

Drop-in session for consultative group members

Regulation 101 – an overview of the regulatory environment in which we operate

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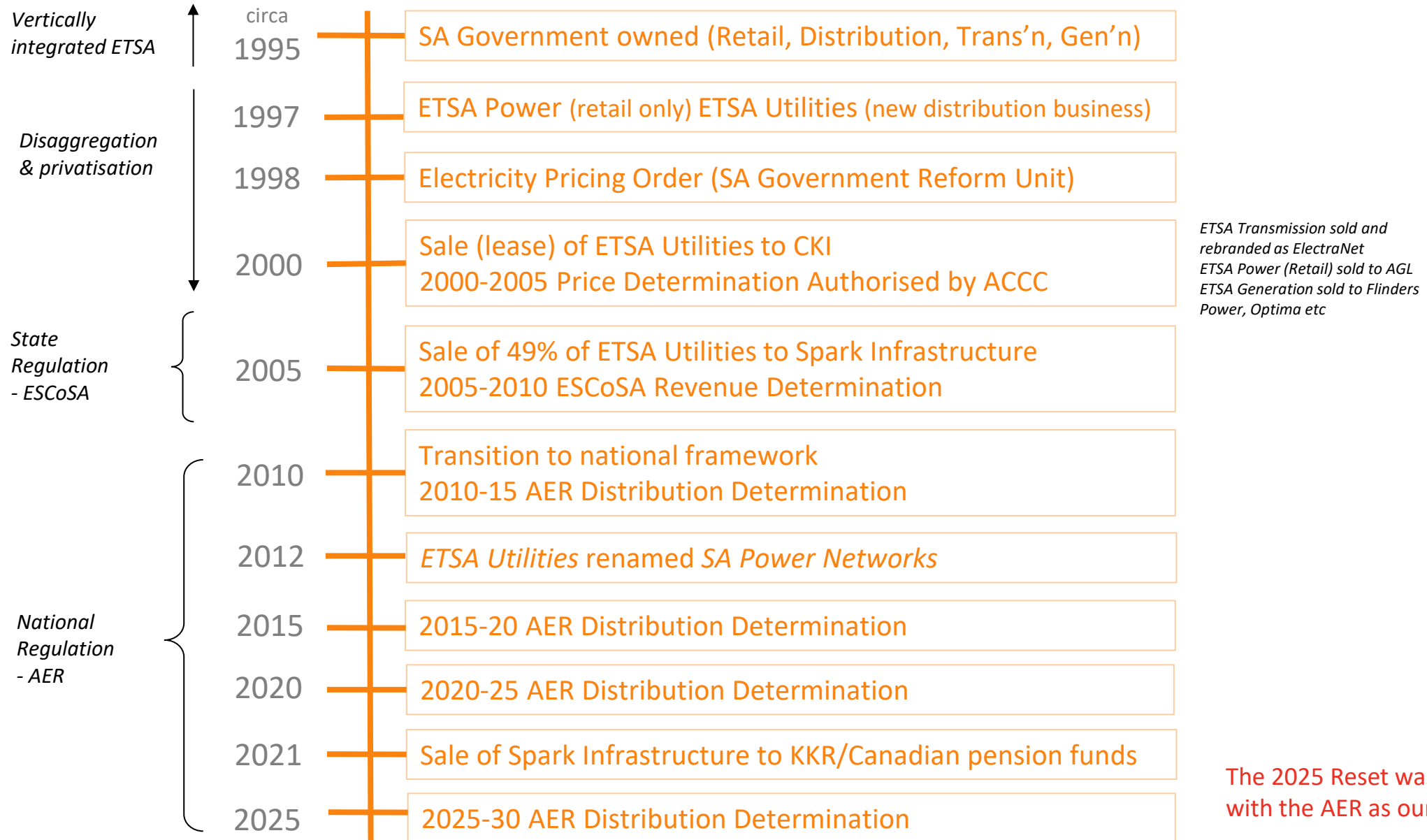
Empowering South Australia

Outline

- The regulatory environment
- Funding arrangements
- 2025 Regulatory Proposal ('price reset') update

