

NSW 2024–29 Draft decisions Predetermination conference

AER Board Member – Lynne Gallagher – Conference Chair
9 October 2023

Acknowledgement of country

Lynne Gallagher
AER Board Member

AER welcome and introductions

Lynne Gallagher
AER Board Member

Agenda

Topic	Speaker	Duration
Welcome / Acknowledgement of country	Lynne Gallagher, AER Board Member	5 mins
Key themes of our draft decision	Lynne Gallagher, AER Board Member	10 mins
AER's NSW 2024–29 draft decisions	Arek Gulbenkoglou, General Manager, AER Network Expenditure Branch	20 mins
Network businesses next steps and any reflections	Ausgrid Endeavour Essential	5 mins each
Facilitated discussion	Kris Funston, Executive General Manager	30 mins
Questions for the AER, Ausgrid, Endeavour and Essential	AER Network Regulation	
Closing remarks, next steps	Lynne Gallagher, AER Board Member	5 mins

Key themes of our draft decisions

Lynne Gallagher
AER Board Member

Key themes

- Ensuring consumers pay no more than necessary for safe and reliable energy
- Supporting the energy transition
- Consumer engagement driving proposals
- New emissions objectives
- Network tariff reform

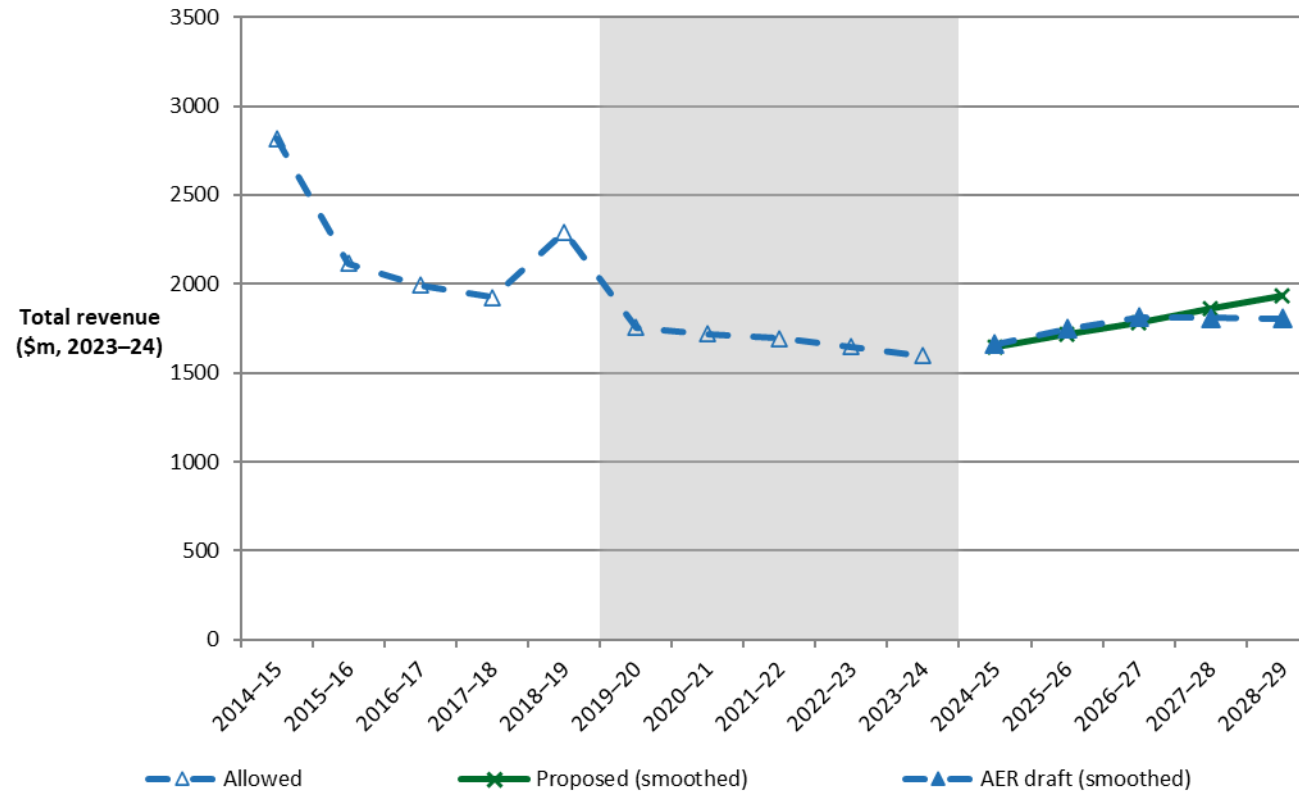


AER's NSW 2024-29 draft decisions

Arek Gulbenkogl
General Manager
Network Expenditure Branch

Ausgrid

Ausgrid - Changes in regulated revenue over time – distribution and transmission (\$ million, 2023–24)



Source: AER analysis

Ausgrid

Key figures

- Our draft decision: **\$9,619.6 million** (\$ nominal, smoothed)
 - **1.5%** reduction from Ausgrid's proposal
 - **5.1%** higher than our decision for the current (2019–24) period.

