Attachment 1 - Annual Revenue Requirements and Control Mechanism

2025-30 Revised Regulatory Proposal

December 2024

SA Power Networks

Empowering South Australia

Company information

SA Power Networks is the registered Distribution Network Service Provider for South Australia. For information about SA Power Networks visit sapowernetworks.com.au

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Disclaimer

This document forms part of SA Power Networks' Revised Regulatory Proposal to the Australian Energy Regulator for the 1 July 2025 to 30 June 2030 regulatory control period (**Revised Proposal**). The Revised Proposal and its attachments were prepared solely for the current regulatory process and are current as at the time of lodgement.

This document contains certain predictions, estimates and statements that reflect various assumptions concerning, amongst other things, economic growth and load growth forecasts. The Revised Proposal includes documents and data that are part of SA Power Networks' normal business processes and are therefore subject to ongoing change and development.

Whilst care was taken in the preparation of the information in this Revised Proposal, and it is provided in good faith, SA Power Networks, its officers and shareholders accept no responsibility or liability for any loss or damage that may be incurred by any person acting in reliance on this information or assumptions drawn from it for a different purpose or in a different context.

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Note

This attachment forms part of our Revised Proposal for the 2025–30 Regulatory Control Period. It should be read in conjunction with the other parts of the Revised Proposal.

Our Revised Proposal comprises the Overview document and Attachments listed below, and the supporting documents that are listed in Attachment 20. The light grey listed attachments below were submitted in our January 2024 Proposal and are not being resubmitted with our Revised Proposal.

Document	Description
	Revised Regulatory Proposal overview document
Attachment 0	Customer and stakeholder engagement program
Attachment 1	**Annual revenue requirement and control mechanism**
Attachment 2	Regulatory Asset Base
Attachment 3	Rate of Return
Attachment 4	Regulatory Depreciation
Attachment 5	Capital expenditure
Attachment 6	Operating expenditure
Attachment 7	Corporate income tax
Attachment 8	Efficiency Benefit Sharing Scheme
Attachment 9	Capital Expenditure Sharing Scheme
Attachment 10	Service Target Performance Incentive Scheme
Attachment 11	Customer Service Incentive Scheme
Attachment 12	Demand management incentives and allowance
Attachment 13	Classification of services
Attachment 14	Pass through events
Attachment 15	Alternative Control Services
Attachment 16	Negotiated services framework and criteria
Attachment 17	Connection Policy
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Attachment 18	Tariff Structure Statement Part B - Explanatory Statement
Attachment 19	Legacy Metering
Attachment 20	List of Proposal documentation

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1 Overview

SA Power Networks submitted its regulatory proposal for the 2020-25 regulatory control period (**RCP**) in January 2019 (**Original Proposal**). This attachment is an update to our Original Proposal, reflecting the changes contained in the Overview Document and the Attachments submitted with our Revised Regulatory Proposal (**Revised Proposal**) including revised expenditure forecasts.

Table 1 below summarises the Revised Proposal parameters, compared to the Original Proposal and the Australian Energy Regulator's (**AER**) Draft Decision.

Table 1: 2025-30 Main Standard Control Services revenue Building Block parameters ($ million, nominal)

Main Standard Control Services	Original Proposal	AER Draft Decision	Revised Proposal
Return on Capital	1,760	1,716	1,752
Regulatory depreciation	1,293	1,201	1,237
Operating expenditure	2,139	2,161	2,219
Revenue adjustments	(67)	4	(88)
Tax allowance	30	44	31
Unsmoothed revenue	**5,155**	**5,126**	**5,150**
Smoothed revenue	**5,164**	**5,143**	**5,168**
WACC (forecast 2025-30 average)	6.18%	6.11%	6.11%
Regulatory asset base at 30 June 2030	6,539	6,362	6,587

Annual revenue requirement

Our Main Standard Control Services (**SCS**) Annual Revenue Requirement (**ARR**) reflects the sum of the revenue building blocks – namely the return on capital, return of capital (depreciation), operating expenditure, revenue adjustments, and corporate tax allowance, for services classified as SCS.

In accordance with the reclassification of legacy metering services to SCS, we will also have legacy metering SCS in 2025-30. The legacy metering services ARR is determined separately and reflects the return on capital, return of capital (depreciation) and the operating expenditure required to deliver these services in 2025-30.

