Draft Decision

SA Power Networks Electricity Distribution Determination 2025 to 2030

(1 July 2025 to 30 June 2030)

Attachment 20
Metering Services

September 2024

AUSTRALIAN ENERGY REGULATOR

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AER reference: AER213704

Amendment record

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20 Metering services

This attachment sets out our draft decision for the 2025–30 regulatory control period (period) for type 5 (interval) and type 6 (accumulation) metering services for assets owned by SA Power Networks.

Metering services include the maintenance, reading, data services, and the recovery of capital costs related to meters. Since the introduction of the Power of Choice reforms on 1 December 2017, SA Power Networks is no longer responsible for installation of new meters and may not install any type 5 or type 6 meters from 1 April 2018. We are responsible for setting prices for SA Power Networks' non-installation metering services.

Metering assets are used to measure electrical energy flows at a point in the network to record consumption for the purposes of billing. Not all customers have the same type of meter. There are different types of meters which each measure electricity usage in different ways:[1]

- Type 1 to 4 meters have a remote communication ability. We refer to these as smart meters. Type 1 to 4 metering services are contestable and therefore not regulated.
- Type 5 meters are interval meters and Type 6 meters are accumulation meters. We refer to these as legacy meters, which are being progressively replaced by smart meters.
- Type 7 metering services are unmetered connections with a predictable energy consumption pattern (for example, public lighting connections). Type 7 metering services are a monopoly provided service and are covered by our determination on standard control services.

Distributors also provide some non-routine metering services which are charged to customers when requested, such as meter disconnection. These non-routine metering services are fee-based ancillary network services, which are discussed in attachment 16.

In this attachment, we:

- Provide a background to recent changes affecting metering services, including the decision framework, and the impacts of the Australian Energy Market Commission's (AEMC) review of the regulatory framework for metering services (the AEMC's metering review) on this draft decision (section 20.1).[2]
- Set out our draft decision (section 20.2), which draws on the reasons in Appendix A.
- Summarise SA Power Networks' proposal (section 20.3).
- Set out the reasons for our draft decision (Appendix A).

[1] AER, *Final framework and approach – SAPN 2025–30*, July 2023, pp. 32–33.

[2] AEMC, *Final report Metering review*, August 2023.

20.1 Background

20.1.1 Transition to smart metering

The 2017 Power of Choice reforms removed the distributors' ability to provide new meters to customers and intended to introduce competition for providing and servicing meters by other meter providers in the national electricity market (NEM).[3] New standards mean only smart meters (mostly type 4 meters for residential customers) with remote communications may now be installed.

The take up of smart meters across the NEM has generally been slow. SA Power Networks has forecast a legacy meter population of 565,000 meters in 2024–25, being 70% of the legacy metering asset base when the reforms were introduced.[4]

In August 2023, the AEMC completed its metering review. The AEMC's metering review looked at how to expedite the uptake of smart meters. The AEMC noted that smart meters provide whole-of-system benefits which should be realised as soon as possible.[5]

As such, the AEMC's metering review recommended a target of universal take-up of smart meters by 2030 in NEM jurisdictions. This recommendation would have the most impact in New South Wales, the Australian Capital Territory, Queensland, and South Australia. Tasmania has a program in place to accelerate smart meter deployment by 2026. Victoria has already achieved a near universal uptake of smart meters.[6]

To achieve this outcome, the AEMC proposed a framework where the distributors develop legacy meter retirement plans (LMRPs) in consultation with retailers, metering parties, and other stakeholders. It is envisaged the LMRPs will schedule bulk meter replacements (retailers to replace legacy meters with smart meters) on a geographical basis to leverage economies of scale.

Through this process, customers may have little choice as to when their legacy meter will be replaced, as this will be determined by the distributors and other providers.

If distributors maintained the 2020–25 regulatory settings for metering services with costs allocated to a declining customer base, customers with meters replaced later in the deployment may be charged inequitably higher costs for metering services than customers with meters replaced earlier, even though there is no change in the service they receive. This arises because:

- A large fixed-cost base will be recovered over a rapidly declining number of customers (e.g. systems and IT, base labour force).
- Per unit costs to read a meter increase as the average distance travelled between each meter increases.

