news release

AUSTRALIAN ENERGY REGULATOR

GPO Box 520
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AER ISSUES NETWORK REVENUES DRAFT DECISIONS FOR ACT AND NSW ENERGY CUSTOMERS

The Australian Energy Regulator (AER) has issued draft decisions on the revenue proposals submitted by ACT and NSW distribution and transmission businesses starting on 1 July 2015. The draft decisions apply to:

- one electricity distribution business in the ACT (ActewAGL),
- three electricity distribution businesses in NSW (Ausgrid, Endeavour Energy and Essential Energy),
- one gas distribution business in NSW (Jemena Gas Networks), and
- two electricity transmission businesses in NSW (TransGrid and Directlink (Directlink is an unincorporated joint venture owned by Energy Infrastructure Investments Pty Ltd which is partially owned by Australian Pipeline Ltd (APA)).

Transmission networks transport power over long distances, linking generators with load centres. Distribution networks transport electricity from points along the transmission network to a customer's premises, criss-crossing urban and regional areas in the process.

These draft decisions form part of the AER's consultation process and have been made on the basis of information provided by the businesses, extensive consultation with consumers, and the AER's own analysis. The AER will make its final determinations in April and May 2015 after further consultation including submissions from the businesses, consumers, and other stakeholders.

The draft decisions propose the revenue amounts that these businesses can recover from customers through network charges. Up to 50 per cent of a consumer's energy bill can be attributed to the cost of delivering electricity through the transmission and distribution networks.

"Our draft decisions propose lower allowed revenues for transferring electricity and gas, which, if implemented, should result in lower energy bills for end users in the ACT and NSW" AER Chair Ms Paula Conboy said.

"We have not accepted the revenue allowances proposed by any of the ACT and NSW gas or electricity businesses. In part, this is due to our decision to apply a lower rate of return and corporate tax allowance, consistent with our Rate of return guideline and recent market trends."

Through its Better Regulation program, the AER developed a number of guidelines aimed at delivering an improved regulatory framework focused on the long term interests of consumers. The guidelines set out how the AER will determine the rate of return that electricity and gas network businesses can earn on their investments. The guidelines also explain how the AER will assess expenditure proposals from regulated businesses, and how the right incentives will encourage efficient spending by businesses.

"We have applied our new guidelines to better forecast how much network businesses should need to spend," Ms Conboy said.

“This is the first time we have made a draft decision under the new National Electricity Rules and National Gas Rules.”

“Under the new rules we must be satisfied that energy businesses are providing their services as efficiently as possible. We balance the requirements of a safe, stable and reliable network against the price pressures facing consumers.”

The AER has also established an advisory panel including consumer advocates that advises the AER on how pricing 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 can be found on the AER website http://www.aer.gov.au.

A more detailed appendix for each of the draft decisions follows below. A separate fact sheet can also be found for each of the seven businesses.

Media inquiries
AER Media 1300 138 917
MR 26/14
27 November 2014

Appendices

Appendix 1 – NSW electricity distribution (Ausgrid, Endeavour and Essential Energy)

Appendix 2 – ACT electricity distribution (ActewAGL)

Appendix 3 – TransGrid transmission

Appendix 4 – Directlink transmission

Appendix 5 – NSW gas distribution (Jemena Gas Networks)

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APPENDIX 1 - AER ISSUES NETWORK REVENUES DRAFT DECISIONS FOR NSW ELECTRICITY DISTRIBUTION

The Australian Energy Regulator (AER) has issued draft decisions for Ausgrid, Endeavour Energy and Essential Energy's revenue proposals for the four years starting on 1 July 2015. These draft decisions form part of the AER's consultation process in determining an appropriate level of revenues that these businesses may recover from their customers.

Ausgrid, Endeavour Energy and Essential Energy are the distribution businesses responsible for the poles and wires that transport electricity to homes and businesses in NSW. These draft decisions propose the revenue amounts (and therefore charges) that these three businesses can recover from their customers from 1 July 2015 to 30 June 2019.

