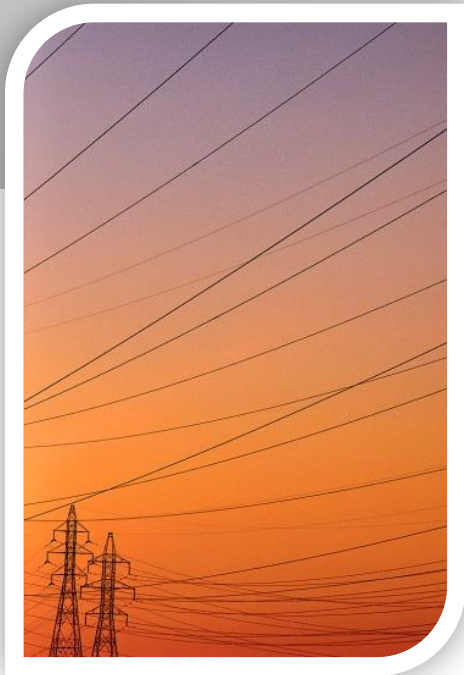


# Australian Energy Regulator



**AER Preliminary decisions for  
Energex and Ergon Energy  
2015–20**

**Conference  
12 May 2015**

**AER** AUSTRALIAN  
ENERGY  
REGULATOR

# Today's agenda

- Welcome – Paula Conboy, AER Chair
- Presentations from:
  - Sebastian Roberts, General Manager, AER
  - Hugh Grant and Bruce Mountain, AER Consumer Challenge Panel
- Time for questions after presentations

# Our preliminary decisions

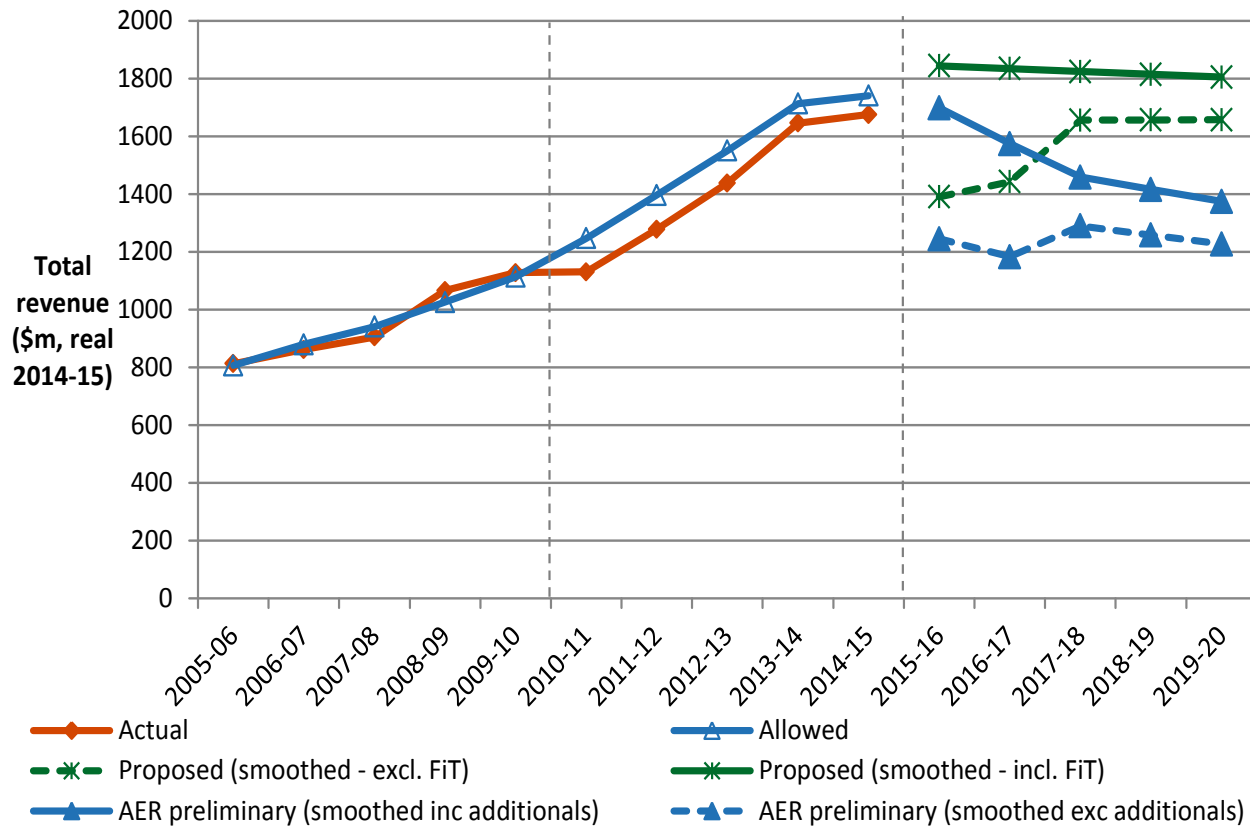
- Our preliminary decisions reflect changes to the National Electricity Rules in 2012
- There are 24 constituent decisions covering revenue, operating and capital allowances, amongst other things
- We set the revenue a business may recover from customers, not its costs
- Preliminary decisions – used to set prices for 2015–16

