



RIN response: 4.4.4 and 4.4.5 Transparency

2025-30 Regulatory Proposal

Supporting document 5.1.8

December 2024



Empowering South Australia

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1 About this document

The information provided in this document supports the information provided in Attachment 5 – Capex of this Revised Proposal, and Attachment 5 – Capex and Attachment 9 – CESS from our Original Regulatory Proposal (**Original Proposal**). Please refer to the Specified attachments for further details.

Purpose

This document addresses the ‘Transparency’ requirements in sections 4.4.4 and 4.4.5 of the Reset Regulatory Information Notice.

We note since our Original Proposal:

- for Section 4.4.4, we have updated the forecast expenditure and variance explanations for 2020-25 regulatory control period (**RCP**) and also note the 2020-25 RCP replacement expenditure (**repex**) allowance was materially altered by the Australian Energy Regulator’s (**AER**) revocation and substitution determination made in March 2024. We also confirm we have not identified any further project deferrals since our Original Proposal; and
- for section 4.4.5, we have updated capital expenditure (**capex**) actuals and forecast for the 2020-25 RCP and the capex forecast for the 2025-30 RCP (in response to matters raised by the AER in its Draft Decision).

2 Transparency

Section 4.4.4

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

- a comparison of the total expenditure by category, disaggregated by expenditure category or driver, to the total forecast capex allowed for the current regulatory period;
- an explanation of the drivers of differences noted in response to section 4.4.4 (a), for example the impact of efficiency gains, major new projects, project deferrals or rescoping, changing regulatory obligations, asset age, or other factors;
- a list of projects deferred in the current regulatory control period and included in the forecast capex for the forthcoming regulatory control period, and the rationale for the deferral.

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

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

We expect our actual capex to be 3.3 percent below the AER’s forecast, having been driven predominantly by the following:¹

- **revocation and substitution of the distribution determination for the 2020-25 RCP** – the AER’s June 2020 Final Decision on the determination for 2020-25 approved moving minor cable and conductor repairs from capex (repex) to operating expenditure (**opex**). We subsequently realised these repairs were always considered opex and notified the AER. On 25 March 2024, to correct this error, the AER issued a

¹ The expenditure categories listed in Table 1 for which expenditure is estimated to exceed the AER forecast are discussed in Section 9 of our Original Proposal capex chapter and section 6 of this Revised Proposal capex chapter. The exception pertains to the increase in ‘other non-network’ which mainly results from a need over the period to undertake additional investment in relation to our Advanced Distribution Management System – to improve our integrated test environment to enhance cyber security controls and procedures in response to increased threats – this was covered in our Original Proposal document 5.13.1 - ADMS Version Upgrade - Business case.

revocation and substitution decision for the 2020-25 revenue determination. This led to a significant increase in our 2020-25 repex allowance, but too late in the period to drive materially different investment decisions, this has led to a recorded underspend of \$24.4 million² (3.2%) for repex in the 2020-25 RCP. On the basis of the AER allowance used in our Original Proposal³ we would have been \$55.8 million (8.2%) overspent on repex and \$16.4 million (0.8%) on our overall total capex allowance. Our view is that we reasonably spent to the allowances provided;

- **external drivers** – lower economic activity particularly in the first two years of the period and a higher rate of return (driving greater customer contributions on connections expenditure), had the effect of lowering our net connections expenditure;
- **external drivers** – altered decisions by ElectraNet deferred required upgrade works by SA Power Networks on the distribution side of transmission connection points and led augmentation expenditure (**augex**) to be \$1.7 million (0.5%), lower than forecast. These were excluded from our capital expenditure sharing scheme (**CESS**) calculations so that we do not financially benefit from these deferred projects;⁴
- **external drivers** – general delays in field work due to Covid restrictions in the first two years of this period;
- **internal efficiency** – decisions on choice of fleet vehicles allowed us to incur lower than forecast spend but procure more vehicles than reflected in the AER forecast;
- **internal cost attribution improvement** – changes to better attribute general costs to specific expenditure categories and program areas so that each more accurately reflects service delivery costs, leaving capitalised overheads to comprise general costs not easily attributed to specific activities; and

