

# The Australian Energy Regulator



AusNet Services

Transmission revenue  
proposal 2017-22

Public Forum  
9 August 2016

# Agenda

- AER presentation of draft decision
- Consumer Challenge Panel (CCP) presentation
- AusNet Services presentation
- Q&A
- Next steps

# **AER presentation of draft decision**

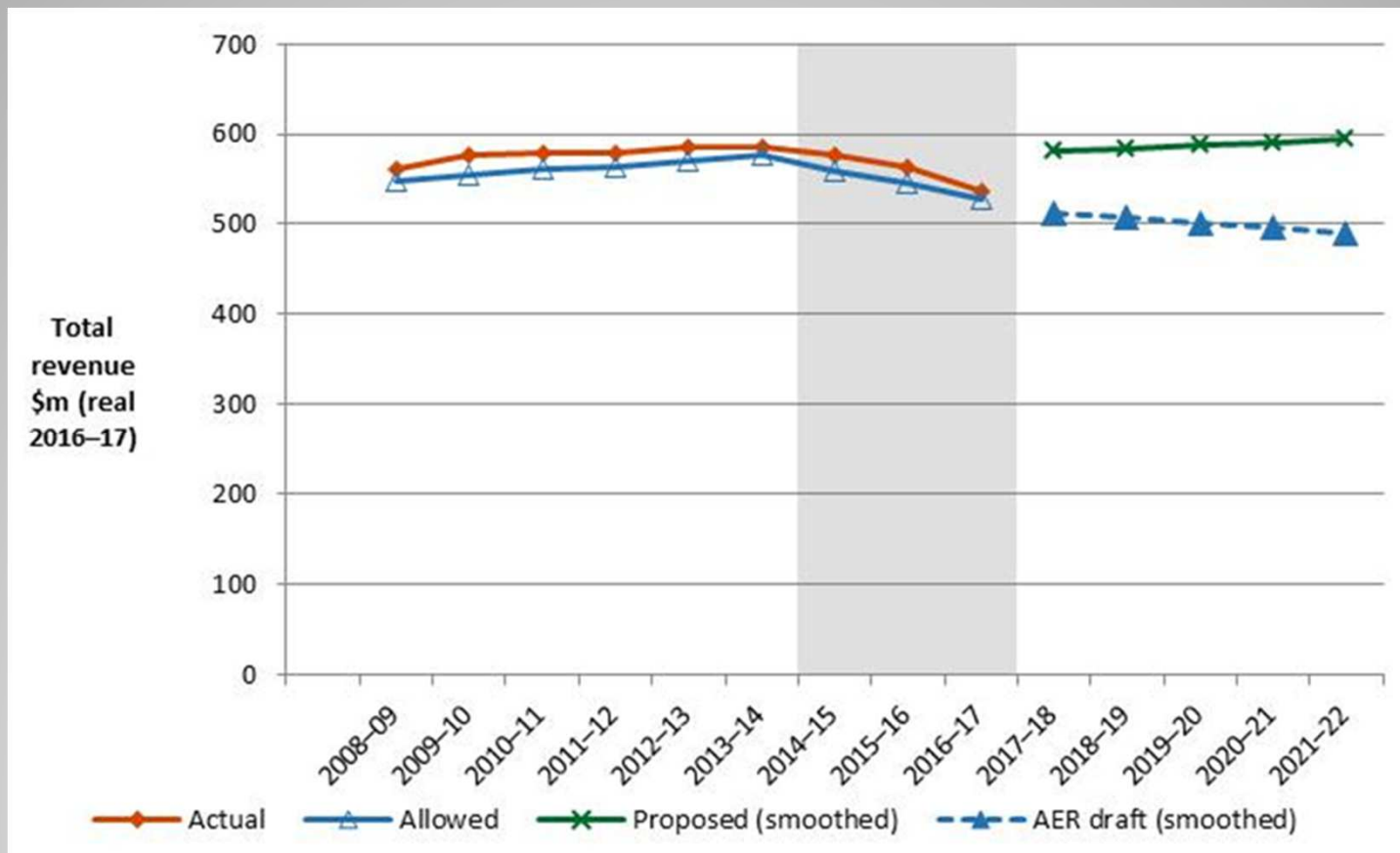
## Key points

- The AER published its draft decision on AusNet Services' 2017-22 revenue proposal on 20 July 2016
- The draft decision Allows AusNet Services to recover \$2695.0 million (\$nominal) from its customers. This represents 14.7 per cent less revenue than AusNet Services proposed
- If implemented, our draft decision would result in the transmission component of electricity bills in Victoria remaining stable over the 2017-22 regulatory period.