# AER process

- Some highlights of the AER's process:
  - This decision implements the AER's better regulation program
  - Extensive consultation with stakeholders
  - Input from Consumer Challenge Panel
  - Consideration of 72 submissions on Energex and Ergon Energy's proposals
  - Engineering input from AER's Technical Advisory Group
  - Consultant input from Deloitte and EMCa

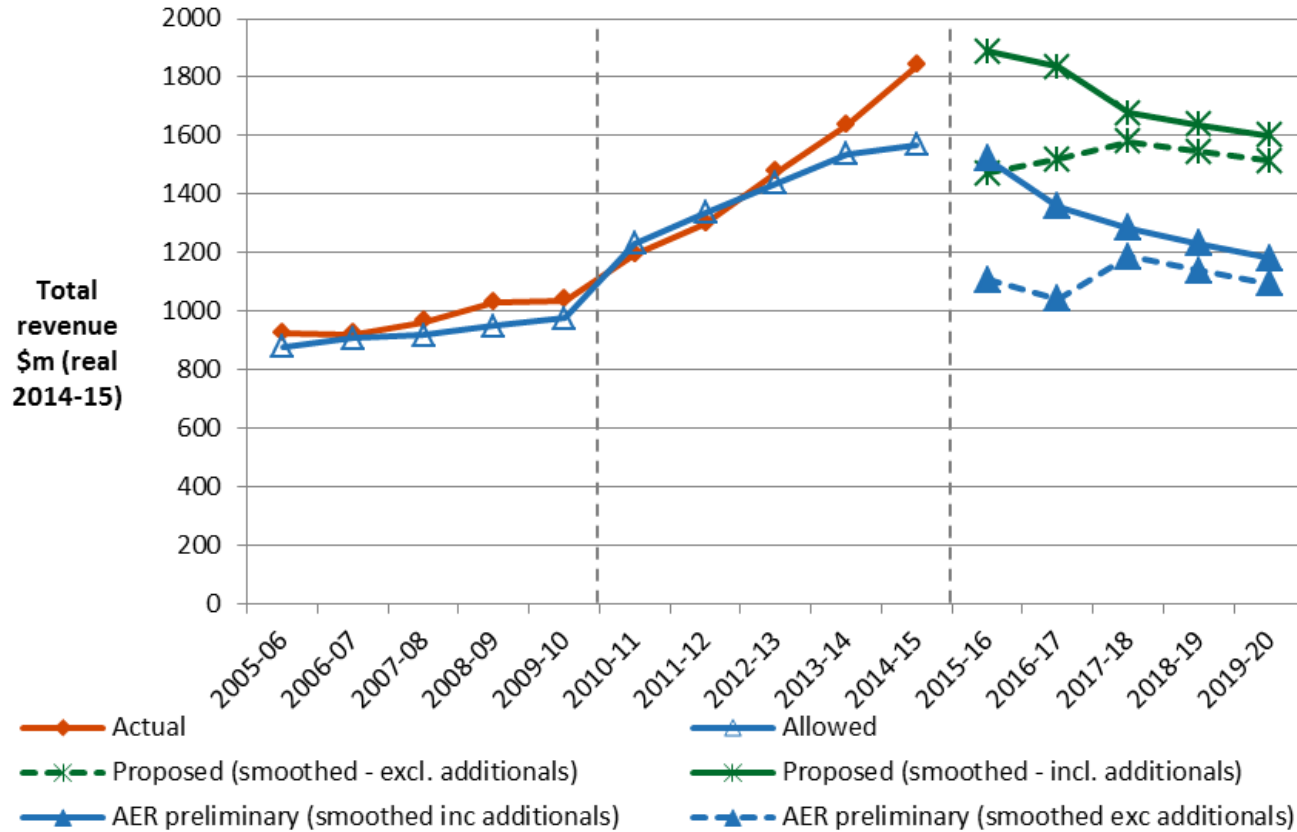
# Energex – total revenue

Energex's past total revenue, proposed total revenue and AER preliminary decision revenue allowance (\$ million, 2014–15)

