Issues Paper

SA Power Networks Electricity Distribution Determination 2025–30

March 2024

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Tel: 1300 585 165

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1 Introduction

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia. We regulate electricity networks in all jurisdictions except Western Australia. The regulatory framework governing electricity transmission and distribution networks is the National Electricity Law and Rules (NEL and NER). Our work in this sector is guided by the National Electricity Objective (NEO).

Regulated network businesses must periodically apply to us to determine the maximum allowed revenue they can recover from consumers for using their networks. On 31 January 2024 we received a revenue proposal from SA Power Networks for the five-year regulatory period 1 July 2025 to 30 June 2030 (2025–30 period).[1]

In assessing these proposals our goal is to ensure customers are better off both now and in the future. We do this by balancing the need for prudent and efficient investment to maintain the networks and prepare them to support the energy transition, while at the same time ensuring consumers facing cost-of-living pressures pay no more than necessary for electricity services that meets their current and future needs.

In this Issues Paper we explore the key drivers of the proposed increase in revenues and network tariffs. We have framed this discussion by reference to our Better Resets Handbook[2], which sets out our expectations for how a network business can engage with consumers and, our expectations (consistent with the NER framework) in topic areas such as capital expenditure (capex), operating expenditure (opex), regulatory depreciation and tariff structure statements, which tend to have the most significant impact on consumers.

Proposals that reflect consumer preferences, and which meet our expectations, are more likely to meet the requirements of the NER. They are therefore more likely to be largely or wholly accepted at the draft decision stage, creating a more effective and efficient regulatory process for all stakeholders.

In making this assessment we will have regard to the extent to which the proposals have been driven by, and now reflect, the preferences and priorities that South Australian electricity consumers have put to SA Power Networks in their engagement on these proposals. Consumer engagement is an important factor in our assessment; however, we are still required to ensure we are satisfied that the proposed revenues reasonably reflect prudent and efficient costs and a realistic expectation of future demand and cost inputs.

Together, these considerations support a decision that will ensure South Australian customers are paying no more than necessary for safe, reliable and secure delivery of their electricity distribution services.

As part of our early engagement with SA Power Networks about its regulatory proposal it informed us of a material error it made which affected the AER’s distribution determination

[1] SA Power Networks, 2025–30 Regulatory Proposal, January 2024

[2] AER Better Resets Handbook – Towards consumer-centric network proposals

for the 2020–25 regulatory control period. The error related to the reclassification of cable and conductor minor repair expenditure as opex rather than capex. We have now corrected this error by revoking and substituting SA Power Networks’ distribution determination for the 2020–25 period.[3] The revocation and substitution determination involves returning the over-recovered revenues associated with the error through lower 2024–25 prices. In contrast, SA Power Networks’ regulatory proposal returned the over-recovered revenues to customers in the 2025–30 period. Our revocation and substitution decision will therefore result in higher forecast revenues than included in SA Power Networks 2025–30 proposal, all else equal.

1.1 Our process

This Issues Paper sets out our initial observations on the proposal and some areas in which we are particularly interested to hear from stakeholders. Submissions in response to this Issues Paper will inform our draft decision in September. Given SA Power Networks’ participation in the early signal pathway (ESP) process, this Issues Paper also provides an early signal on our position on the proposal and areas where we are considering an in-depth review.

The next step in our process, following the public forum on 9 April, is to make a draft decision in September 2024, setting out what parts of the proposal we consider can be accepted, and those that we consider cannot. If we disagree with SA Power Networks on elements of their proposal, our draft decision will substitute alternatives of our own and explain what we consider is required to address our concerns in the revised proposal.

SA Power Networks will then have an opportunity to submit a revised proposal by the end of this year incorporating any changes, or addressing any matters, raised by the draft decision. Both the draft decision and revised proposal will be open to consultation before we make our final decisions in April 2025. An indicative timeline for our assessment of, and decision on, the proposals is set out below.

Table 1 Indicative timeline – SA Power Networks determination 2025–30

Milestone	Date
Issues Paper	26 March 2024
Public forum	9 April 2024
Submissions close	15 May 2024
Draft decisions	September 2024
Revised proposals due	December 2024
Submissions close	January 2025
Final decisions	April 2025
Final decisions take effect	1 July 2025

Note: These timing of these milestones is subject to change, but our process will ensure stakeholders are afforded all consultation periods required under cll. 6.10 and 6.11 of the NER.

3 AER, *Revocation and substitution determination, Final Decision SA Power Networks Distribution Determination 2019 to 2025*, 22 March 2024.

1.2 Have your say

Consumer engagement is a valuable input to our determination. We have set out a number of questions throughout this paper. Stakeholders can assist in our process by providing their views on these or any other aspects of the proposal.

When we receive stakeholder submissions that articulate consumer preferences, address issues in a revenue proposal, and provide evidence and analysis, our decision-making process is strengthened.

You can contribute to our assessment by:

- Making a written submission on the proposal by close of business, 15 May 2024
- Joining us at an online public forum on 9 April 2024. Registration details are available on our website and through Eventbrite.

Written submissions should be sent electronically to SAPN2025@aer.gov.au and addressed to Kris Funston, Executive General Manager. Alternatively, you can mail submissions to GPO Box 3131, Canberra ACT 2601.

We ask that all submissions sent in an electronic format are in Microsoft Word or other text readable document form.

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. We will treat submissions as public documents unless otherwise requested. All non-confidential submissions will be placed on the AER's website.

We request parties wishing to submit confidential information:

- clearly identify the information that is the subject of the confidentiality claim
- provide a non-confidential version of the submission in a form suitable for publication.

For further information regarding the AER's use and disclosure of information provided to it, see the ACCC/AER Information Policy.

1.3 Early Signal Pathway

SA Power Networks is the third network business selected to participate in an ESP process, joining in December 2022. By joining the ESP, SA Power Networks committed to meeting the expectations set out in the Handbook, publishing a draft revenue proposal (received in July 2023), and the provision of supporting models, data and analysis, which we received in two tranches in June and October 2023.

Under the ESP, AER staff had regular pre-lodgement discussions with SA Power Networks and observed parts of their engagement with consumers. We provided targeted feedback during this process to enable SA Power Networks to prepare a proposal that meets the expectations outlined in the Handbook, in the key topic areas of consumer engagement, capital expenditure (capex), operating expenditure (opex), depreciation and the tariff structure statement.

A key benefit for networks of joining the ESP is to achieve a targeted review of their proposal. A targeted review means that the AER has been able to narrow the scope of issues to be assessed in-depth as per our standard assessment approaches. Areas that have substantially met our expectations under the Handbook will be subject to a top-down or 'high-level' assessment, fulfilling National Electricity Rules requirements.

This paper outlines the AER's position regarding the scope of a targeted review for SA Power Networks. Our views in this paper are subject to change in the forthcoming stakeholder engagement and public forum.

1.3.1 AER's early signal on the proposal

We have undertaken an initial assessment of SA Power Network's proposal and throughout this Issues Paper have highlighted where the proposal has or hasn't met the expectations as outlined in the Handbook.

SA Power Networks has delivered high quality consumer engagement and provided the AER with comprehensive proposals for their planned capex and opex activities. Moreover, the network proposed tariff structure continues the process of incremental tariff reform to provide price signals to consumers. Nevertheless, the significant value uplift in capex and opex and the magnitude of opex step changes do not meet Handbook expectations for steady growth in spending and will require the AER to target approximately 50% to 65% of capex and just over 10% of opex to assess whether key areas of expenditure are prudent and efficient. Key areas for consideration include:

- Replacement expenditure (repex) and augmentation expenditure (augex) with significant increases in proposed spending (section 4.3)
- SA Power Network's approach to establish the base opex used in its opex projections and the 11 step changes (section 4.4).

Our decision to target these areas for in-depth assessment does not mean these areas of spending are not warranted. Rather the AER as an economic regulator will need to ensure that the proposed initiatives should be made at this point in time (prudent), and that they are made in a way that maximises the benefit to consumers (efficient).

At this stage we cannot conclude that substantial portions of the capex and opex expenditure could be capable of acceptance at the draft decision stage. On the other hand, we propose that SA Power Networks' approach to regulatory depreciation and tariff structure statement is likely capable of acceptance at the draft decision stage.

Questions on the ESP

1) What are your views on the scope of our in-depth targeted review for SA Power Networks'? Are there any other aspects of the proposal that require an in-depth review?
2) Are stakeholders comfortable with the AER undertaking a high-level review of SA Power Networks' proposed depreciation and tariff schedule?
3) Do you consider that we should accept parts of SA Power Networks' proposal at the draft determination stage? If so, what areas?

2 Initial observations

SA Power Network's proposal would allow it to recover $5,164.0 million ($nominal, smoothed) from its customers over the 2025–30 period. [4] This is 31.2% higher than what we approved for the 2020–25 period.[5]

The increase in proposed revenue is primarily driven by a 21.9% increase in capex; the higher cost of capital and an 18.8% increase in opex[6] (including step changes). SA Power Network's proposed uplift in spending is partly based on increased demand due to electrification, maintaining an ageing network and responding to service-level preferences elicited from their consumer engagement.

We acknowledge the difficulty to strike a balance between the right amount of investment and affordability at a time when there is significant pressure on the industry to cope with significant weather events and adapt to a changing network, with increased electrification and consumer energy resources (solar, batteries and electric vehicles). Nevertheless, the framework requires the AER to, in its role as a regulator, assess key drivers of the proposal to ensure consumers are spending no more than is necessary to meet the current and future needs of businesses.

SA Power Network's proposed revenue forecast of $5,164.0 million flows through to the distribution network component of the electricity bill for its customers. The distribution components share of an average bill is about 27% for residential customers and 25% for small to medium business customers.[7]

We estimate that over the 2025–30 period SA Power Network's proposal would in result in an average nominal annual increase of $10 (or 0.5%) for residential customers, and an average annual increase of $24 (or 0.4%) for small to medium business customers, which typically use more electricity.[8]

While SA Power Networks is proposing a significant increase in expenditure relative to the current period, SA Power Networks' note that the impact to customers' bills is offset by several external factors: [9]

- A reduction in depreciation as some assets will reach the end of their economic lives and become fully depreciated within the 2025–30 period

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4 In this section we discuss SA Power Network's proposed revenue from standard control services in nominal dollar terms. This excludes legacy metering which is $65.9 million.

5 In real terms ($2024–25), the proposed total revenue is $335.1 million (7.5%) higher than the approved revenue for the 2020–25 period.

6 Per cent changes for capex and opex are against actual and estimated expenditure in 2020–25.

7 This is based on the single rate tariffs. SAPN, *RIN 5 - Workbook 5 - Bill impact*, January 2024.

8 Our bill impact analysis escalates the distribution component of the base year (2024–25) bill amounts using the yearly expected revenue divided by forecast energy consumption. These bill impacts include the cost of legacy metering consistent with SA Power Network's reset RIN. Excluding legacy metering, there is an average annual increase of $9 (0.4%) for residential customers and $20 (0.4%) for small business customers. SAPN, RIN 5 - Workbook 5 - Bill impact, January 2024.

9 SAPN, 2025–30 *Regulatory Proposal Overview*, pp.16-18. January 2024.

- The SA Government's premium feed in tariff will expire in June 2028 reducing the overall retail bill
- Forecast increases in network energy throughput (or volume) dampening the need for price increases.

We acknowledge the effort SA Power Networks has made to keep prices stable over the regulatory period. However, we do note that alternative options were not considered by SA Power Networks or communicated with customers. Some stakeholders observed that SA Power Networks were using the external factors outlined above, to absorb increases in proposed expenditure rather than the possibility for passing on price decreases to customers. We ask stakeholders their views on SA Power Network's plan to use the forecast decline in depreciation revenue and the expiry of the SA Government's feed in tariff scheme to offset the impact of an uplift in expenditure which are expected to increase network distribution prices.

These estimated bill impacts are likely to change as we progress through the 15-month review process. Our decisions along with external factors such as interest rates and inflation will affect the final revenue that the network is able to raise from consumers over the next regulatory period.

2.1 Key drivers of proposed revenue

Revenue is driven by changes in real costs and inflation. To compare revenue from one period to the next on a like-for-like basis, we use 'real' values that have been adjusted for the impact of inflation by using a common year (2024–25).

SA Power Networks' proposal if, accepted, would allow it to recover $4,787.6 million ($2024–25, smoothed) from its consumers over the 2025–30 period. This is a $335.1 million (7.5%) increase compared to the current 2020–25 period.

Figure 1 shows SA Power Networks' proposed 2025–30 revenue and its historical revenue. It does not reflect our revocation and substitution of the 2020–25 distribution determination (discussed in section 1).[10] All else equal, this will reduce the 2024–25 estimated revenue and increase the 2025–30 proposed revenue.

Figure 2 shows the broad changes in revenue at the 'building block' level to illustrate what is driving SA Power Network's proposed total revenue increase from 2020–25 to 2025–30. SA Power Networks states that the increase in its proposed revenue is primarily being driven by a higher rate of return due to a rise in interest rates and increased capital and operating expenditures.[11]

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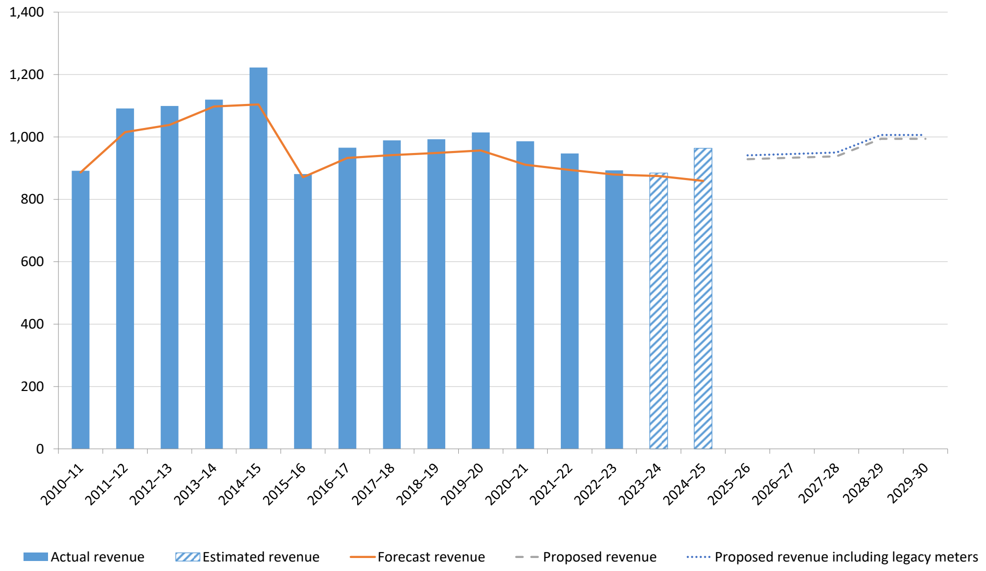
10 The revocation and substitution corrected an error in the 1 July 2020 to 30 June 2025 distribution determination for the reclassification of cable and conductor minor repair expenditure as opex rather than capex.

