AUSTRALIAN ENERGY REGULATOR

Final decision: Power and Water 2019–24

We have made a final revenue decision for Power and Water Corporation, the electricity network operator in the Northern Territory. Our final decision allows Power and Water to recover $759.3 million ($nominal) from its customers over five years commencing 1 July 2019.

Estimated impact on customer bills

The revenue we determine affects the distribution component of a customer's electricity bill. Distribution charges make up approximately 44 per cent of the bill for typical residential customers in NT.

We estimate that under our final decision the average annual residential electricity bill in the first year of the 2019–24 period would be 9.1 per cent lower than the current 2018–19 level (in nominal terms).

In dollar terms, we estimate the overall impact for residential customers is a $102 decrease in the electricity bill over the five year period (in nominal terms). For small business customers, we estimate the overall impact is a $319 decrease in the electricity bill over the five year period (in nominal terms).

It is important to note the majority of customers in NT are subject to the government's Electricity Pricing Order, which caps retail prices for customers using less than 750MWh of electricity per annum. This prevents price increases but does allow for prices to be set lower than prescribed. However, it is up to retailers (the pre-dominate retailer being the government retailer, Jacana Energy) to determine the price in accordance with the Electricity Pricing Order and pass on to customers any cost savings from lower network revenue determined for Power and Water.

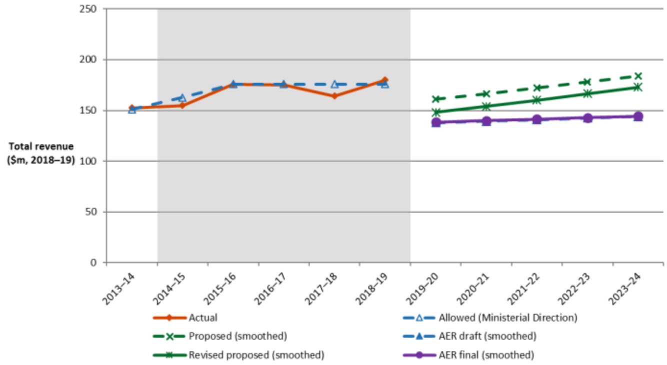
Overview

The Australian Energy Regulator (AER), regulates the revenues of Power and Water by setting the total revenue it may recover from its customers.

Consistent with the National Electricity Objective, we set network prices so that they reflect efficient costs. Our objective, in only allowing efficient costs, is for Northern Territory consumers to pay no more than necessary for the safe and reliable delivery of electricity services. Our final decision is in the long term interests of consumers in the Northern Territory.

Our final decision allows for a decrease in Power and Water's revenue over the 2019–24 financial years (the next period) in real terms. This is represented by an initial reduction in revenue in the first year commencing 1 July 2019, followed by gradual increases per annum over the remaining four years.

Power and Water's past and proposed total revenue and AER final decision revenue allowance ($million, 2018–19)



Our final decision allows Power and Water to recover $759.3 million ($nominal) in the next period. This is a reduction of $104.2 million ($nominal) or 12.1 per cent from Power and Water's revised proposed revenue recovery of $863.5 million ($nominal).

We have made a number of adjustments that result in a lower revenue requirement. The key differences between our final decision and Power and Water's revised proposal are the return on its investments (rate of return) and the forecast operating expenditure (opex). The rate of return is a forecast of the costs of funds a network business requires to invest in its network. Opex is the forecast operating, maintenance and other non-capital costs incurred in providing network services.

Our final decision is to accept Power and Water's revised forecast capex – the forecast investments to build or upgrade its fixed assets (such as its lines and transformers).

Rate of return

We issued our Rate of Return Instrument in late 2018. The Power and Water 2019–24 final decision is one of our first decisions to have the binding legislative instrument applied. The new instrument will deliver network savings to customers because the rate of return makes up approximately 50 per cent of a network businesses' allowed revenue and Power and Water's revenue contributes 44 per cent of the final residential electricity bill.

The biggest contributor to the difference between our final decision and Power and Water's revised proposal is our change to the rate of return (and therefore the return on capital). Power and Water's revised proposal, proposed a rate of return of 6.08 per cent. Our final decision for the rate of return is 4.88 per cent (nominal vanilla) for the first year of the 2019–24 regulatory control period.

The reason for the difference between our allowed rate of return and Power and Water's proposal is the commencement of the 10 year transition to the trailing average for debt in the first year of the 2019–24 regulatory control period required by the Rate of Return Instrument, rather than the immediate transition proposed by Power and Water.

Operating expenditure

Power and Water has proposed a 16.4 per cent decrease in opex from its total actual opex in the current period to $351.3 million ($2018–19) in the next period. Our final decision opex allowance is $332.7 million ($2018–19). This is a reduction of $18.7 million ($2018–19) or 5.3 per cent lower than Power and Water’s revised proposal.

We consider the costs incurred by Power and Water in 2017–18 do not reflect ongoing efficient costs. This is consistent with Power and Water’s revised proposal. For this reason, we have not used Power and Water's actual 2017–18 opex as the starting point for forecasting expenditure into the future. We have recognised however that Power and Water has made significant inroads to becoming more efficient and proposed future efficiencies which form the bulk of the savings in this decision.