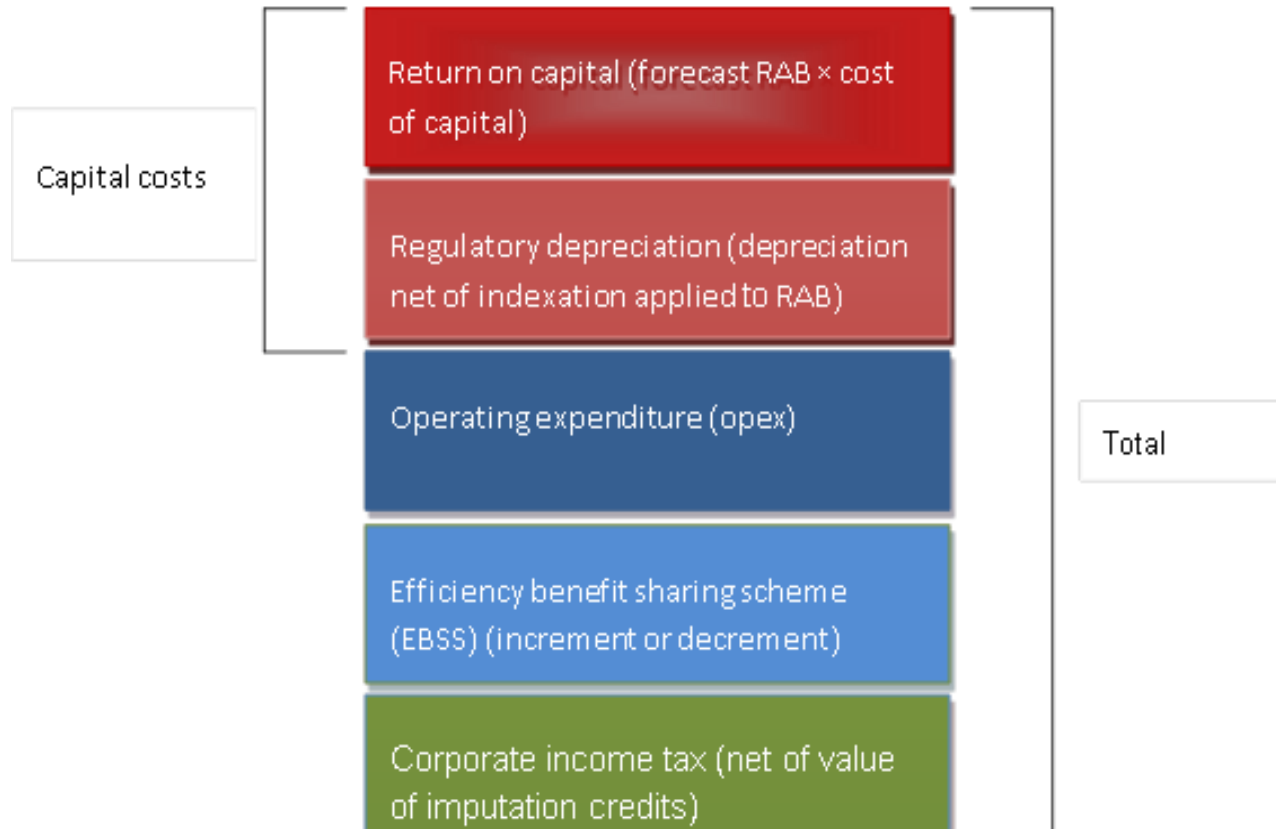


# Ergon Energy – total revenue

Ergon Energy's past and proposed total revenue and AER preliminary decision revenue allowance (\$ million, 2014–15)