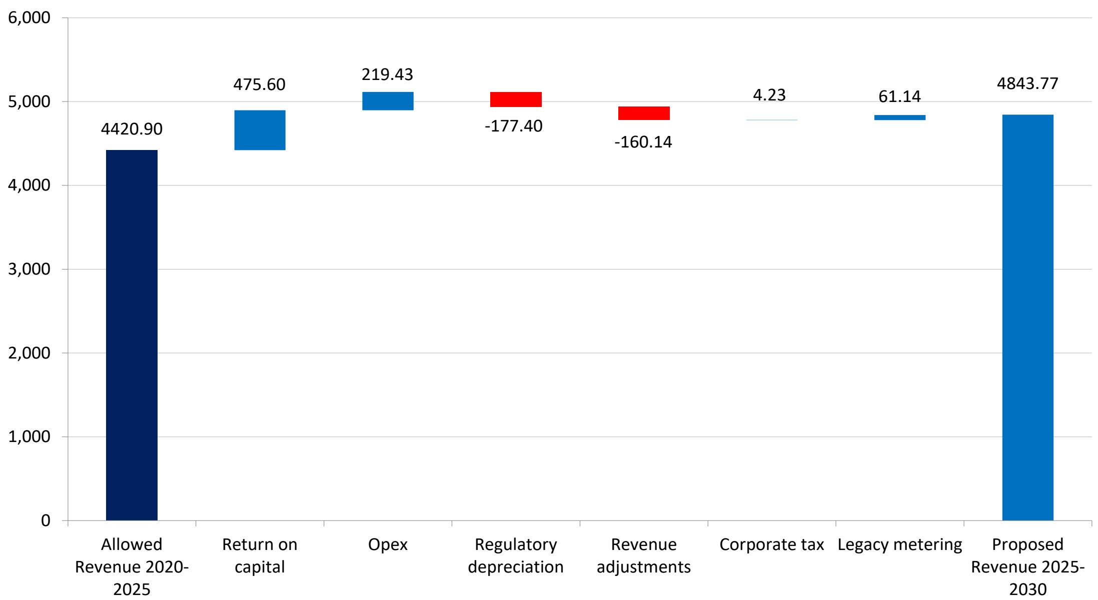
11 SAPN, 2025–30 *Regulatory Proposal Overview*, pp. 78–81, January 2024.

Figure 1 Changes in regulated revenue over time ($million, 2024–25)



Source: AER analysis.
Note: SA Power Networks has included in its proposed revenue, legacy metering assets that it is proposing to move into standard control services. We have represented the revenues inclusive of these amounts in a separate (dotted) line.

Figure 2 Changes in SA Power Networks' revenue building blocks: 2020–25 to 2025–30 ($million, 2024–25)



Source: AER analysis.
Note: Allowed revenue and proposed revenue in the chart are unsmoothed total revenue for the regulatory period. SA Power Networks has included in its proposed revenue legacy metering assets that it is proposing to move into standard control services. We have noted its impact under 'Legacy metering'.

The 2020–25 forecasts are converted to real 2024–25 dollars using lagged CPI.

The overall upward trend in revenue is primarily driven by:

- Higher return on capital due to an increase in the forecast rate of return and an increase in the regulatory asset base (RAB) due to the proposed capex value uplift
- Higher opex driven by SA Power Network’s view of its recurrent level of expenditure with changes in how it will account for IT costs (its base) and the magnitude of proposed increases in day-to-day expenses due to cost pressures, external factors, and new obligations on the business (steps).

This is partially offset by:

- lower regulatory depreciation due to some assets becoming fully depreciated during the 2025–30 period and a higher RAB indexation for expected inflation
- Negative revenue adjustments reflecting Efficiency benefit sharing scheme (EBSS) decrements and Capital expenditure sharing scheme (CESS) decrements, and SA Power Network’s proposal to return to customers over recovered revenue relating to the error for the reclassification of cable and conductor minor repair expenditure as opex rather than capex over the 2020–25 period.

Figure 2 does not reflect our revocation and substitution of the 2020–25 distribution determination. All else equal, the revocation and substitution will:

- reduce the 2020–25 allowed revenue (due mainly to reduced opex). The associated over-recovered revenue will be returned to customers in 2024–25.
- effectively increase the 2025–30 proposed revenue. This is because SA Power Networks’ proposal to return the over-recovery to customers in 2025–30 (through a negative revenue adjustment) is no longer required.[12]

Question on key drivers of proposed revenue

4) What are your views regarding the merits of SA Power Networks’ price stability narrative and do you think there is an opportunity to decrease prices?

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12 We consider the revocation and substitution of the 2020–25 distribution determination will also impact SA Power Networks’ proposed CESS and EBSS revenue adjustment amounts for the 2025–30 period.

3 Consumer engagement

SA Power Networks supplies an essential service to South Australian consumers. We expect high-quality, consumer-centric proposals driven by high quality consumer engagement. High quality consumer engagement is critical to developing proposals that support delivery of services that meet the needs of consumers at a price that is affordable and efficient.

Our framework for considering consumer engagement in network revenue determinations is set out in the Better Resets Handbook, together with our expectations (consistent with the NER framework) in topic areas such as capex, opex and regulatory depreciation, which tend to have the most significant impact on consumers. SA Power Networks is seeking a 7.5% real increase in revenue, driven in part by increases in proposed capex and opex. This makes consumer buy-in particularly important.

SA Power Networks, in its customer engagement worked collaboratively with its People's Panel of 51 South Australian's and its Community Advisory Board (CAB) and a Reset Subcommittee of that Board to develop the insights from customers. The CAB engaged Spencer and Co. to develop an independent report on the network's customer engagement program. The AER also appointed a Consumer Challenge Panel, CCP30, which observed and provided advice on the engagement program.

Our framework for considering three elements – the nature of engagement; the breadth and depth of engagement; and clearly evidenced impact from this engagement.

3.1 Nature of engagement

The nature of engagement is about how networks engage with their consumers. Our expectations are that network businesses will sincerely partner with consumers and equip them to effectively engage in the development of their proposals.

SA Power Networks is commended for delivering a transparent and comprehensive consumer engagement program. SA Power Networks began engagement early and sought views from a range of consumers. We note that there was substantial senior management involvement in various parts of the engagement program, and that SA Power Networks adopted a collaborative process, with the CAB maintaining an active role.

There are two key areas where we have concerns, informed by our own staff level observations, as well as those of our CCP30, SAPN's CAB and other consumer groups. The first is with regard to the framing of the focussed discussions, and the latter is in regard to the networks' overall response to feedback provided to the draft proposal. These are discussed further below.

SA Power Networks began work on their engagement plan in 2021. It was at this stage that the network developed scenarios to indicate 'book-end' ranges in potential customer service outcomes based on differing investment actions. The scenarios, as outlined in the proposal were:

1. a 'Basic' scenario that kept expenditure at recurrent levels, but resulted in service degradation

2. a ‘Maintain’ scenario that kept service at current levels (and required a greater level of investment)

3. a ‘New value’ scenario – where higher service levels or new services are achieved.

Our CCP30 and the CAB Independent report both noted the limitations in framing the consumer engagement according to these scenarios. In particular, it was noted that the characterisation of a decline in service level under the basic scenario (or base case) would guide preferences in a predictable direction.

SA Power Network’s engagement program began in 2022, where it developed with consumers the 10 priority topics and four key themes, which have shaped SA Power Networks’ proposal. The 10 priority topics were used to consider the service and price outcome scenarios (outlined above), with customers asked to recommend the scenario they preferred for each priority area.

In 2023 the Peoples panel evaluated all service area recommendations and made refinements. The outcomes of the People’s Panel were used to produce one recommended forecast for the draft proposal, which was released in July 2023.

SA Power Networks received 25 submissions on the draft proposal. Cost-of-living pressures featured prominently in the submissions, with the South Australian Department of Energy and Mining and the South Australian Council of Social Science being notable on this matter. SA Power Networks also note this in their proposal, stating that ‘several stakeholders recommended affordability and the price/service balance be reconsidered.’

SA Power Networks considered these submissions when developing the fifth and final iteration of forecasts and their proposal for the AER. We note that there was little change between the proposal from draft to the final we received. SA Power Networks provides a summary of how they responded to stakeholder feedback in their proposal.[13]

3.2 Breadth and depth of engagement

Breadth and depth relate to the scope of engagement with consumers and the level of detail at which network businesses engage on issues. The breadth and depth of engagement also covers the variety of avenues used to engage with consumers.

SA Power Networks has delivered a program with a wide scope, considering 10 priority areas and engaging a broad range of perspectives. The engagement included ‘focussed conversations’ with young people, the Afghani and Italian communities, renters and deaf and the hearing impaired.

Considerable effort was made to make the sessions accessible, including explaining at the start of each session where the specific session fitted in to the full program. Where there was a lack of resolution on a topic, further sessions were proposed and invariably conducted to allow time for exploration at the appropriate depth.

[13] SA Power Networks, Customer and Stakeholder Engagement Program, January 2024

CCP30 noted that SA Power Networks sought to move towards the “empowerment” gold standard of the IAP2 spectrum for engagement, in particular through the People’s Panel and the lead workshops and discussions.

3.3 Clearly evidenced impact

Clearly evidenced impact is about how a proposal represents and is shown to represent consumer views. SA Power Networks has undertaken a commendable engagement program and have transparently conveyed the dispersed views and their attempt to address these in their proposal.

Over the ESP, we have encouraged SA Power Networks to draw strong links between their expenditure proposals and the outcomes of their engagement. The proposal reflects the key areas that consumers have expressed their preferences and desired service outcomes gathered from the engagement conducted by SA Power Networks. This allows us to focus our efforts on assessing these areas to ensure that what is delivered to consumers is prudent and efficient.

However, in some areas, consumer preferences across different consumer groups are disparate and no consensus is obvious. This should be expected in engagement and businesses should seek to find mutually acceptable solutions where there are divergent consumer views. CCP30 observed that when these situations occurred, SA Power Networks felt that it was required to make a judgement call in balancing the views of consumers. These judgement calls have favoured greater investment to reduce risk, and was most evident in the affordability debate.

Questions on consumer engagement

5) Do you think SA Power Networks’ consumer engagement meets the expectations set out in the Handbook in delivering a consumer-centric proposal? Please give examples.

6) Do you think SA Power Networks’ proposal adequately captures the cost of living concerns raised by stakeholders?

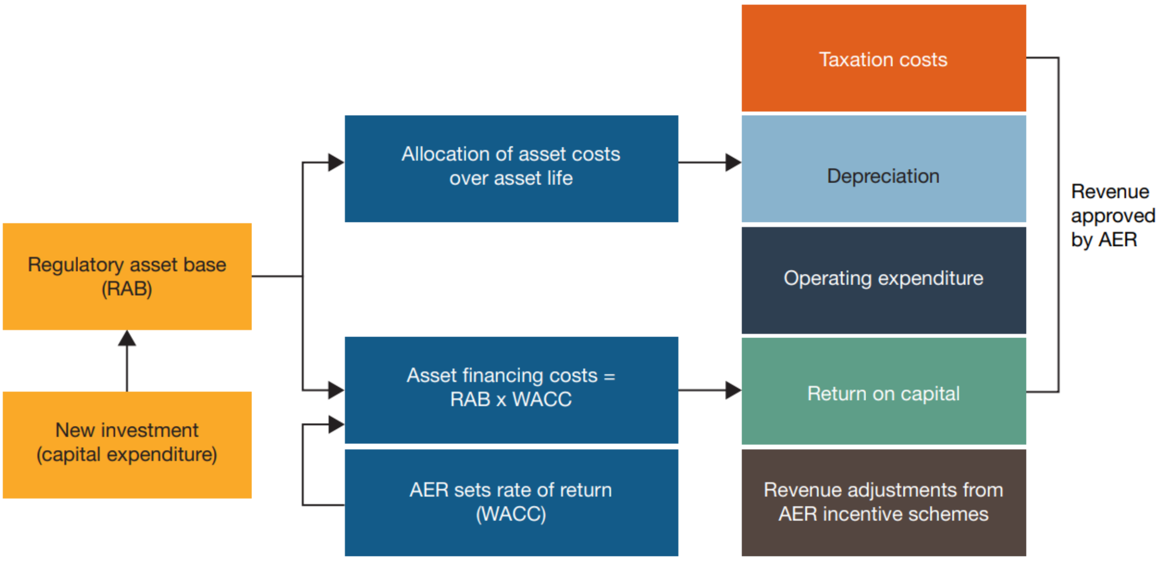
4 Key elements of the revenue proposal

The foundation of our regulatory approach is a benchmark incentive framework to setting maximum revenues: once regulated revenues are set for a five-year period, a network that keeps its actual costs below the regulatory forecast of costs retains part of the benefit. This provides an incentive for service providers to become more efficient over time. It delivers benefits to consumers as efficient costs are revealed and drive lower cost benchmarks in subsequent regulatory periods. By only allowing efficient costs in our approved revenues, we promote delivery of the NEO and ensure consumers pay no more than necessary for the safe and reliable delivery of electricity.

The revenue SA Power Networks proposed reflects their forecasts of the efficient cost of providing distribution network services in their respective regions over the 2025-30 period. Their revenue proposals, and our assessment of them under the Law and Rules, are based on a 'building block' approach which looks at five cost components (see Figure 3):

- return on the RAB – or return on capital, to compensate investors for the opportunity cost of funds invested in this business
- depreciation of the RAB – or return of capital, to return the initial investment to investors over time
- forecast opex – the operating, maintenance and other non-capital expenses, incurred in the provision of network services
- revenue increments/decrements – resulting from the application of incentive schemes and allowances, such as the EBSS, CESS and DMIAM
- estimated cost of corporate income tax.

Figure 3 The building block model to forecast network revenue



Source: AER.

4.1 Rate of return and inflation

SA Power Network’s proposal for 2025–30 includes a rate of return of 6.04%[14] compared to 4.75% in our 2020–25 decision. The increase in the rate of return is driven by a rise in interest rates and inflation since the last decision.

The return each business is to receive on its capital base is a key driver of SA Power Network’s proposed revenue. We calculate the regulated return on capital by applying a rate of return to the value of the regulatory asset base (RAB).

We estimate the allowed rate of return by combining the returns of two sources of funds for investment: equity and debt. The allowed rate of return provides the business with a return on capital to service the interest rate on its loans and provides a return on equity to investors.

The approach that will be taken to estimate the rate of return that applies to SA Power Networks, including the return on debt, return on equity, and the value of imputation credits, is set out in our binding Rate of Return Instrument. We consult on and publish a new Rate of Return Instrument every 4 years. The current Rate of Return Instrument was published in February 2023.[15]

4.1.1 Inflation

The proposal also includes a higher expected inflation estimate for the 2025–30 period (2.5%) compared to the estimate applied in our 2020–25 decision (2.27%).

The return investors receive on their assets should reflect the risk to investors for the prospect of inflation eroding the investor’s purchasing power. Figure 4 shows the interaction of expected inflation on the forecast revenue building blocks.

- The return on capital building block applies a nominal rate of return to the RAB. As the nominal rate of return includes expected inflation, part of that building block compensates for expected inflation. Higher expected inflation increases the return on capital mainly due to RAB and capex.
- The return of capital building block removes expected inflation indexation of the RAB from forecast depreciation. This avoids compensation arising from the effects of inflation being double counted by including it in the return on capital building block and also as a capital gain (through the indexation of the RAB). Higher expected inflation therefore reduces the regulatory depreciation allowance.
- Other building blocks (such as opex and revenue adjustments) include an inflation component, as the costs forecast in real dollar terms are escalated to nominal dollars. Higher expected inflation will increase opex and revenue adjustments.