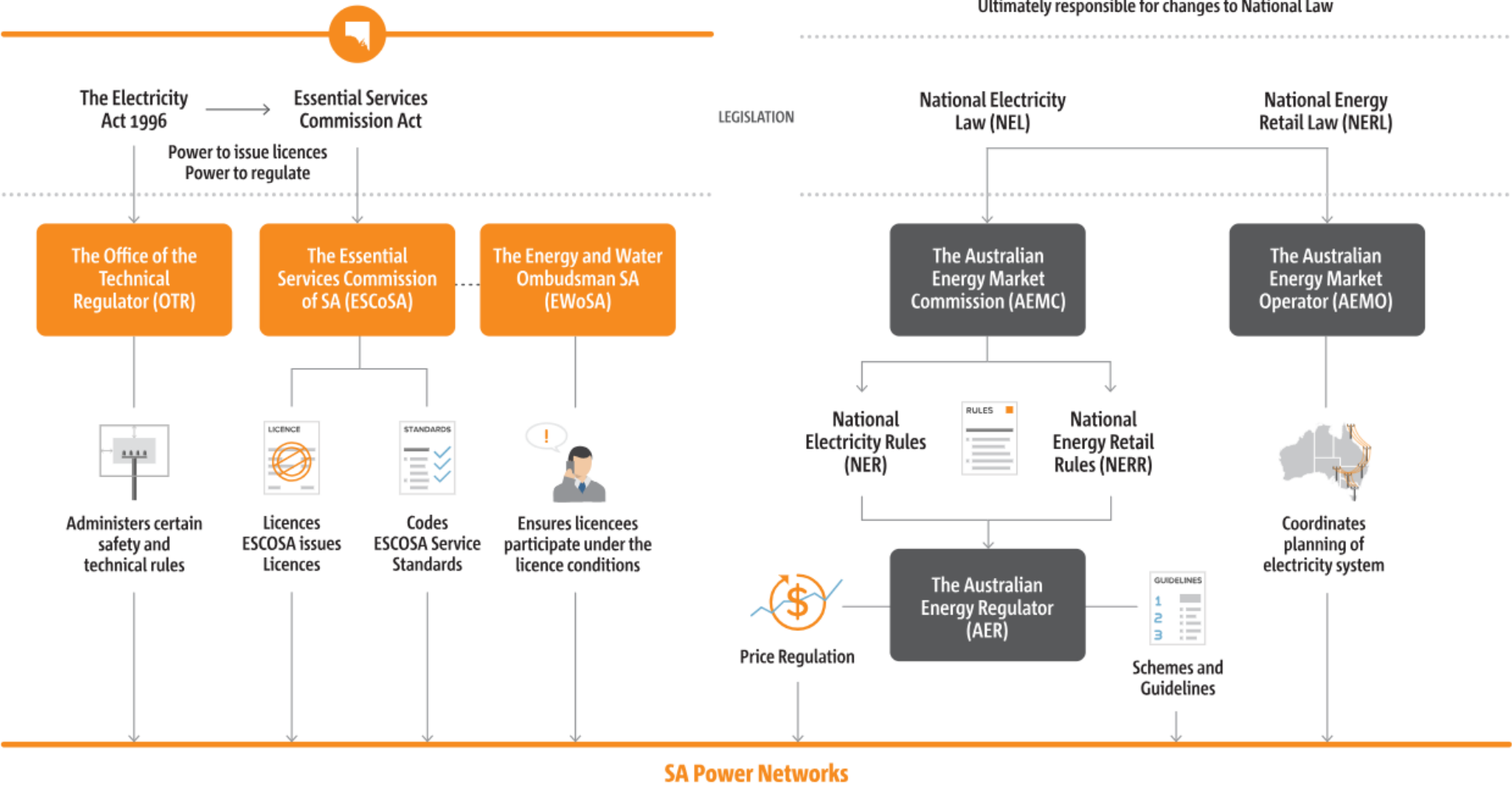


The regulatory environment has evolved since privatisation



The 2025 Reset was our 4th with the AER as our regulator

The Regulatory Framework has state and national components



SA Power Networks is a regulated monopoly business

- Distribution network – a natural monopoly
- ‘Regulatory compact’ – regulated revenue & expenditure allowances to provide services to an agreed standard
- Regulation is built around the **National Electricity Objective** (NEO), and the idea of **the long-term interests of customers**
- Three key regulators oversee this compact
 - **Office of the Technical Regulator (OTR)** – safety and technical standards
 - **Essential Services Commission of SA (ESCoSA)** – reliability and service standards
 - **Australian Energy Regulator (AER)** – revenue and price regulation