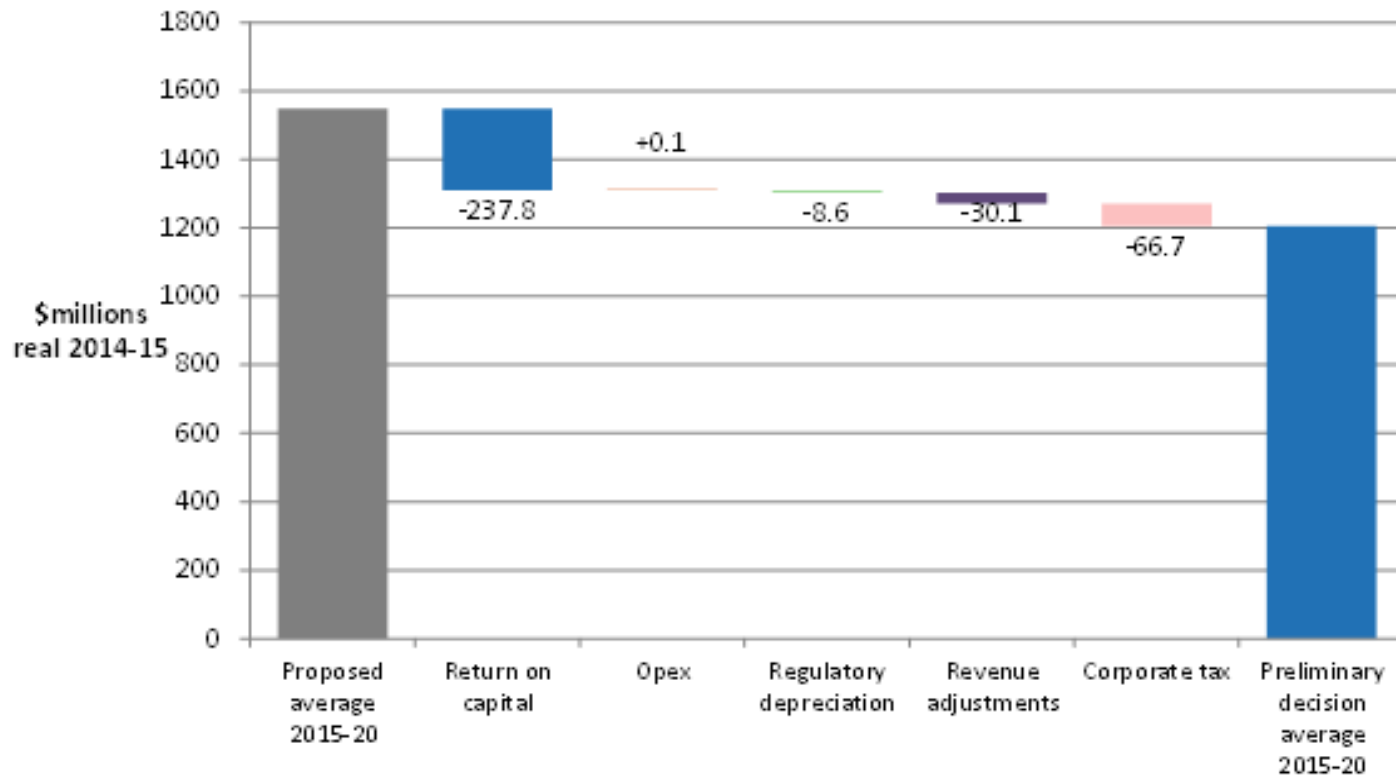


# AER approach – building blocks



# Energex – building blocks

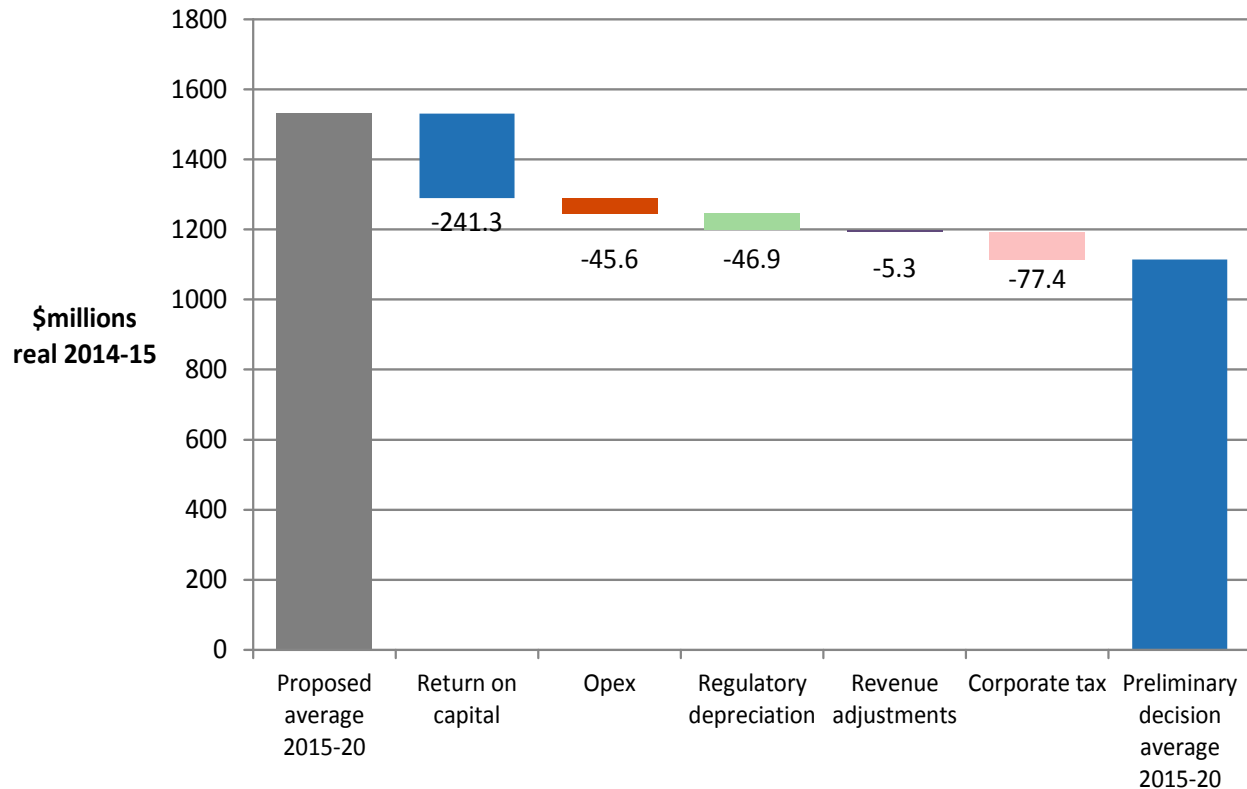
AER's preliminary decision and Energex's proposed annual building block costs (\$ million 2014–15)





# Ergon Energy – building blocks

AER's preliminary decision and Ergon Energy's proposed annual building block costs (\$ million 2014–15)



# Indicative bill impacts

Network business	Business proposal	AER preliminary decision	Percentage difference	Expected bill reduction for average household by end of 2015–20
<b>Energex</b>	\$8432 million	\$6528 million	-23 per cent	\$132
<b>Ergon Energy</b>	\$8242 million	\$6022 million	-27 per cent	

Note: Due to the Queensland Government uniform tariff policy, Ergon Energy's revenue reduction will not flow through to its residential customers. Instead, the bill impact will mirror that of Energex.

# Rate of return

%	AER decision 2010–15	Energex's proposal 2015–16	Ergon Energy's proposal 2015–16	AER preliminary decision 2015–16	AER preliminary decision 2016–20
<b>Nominal risk free rate (return on equity)</b>	5.89%	3.63%	3.63%	2.55%	2.55%
<b>Nominal post-tax return on equity</b>	11.09%	10.50%	10.50%	7.1%	7.1%
<b>Nominal pre-tax return on debt</b>	8.87%	5.91%	6.36%	5.01%	Updated annually
<b>Nominal vanilla WACC</b>	9.72%	7.75%	8.02%	5.85%	Updated annually

