



# Victorian AER 2010 draft decision on DNSP revenues and prices - the end users' perspectives

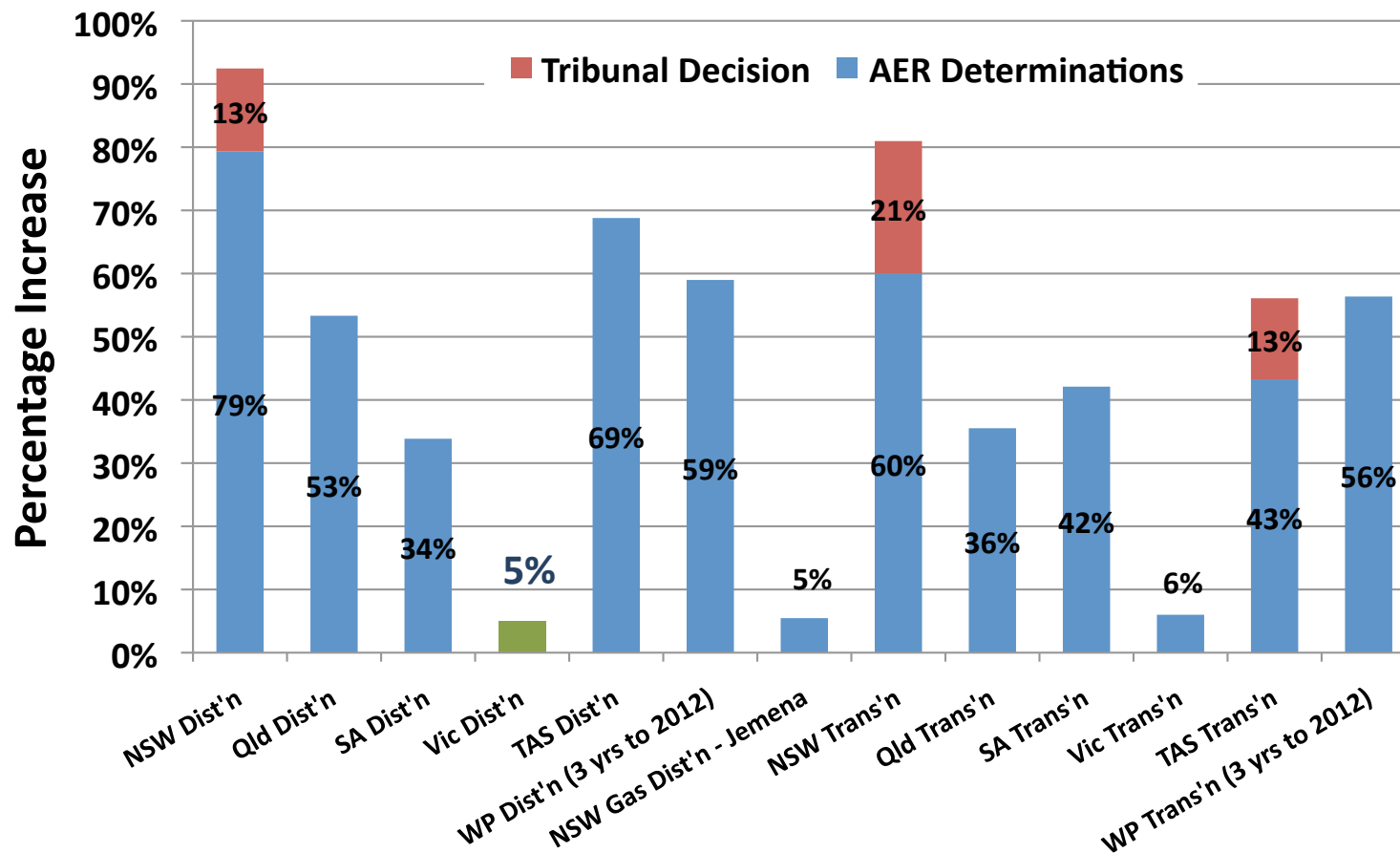
Roman Domanski  
Executive Director

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*AER Vic Pre-Determination Conference 2010*  
Melbourne, Thursday 17<sup>th</sup> June, 2010

