RIN response: 4.4.4 and 4.4.5 Transparency

2025-2030 Regulatory Proposal

Supporting document 5.1.8

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SA Power Networks

Empowering South Australia

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1 About this document

The information provided in this document are excerpts from Attachment 5 – Capex, and Attachment 17 – CESS. Please refer to the Specified attachments for further details.

Purpose

This document addresses the Cross Reference Table requirements in sections 4.4.4 and 4.4.5.

2 Transparency

Section 4.4.4

For total capital expenditure expected to be incurred in the current regulatory period, provide:

(a) a comparison of the total expenditure by category, disaggegated by expenditure category or driver, to the total forecast capex allowed for the current regulatory period;

(b) an explanation of the drivers of differences noted in response to section 4.4.4 (a), for example the impact of efficiency gains, major new projects, project deferrals or rescoping, changing regulatory obligations, asset age, or other factors;

(c) a list of projects deferred in the current regulatory control period and included in the forecast capex for the forthcoming regulatory control period, and the rationale for the deferral.

(a)(b) SA Power Networks' total current period expenditure by category compared to allowance and an explanation for notable differences.

Over the current RCP we have demonstrated the reasonableness of our expenditure needs by having incurred expenditure that we expect to be in-line with the AER's forecast for 2020-25.

We expect our actual capex differences to be immaterial and only 0.7 percent below the AER's forecast, having been driven predominantly by the following:[1]

- **external drivers** – lower economic activity and a higher rate of return (driving greater customer contributions on connections expenditure), had the effect of lowering our net connections expenditure;
- **external drivers** – altered decisions by ElectraNet drove augex on connection point upgrades to be $1.6 million, which was 88.2 percent lower than forecast. These were excluded from our capital expenditure sharing scheme **(CESS)** calculations so that we do not financially benefit from these deferred projects;[2]
- **external drivers** – general delays in field work due to covid restrictions in the first two years of this period;
- **internal efficiency** – decisions on choice of fleet vehicles allowed us to incur lower than forecast spend but procure more vehicles than reflected in the AER forecast;
- **internal cost attribution improvement** – changes to better attribute general costs to specific expenditure categories and program areas so that each more accurately reflects service delivery costs, leaving capitalised overheads to comprise general costs not easily attributed to specific activities; and

[1] The expenditure categories listed in table 1 for which expenditure is estimated to exceed the AER forecast are discussed in Section 9. The exception pertains to the increase in 'other non-network' which mainly results from a need over the period to undertake additional investment in relation to our Advanced Distribution Management System – to improve our integrated test environment to enhance cyber security controls and procedures in response to increased threats.

[2] These are detailed in Attachment 9 Capital Expenditure Savings Scheme, to this Regulatory Proposal.

- **internal efficiency** – improved bundling in delivery of bushfire risk management work, and optimised repex and augex solutions, allowed us to incur lower augex on bushfire risk management ($11.5 million, which was 11.6 percent lower than forecast) while removing the same level of risk that we had forecast.

There are also no material deferrals from the current period included in forecast expenditure for 2025-30.[3]

Table 1: 2020-25 actuals / estimates versus AER forecast (allowance)

	actuals/ estimates	AER allowance	$ variance	% variance
Repex	706.0	681.0	25.0	3.7%
Augex	350.5	346.6	3.9	1.1%
Connections Net	268.5	336.9	-68.3	-20.3%
Cust. Connect (gross)	704.0	718.4	-14.4	-2.0%
Cust. Contributions - Connections	-435.5	-381.6	-53.9	14.1%
CER	41.0	36.1	4.9	13.5%
ICT	366.2	331.6	34.6	10.4%
Fleet	113.7	117.9	-4.2	-3.6%
Property	73.3	55.8	17.5	31.3%
Other Non-Network	29.8	9.9	20.0	202.8%
Capitalised network overheads	27.5	75.2	-47.8	-63.5%
Total Capex	**1,976.6**	**1,991.1**	**-14.4**	**-0.7%**

Refer to the Attachment 5 Capex, Section 3, along with the respective capex supporting documents.