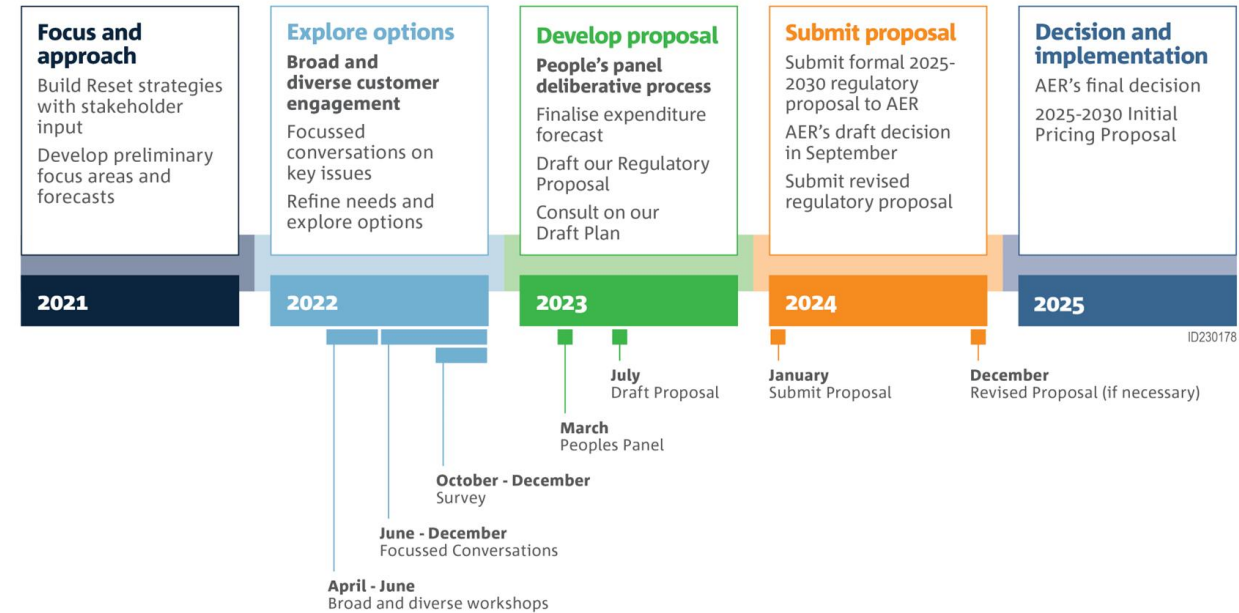
SA Power Networks receives a fixed 5-year revenue, in exchange for meeting agreed levels of service

The NEO: to...

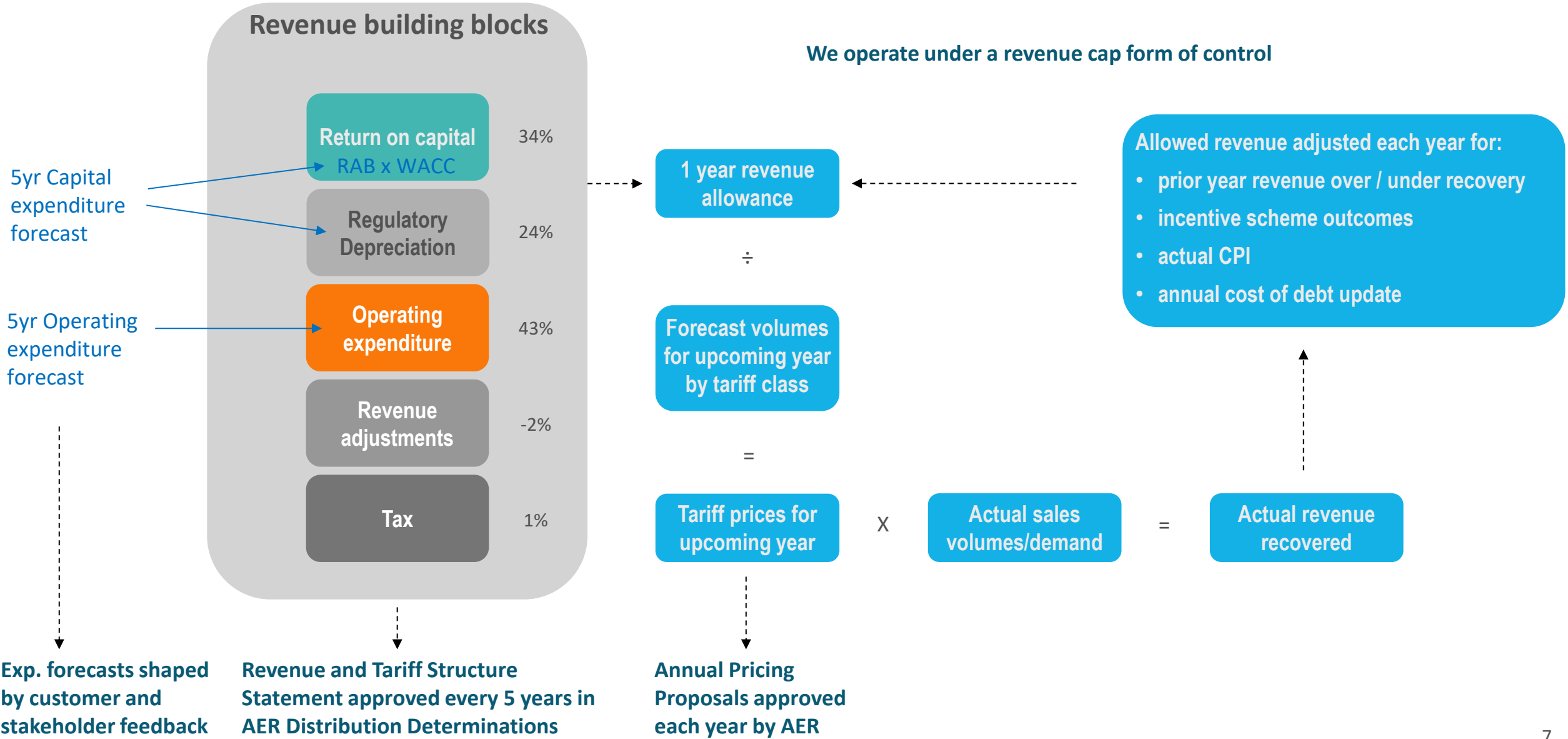
“promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity with respect to: price, quality, safety, reliability, and security of supply of electricity; and the reliability, safety and security of the national electricity system; and the achievement of targets set regarding greenhouse gas emissions”