For a typical electricity customer in NSW, distribution network service charges represent about 40 per cent of the total electricity bill with generation costs, transmission charges, and retailer's charges making up the remainder.

"We estimate that our draft decisions, if implemented, would reduce annual electricity bills for a typical residential household living in NSW, on average, by $219 (10 per cent) in 2015–16. Similarly, annual electricity bills for small business customers, such as shop owners, would reduce by an average of $360 (10 per cent) in 2015–16. These reductions would be followed by small increases in each of the three subsequent years," AER Chair Ms Paula Conboy said.

The AER has proposed capital expenditure of $5928 million and operating expenditure of $4608 million over the period 2014–19 for these three businesses (38 and 35 per cent less than what the businesses proposed).

The AER undertook extensive benchmarking work that found that NSW businesses are less efficient than their counterparts in Victoria and South Australia.

While the AER acknowledges that the businesses have begun cutting costs, the AER considers that there is considerable scope for further efficiencies. The AER has proposed reductions in operating costs ranging from 22% for Endeavour Energy to 38% for Ausgrid and Essential Energy.

"The demand for electricity is falling which puts less strain on the networks and requires less investment to provide a reliable supply of energy. These draft determinations reduce the spending proposals to ensure that only prudent and efficient costs are recovered from consumers," Ms Conboy said.

"We recognise that we are proposing significant reductions to allowed revenues and we are seeking comments on whether consumers should pay some of the additional costs of a transition to efficient levels."

The AER has set a rate of return of 7.15 per cent. This is lower than when we last made our decision, reflecting lower interest rates and improved financial market conditions.

“Perceptions of risk increased during the global financial crisis, but are now decreasing. This means that the lower cost of capital for debt and equity translates into the lower financing costs necessary to attract efficient investment,” Ms Conboy said.

Table 1 % difference between original proposal and AER draft determinations

Distribution business	Business proposal	AER draft decision	% difference
Ausgrid	$10092 million	$6565 million	–35 %
Endeavour Energy	$4338 million	$3057 million	–30 %
Essential Energy	$5562 million	$3679 million	–34 %

Notes: These figures reflect total nominal revenue from 2015–16 to 2018–19. The AER has adjusted the business proposals to reflect our April 2014 placeholder decision on 2014–15 revenue.

In its draft decisions, the AER has not approved the public lighting price increases sought by Essential Energy and Ausgrid. The AER has questioned some of the assumptions on which the proposed prices were based. The draft decision contains smaller price increases than sought by the businesses.

In response to the AER's draft decisions, Ausgrid, Endeavour Energy and Essential Energy may provide revised regulatory proposals to the AER by 20 January 2015. Submissions on the AER's draft decisions and the revised regulatory proposals are invited by interested parties and may be made by 13 February 2015.

The AER will make its final determinations in April 2015 after considering further submissions from the NSW businesses, customers, and other stakeholders.

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APPENDIX 2 - AER ISSUES NETWORK REVENUES DRAFT DECISION FOR ACT ELECTRICITY DISTRIBUTION (ACTEWAGL)

The Australian Energy Regulator (AER) has issued its draft decision for ActewAGL for the four years starting on 1 July 2015. The draft decision forms part of the AER's consultation process in determining an appropriate level of revenues that the company may recover from its customers.

ActewAGL is the distribution business responsible for the poles and wires that transport electricity to homes and businesses in the ACT. This draft decision proposes the revenue amounts (and therefore charges) that it can recover from ACT customers from 1 July 2015 to 30 June 2019.

For a typical electricity customer in the ACT, distribution network service charges represent about 35 per cent of the total electricity bill with generation costs, transmission charges, and the retailer's charges making up the remainder.

"We estimate that our draft decision, if implemented, would reduce annual electricity bills for a typical residential household living in Canberra, on average, by $182 (9 per cent) in 2015–16. Similarly, annual electricity bills for small business customers, such as shop owners, would reduce by an average of $273 (9 per cent) in 2015–16. These reductions would be followed by small increases in each of the three subsequent years," AER Chair Ms Paula Conboy said.

