

# Draft Decision

## SA Power Networks Electricity Distribution Determination

2025 to 2030

(1 July 2025 to 30 June 2030)

### Attachment 2 Regulatory asset base

September 2024

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## 2 Regulatory asset base

The regulatory asset base (RAB) is the value of the assets used by SA Power Networks to provide standard control services.<sup>1</sup> Our distribution determination specifies the RAB as at the commencement of the regulatory control period and the appropriate method for the indexation of the RAB.<sup>2</sup> The indexation of the RAB is one of the building blocks that form the annual revenue requirement for each year of the 2025–30 regulatory control period.<sup>3</sup> We set the RAB as the foundation for determining a distributor’s revenue requirements and use the opening RAB for each regulatory year to determine the return on capital and return of capital (regulatory depreciation) building blocks.<sup>4</sup>

This attachment presents our draft decision on the opening RAB value as at 1 July 2025 for SA Power Networks and our forecast of its RAB values over the 2025–30 period. It also presents our draft decision for establishing the RAB as at the commencement of the 2030–35 period using depreciation that is based on forecast capital expenditure (capex).<sup>5</sup>

### 2.1 Draft decision

We determine an opening RAB value of \$5,201.7 million (\$ nominal) as at 1 July 2025 for SA Power Networks. This value is \$21.2 million (0.4%) lower than SA Power Networks’ proposed opening RAB of \$5,222.9 million (\$ nominal) as at 1 July 2025.<sup>6</sup> This reduction is mainly due to the updates we made to the consumer price index (CPI) inputs for 2023–24 and 2024–25 in the roll forward model (RFM) to reflect more up-to-date values:

- We have updated the actual CPI for 2023–24 to 4.05%, reflecting the 2023 December quarter CPI published by the Australian Bureau of Statistics (ABS), which became available after SA Power Networks submitted its proposal. This compares to SA Power Networks’ proposed estimated CPI of 4.10%.
- We have updated the estimated CPI for 2024–25 with the latest Reserve Bank of Australia (RBA) forecast published in its *Statement on Monetary Policy* to reflect the latest economic conditions.<sup>7</sup> For our draft decision, we adopt an estimated CPI value of 3.00% for 2024–25, compared to SA Power Networks’ proposed 3.30%. The CPI input for 2024–25 will be updated again to reflect the actual CPI published by the ABS for our final decision.

As the RAB must be maintained in real dollar terms by indexing for inflation,<sup>8</sup> the combined effect of our above amendments to CPI results in a reduction to the opening RAB value as at

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<sup>1</sup> NER, cl. 6.5.1(a).

<sup>2</sup> NER, cl. 6.3.2(a)(1) and (2).

<sup>3</sup> NER, cll. 6.4.3(a)(1) and (b)(1).

<sup>4</sup> NER, cll. 6.4.3(a)(2) and (3).

<sup>5</sup> NER, cl. 6.12.1(18).

<sup>6</sup> SA Power Networks, *2.1–Roll Forward Model*, January 2024.

<sup>7</sup> RBA, *Statement on Monetary Policy*, Table 3.1: Detailed Forecast Table, August 2024 p. 57.

<sup>8</sup> NER, cll. 6.4.3(b)(1) and 6.5.1(e)(3).

1 July 2025 by \$18.0 million (0.3%) compared to SA Power Networks' proposal, all else being equal.

We accept SA Power Networks' proposed method for calculating the opening RAB. However, we have made the following amendments in the RFM (in addition to the CPI updates discussed above) which also affected the opening RAB value as at 1 July 2025:

- We updated the nominal vanilla weighted average cost of capital (WACC) for 2024–25 and the forecast straight-line depreciation inputs for the 2020–25 period. These updates are required to reflect the 2024–25 return on debt update in the post-tax revenue model (PTRM) for the 2020–25 period, which became available after SA Power Networks submitted its proposal. These updates are also required to reflect our revocation and substitution determination of SA Power Networks' 2020–25 distribution determination due to the reclassification of cables and conductor expenditure, which were made after SA Power Networks submitted its proposal.<sup>9</sup>
- We updated the actual capex, disposals and capital contributions inputs for 2020–21, 2021–22 and 2022–23 to be consistent with annual reporting regulatory information notice (RIN) for these years.<sup>10</sup>

To determine the opening RAB as at 1 July 2025, we have rolled forward the RAB over the 2020–25 period to determine a closing RAB value at 30 June 2025 in accordance with our RFM.<sup>11</sup> This roll forward process includes an adjustment at the end of the 2020–25 period to account for the difference between actual 2019–20 capex and the estimate approved in the 2020–25 determination.<sup>12</sup>

Table 2.1 sets out our draft decision on the roll forward of SA Power Networks' RAB over the 2020–25 period.

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<sup>9</sup> AER, *Revocation and substitution of SA Power Networks' 2020-25 distribution determination*, 25 March 2024

<sup>10</sup> SA Power Networks has agreed with these updates; SA Power Networks, *Response to AER information request #007*, dated 11 April 2024.

<sup>11</sup> AER, *Electricity distribution network service providers: Roll forward model (version 3.1)*, May 2022.

<sup>12</sup> The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2020–25 determination.

**Table 2.1 AER's draft decision on SA Power Networks' RAB for the 2020–25 period (\$ million, nominal)**

	2020–21	2021–22	2022–23	2023–24 <sup>a</sup>	2024–25 <sup>b</sup>
Opening RAB	4,361.0	4,393.2	4,546.9	4,947.0	5,150.8
Net capex <sup>c</sup>	317.0	334.9	399.3	389.7	389.8
Inflation on opening RAB <sup>d</sup>	37.5	153.7	356.1	200.5	154.5
Less: straight-line depreciation <sup>e</sup>	322.3	334.9	355.3	386.2	392.0
Interim closing RAB	4,393.2	4,546.9	4,947.0	5,150.8	5,303.2
Difference between estimated and actual capex in 2019–20	-	-	-	-	-75.2
Return on difference for 2019–20 capex	-	-	-	-	-26.2
<b>Closing RAB as at 30 June 2025</b>	-	-	-	-	<b>5,201.7</b>

Source: AER analysis.

