

# Draft decision: TasNetworks (transmission) 2015–19

We have made a draft decision for the transmission network operator in Tasmania. Our draft decision allows TasNetworks to recover \$731.2 million (\$ nominal) from its customers over four years commencing 1 July 2015.

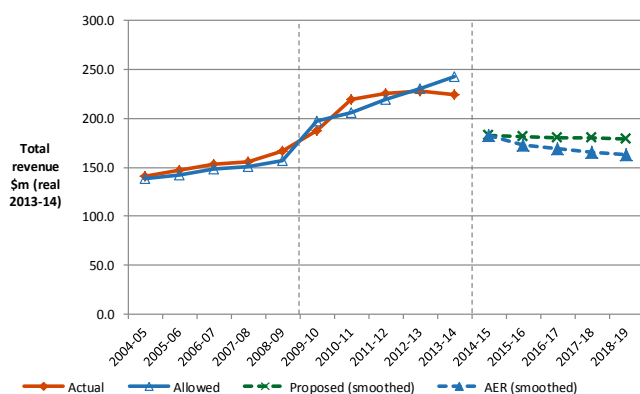
## Overview

TasNetworks is the electricity transmission network service provider (TNSP) in Tasmania. It owns and operates the 'towers and wires' that transport power over long distances, linking generators with load centres throughout Tasmania. We, the Australian Energy Regulator (AER), regulate the revenues of TasNetworks and other TNSPs in eastern and southern Australia under the National Electricity Law (NEL) and National Electricity Rules (NER).

Our draft decision provides that TasNetworks will recover \$731.2 million from its customers in the 2015-19 regulatory control period. As a result, we expect the average residential customer's annual bill in Tasmania to fall by \$10 in 2015-16, based on estimated energy use and assuming other components of the consumer bill are held constant.

We regulate TNSPs by setting the maximum allowed revenue (MAR) they can recover from their customers. The difference between TasNetworks' revenue from 2009-14, its proposed revenue, and what we have allowed in our draft decision are shown below.

**TasNetworks' past total revenue, proposed total revenue and AER draft decision revenue allowance (\$ million, \$2013–14)**



The revenue we determine affects the transmission component of a customer's final bill. In Tasmania, transmission charges make up about 15 per cent of a typical residential customer's final bill, but for large business customers it can be more significant. Other components in customer bills include the cost of generation, distribution network charges, and retailer costs.

In November 2012 major changes were introduced to the regulation of TNSPs under the NER. TasNetworks' transmission determination was due to commence on 1 July 2014, and apply for a period of five years. So that the new rules could be applied to this decision, transitional rules required two regulatory control periods:

- a transitional regulatory control period from 1 July 2014 to 30 June 2015, and
- a subsequent regulatory control period commencing 1 July 2015.

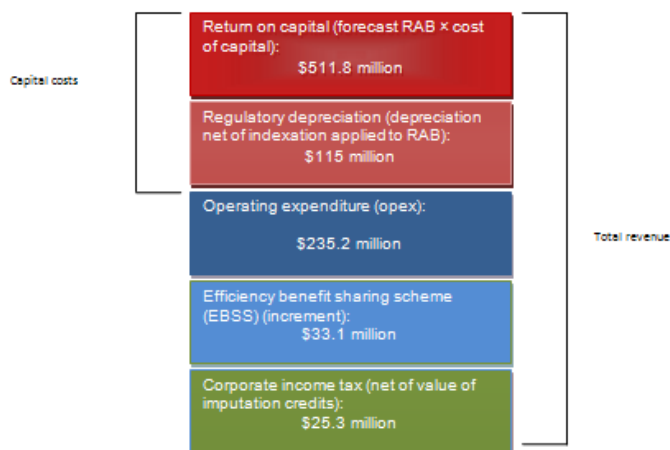
We made a fast-tracked placeholder determination for the transitional regulatory control period on 28 March 2014. That determination will be adjusted (or 'trued up') in our determination for the subsequent regulatory control period, which is the subject of this draft decision.

## Our assessment

In making our assessment, a TNSP first proposes its forecast revenue requirement. This is based on an estimate of a number of cost categories called 'building blocks'. We also include the gains (or losses) arising from our efficiency benefit sharing incentive scheme which are referred to as EBSS carryover amounts.

Together, the building blocks add up to the MAR TasNetworks can earn through levying transmission charges on customers. In this way, it should recover no more than the efficient cost of providing transmission services to its customers.