Key areas of difference from Ausgrid's proposal to our draft decision:

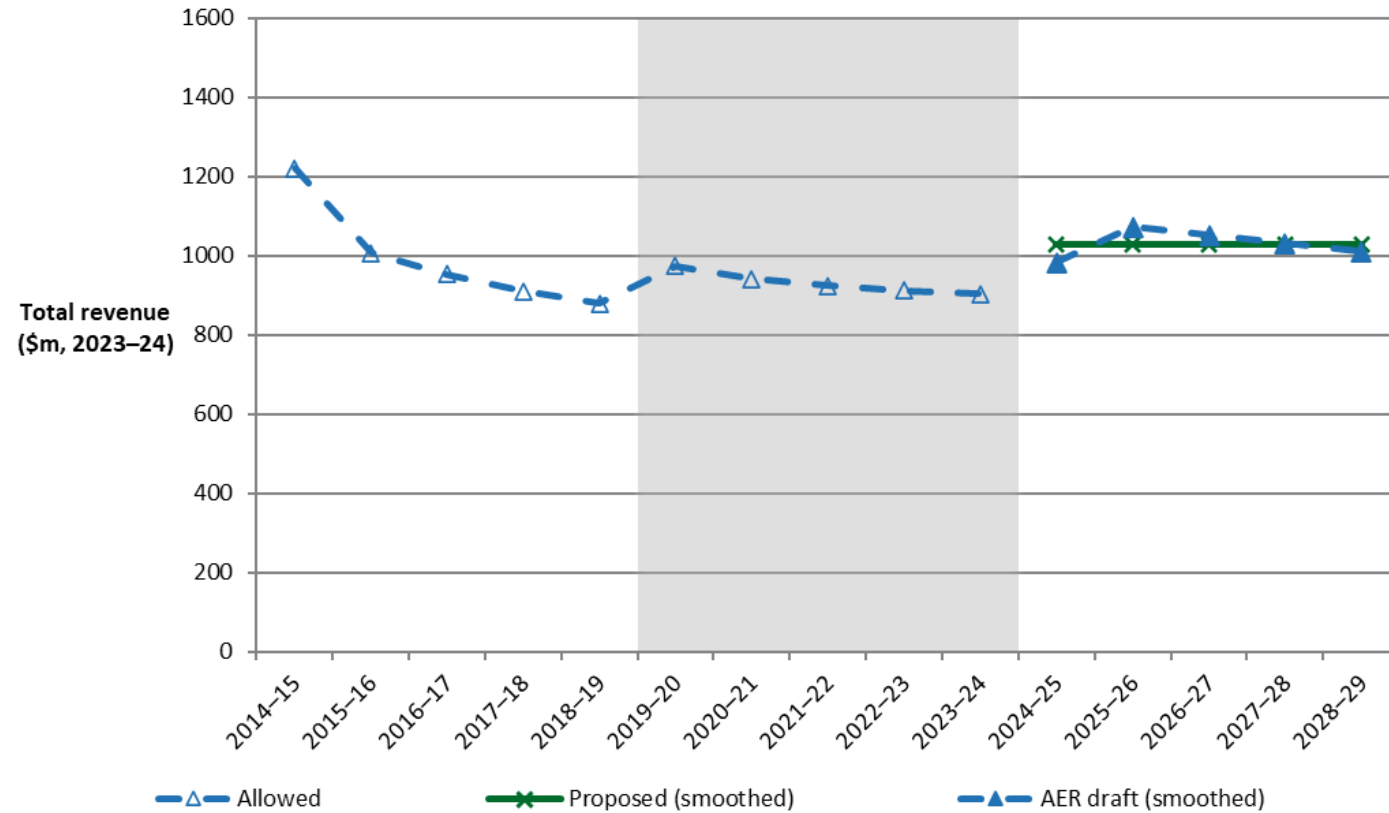
- Reductions in capex and opex and lower CESS adjustment, offset by higher regulatory depreciation and higher return on capital.
- Our draft decision:
 - Capex: **\$2,736.1 million** (\$560.5 million or 17% lower than proposed)
 - Opex: **\$2,254.3 million** (\$166.2 million or 6.9% lower than proposed)

Areas of focus

- New and emerging expenditure areas – climate resilience, Consumer Energy Resources (CER), cyber security and innovation
- Tariff structure statement

Endeavour

Endeavour - Changes in regulated revenue over time (\$ million, 2023–24)



Source: AER analysis

Endeavour

Key figures

- Our draft decision: **\$5,597.8 million** (\$ nominal, smoothed)
 - **0.1%** reduction from Endeavour's proposal
 - **10.6%** higher than our decision for the current (2019–24) period.