The AER determines our allowed revenue every 5-years

- We prepare a Regulatory Proposal every 5 years
 - with proposed work plans and expenditures
 - shaped by extensive consultation with customers and stakeholders
 - AER determines capital expenditure, operating expenditure and **revenue** allowances for the upcoming 5-year regulatory period
- We are funded to maintain service standards/meet obligations
 - customer service and network reliability standards are set by ESCOSA (in the Electricity Distribution Code)
 - safety and technical obligations are governed by OTR
 - robust business cases needed for new/improved services



Annual revenue allowances are recovered from our business and residential customers via distribution tariffs adjusted & approved annually by the AER



How do we 'get' the money? It's all paid for by our customers

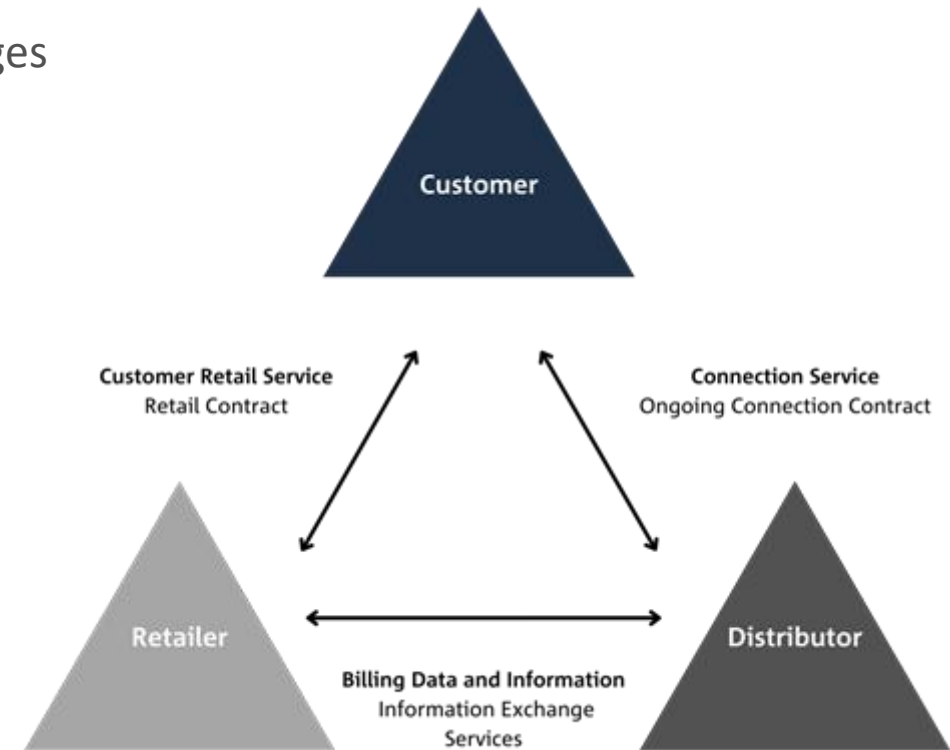
How we 'get' the cash:

