

# Final decision: AusNet Services Electricity transmission determination 2017–22

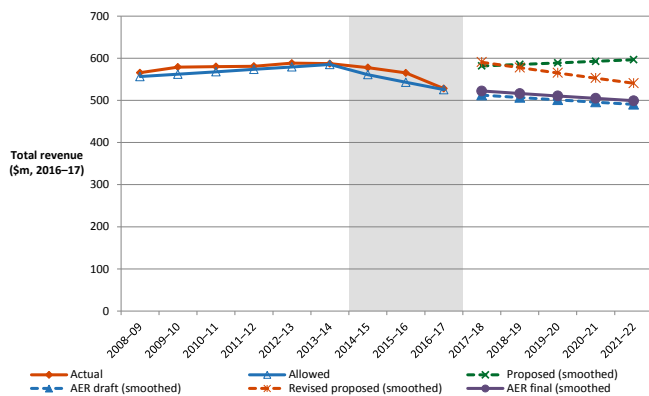
## Overview

The Australian Energy Regulator (AER) regulates the revenues of AusNet Services by setting the annual revenue requirement it may recover from its customers.

Our final decision allows AusNet Services to recover \$2741.7 million (\$nominal) from its customers over five years commencing 1 April 2017. This results in average annual revenues over the 2017–22 regulatory period of \$510.7 million (\$2016–17), compared to \$543.1 million (\$2016–17) over the previous (2014–17) regulatory period.

The figure below shows the difference between AusNet Services' proposed revenue, and what we have allowed for each year of the regulatory period.

**AusNet Services' past and proposed total revenue and AER final decision revenue allowance (\$million, 2016–17)**



If we had accepted AusNet Services' revised proposal, it would have been permitted to recover \$2967.5 million (\$nominal) over the 2017–22 regulatory control period. Our final decision allows AusNet Services to recover 7.6 per cent less than its revised proposal and 1.7 per cent more revenue than our draft decision of \$2695.0 million (\$nominal).

## Estimated impact on customer bills

Our final decision on AusNet Services' revenue affects the transmission component of the electricity bill for Victorian customers. Transmission charges make up approximately 5 per cent of the bill for a typical Victorian residential customer.

We expect that our final decision will result in the transmission component of electricity bills remaining stable over the 2017–22 regulatory period.

Other components of customer bills include the cost of generation, distribution, network charges and retailer costs. The AER does not set retail prices.

## Key elements of our decision

We based our assessment of AusNet Services' proposed revenue on a number of components. These include expenditures to maintain and operate the network, and the return to shareholders on their investment. Together, these determine the revenue AusNet Services may recover from its customers.

Two components of our final decision drive most of the difference between the revenue that AusNet Services was allowed to recover in the 2014–17 regulatory period, and the level of revenue approved for the 2017–22 regulatory period: rate of return, and operating expenditure (opex).

We discuss each of these below.

## Rate of return

Significant investment is required to build a transmission network. The return AusNet Services must pay lenders and investors is referred to as the rate of return. Even a small difference in the rate of return can have a big impact on revenues.

Our final decision sets the allowed rate of return (or 'cost of capital') at 5.8 per cent for 2017–18. This is a significant decrease compared to the rate of return approved in our previous (January 2014) final decision for AusNet Services of 7.87 per cent.

The investment environment has improved since our previous decision, which was made during the period of uncertainty surrounding the global financial crisis. This improved investment environment translates to lower financing costs

necessary to attract efficient investment.

The lower rate of return in this final decision will reduce AusNet Services' average annual revenue requirement compared to the previous regulatory control period.

### **Operating expenditure**

Opex includes forecast operating, maintenance and other non-capital costs incurred in the provision of transmission network services. It includes labour costs and other non-capital costs that AusNet Services is likely to require during the 2017–22 period for the efficient operation of its network.

Our final decision for the 2017–22 regulatory period provides for a higher opex allowance than AusNet Services was allowed to recover during the 2014–17 regulatory period. This increase in opex is primarily driven by an increase in AusNet Services' easement land tax liability.

AusNet Services advised in a submission subsequent to its revised proposal that the Victorian Government had increased its easement land tax for 2017–18. Accordingly, we increased our forecast of annual easement land tax for the 2017–22 regulatory period.

### **For more information**

More information on AusNet Services' proposal, and our final decision is on our website: [www.aer.gov.au](http://www.aer.gov.au).