

June 2020

Statement of reasons: SA Power Networks Electricity Initial Pricing Proposal

On 11 June 2020, SA Power Networks submitted to the AER its 2020/21 electricity distribution network Initial Pricing Proposal for the period 1 July 2020 to 30 June 2021. SA Power Networks provided revised submissions of its pricing proposal (or parts thereof) on 17 and 19 June 2020 to correct minor errors and compliance issues.

The AER has considered SA Power Networks' revised pricing proposal for the period 1 July 2020 to 30 June 2021 submitted on 19 June 2020 in accordance with the SA Power Networks 2020–25 electricity distribution determination.

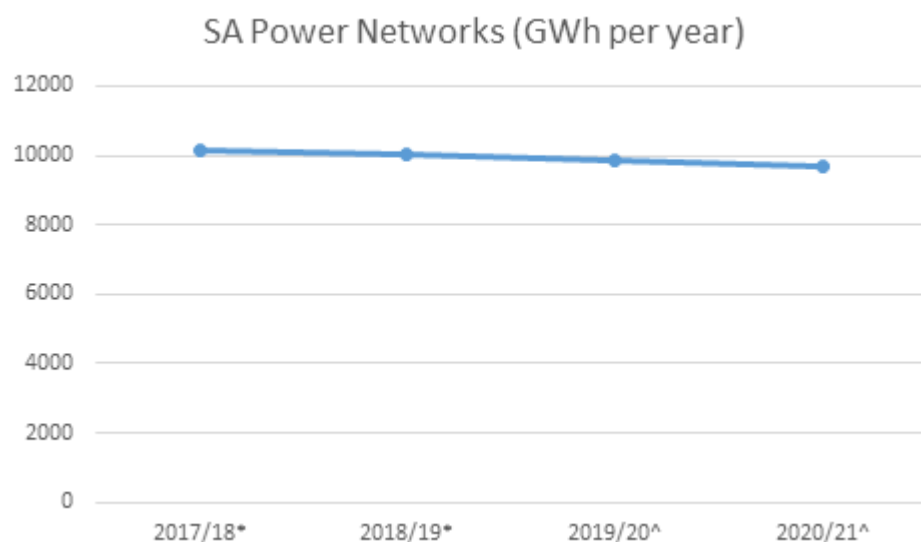
The AER is satisfied that SA Power Networks' revised proposal complies with the relevant principles and formulae set out in section 6.18 of the National Electricity Rules. The AER is also satisfied that the proposal is in line with the Tariff Structure Statement (TSS) that was set in the 2020–25 determination.

In reviewing SA Power Networks' proposal, the AER has considered the consumption forecasts for the 2020/21 year, estimated 2019/20 revenues and actual 2018/19 revenues relative to the applicable revenue caps and permissible pass-through for each distribution, transmission, and jurisdictional scheme component. The AER also confirmed that SA Power Networks have used correct inputs, adhered to the price control formulae set in the determination, and adhered to expectations policies set out in the TSS.

Given the unprecedented conditions arising from the COVID-19 pandemic, the AER has been placing a greater level of scrutiny on the reasonableness of the forecasts embedded in these proposals. SA Power Networks' revised proposal contained a consumption forecast for 2020/21 that was 1½ per cent below the forecast for 2019/20 in last year's pricing proposal. SA Power Networks advised that this forecast incorporated a 1 per cent decline in consumption volumes attributable to the effects of COVID-19.

The AER considered the information provided by SA Power Networks in support of this COVID adjustment. The AER considers that SA Power Networks made efforts to use available data sources to derive a plausible forecast. However, we had difficulty reconciling the magnitude of the proposed COVID adjustment with AEMO commentary suggesting there was no conclusive impact of COVID on electricity demand in South Australia.¹ We acknowledge that this may reflect the challenges of identifying robust estimates of COVID impacts in a network with high natural variability in demand. We also acknowledge that some adjustment for COVID may be appropriate given broader commentary around the impact of COVID on small business and expectations for a period of slower economic growth ahead. However, we have not made a specific finding on the magnitude of the COVID adjustment proposed.

At an aggregate level, the AER considers that the overall decline in consumption forecasts is broadly in line with historical trends (see chart below) and that the forecast decline was therefore reasonable.



*Actual consumption amounts reported in annual reporting regulatory information notices.

^Forecast consumption amounts provided in the 2020/21 pricing proposal.

Having considered SA Power Networks' proposal of 19 June 2020, the AER approves these tariffs for commencement on 1 July 2020. The approved 2020–21 distribution tariffs are set out below.

