



## The Hon Lily D'Ambrosio MP

Minister for Industry  
Minister for Energy and Resources

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Ref: BMIN16000117R

Ms Paula Conboy  
Chair  
Australian Energy Regulator  
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Dear Ms Conboy

### **DISTRIBUTION BUSINESSES REVISED REGULATORY PROPOSALS**

The Victorian Government is concerned by the opportunistic price rises put forward by Victorian energy distribution businesses in their revised proposals to the Electricity Distribution Price Review.

The distributors have increased the proposed rate of return beyond their original submissions in April 2015. As you are aware, the rate of return is the forecast of the costs of funds a network business requires to attract investment in the network. If the rate of return is too high, the network business may seek to spend too much, effectively “gold plating” their infrastructure, and Victorian consumers will pay unnecessary high prices.

The AER’s preliminary distribution determinations released in October 2015, found financial market conditions are such that the cost of debt and returns to attract equity are lower compared to the 2011-15 regulatory period, which was factored into the AER’s estimated rate of return for each of the distribution businesses. As a result, the AER forecast electricity bill reductions for Victorian consumers across the 2016-2020 period, as detailed in the table below.

	Indicative annual bill 2015 (residential)	Indicative annual bill 2020 (residential)	Change (\$)	Change (%)
AusNet Services	\$1939	\$1911	-\$27	-1.4%
CitiPower	\$1524	\$1494	-\$30	-2.0%
Jemena	\$1771	\$1696	-\$75	-4.2%
Powercor	\$1816	\$1774	-\$42	-2.3%
United Energy	\$1676	\$1631	-\$46	-2.7%

However, under the electricity distributors' revised proposals to the Electricity Distribution Price Review, it appears Victorian consumers may face up to a 16.5 per cent increase in annual electricity bills, as demonstrated in the table below.

	Indicative annual bill 2015 (residential)	Indicative annual bill 2020 (residential)	Change (\$)	Change (%)
<b>AusNet Services</b>	\$1939	\$2164	+\$225	+11.6%
<b>CitiPower</b>	\$1524	\$1600	+\$76	+5.0%
<b>Jemena</b>	\$1771	\$1938	+\$167	+9.4%
<b>Powercor</b>	\$1816	\$1897	+\$80	+4.4%
<b>United Energy</b>	\$1676	\$1953	+\$277	+16.5%

The justification for these price rises by the electricity distribution businesses is based upon proposed changes to the AER's Rate of Return Guideline, rather than the actual figures. This is particularly disappointing given the proposed changes are currently being appealed in the Australian Competition Tribunal. It is essentially a price rise based on proposed figures that are in dispute.

The Victorian Government rejects the rates of return proposed by the Victorian energy distributors and supports a determination that is consistent with the AER's Rate of Return Guidelines as they stand, and as is reflected in the AER's Preliminary Determination.

The Victorian Government also considers there has not been a sufficient change in the market conditions since the distribution businesses' original regulatory proposals to support such an increase in the rate of return.

The Government believes this is an opportunistic attempt by electricity distributors to increase energy prices for Victorian consumers. This behaviour stands at odds with the purpose of the regulatory regime, which is to estimate a reasonable rate of return that satisfies the businesses financing needs to service the long term interest of consumers.

If you require further information, please contact Mark Feather from the Department of Economic Development, Jobs, Transport and Resources on (03) 9092 1880.

Yours sincerely



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Minister for Energy and Resources

Date: 29 / 1 / 2016