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3 This does not apply to the Northern Territory and Victorian customers who are covered by state regulation that places responsibility for metering with the distributors.

4 AER analysis; SA Power Networks, *19.3 - Legacy Metering PTRM*, January 2024.

5 AEMC, *Final report Metering review*, August 2023, p.13.

6 AEMC, *Final report Metering review*, August 2023, p. iii.

The AEMC is scheduled to announce its final determination for the accelerated smart meter deployment rule change on 28 November 2024, after the release of this draft decision. We will consider any further impacts from this rule change as part of our final decision.

20.1.2 Changes to regulatory settings

Our draft decision had regard to the AEMC's metering review and how to address potential inequity in recovering metering service costs because of the metering transition. It applies the following regulatory settings:

- The reclassification of most legacy metering services (maintenance, reading, and data services) from alternative control services (ACS) to standard control services (SCS) and use of a revenue cap. For more information see Attachment 13 - Classification of services and Attachment 14 – Control mechanisms.
- A revenue cap which recovers legacy metering costs through a flat per customer charge to all small low voltage (LV) customers, rather than separate recovery of capital and non-capital costs from different customer types as per the 2020–25 period.
- The forecast meter replacement rate will not achieve 100% deployment by the end of the 2029–30 financial year due to sites that are scheduled to be replaced after 1 July 2030 or sites where the replacement is scheduled but unable to be completed.[7]

The central goal of this change is to ensure that potentially vulnerable customers are protected from rising costs. This change ensures no customer is worse off as a result of when their legacy meter is replaced. It also ensures a more equitable contribution to the roll out of smart meters by all customers since all customers benefit from the transition.

We consider the recommendations of the metering review to be a material change in circumstances that supports a departure from the classification of services and form of control set in the Framework and Approach paper (F&A).[8] We consider it important that a reclassification of metering services as SCS needs to retain the current level of transparency through the continued use of the standardised metering models.

20.2 Draft decision

Given the above noted changes to the regulatory settings, our draft decision is to not accept SA Power Networks' proposal as submitted. Our draft decision is to:

- Accept SA Power Networks proposal for no direct capital expenditure (capex).
- Substitute our forecast metering operating expenditure (opex), particularly relating to the step change component. We also apply updates to labour cost escalation and inflation.[9]
- Substitute our annual revenue requirement, which applies our substitute inputs as noted above.

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7 SA Power Networks, *Attachment 19 - Legacy Metering,* January 2024, p. 10.

8 NER, cl. 6.12.3(b).

9 AER, *Rate of Return Instrument 2022*. The 2022 Rate of Return Instrument was amended in August 2023. See https://www.aer.gov.au/publications/guidelines-schemes-models/rate-of-return-instrument-2022/finaldecision.

- Accept SA Power Networks' reclassification to SCS and application of a revenue cap form of control.
- Accept SA Power Networks' proposed recovery of costs through a flat per customer charge to all small LV customers, regardless of customer, tariff, or meter type.

We expect SA Power Networks to submit a revised proposal that reflects the outcomes of the metering rule change, including opex step changes, as well as any stakeholder engagement with its customers.

20.3 SA Power Networks' proposal

SA Power Networks proposed to reclassify legacy metering services as SCS and for such services regulated under a revenue cap.

SA Power Networks provided additional information in response to an information request revising its operating expenditure and retirement estimates.[10] The revised estimates are discussed further in section 20.3.1.2.

20.3.1 Metering revenue

SA Power Networks proposed a total annual revenue requirement (ARR) of $65.9 million ($nominal, smoothed) for the 2025–30 period.[11] To determine its proposed revenue requirement, SA Power Networks used the AER's standardised metering models which apply the building block approach to determine allowable revenue. SA Power Networks' proposed ARR and building blocks are set out in Table 20.1.

