



AUSTRALIAN  
ENERGY  
REGULATOR

# Power and Water 2019-24: our draft decision

Pre-determination conference

29 October 2018

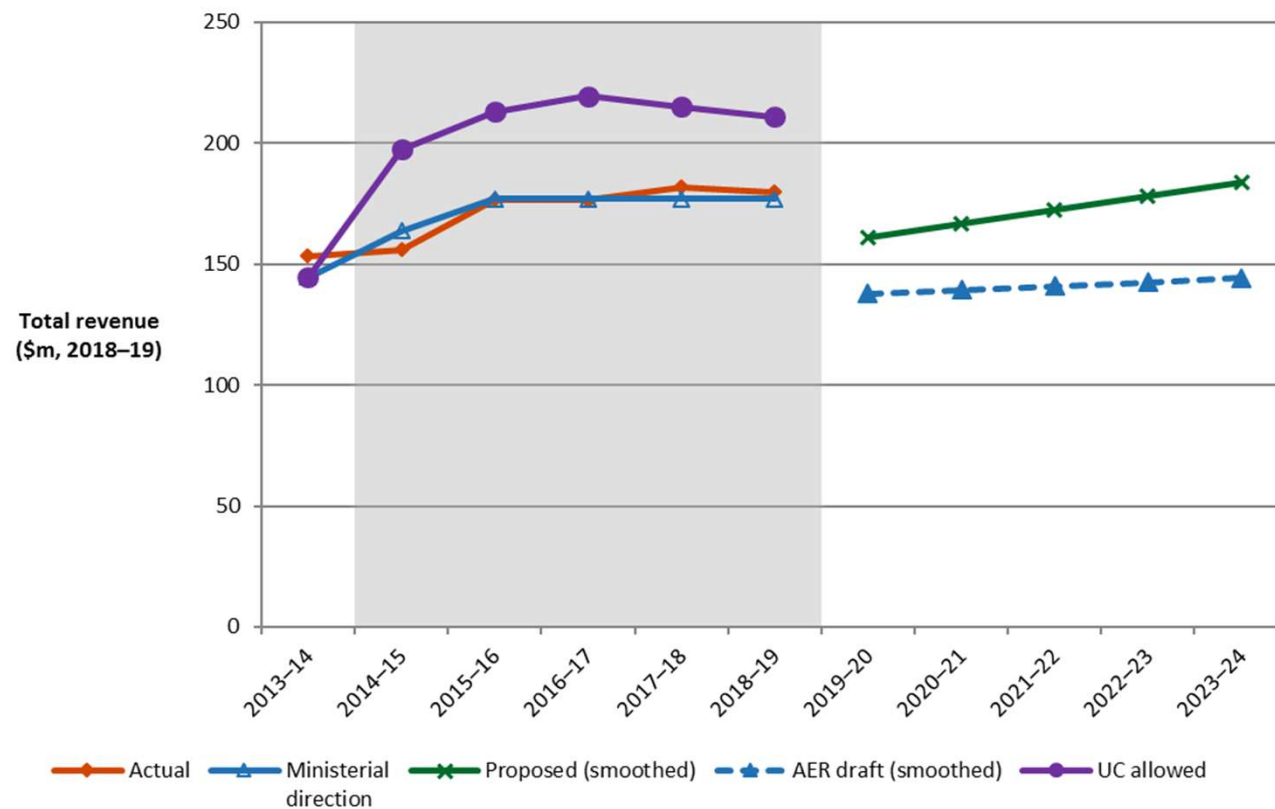
[aer.gov.au](http://aer.gov.au)

## Agenda

- Welcome and introductions
- The AER's draft decision
- *Insights from the Consumer Challenge Panel*
- *Next steps for Power and Water*
- Thank you and close