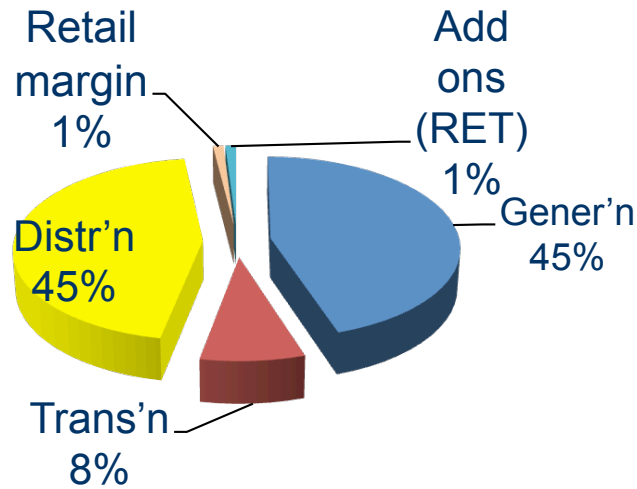
# National Network Revenue Picture

Compounded real increases in Australian Network Revenues over 5 and 3 year regulatory periods

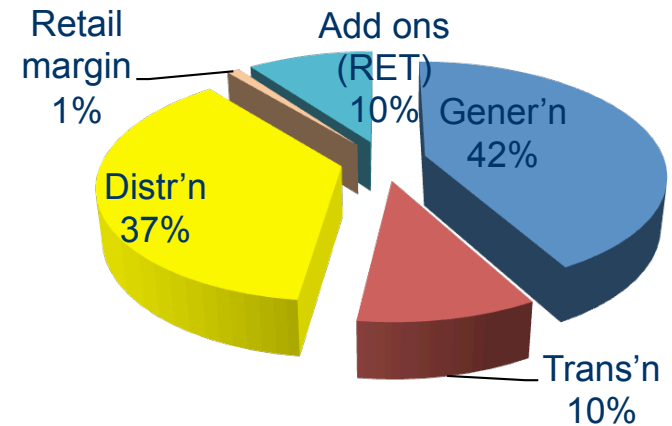


# Changes in Network Charges in the 'Energy Pie'

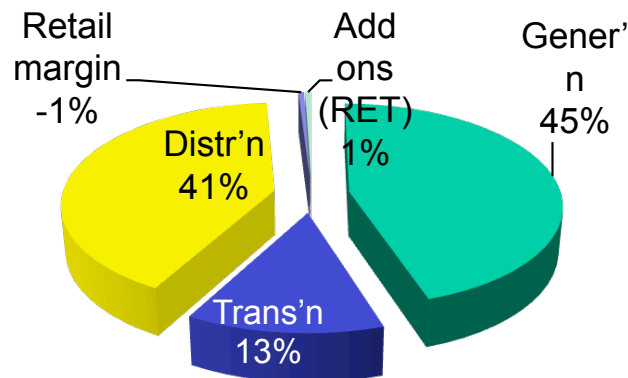
**Vic 2010**



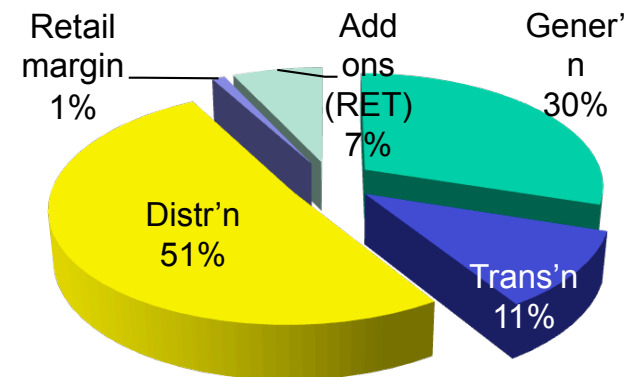
**Vic 2015**



**Qld 2010**



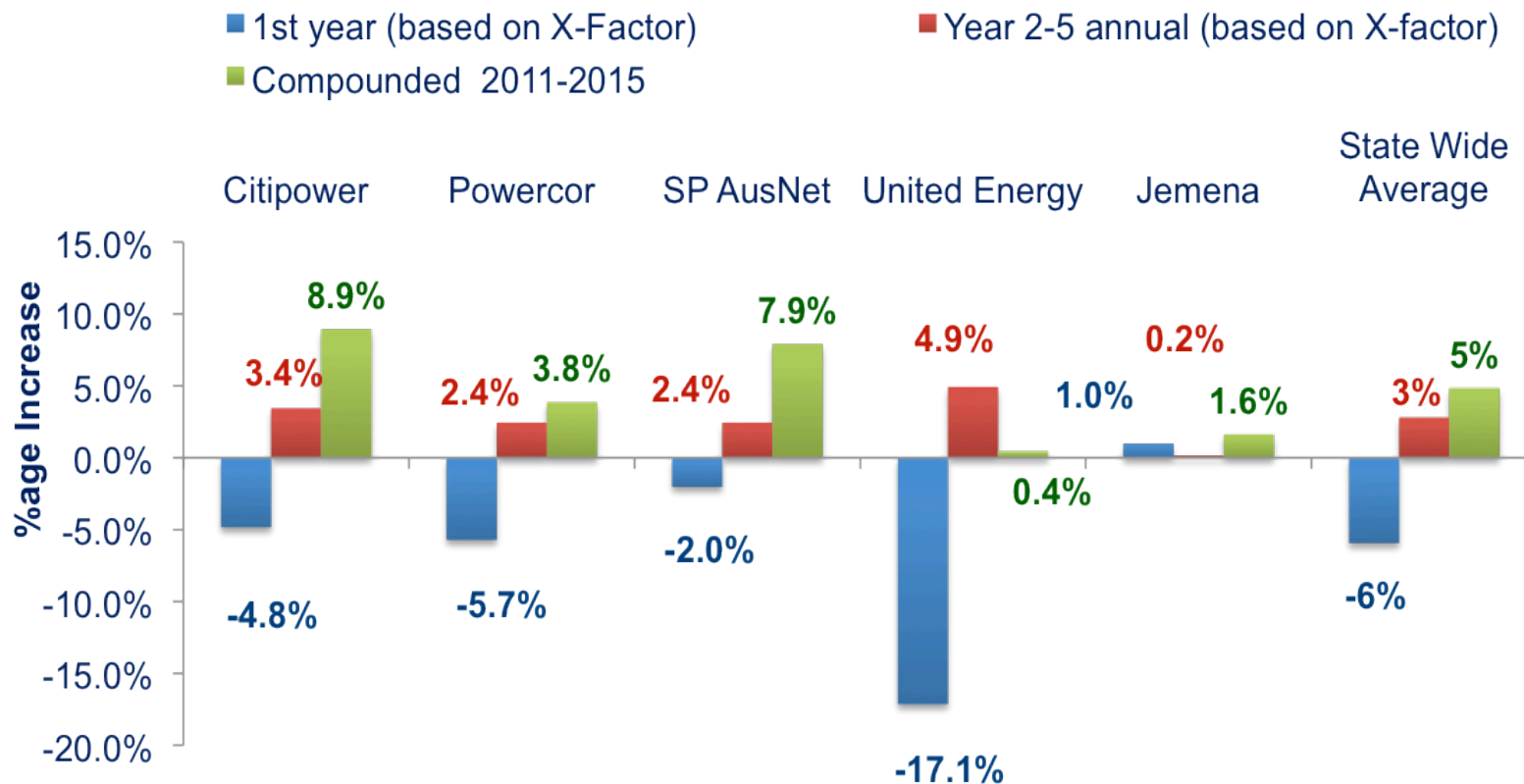
**Qld 2015**





# Victorian Network Prices – AER Draft Determination

## Changes in average prices (based on X factors \$ Nominal)



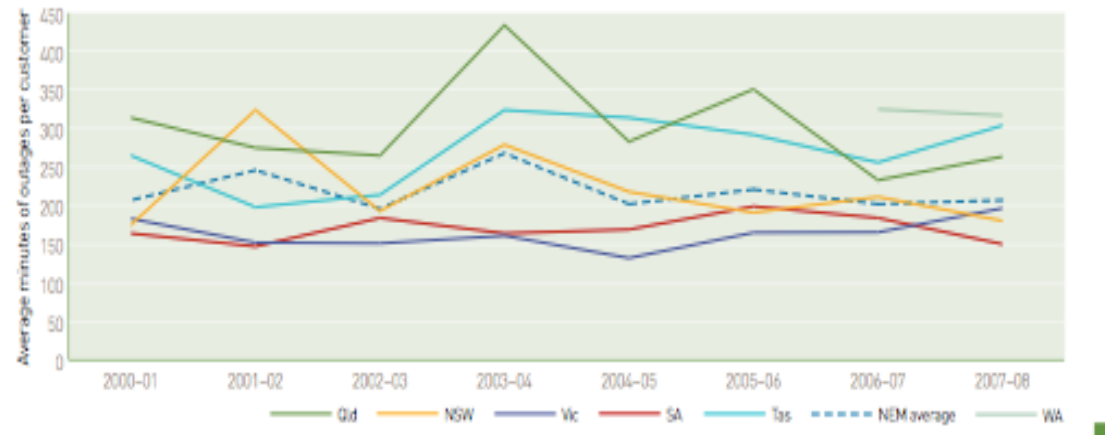


# Apparent Key Outcomes for End Users of AER Draft Decision for Vic DBs

- ❑ Capex and Opex set at “Revealed Efficient” historical levels.
  - ❖ Significant cut back on proposed Capex by 38% and Opex by 18%, revenues by 22%
- ❑ Low energy forecasts rejected:
  - ❖ Would mean higher prices if they are accepted