Table 20.1 SA Power Networks' proposed building blocks and annual revenue requirement ($million, nominal)

Building block component	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Return on capital	0.1	0.0	-	-	-	0.1
Return of capital (regulatory depreciation)	0.8	0.0	-	-	-	0.8
Operating expenditure	12.1	12.7	13.1	13.5	13.5	64.9
Revenue adjustments	-	-	-	-	-	-
Net tax allowance	0.1	0.0	-	-	-	0.1
ARR (unsmoothed)	**13.1**	**12.7**	**13.1**	**13.5**	**13.5**	**65.8**
ARR (smoothed)	**12.7**	**12.8**	**13.0**	**13.6**	**13.9**	**65.9**

Source: SA Power Networks, *19.3 - Legacy Metering PTRM*, January 2024.

10 SA Power Networks, *Information request IR#027 – Legacy metering services*, 10 July 2024.

11 SA Power Networks, *19.3 - Legacy Metering PTRM*, January 2024.

20.3.1.1 Capital expenditure

SA Power Networks did not propose any direct capex because SA Power Networks is not allowed to install new meters.

20.3.1.2 Operating expenditure

SA Power Networks proposed opex of $64.9 million ($nominal)[12] for the 2025–30 period which includes costs for performing meter maintenance as well as routine meter reading and testing.[13] SA Power Networks developed its opex forecast using the 'base-step-trend' approach, consistent with the standardised models, the approach for SCS, and the approach used in the 2020–25 period. SA Power Networks' proposal included an adjustment of -$0.9 million ($nominal) to its base opex to reflect that it will no longer undertake legacy meter inspections or compliance testing in line with rule changes resulting from the AEMC's metering review.[14]

SA Power Networks initially proposed $30.5 million ($2021–22) worth of step changes for the 2025–30 period comprising of: [15]

- Smart meter implementation management ($3.2 million)
- Customer management contact resolution ($4.3 million)
- Billing and credit ($6.2 million)
- NEM operations ($4.7 million)
- Revenue protection staff ($4.5 million)
- Defect management ($4.4 million)
- Meter disposal ($1.6 million)
- Data quality and compliance ($1.6 million)

To establish the trend, SA Power Networks applied the following factors:[16]

- declining number of meters
- real price changes in labour costs
- an adjustment reflecting the growing diseconomies of scale
- a weighting of 56% variable and 44% fixed costs.

In response to a request for additional information, SA Power Networks proposed to reduce its opex for legacy metering to $38.3 million ($nominal) for the 2025–30 period.[17] These were

12 In this section, the dollar amounts listed here may vary from those provided in Attachment 6 – Operating expenditure due to a difference in cost basis.

13 SA Power Networks, *19.3 - Legacy Metering PTRM*, January 2024.

14 SA Power Networks, *19.1 Standardised Legacy Metering Expenditure Model,* January 2024.

15 SA Power Networks, 19*.4 - Legacy Metering Transition - Towards 2030*, January 2024, p. 23.

16 SA Power Networks, *19.1 Standardised Legacy Metering Expenditure Model,* January 2024.

17 SA Power Networks, *Information request IR#027 – Legacy metering services*, 10 July 2024; AER analysis, using updated step change figures with SA Power Networks' initial proposal models. Excludes the updated forecast rollout schedule.

driven solely by reducing the proposed step changes from $30.5 million ($2021–22) to $8.5 million ($2021–22).[18] The update included the following step changes:

- Smart meter implementation management ($3.4 million)
- Customer management contact resolution ($2.2 million)
- Billing and credit ($1.2 million)
- NEM operations ($0.3 million)
- Meter disposal and storage ($1.5 million).

20.3.1.2.1 Legacy meter retirement rates

SA Power Networks forecast to retire 79% of its legacy meters (compared to forecast legacy meters in 2024–25), leaving approximately 122,000 legacy meters in place in 2029–30.[19] This forecast reflects a middle peak rollout, where retailers will ramp up replacement volumes in the middle of the period.[20,21]

In response to a request for additional information, SA Power Networks provided a revised forecast rollout of smart meters, resulting in a residual of 104,000 legacy meters on 30 June 2030 (compared to the initial proposed forecast of 122,000 legacy meters).[22]

20.3.1.3 Regulatory depreciation

SA Power Networks' remaining regulatory asset base (RAB) will be wholly recovered in the first year of the 2025–30 period.[23] This amount reflects the immaterial residual regulatory asset base (RAB) after accelerated depreciation was applied in the 2020–25 period.