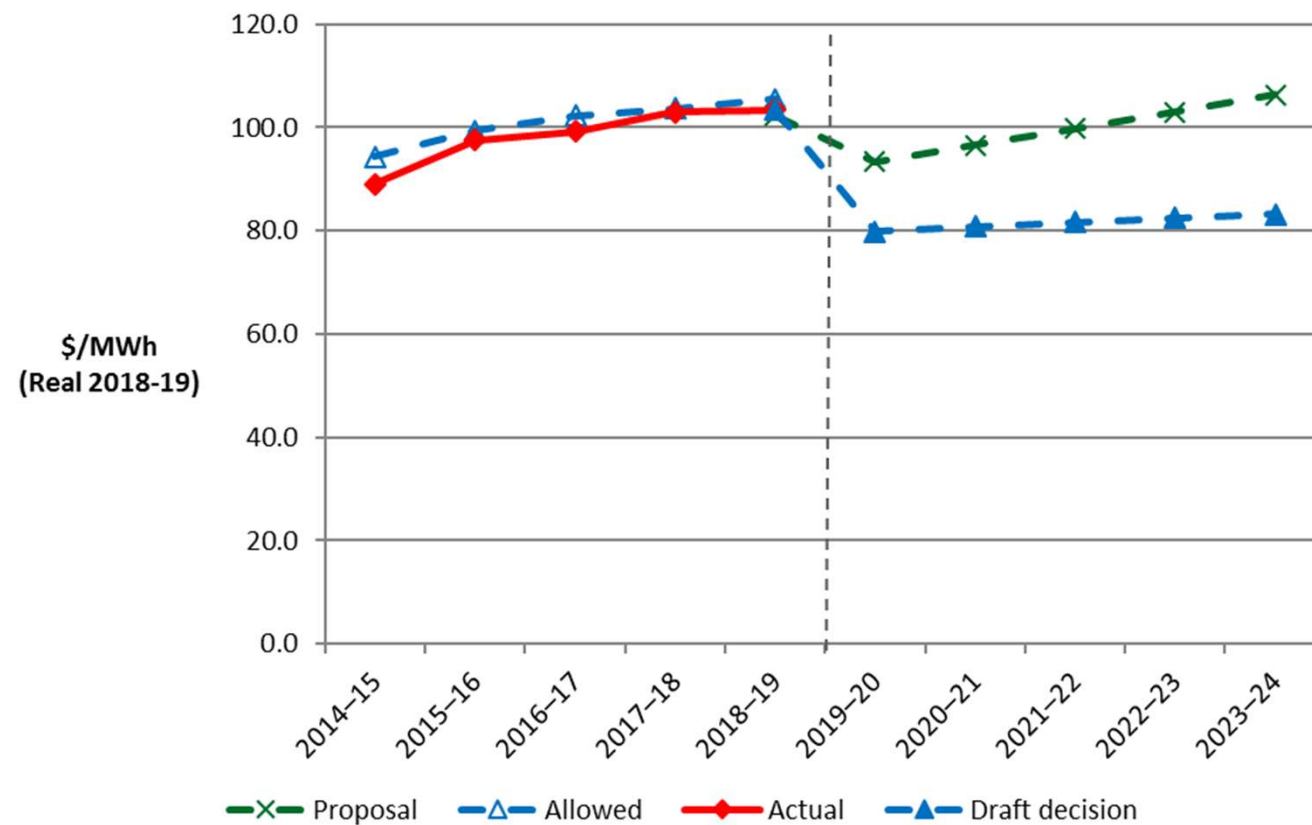
# What is our draft decision?