Our total ARR will be a consolidation of the main SCS and legacy metering services ARR.

Presentation of numbers

In our Revised Proposal, unless stated otherwise, forecast and historical expenditure is expressed in real terms in June 2025 dollars, while the regulatory asset base (**RAB**) and revenue building blocks are presented in nominal dollars consistent with the AER's Post-Tax Revenue Model (**PTRM**).

We note that totals presented in table rows and columns throughout this Revised Proposal may not necessarily add due to rounding.

2 Annual revenue requirement

As discussed above, our ARR will be a consolidation of the main SCS and legacy metering services outputs outlined in sections 2.1 and 20.

2.1 Main SCS annual revenue requirement

The Main SCS ARR, developed utilising the building block approach, comprises the sum of a number of components which are discussed in detail in the Overview document and other Attachments to this Revised Proposal. The building block components and resulting ARR derived from the Main SCS PTRM are set out in Table 2.

Table 2: Revised Proposal Main SCS Revenue for the 2025-30 RCP ($ million, nominal)

Main SCS Revenue	2025/26	2026/27	2027/28	2028/29	2029/30	2025-30 RCP
Return on capital	316	330	347	368	391	1,752
Regulatory depreciation	265	276	269	215	211	1,237
Operating expenditure	406	428	445	461	479	2,219
Revenue adjustments	(20)	(41)	(41)	4	9	(88)
Net tax allowance	10	12	7	1	-	31
Annual revenue requirement (unsmoothed)	977	1,006	1,028	1,049	1,089	5,150
Annual revenue requirement (smoothed)	932	967	1,002	1,123	1,144	5,168
Revenue P_0 and X-factors	(2.1%)	(0.8%)	(0.8%)	(9.0%)	1.0%	

The P_0 revenue increase and X-factors proposed in Table 2 are SA Power Networks' preferred approach to reducing price volatility, in line with AEMC pricing policy objectives. This non-standard approach to distribution revenue smoothing will recover less revenue in years 2025/26 to 2027/28, lowering average customer bills in these years, in response to ongoing affordability and cost of living concerns. There will be a step increase in revenue recovery and average bills from year 2028/29 but this increase will be offset by reductions in other network charges, specifically jurisdictional service obligation (**JSO**) charges, when the South Australian Government's solar 44c/kWh photo-voltaic feed-in tariff (**PV FiT**) scheme concludes in June 2028. This non-standard smoothing approach is consistent with that applied by the AER in its Draft Decision.

2.2 Legacy metering services annual revenue requirement

The legacy metering services ARR has been developed using the legacy metering services PTRM. Our legacy metering services ARR has been updated from our Original Proposal to reflect our updated 2023/24 opex base year and the latest outcomes from the Australian Energy Market Commissions (**AEMC**'s) accelerated smart meter deployment rule change, refer to **Attachment 19 Legacy Metering** for further details.

Legacy metering services are proposed to be recovered across all customers consuming less than 160MWh per annum, by way of a new fixed charge. If accepted, our legacy metering services ARR will deliver residential customers and small and medium businesses a five-year annual average $9.55 increase (nominal) in their distribution charges from 1 July 2025. We note however that this is a reduction in charges when compared to the legacy metering service charges paid by customers in the 2020-25 RCP.

The building block components and resulting ARR derived from the legacy metering services SCS PTRM are set out in Table 3. Legacy metering services ARR will be smoothed separately to the main SCS PTRM, as decided by the AER in the Draft Decision

Table 3: Proposed legacy metering services SCS Revenue for the 2025-30 RCP ($ million, nominal)

Legacy Metering SCS Revenue	2025/26	2026/27	2027/28	2028/29	2029/30	2025–30 RCP
Return on capital	0.05	0.04	0.03	0.02	0.01	0.15
Regulatory depreciation	0.13	0.14	0.15	0.17	0.18	0.78
Operating expenditure	9.21	10.03	9.70	8.34	7.17	44.45
Revenue adjustments	-	-	-	-	-	-
Net tax allowance	0.02	0.02	0.02	0.03	0.03	0.13
Annual revenue requirement (unsmoothed)	9.41	10.24	9.91	8.56	7.39	45.50
Annual revenue requirement (smoothed)	**8.69**	**8.94**	**9.19**	**9.45**	**9.72**	**45.99**

2.3 Total annual revenue requirement

Total annual revenue requirement comprises the main SCS ARR plus legacy metering services ARR, as summarised in Table 4.