In its draft decision the AER has proposed a capital expenditure of $263 million and an operating expenditure of $241 million for ActewAGL (36 and 42 per cent less than what ActewAGL has proposed) over the 2014–19 period.

The AER undertook extensive benchmarking work that found that ActewAGL is less efficient than its counterparts in Victoria and South Australia.

"The demand for electricity is falling which puts less strain on the networks and requires less investment to provide a reliable supply of energy. This draft determination reduces the spending proposal to ensure that only prudent and efficient costs are recovered from consumers," Ms Conboy said.

"We recognise that we are proposing significant reductions to allowed revenues and we are seeking comments on whether consumers should pay some of the additional costs of a transition to efficient levels."

The AER has set a rate of return of 6.88 per cent. This is lower than when we last made our decision, reflecting lower interest rates and improved financial market conditions.

"Perceptions of risk increased during the global financial crisis, but are now decreasing. This means that the lower cost of capital for debt and equity translates into the lower financing costs necessary to attract efficient investment," Ms Conboy said.

Table 1 % difference between original proposal and AER draft determination

Distribution business	Business proposal	AER draft decision	% difference
ActewAGL	$892 million	$576 million	–35 %

Notes: These figures reflect total nominal revenue from 2015–16 to 2018–19.

In response to the AER's draft decision, ActewAGL may provide a revised regulatory proposal to the AER by 20 January 2015. Submissions on the AER's draft decision and the revised regulatory proposal are invited by interested parties and may be made by 13 February 2015. The AER will make its final determination in April 2015 after considering further submissions from ActewAGL, customers, and other stakeholders.

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APPENDIX 3 - AER ISSUES NETWORK REVENUES DRAFT DECISION FOR TRANSGRID TRANSMISSION

The Australian Energy Regulator (AER) has issued its draft decision for TransGrid's revenue proposal for the three years starting on 1 July 2015. The draft decision forms part of the AER's consultation process in determining an appropriate level of revenues that the company may recover from its customers.

TransGrid is the principal transmission network service provider for New South Wales. It operates the towers and wires that deliver electricity to consumers in cities and towns throughout New South Wales and the Australian Capital Territory. This draft decision proposes the revenue amounts (and therefore charges) that TransGrid can recover from customers from 1 July 2015 to 30 June 2018.

For a typical electricity customer in NSW or the ACT, transmission network service charges represent about seven per cent of the total electricity bill with generation costs, distribution charges, and retailer's charges making up the remainder.

"We estimate that our draft decision, if implemented, would reduce annual electricity bills for a typical residential household living in NSW, on average, by $24 in 2015–16. Similarly, annual electricity bills for small business customers, such as shop owners, would reduce by an average of $38 in 2015–16. These reductions would be followed by small increases in each of the two subsequent years," AER Chair Ms Paula Conboy said.

"In the ACT, we estimate reductions of $21 and $31 on average for these customers in the same period."

These estimates include the impact of the AER's draft decisions on revenues for transmission services provided by Directlink, Ausgrid and ActewAGL—also issued today—which are recovered through TransGrid's transmission network service charges.

In its draft decision the AER has proposed a capital expenditure of $991 million and an operating expenditure of $702 million for TransGrid (34 and 16 per cent less than what TransGrid has proposed) over the 2014–18 period.

TransGrid's forecast capex includes less expenditure on new assets to grow its network than in previous periods, because of slower demand growth. However, the AER has made allowance for the future expenditure needed to replace existing assets where they are no longer in acceptable condition. This will help maintain a reliable electricity supply to customers in NSW and the ACT.

The AER proposes to keep operating expenditure at levels closer to those incurred in the previous regulatory control period. While TransGrid has proposed for continued increases from existing levels of expenditure, the AER is not satisfied that these increases are required.

"The demand for electricity is falling which puts less strain on the networks and requires less investment to provide a reliable supply of energy. This draft determination reduces the spending proposal to ensure that only prudent and efficient costs are recovered from consumers," Ms Conboy said.

The AER has set a rate of return of 7.24 per cent. This is lower than when we last made our decision, reflecting lower interest rates and improved financial market conditions.

