May 2023

Statement of reasons: Ausgrid's Annual Pricing Proposal

The AER approves Ausgrid's 2023–24 pricing proposal and the tariffs contained within for commencement on 1 July 2023. Ausgrid's approved tariffs are set out on our website.

Estimated network cost movements

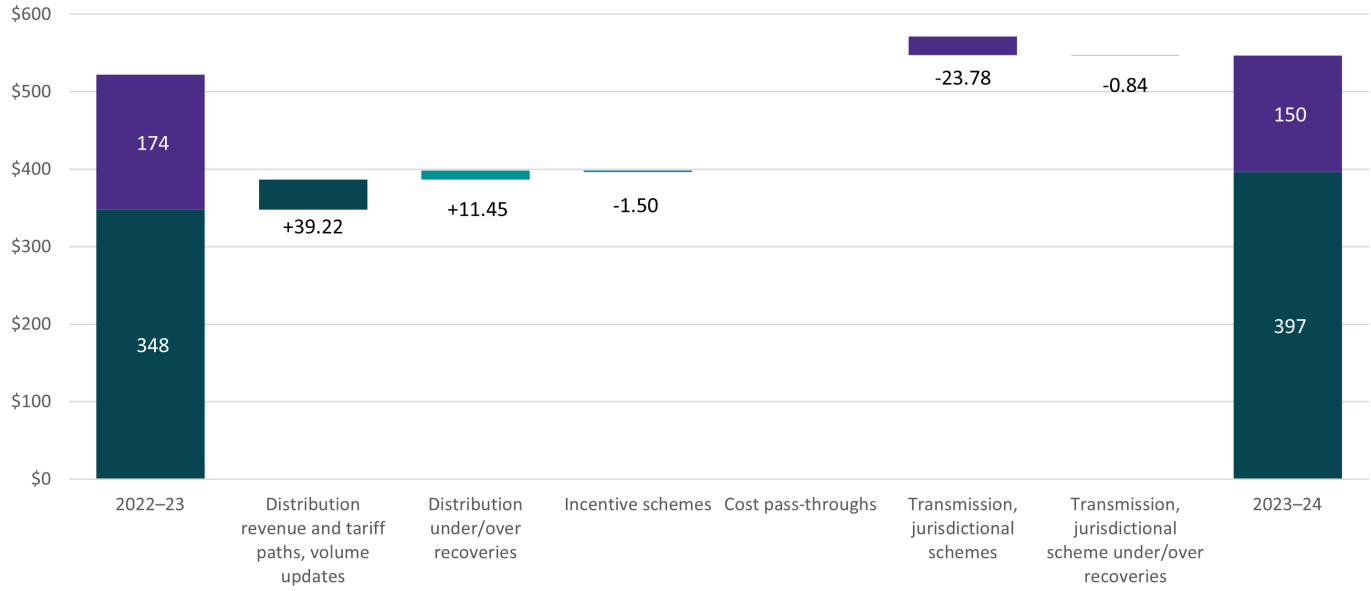
We estimate the network component of the typical bill for Ausgrid's customers to be $24.55 higher for households and $52.92 higher for small businesses on flat-rate tariffs in 2023–24 compared to 2022–23.

The network cost movements reflect the increase in Ausgrid's allowed revenue in 2023–24 and the forecast decrease in electricity consumption.

The increase in revenue is predominantly due to higher than forecast inflation, the recovery of previously under-recovered distribution revenues and new NSW Renewable Energy Zone costs. This is partially offset by a reduction in transmission costs and the revenue path set in the 2019–24 determination. We provide more detailed information on Ausgrid's consumption forecasts below.