20.3.2 Pricing

SA Power Networks proposed to calculate its revenue cap for legacy metering services using the building blocks from the post tax revenue model (PTRM). SA Power Networks proposed to recover the relevant revenue cap from small LV customers through a flat per customer charge, as per our guidance and 2024–29 determinations.[24]

[18] SA Power Networks, *Information request IR#027 – Legacy metering services*, 10 July 2024.

[19] SA Power Networks, *19.1 Standardised Legacy Metering Expenditure Model,* January 2024.

[20] SA Power Networks, *19.1 Standardised Legacy Metering Expenditure Model,* January 2024.

[21] SA Power Networks, *19.4 - Legacy Metering Transition - Towards 2030*, January 2024, pp. 14–15.

[22] SA Power Networks, *Information request IR#027 – Legacy metering services*, 10 July 2024.

[23] SA Power Networks, *19.3 - Legacy Metering PTRM*, January 2024.

[24] SA Power Networks, *Attachment 18 – Tariff Structure Statement Part A*, January 2024, pp. 53–54.

A Reasons for draft decision

A.1 Classification and form of control

Our draft decision accepts SA Power Networks' proposal to reclassify its legacy metering services from ACS to SCS and recover costs through the revenue cap form of control. Under a revenue cap, we set the maximum revenue SA Power Networks can earn for metering services for the first year of the 2025–30 period. For all subsequent years of the 2025–30 period, revenues will be adjusted by the applicable control mechanism formula set out in Attachment 14. This mechanism adjusts revenue caps annually for inflation, an X factor, and any other relevant adjustments. We also support the recovery of metering costs through a flat per customer charge to LV customers.

In our final F&A, we classified legacy metering services as ACS. We also noted that our draft determinations for the New South Wales, Australian Capital Territory, Tasmania and Northern Territory distributors along with the final outcomes of the AEMC's metering review would constitute a 'material change in circumstances' that would allow a departure from the F&A.[25] As such, we accept SA Power Networks' proposal to depart from the F&A by reclassifying metering as SCS. Consistent with the reasoning in our guidance,[26] this approach mitigates inequitable price increases that some customers could have experienced and supports the transition to the whole of system benefits that smart meters will provide.

SA Power Networks' proposal has broad stakeholder support. The Energy and Water Ombudsman South Australia (EWOSA), South Australian Council of Social Service (SACOSS), and CCP30 supported the proposed changes to the recovery of metering costs to provide a fair and equitable outcome for consumers.[27] SACOSS noted these changes only addressed one part of the rollout costs, (other costs come from other sectors of the industry, such as retailers).[28]

We also accept SA Power Networks' revised proposal to recover metering costs through a flat per customer charge to small LV customers. We consider this approach to be equitable and transparent and is also consistent with the reasoning in our guidance.[29]

We consider that transparency in recovering metering costs over the 2025–30 period is important. As such, SA Power Networks will report metering charges separately to other SCS charges in its annual pricing proposals to maintain this transparency.

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25 AER, *Final Framework and approach - SAPN 2025-30*, July 2023; NER, cl. 6.12.3(b).

26 AER, *Legacy metering services - guidance for revised proposals*, November 2023.

27 EWOSA, *Submission to AER Issues Paper SAPN Determination*, 14 May 2024, p. 4; SACOSS, *Submission to the Australian Energy Regulator on the SA Power Networks Electricity Distribution Determination 2025-30: Issues Paper*, May 2024, p. 31; CCP30, *SAPN Response Issues Paper*, 28 May 2024, p. 20.

28 SACOSS, *Submission to the Australian Energy Regulator on the SA Power Networks Electricity Distribution Determination 2025-30: Issues Paper*, May 2024, p. 31.

29 AER, *Legacy metering services - guidance for revised proposals*, November 2023.

A.2 Annual revenue requirement

Our draft decision is for a total ARR of $29.8 million ($nominal, smoothed) for SA Power Networks over the 2025–30 period.[30] This is a decrease of $36.1 million ($nominal) or 54.8% to SA Power Networks' proposed total ARR of $65.9 million ($nominal, smoothed) for this period. This reflects the impact of our draft decision on the various building block costs listed in Table A.2.

