news release

AUSTRALIAN ENERGY REGULATOR

GPO Box 520
Melbourne VIC 3001
www.aer.gov.au

AER ISSUES FINAL DECISION FOR SOUTH AUSTRALIA

29 October 2015

The Australian Energy Regulator has issued its final decision on the revised revenue proposal submitted by the South Australian electricity distribution business SA Power Networks (SAPN). SAPN is part owned by Spark Infrastructure (ASX:SKI).

The final decision is expected to reduce the total amount consumers pay for electricity in South Australia over the regulatory period. Customers will receive savings of approximately $203 over 2015-2016. Going forward, we expect there will be a slight increase each year in the network component of customer bills. Over the five years, this represents an average savings of five per cent or $101.

“The AER’s role is to ensure that consumers pay no more than necessary for the safe and reliable delivery of electricity by setting the maximum overall revenue these monopoly businesses can recover from customers,” AER Chair Paula Conboy said.

The expected final savings in South Australia are less than expected in the preliminary decision, primarily due to a revised and more accurate approach to depreciation, and changes in underlying interest rates impacting the cost of capital.

“Our goal in regulating the networks is to create incentives for these monopoly businesses to spend efficiently and to share the benefits of efficiency gains with consumers over time,” Ms Conboy said.

“SA Power Networks, which contributes around 38 per cent of an average South Australian household’s electricity bill, has been a relatively efficient distributor, compared to some of its interstate peers. However, SA Power Networks proposed significant increases in expenditure compared to the 2010-15 period to undertake additional activities, which would have meant higher prices for consumers.”

“We do not consider that this additional expenditure is efficient nor justified, so these additional expenditures have not been accepted. However, our decision means that SA Power Networks will have more funding than in the previous period for existing programs such as reducing bushfire risk,” Ms Conboy said.

Estimated electricity bill impacts 2015-20:

Network business	Business revised revenue proposal	AER final decision	Percentage difference	Expected total bill reduction for average household over 2015–20
SA Power Networks	$4535 million	$3838 million	– 15.4 per cent	$101

Note: ($ Nominal)

The AER has accepted much of what SA Power Networks has proposed in relation to the depreciation allowance. This means higher revenues over the 2015-20 period than in our preliminary decision, but will also result in a lower asset base and reduced depreciation in future regulatory periods.

Extensive consultation has occurred since the preliminary decision was released, including the submission of a revised proposal by SA Power Networks as required under the regulatory regime for monopoly networks.

The AER has not accepted the revised revenue allowance proposed by SA Power Networks, in part due to our decision to apply a lower rate of return and corporate tax allowance, consistent with the rate of return guideline and recent market trends.

We have also factored in recent falls in electricity demand and flat demand forecasts over the regulatory period, meaning less investment is required to provide a safe and reliable supply of energy.

The AER established an expert panel including consumer advocates to advise on how revenue proposals meet consumer expectations. The Consumer Challenge Panel (CCP) assists the AER to make better regulatory determinations by providing input on issues of importance to consumers.

Further information on the CCP and Better Regulation program, including our assessment approaches, can be found on the AER website. More detailed information for each of the final decisions can be found in the separate fact sheets for each business.

AER Media: 1300 138 917

Further information is available at www.aer.gov.au