- ❑ Overall outcome welcome: Price decrease of 7% in real terms by end of 2015.
- ❑ In general, a more thoughtful review, particularly the capex assessment

# Vic DBs have consistently delivered leading quality of supply

Figure 6.10  
System average interruption duration index (SAIDI)





## Some comments on draft decision outcome

- 1. AER has recognised success of Vic DBs, and wishes this to continue. Users welcome this. The regime should reward success and users and DBs share in the gains. We should not be surprised – this is what should be expected.**
- 2. AER implied Vic DNSPs have gilded the lily. No surprises here. Qld and NSW DNSPs also gilded the lily, but AER failed to take action. Problem is not that the AER has got it wrong in Vic, but did get it badly wrong in NSW and QLD. Users will be paying for this failure for a long time. Mistakes of the past must not be repeated here.**



# Comment on revealed costs

**We *partially* support the “revealed cost” assumption – reasonable in principle for privately-owned distributors. But some issues:**

- ❑ How to define the revealed cost – year ? one-off adjustments ?
- ❑ Can’t just assume efficient – some will be better than others;
- ❑ Benchmarking can guide efficiency assessment. But AER progress here is too slow. AER should not hide behind data availability.





## Next steps

- ❑ Effective engagement with users is vital. Credit to United Energy for taking the effort to consult with us on how to do this.
  
- ❑ 1000+ page AER Draft Decision largely deals users out of the process (“the hospitals would work so much better if it wasn’t for the patients”?)
  
- ❑ AER will be facing enormous pressure to relent in favour of the businesses: AER has put forward thoughtful draft on solid logic: need to hold the line. EUAA will be taking a close interest.
  
- ❑ EUAA will be making a submission on the draft decision in due course.