Our draft decision applies a flat real price path for years 2–5. This is done by applying 0% X factors in these years. This means that any real price movement is applied in the 2025–26 year. We consider this provides the most certainty and will best support the likely increases in metering costs in the retail component as the rollout is delivered.

Table A.1 Annual revenue requirement (unsmoothed, $million, nominal)

Annual revenue requirement	2025–26	2026–27	2027–28	2028–29	2029–30	Total
SA Power Networks initial proposal	13.1	12.7	13.1	13.5	13.5	65.8
SA Power Networks initial proposal – revised opex	9.0	8.9	8.6	7.0	5.8	39.3
Draft decision	6.7	6.5	6.2	5.6	4.6	29.4
Draft decision (smoothed)	5.6	5.8	6.0	6.1	6.3	29.8

Source: AER analysis; SA Power Networks, *19.3 - Legacy Metering PTRM*, January 2024; SA Power Networks, *Information request IR#027 – Legacy metering services, 10 July 2024*; AER, *Draft decision – SA Power Networks distribution determination 2025–30 – Metering PTRM,* September 2024.

We assessed SA Power Networks' metering proposal by analysing the metering PTRM and the roll-forward model (RFM). In doing this we had regard to the outcomes of the AEMC's metering review which might affect inputs into the elements of the PTRM and RFM.

The AER's PTRM calculates the ARR for each year of the 2025–30 period. This unsmoothed ARR for each year is the sum of the building block costs.

Table A.2 shows the total building block costs that form the ARR and where discussion on the elements that drive these costs can be found within this draft decision.

[30] AER, *Draft decision – SA Power Networks distribution determination 2025–30 – Metering PTRM,* September 2024.

Table A.2 Metering building block components (unsmoothed, $million, nominal)

Building block component	Total - initial proposal	Total – revised opex[31]	Total - draft decision	Section where element is discussed
Return on capital	0.1	0.1	0.2	A.4
Return of capital (regulatory depreciation)	0.8	0.8	0.8	A.5
Operating expenditure	64.9	38.3	28.4	A.7
Revenue adjustments	-	-	-	-
Net tax allowance	0.1	0.1	0.1	-
Revenue requirement	**65.8**	**39.3**	**29.4**	**A.2**

Source: AER analysis; SA Power Networks, *19.3 - Legacy Metering PTRM*, January 2024; SA Power Networks, *Information request IR#027 – Legacy metering services, 10 July 2024*; AER, *Draft decision – SA Power Networks distribution determination 2025–30 – Metering PTRM,* September 2024.

A.3 Regulatory asset base

Our draft decision accepts SA Power Networks' asset roll forward and calculation method, but we have substituted values based on updated inputs, including capex and inflation. We expect that in the revised proposal both the opening RAB and treatment of the RAB in the 2025–30 period will be updated to reflect any revised inputs available.

SA Power Networks accelerated the depreciation of its RAB during the 2020–25 period. As a result, the RAB is expected to be fully depreciated within this period, resulting in a zero RAB for legacy metering. This draft decision sets out:

- the opening RAB as at 1 July 2025
- the forecast closing RAB as at 30 June 2030

31 AER analysis, using updated step change figures with SA Power Networks' initial proposal models. Excludes the updated forecast rollout schedule.

Table A.3 Summary of asset roll forward ($million, nominal)

Building block component	Initial proposal	Draft decision
Opening RAB	0.8	0.8
Net capex (total nominal)	0.0	0.0
Regulatory depreciation (total nominal)	-0.8	-0.8
Inflation on opening RAB (total nominal)	0.0	0.0
Forecast closing RAB (RAB zeroed out during 2027–28)	-	0.6

Source: SA Power Networks, *19.3 - Legacy Metering PTRM*, January 2024; AER, *Draft decision – SA Power Networks distribution determination 2024–29 – Metering PTRM,* September 2024.

We use the RFM to roll forward SA Power Networks' RAB over from the 2020–25 period to arrive at an opening RAB value as of 1 July 2025. This roll-forward calculation accounts for inflation, the weighted average cost of capital, actual net capex, and actual depreciation. The amounts are estimated based on forecasts where actuals data is not available.

