

**Draft decisions: ActewAGL Distribution
and Country Energy distribution
determinations
2009–10 to 2013–14**

**Mr Steve Edwell
Chairman
8 December 2008**

Agenda

Registrations (12:30–1:00 pm)

- 1.00 – 1.30 Registrations (sign in)
- 1.30 – 1.45 Conference opening - Introduction and process overview
 - » Steve Edwell, AER Chairman
- 1.45 – 2.00 Questions from interested parties
- 2.00 – 2.15 Country Energy and ActewAGL responses
- 2.15 – 2.30 Presentation of draft distribution determination for Country Energy
 - » Steve Edwell
- 2.30 – 2.45 Questions from interested parties
- 2.45 – 3.00 Country Energy response
- 3.00 – 3.30 Afternoon tea
- 3.30 – 3.45 Presentation of draft distribution determination for ActewAGL
 - » Steve Edwell
- 3.45 – 4.00 Questions from interested parties
- 4.00 – 4.15 ActewAGL response
- 4.15 – 4.30 Closing remarks (Steve Edwell)
- 4.30 Conference closes

Framework

- The AER's draft distribution determination for DNSPs is made under the NEL and NER
- Transitional provisions for ACT/NSW
- The transitional chapter 6 rules are set out in Chapter 11 of the NER

Transitional rules for ACT/NSW

- Key features:
 - current classifications of services will continue
 - current forms of regulation will continue
 - current arrangements for capital contributions, ring fencing and cost allocation will continue
 - WACC parameters prescribed in the rules (no AER decision)
 - incentive schemes are discretionary (rather than mandatory)
- AER's focus has been to set efficient expenditure allowances (capital and operating)
- Future reviews will include elements which are 'locked-in' under the transitional rules

AER review process

- Comprehensive review process
- Pre-lodgement consultation (RIN, incentive schemes)
- Submissions on regulatory proposals
- Engineering consultant review – Wilson Cook
- Secondary engineering consultant – EMS
- AER draft determination

Demand forecasting

- AER staff reviewed Country Energy and ActewAGL's maximum demand, energy and customer number forecasts
- AER review focussed on:
 - historical trends
 - elements of good methodological practice
- Country Energy's and ActewAGL's maximum demand, energy and customer number forecast methodologies reasonable
- Both DNSPs' energy numbers and Country Energy's customer number forecasts will be updated

Cost of capital

- Majority of WACC parameters set in the NER
- AER's draft decision on WACC
 - Country Energy 9.72 %
 - ActewAGL 9.82 %
- AER is currently reviewing WACC parameters
- WACC review is not relevant for these distribution determinations

Service target performance incentive scheme (STPIS)

- The AER decided not to apply a STPIS in ACT or NSW for 2009–14
- The AER will collect and monitor performance data during the next regulatory control period
- From 1 July 2014 the AER's national distribution STPIS will be applied to Country Energy and ActewAGL with financial incentives

Demand management incentive schemes (DMIS)

- In February 2008, AER published its final decision on DMIS:
 - The D-factor scheme (as applied by IPART) – for NSW DNSPs
 - The demand management innovation allowance (DMIA) – for ACT and NSW DNSPs
- Since February, further consultation and thinking on optimal design of a DMIA
- AER's draft decision is to replace the original DMIA with a 'replacement DMIA'
- No changes to D-factor

Efficiency benefit sharing scheme (EBSS)

- The EBSS released in February 2008 for ACT & NSW will apply for the next regulatory control period
- There will be no ex post adjustment for demand growth
- Certain cost categories will be excluded from the EBSS

Negotiating frameworks

- Both DNSPs provided negotiating frameworks
- Did not propose any negotiable components
- The AER approved the negotiating frameworks for both Country Energy and ActewAGL

Indicative prices

- **Estimated** average customer bill increase in 2009–10:
 - \$1.96 per week for Country Energy customers
 - \$1.80 per week for ActewAGL customers
- AER has determined revenues only at this stage – not price impacts
- Pricing proposals considered in May 2009

Process – next steps

- **16 January 2009** DNSPs to lodge revised proposals
- **16 February 2009** Submissions on draft determination close
- **April 2009** AER release final decision on distribution determination
- **21 May 2009** DNSPs submit pricing proposal
- **1 June 2009** AER approves pricing proposal
- **1 July 2009** Commencement of the next regulatory control period

Questions

**Draft decision: Country Energy
distribution determination
2009–10 to 2013–14**

Key drivers of network expenditure

- Country Energy's capex and opex is being driven by:
 - the age profile of its infrastructure
 - increased network security and reliability
 - planning obligations of NSW DNSPs
 - the rising real price of electricity distribution equipment
 - rising real wages growth and increasing compliance requirements associated with community and environmental obligations
 - new, deferred and backlog asset inspection and maintenance works
 - increased workload due to additional assets.

Opening RAB

- Proposed an opening RAB of **\$4236m**
- The AER did not accept Country Energy's proposal to include \$296m for omitted assets
- The AER determined Country Energy's opening RAB to be **\$4247m**

Capex

- Proposed a capex of **\$4008m**
- The AER adjustments to the proposed allowance:
 - IT expenditure—\$66m reduction (25%)
 - Non-system land and building expenditures—\$21m reduction (to correct apparent double counting)
 - Tap changer setting—\$12m reduction
 - Adjustment to cost escalators—\$46m increase
- The AER approved capex of **\$3955m**

Opex

- Proposed opex of **\$2160m**
- The AER made the following adjustments:
 - \$135m reduction to deferred expenditure
 - \$25m reduction to vegetation management escalation
 - \$8m reduction to input cost escalators
 - \$16m reduction to self insurance and debt raising costs.
- AER approved total opex of **\$1975m**