At this stage, the values for inflation and the rate of return are placeholders only. It is important that the proposal, and our decision are updated for the latest market data at each stage of the revenue determination process.

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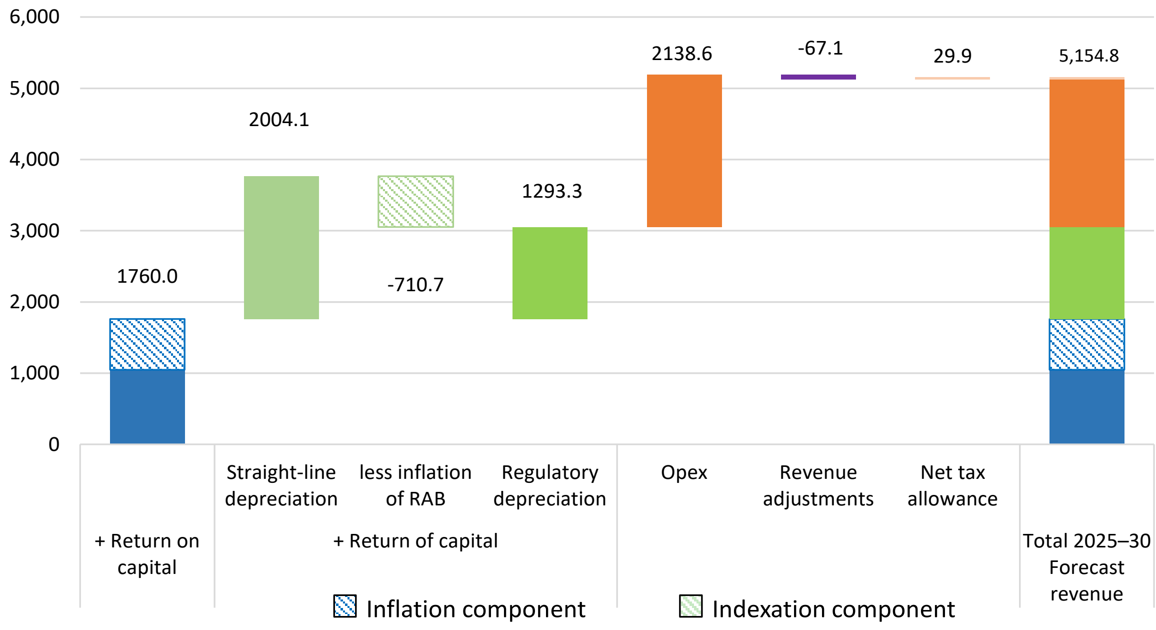
14 Rate of Return as specified in the SAPN - 11 - Post Tax Revenue Model (PTRM) - January 2024. The rate of return mentioned in the SAPN Regulatory Proposal – Attachment 3 – Rate of Return – January 2024 (6.18 per cent) is calculated as the average forecast over the 2025-30 period.

15 AER - Rate of Return Instrument (Version 1.1) - June 2023

Figure 4 Inflation components in revenue building blocks ($million, nominal)



Source: AER analysis.

4.2 Regulatory asset base and depreciation

The RAB is the value of assets used by a network to provide distribution network services. The value of the RAB substantially impacts the total revenue requirement, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and depreciation components of the revenue determination.

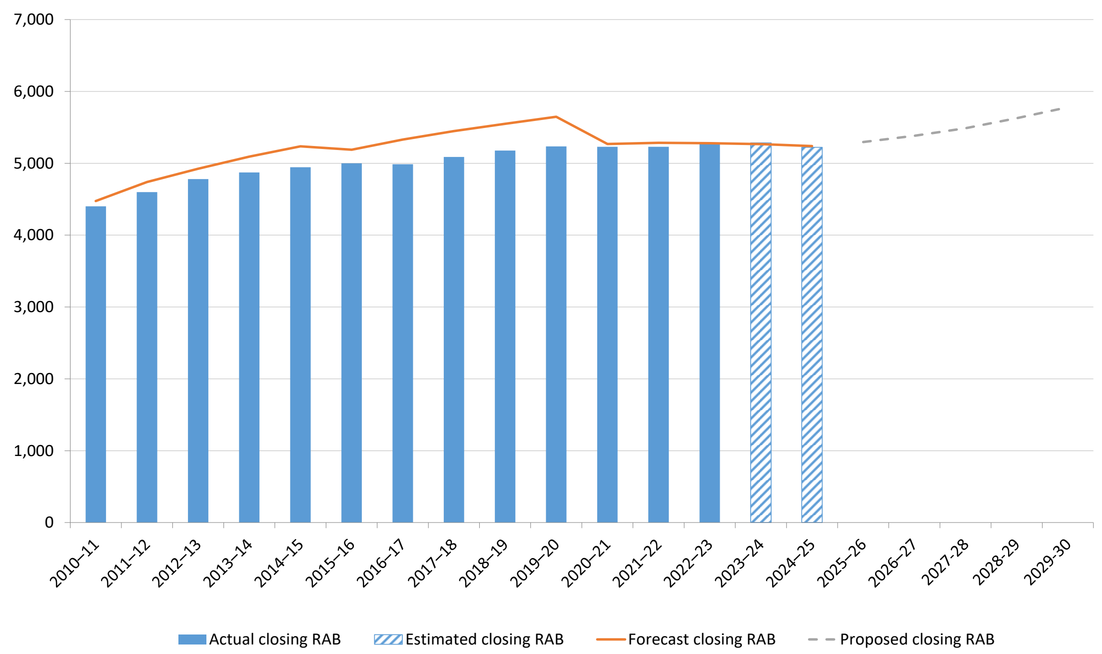
To set revenue for 2025–30, we take the opening value of the RAB from the end of the current 2020–25 period and roll it forward annually by indexing it for expected inflation, adding new forecast capex and subtracting depreciation and other possible factors (such as disposals). This gives us a closing value for the RAB at the end of each year of the 2025–30 period.

SA Power Networks proposes a forecast RAB of $6,539.3 million ($ nominal) by the end of the 2025–30 period, which is $1,316.4 million higher than the estimated RAB at the end of the 2020–25 period. This follows an increase of $861.9 million ($ nominal) in the estimated RAB over the 2020–25 period. In real terms ($2024–25), the proposed RAB will be $556.9 million higher by the end of the 2025–30 period.

The proposed RAB increase (in both nominal and real terms) for the 2025–30 period is driven by a higher forecast capex and lower depreciation for that period. Figure 5 shows the value of SA Power Network's RAB over time.

Regulatory depreciation is provided so investors recover their investment over the economic life of the asset ("return of capital"). SA Power Networks proposes regulatory depreciation of $1,205.6 million ($2024–25) for the 2025–30 period, which is $188.2 million (13.5%) lower than for the 2020–25 period. The lower regulatory depreciation is due to the higher RAB indexation for expected inflation, and the reduction in straight-line depreciation as some existing assets will reach the end of their economic life and become fully depreciated during the 2025–30 period.

Figure 5 SA Power Networks' closing RAB value over time ($million, 2024–25)



Source: AER analysis.

4.2.1 Assessment against the Handbook expectations for depreciation

A business under the early signal pathway that meets our expectations for depreciation is likely to receive a targeted review for that element. In determining whether we will undertake a targeted review of a network business' regulatory depreciation proposal, we would expect a network business:[16]

- To use the post-tax revenue model (PTRM), roll forward model, and depreciation tracking module (where relevant) we have published under the NER without amendments
- To apply the same asset classes from the last regulatory determination, and asset lives that reflect those approved in previous decisions.

[16] The Handbook records these expectations for depreciation proposals along with those for capex, opex and tariff structure statements. Proposals that meet these expectations are more likely to be largely or wholly accepted at the draft decision stage, creating a more effective and efficient regulatory process for all stakeholders.

SA Power Networks has met the above expectations and has also proposed to continue with the year-by-year tracking for implementing straight-line depreciation, consistent with our 2020–25 determination.

Our view is that SA Power Network's has performed well against the depreciation expectations. While we will assess forecast expenditure to ensure that the various proposed asset lives remain appropriate for the nature of the capex, we consider that SA Power Network's proposed regulatory depreciation approach is capable of acceptance at the draft decision stage.

Question on depreciation

7) Do you have views on whether SA Power Networks' proposed regulatory depreciation approach is capable of acceptance at the draft determination stage?

4.3 Capital expenditure

Capital expenditure (capex) refers to the money required to build, maintain or improve the physical assets needed to provide standard control services.[17] Generally, these assets have long lives and a distributor will recover capex from customers over several regulatory control periods. A distributor's capex forecast contributes to the return of and return on capital building blocks that form part of its total revenue requirement.

SA Power Networks are required to propose the total forecast capex it considers is required to meet or manage expected demand, comply with all applicable regulatory obligations, and to maintain the safety, reliability, quality, and security of each of its networks (the capex objectives).[18] We must decide whether or not we are satisfied that this forecast reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs (the capex criteria).[19] We must make our decision in a manner that will, or is likely to, deliver efficient outcomes that benefit consumers in the long term (as required under the NEO).[20] Our *Capital expenditure assessment outline for electricity distribution determinations*[21] explains our and distributors' obligations under the NEL and NER in more detail. It also describes the techniques we use to assess distributors' capex proposals against the capex criteria and objectives.

4.3.1 SA Power Networks' capital expenditure proposal

SA Power Networks proposed forecast net capex of $2,379.2 million ($2024–25) for the 2025–30 period. This is 21.9% higher than its actual/estimated expenditure for the 2020–25 period. The proposal is being driven by an increase in demand due to electrification, the managing and maintaining of an aging network, and increasing consumer network service

17 See section 5 of this Issues Paper. These are services that form the basic charge for use of the distribution system.

18 NER, cl. 6.5.7(a).

19 NER, cl. 6.5.7(c).

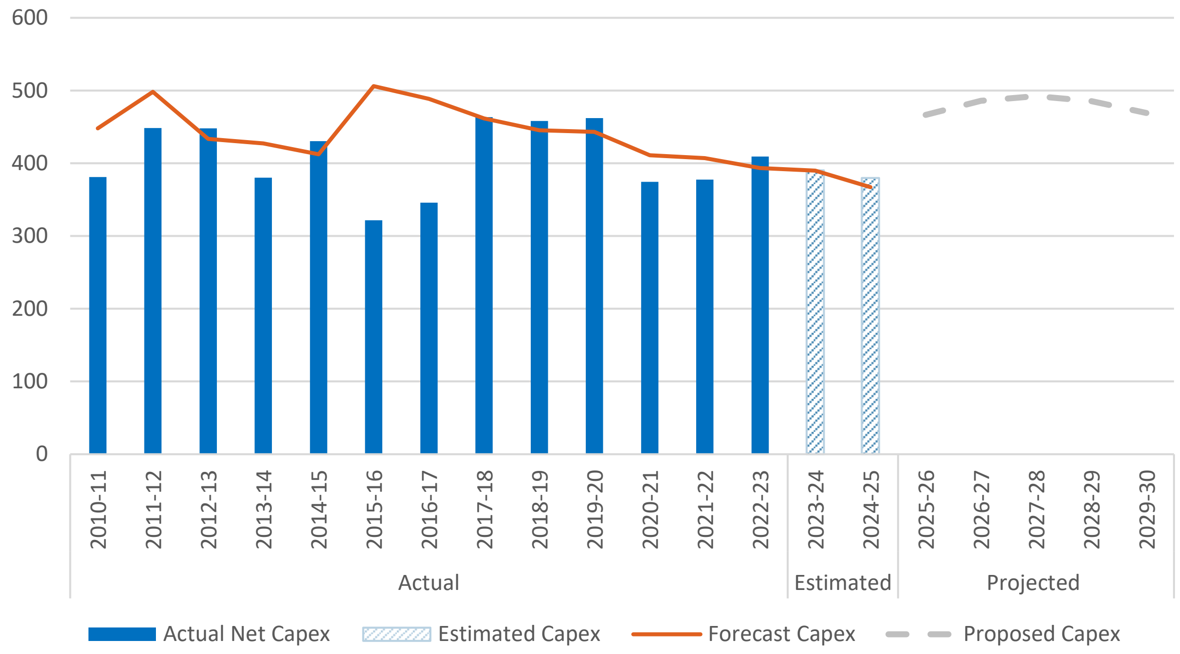
20 NEL, ss. 7, 16(1)(a).

21 AER - AER capital expenditure assessment outline for electricity distribution determinations - February 2020

expectations. Further, SA Power Networks states the uplift is required to ensure it is compliant with its regulatory and technical obligations. SA Power Networks states that its proposal aligns with customer views on service expectations gathered through pre-lodgement engagement.

Figure 6 shows SA Power Network's proposed net capex forecast compared to historic levels.

Figure 6 Comparison of forecast and actual net capex ($million, 2024–25)



Source: AER RIN Database, AER Analysis.
Note: Nominal figures converted to real dollars $ June 2025.

Within the current regulatory period (2020–25), SA Power Networks expects to underspend by $14.4 million or 0.7% of the AER forecast. SA Power Networks states it has continued to rebalance and re-prioritise how it manages its distribution network in response to increasing challenges in the operating environment including frequent severe weather events, deteriorating network performance, and regional reliability issues. Despite these efforts, SA Power Networks indicates that overall reliability performance has been declining and must be addressed. To mitigate this, SA Power Networks submits it has had to increase repex above the 2020–25 forecast amount and invest in critical assets.

4.3.1.1 Key drivers of the proposal

Table 2 shows a breakdown of SA Power Network's proposed capex by category.

The key categories of SA Power Network's proposed capex are repex, augex, connections, and ICT. The largest component is repex, which is driven by SA Power Networks responding to the risk of a deteriorating network through increasing its asset replacement rate. SA Power Networks also forecasts an increase in demand and electrification which is driving the increase in augmentation expenditure. This is followed by net connections ($230.7m), and the remaining non-network capex (ICT, Fleet, and Property) which represent 33.7% of net capex. SA Power Networks' proposed capex category forecasts are discussed further below.

Table 2 SA Power Networks' 2025–30 net capex proposal ($million, 2024–25)

Category	2025-30 forecast	% of net forecast	2020-25 actuals/ estimate	Difference	**Contribution to net uplift**
Replacement	936.5	39.4%	706	32.6%	11.8%
Augmentation	521.5	21.9%	350.5	48.8%	8.8%
Connections	745.2	31.3%	704	5.9%	2.1%
Property	115.8	4.9%	73.3	58.0%	2.2%
ICT	300.8	12.6%	366.2	-17.9%	-3.4%
Fleet	154.9	6.5%	113.7	36.2%	2.1%
CER	92.7	3.9%	41	126.0%	2.6%
Non-network capex - other	50.4	2.1%	29.8	69.1%	1.1%
Capitalised overheads	42.8	1.8%	27.5	55.6%	0.8%
Efficiency adjustment[22]	-45	-1.9%			-2.3%
Gross Capex Total	**2915.5**		**2412.0**	20.9%	
Customer contributions	-514.5	-21.6%	-435.5	18.1%	-4.0%
Disposals	-21.8	-0.9%	-24.6	-11.4%	0.1%
Net Capex Total	**2379.2**	**100%**	**1951.9**	21.9%	

Source: SA Power Networks Standardised Capex Model – January 2023; SA Power Networks Attachment 5 – Capital Expenditure, January 2023.