There are also no material deferrals from the current period included in forecast expenditure for the 2025-30 RCP.⁵

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

	2020-25 actuals/ estimates ⁶	AER allowance	\$ variance	% variance
Repex	736.8	761.2	-24.4	-3.2%
Augex	344.9	346.6	-1.7	-0.5%
Connections Net	261.5	336.9	-75.3	-22.4%
Cust. Connect (gross)	719.4	718.4	1.0	0.1%
Cust. Contributions - Connections	-457.9	-381.6	-76.3	20.0%
CER	48.5	36.1	12.3	34.1%
ICT	366.2	331.6	34.5	10.4%
Fleet	115.1	117.9	-2.8	-2.3%
Property	76.8	55.8	21.0	37.6%
Other Non-Network	28.9	9.9	19.1	193.5%
Capitalised network overheads	28.8	80.8	-52.0	-64.4%
Total net capex⁷	2,007.5	2,076.8	-69.3	-3.3%

² All financial figures in this document are expressed in June 2025 dollars. Unless otherwise specified, use the Original Proposal economic terms (CPI and labour escalation) in comparing actual and forecast expenditures by category, but Revised Proposal terms for total capex comparisons between RCPs.

³ Comprising the 2020-25 capex allowance set out in the AER Final Decision on 5 June 2020 and the April 2022 emergency standards cost pass through approved by the AER on 16 September 2022.

⁴ These are detailed in Attachment 9 - Capital Expenditure Savings Scheme, from our Original Proposal.

⁵ As detailed in Attachment 9 of our Original Proposal, there are two minor Augex connection point deferrals that have been included in our 2025-30 capex forecast, and accordingly, these were excluded from our CESS calculations to avoid customer impacts.

⁶ Actuals up to and including June 2024.

⁷ Total net capex before disposals.

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

(c) SA Power Networks’ deferred projects.

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

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

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

1. distribution works required for another transmission connection point upgrade costing \$5 million, driven by an altered decision by ElectraNet; and
2. a network augex project to upgrade a 66kV sub-transmission line between Myponga and Square Waterhole, driven by changes in our demand forecast and our decision to prioritise capacity upgrades on other 66kV lines (Angle Vale to Virginia, and southern outer metropolitan 66kV lines) presenting higher service risk – we have no plans to proceed with this in forward planning period.

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

Refer to our Original Proposal, Attachment 9 - Capital Efficiency Sharing Scheme Jan 2024.

Section 4.4.5

For forecast capex for the forthcoming regulatory period, provide:

- (a) a comparison of the total forecast expenditure by category or driver to the total capital expenditure expected to be incurred in the current regulatory period;
- (b) an explanation of the drivers of differences noted in response to section 4.4.5 (a), for example the impact of expected efficiency gains, major new projects, project deferrals or rescoping, changing regulatory obligations, asset age, or other factors.

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

We forecast a total capex requirement of \$2.3 billion, a 18.5 percent increase on our expected spend in 2020-25. This increase reflects the need to prudently and efficiently respond to the convergence of multiple challenges and opportunities facing our network and the services we provide over 2025-30, including:

- **Repex** – the need to increase repex rates to levels commensurate with the risk posed by our network age profile and asset condition in order to maintain overall reliability by geographic region, improve reliability in the Adelaide CBD to meet jurisdictional service standards, and to maintain safety in aggregate;