## Energex's rate of return parameters (nominal)

%	AER decision 2010–15	Energex's proposal 2015– 20	AER preliminary decision 2015–16	AER preliminary decision 2016–20
<b>Nominal risk free rate (return on equity) (a)</b>	5.89%	3.63%	2.55%	2.55%
<b>Equity risk premium (b) = (c*d)</b>	5.20%	6.87%	4.55%	4.55%
<b>MRP (c)</b>	6.50%	7.57%	6.50%	6.50%
<b>Beta (d)</b>	0.8	0.91	0.7	0.7
<b>Nominal post-tax return on equity (e) = (a) + (b)</b>	11.09%	10.50%	7.1%	7.1%
<b>Nominal pre-tax return on debt (f)</b>	8.87%	5.91%	5.01%	Updated annually
<b>Gearing</b>	60%	60%	60%	60%
<b>Nominal vanilla WACC = 0.4*(e) + 0.6*(f)</b>	9.72%	7.75%	5.85%	Updated annually
<b>Forecast Inflation</b>	2.52%	2.52%	2.55%	2.55%

## Ergon Energy's rate of return parameters (nominal)

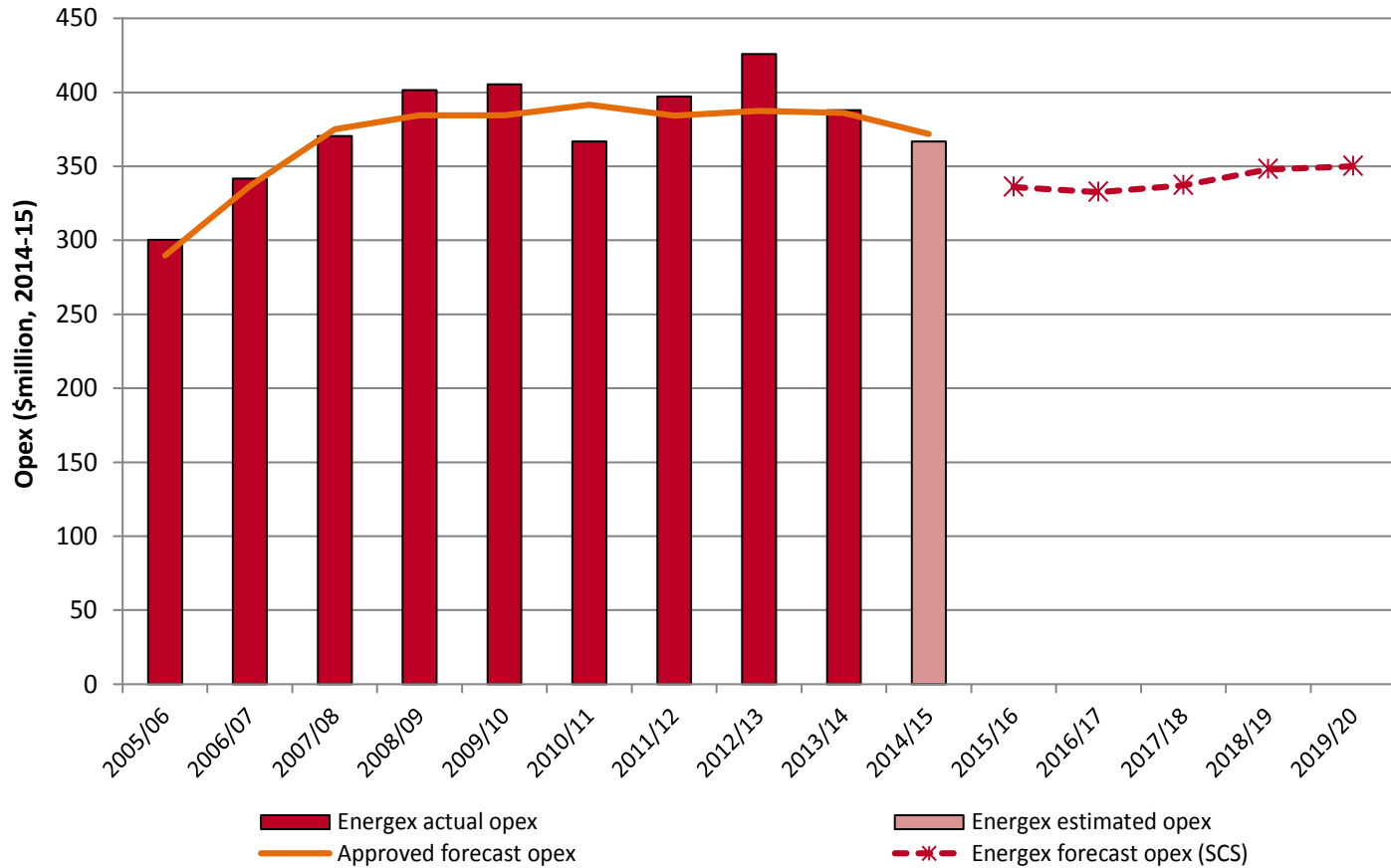
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<b>Forecast Inflation</b>	2.52%	2.57%	2.55%	2.55%

# Cost of debt - trailing average

- Our starting point for existing debt is continuation of on-the-day approach
- Then new debt is incorporated as it is progressively refinanced each year
  - 10 year trailing average
  - 10% of debt notionally re-financed each year
- The benefit? Less price volatility for consumers

