

Draft decision: ElectraNet 2018–23

We have made a draft revenue decision for ElectraNet, the electricity transmission network operator in South Australia. Our draft decision allows ElectraNet to recover \$ 1588.4 million (\$nominal) from its customers over five years commencing 1 July 2018.

The AER

The Australian Energy Regulator (AER) works to make all Australian energy consumers better off, now and in the future.

We regulate energy networks, retailers and wholesale markets.

ElectraNet's proposal

ElectraNet's vision for South Australia's transmission network is that it will deliver affordable and reliable power supplies that support customer choices for a sustainable future. ElectraNet's proposal aligns with this vision. ElectraNet undertook an extensive, open and collaborative consultation process in developing its proposal.

On 28 September 2016, South Australia experienced a total loss of electricity supply (a 'black system' event). ElectraNet's proposal responds to this in a careful but measured fashion. ElectraNet proposed an increase in its capital expenditure of 13 per cent in response to the system black event to improve the security of the transmission network and increase its resilience to extreme weather events. ElectraNet proposed a 0.2 per cent real decrease in revenues compared to the revenue it was allowed to recover in the current period. This included a real reduction in capital expenditure (capex) and operating expenditure (opex) from levels in the current period. ElectraNet's proposal also leads to a reduction in the value of its regulatory asset base, reversing a trend of increases since 2009.

Our draft decision

Our draft decision allows ElectraNet to recover \$1588.4 million (\$nominal) from its customers over five years commencing 1 July 2018. This is a reduction of \$149.8 million (\$nominal) or 8.6 per cent on ElectraNet's proposal of \$1738.2 million (\$nominal).

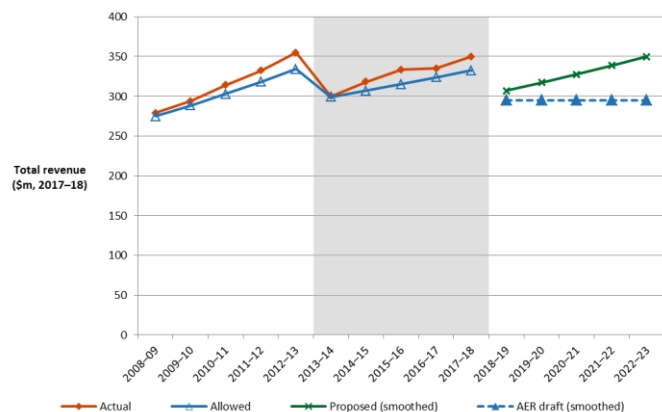
What is the bill impact?

The revenue we determine affects the transmission component of a customer's electricity bill. Transmission charges make up approximately 7 per cent of the bill for typical residential customers in South Australia. We estimate that, holding everything else constant, the transmission component of the average annual residential electricity bill in 2018–19 will decrease by about \$22 (\$nominal) from the current 2017–18 level. This would equate to a 0.9 per cent decrease in the annual bill, all else being equal.

Our draft decision accepts most aspects of ElectraNet's revenue proposal, including the operating and capital expenditure forecasts, which lead to a real reduction in ElectraNet's asset base. Two main factors account for the difference between ElectraNet's proposal and our draft decision—the rate of inflation and the value of imputation credits. These technical financial matters form part of the rate of return where we are consistent across all decisions. We have applied our current approach to forecasting inflation to ElectraNet. However, we are currently reviewing our treatment of inflation in an open consultation process. We have also applied our current approach to calculating the value of imputation credits. This approach aligns with our approach in other recent decisions and which has been upheld by the Federal Court of Australia.

The figure below shows the difference between ElectraNet's proposed revenue and what we have allowed for each year of the regulatory period. Our draft determination includes a number of contingent projects proposed by ElectraNet that may require further expenditure. These are projects that may be undertaken during the 2018-23 period but only once the need for them has been clearly demonstrated at a later date when more information is available.

ElectraNet’s past and proposed total revenue and AER draft decision revenue allowance (\$million, 2017–18)



Further consultation

We expect that there will be changes to ElectraNet’s proposed expenditures arising from recent power system security reviews into the South Australian energy market. These changes have occurred following the submission of ElectraNet’s proposal on 28 March 2017. We expect these changes to be addressed in ElectraNet’s revised proposal.

We will hold a public forum on our draft decision on 6 November 2017. ElectraNet may submit a revised proposal in response to our draft decision by 2 January 2018. We are inviting stakeholders to make submissions on our draft decision and ElectraNet’s revised proposal by 29 January 2018. Our final decision is due for release by the end of April 2018.

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