for customers in managing Australia's oldest electricity distribution network.

In response to customers' focus on keeping a lid on prices, we proposed a conservative capital program in our Original Proposal well below what we believe ideally should be spent, given the very significant challenge posed by an ageing network and South Australia's very rapid energy transition. Quite deliberately we proposed to spend about the same as we had in 2015-20, while recognising that we were going to be providing more services for our customers and having to work even harder and smarter than ever to maintain reliability and safety.

The fact that we have been able to maintain reliability and safety is a testament to our efficiency and continuing improvements and innovation in our asset management approaches.

We do not believe the AER has adequately considered whether a 25% reduction of capex below our current (2015-20) spend is sustainable, given the age and condition of our network. Nor do we believe is it in the long-term interests of customers who value reliability and safety and whose representatives say they do not want to unfairly pass cost onto future generations.

**Figure 3.1: Capital expenditure before disposals**

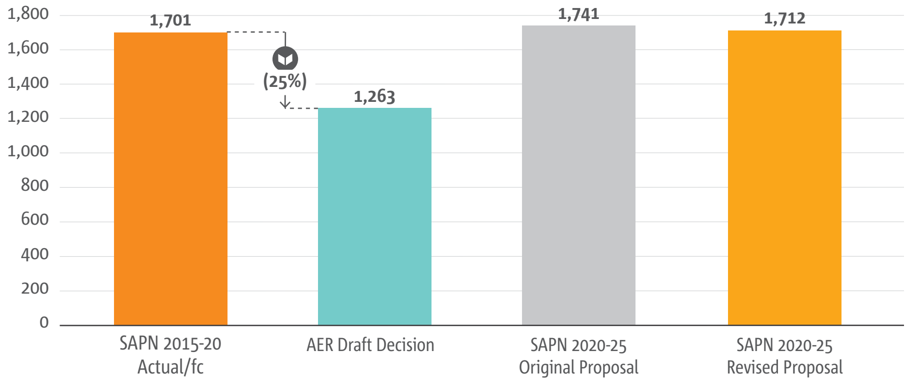
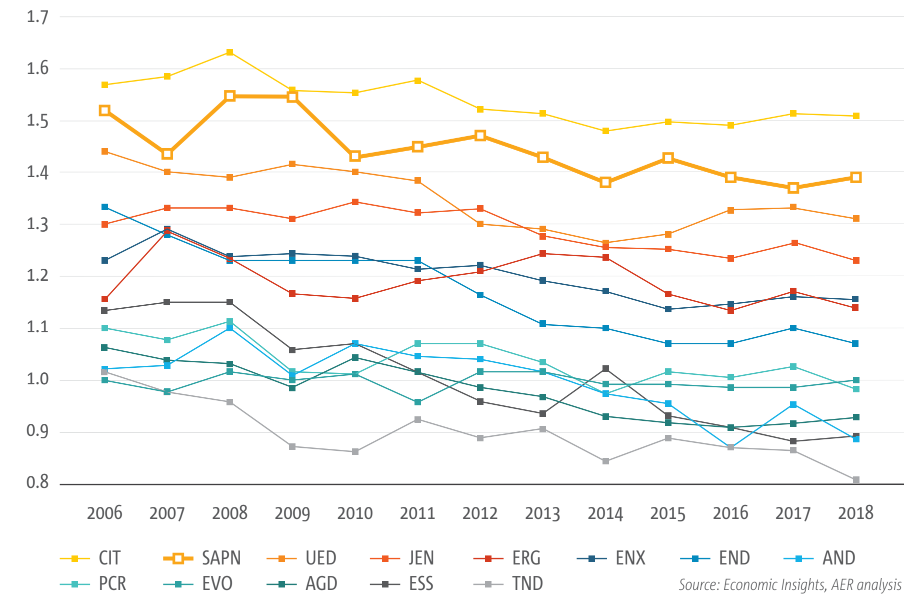



**Figure 3.2: Capital partial factor productivity**




*Source: Economic Insights, AER analysis*

While we accept the AER's view that there are areas where we can provide improved business cases (and we are submitting these with this Revised Proposal) we believe insufficient weight has given to:

- our operational efficiency;
- the fact that the network is now being asked to provide more services and support to customers than ever before; and
- the benefits we have shared with customers from our capital efficiency, which has meant very low growth in our regulated asset base and contributed to our ability to hold our prices below CPI since 1999.

A 25% per cent cut to current levels of capital investment in a network that is ranked second by the AER's own benchmarking in capital partial factor productivity does not make sense. Refer Figure 3.1 and Figure 3.2.

South Australia has made much headway in shoring up the reliability of generation sources and it is moving to expand transmission capacity. Now is not the time to significantly reduce spending on our distribution network, which is at the heart of and the platform for our rapidly transforming energy supply system. This system carries increasing risk due to the emerging impact of distributed generation in the low voltage network, where we have almost no visibility of actual voltage levels and power flows.

# Our response to key aspects of the Draft Decision

## Capital expenditure

In relation to capital expenditure, the AER has not accepted some work programs or has made significant reductions to others.