- (a) Based on estimated capex provided by SA Power Networks. We will update the RAB roll forward with actual capex in the final decision.
- (b) Based on estimated capex provided by SA Power Networks. We expect to update the RAB roll forward with a revised capex estimate in the final decision, and true-up the RAB for actual capex at the next distribution determination.
- (c) Net of disposals and capital contributions, and adjusted for actual CPI and half-year WACC.
- (d) We will update the RAB roll forward for actual CPI for 2024–25 in the final decision.
- (e) Adjusted for actual CPI. Based on forecast capex.

We determine a forecast closing RAB value as at 30 June 2030 of \$6,361.8 million (\$ nominal) for SA Power Networks. This is \$177.5 million lower than SA Power Networks' proposed closing RAB value of \$6,539.3 million (\$ nominal).<sup>13</sup> This reduction is mainly due to our draft decision on forecast capex (Attachment 5). Our draft decisions on the opening RAB as at 1 July 2025 (discussed in this attachment), the expected inflation rate (Attachment 3) and forecast depreciation (Attachment 4) also affect the forecast closing RAB value as at 30 June 2030.<sup>14</sup>

Table 2.2 sets out our draft decision on the forecast RAB values for SA Power Networks over the 2025–30 period.

<sup>13</sup> SA Power Networks, *2.1–Roll Forward Model*, January 2024.

<sup>14</sup> Capex enters the RAB net of forecast disposals and capital contributions. It includes equity raising costs (where relevant) and the half-year WACC to account for the timing assumptions in the PTRM. Therefore, our draft decision on the forecast RAB also reflects our amendments to the rate of return for the 2025–30 period (Attachment 3).

**Table 2.2 AER's draft decision on SA Power Networks' RAB for the 2025–30 period (\$ million, nominal)**

	2025–26	2026–27	2027–28	2028–29	2029–30
Opening RAB	5,201.7	5,382.9	5,589.2	5,808.4	6,067.6
Net capex <sup>a</sup>	442.7	472.8	481.2	464.4	499.6
Inflation on opening RAB	148.2	153.4	159.3	165.5	172.9
Less: straight-line depreciation	409.8	419.8	421.3	370.8	378.3
<b>Closing RAB</b>	<b>5,382.9</b>	<b>5,589.2</b>	<b>5,808.4</b>	<b>6,067.6</b>	<b>6,361.8</b>

Source: AER analysis.

(a) Net of forecast disposals and capital contributions. In accordance with the timing assumptions of the PTRM, the capex includes a half-year WACC allowance to compensate for the six month period before capex is added to the RAB for revenue modelling.

We accept SA Power Networks' proposal that the forecast depreciation approach is to be used to establish the opening RAB at the commencement of the 2030–35 period.<sup>15</sup> We consider this approach is consistent with the capex incentive objective in that it will provide sufficient incentives for SA Power Networks to achieve capex efficiency gains over the 2025–30 period. This approach is also consistent with our *Framework and approach* (F&A) paper.<sup>16</sup>

## 2.2 SA Power Networks' proposal

SA Power Networks used our RFM to establish an opening RAB as at 1 July 2025 and our PTRM to roll forward the RAB over the 2025–30 period.

SA Power Networks proposed an opening RAB value as at 1 July 2020 of \$4,361.0 million (\$ nominal). Rolling forward this RAB with actual/estimated capex and using depreciation based on forecast capex approved for the 2020–25 period, SA Power Networks proposed a closing RAB value of \$5,222.9 million (\$ nominal) as at 30 June 2025.

Table 2.3 sets out SA Power Networks' proposed roll forward of its RAB during the 2020–25 period.<sup>17</sup>

<sup>15</sup> NER, cl. 6.12.1(18).

<sup>16</sup> AER, *Framework and approach papers – SA Power Networks, Regulatory control period commencing 1 July 2025*, July 2023, p. 25.

<sup>17</sup> SA Power Networks, *2.1-Roll Forward Model*, January 2024.

**Table 2.3 SA Power Networks' proposed RAB for the 2020–25 period (\$ million, nominal)**

	2020–21	2021–22	2022–23	2023–24 <sup>a</sup>	2024–25 <sup>a</sup>
Opening RAB	4,361.0	4,393.2	4,547.2	4,947.8	5,155.1
Net capex <sup>b</sup>	317.0	334.9	399.3	389.8	390.4
Inflation on opening RAB	37.5	153.7	356.1	202.9	170.1
Less: straight-line depreciation <sup>c</sup>	322.3	334.6	354.8	385.3	390.9
Interim closing RAB	4,393.2	4,547.2	4,947.8	5,155.1	5,324.7
Difference between estimated and actual capex in 2019–20	-	-	-	-	-75.2
Return on difference for 2019–20 capex	-	-	-	-	-26.6
<b>Closing RAB as at 30 June 2025</b>	-	-	-	-	<b>5,222.9</b>

Source: SA Power Networks, *2.1-Roll Forward Model*, January 2024.

(a) Based on estimated capex.

(b) Net of disposals and capital contributions, and adjusted for actual CPI and half-year WACC.

(c) Adjusted for actual CPI. Based on forecast capex.

SA Power Networks proposed a forecast closing RAB as at 30 June 2030 of \$6,539.3 million (\$ nominal). This value reflects its proposed opening RAB, forecast capex, expected inflation, and depreciation (based on forecast capex) over the 2025–30 period. Its projected RAB over the 2025–30 period is shown in Table 2.4 SA Power Networks' proposed RAB for the 2025–30 period (\$ million, nominal).