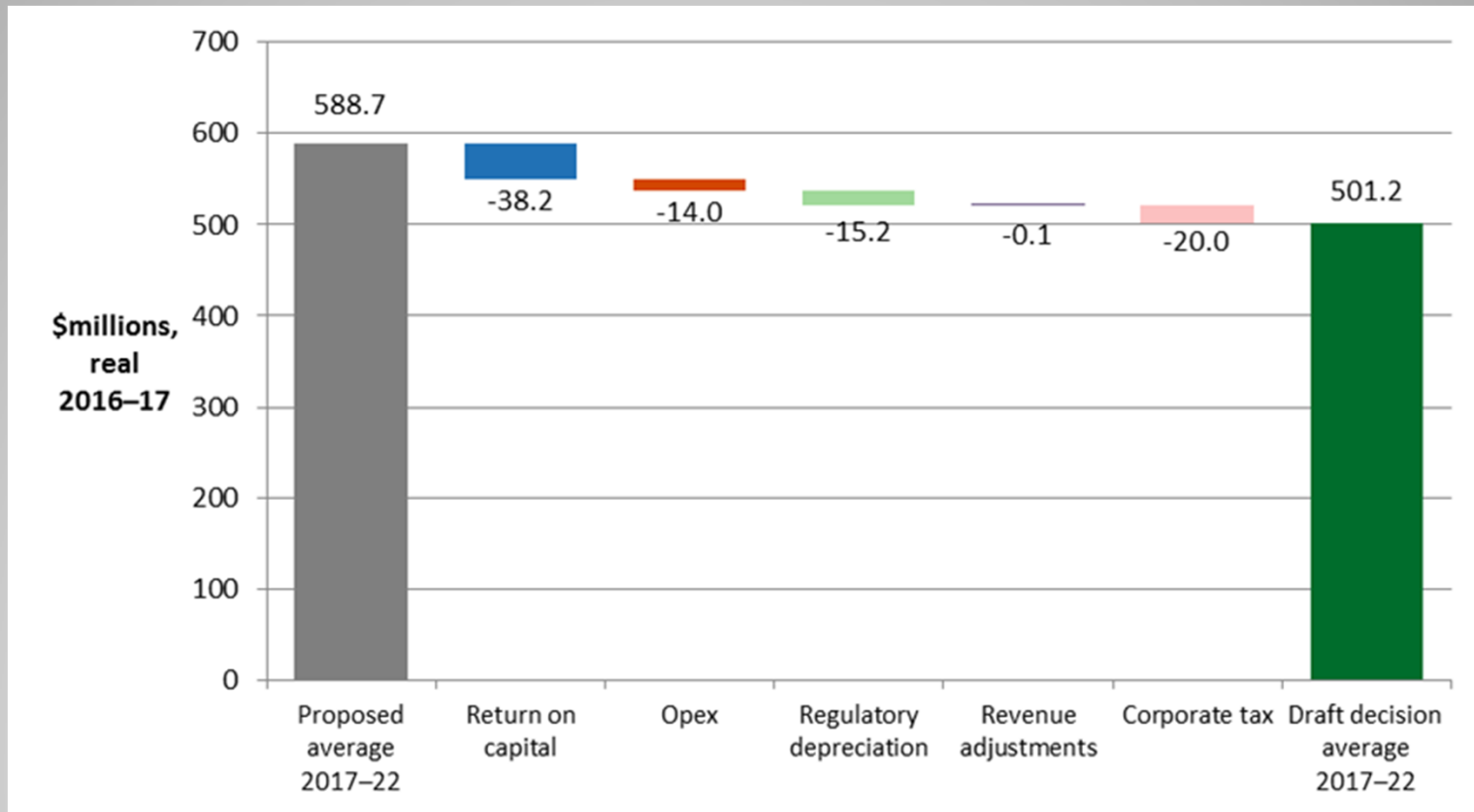
# AusNet Services reset timeline

Step	Date
AusNet Services submitted its revenue proposal to AER	30 Oct 2015
AER published issues paper	11 Dec 2015
AER held public forum	17 Dec 2015
Submissions on revenue proposal closed	4 Feb 2016
AER published draft decision	20 July 2016
AER public forum to explain draft decision	9 Aug 2016
Submissions due on draft decision	21 Sep 2016
AusNet Services to submit revised proposal to AER	21 Sep 2016
Further submissions due, including on revised proposal	13 Oct 2016
AER to publish final decision	No later than 31 Jan 2017

## Draft decision total revenue requirement (\$m, 2016-17)



## AER's draft decision and AusNet Services' proposed annual building block costs (\$million, 2016-17)



## Impact of draft decision on customer bills (\$nominal)

	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22
<b>AER draft decision</b>						