(c) SA Power Networks' deferred projects.

Our capex forecast for the 2025–30 RCP includes two projects deferred from the 2020–25 RCP. We therefore excluded these two deferrals from our CESS calculations to avoid impacting customers. The details of these deferrals are that:

- they involve network augmentation expenditure (augex) on upgrading two connection points (at Mount Gambier and Mannum) between our distribution network and Electranet's transmission network – the two projects were deferred due to decisions by Electranet; and
- we expect that these two projects will be required in the 2025–30 RCP at a cost of $13.9 million.

We also identified two additional capex projects that have either been deferred or cancelled. These projects pertain to:

1. another transmission connection point upgrade costing $5m, driven by an altered decision by Electranet; and

2. a network augex project to upgrade a 66KV sub-transmission line between Myponga and Square Waterhole, driven by changes in our demand forecast and our decision to prioritise capacity upgrades in other 66KV lines (Angle Vale to Virginia, and southern outer metropolitan 66kV lines) presenting higher service risk – we have no plans to proceed with this.

[3] As detailed in Attachment 9, there are two minor Augex connection point deferrals that have been included in our 2025-30 capex forecast, and accordingly, these were excluded from our CESS calculations to avoid customer impacts.

We expect that these two projects will not be required in the 2025–30 RCP and they are not included in our capex forecast. However, even though these two projects are not in our forecast for 2025–30, we are proposing to also exclude these from our CESS calculations.

Refer to Attachment 9 Capital Efficiency Sharing Scheme.

Section 4.4.5

For forecast capex for the forthcoming regulatory period, provide:

(a) a comparison of the total forecast expenditure by category or driver to the total capital expenditure expected to be incurred in the current regulatory period;

(b) an explanation of the drivers of differences noted in response to section 4.4.5 (a), for example the impact of expected efficiency gains, major new projects, project deferrals or rescoping, changing regulatory obligations, asset age, or other factors.

(a)(b) SA Power Networks' total current period expenditure by category compared to 2025-30 RCP forecast.

We forecast a total capex requirement of $2.4 billion, a 21.5 percent increase on our expected spend in 2020-25. This increase reflects the need to prudently and efficiently respond to the convergence of multiple challenges and opportunities facing our network and the services we provide over 2025-30, including:

- **Repex** – the need to increase repex rates to levels commensurate with the risk posed by our network age profile and asset condition in order to maintain overall reliability by geographic region, improve reliability in the Adelaide CBD to meet jurisdictional service standards, and to maintain safety in aggregate;
- **Augex** – the need to increase expenditure on network upgrades in order to:
  - meet forecast strong increases in load demand, driven by customer electrification, by ensuring sufficient capacity in our distribution network;
  - respond to non-asset condition impacts on reliability (including bats, weather, and other damage causes); make targeted and optimised upgrades alongside repex to improve reliability in the Adelaide CBD to meet jurisdictional standards; and make targeted improvements for regions and customers who repeatedly experience poor reliability performance; and
  - to mitigate the risk of our assets starting bushfires and minimise customer impacts when we must initiate public safety power shutoffs during bushfire risk times;
- **CER integration** – the need to increase expenditure to: meet and manage demand for export services by increasing hosting capacity to provide an efficient service level that customers prefer; invest in capabilities to enable flexibility in customer network loads; and to improve compliance to CER technical standards;
- **Property** – the need to increase expenditure due to deteriorating condition, capacity limitations, and opportunities for activity consolidation, by refurbishing, renewing, and rebuilding properties;
- **Fleet** – the need to increase spend due to the timing of vehicle replacement cycles, while increasing volume to support increasing network capital work, and acquisition of Electric Vehicles **(EVs)** where efficient; and
- **ICT** – while we forecast a decrease for recurrent and non-recurrent expenditure, we need to replace existing systems to maintain services and functionality, invest in new capabilities for more personalised and on demand services via digital channels, and to improve the efficiency of asset management practices, while also enhancing our cyber security in response to increased threats.