Table 4: Total SCS Revenue for the 2025-30 RCP ($ million, nominal)

Total SCS Revenue	2025/26	2026/27	2027/28	2028/29	2029/30	2025–30 RCP
Annual revenue requirement (smoothed) - Main SCS	932	967	1,002	1,123	1,144	5,168
Annual revenue requirement (smoothed) – Legacy Meters	9	9	9	9	10	46
Annual revenue requirement (smoothed) - Total	941	976	1,011	1,132	1,154	5,214

2.4 Revenue adjustments

Revenue adjustments for the 2025-30 RCP have been included for SA Power Networks' Expenditure Benefit Sharing Scheme (**EBSS**), Capital Expenditure Sharing Scheme (**CESS**), Demand Management Incentive Scheme (**DMIS**), Demand Management Innovation Allowance Mechanism (**DMIAM**) (applicable for the 2025-30 RCP) and any shared asset cost reduction. We no longer include revenue adjustments for:

- the Innovation Fund (opex component). Instead, consistent with the AER's Draft Decision, we have included this as a category-specific forecast in our revised opex forecast; and
- Cable and Conductor 2020-25 allowance correction. In March 2024 the AER corrected our 2020-25 opex and capex allowances by revoking its 2020 Distribution Determination and substituting a new determination, reducing the 2020-25 ARR and adjusting the 2024/25 ARR accordingly. Consequently, we no longer propose a correction for this error in our 2025-30 ARR.

A summary of adjustments is shown in Table 5.

Table 5: Revenue adjustments for the 2025-30 RCP ($ million, nominal)

	2025/26	2026/27	2027/28	2028/29	2029/30	2025–30 RCP
EBSS	(26.0)	(47.2)	(47.9)	(2.8)	1.4	(122.6)
CESS	0.3	0.3	0.3	0.3	0.3	1.5
CESS true-up for 2019/20	7.1	7.3	7.5	7.8	8.0	37.7
DMIS and DMIAM*	1.0	1.1	1.1	1.2	1.2	5.6
Shared assets	(2.0)	(2.0)	(2.1)	(2.1)	(2.2)	(10.4)
Total revenue adjustments	(19.5)	(40.6)	(41.0)	4.3	8.7	(88.1)

* The DMIAM is calculated based on the Main SCS unsmoothed revenue building blocks.

2.5 EBSS

This Revised Proposal includes an updated EBSS model, updating actual 2023/24 opex and an adjustment for non-recurring efficiency gains in the base year.

We forecast a carry-over EBSS loss of $122.6 million ($115.3 million in $ June 2025) as shown in Table 5. In accordance with the final Framework & Approach (**F&A**), we propose to continue to apply Version 2 of the EBSS for the 2025-30 RCP.

The legacy metering component of SCS will be excluded from the EBSS considerations, as per the AER's Guidance note for legacy metering services, released October 2023.

The opex component of the Innovation Fund should be excluded from the EBSS, as discussed in **Supporting Document 5.13.4 - Innovation Fund - Business case addendum**.

2.6 CESS

This Revised Proposal includes an updated CESS model, updating actual 2023/24 capex and our 2024/25 forecast capex.

We forecast a total carry-over CESS payment of $39.2 million ($36.0 million in $June 2025) as shown in Table 5. In accordance with the final F&A, we propose to continue to apply Version 2 of the CESS for the 2025-30 RCP.

The legacy metering component of SCS will be excluded from the CESS considerations, as per the AER's Guidance note for legacy metering services, released October 2023.

The capex component of the Innovation Fund should be excluded from the CESS, as discussed in **Supporting Document 5.13.4**.

2.7 DMIS and DMIAM

This Revised Proposal includes an updated calculation for DMIAM, updating only for the changes in the Revised Proposal unsmoothed revenue.

2.8 Shared Assets

Where an asset is used to provide both SCS and unregulated services, clause 6.4.4 of the National Electricity Rules (**NER**) allows the AER to reduce SA Power Networks' SCS regulated revenue by an amount that the AER considers is reasonable to reflect such part of the cost of the asset that is being recovered through charging for unregulated services. Clause 6.4.4 of the NER requires the AER to have regard to the shared asset principles and the Shared Asset Guideline (**SAG**) in determining shared asset cost reductions.