## Revenue over time (\$million, 2018/19)



# How would our draft decision affect distribution network tariffs?

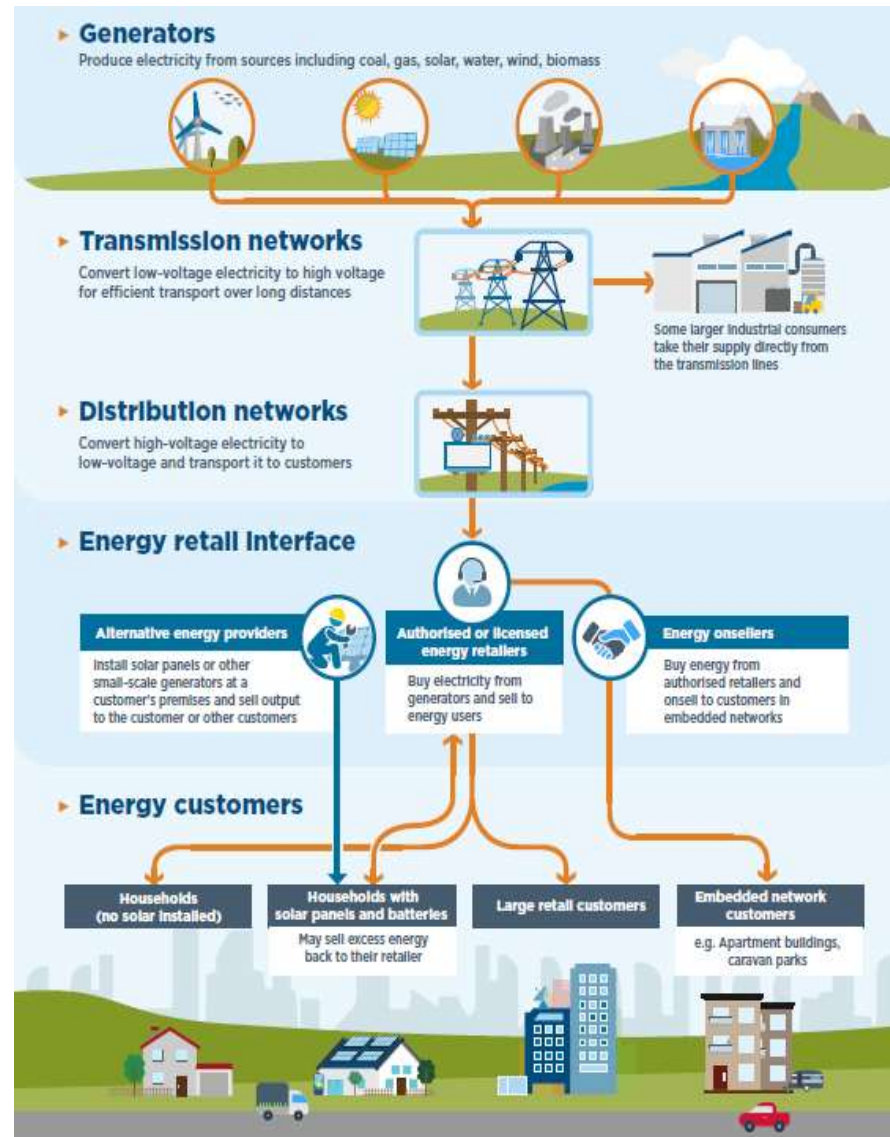
Indicative price path for Power and Water – distribution (\$/MWh, 2018–19)



# What would this mean for customers?

Electricity network service providers are subject to revenue caps set by the AER.

Electricity Pricing Order caps retail prices for a majority of customers in the NT.