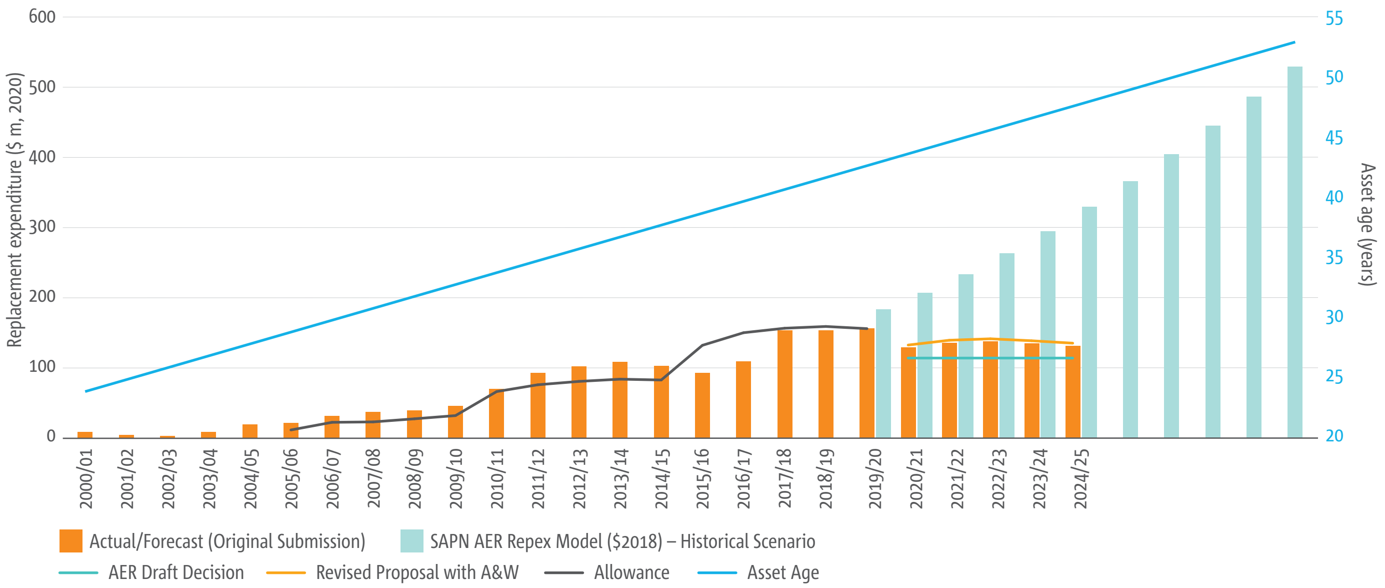
### Asset replacement

In its Draft Decision, the AER has reduced our asset replacement program allowances to levels which are 20% below our current period spending. We believe this will introduce an unacceptable risk of increased network asset failure[2] during the next period compromising community safety and customer service. We have progressively increased our asset replacement program since 2005 from near zero to around $150 million per annum to maintain performance as our average asset age has increased from 25 years old to nearly 45 years old, and asset failure rates increase. Despite this increase in expenditure, we are currently turning over our assets at less than 0.5% per annum, implying an average asset life in excess of 200 years old. This is not sustainable in the long term and contrasts to regulatory asset lives of 45-55 years used for depreciation purposes. See Figure 3.3.

By rolling out innovative asset management approaches during 2015-20, and recognising customer feedback to 'do everything we can to keep electricity prices down', our Original Proposal aimed to maintain overall network risk with the current level of spending. Our proposed Assets and Work IT program is central to this by capturing more asset data and investing in smarter IT systems to analyse this data to guide asset management decisions, and more efficiently deliver works on our assets. However, the AER also rejected funding for this IT program. Further, the AER's Draft Decision on our asset replacement program is equivalent to a 20% cut to our current program.

These decisions would not only increase risk but would inevitably pass on more costs to future generations. This inter-generational equity issue is a key concern for SA Power Networks and our stakeholders. Our Revised Proposal addresses specific concerns raised by the AER on our replacement expenditure forecasts and seeks the necessary additional funding to enable us to more prudently manage the network in the next period.

Figure 3.3: Asset Replacement




2 *Network asset failures can adversely impact safety to the community and reliability of supply to customers and start more bushfires*

### Reliability

Despite strong economic justification, the AER rejected two low-cost targeted 'reliability' programs which would significantly improve electricity supply reliability outcomes for more than 60,000 customers who receive far worse reliability performance from our network than the average. We believe these programs are appropriately targeted and a highly appropriate response to ensuring equity for our worst-served customers who experience levels of service that are considerably worse than the average historic performance for their region, and significantly outside the State-wide average for the duration of outages experienced. In response to stakeholder feedback, we have re-submitted both of these programs in our Revised Proposal.

### Future network

We are very pleased the AER has supported our proposed 'foundational' program to transition to the network of the future. This program was widely supported by stakeholders and will allow us to commence developing the capability to operate a more flexible network to enable us to respond to future customer service requirements and support, for example, more solar, batteries, virtual power plants and, in the future, electric vehicles on our network. However, the AER did not approve our LV Transformer Monitoring program and reduced our proposed Quality of Supply program, both of which we consider to be essential programs to deliver better visibility and enable improved management of the LV network.

In other areas of our capital program, the AER has rejected or reduced our forecasts for different reasons but indicated we have an opportunity to address their specific concerns in our Revised Proposal.

## Operating expenditure

We are pleased that the AER and its latest benchmarking results have again recognised SA Power Networks as efficient. The AER has largely accepted our operating program, albeit with funding reductions to two proposed step changes, and a revised approach to forecasting a lower real labour price growth. Our revised operating expenditure forecast accepts and adopts the AER's March 2019 Productivity decision, updates forecast costs in some areas, proposes two additional step changes (related to increases in our SA Government-imposed Distribution Licence fee and a new utilities cyber security 'maturity uplift' requirement) and one negative step change associated with our revised LV monitoring program. Our revised operating forecast for 2020-25 is now lower than the AER's Draft Decision.

# 4. Summary of our Revised Proposal

## Our 2020-25 Revised Proposal adopts the same 'Overview and Attachment' structure as our Original Proposal. This Overview document summarises our overall response to the AER's Draft Decision and our Revised Proposal for 2020-25. It also re-emphasises the challenges we face over the 2020-25 period to manage our ageing assets while prudently managing the transition to a more distributed energy future.

Each Attachment provides further detail summarising our Original Proposal, the AER's Draft Decision and our Revised Proposal. In different areas of our Revised Proposal we either:

- accept or substantively accept the AER's decisions; or
- do not accept the decisions and put forward revised proposals addressing matters raised by the AER.

Table 4.1 summarises the structure of the Revised Proposal and our high-level responses to the AER's Draft Decision.

**Table 4.1: Revised Regulatory Proposal structure and approach**

| Document | Description | Revised Proposal response | Comments |
|---|---|---|---|
| Overview | | | |
| Attachment 1 | Annual revenue requirement and control mechanism | Substantively accept Draft Decision. | Attachment updated to reflect changes in other Attachments. |
| Attachment 2 | Regulatory Asset Base | Substantively accept Draft Decision. | Attachment updated to reflect changes in other Attachments. |
| Attachment 3 | Rate of Return | Substantively accept Draft Decision. | Attachment updated to reflect more recent market conditions. We have not accepted the Draft Decision debt raising costs and propose an alternative value. |
| Attachment 4 | Regulatory depreciation | Substantively accept Draft Decision. | Attachment updated to reflect revised capex forecasts. |
| Attachment 5 | Capital expenditure | Do not accept Draft Decision. | Attachment updated with revised capital program forecasts. |
| Attachment 6 | Operating expenditure | Do not accept Draft Decision. | Attachment updated with revised forecasts for base, step, trend. |
| Attachment 7 | Corporate income tax | Substantively accept Draft Decision. | Attachment updated to reflect changes in other Attachments. |
| Attachment 8 | Efficiency Benefit Sharing Scheme | Substantively accept Draft Decision. | Attachment updated to reflect 2018/19 operating expenditure and 2019/20 forecast. |
| Attachment 9 | Capital Expenditure Sharing Scheme | Substantively accept Draft Decision. | Attachment updated to reflect 2018/19 capital expenditure and 2019/20 forecast. |
| Attachment 10 | Service Target performance incentive scheme | Substantively accept Draft Decision. | Attachment updated to reflect boundary and performance target changes (as per ESCOSA decision) and removal of the 15-minute planned interruption notification exemption. |
| Attachment 11 | Demand management incentives and allowance | Accept Draft Decision. | No updated Attachment with this Revised Proposal. Updated allowance incorporated in Attachment 1. |
| Attachment 12 | Classification of Services | Substantively accept Draft Decision. | Attachment updated to correct minor AER drafting issues which we believe to be unintentional. |
| Attachment 13 | Pass through events | Substantively accept Draft Decision. | Attachment updated with revised wording for three proposed events and one new proposed pass-through event. |
| Attachment 14 | Alternative Control Services | Substantively accept Draft Decision. | Minor revisions to metering, ancillary network and public lighting services and fees proposed. |
| Attachment 15 | Negotiated services framework and criteria | Accept Draft Decision. | Attachment contains framework as approved by AER. |
| Attachment 16 | Connection Policy | Accept Draft Decision. | Attachment updated with minor changes as proposed by AER. |
| Attachment 17 | Tariff Structure Statement | Accept Draft Decision. | Attachment updated to address AER comments and incorporate additional customer price impacts. |