Replacement Expenditure (Repex)

SA Power Networks proposes $936.5 million in repex, which represents 39.4% of net capex, and an overall increase of 32.6% in comparison to the current regulatory period. The proposal states that the increase in spending aims to maintain safety and reliability across the network. This includes responding to a worsening performance in the Adelaide CBD. SA Power Networks submits that its repex expenditure is primarily guided by a response to the risks posed to network services.

SA Power Networks has applied the AER's repex model. However, the low coverage of the repex model (around 33% of total repex) due to unique characteristics such as stobie poles and drier weather in South Australia, makes it more difficult to reliably compare with other DNSPs. For this reason, we would typically conduct a bottom-up review of SA Power Networks' repex compared with other DNSPs.

22 As per SA Power Networks Capex Model, a $45 million Efficiency Adjustment applies across Replacement, Augmentation and CER expenditure.

The repex proposal comprises of:

- $80 million (8.5% total repex) in overhead conductors to mitigate declining reliability due to safety and bushfire risks
- Pole replacements, which has increased to $155.9 million (16% total repex) due to a prioritisation of cables in the current regulatory period
- Pole top structures $161.6 million (17% total repex) and circuit breakers $89.7 million (10% total repex) which maintains current level of expenditure
- The remainder of repex $449.3 million (48% total repex) is to maintain and improve reliability in the CBD and to maintain safety throughout the network.

Augmentation Expenditure (Augex)

SA Power Networks forecasts $521.5 million of augmentation expenditure, which represents 21.9% of capex. This is an increase of 48.8% compared to the current regulatory period. SA Power Networks states that the augex forecast is being driven by an increasing need for network upgrades due to rising forecast peak demand. SA Power Networks suggests that without investment, network service levels and security of supply will be put at risk.

Capacity related expenditure accounts for a significant part of the proposed forecast augex ($241.9 million or 46.4% of augex) and is primarily driven by service obligations and requirements under the South Australian Electricity Distribution Code (EDC) and the NER. Of the $241.9 million capacity expenditure, $141.5 million is demand driven augmentation, which is contingent on the demand forecast.

This is followed by $103.1 million in reliability augex to improve reliability, including CBD reliability in line with the performance standards set by the Essential Services Commission of South Australia's (ESCOSA) jurisdictional reliability targets.[23] SA Power Networks also states that the forecasted augex is to improve its network resilience and reliability through bushfire risk reduction and public power shutoffs programs.

Connections

SA Power Networks proposed connections expenditure is forecast to be $745.2 million, which is offset by $514.5 million in forecast capital contributions directly from customers. Compared to the current regulatory period, this is a 5.9% increase in connections and an 18.1% increase in customer capital contributions. The industry's standard approach has been used to forecast net connections expenditure of $230.7 million.[24] The reduction in forecast net connections expenditure is being driven by changes in the cost inputs, such as the rate of return, used to calculate the capital contribution under SA Power Networks' Connections Policy. This has increased the proportion of capital contributions applied to the total connections expenditure.

Property

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23 ESCOSA, *Electricity Distribution Code review – final decision*, June 2023.

24 The standard approach uses third party demographic information and an industry forecasting method to determine the number of connections.

SA Power Networks' property expenditure forecast is $115.8 million, which represents 4.9% of net capex. This represents a 58% increase from the current period's actual/estimates in property expenditure. SA Power Networks states that this rise is caused by the need to renew two of its depots (Mount Barker & Port Augusta depots). SA Power Networks also forecasts $26.9 million for the relocation and rebuilding of its transformer workshop. SA Power Networks submits this transformer workshop project is driven by the economic opportunity to relocate and build a fit-for-purpose site rather than refurbishing the existing workshop. The remaining $22.3 million of property expenditure is allocated to the cyclical replacement and refurbishment of poor condition property assets.

ICT

SA Power Networks' proposed ICT expenditure forecast accounts for $300.8 million or 12.6% of SA Power Networks net capex. This represents a 17.9% decrease of total ICT expenditure from the current regulatory period. The reduction is predominately being driven by SA Power Network's transition to Software-As-A-Service, being accounted for as opex. The recurrent ICT expenditure is forecast to be $165.5 million or 55% of ICT expenditure, driven by maintaining existing ICT systems, services, and functions. SA Power Networks indicates its recurrent ICT proposal is driven by replacing legacy systems and the reclassification a portion of recurrent ICT expenditure from capex to opex. Non-recurrent ICT accounts for $135.5 million or 45% of ICT expenditure and is being driven by an increase in digital customer service interactions and improving accessibility.[25]

Fleet

SA Power Networks forecasts $154.9 million in fleet expenditure, which represents 6.5% of net capex. This is a 36.2% increase from the current period actuals/estimates. SA Power Networks has adopted a base-trend-step approach to forecasting fleet expenditure. The base expenditure, $128.8 million, represents the business-as-usual fleet needs. The trend expenditure, $23.2 million, is driven by the direct cost in purchasing additional fleet that will support SA Power Networks' forecast uplift in augex and repex. The proposed step expenditure of $2.8 million is to allow SA Power Networks to begin its fleets transition to electric vehicles by purchasing 235 electric vehicles.

Consumer Energy Resources

SA Power Networks' CER forecast amounts to $92.7 million or 3.9% of capex, which is a 126.0% uplift from the current period actuals/estimates. SA Power Networks states that if no new export services investments were made, the hosting capacity of its network would be unable to meet customer expectations.

Non-Network Other (including innovation fund)

SA Power Networks' proposed non-network other capex forecast amounts to $50.4 million or 2.1% of net capex, which is 69.1% higher than the current period actual/estimates. The forecast consists of $32.4 million for an Advanced Distribution Management System (ADMS) upgrade to comply with the cyber security obligations. SA Power Networks is also proposing

25 AER, *Guidance Note - Non-network ICT capex assessment approach for electricity distributors*, November 2019.

a $16.0 million innovation fund to focus on community resilience, sustainability solutions and enabling and leveraging the future market. This was developed with customers through its pre-lodgement customer engagement.

Capitalised Overheads

SA Power Networks' expenditure on capitalised network overheads is forecast to be $42.8 million and represents 1.8% of its total capex forecast for 2025–30. The forecast is based on the historically observed ratio of network overheads to direct costs of network projects experienced in 2020–25. The forecast capitalised overheads are 55% more than the current period, which reflects SA Power Networks' proposed increase in the capital expenditure program for 2025–30.

4.3.2 Assessment against the Handbook capex expectations

We have assessed SA Power Networks against the capex expectations set out in the Handbook.[26] These are considered in turn below.

Based on our initial assessment, SA Power Networks has not met capex Handbook expectations 1 and 2 for the early signal pathway. Although SA Power Networks has undertaken extensive and genuine consumer engagement (see section 3 above) and demonstrated its approach aligns with industry standards for asset management, it has substantially increased its proposed capex for the 2025–30 period relatively above the 2020–25 actuals and estimates.

4.3.2.1 Top-down testing of the total capital expenditure forecast and at the category level

Top-down testing is a starting point when assessing the overall reasonableness of a business' capex proposal. Where a business is responding to the incentives created by the capital efficiency sharing scheme, we consider current period spend is a good initial basis to test the reasonableness of capex required to maintain the network in the forecast period. This is particularly the case for recurrent types of expenditure such as replacement capex (repex) and recurrent information and communication technology (ICT).

We consider that SA Power Networks has not satisfied Handbook capex expectation 1. SA Power Networks is proposing a 21% increase in forecast capex above actual and estimate expenditure. The increases in proposed expenditure do not appear to be readily supported by evidence of a deterioration in network performance (with the exception of the Adelaide CBD).

A deterioration in network performance would signal a need to invest in the network to improve performance. SA Power Networks has the oldest network in the National Energy Market. Taking this into account, our initial review of SA Power Networks' normalised performance data does not appear to indicate any long term performance issues, except for the Adelaide CBD.[27] CBD reliability performance has worsened since 2018 and SA Power Networks has not met annual jurisdictional reliability targets consistently over a number of

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[26] AER, *Better Resets Handbook*, December 2021

[27] AER, RIN Analysis, February 2024

recent years.[28] SA Power Networks is proposing a *CBD improvement program* as part of its proposal for the 2025–30 period. All other reliability standards are currently being maintained for both frequency and duration of interruptions.[29] Further, there does not appear to be a worsening of interruptions due to asset failure observed in SA Power Networks System Average Interruption Frequency Index (SAIFI), which would be an indicator of a need for an increase in replacement expenditure.[30]

SA Power Networks did perform well in some areas of the top-down testing. For the proportion of repex that was cross-checked against the AER's repex model, SA Power Networks was within the repex model threshold, which suggests the modelled repex performs comparatively well against other DNSPs. Nevertheless, due to the SA Power Network's unique network characteristics and drier climate conditions, only 30% of repex could be benchmarked reliably which requires a more detailed bottom-up review of SA Power Networks' repex.

4.3.2.2 Evidence of prudent and efficient decision making on key projects and programs

For material projects within capital expenditure categories, we expect business cases to demonstrate prudency and efficiency in its decision making by providing evidence demonstrating:

- that the expenditure is needed to achieve the capex objectives
- that the business has explained to the AER and to customers the effect of the proposed expenditure on the service level outcomes
- quantitative cost benefit analysis assessing all feasible options to show the preferred option maximises net benefit
- fully accounted for the trade-off between capex and opex to show that the preferred option is prudent and efficient.

In the pre-lodgement phase, SA Power Networks provided its draft proposal and business cases to the AER. We provided feedback around the need to demonstrate that a holistic view was taken when developing its proposal and that the businesses cases needed to provide more evidence of what options were considered when determining the preferred option. Further, we highlighted that SA Power Networks has adopted new forecasting methodologies that we would likely need to consider further.

At this stage, it is unclear if the expectation has been met. To determine if this expectation has been met, we will undertake a targeted review of the proposal and accompanying documentation.

4.3.2.3 Evidence of alignment with risk management standards

Alignment with industry standards on good asset and risk management demonstrates prudent and efficient decision making. Our review of SA Power Network's asset management

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28 ESCOSA, *Electricity Distribution Code review – final decisio*n, June 2023, pp. 21–22.

29 ESCOSA, *Electricity Distribution Code review – final decision*, June 2023, p. 25.

30 AER, RIN Analysis, February 2024.

plan and associated documentation indicates that these are consistent with well-established Australian industry standards. We will review whether these asset management practices have been applied to its new and emerging capex categories.

4.3.2.4 Genuine consumer engagement on capital expenditure proposals

We expect evidence of genuine customer engagement on the business' capex proposal. We expect businesses to engage with consumers on what service outcomes are desired, why expenditure is required over the forecast period, and outline to consumers what other options are available.

Through the pre-lodgement phase, SA Power Networks has engaged well with its customers on capex related expenditure to establish the service levels customers would like. However, it was raised by some customers and the consumer challenge panel that they found the total capex expenditure options limiting and that there was scope for other options to be considered that were not presented.[31]

4.3.2.5 Overall assessment against the capex expectations

Based on the available information, SA Power Networks has partially satisfied the capex expectations as set out in the Better Reset Handbook.

Given the significant uplift in forecast capital expenditure, the adaption of new forecasting approaches adopted by SA Power Networks and reliability performance appearing to be well maintained, we anticipate undertaking a review comprising 50% to 65% of SA Power Networks' capex proposal. The capex categories we will undertake an in-depth review are:

- Repex – the proposed level of repex ($936 million) is significantly higher than the current level of expenditure (by 48%) and although there may be some need to up lift repex in some areas, there does not appear to be a decline in performance driving the need to accelerate replacement. SA Power Networks has also adopted a new bottom-up repex forecasting model, in addition to the AER's top-down repex model, which will require consideration. Further, there are interrelated programs with augex, such as the Adelaide CBD improvement program, which will require close review.
- Augex – The proposed level of augex ($506.3 million) is significantly higher than the current level of expenditure (by 33%) and together with repex represents over a 70% increase in expenditure from the current period. The proposed augex includes capacity (or demand driven capex of around $140 million), as well as reliability and quality related augex.
- ICT –The proposed ICT expenditure ($300 million), which includes expenditure on cyber security, is lower than the current period (13% reduction in ICT expenditure). Our focus will be on the non-recurrent ICT capex (i.e. new projects rather recurrent ICT that occurs every 5 years), which includes new major projects such as Asset Management Transformation Program, Service Order System Replacement, Click Replacement and interrelated expenditure with opex including cyber security expenditure step changes.

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31 Consumer Challenge Panel, *Advice to the AER regarding the SA Power Networks' regulatory proposal 2025-30 – Early Signal Pathway – Conclusions Report*, November 2023, pp. 17.

- Consumer Energy Resources – SA Power Networks proposes $86.3 million of CER expenditure (4% of total net capex) and $13.7 million of CER related opex step changes (9% of total proposed opex step changes). Although this accounts for a relatively small proportion of total forecast capex, it is still a new area of expenditure and there are interrelationships with both opex and other capex categories, such as augex and ICT.

  SA Power Networks' identification of the investment need largely relies on meeting customer willingness-to-pay. This was an outcome of the customer engagement, focus conversations and willingness-to-pay study. SA Power Networks did not consider an investment option which maximises market benefits to be credible. Instead, it considered three investment options which provide customers a 90%, 95% and 98% level of export service (all for 90% of customers). SA Power Networks considered that the preferred option would be to set the service level at 95% based on customer preferences. This approach is not in line with our current guidance,[32] which doesn't consider customer preferences for particular export service levels but rather seeks to purely maximise economic benefits where they can be quantified. However, we are open to exploring alternative approaches. On this basis SA Power Networks' proposed CER expenditure will require further consideration.

- Non-network other capex – This includes a number of interrelated and new projects. SA Power Networks has proposed an innovation fund of $16.0 million (in addition to $4.0 million of opex) and this is new expenditure that we are beginning to see from NSPs that requires further consideration.[33] SA Power Networks is also proposing to upgrade its ADMS system in part to mitigate cyber security risks. Consistent with our review of the cyber security ICT expenditure, it is appropriate to include this to ensure a holistic review is undertaken.

For all other categories not subject to the targeted review, we intend to undertake a broad high-level review of the main business cases driving the forecast to determine whether there are any issues that might lead to over-forecasting. For instance, we may focus on inputs and assumptions that materially affect the forecast:

- Connections – An industry standard approach has been used to forecast this level of expenditure. The increase in total connections expenditure is more than offset by an increase in customer contributions. We do not anticipate the need for an in-depth review of the forecast connections expenditure.
- Fleet – SA Power Networks has adopted a new forecasting approach to fleet using the base-trend-step approach, similar to the approach adopted for forecasting opex. SA Power Networks has applied an upward trend in its fleet arising from the increased scale of the repex and augex programs (trend) and to transition its fleet to Electric Vehicles (step change). An initial review of this methodology suggests this approach is robust and sensible. However, we would need to ensure that the fleet expenditure is reflective of the required level of network needs.

32 AER, *Final DER Integration Expenditure Guidance Note*, June 2022.

33 AER, *Draft Decision Attachment 5 - Capital expenditure - Ausgrid – 2024–29 Distribution revenue proposal*, September 2023, p. 46; AER, *Draft Decision Attachment 5 - Capital expenditure - Endeavour – 2024–29 Distribution revenue proposal*, September 2023, p. 23.