Pass throughs

- Country Energy proposed **seven** pass through events
- AER accepts proposed ‘retail project event’ and ‘force majeure’ as nominated pass through events
- Remaining proposed events are likely to be ‘regulatory change events’ and therefore unnecessary

Building block revenue requirements

AER's conclusion on Country Energy's revenue requirements and X factors (\$m, nominal)

	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14
Regulatory depreciation		158.4	169.2	132.7	152.0	172.0
Return on capital		412.7	473.4	538.2	611.0	685.2
Tax allowance		46.2	49.7	43.7	50.9	55.9
Operating expenditure		369.1	387.2	408.4	475.4	497.4
TUOS adjustment		-70.0				
Annual revenue requirements		916.4	1079.6	1123.0	1289.3	1410.4
Expected revenues	753.2	938.8	1043.3	1159.6	1288.9	1382.2
Forecast CPI		2.55	2.55%	2.55%	2.55%	2.55%
X Factors		-19.71	-6.80	-6.80	-6.80	-3.00

Alternative Control – Public Lighting

- AER statement on control mechanisms for alternative control services proposed:
 - Fixed schedule of prices for the first year
 - Price path for the remaining years
- From its review of proposals and submissions the AER considers a modified approach is appropriate
- The AER decided the control mechanism for public lighting would be two schedules of fixed prices for the first year:
 - assets constructed before 1 July 2009
 - assets constructed after 30 June 2009

Alternative control (cont)

- The AER proposes a building block approach for existing assets and an annuity approach for the capital charge for new assets
- For each remaining year the charges will be permitted to increase in accordance with a price path approved by the AER, such as CPI
- Each NSW DNSP will submit its proposed schedules of fixed prices and price path to the AER by 16 January 2009 for consideration by the AER and for public consultation

Questions

Draft decision: ActewAGL Distribution Distribution determination 2009–10 to 2013–14

Key drivers of expenditures

- ActewAGL's expenditure is being driven by:
 - augmentation requirements due to urban expansion and emerging capacity constraints
 - asset replacement and renewal driven by regulatory, safety and security requirements
 - increases in real wages and cost of raw materials
 - enhanced pole inspection program

Past capex

- Proposed \$163 million of past capex
- Overspend of \$42 million above ICRC allowance
- Major driver of the capex overspend was higher than expected pole replacement and reinforcement expenditures – 87% of capex overspend
- The AER approved ActewAGL's past capex for inclusion in the RAB

(\$m, 2008–09)	2004–05	2005–06	2006–07	2007–08 (e)	2008–09 (e)	Total
Net actual capex (less capital contributions)	24	26	31	39	43	163
ICRC allowance	24	24	26	23	24	121
Overspend (underspend)	0	2	5	16	19	42
Overspend (underspend) excluding pole related expenditure	(5)	(4)	(4)	7	12	5

Opening RAB

- Proposed an opening RAB of **\$593m**
- AER approved opening RAB of **\$588m**
- Adjustment reflects correction to indexation method

Capex

- Proposed total capex of **\$287m**
- AER approved capex of **\$278m**
- Difference reflects AER adjustments to real cost escalation for input labour and materials

Opex

- Proposed total opex of **\$305m**
- AER approved opex of **\$296m**
- Difference reflects adjustments to:
 - labour cost escalators
 - self insurance costs
 - forecast *Utilities Network Facilities Tax* (UNFT) allowance

Pass throughs

- ActewAGL proposed **five** pass through events
- The AER accepts ActewAGL's proposed 'major natural disaster event'
- Remaining proposed events are likely to be 'regulatory change events'

Building block revenue requirements

AER's conclusion on ActewAGL's revenue requirements and X factors (\$m, nominal)

	2008–09	2009–10	2010–11	2011–12	2012–13	2013–14
Regulatory depreciation		14.5	16.2	17.7	19.3	21.1
Return on capital		57.8	64.5	69.1	73.1	76.9
Tax allowance		5.1	6.0	6.2	5.9	6.1
Operating expenditure		58.8	61.2	63.7	67.2	68.8
Annual revenue requirements		136.2	147.8	156.7	165.5	172.8
Energy Sales (MWh)	2 834 932	2 878 338	2 925 120	2 971 701	3 018 337	3 066 270
Revenue yield (c/kWh)	4.09	4.78	5.00	5.23	5.47	5.72
Expected revenues	116.0	137.5	146.1	155.3	165.0	175.3
Forecast CPI (%)		2.55	2.55	2.55	2.55	2.55
X Factors (%)		-13.82	-2.00	-2.00	-2.00	-2.00

Alternative control services

- Metering services are regulated under a total revenue cap form of control
- ActewAGL proposed:
 - RAB \$38.3m
 - Capex \$18.8m
 - Opex \$8.5m
- AER approved
 - RAB \$38.3m
 - Capex \$18.0m
 - Opex \$8.5m

Alternative control services

AER's draft decision on maximum allowed revenue (\$m, 2008–09)

	2009–10	2010–11	2011–12	2012–13	2013–14	Total
Unsmoothed revenue requirement	7.5	7.7	8.1	8.2	8.7	40.2
Smoothed revenue requirement	7.6	7.8	8.0	8.2	8.4	40.2
X factors (%)	-31.46	0.00	0.00	0.00	0.00	n/a

Note: Totals may not add due to rounding

Questions

Next steps

- **16 January 2009** ActewAGL may submit revised proposal or submission
- **16 February 2009** Submissions on draft decision and revised proposal close
- **By 30 April 2009** AER must release final decision on distribution determination
- **21 May 2009** DNSPs submit pricing proposal
- **1 June 2009** AER approves pricing proposal
- **1 July 2009** Commencement of the next regulatory control period