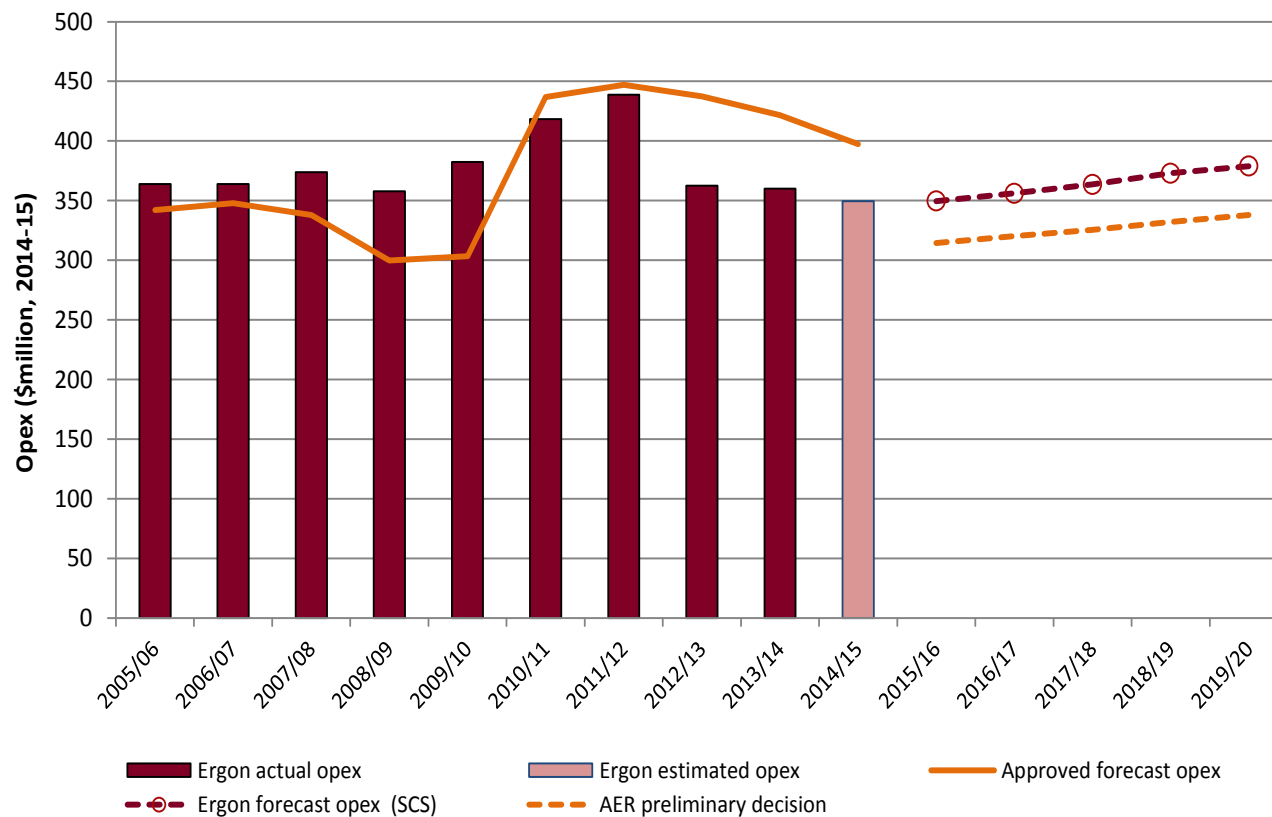
# Energex - opex

Energex's proposal compared to AER alternative forecast and past opex (\$ million, 2014-15)



# Ergon Energy - opex

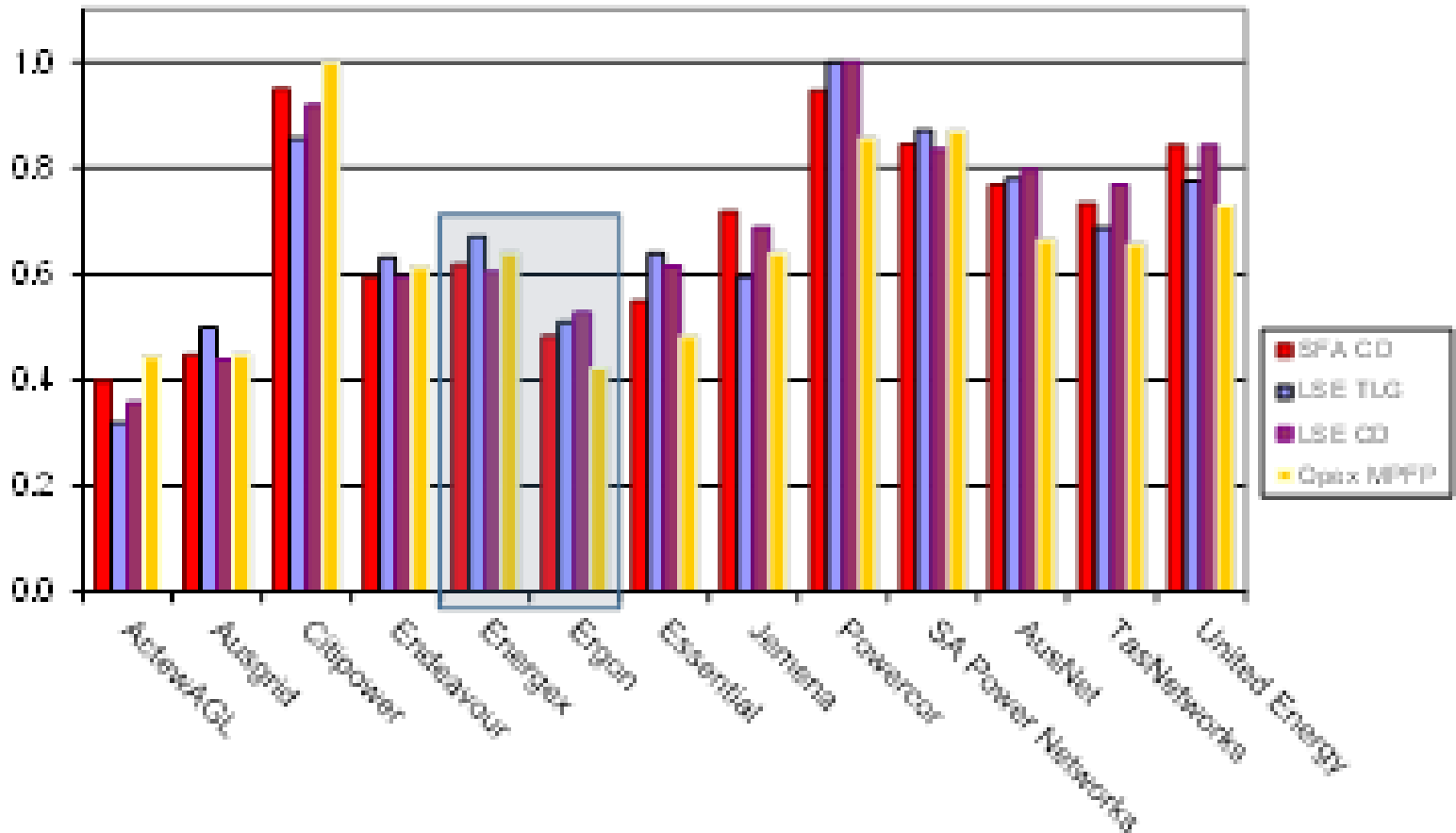
AER preliminary decision compared to Ergon Energy's past and proposed opex (\$million, 2014-15)





