

Our reference: 60550
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Dear stakeholder

Electricity network charges in the ACT and NSW from 1 July 2017

This letter explains the interim arrangements that we are in the process of formalising to govern the setting of electricity network tariffs (and non-price terms and conditions) for the 12 month period commencing on 1 July 2017.

These are interim arrangements, in the sense that, after the level of allowed revenue is determined through the appeals process, an adjustment to future network tariffs will be needed if there is any difference between that final allowed level of revenue and the level of revenue already recovered under these interim arrangements. The appeals process is to determine the revenue that the ACT and NSW electricity distributors are allowed to earn from customers for the provision of electricity network services over the 2014–19 period. The Australian Energy Market Commission (AEMC) is currently reviewing a proposal on how the distributors may be permitted to smooth out this adjustment over time, if an adjustment is necessary, following the conclusion of the appeals process.

Background

On 26 February 2016, the Australian Competition Tribunal (the Tribunal) handed down its decisions on the limited merits review of the AER's electricity distribution determinations made in April 2015.

The Tribunal set aside and remitted to the AER for further consideration its determinations for the following ACT and NSW service providers:

- the ACT electricity distributor, ActewAGL
- the NSW electricity distributors Ausgrid, Endeavour Energy and Essential Energy

On 24 March 2016, the AER applied to the Full Federal Court for judicial review of the Tribunal's decisions. The Full Federal Court heard the matter in October 2016, and has reserved its judgement.

Resolution of the judicial review and potential remittal process is likely to take some time. In the interim, it was not clear what network charges should apply. Neither the Tribunal's decision nor the National Electricity Rules provided an unambiguous way forward.

Current 2016–17 interim arrangements

In May 2016, we entered into enforceable undertakings with the ACT and NSW electricity distributors to establish network tariffs for the 12 month period commencing on 1 July 2016.

These undertakings sought to provide stability, predictability and transparency for all stakeholders through establishing the following interim arrangements through which:

- ActewAGL's, Ausgrid's and Endeavour Energy's network charges remained constant in real terms. (This means their previous 2015–16 network charges were allowed to increase in line with inflation)
- Essential Energy's network charges were adjusted in line with the determination we made in April 2015 and the price path included in that decision.
- All non-price components of the distribution determinations (e.g. connections policies, classification of services, and negotiated services framework) were maintained.

The current enforceable undertakings are set to expire on 30 June 2017. As the appeals process is on-going, we are in the process of establishing new interim arrangements through entering into new enforceable undertakings with the distributors to govern the setting of network tariffs to be applied from 1 July 2017.

2017–18 interim arrangements for electricity

We consider that the objectives of revenue/price stability, predictability and transparency remain relevant to the establishment of new enforceable undertakings.

In addition, the distributors' new Tariff Structure Statements are due to come into effect on 1 July 2017. We made our final decisions on these Tariff Structure Statements in February of this year. The Tariff Structure Statements are part of a process of network tariff reform affecting all electricity distributors in the National Electricity Market. The AER considers that network tariff reform is an important element of promoting the long term interest of consumers. We consulted with several peak consumer representative organisations on this matter. Those consumer representatives agreed that tariff reform is important and supported the ACT and NSW distributors' Tariff Structure Statements coming into effect this year. Accordingly, the new enforceable undertakings are being modified from the current undertakings in order to give effect to the ACT and NSW distributors' Tariff Structure Statements.

Overall, our approach to the new undertakings to both facilitate network tariff reform and promote the objectives of revenue/price stability, predictability and transparency is for the new enforceable undertakings to:

- Establish a framework in the undertakings that caps the overall allowed revenue that distributors may recover from their customers, during this interim period, at a level similar to current levels.

- Provide for the submission of annual pricing proposals from each distributor that proposes network tariffs for the 12 month period from 1 July 2017 which are both consistent with the distributors' Tariff Structure Statement and the allowed level of revenue specified in the undertaking.
- Provide for all non-price components of the distribution determinations (e.g. connections policies, classification of services, and negotiated services framework) to be maintained.

We are in discussions with the ACT and NSW distributors regarding the terms of the undertakings that will give effect to the above. We have formally accepted Endeavour Energy's new undertaking. We have not yet finalised undertakings with the other distributors. We publish Endeavour Energy's new undertaking today with this letter. When the other undertakings are accepted by the AER, we will also make them publicly available on our website. We expect this to happen shortly.

The attachment to this letter provides more detail on the approach which we expect will be reflected in each of the new undertakings.