"Perceptions of risk increased during the global financial crisis, but are now decreasing. This means that the lower cost of capital for debt and equity translates into the lower financing costs necessary to attract efficient investment," Ms Conboy said.

Table 1 % difference between original proposal and AER draft determination

TransGrid's proposal	AER draft decision	% difference
$3046 million	$2311 million	–24 %

Notes: These figures reflect total nominal revenue from 2015–16 to 2017–18. The AER has adjusted TransGrid's proposal to reflect our earlier decision on 2014–15 revenue.

In response to the AER's draft decision, TransGrid may provide a revised revenue proposal to the AER by 13 January 2015. Submissions on the AER's draft decision and the revised revenue proposal are invited by interested parties and may be made by 6 February 2015.

The AER will make its final determination in April 2015 after considering further submissions from TransGrid, customers, and other stakeholders.

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APPENDIX 4 - AER ISSUES NETWORK REVENUES DRAFT DECISION FOR DIRECTLINK TRANSMISSION

The Australian Energy Regulator (AER) has issued its draft decision for Directlink's revenue proposal for the five years starting on 1 July 2015. The draft decision forms part of the AER's consultation process in determining an appropriate level of revenues that the business may recover from their customers.

Directlink is the high voltage interconnector that links the New South Wales and Queensland networks. This draft decision proposes the revenue amounts that Directlink can recover from customers from 1 July 2015 to 30 June 2020.

Directlink's revenues are recovered through TransGrid's transmission charges. For a typical electricity customer in NSW or the ACT, transmission network service charges represent about seven per cent of the total electricity bill with generation costs, distribution charges, and retailer's charges making up the remainder.

"We estimate that the combined result of our draft decisions for TransGrid and Directlink, if implemented, would be reductions to annual electricity bills for a typical residential household living in NSW, on average, by $24 in 2015–16. Similarly, annual electricity bills for small business customers, such as shop owners, would reduce by an average of $38 in 2015–16," AER Chair Ms Paula Conboy said.

The AER has proposed a capital expenditure of $29 million and an operating expenditure of $18 million over the five year period 2014–19 for Directlink (27 and 37 per cent less than what Directlink has proposed). This is broadly consistent with Directlink's current levels of expenditure. While Directlink has proposed for continued increases from existing levels of expenditure, the AER is not satisfied that these increases are required.

"This draft decision reduces the spending proposals to ensure that only prudent and efficient costs are recovered from consumers," Ms Conboy said.

The AER has set a rate of return of 6.80 per cent. This is lower than when we last made our decision, reflecting lower interest rates and improved financial market conditions..

"Perceptions of risk increased during the global financial crisis, but are now decreasing. This means that the lower cost of capital for debt and equity translates into the lower financing costs necessary to attract efficient investment." Ms Conboy said.

Table 1 % difference between original proposal and AER draft determination

Directlink's proposal	AER draft decision	% difference
$99 million	$76 million	–23 %

Notes: These figures reflect total nominal revenue from 2015–16 to 2019–20.

In response to the AER's draft decision, Directlink may provide a revised revenue proposal to the AER by 13 January 2015. Submissions on the AER's draft decision and the revised revenue proposal are invited by interested parties and may be made by 6 February 2015.

The AER will make its final determination in April 2015 after considering further submissions from Directlink, customers, and other stakeholders.

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APPENDIX 5 - AER ISSUES NETWORK REVENUES DRAFT DECISION FOR NSW GAS DISTRIBUTION (JEMENA GAS NETWORKS)

The AER has issued its draft decision for Jemena Gas Networks (NSW) Ltd's 2015–20 access arrangement. The draft decision forms part of the AER's consultation process in determining an appropriate level of revenues that the business may recover from its customers.

Jemena Gas Networks (NSW) Ltd (JGN) provides gas distribution services in NSW. It is responsible for the pipelines that deliver gas to homes and businesses in NSW.

"Our draft decision, if implemented, would reduce JGN's average tariff by 21 per cent in 2015–16. Network tariffs would remain around these lower levels until we review JGN's access arrangement again in 2019," AER Chair Ms Paula Conboy said.