# Benchmarking performance

## Opex efficiency scores

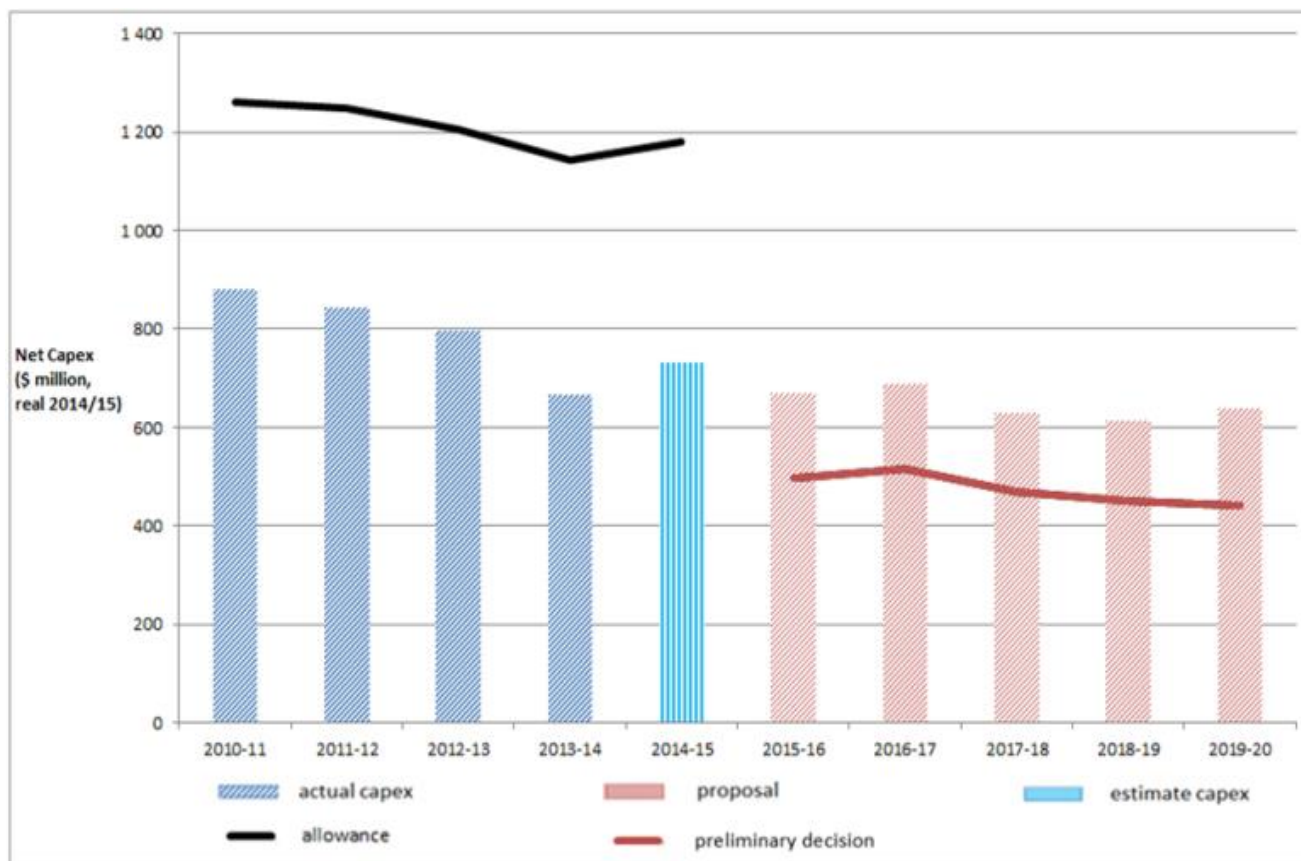


# Deloitte review of efficiency

- QLD government initiated an efficiency review in 2012 of both Energex and Ergon
- Deloitte has reviewed progress since then. Main findings:
  - Significant efficiency gains since review
  - But service providers have not addressed all recommendations
  - Ongoing restrictive EBA provisions
  - Limited outsourcing
  - Energex and Ergon have identified further efficiency gains