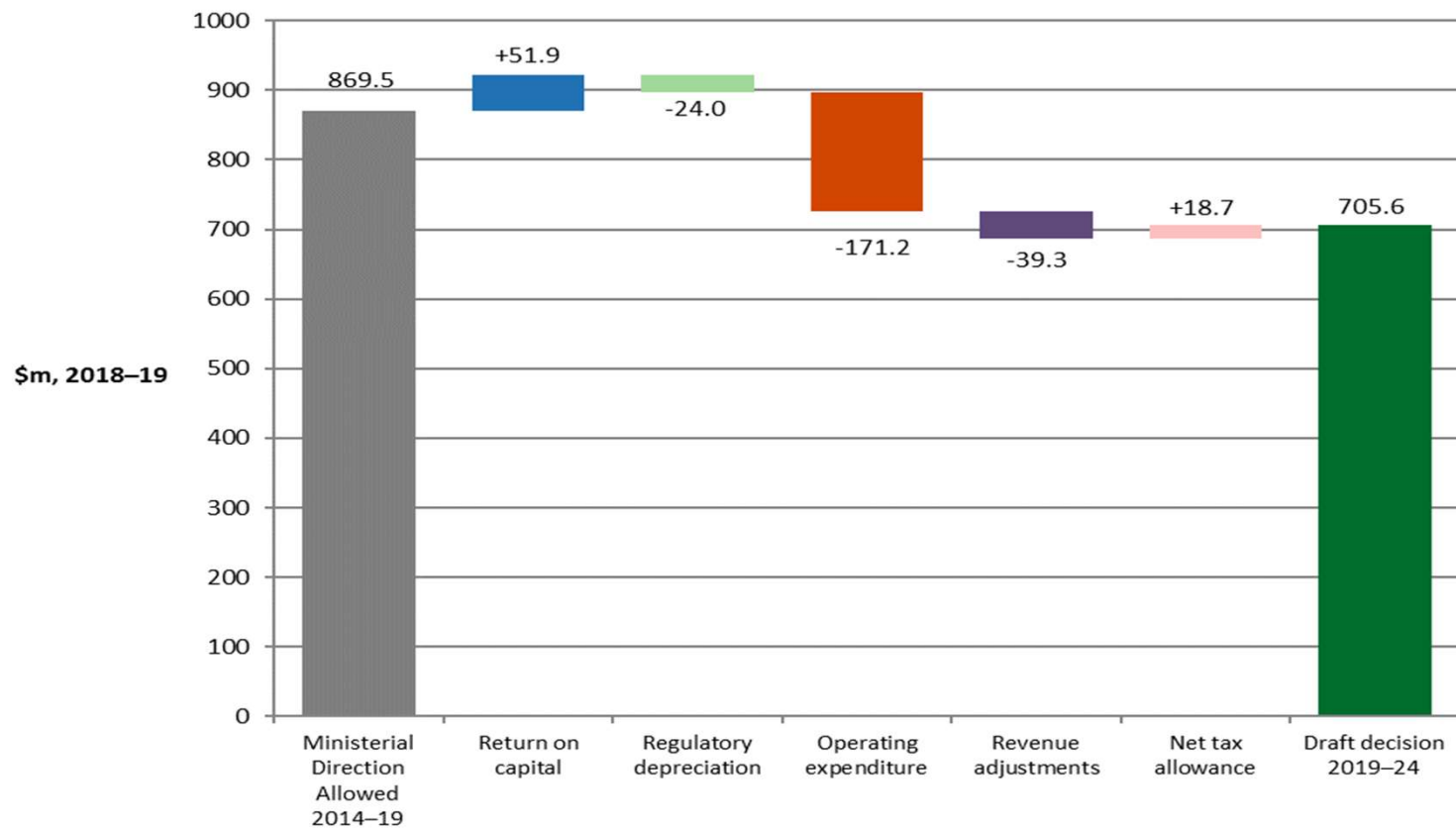
# What would this mean for customers (cont.)?

## Estimated impact on average annual electricity bills (\$ nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24
<b>AER draft decision</b>						
Residential annual bill	2520	2289	2321	2353	2386	2419
Annual change		–231 (–9.2%)	32 (1.4%)	32 (1.4%)	33 (1.4%)	33 (1.4%)
Small business annual bill	12169	11280	11401	11525	11652	11778
Annual change		–889 (–7.3%)	121 (1.1%)	124 (1.1%)	127 (1.1%)	127 (1.1%)
<b>Power &amp; Water proposal</b>						
Residential annual bill	2520	2448	2509	2573	2641	2710
Annual change		–72 (–2.9%)	61 (2.5%)	64 (2.6%)	67 (2.6%)	70 (2.6%)
Small business annual bill	12169	11891	12125	12371	12630	12897
Annual change		–277 (–2.3%)	234 (2.0%)	246 (2.0%)	258 (2.1%)	267 (2.1%)