# 4.1 Annual revenue requirement and control mechanism (Attachment 1)

## Our nominal Revised Proposal smoothed revenue is $3,916 million, $11 million more than the AER's Draft Decision.

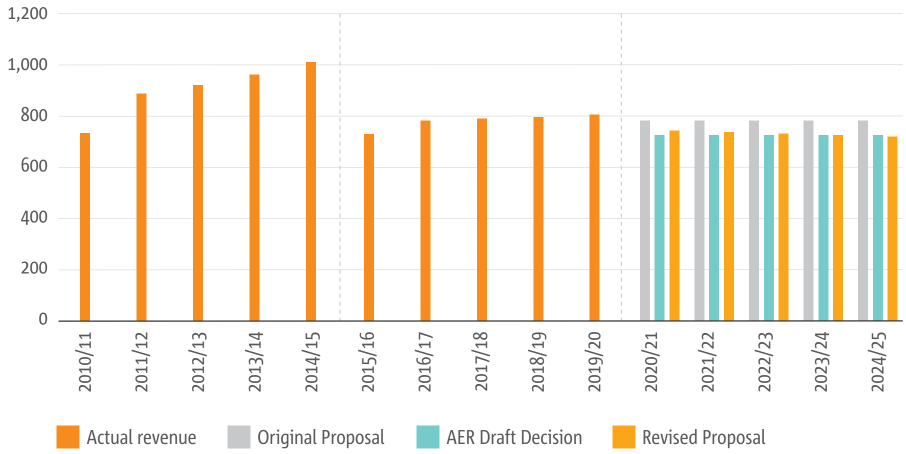
Our Original Proposal forecast a smoothed revenue requirement to deliver Standard Control Services (**SCS**) over the 2020-25 period of $3,915 million in real 2020 terms. This equates to $4,214 million in nominal terms – which is how the AER expressed revenue in its Draft Decision. This amount was based on forecast expenditure requirements, other regulatory parameters and reflected prevailing financial market conditions (as at November 2018).

The AER's Draft Decision has forecast a lower nominal revenue amount of $3,905 million, which is $309 million lower than we proposed. More than two thirds of this reduction (approximately $223 million) is due to the significant decline in financial markets since November 2018, with the remainder of the reduction due to lower expenditure forecasts allowed by the AER.

SA Power Networks has reviewed the AER's Draft Decision on each of the building block components and our responses on each are summarised in the following sections of this Overview document and detailed further in the individual Attachments which form part of our Revised Proposal.

Our nominal Revised Proposal smoothed revenue is $3,916 million, $11 million more than the AER's Draft Decision. This equates to $3,652 million in real terms as shown in Figure 4.1.1.

**Figure 4.1.1: Revenue ($2020)**




As per the AER's Framework and Approach decision for 2020-25[3], we continue to be regulated via a revenue cap form of control as outlined in Table 4.1.1.

**Table 4.1.1: Building block revenue parameters**

| $million, nominal | Original Proposal | AER Draft Decision | Revised Proposal |
|---|---|---|---|
| Return on capital | $1,277 | $1,054 | $1,046 |
| Regulatory depreciation | $1,233 | $1,188 | $1,219 |
| Operating expenditure | $1,671 | $1,585 | $1,560 |
| Revenue adjustments | $40 | $39 | $84 |
| Tax allowance | $0 | $38 | $10 |
| Unsmoothed revenue | $4,221 | $3,903 | $3,919 |
| Smoothed revenue | $4,215 | $3,905 | $3,916 |
| P0 | 2.83% | 13% | 11.40% |
| X | 0% | 0% | 0.80% |
| WACC | 5.43% | 4.95% | 4.79% |

3 *AER, Replacement of framework and approach 2020–25 Energex, Ergon Energy, SA Power Networks and Directlink, December 2017*

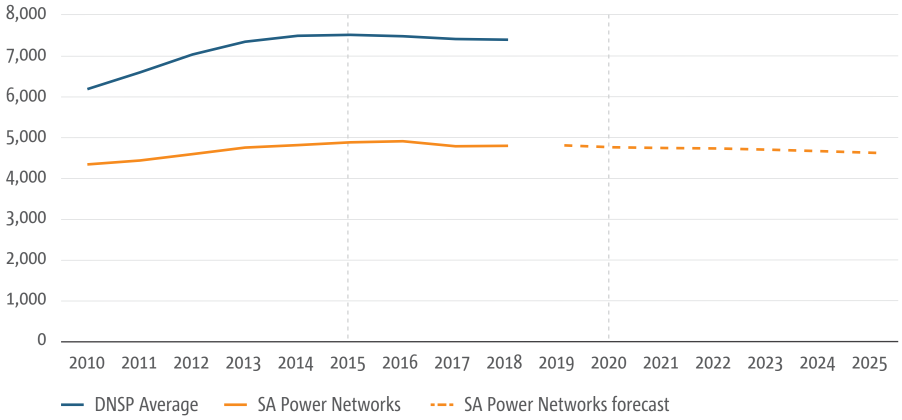
# 4.2 RAB, Rate of Return and Depreciation (Attachments 2, 3, 4)

## Our Revised Proposal is for a nominal closing Regulatory Asset Base (**RAB**) at 30 June 2025 of $4,973 million and a regulatory depreciation allowance of $1,219 million for the 2020-25 period.

Our Original Proposal forecast a closing RAB at 30 June 2025 of $5,060 million and a regulatory depreciation allowance of nominal $1,233 million for the 2020-25 period. The proposed regulatory depreciation continued to calculate depreciation on a straight-line basis and apply the year-by-year tracking model. Three new asset classes were proposed. The rate of return in our Original Proposal applied the AER's Rate of Return Instrument[4] and proposed averaging periods consistent with the Instrument. We proposed an alternative for calculating debt raising costs.