Residential annual bill	1419 <sup>a</sup>	1418	1419	1419	1420	1421
Annual change <sup>d</sup>		-1 (-0.1%)	0 (0%)	0 (0%)	1 (0%)	1 (0.1%)
Small business (flat) annual bill	3332 <sup>b</sup>	3330	3331	3331	3333	3335
Annual change <sup>d</sup>		-2 (-0.1%)	1 (0%)	1 (0%)	1 (0%)	2 (0.1%)
Small business (TOU) annual bill	8247 <sup>c</sup>	8242	8244	8246	8249	8255
Annual change <sup>d</sup>		-5 (-0.1%)	2 (0%)	2 (0%)	3 (0%)	6 (0.1%)



# Draft decision on rate of return (% nominal)

	AER previous decision (2014–17)	AusNet Services proposal (2017–18)	AER draft decision (2017–18)	Allowed return over 2017–22 regulatory control period
Return on equity (nominal post-tax)	9.51	10	7.1	Constant (7.1%)
Return on debt (nominal pre-tax)	6.79	5.37	5.54	Updated annually
Gearing	60	60	60	Constant (60%)
Nominal vanilla WACC	7.87	7.22	6.16	Updated annually for return on debt
Forecast inflation	2.45	2.35	2.44	Constant (2.44%)