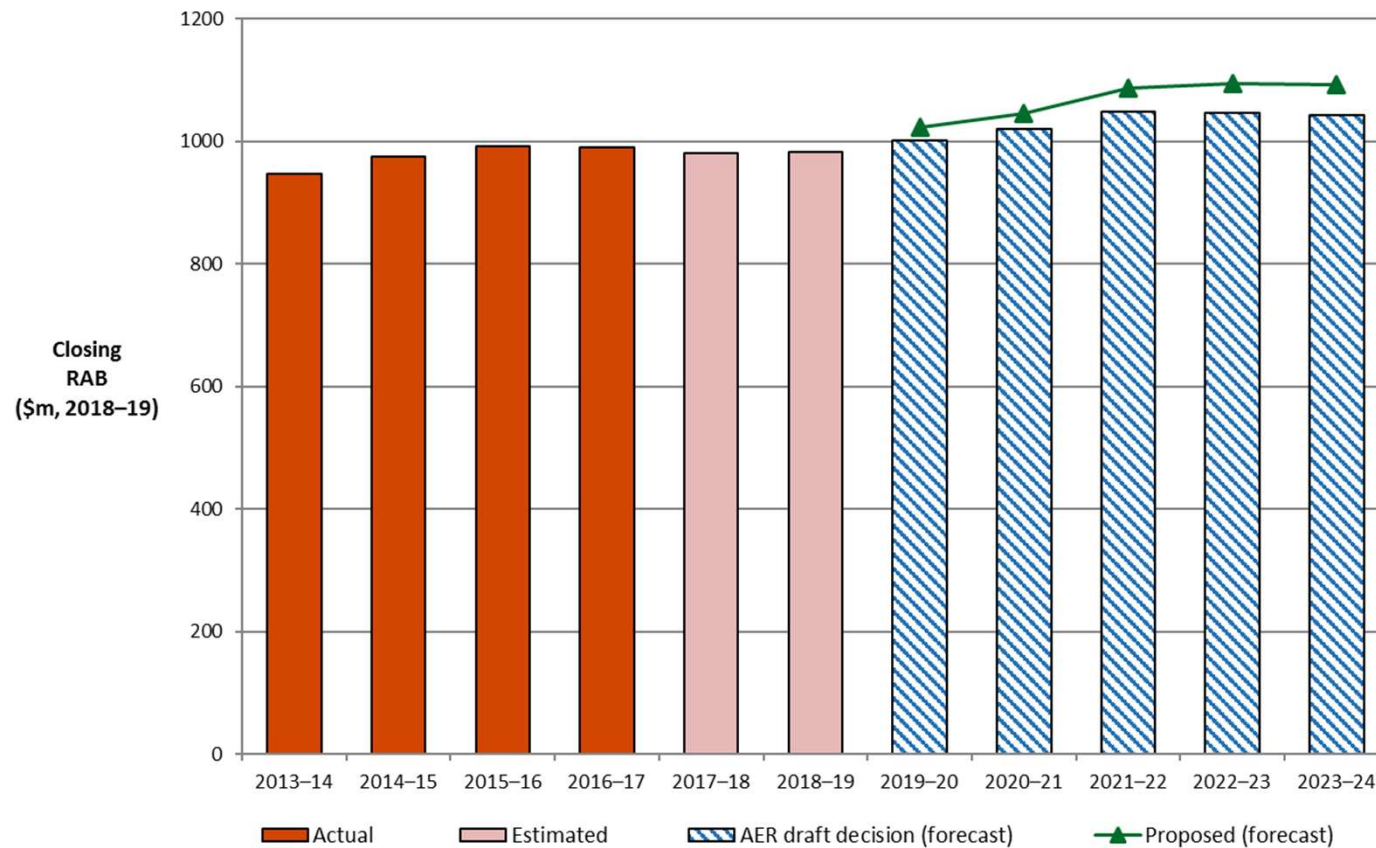
## Key drivers

**Change in total revenue from 2014–19 to 2019–24 - Ministerial Direction approved allowance compared to AER draft decision (\$m, 2018/19)**