Paragraph 2.4 of the SAG states that service providers may include in a Regulatory Proposal proposed shared asset cost reductions for the AER's approval.

The shared asset cost reduction methodology set out in the SAG requires service providers to determine the forecast shared asset unregulated revenue (**SAUR**) for an RCP.

Our Original Proposal used the same methodology for estimating our SAUR as accepted by the AER in our distribution determination for the 2020-25 RCP. This involves calculating the sum of:

- for unregulated services that rely on the use of shared assets, such as pole rental and other facilities access or asset rental services — the forecast unregulated revenue earned from those services; and
- for each unregulated service forecast to partially use shared assets, such as unregulated construction and maintenance and where shared asset revenues are absorbed in overall project revenues — we have used the allocation apportioned by our approved CAM to derive those revenues.

Shared asset cost reductions are subject to a materiality threshold. Unregulated use of shared assets is material when the SAUR in a specific regulatory year is expected to be greater than one percent of its total ARR for that regulatory year. We expect our SAUR to exceed the materiality threshold for each regulatory year of the 2025-30 RCP and proposed a shared asset cost reduction of $10.3 million ($ nominal) in accordance with the SAG.

The AER's Draft Decision considered SA Power Networks' forecast unregulated revenues from shared assets for the 2025-30 period were reasonable, noting our forecasts had increased compared to the 2020-25 period. The AER also noted that SA Power Networks had used a slightly different methodology than required by the SAG, noting we had averaged the forecast SAG revenue in nominal terms prior to applying the 10 percent sharing factor. We acknowledge and have corrected this, and the outcome is not materially different to the AER's Draft Decision.

We therefore accept the AER's Draft Decision for shared asset cost reduction, as set out in Table 6 below. Our forecast unregulated revenue has not materially changed from that provided in our Original Proposal, therefore we do not propose to update the shared asset cost reduction in this Revised Proposal.

Table 6: Shared asset cost reduction for the 2025-30 RCP ($ million, 2024-25)

Shared Asset Cost Adjustment	2025/26	2026/27	2027/28	2028/29	2029/30	2025–30 RCP
Original Proposal	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)	(9.6)
AER's Draft Decision	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)	(9.6)

2.9 Innovation Fund

Our Original Proposal proposed to establish an Innovation Fund to enable us to undertake transformative trials / pilots. We proposed that our Innovation Fund would be capped at $20 million for 2025-30, split 80 percent into capex and 20 percent into opex, and that the opex component be recovered via a revenue adjustment in our control formula.

The AER's Draft Decision allowed $0 expenditure as a 'placeholder' pending further substantiation of our case. As requested, we have provided further detail in our Revised Proposal. Our Revised Proposal also retains the same expenditure forecast and percentage split between capex and opex.

Consistent with the preference the AER set out in its Draft Decision, in this Revised Proposal a revenue adjustment for the opex component is no longer proposed. The opex component is now included in our ex-ante opex forecast as a category specific forecast.

Our business case addendum for the Innovation Fund proposes that any underspend on the Innovation Fund will be returned to customers, as discussed in the governance model set out in the addendum.

The Innovation Fund is discussed further in **Supporting Document 5.13.4**.

Glossary

Acronym / term	Definition
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
ARR	Annual Revenue Requirement
CAM	Cost Allocation Method
Capex	Capital expenditure
CESS	Capital Expenditure Sharing Scheme
CPI	Consumer Price Index
DMIAM	Demand Management Innovation Allowance Mechanism
DMIS	Demand Management Incentive Scheme
DNSP	Distribution network service provider
DUoS	Distribution Use of System
EBSS	Efficiency Benefit Sharing Scheme
F&A	Framework & Approach
JSO	Jurisdictional Service Obligation
MWh	Mega-watt hours are units of electrical energy consumption. A thousand kilo-watt hours.
NER	National Electricity Rules
Opex	Operating expenditure
PTRM	Post-Tax Revenue Model
PV FiT	Photo-voltaic feed-in tariff
RAB	Regulatory Asset Base
RCP	Regulatory Control Period
SAG	Shared Asset Guideline
SAUR	Shared asset unregulated revenue
SCS	Standard control services
SSIS	Small-Scale Incentive Scheme
STPIS	Service Target Performance Incentive Scheme
WACC	Weighted Average Cost of Capital