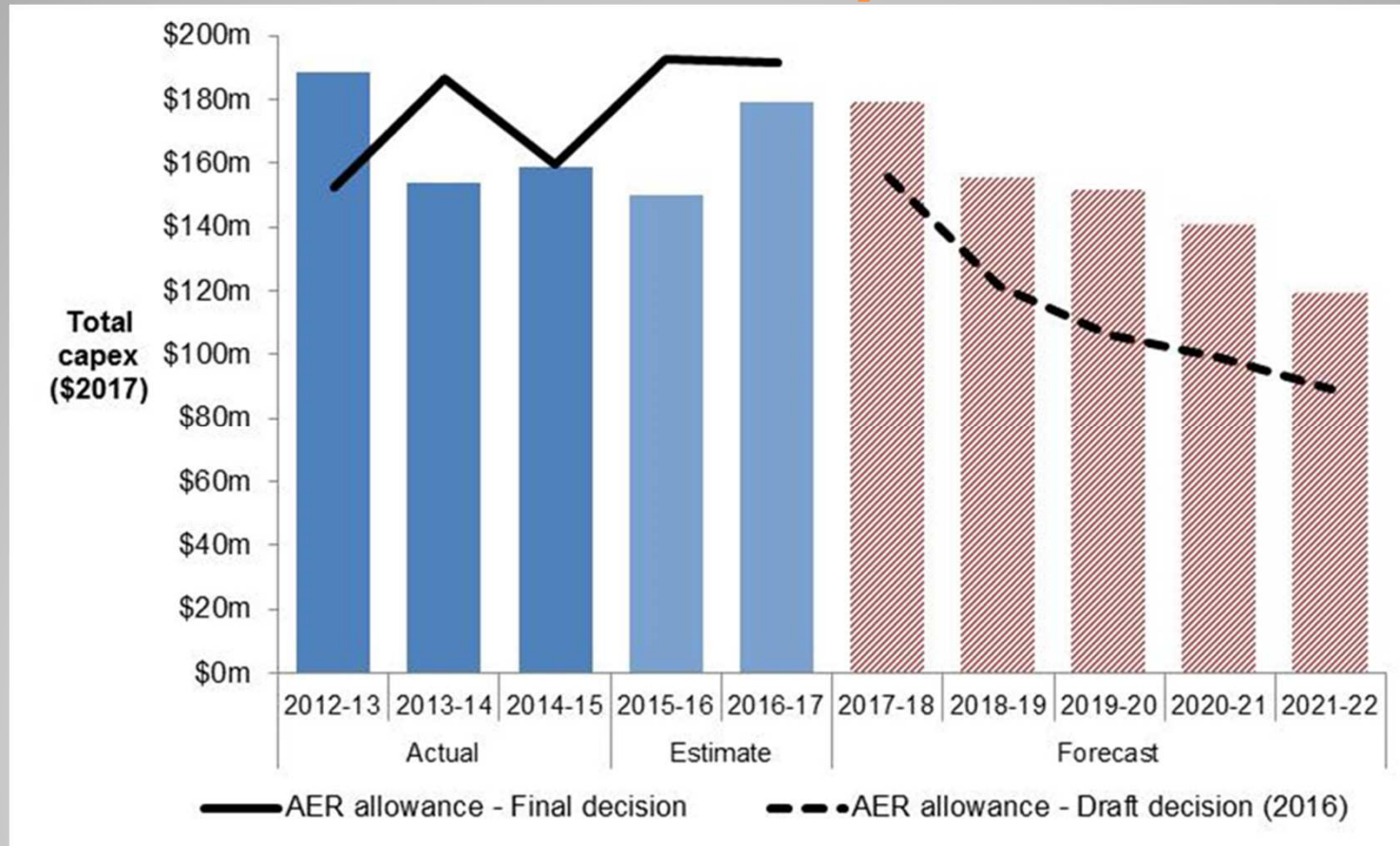
# Depreciation

- Our draft decision approves a regulatory depreciation allowance of \$521.3 million (\$ nominal) for the 2017–22 regulatory control period. This is \$81.4 million (13.5 per cent) lower than AusNet Services' proposed value of \$602.8 million (\$ nominal).
- Our draft decision does not accept AusNet Services proposal to apply the diminishing value method for depreciating new assets
- Instead, we have applied the straight line depreciation method for both new and existing assets, resulting in a reduced depreciation allowance over the 2017–22 regulatory control period.

## Capital expenditure

- Our draft decision approves \$573.1 million (\$2016–17) total net forecast capex for the 2017–22 regulatory control period. This is \$172.5 million (or 23 per cent) lower than AusNet Services' proposed value of \$745.6 million.
- A key component of our draft decision includes reductions in capex related to safety risks (\$99m)
- While we consider our safety risk assumptions to be more realistic, we expect AusNet Services to provide further information in its revised proposal to support any alternative assumptions.