Key areas of difference from Endeavour's proposal to our draft decision:

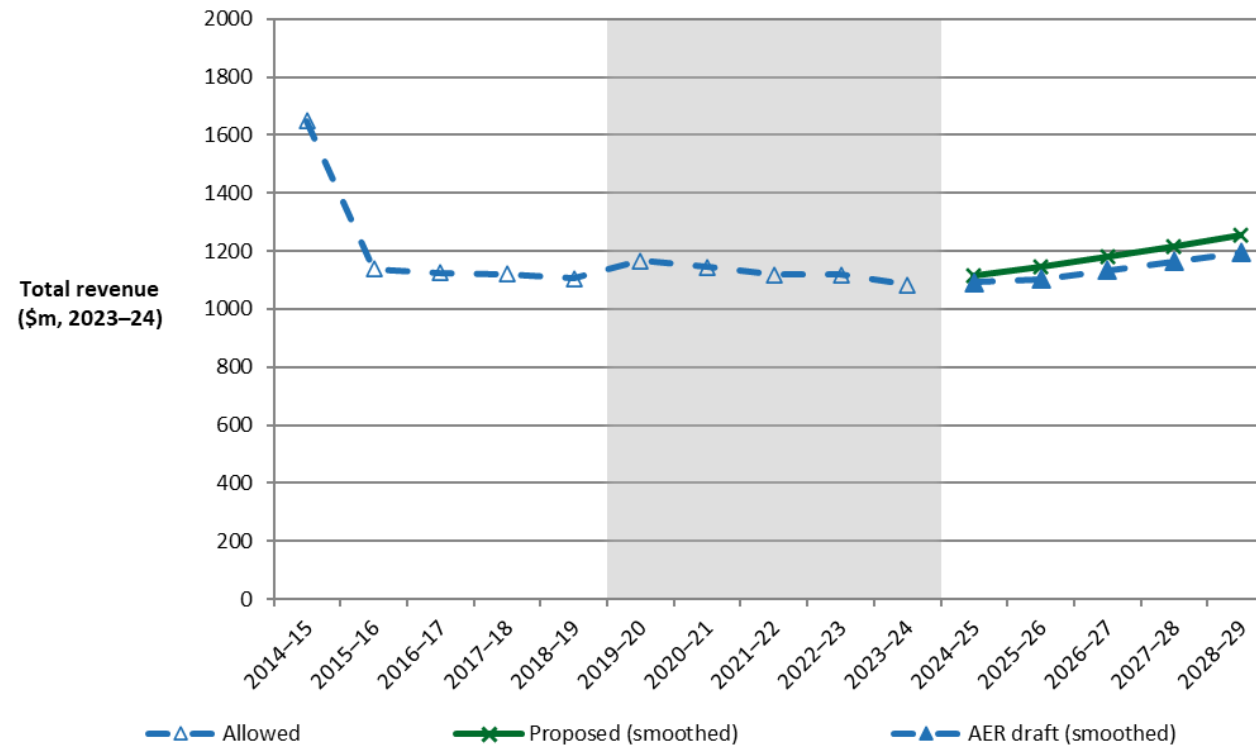
- Lower return on capital, driven by a lower opening regulatory asset base (RAB) value, partly offset by a higher regulatory depreciation amount driven primarily by a lower expected inflation rate.
- Our draft decision accepts Endeavour's proposed:
 - Capex: **\$1,850.9 million**
 - Opex: **\$1,497.6 million**

Areas of focus

- New and emerging expenditure areas
- Tariff structure statements
- Public lighting

Essential Energy

Essential - Changes in regulated revenue over time (\$ million, 2023–24)



Source: AER analysis

Essential

Key figures

- Our draft decision: **\$6,191.1 million** (\$ nominal, smoothed)
 - **3.0%** reduction from Essential's proposal
 - **1%** higher than our decision for the current (2019–24) period.