- Property – SA Power Networks has undertaken a new approach and adopted a risk-based 10-year property replacement program modelled on the approach to forecasting ICT using the recurrent and non-recurrent principles to forecasting property. We examined this new approach and consider it is a sensible way of forecasting property capex. Early analysis indicates that the approach has been applied correctly and that the proposed forecast appears reasonable. As similar above in fleet, we will need to ensure that the property expenditure is reflective of the required level of network needs.
- Capitalised Overheads – SA Power Networks’ proposed capitalised overheads is 42.8 million or 1.8% of its total proposed capex forecast and this is in line with the historical application of overheads in the previous period. On this basis we are not proposing to review SA Power Networks capitalised overheads in detail.
- Recurrent ICT – an initial assessment has shown most of the recurrent ICT forecast appears reasonable, and we do not anticipate undertaking an in-depth review other than any interrelated issues identified with the opex expenditure.
- Non-network other capex – with the exception of the innovation fund and ADMS upgrade identified above, we do not consider the need for an in-depth review.

Questions on forecast capital expenditure

8) Does the proposed scope of the capex review for SA Power Networks seem appropriate?
9) Are there areas not covered above that stakeholders consider we should look at? Why?
10) Do you agree with SA Power Networks’ approach of investing to provide export service levels based on customer preferences?

4.4 Operating expenditure

Opex refers to the operating, maintenance and other non-capital expenditure incurred in the provision of network services. It includes labour costs and other non-capital costs that a prudent service provider is likely to require for the efficient operation of its network.

4.4.1 SA Power Networks' opex proposal

SA Power Networks proposed total opex of $1,983.7 million ($2024–25), including debt raising costs, for the 2025-30 regulatory control period [34] is:

- $314.0 million ($2024–25) (18.8%) more than SA Power Networks' actual/estimated opex for the 2020–25 period
- $149.2 million ($2024–25) (8.1%) more than the opex forecast we approved for the 2020–25 period
- $199.0 million ($2024–25) (11.1%) more than the opex forecast we approved for the 2020–25 period, taking into account the error that SA Power Networks identified in that forecast (in the AER's 2020–25 final determination).[35]

The error in the AER's 2020–25 final determination related to an increase to its opex forecast which was not required. Specifically, a step change was approved in the determination for expensing previously capitalised cable and conductor minor repairs. However, after further review SA Power Networks identified that these costs were already accounted for in base opex and did not need to be added. From the information we have been provided, we consider there was an error. We have corrected this error via a decision to revoke and substitute the 2020–25 final determination, with the over-recovered opex during the 2020–25 regulatory control period being returned to customers via lower prices in 2024–25. This does not impact forecast opex but rather revenues in the 2020–25 period.

Figure 7 shows the trend in opex over time and the AER's approved opex forecast. The AER's opex forecast with the identified error corrected via the decision to revoke and substitute the 2020–25 final determination is also shown (the orange dashed line).

SA Power Networks' forecast actual and estimated expenditure for the 2020–25 regulatory control period is $108.0 million ($2024–25) (6.9%) higher than its actual expenditure for 2015–20 regulatory control period. Its actual and estimated expenditure for the 2020–25 regulatory control period is also 9.0% lower than the opex forecast we approved for this period. As noted above, in part this reflects the error identified in our opex forecast. SA Power Networks stated that underspends in 2020–21 and 2021–22 were also due to the COVID-19 pandemic, reduced labour capacities and lower GSL payments. Further, the significantly higher opex in 2022–23 was primarily driven by an extreme flooding event and higher GSL payments.[36] SA Power Networks' expenditure in its proposed base year of 2023–

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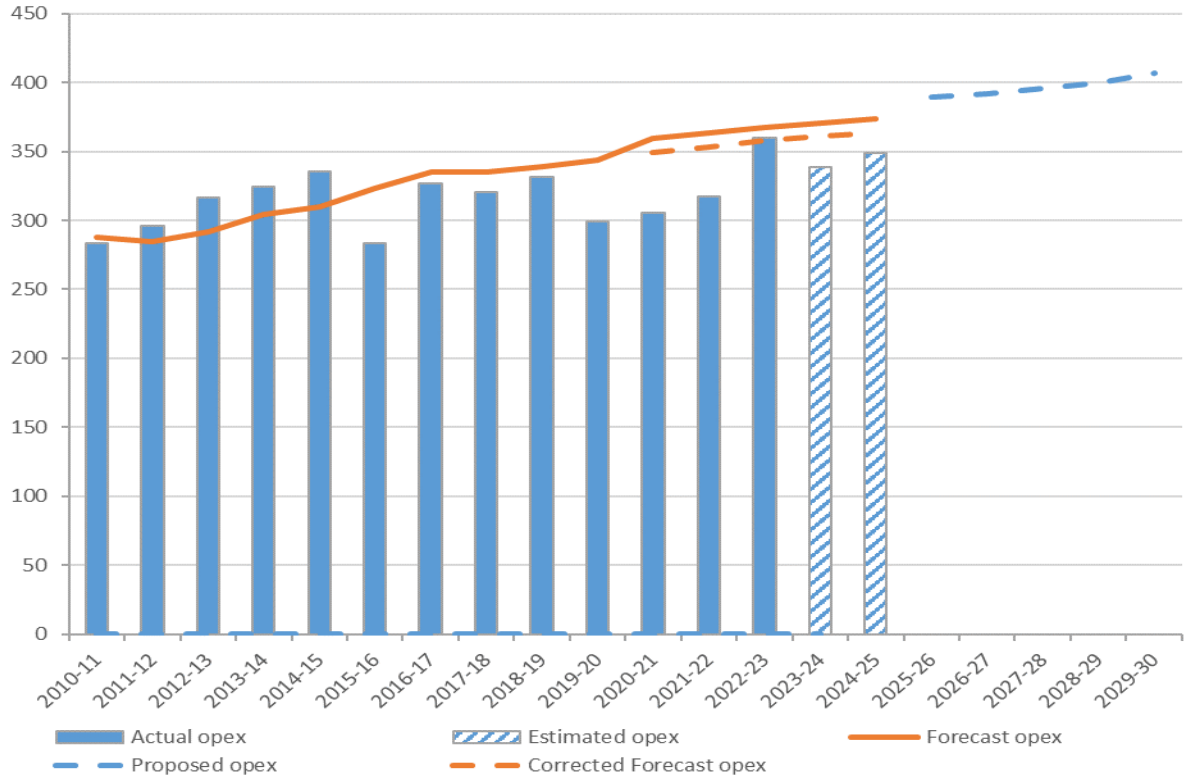
34 SAPN, *2025-30 Regulatory Proposal – Attachment 6 Operating Expenditure*, January 2024, p. 8.

35 SAPN, *2025-30 Regulatory Proposal – Attachment 6 Operating Expenditure*, January 2024, p. 12, SAPN, *2025-30 Regulatory Proposal – Attachment 1 Annual Revenue Requirements and Control Mechanism*, January 2024, pp. 14-15.

36 SAPN, *2025-30 Regulatory Proposal – Attachment 6 Operating Expenditure*, January 2024, p. 12.

24 is estimated to be $19.1 million ($2024–25) (or 6.0%) higher than its average annual expenditure over the period 2010–25.

Figure 7 Comparison of actual and forecast opex ($million 2024–25)



Source: SAPN, *Economic benchmarking – Regulatory Information Notice responses 2010–23;* AER, *Final decision PTRM 2010–2015;* AER, *Final decision PTRM 2015–20;* AER, *Final decision 2020–25 PTRM and Opex model;* SAPN, *2025–30 Regulatory proposal – SAPN – 6.1 – Opex Model – January 2024 – Public*, January 2024; AER analysis.

4.4.2 Key drivers of the opex proposal

SA Power Networks used a base-step-trend approach to forecast opex for the 2025–30 regulatory control period. This is consistent with our approach to assessing opex, as outlined in our *Expenditure Forecast Assessment Guideline*.[37]

SA Power Networks used an estimate of opex in 2023–24 as the base year to forecast opex ($338.2 million ($2024–25) or $1,691.2 million ($2024–25) over five years).[38] It chose 2023–24 as the proposed base year, stating this year will be the most recent year with audited actual data by the time of our final decision and best reflects the costs required to efficiently maintain and operate the network over the 2025–30 regulatory control period. It also noted that its most recent benchmarked position confirms that its opex is efficient.[39]

37 AER, *Expenditure Forecast Assessment Guideline*, November 2013.

38 SAPN, *2025–30 Regulatory proposal – SAPN – 6.1 – Opex Model – January 2024 – Public*, January 2024.

39 SAPN, *2025-30 Regulatory Proposal – Attachment 6 Operating Expenditure*, January 2024, pp. 17, 21.

SA Power Networks then:[40]

- added $84.7 million ($2024–25) to reflect adjustments to base opex, for the treatment of Software as a Service costs as opex rather than capex.
- added $14.9 million ($2024–25) to reflect the change in opex between the base year (2023–24) and final year (2024–25), using the approach outlined in the *Expenditure Forecast Assessment Guideline*
- applied a rate of change consistent with our standard approaches, comprised of:
  - forecast growth in the real price of inputs, averaging 0.4% per year ($25.2 million ($2024–25))
  - forecast output growth, averaging 0.7% per year ($31.9 million ($2024–25))
  - forecast productivity growth, averaging 0.5% per year (-$26.9 million ($2024–25))
- added 11 step changes (including two negative step changes) totalling $128.8 million ($2024–25):
  - $47.6 million for Cyber security uplift
  - $19.4 million for increase in insurance premiums
  - $18.0 million for Network uplift program
  - $17.4 million for Operationalising cyber security
  - $9.9 million for IT infrastructure refresh
  - $6.8 million for Network visibility
  - $4.8 million for Smart meter rollout
  - $4.4 million for CER integration
  - $2.5 million for CER compliance
  - -$1.3 million for Transition to electric vehicles
  - -$0.7 million for Reliability improvements
- added $33.8 million ($2024–25) for category specific forecasts, comprised of:
  - $20.0 million for Enactment of the small compensation claims regime
  - $13.8 million for debt raising costs.

Figure 8 shows how each of these components contributes to SAPN's total opex forecast for the 2025–30 regulatory control period.

SA Power Networks' proposed total opex forecast has increased by $40.4 million ($2024–25), or 2.1% relative to its Draft Proposal.[41] It states that this is driven by:

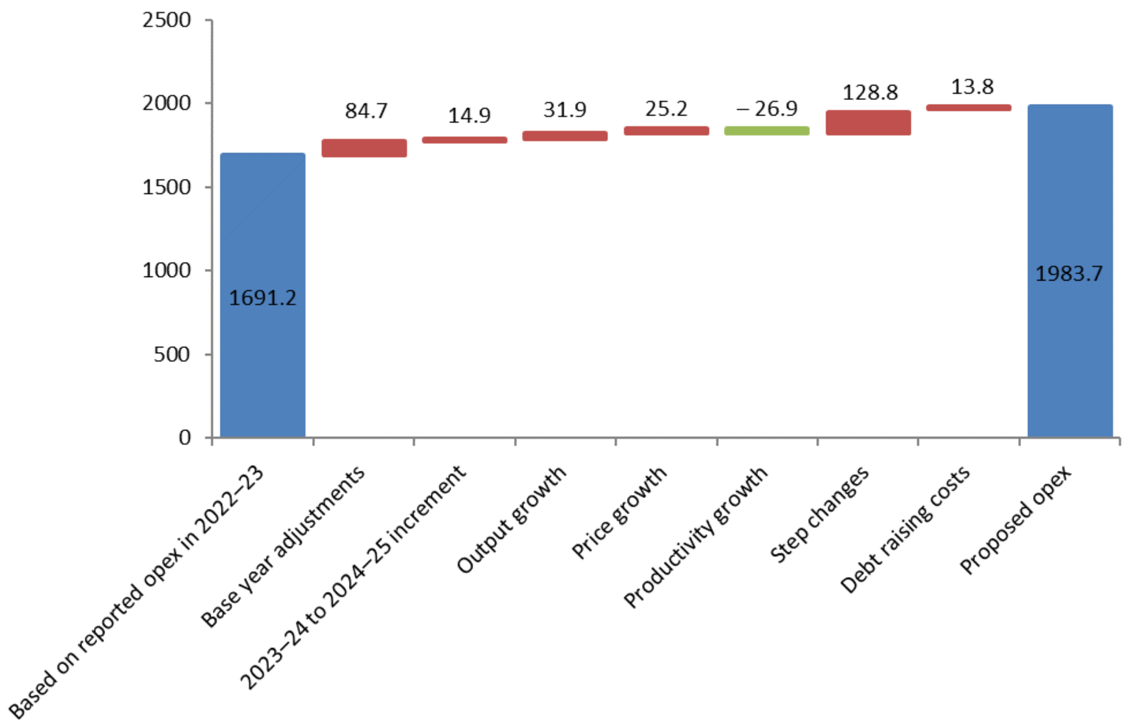
- updates to price and growth forecasts ($13.5 million ($2024–25))
- inclusion of Network Visibility and Smart Meter Rollout step changes ($11.6 million ($2024–25))

[40] SAPN*, 2025–30 Regulatory proposal – SAPN – 6.1 – Opex Model – January 2024 – Public*, January 2024; SAPN, *2025-30 Regulatory Proposal – Attachment 6 Operating Expenditure*, January 2024, p. 21

[41] SAPN, *2025-30 Regulatory Proposal – Attachment 6 Operating Expenditure*, January 2024, pp. 14-15; AER analysis

- inclusion of Enactment of the Small Compensation Claims Regime costs ($20.0 million ($2024–25))
- additional SaaS related expenditure proposed in base adjustment ($13.9 million ($2024–25))
- removal of the Knock Before You Disconnect step change (-$1.7 million ($2024–25))
- reductions to the Cyber Security Uplift and Network Program Uplift step changes (-$12.5 million ($2024–25)).

Figure 8 Breakdown of SA Power Networks' opex forecast ($million, 2024–25)



Source: AER analysis

4.4.3 Assessment against the Handbook opex expectations

4.4.3.1 Opex forecasting approach

As stated in our Handbook, our first expectation for a business's opex proposal relates to its opex forecasting approach. We expect that opex is forecast using the 'base-trend-step' approach set out in the *Expenditure Forecast Assessment Guideline*, and the inputs and assumptions used to forecast opex are consistent with those used to calculate opex incentive scheme (EBSS) carryover amounts.

We consider that SA Power Networks applied our standard base-trend-step forecasting approach. SA Power Networks' opex forecast is also consistent with the opex forecast used in the calculation of its EBSS carryover amounts. While the opex forecast was not explicitly corrected for the error identified in the AER's 2020–25 final determination (discussed in 4.4.1), this has not impacted the opex forecast. SA Power Networks also proposed a revenue adjustment to resolve the error impacting the EBSS carryover, rather than this being done directly via the EBSS. While this approach is different to our approach, this should not impact the total revenues associated with the EBSS .

4.4.3.2 Base opex

We expect that forecast opex uses a base year for which audited actual opex is available and that a network business can demonstrate that it is not materially inefficient. The Handbook also states that a network should consult with the AER prior to its proposal, where it seeks to make further adjustments to base opex.