The opening RAB may also be adjusted to reflect any changes in the use of the assets, with only assets used to provide metering services to be included in the RAB. No such adjustments were included in the draft decision.

The PTRM used to calculate the annual revenue requirement for the 2025–30 period generally adopts the same RAB roll-forward approach as the RFM, although the annual adjustments to the RAB are based on forecasts, rather than actual amounts.

A.4 Rate of return

Our draft decision on legacy metering services applies the same rate of return as applied throughout our determination, which is set out in Attachment 3.

Attachment 3 states that the draft decision uses the 2022 rate of return instrument. This includes updated rates for return on debt, inflation, and equity raising costs.

We have used updated rates in our draft decision, and we expect that the rates used in the revised proposal will also be updated to reflect the latest information available. This includes rates for return on debt, inflation, and equity raising costs.

A.5 Regulatory depreciation

Our draft decision accepts the depreciation schedules proposed by SA Power Networks, with the residual RAB to be completely depreciated within this period.

A.6 Capital expenditure

Our draft decision is to accept SA Power Networks' initial proposal forecast net capex consisting only of equity raising costs associated with the residual RAB. Our draft decision net capex is $0.0 ($nominal).[32] This revised amount reflects updates related to the rate of return.

A.7 Operating expenditure

Our draft decision is to not accept SA Power Networks' initial proposal opex of $64.9 million ($nominal). Our draft decision includes an alternate estimate[33] of $28.4 million ($nominal) reflecting our decision to include no step changes in our draft decision.[34]

We note there is uncertainty around opex. This is because it depends both on the content of the LMRPs (which distributors have not yet developed) and the actual rate of meter replacement. Hence, the draft decision also includes a true up mechanism for opex.

Our draft decision and SA Power Networks' proposal both use the base-step-trend method to calculate forecast opex for the 2025–30 period. Table A.4 below compares our draft decision opex to SA Power Networks' proposed forecast opex.

Table A.4 Proposal and draft decision meter volumes and opex

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Meter volumes (accepted)	485,000	404,000	313,000	213,000	122,000	
SA Power Networks' proposed opex ($million, nominal)	12.1	12.7	13.1	13.5	13.5	64.9
Draft decision opex ($million, nominal)	6.4	6.3	6.0	5.3	4.4	28.4

Source: SA Power Networks, *19.1 Standardised Legacy Metering Expenditure Model,* January 2024; AER, *Draft decision – SA Power Networks distribution determination 2025–30 - Metering expenditure model*, September 2024.

Base opex

If we find the business is operating efficiently, our preferred methodology is to use the business's historical or 'revealed' costs in a recent year as a starting point for our opex forecast. For the draft decision the base opex is taken to be the opex in 2022–23, and we accept the proposed adjustment to the base opex of $0.9 million ($nominal) to remove costs for inspections and compliance testing which is no longer required.[35] Our expectation is that the base (and the proposed adjustment) will be updated for actual 2023–24 opex in the revised proposal to reflect the latest available information, where appropriate.

32 AER, *Draft decision – SA Power Networks distribution determination 2025–30 – Metering PTRM,* September 2024.

33 In this section, the dollar amounts listed here may vary from those provided in Attachment 6 – Operating expenditure due to a difference in cost basis.

34 AER, *Draft decision – SA Power Networks distribution determination 2025–30 – Metering PTRM,* September 2024.

35 SA Power Networks, *19.1 Standardised Legacy Metering Expenditure Model,* January 20240

Rate of change

We trend the adjusted base opex forward by applying our forecast 'rate of change'. We estimate the rate of change by forecasting the expected growth in input prices, outputs and productivity.

We forecast input price growth using a combination of labour and non-labour price change forecasts. Labour costs represent a significant proportion of a distributor's costs. We use input price weights between labour and non-labour components consistent with SCS.

We forecast the change in output (number of meters) to account for the annual change in operational costs to provide metering services. Our draft decision accepts SA Power Networks' proposed weighting of 56% variable and 44% fixed costs, being aligned with weightings approved for our 2024–29 determinations.

