

Transitional decisions: ActewAGL, Ausgrid, Endeavour Energy, and Essential Energy 2014–15

We have made transitional decisions for the distribution network businesses in NSW and the ACT. Our transitional decisions set out the placeholder revenue allowances and application of the regulatory framework for ActewAGL, Ausgrid, Endeavour Energy, and Essential Energy for the transitional regulatory control period from 1 July 2014 to 30 June 2015. Ultimately, the placeholder revenue allowances will be replaced by the revenue allowances we approve in our full determinations to be published by 30 April 2015.

Overview

We are Australia's national energy market regulator responsible for the economic regulation of all electricity distribution networks in eastern and southern Australia.

ActewAGL, Ausgrid, Endeavour Energy, and Essential Energy (the NSW/ACT DNSPs) are the distribution network service providers (DNSP) in NSW and the ACT. They own and operate the 'poles and wires' that transport electricity from transmission networks to NSW and ACT residents and small businesses. Under the National Electricity Law (NEL) and National Electricity Rules (NER), we periodically assess the revenue requirements of the DNSPs.

Our transitional decision provides a reduction in average annual charges for NSW and ACT residential customers of \$38 and \$19, respectively.

It provides that the DNSPs will be able to recover revenue allowances for their distribution networks as follows in 2014–15:

- ActewAGL will be able to recover \$145 million, which is 6.9 per cent lower than it proposed.
- Ausgrid will be able to recover \$1958 million, which is 5.8 per cent lower than it proposed.
- Endeavour Energy will be able to recover \$949 million, which is 5.8 per cent lower than it proposed.
- Essential Energy will be able to recover \$1292 million, which is 5.2 per cent lower than proposed.

In addition, ActewAGL will be able to recover \$28 million for its transmission network, which is 6.8 per cent lower than it proposed. Ausgrid will be able to recover \$252 million, which is 6.5 per cent lower than it proposed.

What are placeholder revenue determinations?

The revenue determination process involves the DNSPs submitting regulatory proposals, which include the proposed costs of efficiently operating the network businesses over a forecast period (typically for a five year forecast period). The network businesses are also required to propose other matters such as their proposed approach to network pricing.

The revenue determination process for the NSW and ACT distribution network businesses was due to be completed in 2014. However, the process was delayed so consumers would receive the benefit of the new network rules that were finalised by the AEMC in 2012 and to enable the AER to focus on developing and applying the Better Regulation guidelines under the new rules. Consequently, the regulatory control period has been separated into

- the transitional regulatory control period (1 July 2014 - 30 June 2015); and
- the subsequent regulatory control period (1 July 2015 - 30 June 2019).

We are required to make placeholder determinations for the one year transitional period (2014-15) for the NSW/ACT DNSPs. In this shortened process we are required to approve the expected revenue allowance and other matters (e.g. application of incentive schemes) for the transitional year. The placeholder allowance for the transitional year will be replaced by the revenue allowance the AER approves in the full determination.

The AER will commence a full determination process in June 2014 and make its full determinations by 30 April 2015. This will establish the revenue allowances for the NSW/ACT DNSPs for the whole regulatory control period from 1 July 2014 to 30 June 2019. In the full determinations, the AER

will take into account any difference between the placeholder revenue allowance for the transitional year and the revenue allowance approved in the full determination for the transitional year. The AER will carry out this work under the new NER which incorporates the Better Regulation guidelines.

We consider that our approach for the placeholder determination should not, in any way, be taken as an indication of our assessment of the full proposals in which a true up of revenue for the transitional regulatory control period will be conducted. The approach and conclusions in these determinations are only for the purposes of making the required assessment we must make for this transitional regulatory control period under the transitional rules.

Our approach to the transitional revenue determinations

The NSW/ACT DNSPs were required to submit an indicative range of revenue requirements and other relevant information for the purposes of this placeholder determination. We are required to make a high level assessment of the proposed revenue estimate, having regard to the fact that it is an estimate based on indicative cost inputs and that any adjustments will be made to the allowed revenue cap for the transitional year in our full determination.

Our decision to approve or not approve the proposed revenue allowance for the transitional regulatory control period requires us to form a view about the expected movement of prices not just for the transitional year but from 2013 to 2014, 2014 to 2015 and so on until 2019.

Our placeholder determinations have not accepted the transitional regulatory proposals submitted by the NSW/ACT DNSPs. While we have adopted most of the cost inputs provided by the businesses in making our assessment, we have not accepted the indicative rate of return proposed by the businesses. Specifically we have had significant regard to our rate of return guideline and market information and trends in making our decision. Given the significance of the rate of return in calculating revenue, small changes in the rate of return can have significant implications for prices.

The allowed rate of return is a forecast of the return that a network business requires to attract investment in the network. We published our rate of return guideline in December 2013. Our rate of return guideline sets out how we determine the return that electricity and gas network businesses can earn on their investment.

