

SA's energy plan affordable, will increase power security, Moody's says

By business reporter [Stephen Letts](#)
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The South Australian Government's energy plan, drawn up in the wake of the state's recent blackout woes, has been given a tentative tick of approval by the global credit ratings agency Moody's.

Moody's has left its credit rating of South Australian debt unchanged, despite noting the \$500 million plan could increase the budget deficit and leave the state exposed to the risks associated with operating a power plant.

"We believe that this plan — if executed as outlined — has a high likelihood of improving the state's energy security and reliability over time, but there is less visibility over the extent to which it will reduce power price volatility," Moody's said.

"These considerations will influence investment in the state, which in turn is a factor in managing its economic transition after the forthcoming closure of its motor manufacturing industry later in 2017."

The South Australian plan includes building a new gas-fired gas generator at an estimated cost of around \$360 million by next summer and establishing a \$150 million battery storage and renewable energy technology fund.

On Moody's figures, the capital expenditure portion of the plan represents a 3 per cent increase in SA's total capital spending of around \$9.8 billion.

Given the costs have yet to be offset by savings, Moody's found the plan would increase the budget deficit to 1.6 per cent of revenues over the next three years, compared to the 0.6 per cent estimate published in the SA treasury's mid-year economic update.

"The additional spending will place greater pressure on the state's budget, but will be manageable, given the amounts involved," Moody's said.

Impact downplayed

Moody's also downplayed the impact on the creditworthiness of the SA Government's decision to re-enter the energy market by operating the planned 250 megawatt gas-fired peaking power station.

"The Government only intends to dispatch electricity from the proposed power station when supply is insufficient to meet demand in the state," Moody's said.

"We believe such an approach will limit the state's exposure to potential losses relative to those of a typical merchant peaking power plant.

"While we expect the new peaking power station to have a higher marginal cost of generation than the state-based renewable generators and electricity supplied from neighbouring Victoria, we expect any operating losses will likely be an immaterial portion of the state's overall budget."

Moody's said addressing power supply and reliability concerns were vital in maintaining stable economic conditions over the longer term.

"These conditions in turn influence the State Government's finances through their second-order effect on government revenue sources, such as payroll taxes and conveyancing duty," Moody's noted.

Moody's left South Australia's debt pegged at Aa1 with a stable outlook, one notch below the Aaa rating of Commonwealth, New South Wales and Victorian debt and on-par with Queensland.

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PHOTO: Renewable energy represents the largest source of SA's electricity. (ABC News: Billy Cooper)

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Key points:

- Moody's says \$500 million plan will increase SA budget deficit, but is manageable
- It should increase energy reliability and maintain economic stability over longer term
- Potential operating losses of "peaking" gas generation likely to be immaterial

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