SA Power Networks used 2023–24 as the base year, the fourth year of the current regulatory control period. While SA Power Networks' audited actual opex for this year is not available, it will be by the time we make our final regulatory determination. Moreover, SA Power Networks has provided analysis to demonstrate its base opex is not materially inefficient, with reference to the latest available annual benchmarking report. For the final decision, we will update the base year opex estimate used in the draft decision.

SA Power Networks also proposed an $84.7 million ($2024–25) upward adjustment to base year costs (4.3% of total forecast opex) related to the change in accounting standards associated with Software as a Service (SaaS) products.[42] While we have engaged with the network on this issue as part of the ESP process, the proposed expenditure represents an increase of $13.9 million ($2024–25) over the 2025-30 regulatory control period compared to the Draft Proposal.[43]

Given that materiality and complexity of these adjustments, we intend to undertake a targeted review of the SaaS adjustments to base year costs, which will involve:

- testing evidence provided in costing models, including inputs and assumptions, to determine efficient costs, including any expert reports provided to justify the reasonableness of proposed costs
- determining appropriate treatment of non-recurrent costs in the base year
- testing evidence to confirm no double counting of costs, included in the trend forecast.

4.4.3.3 Rate of change

We expect forecast opex to incorporate a trend that adopts our standard approach to output, price and productivity growth. SA Power Networks applied our standard approach to forecast the opex trend growth forecast. It applied inputs consistent with our expectations for inflation, output growth, price growth, and productivity.

4.4.3.4 Step changes

Our expectation in the Handbook is that step changes be limited to a few well justified ones, or none at all, and be explored with consumers. SA Power Networks proposed 11 step changes totalling $128.8 million ($2024–25), representing 6.5% of total forecast opex.[44] We

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42 SAPN, *2025-30 Regulatory Proposal – Attachment 6 Operating Expenditure*, January 2024, pp. 21-22.

43 SAPN, *2025-30 Regulatory Proposal – Attachment 6 Operating Expenditure*, January 2024, p. 15.

44 SAPN, *2025-30 Regulatory Proposal – Attachment 6 Operating Expenditure*, January 2024, p. 26.

consider this does not meet our expectation of few or no proposed step changes, however we recognise that SA Power Networks has:

- reduced cyber security uplift forecast costs (-$4.4 million, ($2024–25)) and the network program uplift forecasts costs (-$8.1 million, ($2024–25)) relative to the Draft Proposal in line with customer expectations[45]
- sought to justify the proposed step changes in accordance with the framework set out in the Better Resets Handbook
- undertaken detailed customer engagement on cyber security, network uplift and CER integration.

We intend to undertake a targeted review on the following eight step changes which represent 5.6% of the total forecast opex:

- Cyber security uplift – $47.6 million (2.4% of total forecast opex)
- Network uplift – $18.0 million (0.9% of total forecast opex)
- Operationalising cyber security – $17.4 million (0.9% of total forecast opex)
- IT infrastructure refresh – $9.9 million (0.5% of total forecast opex)
- Network visibility – $6.8 million (0.3% of total forecast opex)
- Smart meter rollout– $4.8 million (0.2% of total forecast opex)
- CER integration – $4.4 million (0.2% of total forecast opex)
- CER compliance – $2.5 million (0.1% of total forecast opex)

We propose to prioritise these step changes for targeted review due to:

- the materiality of the step change increases, individually and collectively
- interactions of these step changes with the capex areas for targeted review
- potential for requirements exceeding regulatory obligations and there being material increases not likely captured in the trend estimates
- instances where a step change was not included in the Draft Proposal.

We have also considered whether we should undertake a targeted review of the other three proposed step changes, which account for further 0.9% of total forecast opex:

- Insurance premium increases – $19.4 million ($2024–25)
- Reliability improvements – -$0.7 million ($2024–25)
- Transition to electric vehicles – -$1.3 million ($2024–25)

While we will review these step changes, we do not intend to include these as part of the targeted review because:

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45 SAPN, *2025-30 Regulatory Proposal – Attachment 6 Operating Expenditure*, January 2024, p. 15; AER analysis.

- Insurance premium step changes are common across most current resets given insurance market conditions. SA Power Networks has also provided independent consultant insurance premium forecasts which are reasonably consistent with forecasts we have considered to be reasonable in these recent resets. In this light, we consider a high-level review will be required to confirm no double counting of costs and that the opex is materially above what is captured in trend
- The transition to electric vehicles and reliability improvements step changes are relatively immaterial step changes. We also note these step changes are dependent on the assessment of the associated capex.

4.4.3.5 Category specific forecasts

We expect category specific forecasts to be limited to cost categories that have been included in previous AER decisions. Further, that if a network business considers new cost categories are warranted, this should be discussed with consumers and the AER.

SA Power Networks has proposed two category specific forecasts totalling $33.8 million ($2024–25), representing 1.7% of total forecast opex. These are for:

- Enactment of a small compensation claims regime – $20.0 million ($2024–25) (1.0% of total forecast opex)
- Debt raising costs – $13.8 million ($2024-25) (0.7% of total forecast opex).

We intend to undertake a targeted review of the enactment of a small compensation claims regime due to its materiality, it is a new category specific forecast and that it was not included in the Draft Proposal.[46] For debt raising costs, SA Power Networks has adopted our standard approach for forecasting these costs. We therefore consider the debt raising costs are consistent with this expectation.

4.4.3.6 Genuine consumer engagement

Through the pre-lodgement engagement and early signal pathway process, the AER has observed aspects of SA Power Networks' engagement with consumers on its opex proposal.

SA Power Networks' consumer engagement was extensive and largely received positive feedback. SA Power Networks presented the totality of forecast opex at each engagement stage allowing customers to evaluate options and form recommendations. The People Panel process also included detailed customer engagement on cyber security, network uplift, and CER integration step change costs. SA Power Networks' proposal has incorporated consumer feedback on the Draft Proposal, including addressing the issue of how affordability has been considered against customers preferences of a reliable, resilient and safe network.

Overall, we consider SA Power Networks has demonstrated a genuine approach to consumer engagement in relation to its opex proposal. We are interested in the views of stakeholders on the extent to which the opex proposal addresses the concerns identified by electricity consumers during its engagement process.

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[46] SA Power Networks' draft proposal flagged the potential inclusion in their initial regulatory proposal.

4.4.3.7 Overall assessment against the opex expectations

As explained above, we propose to undertake a targeted review of SA Power Networks' forecasting approach to SaaS base adjustments, eight step changes and the category specific forecast related to the enactment of a small compensation claims regime.

We propose undertaking a high-level review for all other opex matters that are not subject to a targeted review. This will involve confirming modelling approaches, and updating inputs where necessary.

Questions on forecast operating expenditure

11) What do you think about the proposed scope of targeted review?
12) What do you think about SA Power Networks' key changes from the Draft Proposal as set out in Section 4.4.2?
13) Do you consider that SA Power Networks has adequately incorporated consumer feedback on the Draft Proposal into its Regulatory Proposal?
14) Do you consider SA Power Networks' opex forecast for the 2025–30 regulatory control period reasonably reflect the efficient costs of a prudent operator? Specifically, do you consider SAPN's proposed step changes, and base adjustment are required to produce an opex forecast that reasonably reflects the efficient costs of a prudent operator?

4.5 Corporate income tax

Our determination of regulated revenue must include an allowance for SA Power Networks to recover the costs associated with the estimated corporate income tax payable during the 2025–30 period. We forecast the cost of corporate income tax in accordance with the requirements of the NER.[47]

Using the approach set out in the PTRM, SA Power Networks proposed a forecast corporate income tax amount of $28.6 million ($2024–25) for the 2025–30 period. We note that SA Power Networks has:

- Proposed $1,132.9 million of immediately expensed capex, consistent with its current tax policy. The proposed amount reflects the same methodology applied in the 2020–25 determination, updated for 2025–30 forecast capex and overhead rates in 2022–23.
- Adopted the diminishing value method for tax depreciation to all forecast capex, except for a limited number of assets which must be depreciated using the straight-line depreciation method under the tax law.

We will assess the appropriateness of the proposed amounts of immediate expensing and capex allocated for straight-line depreciation, based on the approach we have taken in recent revenue determinations.

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47 NER, cl. 6.5.3.

5 Incentive schemes to apply in 2025–30

Incentive schemes form an important part of our regulatory toolkit. They provide financial rewards and penalties to network service providers, encouraging them to improve the efficiency of running their business over time and provide levels of service performance that are valued by customers. Incentive schemes complement our approach to assessing efficient costs. They provide important balancing incentives within our network determinations, encouraging businesses to pursue expenditure efficiencies while still maintaining the reliability and overall performance of their networks.

SA Power Networks have proposed the following incentive schemes continue to apply under our distribution determinations for the 2025–30 period:

- **Efficiency benefit sharing scheme (EBSS)[48].** This provides a continuous incentive over the 5 years for which a determination applies to pursue efficiency improvements in opex and provide for a fair sharing of these between the network business and network users. Our base-step-trend forecasting methodology for opex is closely linked to the EBSS. The constant incentive to reduce opex year on year gives us confidence that we can rely on a single base year of actual data for the purposes of forecasting future years.

  SA Power Networks proposed to continue to apply the EBSS in the 2025–30 regulatory control period subject to the following adjustments:

  - adjusting forecast opex to add (subtract) any approved revenue increments (decrements) made after the distribution determination for the 2025–30 period. This may include approved pass-through amounts or opex for contingent projects;
  - adjusting actual opex to add capitalised opex that has been excluded from the RAB;
  - excluding categories of opex not forecast using a single year revealed cost approach for the 2025–30 period where doing so better achieves the requirements of clause 6.5.8 of the NER, including costs associated with: debt raising costs; the DMIA; the Small Compensation Claims Regime; and Innovation Fund opex
  - adjusting forecast opex and / or actual opex in the 2025–30 period for inflation so that the real value of the carryover amounts is consistent with the real value of the other components of SA Power Networks' regulated revenue in the 2025–30 period; and
  - adjusting reported actual opex to reverse any movements in provisions.

- **Capital expenditure sharing scheme (CESS)[49].** This incentivises efficient capex throughout the period, by providing incentives to improve efficiency by rewarding networks when expenditure is lower than forecast and penalising them when expenditure is higher than forecast. Following a review in 2023, the version of the CESS that will apply to SA Power Networks in 2025–30 reduces the rewards when a network business outperforms against its approved forecast by more than 10% but maintains the same penalties for underperformance. This means that that in future periods the

48 AER - Efficiency benefit sharing scheme (Version 2) - November 2013

49 AER - Capital expenditure incentive guideline for electricity network service providers (Version 2) - April 2023, p. 15.

penalties to networks for overspending could be higher than the rewards for underspending. This asymmetry will reduce the costs of the CESS to consumers while maintaining strong incentives for efficiency.[50]

- **Demand management incentive scheme (DMIS)[51]** and demand management innovation allowance mechanism (DMIAM)[52]. The DMIS provides network businesses with financial incentives for undertaking efficient demand management activities as an alternative to more expensive capital investment in their networks, the costs of which have longer term impacts on consumers. The DMIAM funds research and development into further, innovative demand management projects that have the potential to reduce long term network costs.

  Our position in our Framework and Approach paper was that we intend to continue to apply the DMIS and DMIAM that apply to SAPN in the current (2020–25) regulatory period on the same terms in the 2025–30 regulatory period.[53] SAPN's position in its proposal is to support the AER's position.

  SAPN proposes a maximum allowance of $5.14 million for the DMIAM for the 2025–30 regulatory period.[54] According to its regulatory proposal, SA Power Networks expects to use the DMIAM for targeted innovation and research projects to further its understanding of how to manage the changing nature of demand on its network and the ongoing transition to decentralised generation.[55] SA Power Networks will seek to maximise the value of the DMAIM through partnerships with third-parties and leveraging external funding sources. [56]

  SA Power Networks considers that with the growth in CER, Virtual Power Plants and community batteries there may be opportunities to use the DMIS to procure non-network solutions.[57]

- **Service target performance incentive scheme (STPIS)[58].** The STPIS provides incentives for network businesses to maintain and improve network reliability performance, to the extent that consumers are willing to pay for such improvements. The STPIS acts as a balance to our expenditure incentive schemes, ensuring businesses focus on genuine efficiency gains and do not compromise service levels when reducing expenditure.

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50 AER - Final decision - Review of incentive schemes for networks - April 2023

51 AER - Demand management incentive scheme for electricity distribution network service providers - December 2017

52 AER - Demand management innovation allowance mechanism for electricity distribution network service providers - December 2017

53 AER - Final Framework and Approach - SAPN 2025-30 - July 2023, p. 20

54 SAPN 2025–30 Regulatory Proposal Attachment 12–Demand Management Incentives and Allowances, p. 8

55 SAPN 2025–30 Regulatory Proposal Attachment 12–Demand Management Incentives and Allowances, p. 8, 9

56 SAPN 2025–30 Regulatory Proposal Attachment 12–Demand Management Incentives and Allowances, p. 9

57 SAPN 2025–30 Regulatory Proposal Attachment 12–Demand Management Incentives and Allowances, p. 9

58 AER - Service target performance incentive scheme for electricity distribution network service providers (Version 2) - November 2018

Our position in our Framework and Approach paper was to apply version 2.0 of the STPIS, noting that:

- The GSL component of the STPIS will not apply if SA Power Networks remains subject to a jurisdictional GSL scheme
- The Customer Service (telephone answering) component of STPIS will not apply if SA Power Networks proposes, and we accept, a CSIS for the 2025–30 period.[59]

Further, our final position was to apply the default revenue at risk of ±5%.[60]

SA Power Networks' proposal is to continue to not apply the GSL component of the STPIS, as there is an applicable jurisdictional GSL scheme.[61]

Further, SA Power Networks has proposed applying only the reliability of supply component of Version 2.0 of the STPIS for the 2025–30 regulatory period. SA Power Networks is seeking to replace the customer service (telephone answering) component of the STPIS which applies currently with a customer service incentive design consistent with the AER's Customer Service Incentive Scheme (CSIS).[62] We discuss the proposed CSIS further below.

If the CSIS is applied, SA Power Networks is seeking to split its revenue at risk as follows:

- ±4.5% for STPIS (reliability component only); and
- ±0.5% for the proposed CSIS.[63]

SA Power Networks is proposing adjustments to its reliability performance targets for 2025–30 reset to address:[64]

- 2019–20 performance
- proposed reliability related capital expenditure
- the change in definition of momentary interruptions
- the expiry of an exemption related to notifying customers of interruptions of not more than 15 minutes
- reduction in number of major event days related to reliability improvement

The Scheme provides guidance on how to deal with these proposed adjustments and we will consider them in detail as part of our draft decision.

We also decided not to extend the STPIS to export services, largely due to differences in network conditions and data availability.[65]

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59 AER - Final Framework and Approach - SAPN 2025-30 - July 2023, p. 21

60 AER - Final Framework and Approach - SAPN 2025-30 - July 2023, p. 21

61 SAPN 2025-30 Regulatory Proposal Attachment 10 – Service Target Performance Incentive Scheme, p. 6

62 SAPN 2025-30 Regulatory Proposal Attachment 10 – Service Target Performance Incentive Scheme, p. 6

63 SAPN 2025-30 Regulatory Proposal Attachment 10 – Service Target Performance Incentive Scheme, p. 17

64 SAPN 2025-30 Regulatory Proposal Attachment 10 – Service Target Performance Incentive Scheme, p. 17-23

65 AER, Incentivising and measuring export service performance Final report, March 2023, p. 12, 16 and 17.

- **Customer service incentive scheme (CSIS).**

  The Customer service incentive scheme (CSIS) encourages distributors to engage with their customers, identify the customer services they want improved, and then set targets to improve those services. The CSIS rewards DNSPs for improving their customer service, or penalises them if service deteriorates. We consider that this improves the incentives available for DNSPs to recognise the value of customer service.

