Final decision: TasNetworks 2019–24

We have made a final revenue decision for TasNetworks, the electricity transmission and distribution network operator in Tasmania. Our final decision allows TasNetworks to recover $2,012.5 million ($nominal) from its transmission and distribution customers over five years commencing 1 July 2019.

Estimated impact on customer bills

The revenue we determine affects the distribution and transmission component of a customer's electricity bill. TasNetworks' network charges make up around 42 per cent of the electricity bill paid by residential customers in Tasmania.

We estimate that under our final decision for transmission and distribution networks, the average annual residential electricity bill in the first year of the 2019–24 period would be 2.3 per cent lower than the current 2018–19 level (in nominal terms). It will then increase moderately over the rest of the period.

In dollar terms, we estimate the overall impact for residential customers is a $68 increase in the electricity bill over the five year period (in nominal terms). For small business customers, we estimate the overall impact is a $188 ($nominal) increase in the electricity bill over the five year period (in nominal terms).

Overview

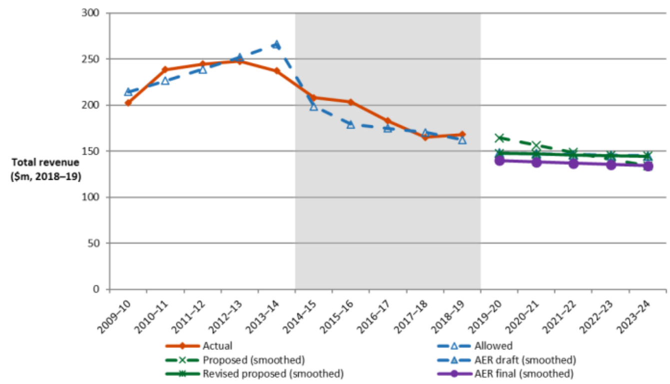
The Australian Energy Regulator (AER), regulates the revenues of TasNetworks by setting the total revenue it may recover from its customers.

Our final decision is in the long term interests of consumers in Tasmania. Consistent with the National Electricity Objective (NEO), we set network prices so that they reflect efficient costs. Our objective, in only allowing efficient costs, is for Tasmanian consumers to pay no more than necessary for the safe and reliable delivery of electricity services.

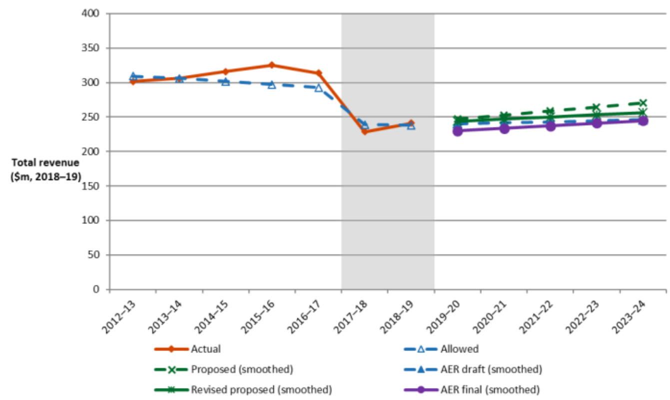
Although TasNetworks has submitted joint regulatory proposals for its distribution and transmission networks, we must undertake separate assessments and make separate transmission and distribution determinations.

Our final decisions result in a moderate increase over the five years. This is the combined effect of our separate transmission and distribution determinations as reflected in the charts opposite–our transmission revenue will fall in the first year and then remain largely constant for subsequent years, whereas, our distribution revenue, although falling in the first year, provides a moderate increase in revenue in each of the remaining years of the 2019–24 regulatory control period, as the network meets its obligations to provide a safe reliable service, whilst being more efficient and focused on what customers want.

TasNetworks' past and proposed total revenue and AER final decision revenue allowance for transmission ($million, 2018–19)



TasNetworks' past and proposed total revenue and AER final decision revenue allowance for distribution ($million, 2018–19)



Our final decision allows TasNetworks to recover $736.1 million ($nominal) in transmission revenue, and $1,276.4 million ($nominal) in distribution revenue in the next period. This is a 6.3 per cent reduction from TasNetworks' revised proposed revenue recovery of $785.9 million ($nominal) for transmission and a 5.2 per cent reduction from the revised proposed distribution revenue recovery of $1,346.6 million ($nominal).

The key difference between our final decision and TasNetworks' revised proposal is the forecast capital expenditure (capex). Capex refers to TasNetworks' investment to build or upgrade its fixed assets (such as its lines and transformers).

Our final decision is to accept TasNetworks' revised forecast transmission and distribution opex– the forecast operating, maintenance and other non-capital costs incurred in providing network services.

Capital expenditure

TasNetworks' proposed a 26 per cent increase in transmission capex from the current period to $260.4 million ($2018–19). Our final decision transmission capex allowance is $241.4 million ($2018–19). A reduction of more than 7 per cent to the revised proposal.

For distribution, TasNetworks' proposed a 13.4 per cent increase in capex from its average capex in the current period to $703.0 million ($2018–19). Our final decision distribution capex allowance is $651.1 million ($2018–19). Also a reduction of more than 7 per cent to the revised proposal.

We have not accepted TasNetworks' revised proposed capex because we are not satisfied that all of TasNetworks' revised forecast capex represents an efficient level of expenditure that needs to proceed in the next period. We have made reductions to TasNetworks' network replacement and distribution non-network expenditure (e.g. spending on technology) to bring these to a more efficient level.

Rate of return

The rate of return is a forecast of the costs of funds a network business requires to invest in the network. We issued our Rate of Return Instrument in late 2018. The TasNetworks 2019–24 final decision is one of our first decisions to have the now legislative binding instrument applied. The new instrument will deliver network savings to customers because the rate of return makes up approximately 50 per cent of a network businesses' allowed revenue and TasNetworks' revenue contributes 42 per cent of the final electricity bill.

TasNetworks has applied the AER's Rate of Return Instrument, which provides a nominal vanilla transmission rate of return of 5.55 per cent and distribution rate of 5.28 per cent for the first year of the 2019–24 regulatory control period, compared to 6.02 per cent and 6.37 per cent, respectively, for first year of the current period.

Contingent projects

Our decision also allows flexibility for TasNetworks to react to changing demand and peak usage patterns in the national electricity market and to allow Tasmanian generators greater capacity to export. Our decision allows for three additional projects (estimated to cost between $278 million to $1,007 million) to proceed if certain 'contingent' conditions eventuate. This includes the potential for a second Bass Strait interconnector – Project Marinus. The projects are not included in the revenues approved in this decision, but would be assessed once certain conditions are met. These contingent conditions include a transparent and thorough assessment of investment options to safeguard the interests of consumers funding those investments. When a contingent project is triggered, we then determine the efficient amount of expenditure that meets the capex criteria.