Legacy meter replacement rates

Our draft decision applies the legacy meter replacement rates as initially proposed. We consider SA Power Networks' proposal to be appropriate and within expectations of the AEMC's metering review.

We have not applied the revised forecast replacement rates provided by SA Power Networks as additional information. As we discuss in the 'Step changes' subsection below, SA Power Networks provided these replacement rates with revised opex estimates that need further information and consideration.

Step changes

Lastly, we add or subtract any components of opex that are not appropriately compensated for in base opex or the rate of change, but which should be included in the forecast total opex to meet the opex criteria.

Our draft decision does not accept SA Power Networks' proposed step changes (as detailed in section 20.3.1.2 above). It also does not accept the revised step changes estimate SA Power Networks' provided. Our draft decision adds a placeholder forecast of zero to these step changes as we require more time to consider the revised estimates provided by SA Power Networks on 10 July.

SA Power Networks initially proposed $30.5 million ($2021–22) of step changes across eight different areas. In the proposal, SA Power Networks noted that its proposal was a preliminary assessment of the expenditure required to support the transition to smart meters and was developed with limited stakeholder consultation.[36] EWOSA supported the expenditure proposed by SA Power Networks to resolve disputes to support the success of the rollout.[37] The South Australian Department for Energy and Mining accepted that additional costs are needed to support the rollout of smart meters.[38]

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[36] SA Power Networks, 19.*4 - Legacy Metering Transition - Towards 2030*, January 2024, pp. 17, 26.

[37] EWOSA, *Submission to AER Issues Paper SAPN Determination*, 14 May 2024, p. 4.

[38] Department for Energy and Mining, *Strategic Policy and Delivery Division (SPD) submission to AER – SAPN 2025-30 regulatory proposal*, May 2024, p. 3.

We raised preliminary concerns that the total step changes was too high and that some step changes may not be related to transitional costs associated with the retirement of legacy meters.[39] In response, SA Power Networks provided an updated estimate which had input from stakeholders and reduced the total step changes to $8.5 million ($2021–22).[40]

While the revised estimate contains a material reduction in legacy metering step changes and hence opex, it also includes further changes to non-metering capex and opex. Due to the lateness of this proposal, the AER requires additional time to assess all elements of the proposal. Because the standard approach for SCS is to have a placeholder forecast of zero for unassessed capex and opex in anticipation of the revised proposal, our draft decision for metering also does this for the proposed step changes for consistency (see Attachment 6 – Operating expenditure). However, we still consider that additional expenditure (in the form of step changes) will be necessary for SA Power Networks to implement the smart meter rollout. Our full analysis of the proposed step changes will be available in the final decision.

We also expect the revised proposal step changes to reflect the AEMC’s final determination for the accelerated smart meter deployment rule change.

True-up mechanism for opex

Although the distributors are responsible for making the LMRPs, the actual replacement in a retailer-led smart meter roll out is out of their control. A key concern is that the LMRPs will not be finalised before our final decisions are made. The replacement profiles in our final decision may not align with the LMRPs, and the actual replacement rates may not reflect the profiles from the LMRPs. This exposes the distributors to a misalignment in cost recovery.

We will apply a true-up of total metering opex through the price cap formulae to manage this misalignment (see Attachment 14). This is similar to other opex true ups for expenditure that is out of the control of the distributor (e.g., Tasmanian licence fees, small customer gas abolishment costs). For the avoidance of doubt, no components of opex other than meter volumes will be updated through this true-up mechanism.

39 AER, *SA Power Networks IR024 – Opex and legacy metering step changes*, 12 June 2024.

40 SA Power Networks, *Information request IR#027 – Legacy metering services*, 10 July 2024.

Shortened forms

Term	Definition
ACS	alternative control services
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
ARR	annual revenue requirement
capex	capital expenditure
CCP30	Consumer Challenge Panel Sub-Panel 30
EWOSA	Energy and Water Ombudsman South Australia
F&A	Framework and approach paper
LMRP	legacy meter retirement plan
LV	low voltage
NEM	national electricity market
NER	national electricity rules
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model
SACOSS	South Australia Council of Social Service
SCS	standard control services