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

Figure 1: Historic and forecast capex by expenditure category

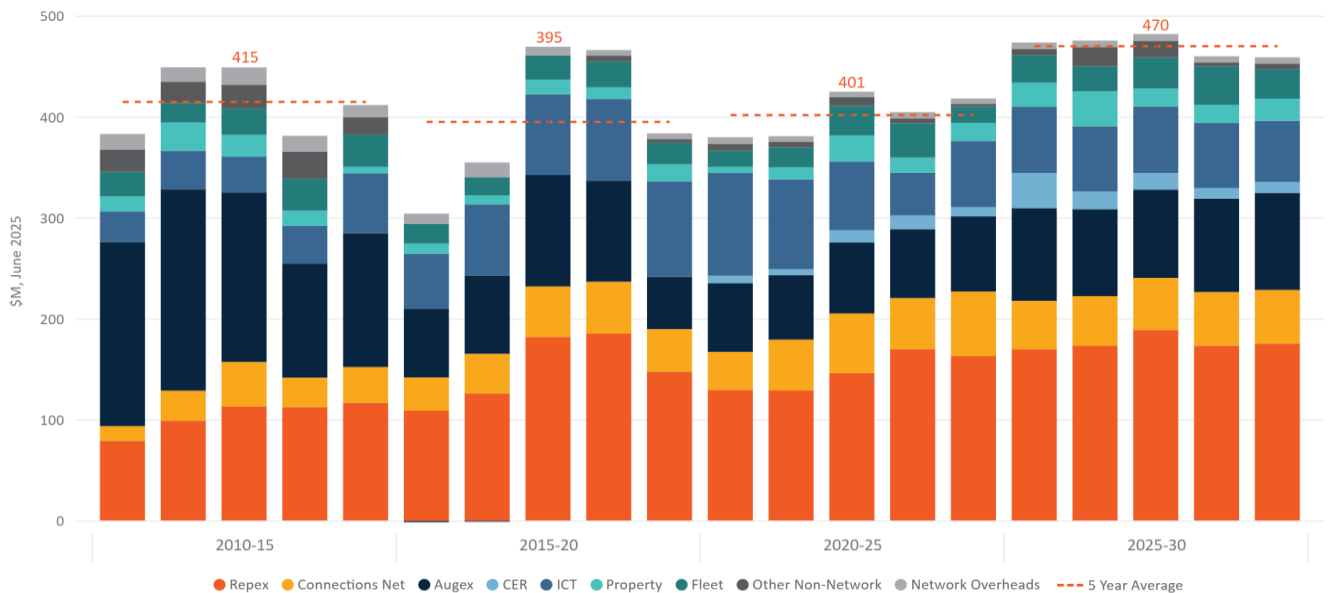


Figure 1 displays our forecast capex by expenditure category relative to our historic spend. Further, Table 2 outlines our forecast capex by expenditure category, relative to our expected actual spend over the 2020-25 RCP.

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

	2025-30 RCP	2020-25 RCP	\$ change	% change
Repex	879.6	736.8	142.8	19.4%
Augex	453.7	344.9	108.9	31.6%
Connections Net	255.2	261.5	-6.3	-2.4%
CER	90.7	48.5	42.2	87.1%
ICT	321.0	366.2	-45.2	-12.3%
Fleet	150.4	115.1	35.3	30.6%
Property	115.8	76.8	39.0	50.8%
Other Non-Network	50.4	28.9	21.5	74.3%
Capitalised Network Overheads	32.3	28.8	3.5	12.3%
Total Net Capex (before disposals)	2,349.1	2,007.5	341.6	17.0%
less disposals	-21.8	-28.3	6.4	-22.8%
Total Net Capex (after disposals)	2,327.2	1,979.2	348.0	17.6%
modelling adjustments⁸	10.4	-6.7	n/a	n/a
Total Net Capex (after modelling adjustments)	2,337.7	1,972.5	365.1	18.5%

Refer to the Revised Proposal - Capex Attachment 5, Section 6 and Section 7 and our Original Proposal – Capex Attachment 5, Section 9, along with the respective capex supporting capex documents.

⁸ Modelling adjustments consist of the revised inflation using the AER Draft Decision CPI forecast, and revised real labour price escalators using latest forecasts – using the same escalators used for opex forecasting.