**Table 2.4 SA Power Networks' proposed RAB for the 2025–30 period (\$ million, nominal)**

	2025–26	2026–27	2027–28	2028–29	2029–30
Opening RAB	5,222.9	5,428.2	5,656.1	5,909.4	6,212.7
Net capex <sup>a</sup>	484.8	512.5	533.5	527.5	551.5
Inflation on opening RAB	130.6	135.7	141.4	147.7	155.3
Less: straight-line depreciation	410.0	420.3	421.6	372.0	380.2
<b>Closing RAB</b>	<b>5,428.2</b>	<b>5,656.1</b>	<b>5,909.4</b>	<b>6,212.7</b>	<b>6,539.3</b>

Source: SA Power Networks, *1.1-Post Tax Revenue Model*, January 2024.

(a) Net of forecast disposals and capital contributions. Inclusive of half-year WACC to account for the timing assumptions in the PTRM.



SA Power Networks proposed to apply a forecast depreciation approach to establish the RAB at the commencement of the 2030–35 period, consistent with the approach set out in our F&A.<sup>18</sup>

## 2.3 Assessment approach

We roll forward SA Power Networks' RAB over the 2020–25 period to arrive at an opening RAB value at 1 July 2025. This value must be adjusted for any differences in estimated and actual capex.<sup>19</sup> It may also be adjusted to reflect any changes in the use of the assets, with only assets used to provide standard control services to be included in the RAB.<sup>20</sup>

To determine the opening RAB at 1 July 2025, we developed an asset base RFM that a distributor must use in preparing its regulatory proposal.<sup>21</sup> We used the RFM to roll forward SA Power Networks' RAB from the beginning of the final year of the 2015–20 period,<sup>22</sup> through the 2020–25 period, to the beginning of the 2025–30 period.

The roll forward for each year of the above period occurs by:

- adding actual inflation (indexation) adjustment to the opening RAB for the relevant year. This adjustment is consistent with the inflation factor used in the control mechanism.<sup>23</sup>
- adding actual or estimated capex to the RAB for the relevant year.<sup>24</sup> We review a distributor's past capex and may exclude past capex from being rolled into the RAB where total capex exceeds the regulatory allowance.<sup>25</sup> The details of our assessment approach for capex overspending are set out in the Capital expenditure incentive guideline.<sup>26</sup> We note that our review of past capex does not include the last two years of the 2020–25 period—these will instead be reviewed at the next distribution determination.<sup>27</sup> We check actual capex amounts against audited annual reporting regulatory information notice (RIN) data and generally accept the capex reported in those RINs in rolling forward the RAB.<sup>28</sup> However, there may be instances where adjustments are required to the annual reporting RIN data<sup>29</sup>

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<sup>18</sup> SA Power Networks, *Attachment 2—Regulatory Asset Base*, January 2024, p. 10.

<sup>19</sup> NER, cl. S6.2.1(e)(3).

<sup>20</sup> NER, cl. S6.2.1(e)(7).

<sup>21</sup> NER, cll. 6.5.1(b), 6.5.1(e), S6.1.3(7); AER, *Electricity distribution network service providers: Roll forward model version 3.1*, May 2022.

<sup>22</sup> NER, cl. S6.2.1(e)(3).

<sup>23</sup> NER, cl. 6.5.1(e)(3).

<sup>24</sup> NER, cl. S6.2.1(e)(4).

<sup>25</sup> NER, cl. S6.2.2A. Under the NER, cl. S6.2.2A(b), the exclusion of inefficient capex could only come from three areas: overspend in capex, margin paid to third party and capitalisation of opex as defined in cll. S6.2.2A (c), (d) and (e) of the NER.

<sup>26</sup> AER, *Capital expenditure incentive guideline for electricity network service providers*, April 2023, pp. 13–21.

<sup>27</sup> NER, cl. S6.2.2A(a1). The two year lag ensures that actual capex (instead of estimated capex) is available when the review of past capex commences.

<sup>28</sup> We will update any estimated capex with actual capex at the time of the next distribution determination.

<sup>29</sup> For example, we make adjustment for movements in capitalised provisions if the actual capex amounts reported in the RIN include capitalised provisions.

- subtracting depreciation from the RAB for the relevant year, calculated in accordance with the distribution determination for SA Power Networks’ 2020–25 period.<sup>30</sup> Depreciation based on forecast or actual capex can be used to roll forward the RAB.<sup>31</sup> For this draft decision, we use depreciation based on forecast capex for rolling forward SA Power Networks’ RAB over the 2020–25 period.<sup>32</sup> Depreciation based on forecast capex will also be used for the 2025–30 period RAB roll forward at the next distribution determination<sup>33</sup>
- subtracting any gross proceeds for asset disposals for the relevant year from capex to be added to the RAB.<sup>34</sup> We check these amounts against audited annual reporting RIN data.

These annual adjustments give the closing RAB for any particular year, which then becomes the opening RAB for the following year. Through this process the RFM rolls forward the RAB to the end of the 2020–25 period. The PTRM, which is used to calculate the annual revenue requirement for the 2025–30 period, generally adopts the same RAB roll forward approach as the RFM. However, in the PTRM, the annual adjustments to the RAB are based on forecasts, rather than actual amounts.<sup>35</sup>

The opening RAB for the 2030–35 period can be determined using depreciation based either on forecast or actual capex incurred during the 2025–30 period.<sup>36</sup> To roll forward the RAB using depreciation based on forecast capex, we would use the forecast depreciation contained in the PTRM for the 2025–30 period, adjusted for actual inflation. If the approach to roll forward the RAB using depreciation based on actual capex was adopted, we would recalculate the depreciation based on actual capex incurred during the 2025–30 period.