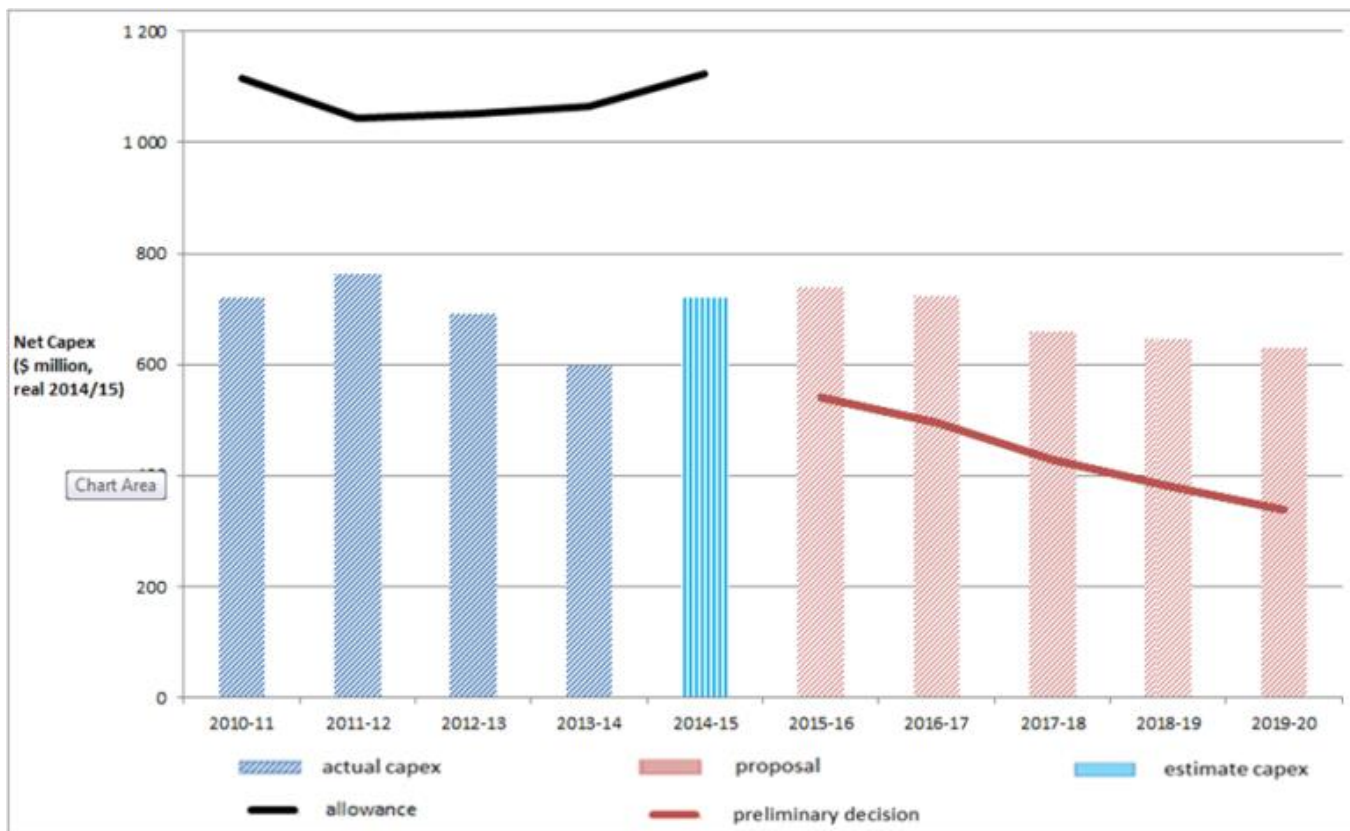
# Energex - capex

AER preliminary decision compared to Energex's past and proposed capex (\$million, 2014-15)



# Ergon Energy - capex

AER preliminary decision compared to Ergon Energy's past and proposed capex (\$million, 2014-15)



# Metering services in Qld

- Our preliminary decision approves two types of metering service charges:
  - Upfront capital charge (for all new and upgraded meters installed from 1 July 2015)
  - Annual charge comprising of two components:
    - capital—metering asset base (MAB) recovery
    - non-capital—operating expenditure and tax.
- No upfront charges for replacement meters

# CCP presentations

# Next steps in Qld reset

- All queries, forum registrations etc. to [Qldelectricity2015@aer.gov.au](mailto:Qldelectricity2015@aer.gov.au)

Date	Step
26 May 2015	AER jurisdictional consumer forum
3 July 2015	Submissions on AER preliminary decisions close
3 July 2015	Qld distributors' revised proposals due
24 July 2015	Submissions on Qld distributors' revised proposals close
31 October 2015	AER releases final decision for Qld businesses