## AER draft decision: building blocks 2014-19 (\$ nominal)



We also apply our service target performance incentive scheme (STPIS) to incentivise TNSPs to maintain and improve service levels. This financial reward (or penalty) is applied annually once the actual service levels are known.

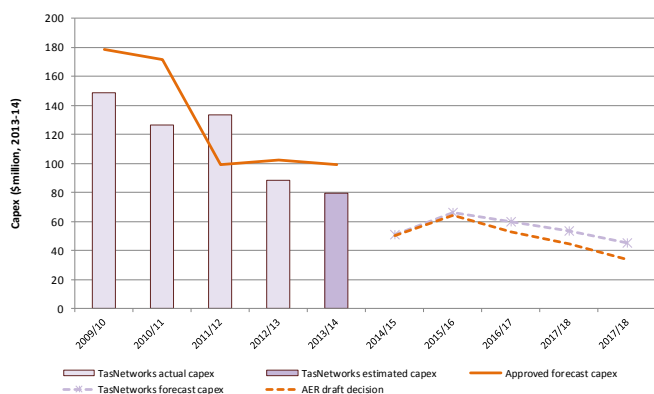
## Capital expenditure

We did not accept TasNetworks' proposed forecast capital expenditure (capex) of \$275.9 million (\$2013-14). We estimated a substitute forecast of \$246.4 million (\$2013-14).

TasNetworks' forecast capex is a result of reduced augmentation expenditure due to slower demand growth, and the completion of significant asset renewal in the previous period. However, it includes forecast expenditure to replace ageing assets that would have otherwise been replaced as part of deferred augmentation projects. The forecast capex helps to maintain reliable electricity supply to TasNetworks' customers.

Capex refers to the cost of building new facilities or replacing existing infrastructure. Factors that influence the required level of capex include the age and condition of existing assets.

## AER draft decision compared to TasNetworks' past and proposed capex (\$million, 2013-14)



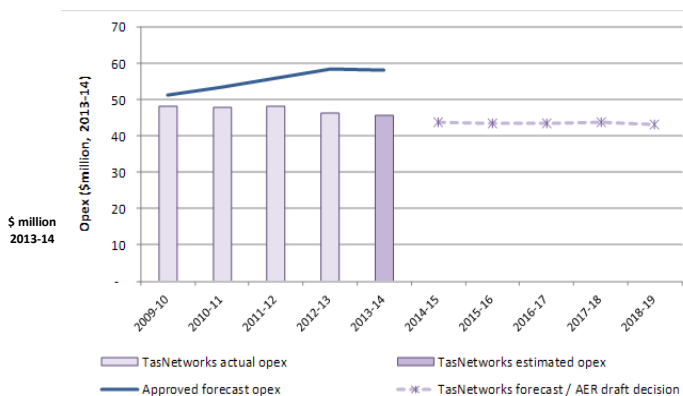
## Operating expenditure

We accepted TasNetworks' proposed operating expenditure (opex) forecast of \$218.3 million (\$2013-14).

Opex refers to the non-capital cost of running a business. It includes controllable and non-controllable costs.

TasNetworks' proposed opex is around 12 per cent lower than actual opex in the previous period. The decrease is mainly due to the recent merger of the Transend transmission and Aurora distribution businesses. The combined entity, TasNetworks, is expected to incur more efficient costs by rationalising its functions and systems.

## AER draft decision compared to TasNetworks' past and proposed opex (\$million, \$2013-14)



## Rate of return

Our draft decision sets the allowed rate of return (or 'cost of capital') for TasNetworks at 6.88 per cent. In comparison, it was 10.0 per cent during the previous regulatory control period.

The investment environment has improved since our previous decision, which was made during the height of uncertainty surrounding the global financial crisis. The lower rate of return in this decision will reduce TasNetworks' average annual revenue requirements compared to the past. This should help reduce electricity prices for consumers in the forthcoming regulatory control period.

TasNetworks requires significant investment to build a transmission network. The return TasNetworks 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.

## More information about our consultation process

TasNetworks may submit a revised proposal in response to our draft decision, no later than 13 January 2015. Stakeholders will also be able to make submissions on our draft decision and TasNetworks' revised proposal 6 February 2015.

More information on TasNetworks' proposal, our draft decision, and how to make a submission is on our website: [www.aer.gov.au](http://www.aer.gov.au).