Our decision on whether to use actual or forecast depreciation must be consistent with the capex incentive objective.<sup>37</sup> This objective is to ensure that increases to the RAB through capex only occur where that capex reasonably reflects the capex criteria.<sup>38</sup> In deciding between actual and forecast depreciation, we have regard to:<sup>39</sup>

- the incentives the service provider has to undertake efficient capex
- substitution possibilities between assets with different lives and the relative benefits of each

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<sup>30</sup> NER, cl. S6.2.1(e)(5).

<sup>31</sup> NER, cl. 6.12.1(18).

<sup>32</sup> The use of forecast depreciation is consistent with the depreciation approach established in the 2020–25 distribution determination for SA Power Networks. See AER, *Final decision, SA Power Networks distribution determination 2020–25, Attachment 2, Regulatory asset base*, June 2020, pp. 8–9.

<sup>33</sup> Refer to section 2.4.3 for the reasons.

<sup>34</sup> NER, cl. S6.2.1(e)(6).

<sup>35</sup> NER, cl. S6.2.3.

<sup>36</sup> NER, cl. S6.2.2B.

<sup>37</sup> AER, *Framework and approach papers – SA Power Networks, Regulatory control period commencing 1 July 2025*, July 2023, p. 25.

<sup>38</sup> NER, cl. 6.4A(a).

<sup>39</sup> NER, cl. S6.2.2B(b) and (c).

- the extent of overspending and inefficient overspending relative to the allowed forecast
- the capex incentive guideline
- the capex factors.

### 2.3.1 Interrelationships

The RAB is an input into the determination of the return on capital and depreciation (return of capital) building block amounts.<sup>40</sup> Factors that influence the RAB will therefore flow through to these building block components and the annual revenue requirement. Other things being equal, a higher RAB increases both the return on capital and depreciation amounts.

The RAB is determined by various factors, including:

- the opening RAB (meaning the value of existing assets at the beginning of the regulatory control period)
- net capex<sup>41</sup>
- depreciation
- indexation adjustment – so the RAB is presented in nominal terms, consistent with the rate of return.

The opening RAB at the start of a regulatory control period depends on the value of existing assets and will depend on actual net capex, actual inflation outcomes and depreciation in the past.

The RAB when projected to the end of the period increases due to both forecast new capex and the indexation adjustment. The size of the indexation adjustment depends on expected inflation (which also affects the nominal rate of return or WACC) and the size of the RAB at the start of each regulatory year.

Depreciation reduces the RAB. The depreciation amount depends on the size of the opening RAB, the forecast net capex and depreciation schedules applied to the assets. By convention, the indexation adjustment is also offset against depreciation to prevent double counting of inflation in the RAB and WACC, which are both presented in nominal terms. This reduces the regulatory depreciation building block that feeds into the annual revenue requirement.

We maintain the RAB in real terms by indexing for inflation.<sup>42</sup> A nominal rate of return (WACC) is multiplied by the opening RAB to produce the return on capital building block.<sup>43</sup> To prevent the double counting of inflation through the nominal WACC and indexed RAB,<sup>44</sup>

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<sup>40</sup> The size of the RAB also impacts the benchmark debt raising cost allowance. However, this amount is usually relatively small and therefore not a significant determinant of revenues overall.

<sup>41</sup> Net capex is gross capex less disposals and capital contributions. The rate of return or WACC also influences the size of the capex. This is because the capex is not depreciated in the year it is first incurred but added to the RAB at the end of the year. Instead, the capex amount is escalated by half-year WACC to arrive at an end of year value. It then begins depreciating the following year.

<sup>42</sup> NER, cl. 6.3.2(a)(2), 6.5.1(e)(3).

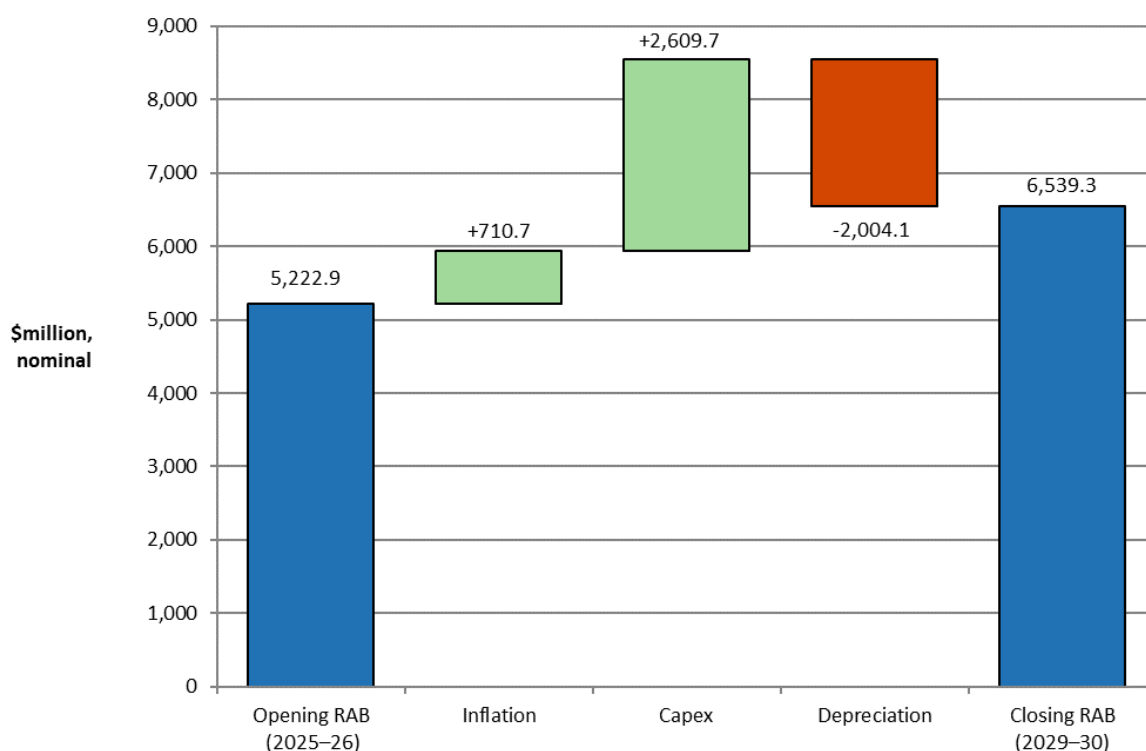
<sup>43</sup> NER, cl. 6.5.2; AER, *Rate of return instrument*, cl. 1, 3, 36(c), February 2023.