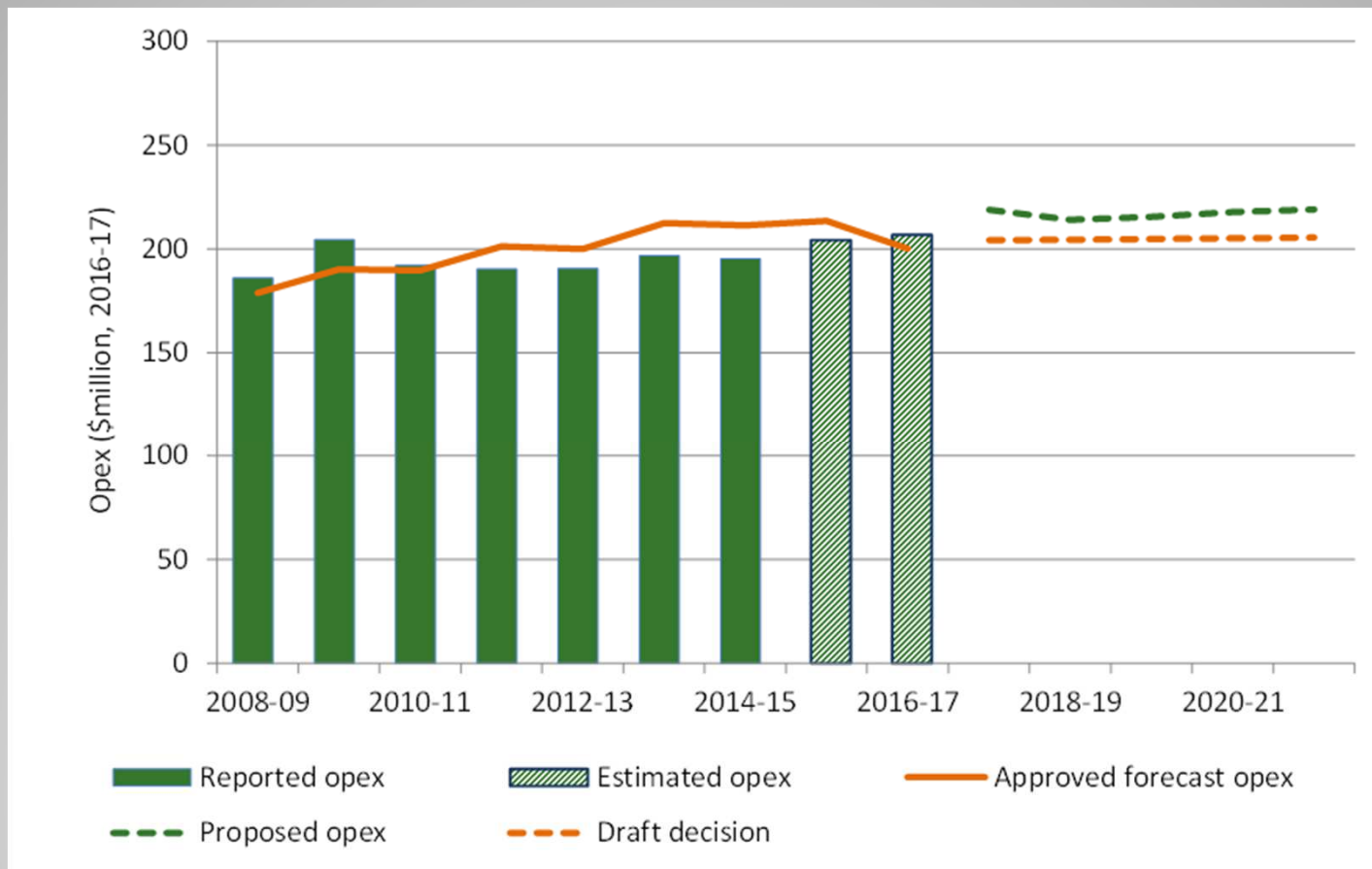
## Actual and forecast capex 2012-22 (\$million, 2016-17)



## Operating expenditure

- Our draft decision approves \$1024.1 million (\$2016–17) total forecast opex for the 2017–22 regulatory control period. This is \$61.0 million (5.6 per cent) lower than AusNet Services' proposed value of \$1085.0 million (\$2016–17).
- The forecast overall rate of change used to derive our alternative estimate of opex is lower than AusNet Services' over the forecast period
- AusNet Services proposed six step changes to its base level of opex, totaling \$13.5 million (\$2016–17). We have not included these step changes in our draft decision total opex forecast.

## Draft decision on forecast operating expenditure (\$million, 2016-17)



**Consumer Challenge Panel  
presentation**

# **AusNet Services presentation**



**Questions?**

## Next steps

- Submissions due by 21 September 2016
- Revised proposal due by 21 September 2016
- Further submissions (including on revised proposal) due by 13 October 2016
- Final decision due by 31 January 2017
  
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