The Hon Tom Koutsantonis MP

Government of South Australia

Minister for Infrastructure and Transport
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25MEM18190

Ms Clare Savage
Chair - Australian Energy Regulator
[redacted]

Dear ~~Ms Savage~~ Clare,

I write to you to express my concern and disappointment with the Australian Energy Regulator's (the Regulator) draft decision regarding SA Power Networks' 2025-30 revenue proposal.

South Australia's distribution network allowance decision for 2025-30 provides an opportunity to reduce distribution costs for consumers resulting from factors including reduced regulatory depreciation and the ending of South Australia's distributor solar feed-in tariff scheme in 2028.

Customers rightly expect to receive the benefit of these savings. Instead, this opportunity is being used by SA Power Networks for an increase in spending. A degree of capital spending restraint by SA Power Networks should have lowered distribution bills through the passing on of these savings to customers.

When SA Power Networks originally proposed growth of 22 per cent in capital expenditure (capex) to $2.379 billion over the period 2025-30 compared to 2020-25, including a 32 per cent increase in replacement capital expenditure (repex) to $909 million, I had expected a firm response from the Regulator, as the case for such a significant uplift was neither justified nor well made as:

1. The proposed step-change in spending on repex was inconsistent with any plausible replacement schedule of long-lived network infrastructure assets. Replacement of long-lived network infrastructure assets should be incrementally apportioned over the longer term, rather than applied abruptly in any one regulatory period.

2. Undertaking such an ambitious capital replacement schedule appeared unrealistically ambitious in an environment of heightened supply chain risks for energy infrastructure and a tight domestic labour market that is demonstrably contributing to skills shortages and elevated costs.

3. The Regulator's most recent operational performance data for distribution network service providers indicates SA Power Networks' outage frequency improving over time and outage duration remaining broadly unchanged over time. These statistics do not infer a need for an immediate drastic escalation in repex as proposed by SA Power Networks. Additionally, SA Power Networks' more alarmist tone on forecast network outages in its more recent revised regulatory proposal remain at odds with the official data.

Instead of the expected firm response to SA Network's proposal, the Regulator, in its draft determination, accepted around 90 per cent of the capex increase sought, including 85 per cent of the repex increase. In making this draft decision, the Regulator has failed to strike an appropriate balance between consumer costs and service levels.

I also find the timing of this increase quite extraordinary, considering the conclusion of the Government's solar feed-in tariff scheme and seek an explanation from the Regulator on if this was a consideration as part of the increase.

The draft determination, if formalised in its final decision, would lead to unnecessarily and unacceptably higher bills for current South Australian customers and, as a result of an increased regulatory asset base, higher bills for future generations of customers who must now compensate SA Power Networks over time for these new assets.

Subsequently, despite this generous draft decision by the Regulator, SA Power Networks, has apparently doubled down in its revised proposal. It has reinforced its proposed expansive capital program by seeking more than $200 million more in capex than the AER allowed in its generous draft determination, including more than $100 million more in repex. I request that the Regulator not only reject approving this new expenditure but reappraise the capex spending provisionally allowed for its draft decision.

While I acknowledge some positive outreach to regional South Australians and vulnerable segments of the community in the early phases of consumer engagement, there has been an over-emphasis on the SA Power Networks "People's Panel" in forming ultimate positions on proposed costs and revenues that made up the Proposal. Additionally, I understand that SA Power Networks' detailed engagement promoted higher cost funding level options, dissuaded more prudent spending options, and failed to present revenue components in the context of their historical levels and movements.

Finally, I ask the Regulator to review its approach to its smoothing of forecast annual revenue over the 2025-30 period outlined in its draft decision. This approach is being used to hide increased distribution costs. The job at hand for the Regulator and SA Power Networks is to get costs down to efficient levels and pass real savings onto consumers. In particular, I want customers to see the real bill relief that arises from the ending of South Australia's distributor solar feed-in tariff scheme on 30 June 2028.

Yours sincerely

Hon Tom Koutsantonis MP
Minister for Energy and Mining

26 / 2 / 2025

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