<sup>44</sup> NER, cl. 6.4.3(b)(1)(ii).

the regulatory depreciation building block has an offsetting reduction for indexation of the RAB.<sup>45</sup> Indexation of the RAB and the offsetting adjustment made to depreciation results in smoother revenue recovery profile over the life of an asset than if the RAB was un-indexed. If the RAB was un-indexed, there would be no need for an offsetting adjustment to the depreciation calculation of total revenue. This alternative approach provides for overall revenues being higher early in the asset's life (as a result of more depreciation being returned to the distributor) and lower in the future—producing a steeper downward sloping profile of total revenue.<sup>46</sup> The implications of an un-indexed RAB are discussed further in Attachment 4.

Figure 2.1 shows the key drivers of the changes in the RAB over the 2025–30 period as proposed by SA Power Networks. Overall, the closing RAB at the end of the 2025–30 period would be 25% higher than the opening RAB at the start of that period based on the proposal, in nominal terms. The proposed forecast net capex increases the RAB by about 50%. Expected inflation increases it by about 14%. On the other hand, forecast depreciation reduces the RAB by about 38%.

**Figure 2.1 Key drivers of changes in the RAB proposed by SA Power Networks (\$ million, nominal)**



Source: SA Power Networks, *2.1-Roll Forward Model*, January 2024.

<sup>45</sup> If the asset lives are extremely long, such that the RAB depreciation rate is lower than the inflation rate, then negative regulatory depreciation can emerge. The indexation adjustment is greater than the RAB depreciation in such circumstances. Please also refer to section 4.3.1 of Attachment 4 of this draft decision for further explanation of the offsetting adjustment to the depreciation.

<sup>46</sup> A change of approach from an indexed RAB to an un-indexed RAB would result in an initial step change increase in revenues to preserve net present value (NPV) neutrality.

Note: Capex is net of forecast disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

SA Power Networks' proposed forecast straight-line depreciation for the 2025–30 period is \$2,004.1 million (\$ nominal). We have accepted most of SA Power Networks' proposed asset lives as they are consistent with the requirements of the National Electricity Rules (NER). However, we have introduced a new asset class for 'Stobie poles' after our review of SA Power Networks' proposed capex for poles and assigned a standard asset life of 80 years for depreciation purposes. Stobie poles were historically allocated to the 'Distribution lines' asset class. Consequently, we have adjusted the standard asset life for the 'Distribution lines' asset class to reflect the removal of Stobie poles from this asset class.

The depreciation amount largely depends on the opening RAB, which in turn depends on capex in the past.<sup>47</sup> Depreciation associated with forecast capex is a relatively smaller amount. Our draft decision has reduced SA Power Networks' proposed forecast straight-line depreciation by \$4.2 million (0.2%). This is mainly driven by the lower forecast capex determined in this draft decision. Our draft decision on SA Power Networks' regulatory depreciation is discussed in Attachment 4.

Forecast net capex is a significant driver of the increase in the RAB. We note that some stakeholders raised concerns about SA Power Networks' increased forecast capex for the 2025–30 period and the long-term impact of this increase on the RAB, revenue and prices.<sup>48</sup> For this draft decision, we have reduced SA Power Networks' proposed forecast capex by \$243.9 million (\$2024–25), or 10.3% over the 2025–30 period.<sup>49</sup> Our review of SA Power Networks' forecast capex is set out in Attachment 5 of this draft decision.

A 10% increase in the opening RAB at 1 July 2025 causes revenues to increase by around 5%. However, the impact on revenues of the annual change in RAB depends on the source of the RAB change, as some drivers affect more than one building block cost.<sup>50</sup>

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<sup>47</sup> At the time of this draft decision, the roll forward of SA Power Networks' RAB includes estimated capex values for 2023–24 and 2024–25. We expect to update the 2023–24 estimated capex with actuals in the final decision. We may also update the 2024–25 estimated capex with a revised estimate in the final decision.

<sup>48</sup> Origin Energy, *Submission to the Energex, Ergon Energy and SA Power Networks regulatory proposals*, May 2024, p. 1; Government of South Australia, *Submission to AER – SAPN 2025–30 regulatory proposal*, May 2024, p. 2; SA Power Networks Community Advisory Board, *Submission on SAPN 2025–30 Regulatory Proposal based on CAB Presentation to AER Forum*, May 2024; Energy and Water Ombudsman South Australia, *Submission to the Australian Energy Regulator's Issues Paper: SA Power Networks Electricity Distribution Determination 2025–30*, May 2024, p. 1; Consumer Challenge Panel Sub-Panel 30, *Advice to the AER regarding SA Power Networks' regulatory proposals 2025–30 – Response to Issues Paper*, May 2024, p. 12; South Australian Wine Industry Association (SAWIA), *Submission to the Australian Energy Regulator in response to the Issues Paper: SA Power Networks Electricity Distribution Determination 2025–30*, May 2024, p. 5; South Australia Council of Social Service (SACOSS), *Submission to the Australian Energy Regulator on the SA Power Networks Electricity Distribution Determination 2025–30: Issues Paper*, May 2024, pp. 20–21.

<sup>49</sup> This amount is net of asset disposals and capital contributions, and is exclusive of half-year WACC adjustment.