  We said in our Framework and Approach paper that we are open to SA Power Networks including a CSIS in its 2025–30 regulatory proposal. However, our decision on whether the scheme will apply to the network is subject to, as part of its regulatory proposal, SA Power Networks submitting a fully developed CSIS proposal, sound measurement methodology and evidence of supporting customer engagement on, and co-design of, the CSIS.[66]

  We also said in the Framework and Approach that the customer service (telephone answering) parameter would not apply to DNSPs who apply a CSIS. Revenue at risk under the STPIS would be reduced to reflect the removal of the telephone answering parameter and would instead sit under the CSIS.[67]

  As discussed in the STPIS section above, in line with its proposal to apply the CSIS, SA Power Networks proposes to not apply the customer service (telephone answering) parameter of the STPIS and proposes to reduce revenue at risk under the STPIS to ±4.5% for STPIS (reliability component only).

  SA Power Networks has submitted a CSIS incentive design at Attachment 11 of its revenue proposal.[68] SA Power Networks has designed its proposed CSIS measures in consultation with customers and engaged with its Community Advisory Board (CAB) on the detailed design of its proposed new measures. These measures are:

  – First call resolution – General enquiries phone line
  – Timely restoration status updates

  SA Power Networks proposal also discusses its proposed measurement methodology. We will seek stakeholder feedback on SA Power Networks' proposed CSIS incentive design. We will assess the proposed CSIS in further detail as part of our draft decision.

Questions on incentive schemes

15) Do stakeholders have feedback on the design of SA Power Networks' proposed CSIS?

16) Do you have any views on the proposed application of any of the above incentive schemes?

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[66] AER - Final Framework and Approach - SAPN 2025-30 - July 2023, p.22

[67] AER - Final Framework and Approach - SAPN 2025-30 - July 2023, p.22

[68] SAPN 2025-30 Regulatory Proposal Attachment 11 – Customer Service Incentive Scheme

6 Network pricing

Our determination for SA Power Networks divides the regulated services they provide into different classifications, which determines how they will recover the cost of providing those services through network prices:

- Standard control services are those that can only be provided by the relevant distributor, and are common to most, if not all, of a distributor's customers. The costs of providing these services are captured in the building block revenue determination we've discussed in the previous sections of this paper and shared between all customers.
- Alternative control services are those that can only be provided by the relevant distributor, but will only be required by some of its customers, some of the time; or services that can be purchased from the relevant distributor, but which can also—or have the potential to be—purchased from a competing provider. The cost of providing alternative control services is recovered from users of those services only.

We set out our proposed approach to the classification of distribution services to be provided by SA Power Networks in 2025–30 in our Framework and Approach paper in June 2023.[69] Our determinations must apply these unless we consider a material change in circumstances justifies departure from them.[70]

SA Power Networks proposed to retain the service classification approach set out in our Framework and Approach paper, except for type 5 and type 6 (legacy) metering. SA Power Networks proposed to classify legacy metering as standard control rather than as alternative control. Legacy metering is currently classified alternative control.

While SA Power Networks' proposal to reclassify legacy metering is a change from both the current classification and our Framework and Approach, we consider it is reasonable. In our Framework and Approach we noted the Australian Energy Market Commission's review of the regulatory framework for metering services, and our draft determinations for distributors in NSW, ACT, Tasmania and Northern Territory, will constitute a material change in circumstances. We consider reclassifying legacy metering services as standard control services is appropriate.

6.1 Control mechanisms for standard and alternative control services

A distribution determination must impose controls over the prices and/or revenues of direct control services.[71] The form and formulae of the control mechanisms in our distribution determination must be as set out in our Framework and Approach Paper for SA Power Networks, which we published in June 2023.[72] There are only limited circumstances in which

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69 AER – Final Framework and Approach – SAPN 2025-30 – June 2023, Appendix A.

70 NER, cl. 6.12.3(b)

71 NER, cl. 6.2.5(a)

72 AER – Final Framework and Approach – SAPN 2025-30 – June 2023

our distribution determination can depart from the decision we made in the Framework and Approach Paper regarding control mechanisms.[73]

For the 2025–30 regulatory control period, that decision was to apply the same control mechanisms as we applied in the current, 2020–25 period:

- A revenue cap for standard control services
- A price cap for alternative control services.

We made only minor changes to the formulae that support these, to reflect updates to incentive schemes since our last determination. SA Power Networks has adopted this approach in its proposals.

We consider these controls will continue to be appropriate in the 2025–30 regulatory control period.[74] In our consultation on the Framework and Approach paper we did not receive any submissions suggesting we depart from them.

6.2 Tariff structure statement

As part of their regulatory proposal, distributors are required to submit a tariff structure statement (TSS) to the AER.[75] The TSS will apply for the 5-year regulatory control period. A TSS must set out a distributor's:

- proposed network tariffs
- network tariff structures
- charging parameters
- policies and procedures the distributor will use to assign customers to network tariffs or reassign customers from one network tariff to another.

The tariff structures provide the charging framework through which distributors collect their annual allowed revenue. Once approved, a TSS becomes a compliance document against which the AER assesses the distributor’s annual pricing proposals.

TSSs are also how distributors progressively reform their network tariffs for standard control services to better signal to customers the cost of providing network services. As customers ultimately pay for upgrades to network services, tariff reform that encourages more efficient use of the network will lead to lower network costs for all customers.

We note that network tariffs are targeted at retailers who package them with other costs, such as the cost of wholesale energy, in their service offerings to electricity customers. As such, the retail electricity tariff may not directly reflect the network tariff.

This is the third regulatory period for which SA Power Networks has submitted a TSS. Its TSS for the 2025–30 regulatory control period continues the process of incremental tariff reform.

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73 NER, cll. 6.12.3(c)(1) and (2); 6.12.3(c1).

74 NER, cl. 6.2.5.

75 This requirement came out of the AEMC 2014 rule change for distribution pricing.

Based on our early engagement under the ESP and initial assessment, we think the TSS largely satisfies the NER requirements, and is likely capable of acceptance at the draft decision stage. We are seeking stakeholder views on whether there are any aspects of SA Power Networks' proposed TSS they think require adjustment before our acceptance.

6.2.1 Assessment against the Handbook expectation for tariff structure statements

The Handbook sets out our expectations for TSSs:

- Demonstrate progression of tariff reform consistent with the network pricing objective and pricing principles set out in the Electricity Rules
  - SA Power Networks' proposal progresses tariff reform. All interval metered residential and small business customers will be assigned to default time-of-use tariffs and those with CER to two-way prices. SA Power Networks also proposed to sharpen its price signals by reducing the peak period of its default time-of-use residential tariff and by introducing its opt-in time-of-use (Electrify) tariffs. These tariffs are targeted at residential and small business customers with more flexible loads to incentivise behavioural changes and encourage more efficient use of the network.
- Demonstrate incorporation of its tariff strategy in its overall business plan
  - SA Power Networks linked its proposed TSS to its forecast network expenditure, especially in relation to two-way pricing, and designed tariffs to manage customer network usage.
- Demonstrate significant stakeholder engagement and broad stakeholder support
  - SA Power Networks undertook significant stakeholder engagement. It held a series of 10 tariff focused conversation workshops over a five-month period with a broad and diverse range of stakeholders. SA Power Networks further demonstrated how its proposed TSS has been influenced by and linked to stakeholder feedback. For example, in response to stakeholder feedback that demand tariffs are difficult to understand SA Power Networks closed its residential prosumer demand tariff and created a time-of-use energy prosumer tariff.
- Demonstrate insight into and management of any adverse customer impacts
  - SA Power Networks extensively modelled how its tariffs impacted customers both in aggregate and for different customer archetypes. It is managing customer impacts by designing the default time-of-use tariff to have gentler price signals and similar price outcomes for customers in comparison to the flat tariff.

6.2.2 Progress on tariff reform

SA Power Networks continues to progress tariff reform through the introduction of the following key features in its TSS:[76]

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76 SAPN, *Attachment 18 - Tariff Structure Statement - Part A*, January 2024.

- a statewide six-hour solar soak period for all residential customers, and, for customers on the default time-of-use tariff, an extension of the off-peak period to six hours
- new opt-in 'Electrify' consumption tariffs for small customers, which is a time-of-use tariff with sharper price signals for customers who have sufficient flexibility in when they import energy from the grid
- segmenting the small business tariff class into small and medium business subclasses to improve cost-reflective price signals to businesses
- new generation tariffs for customers such as solar farms and batteries connecting at the zone substation and sub-transmission levels
- new flexible demand tariffs for large and major business customers. If these customers reduce their demand to a pre-specified level during a critical peak period, the anytime demand rate would apply instead of the critical peak demand rate (a fifty percent discount).

6.2.3 Electric vehicles (EVs)

The uptake of electric vehicles poses opportunities but also challenges for electricity networks. SA Power Networks proposed to address this with time-of-use pricing signals, including:

- SA Power Networks extended both its off peak (overnight) and solar sponge (middle of the day) charging periods, for residential customers, from 5 hours to 6 hours. These longer low-price periods would further encourage EV charging outside network demand peaks. They would allow sufficient EV charge for a typical daily commute without a dedicated wall charger, at lower prices.
- SA Power Networks considered its current opt-in residential controlled load time-of-use tariff may appeal to customers who prefer externally managed charging.
- SA Power Networks' proposed residential Electrify (time-of-use) tariff provides 20 hours at non-peak prices and strong pricing signals to encourage charging outside the 4-hour peak period.[77]
- Relevant to EV public charging stations, SA Power Networks proposed to continue its current tariff assignment policy for business customers with less than 160 MWh p.a. and with maximum demand greater than 120 kVA.[78] These business customers are assigned to a demand tariff and with no opt out. If the customer's maximum demand is less than 120 kVA it can opt out to a time-of-use tariff. SA Power Networks submitted that its assignment policy is an important means of mitigating peak demand growth and subsequent expensive network augmentation.

We note that application of the 120 kVA threshold may prevent some EV charging stations from opting out of demand tariffs, even if their annual consumption is less than 160 MWh. We further note that SA Power Networks' approach is different to arrangements applicable in Victoria, NSW and the ACT, where EV charging stations (and other business customers)

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77 SAPN, *Attachment 18 - Tariff Structure Statement - Part B*, January 2024, p 27.

78 SAPN, *Attachment 18 - Tariff Structure Statement - Part B*, January 2024, pp. 27-28.

may opt out of demand tariffs up to the 160 MWh threshold, with no maximum kVA restriction.

6.2.4 Two-way tariffs

SA Power Networks proposed to introduce two-way pricing (providing rewards and charges for customers who export electricity to the grid) as allowed for under the AEMC’s Access, pricing and incentive arrangements for distributed energy resources rule change.[79] SA Power Networks included relevant customer protections as required by the NER, including:

- a basic export level (the amount of electricity a customer may export at no cost)
- an export tariff transition strategy.

Two-way pricing is a new feature for TSSs so we intend to closely examine SA Power Networks’ two-way tariff proposal, as the AER is doing for the NSW and ACT 2024–29 resets currently underway.

SA Power Networks’ two-way pricing proposal includes a suite of export tariffs for its residential and small business customers with solar and/or battery systems with less than 30kW export capacity. This suite of tariffs includes tariffs which differentiate between residential and small business customers, and customers with accumulation meters and interval meters.

SA Power Networks’ proposed export tariffs would not apply to customers with solar and/or battery systems with greater than 30kW export capacity.[80] SAPN also did not propose export tariffs for any of its large business customers connected to its network.

6.2.4.1 Default residential and small business time-of-use export tariffs

SA Power Networks’ proposed default time-of-use tariffs for its residential and small business customers include an export charge but no export reward. All exporting small customers would be assigned to these default time-of-use tariffs from 1 July 2025. SA Power Networks’ proposed that exporting customers could not opt out except to its opt-in ‘Electrify’ export tariffs.[81]

6.2.4.2 Residential and small business customer choice opt-in ‘Electrify’ time-of-use tariffs

SA Power Networks proposed opt-in time-of-use tariffs for its residential and small business customers that have sharper price signals than its default time-of-use tariffs and include both export charges and export rewards.

6.2.4.3 Export tariff for customers with accumulation meters

SA Power Networks’ proposed tariff for customers with accumulation meters will have an additional export charge component. SA Power Networks proposed a basic export level for

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79 In 2021 the AEMC made a new rule change, Access, pricing and incentive arrangements for distributed energy resources, to integrate distributed energy resources more efficiently into grid and allow two-way pricing.

80 SA Power Networks considered these customers have already paid for export services through their connection charges, and hence SA Power Networks proposed it does not need to recover costs through export charges. SA Power Networks noted 99% of rooftop solar connected is less than 30kW export capacity.

81 SA Power Networks submitted that its proposed assignment policy has been informed by its experience with opt in/out consumption tariff options and through consultation with its stakeholders who reiterated the need for simplicity in messaging and application.

the accumulation meter of 11kWh's per day instead of 9kWh's per day as proposed for its time-of use export tariffs.[82]

Question on tariffs

17) Do you consider there are any aspects of SA Power Networks' proposed TSS that requires adjustment before our acceptance?

6.3 Alternative control services

Alternative control services are customer specific or customer requested services and so the full cost of the service is attributed to that particular customer, or group of customers, benefiting from the service. Our determinations set service specific prices to provide a reasonable opportunity to the distributor to recover the efficient cost of each service from customers using that service.

Our Framework & Approach classified the following as alternative control services:

- metering services
- ancillary network services, and
- public lighting services.

6.4 Metering services

Metering services include the maintenance, reading, data services and recovery of capital costs of meters. Since 2017 there has been competition for the provision of meters by retailers and/or other third parties, with smart meters now being the meters installed. However, SA Power Networks is still responsible for providing metering services for the meters it historically installed (legacy meters).

In August 2023, the Australian Energy Market Commission (AEMC) published its Final Report on the 'Review of the Regulatory Framework for Metering Services' (AEMC Final Report) which set the objective to replace all distributor owned legacy meters with smart meters provided by other parties by 2030. To do this, the distributors are to schedule bulk meter replacements, largely on a geographical basis. Under this approach customers will have no choice as to when their meter will be replaced as it will be determined by the distributors and other providers.

Our assessment of the ACT, NSW and TAS distributors 2024–29 regulatory proposals identified an issue where customers whose meters are replaced later in the replacement program would incur inequitably higher costs for metering services than customers whose meters are replaced earlier. This arises because a large fixed-cost base (e.g., systems and IT and base labour force) will be recovered over a rapidly declining customer base. In

82 SA Power Networks provided that for customers with accumulation meters it cannot be sure when export is occurring (it might be outside the export peak load period and so not causing any network problems). To address this SA Power Networks considered a higher BEL threshold of 11kWh/day and lower export charge appropriate.

addition, the per unit costs to read a meter increase as it is further to travel between each manually read meter.