The AER's Draft Decision accepted the proposed depreciation methodology and the three new asset classes. The Draft Decision closing RAB at 30 June 2025 is $4,559 million and provided a regulatory depreciation allowance of $1,188 million nominal for the 2020-25 period. The reductions from our Original Proposal are largely due to the lower Draft Decision capital expenditure. The rate of return in the Draft Decision was consistent with the AER Rate of Return Instrument and applied a placeholder return, to be updated for the approved averaging periods. The Draft Decision did not accept our proposed debt raising costs.

**Figure 4.2.1: RAB per customer ($2020)**




Our Revised Proposal RAB incorporates the revised capital expenditure for 2020-25 (outlined in Attachment 5). We have applied the Rate of Return Instrument and the proposed averaging periods in our Revised Proposal. We have not accepted the Draft Decision debt raising costs and propose an alternative value.

Our Revised Proposal included capital expenditure that is no more than necessary and is in line with the 2015-20 period.

Figure 4.2.1 on a RAB per customer basis, highlights our relatively low RAB compared with other distributors. When we look at RAB per kilometre of distribution line to take into account the nature of how spread out our network is in relation to other providers, we see the gap between SA Power Networks and the DNSP average increase further.

The AER's Instrument results in a return on our investment that falls in lock step with falls in the risk free rate, which is currently at record low levels. In addition, the AER's approach to forecasting future inflation is not producing reasonable forecasts of inflation over the forthcoming regulatory period.

Together, this has led to a significant gap between the return provided under the AER's methodology and that required by equity holders. This reduces the incentive to invest in maintaining and upgrading essential community infrastructure.

We discuss this further in Attachment 3 – Rate of Return of our Revised Proposal.

4 *AER, Rate of Return Instrument, December 2018*

# 4.3 Capital expenditure (Attachment 5)

**Original Proposal**
**$1,741**

**AER Draft Decision**
**$1,263**

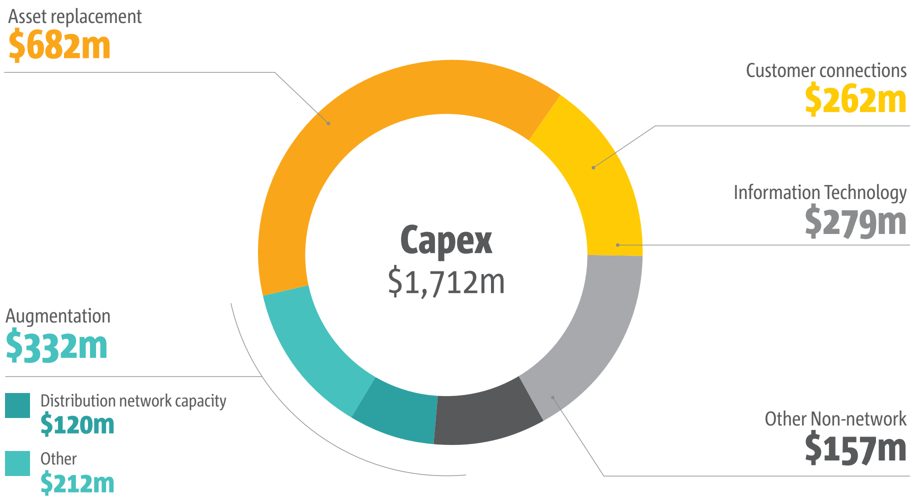
**Revised Proposal**
**$1,712**

In our Original Proposal, we forecast a capital program of $1,741 million or $1,720 million after disposals in real 2020 dollar terms. The AER's Draft Decision is to allow only $1,263 million, or $478 million lower than we originally proposed (before disposals). Our revised capital program shown in Figure 4.3.1, addresses specific concerns raised by the AER, reflects the latest economic forecasts and financial markets assumptions and results in a revised capital expenditure forecast of $1,712 million, $449 million more than the AER's Draft Decision.

Our Revised Proposal includes revised capital expenditure forecasts for:

- **Replacement expenditure** – we have updated forecasts based on historic spend to include 2018/19 actual expenditure, we have addressed AER concerns with other modelled expenditure and developed individual business cases for three unique asset replacement projects (Northfield GIS, CBD cables, North Tce ducts).
- **Augmentation expenditure** – we have addressed AER concerns on four specific projects including our revised LV Transformer Monitoring program. We resubmit our Low Reliability Feeders program, with strong stakeholder support, and our Hardening the Network program for reconsideration by the AER.