<sup>50</sup> If capex causes the RAB increase, return on capital, depreciation, and debt raising costs all increase too. If a reduction in depreciation causes the RAB increase, revenue could increase or decrease. In this case, the higher return on capital is offset (perhaps more than offset) by the reduction in depreciation allowance. Inflation naturally increases the RAB in nominal terms.

## 2.4 Reasons for draft decision

We determine an opening RAB value of \$5,201.7 million (\$ nominal) as at 1 July 2025 for SA Power Networks, a reduction of \$21.2 million (0.4%) from the proposed value. We forecast a closing RAB value of \$6,361.8 million by 30 June 2030. This represents a decrease of \$177.5 million (2.7%) compared with SA Power Networks' proposal. The reasons for our decision are discussed below.

### 2.4.1 Opening RAB as at 1 July 2025

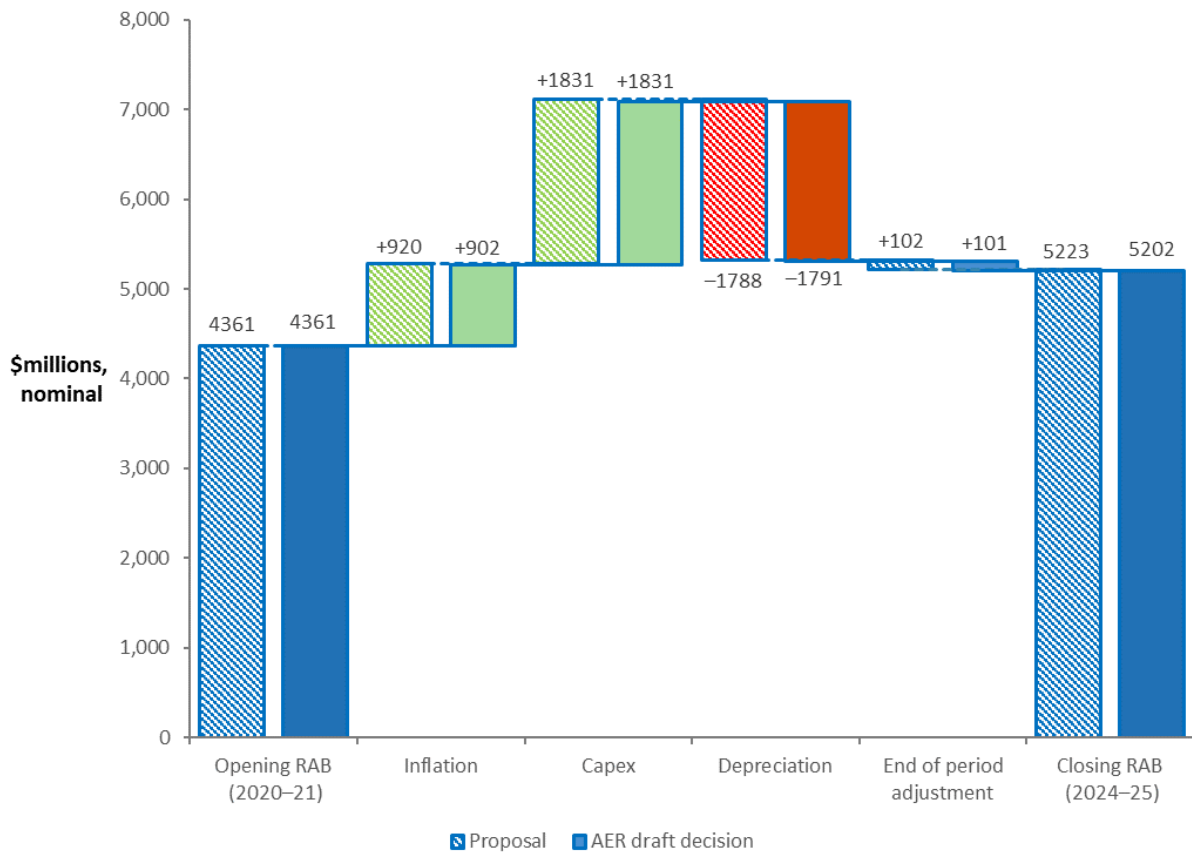
We determine an opening RAB value of \$5,201.7 million as at 1 July 2025 for SA Power Networks. This value is \$21.2 million (0.4%) lower than SA Power Networks' proposed opening RAB of \$5,222.9 million (\$ nominal) as at 1 July 2025.<sup>51</sup> This reduction is mainly driven by the updates in market variables such as actual CPI for 2023–24, estimated CPI for 2024–25 and nominal vanilla WACC for 2024–25.

Figure 2.2 shows the key drivers of the change in SA Power Networks' RAB over the 2020–25 period for this draft decision. Overall, the closing RAB value at the end of the 2020–25 period is forecast to be 19% higher than the opening RAB at the start of that period, in nominal terms. The new net capex increases the RAB by 42%, while inflation indexation increases it by 21%. Depreciation, on the other hand, reduces the RAB by 41%. End of period adjustments also reduce the RAB by 2%.

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<sup>51</sup> SA Power Networks, *2.1-Roll Forward Model*, January 2024.

**Figure 2.2 Key drivers of changes in the RAB over the 2020–25 period – SA Power Networks’ proposal compared with the AER’s draft decision (\$ million, nominal)**



Source: AER analysis.

Note: Capex is net of disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

In the following sections we discuss our assessment of SA Power Networks’ proposed inputs in the RFM and the ex-post review of 2018–23 capex for RAB roll forward purposes.

### 2.4.1.1 Key inputs in the RFM

To determine the opening RAB for SA Power Networks as at 1 July 2025, we have rolled forward the RAB over the 2020–25 period to determine a closing RAB value as at 30 June 2025. In doing so, we reviewed the key inputs of SA Power Networks’ proposed RFM, such as actual inflation, rate of return, gross capex values, asset disposal values, capital contribution values, forecast depreciation and asset lives. We found these inputs were generally correct and reconcile with relevant data sources such as ABS data, annual reporting RINs and the 2020–25 decision models.<sup>52</sup> However, we consider that some of SA

<sup>52</sup> At the time of this draft decision, the roll forward of SA Power Networks’ RAB includes estimated capex values for 2023–24 and 2024–25. We expect to update the 2023–24 estimated capex with actuals in the final decision. We may also update the 2024–25 estimated capex with a revised estimate in the final decision.