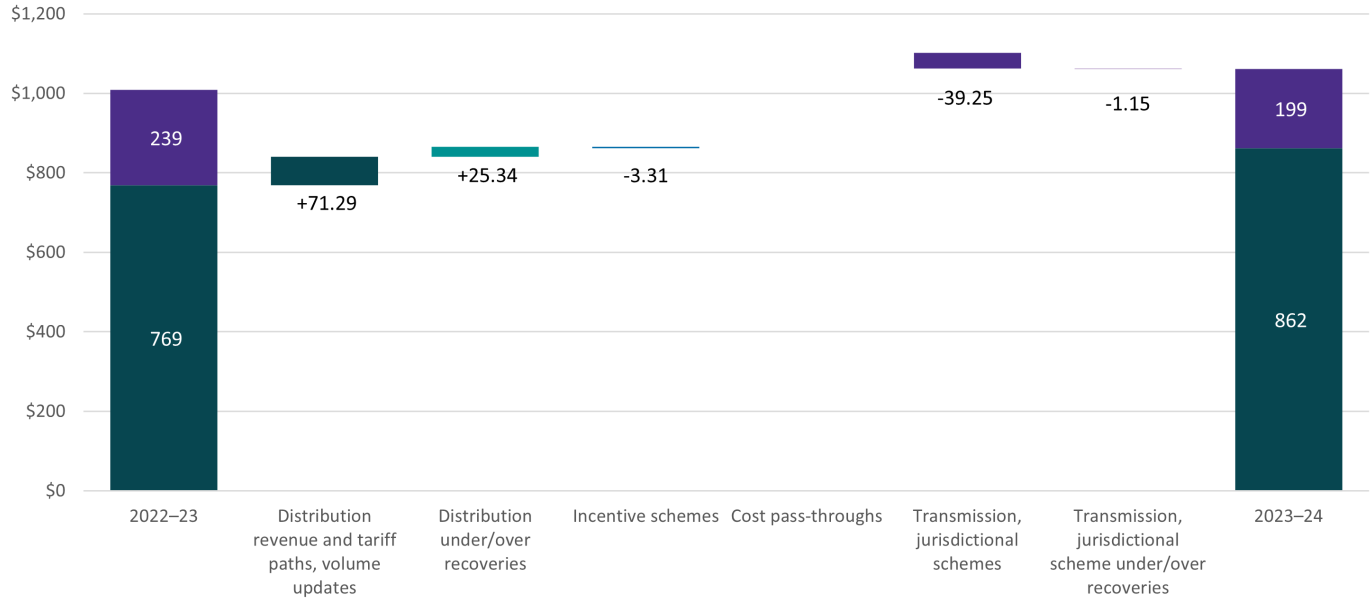
We note electricity retailers ultimately determine how these underlying network tariffs are reflected in the retail prices offered to customers. The network charge component of an energy bill accounts for approximately 43% of the total residential retail bill.

Figure 1 Residential: Average annual network charge



Source: AER analysis; Ausgrid's 2023–24 pricing proposal.
Note: The columns in the chart represent the average annual network charge for relevant years. Within the columns, the dark columns represent the distribution and metering components of the approved network tariffs. The purple columns represent revenues recovered on behalf of transmission networks and amounts related to schemes imposed by State or Territory Governments. The above analysis assumes electricity usage of 4,268kWh. This is based on the most recent data for residential electricity usage and customer numbers reported in Ausgrid's 2023–24 pricing proposal.

Figure 2 Small business: Average annual network charge



Source: AER analysis; Ausgrid's 2023–24 pricing proposal.
Note: The columns in the chart represent the average annual network charge for relevant years. Within the columns, the dark columns represent the distribution and metering components of the approved network tariffs. The purple columns represent revenues recovered on behalf of transmission networks and amounts related to schemes imposed by State or Territory Governments. The above analysis assumes electricity usage of 6,401kWh. This is based on the most recent data for small business electricity usage and customer numbers reported in Ausgrid's 2023–24 pricing proposal.