**Figure 4.3.1: Capital expenditure before disposals**

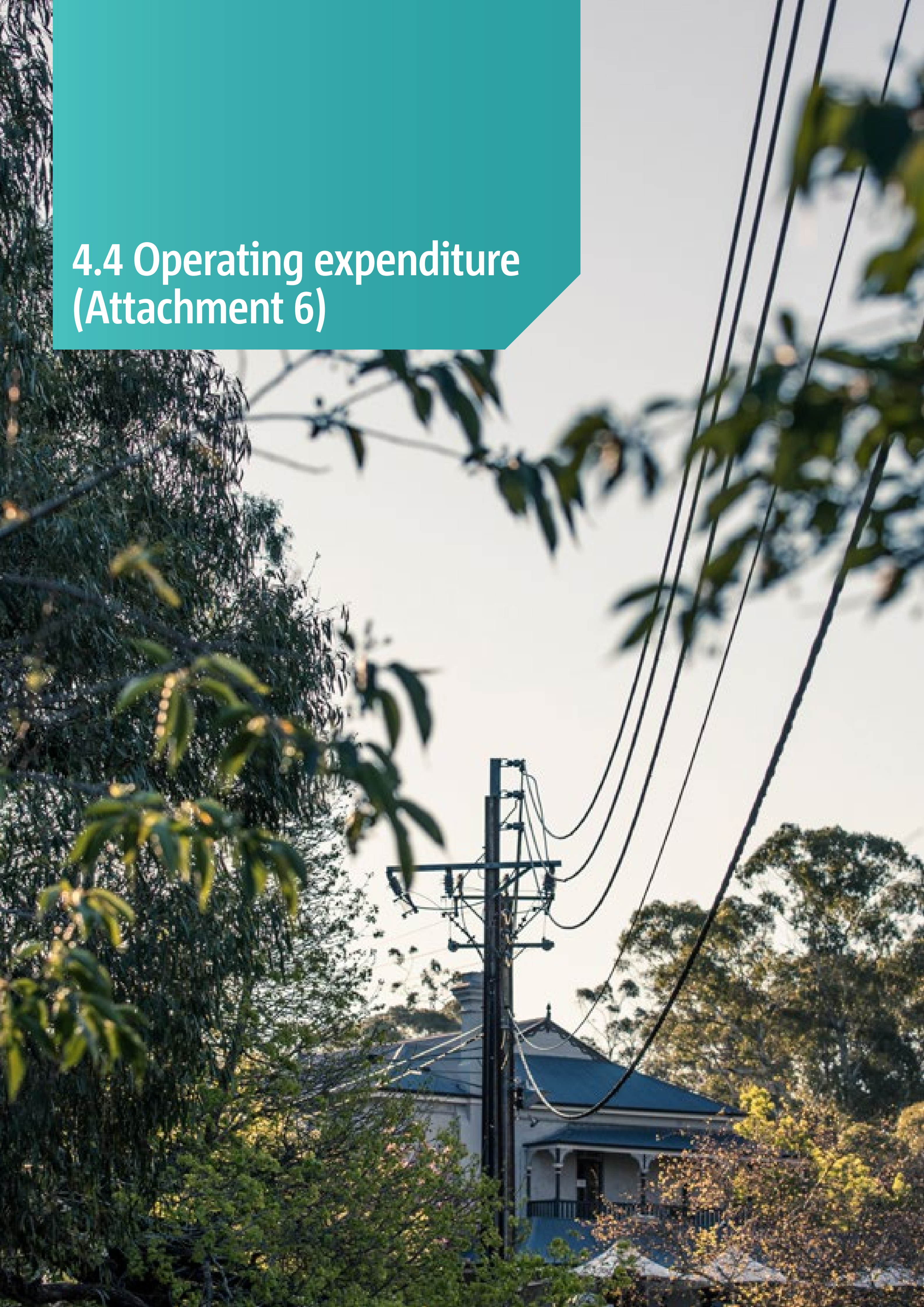



- **Connections expenditure** – we have increased our forecast expenditure in light of updated independent forecasts and lower forecast customer contributions.
- Non-network expenditure:
  - **IT** – we have addressed the AER's concerns with three proposed non-recurrent projects rejected by the AER, and have decided to not re-submit our Worker Safety program. We have also proposed one new project (Utilities Cyber Security) which has emerged since our Original Proposal.
  - **Property** – we have revised our 2020-25 works program and removed some items from our Original Proposal, developed better economic justification for major works at four sites and provided additional top-down analysis.
  - **Fleet** – we have proposed minor changes to the AER's assumptions in relation to vehicle costs and the assumed percentage of heavy plant (elevated work platform vehicles) which can be refurbished.
  - **Non-Network Other** – we have addressed AER concerns with our proposed replacement of our Advanced Distribution Management System.

We have consulted on all key changes with our Customer Consultative Panel and the AER's Consumer Challenge Panel.

Our revised capital expenditure proposal set out in Attachment 5, amounts to $1,712 million, $449 million higher than the AER's Draft Decision.

# 4.4 Operating expenditure (Attachment 6)



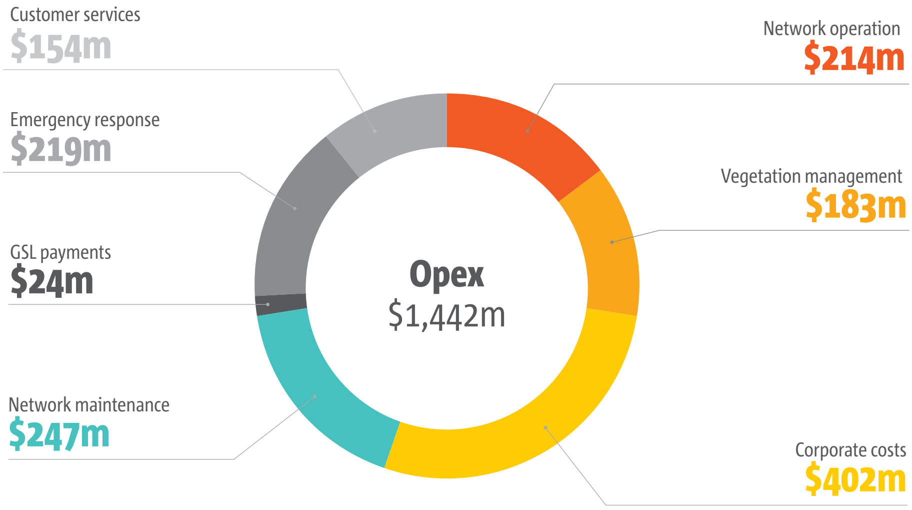
Original Proposal
$1,530

AER Draft Decision
$1,466

Revised Proposal
$1,442

In our Original Proposal, we proposed $1,530 million operating expenditure (excluding debt raising costs), forecast in accordance with the AER's preferred 'base-step-trend' approach. In its Draft Decision, the AER accepted our 2018/19 as an efficient base year, subject to receiving final audited accounts. The AER accepted all our proposed step changes, but reduced the allowance for two of these changes. The AER also substituted its own trend forecasts to adjust for productivity improvements, expected output growth and labour price growth.