Power Networks’ proposed RFM inputs require updating with newly available data and some require corrections.

Therefore, we have made the following amendments to SA Power Networks’ proposed RFM inputs:

- updated SA Power Networks’ estimate of 2023–24 inflation of 4.10% with actual CPI of 4.05% published by the ABS, which became available after SA Power Networks submitted its proposal. We also updated the estimated CPI for 2024–25 to better reflect the latest economic conditions. SA Power Networks’ proposal used 3.30% as the estimated CPI input for 2024–25. For this draft decision, we have updated this value to 3.00%, reflecting the RBA’s forecast published in August 2024.<sup>53</sup>
- updated the nominal vanilla WACC for 2024–25 and forecast straight-line depreciation amounts. These updates are required to reflect the 2024–25 return on debt update in the PTRM for the 2020–25 period, which became available after SA Power Networks submitted its proposal. These updates are also required to reflect the revocation and substitution of the 2020–25 decision for the reclassification of cables and conductor costs.
- updated capex, disposals and capital contributions for 2020–23 to be consistent with the Annual Reporting RINs for these years.<sup>54</sup>

#### 2.4.1.2 Ex post review of 2018–23 capex

We also consider the extent to which our roll forward of the RAB to 1 July 2025 contributes to the achievement of the capital expenditure incentive objective.<sup>55</sup> In the 2020–25 distribution determination, we noted that the 2018–19 and 2019–20 capex would form part of the review period for whether past capex should be excluded for inefficiency reasons in this distribution determination.<sup>56</sup> The capex for 2020–23 also forms part of the review period.

Consistent with the requirements of the NER we have excluded the last two years of the 2020–25 period from the review of past capex for this distribution determination.<sup>57</sup> This approach ensures that actual capex (instead of estimated capex) is available when the review of past capex commences.

SA Power Networks’ total actual capex incurred from 2018–19 to 2022–23 is below the forecast allowance set at the previous relevant distribution determinations. Therefore, the overspending requirement for an efficiency review of past capex is not satisfied.<sup>58</sup>

Further, for the purposes of this draft decision, we have included estimated capex for 2023–24 and 2024–25 in the RAB roll forward to 1 July 2025. At the next distribution determination,

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<sup>53</sup> RBA, *Statement on Monetary Policy, Table 3.1: Detailed Forecast Table*, August 2024, p. 57.

<sup>54</sup> SA Power Networks has agreed with these updates; SA Power Networks, *Response to AER information request #007*, dated 11 April 2024, pp. 2–4.

<sup>55</sup> NER, cl. 6.12.2(b).

<sup>56</sup> AER, *Final decision, SA Power Networks distribution determination 2020–25, Attachment 2–Regulatory asset base*, June 2020, pp. 5–6.

<sup>57</sup> NER, cl. S6.2.2.A(a1).

<sup>58</sup> NER, cl. S6.2.2A(c).



the 2023–24 and 2024–25 capex will form part of the review period for whether past capex should be excluded for inefficiency reasons.<sup>59</sup> Our RAB roll forward applies the incentive framework approved in the previous distribution determination, which included the use of a forecast depreciation approach in combination with the application of the capital expenditure sharing scheme (CESS).<sup>60</sup> As such, we consider that the 2020–25 RAB roll forward contributes to an opening RAB (as at 1 July 2025) that includes capex that reflects prudent and efficient costs, in accordance with the capex criteria.<sup>61</sup>

## 2.4.2 Forecast closing RAB as at 30 June 2030

We forecast a closing RAB value of \$6,361.8 million (\$ nominal) by 30 June 2030 for SA Power Networks, which represents a reduction of \$177.5 million (2.7%) compared to SA Power Networks' proposed amount of \$6,539.3 million (\$ nominal). The decrease reflects our draft decision on the inputs for determining the forecast RAB in the PTRM.

The change in the size of the RAB over the 2025–30 period depends on our assessment of its various components including expected inflation (Attachment 3), forecast depreciation (Attachment 4) and forecast capex (Attachment 5). Inflation and capex increase the RAB, while depreciation and disposals reduce it.

To determine the forecast RAB value for SA Power Networks, we amended the following PTRM inputs:

- We reduced SA Power Networks' proposed opening RAB value as at 1 July 2025 by \$21.2 million (\$ nominal) or 0.4% (section 2.4.1).
- We updated SA Power Networks' proposed expected inflation rate of 2.50% per annum to 2.85% per annum over the 2025–30 period (Attachment 3). Compared to the proposal, our draft decision results in an increase to the indexation of the RAB component for the 2025–30 period by \$88.6 million (\$ nominal) or 12.5%.<sup>62</sup>
- We reduced SA Power Networks' proposed forecast straight-line depreciation for the 2025–30 period by \$4.2 million (\$ nominal) or 0.2% (Attachment 4).
- We reduced SA Power Networks' proposed forecast capex for the 2025–30 period by \$249.1 million (\$ nominal) or 9.5% (Attachment 5).<sup>63</sup>

Figure 2.3 shows the key drivers of the change in SA Power Networks' RAB over the 2025–30 period for this draft decision. Overall, the closing RAB value at the end of the 2025–30 period is forecast to be 22% higher than the opening RAB at the start of that period, in nominal terms. The approved forecast net capex increases the RAB by 45%, while expected

<sup>59</sup> Here, 'inefficiency' of past capex refers to three specific assessments (labelled the overspending, margin and capitalisation requirements) detailed in NER, cl. S6.2.2A. The details of our ex-post assessment approach for capex are set out in AER, *Capital expenditure incentive guideline*, November 2023, pp. 13–21.