Due to the accelerated retirement of legacy meters and potential for inequitable prices, we are interested in stakeholder's feedback on the aspects detailed below.

6.4.1 Change in service classification and form of control for metering services

In the Framework and Approach (F&A) for SA Power Networks, we classified legacy metering services as alternative control services. We expected Energex's, Ergon Energy's, and SA Power Networks' regulatory proposals to depart from the F&A, where necessary, to reflect the AEMC Final Report.

Our draft decisions for the ACT, NSW and TAS distributors noted the AEMC Final Report constituted a 'material change in circumstances' which would permit a change in classification from the F&A.[83] Our draft decisions also noted it would be more appropriate for the distributors to reclassify metering services as standard control services to recover costs (through the revenue cap) over a larger customer base (i.e., customers who never had a legacy meter) to reduce the potential inequitable prices. We considered a contribution by 'all' customers appropriate as these customers will recognise the network benefits of the metering transition.

Following the draft decisions, we published guidance on a common approach or distributors intending on reclassifying metering services as standard control services.

SA Power Networks has subsequently departed from this approach and proposed to reclassify these services as standard control services. It also provided a revenue cap control mechanism consistent with the approach set out in our guidance note for metering services.

6.4.2 Cost recovery

In the 2020–25 period, the cost recovery of legacy meters involves separate capital and non-capital charges. These are charged to individual customers (user pays) and are regulated under a price cap.

Capital charges relate to the recovery of costs associated with installation and management of the legacy metering asset base. All customers who had a legacy meter prior to 30 June 2015 incur capital charges, regardless of whether they still have a legacy meter or not. Non-capital charges relate to the recovery of costs associated with the operation of the remaining legacy meters and are charged to customers who still have SAPN-owned legacy meters installed at their premises.

As noted above, as legacy meters are replaced by smart meters the per unit cost of operating and maintaining legacy meters increases. As more legacy meters are retired, customers with legacy meters could face material increases in their charges.

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83 See for example, AER, *Draft decision – Ausgrid 2024–29 – Attachment 20 – Metering services*, September 2023, p. 7.

Additionally, customers who have had smart meters installed will experience costs related to the smart meters, as well as ongoing capital costs related to their historical legacy meter.

SA Power Networks proposed to implement the following settings to mitigate the inequitable price increases to individual customers by:

- recovering costs from all customers in tariff classes that had a distributor-owned legacy meter, instead of a decreasing number of customers that still have them
- recovering costs through a combined price (inclusive of both capital and non-capital components), rather than the current approach of separate capital (charged to all customers that have historically had a distributor-owned legacy meter) and noncapital components (charged only to those that still have a legacy meter).
- smoothing the cost recovery over the 2025–30 period.

Key considerations for our assessment of SA Power Networks' proposal will be the price impacts for consumers and views put forward by stakeholders.

6.4.3 Operating expenditure and accelerated depreciation

Most legacy metering costs that SA Power Networks intends to recover are operating expenditure (opex). SA Power Networks used a base-step-trend approach in forecasting opex taking into consideration real price growth and the forecast speed of the rollout. SAPN proposed to include the incremental costs associated with the accelerated replacement of legacy meters as a step change. These incremental costs include:

- reduced costs for testing and inspection of legacy meters
- development and rollout of its legacy meter retirement plan
- customer management and contact resolution, and billing administration
- meter exchange management, defect management, storage, and disposal

Higher than forecast inflation has resulted in a residual legacy metering asset base (approximately $0.85 million) which SA Power Networks proposes to recover in the 2025–26 regulatory year. Our assessment of SA Power Networks' proposal will examine the assumptions behind the base-step-approach and take into consideration stakeholder views on SAPN's opex forecasts.

Question on metering

18) Do you consider SA Power Networks' proposed legacy metering cost recovery approach and its opex forecasts to be reasonable?

6.5 Ancillary network services

Ancillary network services are non-routine services provided to individual customers on request. These services are either charged on a fee or quotation basis. Fee-based services tend to be homogeneous in nature and can be costed in advance of supply with reasonable certainty. Quoted service prices are determined at the time of a customer’s enquiry and reflect each customers’ individual requirements.

Ancillary network services are regulated by price cap. Our distribution determination sets first year price caps for fee-based services, labour escalators used to escalate prices for the remaining years of the regulatory period, and capped labour rates used in quoted services. Labour costs make up a large proportion of ancillary network service costs. Another significant cost element is the time taken to perform the service, including travel time. Our assessment includes review of these elements for the most frequently requested ancillary network services. We also benchmark proposed labour rates and prices for fee-based services across distribution networks as well as with prices from the current regulatory period.

In March 2022, we published a standardised ancillary network services model for use by electricity distributors to develop their prices. This streamlines our assessment, increases consistency, and provides stakeholders greater scope to engage in our distribution determinations.

6.5.1 Pre-lodgement engagement and service offerings

SA Power Networks’ stakeholder engagement involved consulting with customers and retailers to assess if the current fee-based and quoted services remained appropriate. In response to customer feedback, SA Power Networks proposed to introduce the following fee-based services:[84]

- Multi-site outages – retailer requested planned supply outages for replacing a legacy meter for multi-occupancy sites where supply is connected by a shared fuse.
- Retailer bypass request – retailer request to complete an emergency supply restoration due to a meter fault or other issue, where the distributor does not own the metering equipment.
- Knock before you disconnect – retailer request for SA Power Networks to attempt to contact the customer on site and advise payment options prior to disconnecting for non-payment.

SA Power Networks developed these fees on a cost-build up basis reflecting the relevant labour rates and average time to perform the task, consistent with the existing methodology[85].

6.5.2 Benchmarking labour rates

Labour rates are a key cost input for ancillary network service prices. The distributors’ proposed labour rates are assessed against benchmark efficient maximum labour rates developed using a bottom-up cost build up across six categories (administration, field worker, technical specialist, engineer, senior engineer, and project manager).

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84 SAPN - Attachment 15 - Alternative Control Services - January 2024 - Public, p. 9.

85 SAPN - Attachment 15 - Alternative Control Services - January 2024 - Public, p. 3.

The benchmark rates include increases to the superannuation allowance and the vehicle allowance because of the changes in the superannuation guarantee and inflation. The 'transmission line design engineer' has been removed from the engineer benchmark category as this occupation is not an appropriate benchmark for distributors' engineers.

Most of SA Power Networks' proposed labour rates are lower than our preliminary maximum efficient benchmark rates (these are based on inputs which will be updated for our draft decision). Our draft decision on SA Power Networks' labour rates will be dependent on the updated maximum efficient benchmark rates we determine after applying the most recent inputs.

6.5.3 Benchmarking fee-based services prices

Proposed fee-based services are also benchmarked against prices from the current regulatory control period as well as similar services supplied by other distributors. Cost inputs may also be benchmarked. SA Power Networks proposed to continue to apply the six labour categories for the 2025–30 period, where similar labour classifications are grouped under one labour code.[86]

SA Power Networks proposed to escalate the current approved ancillary network services labour rates using the AER's labour escalation formula, including labour price growth[87]. This resulted in modest increases to its prices for fee-based services.

Questions on service offerings

19) Do you consider that sufficient justification has been provided in the provision of new services?

20) Do you consider the proposed labour rates and fee-based prices to be reasonable?

6.6 Public lighting

Public lighting services include the provision, construction and maintenance of public lighting assets. Customers of public lighting services primarily are local government councils and jurisdictional main roads departments.

There are a number of different tariff classes and prices for public lights. The factors influencing prices for a particular installation include which party is responsible for capital provision, and which party is responsible for maintaining and/or replacing installations.

SA Power Networks' prices recover costs of providing public lighting services (including capital and operating expenditure as appropriate).

For the 2025–30 period, SA Power Networks proposed to continue using a building block approach to determine the efficient cost of providing public lighting services.

86 SAPN - Attachment 15 - Alternative Control Services - January 2024 - Public , p.7.

87 SAPN - Attachment 15 - Alternative Control Services - January 2024 - Public , Jan 2024, p.7.

For opex, important drivers include asset failures rates, spot and bulk maintenance cycles, labour rates and traffic controller assumptions. For capex, the price of materials is the underlying driver. Corporate overheads are also a material driver of public lighting prices.

6.6.1 Pre-lodgement engagement

SA Power Networks consulted directly with public lighting customers through Focused Conversation workshops held in October 2022 and May 2023 to help inform their 2025-30 regulatory proposal. They also continued to work collaboratively with the Public Lighting Working Group[88] on key matters affecting the delivery of public lighting services in South Australia. Throughout this consultation, public lighting customers told SA Power Networks they wanted the following changes to service levels, which the network stated they have adopted in their proposal:[89]

- replace public lighting columns with an 'extreme' condition rating, with all other columns continuing to be inspected every five years in high corrosion zones and every 10 years in low corrosion zones. SA Power Networks currently replaces columns with 'extreme' and 'very high' condition ratings;
- introduce a simple and complex classification of faults on a single light recognising that some faults require a longer lead time for repair. Public lighting customers supported repairing simple faults within five business days (metropolitan and regional) and complex faults within 30 business days;
- noting the obsolete nature of high intensity discharge (HID) lighting as SA Power Networks transition to LEDs, SA Power Networks will discontinue the bulk lamp replacement program for HID lighting; and
- explore smart lighting opportunities on a council-by council basis as a quoted service.

6.6.2 Service and price offerings

The suite of tariffs SA Power Networks proposed is unchanged from the 2020–25 period and include:

- SA Power Networks or Street Light Use of System (SLUOS)
- Transferred Infrastructure (TFI)
- Energy Only (EO)
- Customer Light Equipment Rate (CLER)
- Public Light Customer (PLC)

[88] In collaboration with the Local Government Association of South Australia, SA Power Networks established a Public Lighting Working Group (**PLWG**) in 2018. This PLWG was established as a representative body to facilitate a practical ongoing consultation with SA Power Networks and the transition to the new regulatory framework from 1 July 2020. SAPN have continued to work collaboratively with the PLWG on key matters affecting the delivery of public lighting services in South Australia, with meetings held on a quarterly basis.

[89] SAPN, 2025-30 Regulatory Proposal Overview, January 2024, p. 94.

The provision of public lighting services, and associated maintenance and replacement responsibility, is determined in accordance with the public lighting service 'package' selected by public lighting customers.

Proposed public lighting price outcomes will vary for each customer based on the specific services selected and type of lights installed. On average SA Power Networks forecasts that customers will experience price reductions for HID lights (~20.3%) from 1 July 2025, with price increases forecast for LEDs (~1.2 %) largely due to increases in the weighted average cost of capital and inflation.[90]

6.6.3 LED and other new technologies

There are approximately 240,000 luminaires/public lighting installations across SA Power Networks' network. As at July 2023, about 138,000 (58 %) public lights have been upgraded to more energy efficient LEDs, providing improved energy and maintenance outcomes for their public lighting customers.[91]

There is an expected growth rate of 1,800 public lighting installations per annum, with these installations expected to be LED installations. SA Power Networks has also proposed to introduce smart lighting opportunities on a council-by council basis and would be available as a quoted service in the 2025–30 period.[92]

Questions on public lighting

21) Do you consider SA Power Networks' public lighting proposal generally incorporates stakeholder inputs from this pre-lodgement engagement? If not, did the network communicate these potential departure points to stakeholders and provide adequate explanation during pre-lodgement engagement?

22) Do you support SA Power Networks' proposed suite of public lighting services and prices?

23) Do you have any other comments on SA Power Networks' public lighting proposal and their pre-lodgement engagement?

[90] SAPN, 2025-30 Regulatory Proposal Overview, January 2024, p. 94.

[91] SAPN, 2025-30 Regulatory Proposal Overview, January 2024, p. 94.

[92] SAPN, 2025-30 Regulatory Proposal Overview, January 2024, p. 94.

7 Summary of questions

Early Signal Pathway

1) What are your views on the scope of our in-depth targeted review for SA Power Networks'? Are there any other aspects of the proposal that require an in-depth review?
2) Are stakeholders comfortable with the AER undertaking a high-level review of SA Power Networks' proposed depreciation and tariff schedule?
3) Do you consider that we should accept parts of SA Power Networks' proposal at the draft determination stage? If so, what areas?

Key drivers of proposed revenue

4) What are your views regarding the merits of SA Power Networks' price stability narrative and do you think there is an opportunity to decrease prices?

Consumer engagement

5) Do you think SA Power Networks' consumer engagement meets the expectations set out in the Handbook in delivering a consumer-centric proposal? Please give examples.
6) Do you think SA Power Networks' proposal adequately captures the cost of living concerns raised by stakeholders?

Depreciation

7) Do you have views on whether SA Power Networks' proposed regulatory depreciation approach is capable of acceptance at the draft determination stage?

Capital expenditure

8) Does the proposed scope of the capex review for SA Power Networks seem appropriate?
9) Are there areas not covered above that stakeholders consider we should look at? Why?
10) Do you agree with SA Power Networks' approach of investing to provide export service levels based on customer preferences?

Operating expenditure

11) What do you think about the proposed scope of targeted review?
12) What do you think about SA Power Networks' key changes from the Draft Proposal as set out in Section 4.4.2?
13) Do you consider that SA Power Networks has adequately incorporated consumer feedback on the Draft Proposal into its Regulatory Proposal?
14) Do you consider SA Power Networks' opex forecast for the 2025–30 regulatory control period reasonably reflect the efficient costs of a prudent operator? Specifically, do you consider SAPN's proposed step changes, and base adjustment are required to produce an opex forecast that reasonably reflects the efficient costs of a prudent operator?

Incentive Schemes 15) Do stakeholders have feedback on the design of SA Power Networks' proposed CSIS? 16) Do you have any views on the proposed application of any of the above incentive schemes?
Tariffs 17) Do you consider there are any aspects of SA Power Networks' proposed TSS that requires adjustment before our acceptance?
Metering 18) Do you consider SA Power Networks' proposed legacy metering cost recovery approach and its opex forecasts to be reasonable?
Service offerings 19) Do you consider that sufficient justification has been provided in the provision of new services? 20) Do you consider the proposed labour rates and fee-based prices to be reasonable?
Public lighting 21) Do you consider SA Power Networks' public lighting proposal generally incorporates stakeholder inputs from this pre-lodgement engagement? If not, did the network communicate these potential departure points to stakeholders and provide adequate explanation during pre-lodgement engagement? 22) Do you support SA Power Networks' proposed suite of public lighting services and prices? 23) Do you have any other comments on SA Power Networks' public lighting proposal and their pre-lodgement engagement?

Glossary

Term	Definition
ADMS	Advanced Distribution Management Systems
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
augex	augmentation capital expenditure
CAB	Consumer Advisory Board
capex	capital expenditure
CCP30	Consumer Challenge Panel, sub-panel 30
CER	consumer energy resources
CESS	capital expenditure sharing scheme
CSIS	customer service incentive scheme
DMIAM	demand management innovation allowance mechanism
DMIS	demand management incentive scheme
DNSP or distributor	Distribution Network Service provider
EBSS	efficiency benefit sharing scheme
F&A	framework and approach
GSL	guaranteed service level
ICT	Information and communication technologies
NEL	National Electricity Laws
NEM	National Electricity Market
NEO	National Electricity Objectives
NER	National Electricity Rules
opex	operating expenditure
RAB	regulated asset base
repex	replacement expenditure
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
STPIS	service target performance incentive scheme