Background

There are three major components of a typical energy bill: wholesale costs (covering electricity being generated or gas being extracted), network charges (paying for the reliable delivery of energy via power lines or gas pipelines), and a retail margin (paying for meter reading and other services).

Energy bills also include components for Australian and state and territory government-based environmental programs such as those aimed at increasing renewable electricity generation.

The AER approves the network charge component of an energy bill, which accounts for approximately 37% of the total retail bill in South Australia.²

Each year electricity distributors, such as SA Power Networks, are required to submit an annual pricing proposal to the AER, outlining proposed prices to take effect from the commencement of the next regulatory year.

The revenue the distributor proposes to recover must be compliant with the National Electricity Rules (NER) and its 5-year revenue determination. The distribution revenue amounts set through our revenue determination are adjusted on an annual basis for a variety of factors such as performance against incentive schemes and correcting for prior year under- or over-recoveries.

In proposing prices to recover this adjusted revenue, the structure of the tariffs set out in each annual pricing proposal must match those approved by us in SA Power Networks' Tariff Structure Statement in their revenue determination, and the proposed tariffs must also comply with certain requirements in the NER. Within these parameters, the distributor has discretion to propose prices that are consistent with its revenue cap. To demonstrate compliance with this revenue cap, the distributor is required to provide a forecast of energy consumption for the coming year.

In addition to proposing prices that are consistent with these adjusted distribution revenues, the electricity distributor also sets out separate prices for the recovery of applicable transmission and jurisdictional scheme costs. These distribution, transmission and jurisdictional scheme components are summed together to generate the proposed network prices.

We must approve the proposals if we are satisfied they comply with NER requirements (including complying with any applicable distribution determination) and if all forecasts associated with the proposals are reasonable. Where a proposal does not meet these requirements, we seek amendments to correct the deficiencies.

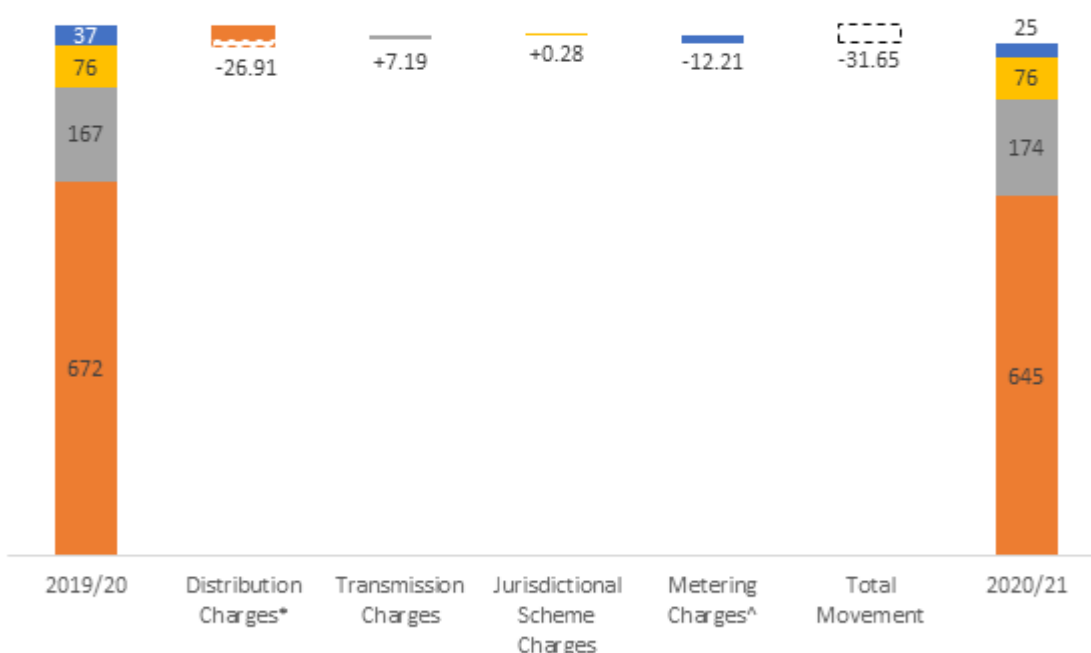
Further information on estimated bill impacts

As a result of our decision, the network component of the typical annual bill for South Australian customers is \$32 lower for households and \$58 lower for small business. These estimated bill impacts include both network tariffs and metering charges.

The charts below depict the estimated bill impacts arising from movements in the various components of network tariffs and metering charges.