**Figure 4.4.1: Operating expenditure excluding debt raising costs**

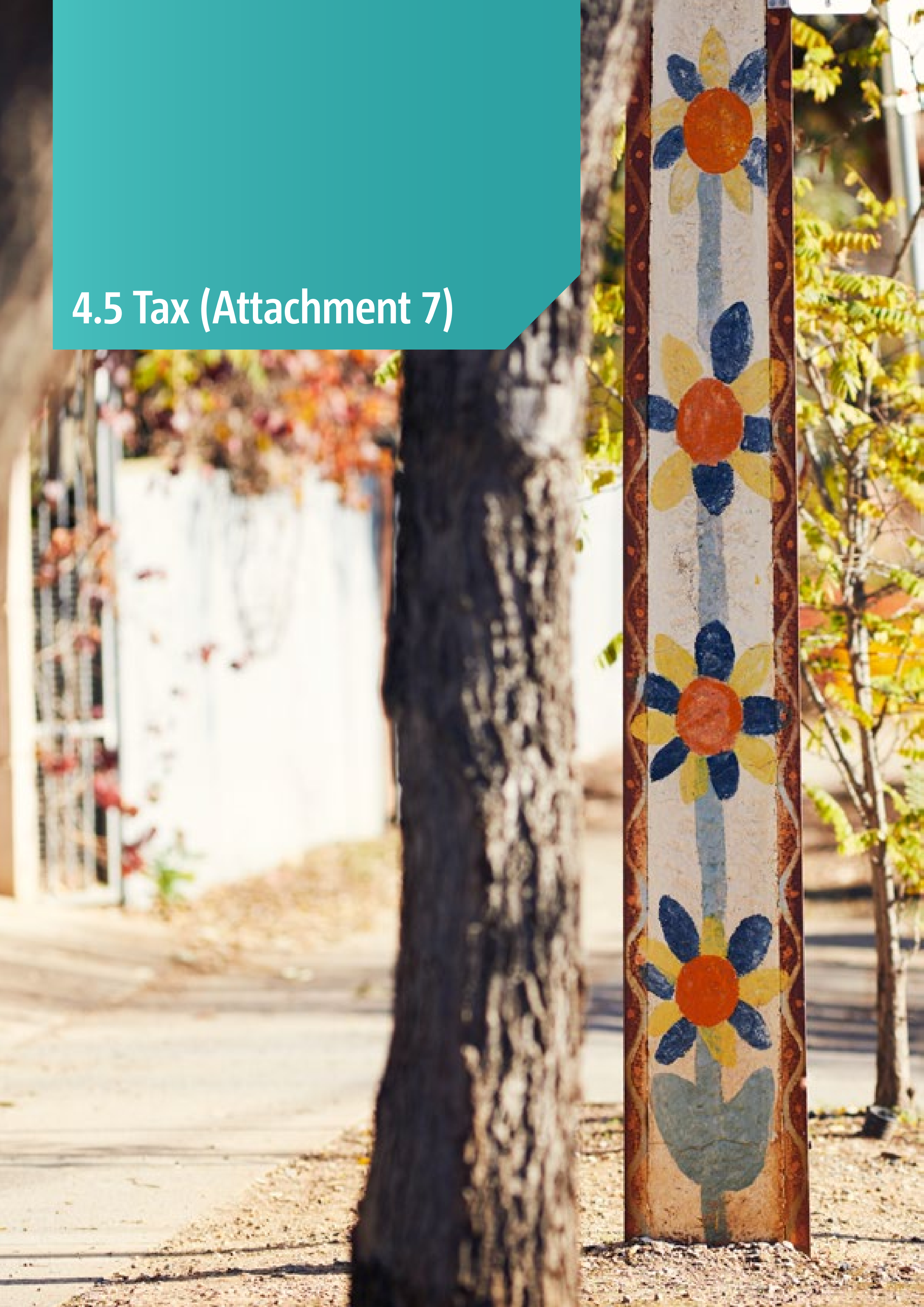



Our Revised Proposal as shown in Figure 4.4.1:

- accepts the AER's decision on the base year and now incorporates (lower) final audited costs from our 2018/19 accounts;
- accepts the AER's decision on six step changes but includes revised forecasts for the two step changes adjusted by the AER (Guaranteed Service Level scheme and Critical Infrastructure Compliance). We also include two new step changes associated with an increase in the South Australian Government's Distribution Licence fee and an increase in our requirements relating to Utilities Cyber Maturity Uplift, and a negative step change associated with our revised LV Transformer Monitoring program;
- applies the AER's productivity adjustment and output growth decision (although we believe this does not adequately reflect the nature of services now provided from our network); and
- does not accept the AER's decision on labour price growth.

Our revised operating expenditure proposal as outlined in Attachment 6, amounts to $1,442 million ($June 2020, excluding debt raising costs), $24 million lower than the AER's Draft Decision. This is largely due to lower actual base year costs.

# 4.5 Tax (Attachment 7)



## Our Revised Proposal includes an income tax allowance for the 2020-25 period of $10 million ($ nominal). This is largely due to incorporating the Revised Proposal capital expenditure for 2020-25.

At the time of the submission of our Original Proposal, the AER had not finalised amendments to its Post Tax Revenue Model (**PTRM**) to implement the tax review findings. Therefore, SA Power Networks provided a placeholder estimate of $1 for the corporate income tax allowance for the 2020-25 period. Following the release of the new amended PTRM (version 4), SA Power Networks consulted with the AER on the changes and inputs required to populate the new PTRM.

In its Draft Decision, the AER implemented the tax review changes and applied the latest version of the PTRM (version 4) released in April 2019. This resulted in a corporate income tax allowance of $38 million ($ nominal) for SA Power Networks in the 2020-25 period.

SA Power Networks accepts the AER's Draft Decisions:

- to accept the continued use of the year-by-year tracking approach for calculating tax depreciation of existing assets;
- to apply the diminishing value method for tax depreciation to all new depreciable assets except for forecast capex associated with buildings (capital works) and in-house software;
- to recognise the immediate expensing of some forecast capital expenditure for the calculation of tax depreciation, consistent with the approach proposed by SA Power Networks; and
- to determine the opening tax asset base at 30 June 2020, except for updating the actual and forecast capex for 2018/19 and 2019/20 respectively.

# 4.6 Incentive schemes (Attachments 8, 9, 10, 11)

## Efficiency Benefit Sharing Scheme (EBSS)

In its Draft Decision, the AER included an EBSS carryover loss totalling $30.7 million ($ June 2020) for SA Power Networks, $0.6 million lower than our Original Proposal. In our Revised Proposal, we have adopted the AER's methodology for the calculation of our EBSS carryover for the 2015-20 period but have updated the AER's calculation to include actual expenditure for the 2018/19 regulatory year. Due to our actual operating expenditure being lower than forecast in 2018/19 and adjusting for movements in operating provisions, our EBSS carryover now amounts to a gain of $4.6 million. The EBSS is intrinsically linked to the forecasting approach for operating expenditure. The improvement in our EBSS from our Original Proposal is offset by a reduction in our base year operating costs of around $58 million.

## Capital Expenditure Sharing Scheme (CESS)

In its Draft Decision, the AER included a CESS revenue increment of $69 million ($ June 2020) for SA Power Networks from the application of the CESS in the 2015-20 period. In our Revised Proposal, we have updated the AER's calculation for actual capital expenditure for the 2018/19 regulatory year and for the latest inflation data. As a result, our CESS revenue increment now totals a gain of $76 million.

## Service Target Performance Incentive Scheme (STPIS)

We accept the AER's adjustment of the 2020-25 period's STPIS reliability and telephone response targets to cater for the performance of the 2014/15 regulatory year being capped at 3.0% of revenue. We are proposing a minor adjustment to the CBD and Urban feeder category targets for the 2020-25 period to cater for the Essential Services Commission of South Australia adjustment to the boundary of the Adelaide Business Area. We have agreed with ESCoSA which feeders will be classified as CBD feeders from 1 July 2020.

We note that the AER's value of customer reliability (**VCR**) review will be finalised in December 2019, and that the revised VCR values will be applied to the 2020-25 period, as they reflect the most recent VCR.

## Demand Management Incentive Scheme (DMIS)

We accept the AER's Draft Decision to apply both the new demand management incentive scheme and demand management innovation allowance (**DMIAM**) for the 2020-25 period. As the new DMIAM includes a component based on percentage of revenue allowance, our Revised Proposal proposes a revised DMIAM amount based on our Revised Proposal Revenue. The revised DMIAM is included in Attachment 1 – Annual Revenue Requirement.

# 4.7 Classification of services (Attachment 12)

# 4.8 Pass through events (Attachment 13)

## 4.7 Classification of services (Attachment 12)

SA Power Networks' proposed classification of services for 2020-25 followed extended consultation with the AER and stakeholders. In its Draft Decision, the AER accepted our proposed service classifications but made minor adjustments to the specific wording and grouping of some services we proposed.

We accept the AER's Draft Decision on service classification, subject to correcting some minor drafting issues which we believe to be unintentional omissions or transcription errors. These minor changes are outlined in Attachment 12.

