

APPENDIX 3 - AER ISSUES NETWORK REVENUES DRAFT DECISION FOR TRANSGRID TRANSMISSION

The Australian Energy Regulator (AER) has issued its draft decision for TransGrid's revenue proposal for the three years starting on 1 July 2015. The draft decision forms part of the AER's consultation process in determining an appropriate level of revenues that the company may recover from its customers.

TransGrid is the principal transmission network service provider for New South Wales. It operates the towers and wires that deliver electricity to consumers in cities and towns throughout New South Wales and the Australian Capital Territory. This draft decision proposes the revenue amounts (and therefore charges) that TransGrid can recover from customers from 1 July 2015 to 30 June 2018.

For a typical electricity customer in NSW or the ACT, transmission network service charges represent about seven per cent of the total electricity bill with generation costs, distribution charges, and retailer's charges making up the remainder.

"We estimate that our draft decision, if implemented, would reduce annual electricity bills for a typical residential household living in NSW, on average, by \$24 in 2015–16. Similarly, annual electricity bills for small business customers, such as shop owners, would reduce by an average of \$38 in 2015–16. These reductions would be followed by small increases in each of the two subsequent years," AER Chair Ms Paula Conboy said.

"In the ACT, we estimate reductions of \$21 and \$31 on average for these customers in the same period."

These estimates include the impact of the AER's draft decisions on revenues for transmission services provided by Directlink, Ausgrid and ActewAGL—also issued today—which are recovered through TransGrid's transmission network service charges.

In its draft decision the AER has proposed a capital expenditure of \$991 million and an operating expenditure of \$702 million for TransGrid (34 and 16 per cent less than what TransGrid has proposed) over the 2014–18 period.

TransGrid's forecast capex includes less expenditure on new assets to grow its network than in previous periods, because of slower demand growth. However, the AER has made allowance for the future expenditure needed to replace existing assets where they are no longer in acceptable condition. This will help maintain a reliable electricity supply to customers in NSW and the ACT.

The AER proposes to keep operating expenditure at levels closer to those incurred in the previous regulatory control period. While TransGrid has proposed for continued increases from existing levels of expenditure, the AER is not satisfied that these increases are required.

"The demand for electricity is falling which puts less strain on the networks and requires less investment to provide a reliable supply of energy. This draft determination reduces the

spending proposal to ensure that only prudent and efficient costs are recovered from consumers,” Ms Conboy said.

The AER has set a rate of return of 7.24 per cent. This is lower than when we last made our decision, reflecting lower interest rates and improved financial market conditions.

“Perceptions of risk increased during the global financial crisis, but are now decreasing. This means that the lower cost of capital for debt and equity translates into the lower financing costs necessary to attract efficient investment,” Ms Conboy said.

Table 1 % difference between original proposal and AER draft determination

TransGrid’s proposal	AER draft decision	% difference
\$3046 million	\$2311 million	-24 %

Notes: These figures reflect total nominal revenue from 2015–16 to 2017–18. The AER has adjusted TransGrid’s proposal to reflect our earlier decision on 2014–15 revenue.

In response to the AER’s draft decision, TransGrid may provide a revised revenue proposal to the AER by 13 January 2015. Submissions on the AER’s draft decision and the revised revenue proposal are invited by interested parties and may be made by 6 February 2015.

The AER will make its final determination in April 2015 after considering further submissions from TransGrid, customers, and other stakeholders.

Media inquiries

AER Media 1300 138 917

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