- SAPN bills retailers each month (on Day 9) for distribution tariff charges incurred by their/our customers
- Distribution revenue (cash) is received from retailers (Day 23)

We use this cash to:

- fund our day-to-day operating & maintenance expenses
- pay interest on our debt from lenders*
- make dividend payments to owners on their equity contribution

*Lenders include banks, insurance funds, investment fund managers



We have two key types of expenditure: capital (capex) and operating (opex)

Example

- Capex = purchase/build new house
- Opex = run the household (pay the bills), make some repairs

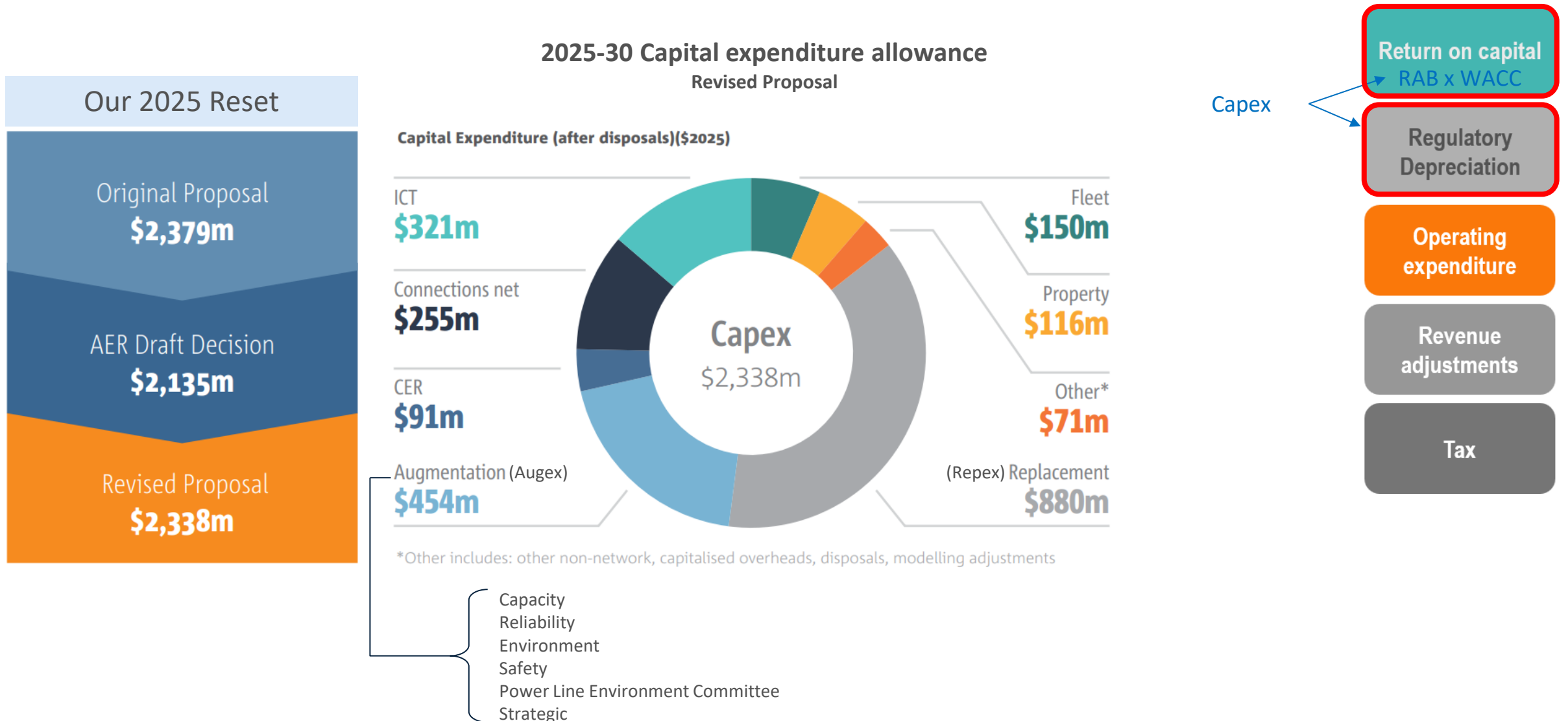


For SA Power Networks:

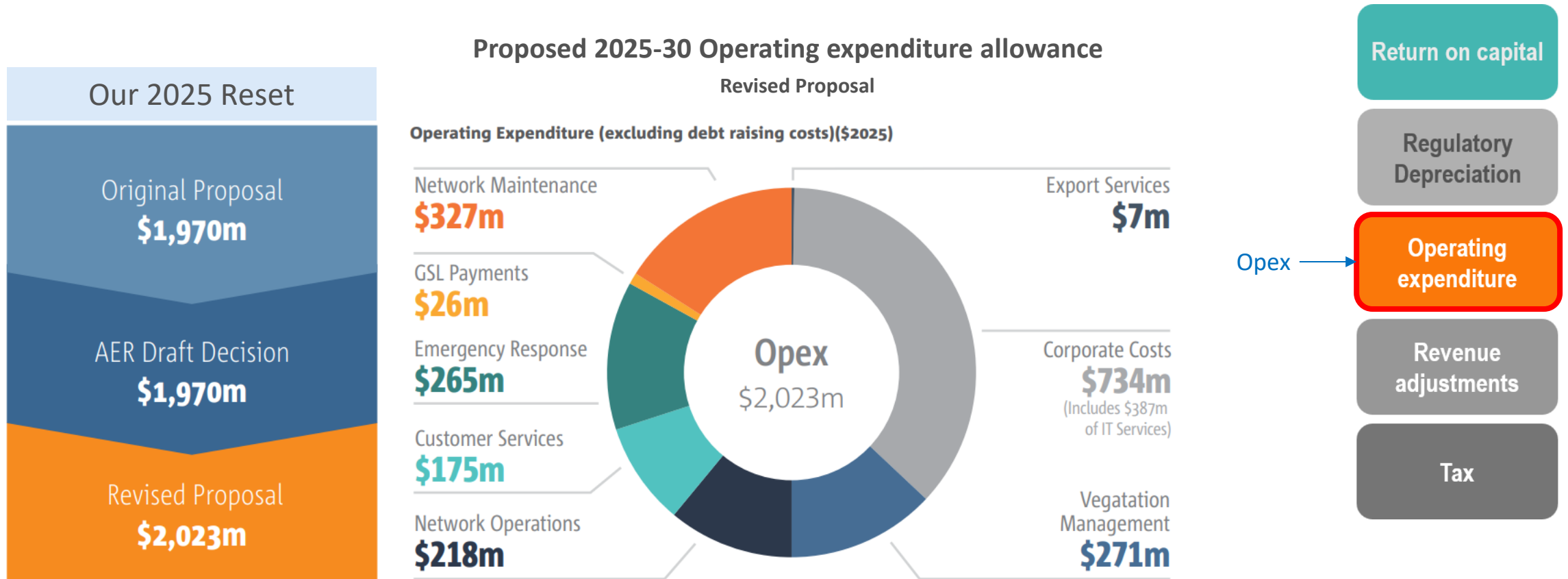
- Capex = invest in new/refurbished network and non-network assets (ICT, Fleet, Property)
- Opex = operate and maintain assets



We invest capital into our network and non-network assets



And we have a range of operating and maintenance costs



The AER recognises we are an efficient distributor:

“over time, SA Power Networks has been one of the most productive and efficient distributors in the NEM”

The depreciation allowance is a significant component of our revenue

The annual depreciation allowance component of our revenue depends on the type of assets in service and when they were installed. Different asset classes have different lives:

- Stobie Poles – 80 years
- Sub-transmission lines, LV service lines – 55 years
- Distribution lines 52.1 years
- Substations and transformers – 45 years
- Buildings – 40 years
- Relays & Comms assets – 15 years
- Heavy vehicles – 10 or 15 years
- Light vehicles – 5 years
- ICT & software – 5 years

For regulatory purposes, all SAPN (ETSA Utilities) assets installed up to 2010 were deemed to have an average remaining life of up to 22 years.

These assets are becoming fully depreciated over the next 10 years contributing to lower revenues in the future.