## 4.8 Pass through events (Attachment 13)

The following pass-through events are provided in the NER[5]:

- a 'regulatory change event';
- a 'service standard event';
- a 'tax change event';
- a 'retailer insolvency event'; and
- any other event specified in a distribution determination as a pass-through event for the determination.

In our Original Proposal, we proposed the following five additional pass through events for the 2020-25 period:

- natural disaster event;
- insurance cap event;
- insurer credit risk event;
- terrorism event; and
- major cyber event.

We also signalled the possible inclusion of a further pass through event, which may be required once the AER had finalised its treatment of immediately deductible capital expenditure and its impact on a network business' regulatory tax allowance.

In its Draft Decision, the AER rejected our proposed major cyber event and made minor amendments to the definitions[6] of the other four additional pass through events to provide drafting consistency with events approved for other network businesses.

We accept the AER's decision to not accept a major cyber event and its definition for the insurer credit risk event. In our Revised Proposal we are proposing alterations to the terrorism, natural disaster and insurance cap event definitions, to cater for the:

- South Australian legislative framework;
- structure of our mandated bushfire risk insurance; and
- immaturity of the cyber event insurance market.

We are also proposing a new change in corporate tax event as signalled in our Original Proposal. Our proposed amendments to these pass through events and reasons are detailed in Attachment 13.

5 *NER Rule 6.6.1*

6 *Table 14.2 DRAFT DECISION SA Power Networks Distribution Determination 2020 to 2025 Attachment 14 Pass through events October 2019 for amended pass through event definitions*

# 4.9 Alternative Control Services (Attachment 14)

Alternative Control Services (**ACS**) are customer specific services, for which the AER approves price caps. The costs of providing these services are recovered directly from the individual customers who receive them. For the 2020-25 period, the AER has classified legacy metering services, public lighting, and a range of ancillary network services as ACS and will set the prices for these services.

## Metering Services

SA Power Networks remains responsible for the operation, reading and maintenance of existing legacy meters until they are replaced with a smart meter. Our Original Proposal applied a 'building block approach', where the total metering services revenue reflected the forecast return on capital, return of capital (depreciation), operating expenditure, and tax liability. We proposed to retain the existing charging structure for metering services, with the proposed capital and non-capital charges to apply uniformly across all meter types.

In its Draft Decision, the AER accepted SA Power Networks' building block approach, accelerated depreciation of the metering asset base, and approach to capital and operating expenditure. However the AER replaced the weighted average cost of capital value, labour escalators and other related inputs consistent with their methodology for standard control services.[7]

Our Revised Proposal largely accepts the AER's Draft Decision, but proposes changes to some cost inputs. Consistent with standard control services, we do not accept the AER's decision on labour price growth.

## Ancillary Network Services

Ancillary network services are a diverse range of non-routine services that we provide to customers on an as-needs basis, such as network asset relocation work, premises energisation/de-energisation, and special meter reading services.[8] Ancillary network services are paid for by the customer who requests the service.

Our Original Proposal built up ancillary network service charges using a bottom up assessment of historical cost. This identified several instances where our negotiated distribution service charges were not cost reflective, with price increases proposed for 2020-25 to move to cost reflective pricing. In its Draft Decision the AER approved price increases for a range of services compared to the 2015-20 charges, excluding two services that were rejected, and applying corrections to modelling errors and changes to labour rates and service times.

Our Revised Proposal:

- accepts the AER's base labour rates and service time adjustments, but does not accept the AER's decision on labour price growth;
- proposes a new fixed fee for security lighting services. This is a change from our Original Proposal which proposed this service as a quoted service; and
- following consultation with affected customers, proposes revised fixed fees for Connection Specification and Access Permits.

## Public Lighting

SA Power Networks provides public lighting services to 67 customers throughout South Australia, including local councils and the South Australian Government Department of Planning Transport and Infrastructure. In late 2018 a joint LGA/SA Power Networks Public Lighting Working Group (**PLWG**) was established as a representative body for consulting on matters under the current regulatory framework and facilitating a practical transition to the new regulatory framework.

Following an Information Request from the AER and in collaboration with the PLWG, we have agreed to a number of changes from our Original Proposal, including moving to a 20-year annuity term for LED installations; a 10-year cleaning cycle for LED luminaires; and removing the regional installation premium for the installation of regional luminaires. These changes were accepted by the AER in its Draft Decision.

In its Draft Decision, the AER also accepted other elements of SA Power Networks proposal, but did not accept our proposed elevation charge and the cable and column replacement rate.

Our Revised Proposal:

- accepts the AER's Draft Decision to remove the elevation charge;
- following consultation with the public lighting customers, proposes alternative volumes for column replacements and cable faults; and
- does not accept the AER's decision on labour price growth.

Further details on ACS are available in Attachment 14 – Alternative Control Services.

7 *AER DRAFT DECISION SA Power Networks Distribution Determination 2020 to 2025 Attachment 15: Alternative Control Services, page 6*

8 *A full list of our ancillary network services can be found at: Attachment 17 - Tariff Structure Statement (Part A)*

# 4.10 Negotiated services framework (Attachment 15)

# 4.11 Connection Policy (Attachment 16)

### 4.10 Negotiated services framework (Attachment 15)

In our Original Proposal, SA Power Networks proposed a negotiated services framework as required by the NER. The AER accepted our Negotiating Framework and SA Power Networks will not amend the approved framework which is again provided in Attachment 15 of our Revised Proposal.

There are no distribution services classified as negotiated distribution services for 2020-25 period and therefore the expectation is that the Negotiating Framework will not be required for the 2020-25 period.

### 4.11 Connection Policy (Attachment 16)

In our Original Proposal, SA Power Networks proposed a Connection Policy for the 2020-25 period.

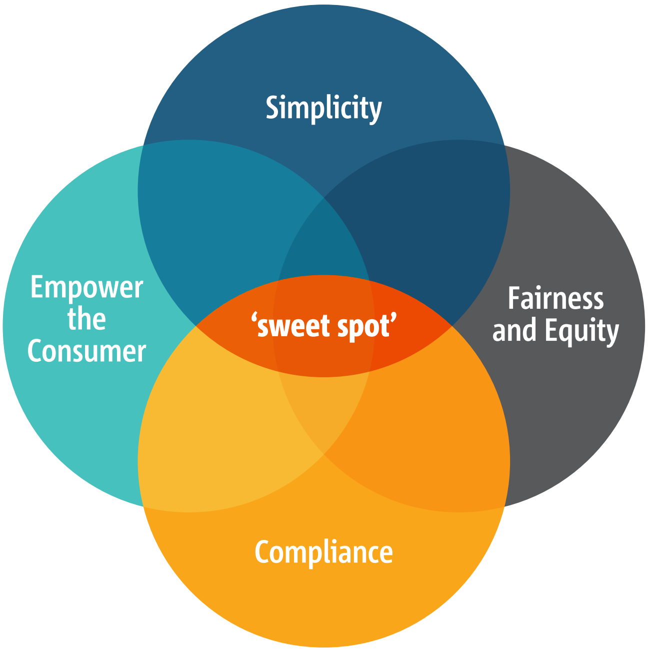
The AER made some minor amendments to our proposed Connection Policy in its Draft Decision. SA Power Networks accepts the amended Connection Policy which is provided in Attachment 16 of our Revised Proposal.

