AUSTRALIAN ENERGY REGULATOR

Draft decision: Murraylink 2018–23

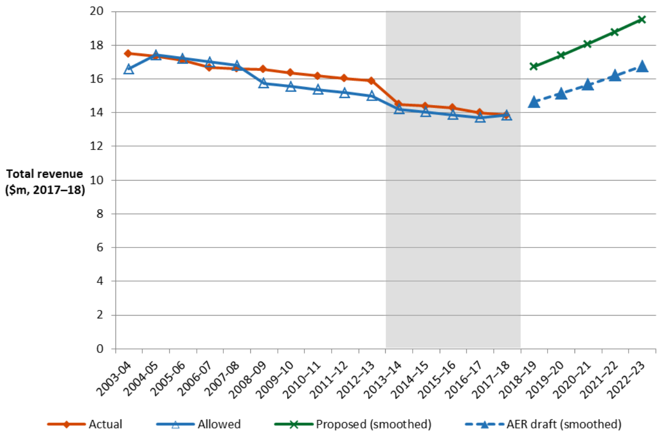
We have made a draft revenue decision for Murraylink, the electricity transmission interconnector between Victoria and South Australia. Our draft decision allows Murraylink to recover $84.6 million ($nominal) from its customers over five years commencing 1 July 2018.

Overview

We, the Australian Energy Regulator (AER), regulate the revenues of Murraylink by setting the maximum allowed revenue it may recover from its customers. Our purpose is to make all Australian energy consumers better off, now and in the future.

Our draft decision allows Murraylink to recover $84.6 million ($nominal) from its customers over five years commencing 1 July 2018. This is 12.1 per cent or $11.7 million ($nominal) less revenue than Murraylink's proposal.

Murraylink's past and proposed total revenue and AER draft decision revenue allowance ($million, 2017–18)



Key elements of our decision

Three components of our draft decision drive most of the difference between Murraylink's proposed revenue and our draft decision: rate of return, value of imputation credits and capital expenditure. We discuss each of these below.

Rate of return

Investment is required to sustain the Murraylink interconnector. The return Murraylink must pay lenders and investors to invest is referred to as the rate of return.

Our draft decision sets the allowed rate of return (or 'cost of capital') at 5.7 per cent for 2018–19. We have not accepted Murraylink's proposed 6.54 per cent.

We consider that Murraylink has sought a rate of return that is higher than necessary given the current investment environment. This translates to lower financing costs necessary to attract efficient investment.

Value of imputation credits

Under the Australian imputation tax system, investors can receive an imputation credit for income tax paid at the company level. We make an adjustment to the revenue granted to Murraylink to cover its expected tax liability to account for the value of imputation credits.

The approach we have adopted in estimating the value of imputation credits in the Murraylink decision is consistent with the approach we have adopted in our recent decisions, which has been upheld by the Federal Court of Australia. Our draft decision would have been 1% or $780,000 higher had we adopted the value of imputation credits proposed by Murraylink.

Allowed capital expenditure

Capital expenditure (capex) refers to the capital expenses incurred in the provision of network services.

Murraylink proposed a total forecast capex of $33.8 million ($2017–18) for the 2018–23 regulatory control period. The key driver of Murraylink's capex over the 2018–2023 regulatory control period is the proposed replacement of its control systems due to approaching obsolescence. Our draft decision forecast is for capex of $26.6 million ($2017–18). We consider that our lower forecast is prudent and efficient.

More information about our consultation process

Murraylink may submit a revised proposal in response to our draft decision by 1 December 2017. Stakeholders may make written submissions on our draft decision and Murraylink's revised proposal by 12 January 2018. Our final decision is due for release by the end of April 2018.

More information on Murraylink's proposal, our draft decision and how to make a submission is on our website: www.aer.gov.au.