Distribution charges represent about 50 per cent of a customer's annual gas bill, with wholesale, transmission, and retail costs making up the remainder.

"Our draft decision would place downward pressure on bills during the 2015–20 period as it proposes to reduce distribution charges. However, the wholesale gas price is forecast to increase significantly over the next few years, which will place upward pressure on bills," Ms Conboy said.

"While this makes price predictions difficult, the draft decision today, if implemented, would see consumers paying only what is necessary for an efficient service."

JGN's proposal included real price reductions, and was supported in many areas by constructive engagement with consumers. The major differences between JGN's proposal and our draft decision relate to rate of return and capital expenditure.

The AER has set a rate of return of 6.80 per cent. This is lower than when we last made our decision, reflecting lower interest rates and improved financial market conditions. This compares to JGN's 8.67 per cent.

"The investment environment has improved since our previous decision in 2010. As a consequence, the lower cost of debt and equity translates to the lower financing costs necessary to attract efficient investment," Ms Conboy said.

The AER has also approved capital expenditure of $988 million over 2015–20, 19 per cent less than JGN's proposal of $1217 million. Most of the capital expenditure adjustments are to JGN's meter replacement program and the cost of new residential connections.

Table 1 Per cent difference between JGN's proposal and AER's draft decision

JGN's proposal	AER draft decision	% difference
$2933 million	$2477 million	–16 %

Notes: These figures reflect total nominal revenue from 2015–16 to 2019–20.

In response to the AER's draft decision, JGN may provide a revised proposal to the AER by 27 February 2015. Submissions on the AER's draft decision and the revised proposal are invited by interested parties and may be made by 27 March 2015.

The AER will make its final decision in May 2015 after considering further submissions from JGN, customers and other stakeholders.

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27 November 2014

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AER ISSUES NETWORK REVENUES DRAFT DECISION FOR TASMANIAN ENERGY CUSTOMERS

The Australian Energy Regulator (AER) has issued its draft decision on the revenue proposal submitted by the Tasmanian electricity transmission business, TasNetworks (previously known as Transend). The revenue proposal applies for the four years starting on 1 July 2015.

TasNetworks is responsible for the transmission lines that transport electricity across Tasmania. This draft decision proposes the revenue amount (and therefore charges) that this business can recover from its customers from 1 July 2015 to 30 June 2019. Up to 50 per cent of a consumer's energy bill can be attributed to the cost of delivering electricity through the transmission and distribution networks.

"We have broadly accepted the revenue proposal put forward by TasNetworks as fair and reasonable," AER Chair Ms Paula Conboy said.

"TasNetworks has managed to balance the need for a safe and reliable energy supply with the concerns customers have raised about their bills."

"We estimate that our draft decision, if implemented, would reduce annual electricity bills for a typical residential household living in Tasmania, on average, by $10 in 2015–16. Similarly, annual electricity bills for small business customers, such as shop owners, would reduce by an average of $16 in 2015–16," Ms Conboy said.

This decision included input from an advisory panel including consumer advocates that advises the AER on how pricing 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.

"This is the first decision under the new regulatory framework that allows the AER to closely examine businesses' spending proposals to ensure consumers are only paying for an efficient service," Ms Conboy said.

"TasNetworks was able to clearly demonstrate that it has listened to its customers and taken steps to address customer concerns. AER benchmarking has found TasNetworks to be operating more efficiently than many other businesses in the National Electricity Market."

The AER has set a rate of return of 6.88 per cent consistent with the approach set out in its Rate of return guideline. This approach has been adopted by TasNetworks.

The AER draft determination allows TasNetworks to recover $731 million in total revenue from its customers for the four year determination period.

In response to the AER's draft decision, TasNetworks may provide a revised revenue proposal to the AER by 13 January 2015. Submissions on the AER's draft decision and the revised revenue proposal are invited by interested parties and may be made by 6 February 2015.

The AER will make its final determination in April 2015 after considering further submissions from TasNetworks, customers, and other stakeholders.

Media inquiries
AER Media 1300 138 917
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