<sup>60</sup> AER, *Final decision, SA Power Networks distribution determination 2020–25, Attachment 2–Regulatory asset base*, June 2020, pp. 8-9.

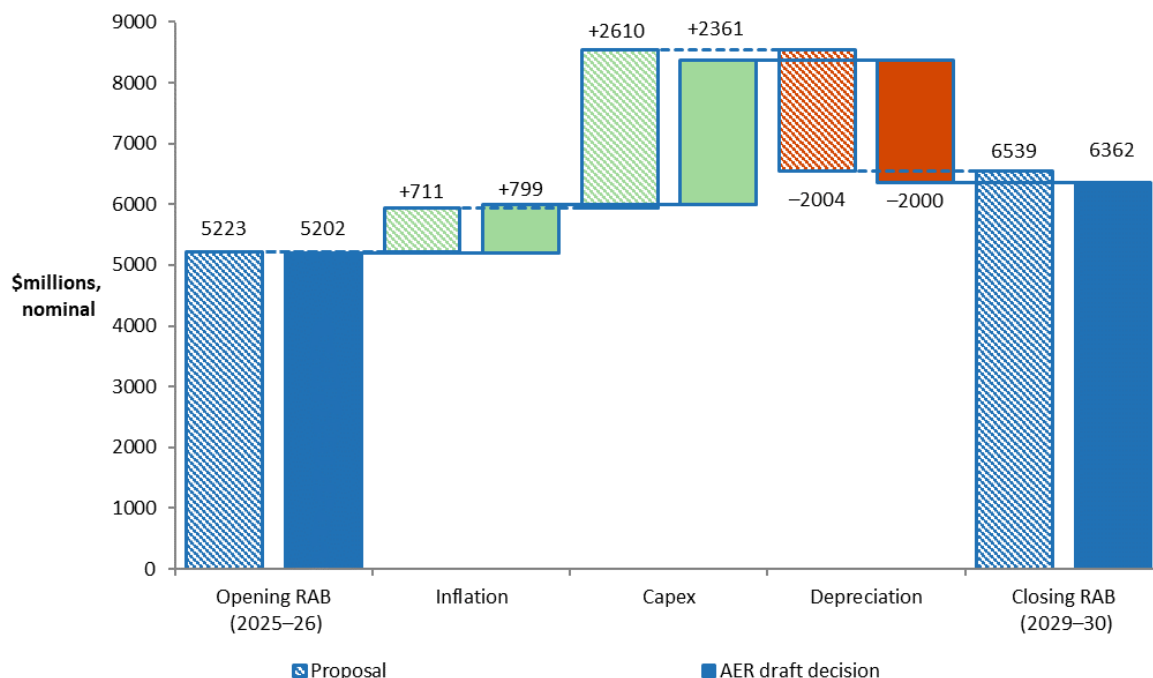
<sup>61</sup> NER, cll. 6.4A(a), 6.5.7(a), 6.5.7(c) and 6.12.2(b).

<sup>62</sup> The increase in the indexation of the RAB is largely due to the higher expected inflation rate used in our draft decision.

<sup>63</sup> Capex is net of forecast disposals and customer contributions, and inclusive of half-year WACC adjustment.

inflation increases it by 15%. Forecast depreciation, on the other hand, reduces the RAB by 38%.

**Figure 2.3 Key drivers of changes in the RAB over the 2025–30 period – SA Power Networks’ proposal compared with the AER’s draft decision (\$ million, nominal)**



Source: AER analysis.

Note: Capex is net of forecast disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

### 2.4.3 Application of depreciation approach in RAB roll forward for the next distribution determination

We determine that the depreciation approach to be applied to establish SA Power Networks’ opening RAB at the commencement of the 2030–35 period will be based on the depreciation schedules (straight-line) using forecast capex at the asset class level approved for the 2025–30 period. We consider this approach will provide sufficient incentives for SA Power Networks to achieve capex efficiency gains over the 2025–30 period.<sup>64</sup>

SA Power Networks proposed to use the forecast depreciation approach to roll forward its RAB for the commencement of the 2030–35 period.<sup>65</sup> We note that this approach is consistent with our F&A.<sup>66</sup>

We have used forecast depreciation for this draft decision when rolling forward the opening RAB at the commencement of the 2025–30 period (section 2.4.1). The use of forecast

<sup>64</sup> NER, cl. 6.12.1(18) and S6.2.2B.

<sup>65</sup> SA Power Networks, *Attachment 2 - Regulatory Asset Base*, January 2024, p. 10.

<sup>66</sup> AER, *Framework and approach papers—SA Power Networks, Regulatory control period commencing 1 July 2025*, July 2023, p. 25.

depreciation to establish the opening RAB for the commencement of the 2030–35 period at the next distribution determination therefore maintains the current approach.

As discussed in Attachment 9, SA Power Networks is currently subject to the CESS for the 2020–25 period. We will continue to apply the CESS to SA Power Networks over the 2025–30 period. We consider that the CESS will provide sufficient incentives for SA Power Networks to achieve capex efficiency gains over that period. We are satisfied that the use of a forecast depreciation approach in combination with the application of the CESS and our other ex-post capex measures are sufficient to achieve the capex incentive objective.<sup>67</sup>

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<sup>67</sup> Our ex-post capex measures are set out in the capex incentives guideline, AER, *Capital expenditure incentive guideline for electricity network service providers*, April 2023, pp. 13–21. The guideline also sets out how all our capex incentive measures are consistent with the capex incentive objective.

## Shortened forms

Term	Definition
ABS	Australian Bureau of Statistics
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	Consumer Price Index
F&A	Framework and Approach
NER	National Electricity Rules
NPV	net present value
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
RFM	roll forward model
RIN	regulatory information notice
WACC	weighted average cost of capital