We also publish today the annual pricing proposals from each of the ACT and NSW distributors. These have been submitted on the basis of the approach to the new undertakings set out in this letter. We will make our decision on these annual pricing proposals by mid-May 2017.

2017–18 interim arrangements for gas

There is also an appeals process concerning the allowed revenue/prices the NSW gas distributor, Jemena Gas Networks (JGN), is allowed to earn for the provision of gas pipeline services over the 2015–20 period. We are also in discussions with JGN on an appropriate approach to establish a new enforceable undertaking for its 2017–18 network tariffs. And we recently consulted on this matter with JGN's customer council. In the near future, after these discussions are further advanced, we will publish a separate open letter on the arrangements for NSW gas network tariffs.

If you have any questions about this letter, please contact Scott Sandles on 03 9290 1487.

Yours sincerely



Paula Conboy
Chair
Australian Energy Regulator

Attachment—Details on approach in individual undertakings

Network charges include three separate components:

- **Distribution charges**—these charges would normally reflect the allowed revenue cap that is set by the AER’s distribution determination to recover the efficient cost of providing network services to convey electricity across the distribution network.
- **Transmission charges**—these charges reflect the pass through of transmission network costs to consumers via the distributor. Distributors normally recover these costs on an actual cost recovery basis, with any under or over-recovery of actual costs in any year passed through or back to consumers in future years.
- **Jurisdictional scheme amounts**—these charges often recover the cost of state/territory government based environmental programs, the costs of which are passed through to consumers. Distributors normally recover these on an actual cost recovery basis, with any under or over-recovery of actual costs in any year passed through or back to consumers in future years.

The approach we are working towards with each distributor in establishing these network tariff components is largely common across distributors. However, there are some differences in approach to take into account the different circumstances faced by each of the distributors, in order to apply the objectives of stability, predictability and transparency.

Table: Approach to new enforceable undertakings

	Ausgrid	Endeavour Energy	Essential Energy	ActewAGL
Length of undertaking	1 year (1 July 2017 to 30 June 2018)	1 year (1 July 2017 to 30 June 2018)	2 years (1 July 2017 to 30 June 2019)	1 year (1 July 2017 to 30 June 2018)
Distribution charges	Undertaking sets distribution revenue allowance Revenue allowance based on 2015–16 revenue allowance* escalated by two years of actual inflation	Undertaking sets distribution revenue allowance Revenue allowance based on 2015–16 revenue allowance escalated by two years of actual inflation	Undertaking sets distribution revenue allowance 2017–18 revenue allowance based on 2016–17 forecast revenue escalated by one year of actual inflation. 2018–19 revenue	Undertaking sets distribution average revenue cap, in line with ActewAGL’s price control mechanism in the 2015 distribution determination Average revenue cap based on 2015-

	<p>Prices determined through annual pricing approval process</p> <p>Tariff structure statement applies from 1 July 2017</p>	<p>Prices determined through annual pricing approval process</p> <p>Tariff structure statement applies from 1 July 2017</p>	<p>allowance to be based on 2017–18 forecast revenue escalated by one year of actual inflation</p> <p>Prices determined through annual pricing approval process</p> <p>Tariff structure statement applies from 1 July 2017</p>	<p>16 average revenue cap escalated by two years of actual inflation</p> <p>Prices determined through annual pricing approval process</p> <p>Tariff structure statement applies from 1 July 2017</p>
Transmission charges	<p>Transmission charges based on 2015–16 transmission revenue* escalated by two years actual inflation</p>	<p>Transmission charges based on 2017–18 estimated costs</p> <p>(with unders/overs account to adjust for difference between estimates and actuals from previous years)</p>	<p>Transmission charges based on 2017–18 estimated costs</p> <p>(with unders/overs account to adjust for difference between estimates and actuals from previous years)</p>	<p>Transmission charges based on 2017–18 estimated costs</p> <p>(with unders/overs account to adjust for difference between estimates and actuals from previous years)</p>
Jurisdictional scheme changes	<p>Jurisdictional Scheme charges based on 2015–16 revenue* escalated by two years actual inflation</p>	<p>Jurisdictional Scheme charges based on 2017–18 estimated costs</p> <p>(with unders/overs account to adjust for difference between estimates and actuals from previous years)</p>	<p>Jurisdictional Scheme charges based on 2017–18 estimated costs</p> <p>(with unders/overs account to adjust for difference between estimates and actuals from previous years)</p>	<p>Jurisdictional Scheme charges based on 2017–18 estimated costs</p> <p>(with unders/overs account to adjust for difference between estimates and actuals from previous years)</p>

*Adjusted for any under/over recovery of revenue from previous years