# 4.12 Tariff Structure Statement (Attachment 17)

## Our 2020-25 Tariff Structure Statement (**TSS**) set out our proposed tariff structures (with indicative prices) to recover the revenue allowed for the 2020-25 period. The TSS was designed to better reflect the network costs we incur from customers' decisions to use electricity at specific times and locations, involved extensive consultation with customers and stakeholders, and was shaped by their feedback.

Guided by 'Customer impact principles' developed with customers in our initial 2017-20 TSS (Figure 4.12.1), we aimed to balance the AER's requirements for continued tariff reform with the challenges we face to enable more distributed energy resources to connect to our network and empowering customers to better understand and respond to pricing signals.

Figure 4.12.1: Customer impact principles




The key tariff structure changes proposed in our Tariff Structure Statement included:

- removing the inclining block structure to simplify existing residential tariffs for customers with an accumulation (Type 6) meter;
- introducing a time-of-use tariff for residential customers with interval (Type 4 or Type 5) meters;
- introducing an optional 'Prosumer' demand-based tariff for residential customers with an interval (Type 4) meter;
- introducing a time-of-use tariff for small business customers with interval meters (Type 4 or Type 5 meters);
- introducing a time-of-use tariff with maximum demand charge for small business customers with more than 120kVA of maximum demand;
- introducing separate locational demand tariffs for large business customers located in the CBD and outside of the CBD. The two tariffs have different demand windows; and
- amending the demand measurement for large business customers from any half hour in the demand window to the average demand over that window.

The AER accepted our proposed TSS and commended our consultation with customers and stakeholders. The AER also considered our TSS could be strengthened by:

- modifying our long run marginal cost methodology;
- giving customers greater clarity on how unforeseen changes may be addressed if, for example, actual demand falls below forecast;
- refining the two-document structure of the TSS; and
- giving more information on availability and derivation of large business customers individual tariffs.

In Attachment 17 our revised TSS addresses the matters raised by the AER and incorporates further feedback from our ongoing engagement with customers and other stakeholders, including retailers.

# 5. What this means for our customers

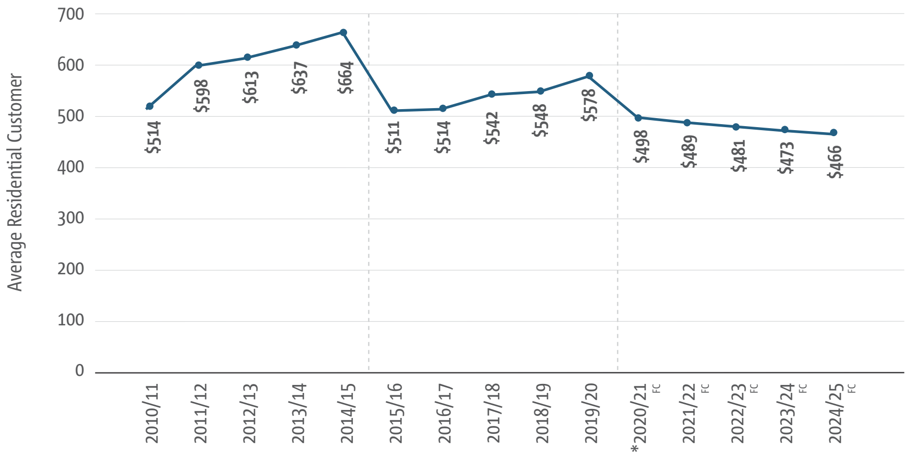
## In real terms, our proposed expenditure, along with current global financial markets, mean our Revised Proposal delivers an average reduction of $62 for residential customers and $276 for business customers in 2020/21, without compromising safety or reliability, and while implementing new services to support the energy revolution underway.

Please note these are average reductions. Individual customers' bill reductions will vary. Our charges will return to the lowest levels they have been over the last decade.

Our Revised Proposal together with current financial market conditions will deliver price relief in the short term. Our Revised Proposal also provides efficient investment in the network for the long-term interests of customers today as well as future generations.

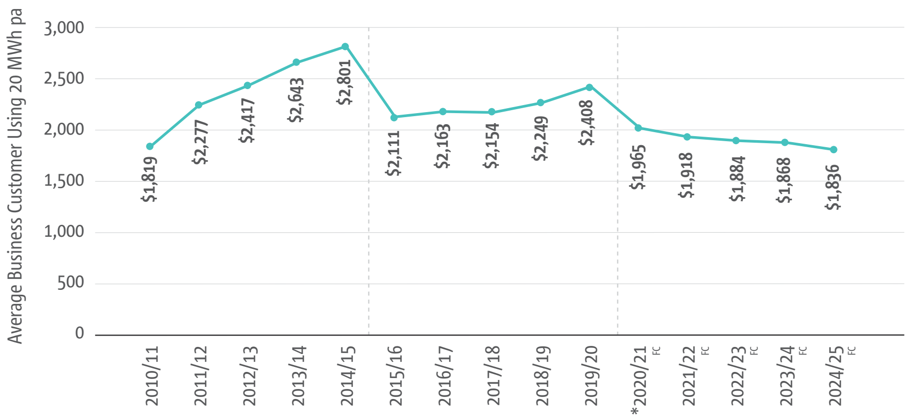
Figures 5.1 and 5.2 show the average SA distribution bill prices for residential and small-medium business customers respectively.

**Figure 5.1: Average annual SA residential distribution bills (Real $2020)**




* *Reduction in 2021 is greater than $62 as forecast figures exclude potential service incentive scheme outcomes*

**Figure 5.2: Average annual SA small-medium business distribution bills (Real $2020)**




* *Reduction in 2021 is greater than $276 as forecast figures exclude potential service incentive scheme outcomes*

# Have your say

Once again, thank you to the members of the SAPN CCP and reference groups for your ongoing work in shaping our Revised Proposal. We will continue to engage with our customers, reference groups and other stakeholders throughout the AER's determination process.

Written submissions on our Revised Proposal should be forwarded to the AER at: SAPN2020@aer.gov.au by 15 January 2020.

We also encourage customers and stakeholders to continue to engage with us. Visit talkingpower.com.au and register your details, or email talkingpower@sapowernetworks.com.au, to continue the conversation.


CACT
QUALITY
CO'S
UIT VEG
LOCAL