Key areas of difference from Essential's proposal to our draft decision:

- Revenue adjustment required under the Efficiency Benefit Sharing Scheme. This was partly offset by a higher CESS adjustment and a higher return on capital.
- Our draft decision accepts Essential proposed:
 - Capex: **\$2,655.4 million**
 - Opex: **\$2,323.8 million**

Areas of focus

- New and emerging expenditure areas
- Tariff structure statements
- Public lighting

Common themes

- **Tariff structure statements**

- The NSW tariff structure statements proposals on the whole demonstrated significant improvement
- Our draft decision was not to approve the proposed tariff structure statements for all three NSW businesses.
- We have identified for consideration for all NSW businesses:
 - Two-way pricing: fact sheets and worked examples of how the proposed tariffs work in practice
 - Consideration of tariffs for flexible loads such as EVs
 - More information on the flagged changes for assignment policies

- **Metering**

- AEMC's final decision confirmed a 100% replacement of distribution network owned accumulation meters with smart meters by 30 June 2030
- We are considering a reclassification of legacy meter services to SCS
- We are engaging with stakeholders for the revised proposals

NSW businesses

Ausgrid

Marc England
Chief Executive Officer

2024 – 29 Draft decision

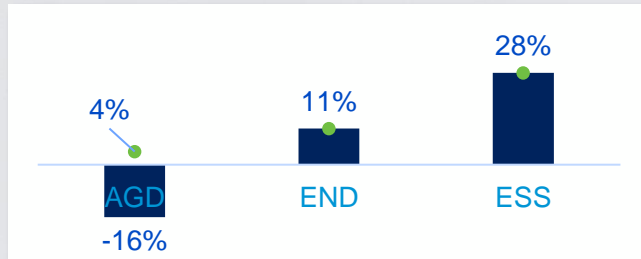
9 October 2023

**AER Predetermination
conference**



Draft decision – initial views

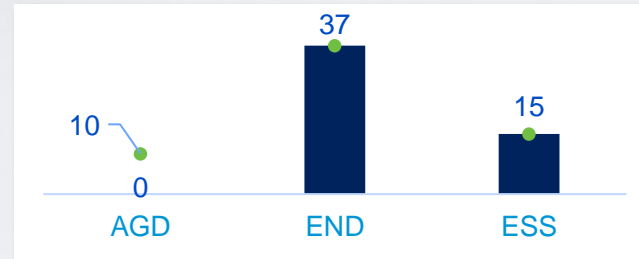
1 Network capex – % change period on period



Network capex¹ 1

- Our customers expect us to prepare the network for the energy transition
- We proposed a relatively modest 4% increase in network capex, however have received a 16% reduction

2 Insurance premiums – allowed increase (\$m)

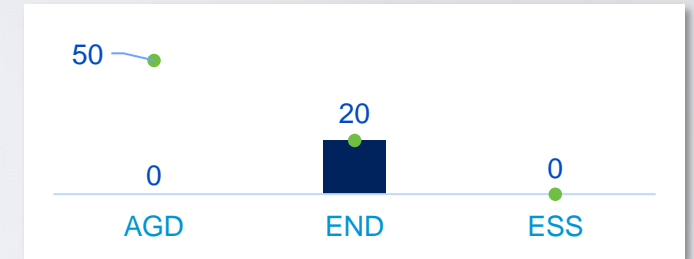


All values real FY24 | ● Proposed | ■ Allowed

Resilience

- While 80% of customers supported our resilience program, the expenditure proposal has been cut by 85%
- Increasingly severe weather is driving up insurance premiums across many sectors, however we have not been allowed any increase. 2

3 Innovation capex – proposed (\$m)



Innovation 3

- While 80% of customers wanted us to prioritise innovation and many wanted us to invest even more than we had proposed, our proposal has not accepted

Embedded network tariffs

- Embedded networks are arbitraging our tariffs and so other customers are paying more than necessary
- We have engaged extensively on an embedded network tariff and seek further guidance as to why it has not been accepted

We are listening:

- We will be enhancing our modelling approaches in several areas, in response to the concerns raised.
- We will adjust our proposals where appropriate and provide further information on prudence and efficiency.

1. Network capex includes direct replacement, augmentation, resilience, CER integration, operational technology and innovation

Thank you



Endeavour Energy

Francoise Merit
Chief Financial Officer

Essential Energy

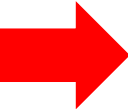
Luke Jenner

Chief Operating Officer

Draft decision – Q&A

Kris Funston
Executive General Manager
AER Network Regulation

Next Steps

Milestone	Date
Ausgrid, Endeavour Energy and Essential Energy submits their regulatory proposals to AER	31 January 2023
AER published an issues paper for each business	28 March 2023
AER holds a public forum	4 April 2023
Submissions on regulatory proposals close	12 May 2023
AER publishes draft determination decision	28 September 2023
 AER holds a pre-determination conference	9 October 2023
Ausgrid, Endeavour Energy and Essential Energy submits revised regulatory proposals to AER	30 November 2023
Submissions on revised regulatory proposals and draft decision close	By 19 January 2024
AER publishes distribution determinations for regulatory control period	by 30 April 2024

Submission details

- We invite interested parties to make submissions on the revised proposals and our draft decision by **5pm AEDT, 19 January 2024**
- **We encourage early submissions, where possible, to inform our final decisions**
- Submissions should be emailed to AERresets2024-29@aer.gov.au