Figure 1: Historic and forecast capex by category

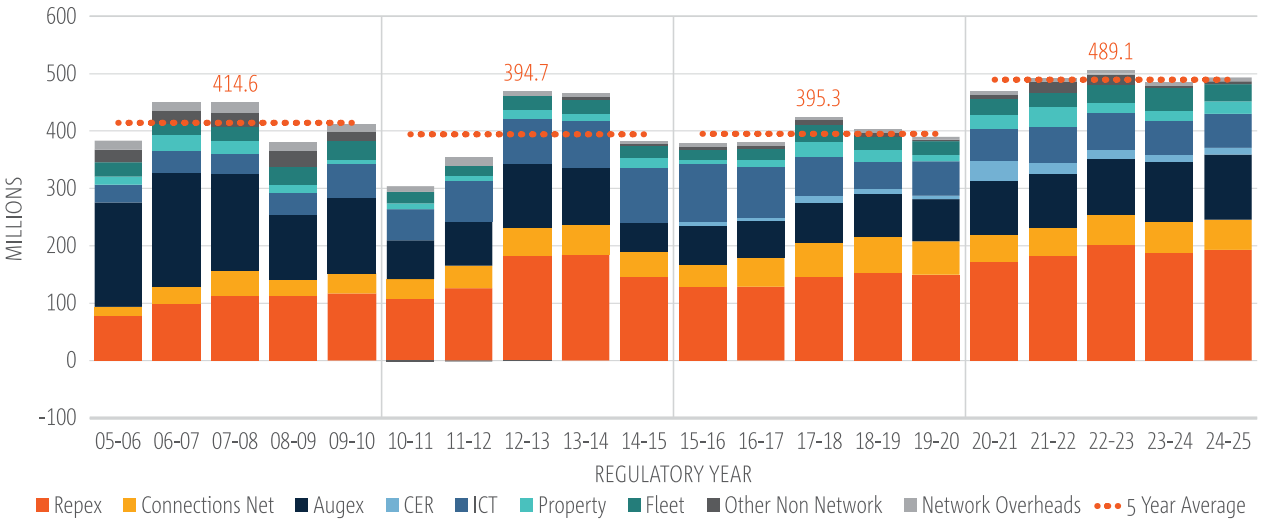

Figure 1 displays our forecast capex by expenditure category relative to our historic spend. Further, Table 2 outlines our forecast capex by expenditure category, relative to our expected actual spend in 2020-25. In this figure and table, as well as in all data outlined in Attachment 5, Section 9, the expenditure category expenditure forecasts are shown excluding our proposed efficiency adjustment.

We have proposed to apply our efficiency adjustment as a separate deduction to our capex forecast. This adjustment arises as the direct effect of our productivity commitment enabled by our proposed Assets and Work (Phase 3) ICT program to improve asset management efficiency (discussed in section 9.6).

Table 2: Capex forecast for 2025-30 - by category and totals ($ million, June 2025)

	2025-30 RCP	2020-25 RCP	$ change	% change
Repex	936.4	706.0	230.4	32.6%
Augex	506.3	350.5	155.8	44.4%
Connections Net	255.2	268.5	-13.3	-5.0%
CER	92.7	41.0	51.7	125.8%
ICT	300.8	366.2	-65.4	-17.9%
Fleet	154.9	113.7	41.2	36.3%
Property	115.8	73.3	42.5	57.9%
Other Non-Network	50.4	29.8	20.6	68.8%
Network Overheads	33.5	27.5	6	21.9%
Total Capex	**2,445.9**	**1,976.6**	**469.3**	**23.7%**
Efficiency adjustment	-45.0		-45	
Total Capex (post adj)	**2,400.9**	**1976.6**	**424.3**	**21.5%**
Disposals	-21.8		-21.8	
Total Net Capex	**2,379.1**	**1976.6**	**402.5**	**20.4%**

Refer to the Capex Attachment, Sections 7 and 9, along with the respective capex supporting capex documents.