Indicative impact on average annual electricity charges

We are not required to establish the distribution prices for the DNSPs as part of the distribution determination. However, we will assess the DNSPs' pricing proposals for 2014-15 based on these placeholder determinations before the commencement of the transitional year.

For this decision, we have estimated some indicative average distribution price impacts flowing from our placeholder determinations for the transitional year. We have applied this analysis to typical annual electricity charges of residential and business customers in NSW and ACT. In NSW and ACT,

distribution charges represent approximately 40 per cent on average of a typical customer's electricity bill.

We expect that our decisions, other things being equal, will reduce the average residential customer electricity charges in NSW and ACT. This is because we estimate that these decisions will result in lower distribution charges in 2014-15 compared to the DNSPs' proposals. If these lower distribution charges were passed through to end customers, the average residential electricity charges in NSW and ACT for 2014-15 could be expected to reduce by around \$38 and \$19, respectively. In comparison, if the DNSPs' proposals were accepted by us, the average charge in NSW and ACT for 2014-15 would increase by approximately \$8 and \$37, respectively.

While Ausgrid and ActewAGL are predominantly an electricity distribution business, they also own transmission assets. These assets operate in parallel and support TransGrid's transmission network to provide transmission network services to NSW and ACT. As part of this decision, we also reduced Ausgrid's and ActewAGL's proposed placeholder revenues for their transmission assets. On 28 March, we released the transitional transmission decision for TransGrid.

In NSW and ACT, transmission charges represent approximately 7 per cent on average of a typical customer's electricity bill. We estimate that the transmission placeholder determinations for Ausgrid and ActewAGL, together with the TransGrid decision, could be expected to further reduce the average customer's annual electricity charges for 2014-15 by about \$5 and \$4 in NSW and ACT, respectively. In comparison, if their proposals were accepted by us, the average charge in NSW and ACT for 2014-15 would increase further by around \$9 and \$8, respectively.

Table 1 shows the estimated impact of our decisions for the transitional regulatory period and the DNSPs' proposals on the average residential customer's electricity charges in NSW and ACT.

Table 1 AER's estimated impact of transitional decision on the average residential customer electricity charges in NSW and ACT for 2014-15

State/Territory	Estimated annual charge	Impact on annual charge—DNSP	Impact on annual charge—AER
NSW (distribution impact only)	\$2227	\$8 (or 0.4%)	-\$38 (or -1.7%)
ACT (distribution impact only)	\$1959	\$37 (or 1.9%)	-\$19 (or -1.0%)
NSW (distribution and transmission combined impact)	\$2227	\$17 (or 0.8%)	-\$43 (or -1.9%)
ACT (distribution and transmission combined impact)	\$1959	\$45 (or 2.3%)	-\$24 (or -1.2%)

Source: AER, IPART, ICRC. Based on typical annual usage of 6500 kWh in NSW and 8000 kWh in ACT.

Similarly, the average small business customer charges in NSW and ACT for 2014-15 could be expected to reduce by about \$60 and \$29, respectively. In comparison, if the DNSPs' proposals were accepted by us, the average charge

in NSW and ACT for 2014-15 would increase by around \$12 and \$56, respectively.

Moreover, our transmission placeholder determinations for Ausgrid, ActewAGL and TransGrid could be expected to further reduce the average business customer's annual electricity charges for 2014-15 by about \$8 and \$7 in NSW and ACT, respectively. In comparison, if the businesses proposals were accepted by us, the average charge in NSW and ACT for 2014-15 would increase further by around \$14 and \$12, respectively.

Table 2 shows the estimated impact of our decisions for the transitional regulatory period and the DNSPs' proposals on the average business customer's electricity charges in NSW and ACT.

Table 2 AER's estimated impact of transitional decision on the average small business customer electricity charges in NSW and ACT for 2014–15

State/Territory	Estimated annual charge	Impact on annual charge—DNSP	Impact on annual charge—AER
NSW (distribution impact only)	\$3584	\$12 (or 0.3%)	-\$60 (or -1.7%)
ACT (distribution impact only)	\$2939	\$56 (or 1.9%)	-\$29 (or -1.0%)
NSW (distribution and transmission combined impact)	\$3584	\$26 (or 0.7%)	-\$68 (or -1.9%)
ACT (distribution and transmission combined impact)	\$2939	\$68 (or 2.3%)	-\$35 (or -1.2%)

Source: AER, IPART, ICRC. Based on typical annual usage of 10 MWh in NSW and ACT.

Ausgrid has an under-recovery of around \$20 million in 2013-14 associated with its revenue cap. Any decision by Ausgrid to recoup this under-recovery in future prices, including in 2014-15, could affect transmission prices for its customers. These amounts can be recovered at the discretion of Ausgrid and is outside the scope of this determination.

More information

The transitional decisions are available on our website at:

<http://www.aer.gov.au/node/11482>

<http://www.aer.gov.au/node/11483>

<http://www.aer.gov.au/node/11484>

<http://www.aer.gov.au/node/11485>