Return on capital

Regulatory
Depreciation

Operating
expenditure

Revenue
adjustments

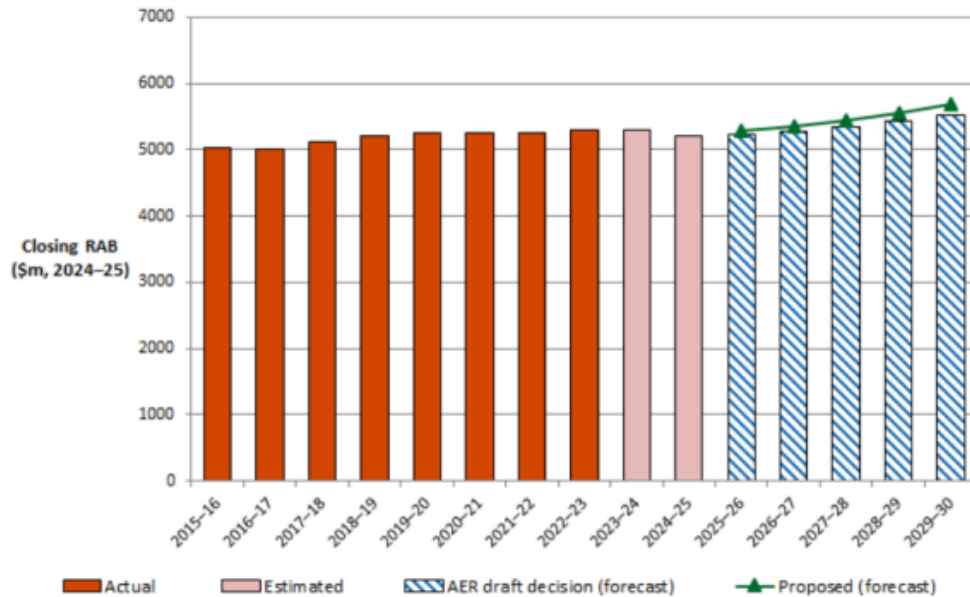
Tax

For example:

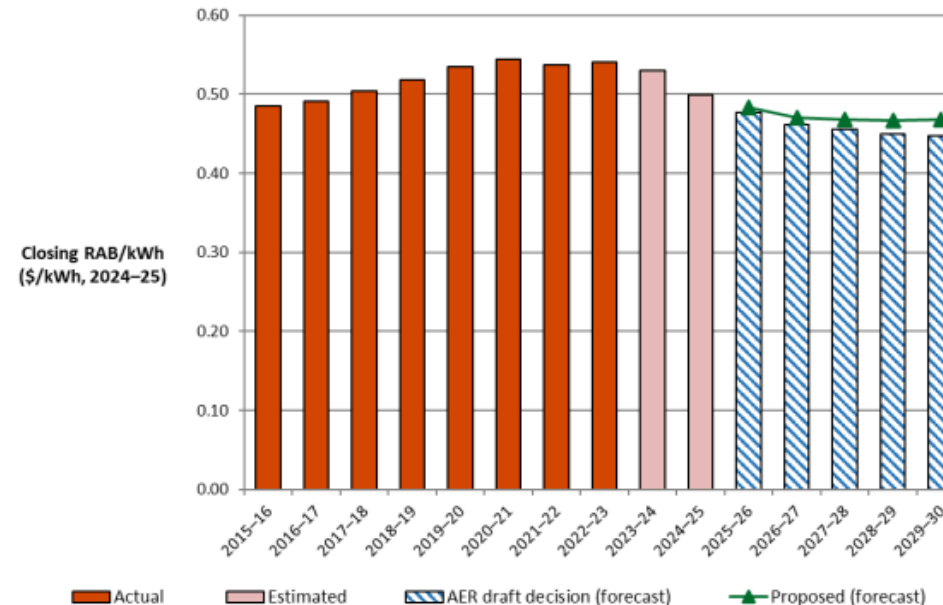
- \$10m ICT investment increases the RAB by \$10m but becomes fully depreciated (and out of the RAB altogether) after 5 years – bigger annual depreciation revenue building block for 5 years
- \$10m in power lines increases RAB by \$10m but is depreciated over 55 years – smaller annual depreciation revenue building blocks, but for 55 years

The allowed return on our regulated asset base (RAB) is another significant revenue component