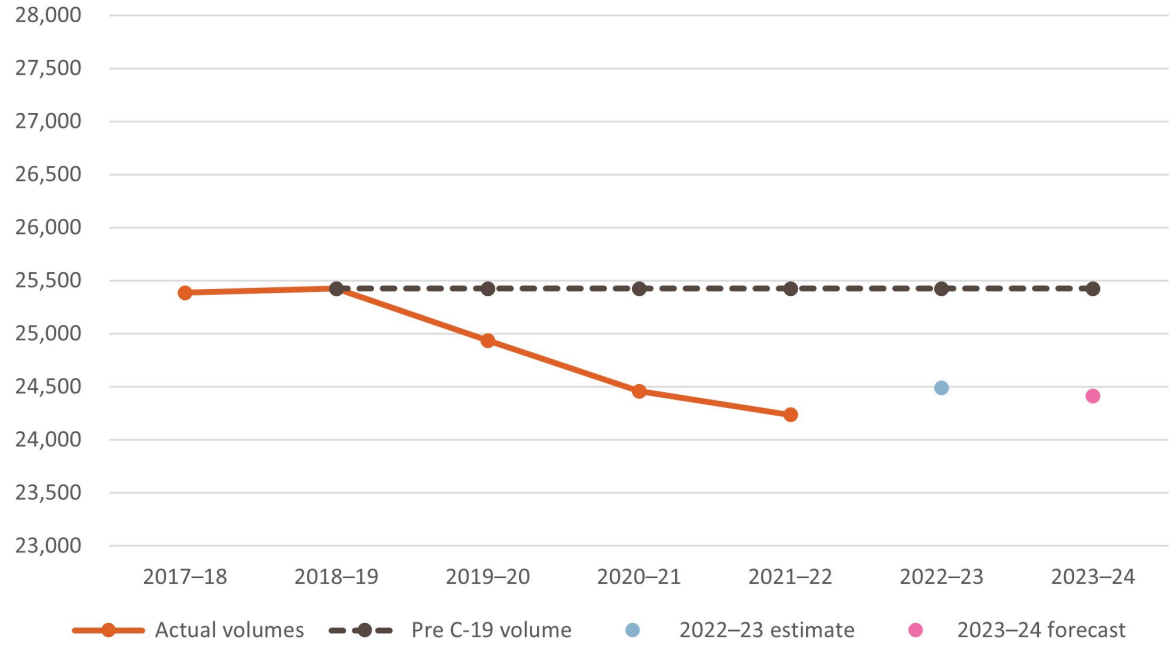
Actual bill impacts for individual customers will vary from our estimates as customers may be on different tariffs or consume different amounts of energy from our assumptions. Our analysis is based on flat rate tariffs, which are the most common tariffs for residential and small business customers. Where overall price movements are small, some tariffs may increase while others decrease.

Consumption forecasts

Electricity distributors operate under a revenue cap which sets the annual allowed revenue they can recover to deliver safe and reliable electricity within their networks. Prices are determined based on forecast consumption for that year, allowing distributors to recover their allowed revenue. If distributors forecast lower consumption, then other things being equal, prices are expected to be higher to allow them to recover the revenue allowed.

Our assessment of the distributors' consumption forecasts includes analysis of historical consumption trends and the reasons put forward for any departure from them, including changes in consumption following Australia's response to COVID-19.

Figure 3 Energy volumes (GWh)



Source: AER analysis; RIN data; Ausgrid's 2023–24 pricing proposal.

Ausgrid has forecast a marginal reduction in energy consumption for 2023–24. Ausgrid applied its standard forecasting approach which includes adjustments for factors such as increased energy efficiency programs, solar PV and storage, and increased electricity prices. The reduction in consumption is being partially offset by customer growth.

We consider Ausgrid's consumption forecasts are reasonable based on our analysis and the supporting information provided by Ausgrid.

Under/over recovered revenues

Although we set the revenues the distributors can recover, the revenue they ultimately receive over an individual year is determined by the amount of actual energy consumed in that year.

- Actual energy consumption can fluctuate from forecast consumption because of a number of factors such as weather, increased uptake of solar PV, or, in recent times, in response to a pandemic. These fluctuations in energy consumption result in distributors recovering more or less than the allowable revenue we set.
- Variations also occur for the transmission costs and jurisdictional scheme amounts a distributor passes through to customers where actual payments differ to what was forecast.

To 'true-up' these variations in revenue, adjustments are made to allowable revenues for the upcoming financial year to ensure that over time, a distributor only recovers the revenue it is allowed.