The distribution components of network tariffs are decreasing, primarily as a result of the AER’s 2020–25 electricity distribution determination. The estimated price decreases resulting from our revenue determination are partly offset by factors not set as part of SAPN’s revenue determination, including performance against incentive schemes and adjustments for changes in demand forecasts. The difference between the estimated distribution component associated with the pricing proposal and that estimated as part of our revenue determination is depicted by the dashed orange box.

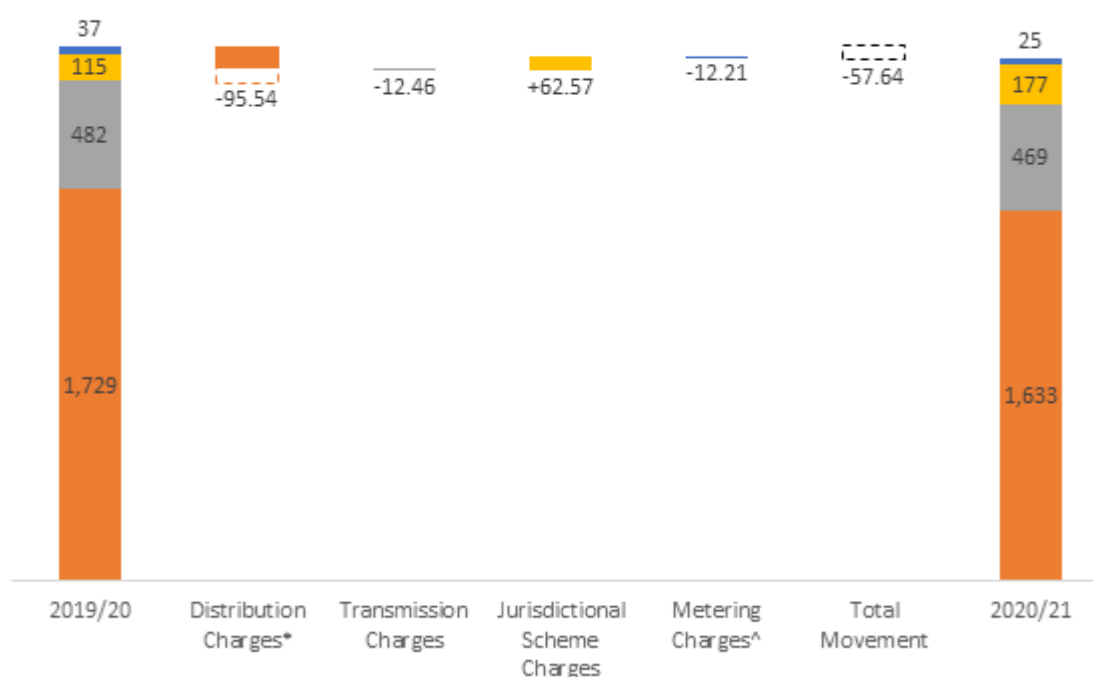
SA Power Networks - Residential (\$)



*Reflects the change in the distribution component in the approved network tariffs provided in the 2020/21 pricing proposal. The dashed orange box represents the further change that was estimated as a result of the AER’s 2020–25 regulatory determination, but has not eventuated in the approved tariffs due to subsequent adjustments made for factors such as incentive scheme payments, consumption movements and previous year under/over-recoveries.

^Reflects the typical charge for a customer with a Type 5 or 6 meter, as set in the AER’s 2020–25 regulatory determination.

SA Power Networks - Small Business (\$)



*Distribution charges reflect the change in the distribution component in the approved network tariffs provided in the 2020/21 pricing proposal. The dashed orange box represents the further change that was estimated as a result of the AER’s 2020–25 regulatory determination, but has not eventuated in the approved tariffs due to adjustments made for factors such as incentive scheme payments, consumption movements and previous year under/over-recoveries.

^Reflects the typical charge for a customer with a Type 5 or 6 meter, as set in the AER’s 2020–25 regulatory determination.

At an aggregate revenue level, transmission revenues are increasing due to an increase in SA Power Networks’ transmission costs, and jurisdictional scheme revenues are broadly unchanged. This is broadly consistent with the estimated bill impact for residential customers on a Residential Single Rate (Type 6 meter) tariff. However, small business customers on a Business Single Rate tariff are estimated to experience a small decline in transmission charges and an increase in jurisdictional scheme charges. This reflects that SA Power Networks has discretion around how transmission and jurisdictional scheme costs are passed through at the tariff level, where the tariffs meet requirements of the NER and TSS at the aggregate levels.

Metering charges are also decreasing slightly, consistent with the metering prices set in our revenue determination for SA Power Networks.