RAB



RAB per kWh



Return on capital

Regulatory
Depreciation

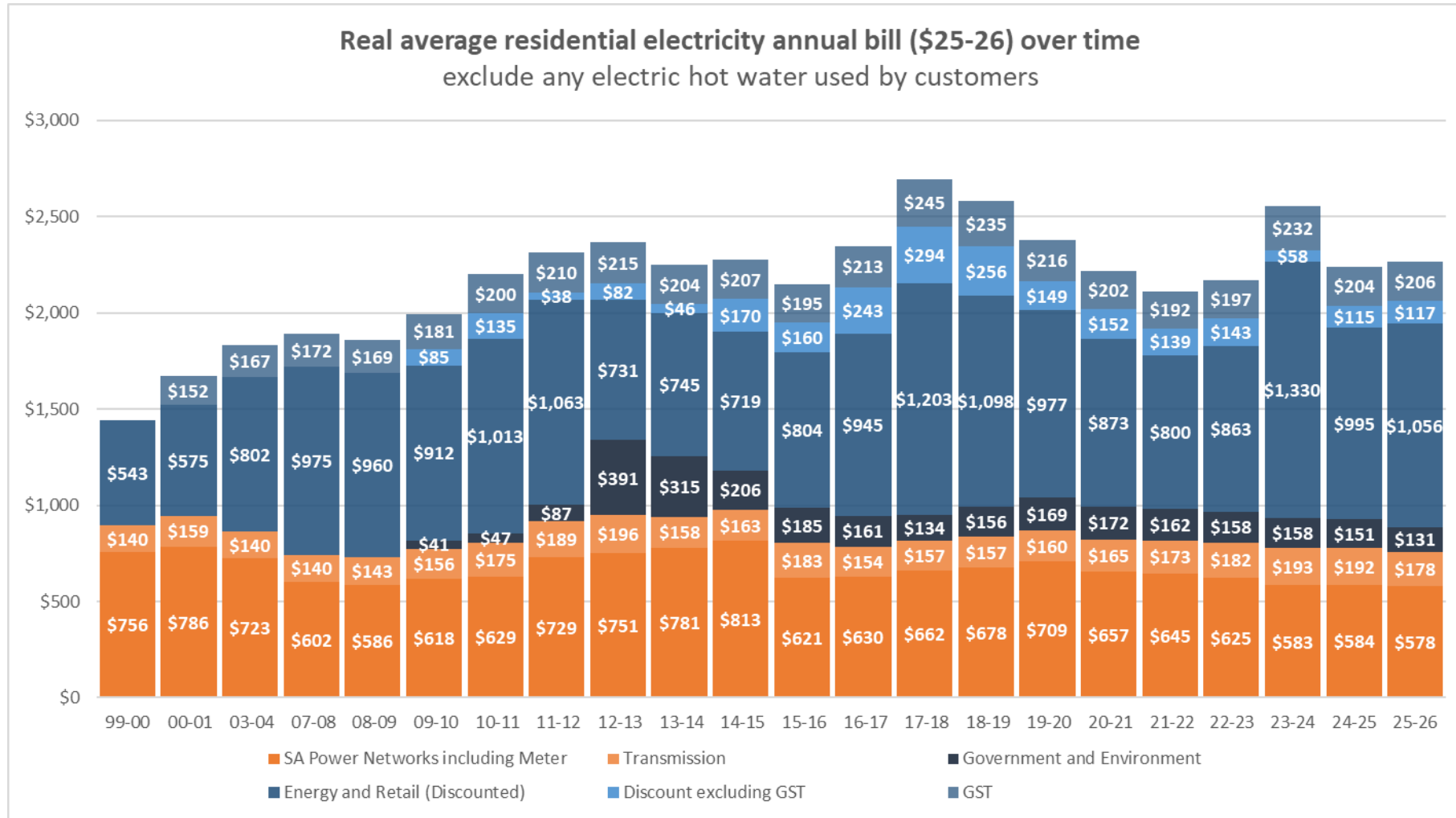
Operating
expenditure

Revenue
adjustments

Tax

- The return on the RAB contributes more than a quarter of total revenue/customer prices
- AER's Final Decision: 1 July 2025 opening RAB value \$5.2 billion nominal and by 30 June 2030 increases to \$6.4 billion nominal
- However, electricity volumes delivered over 2025-30 increase by 18%, reducing the RAB/kWh over the same period
- The allowed rate of return (6.12%* nominal vanilla) reflects the weighted average cost of capital determined by the AER (*the return on debt component of the rate of return will be updated each year)

Our charges to customers are lower than when we were privatised



← \$578 SAPN

Our charges are around one quarter of the retail bill and, adjusting for inflation, are now lower than when we were privatised.

Summary – key takeaways

- SA Power Networks is a regulated monopoly.
- Funding sources include revenue received, debt issued by lenders and owner's equity.
- Nearly 90% of our revenue is pre-determined by the AER every 5 years (Reset process).
- We recover our allowed revenue from customers (via distribution bills to the customers' retailers).
- AER approves our tariffs (and other fees) each year.
- Our charges are now around one quarter of the retail bill and have largely remained constant since privatisation.