## Key drivers (cont.): RAB

### Projected RAB Growth (\$million, 2018/19)





## How do we differ from Power and Water?

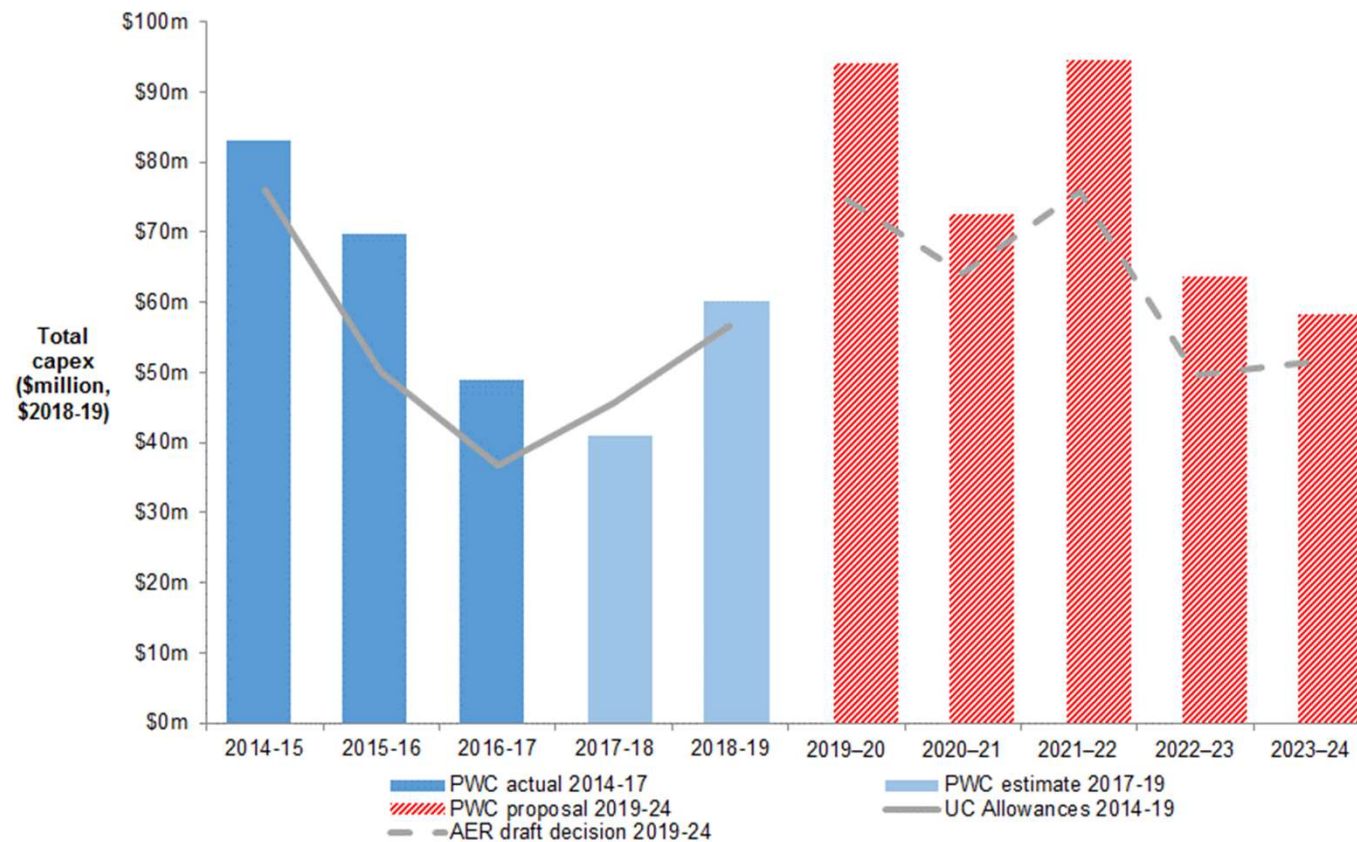
- Draft 2018 rate of return guideline
- Forecast expenditure
  - Capex
  - Opex
- Parallel consultations on:
  - Productivity
  - Corporate income tax allowance

## Rate of return

	Power and Water final decision (2014–19)	Power and Water's proposal (2019– 24)	AER draft decision (2019–24)	Allowed return over regulatory control period
Nominal risk free rate	4.11%	2.44%	2.66%	
Market risk premium	6%	6.5%	6%	
Equity beta	0.7	0.7	0.6	
Return on equity (nominal post-tax)	8.31%	7.0%	6.3%	Constant (%)
Return on debt (nominal pre-tax)	6.59%	6.37%	4.5%	Updated annually
Gearing	60%	60%	60%	Constant (60%)
Nominal vanilla WACC	7.28	6.62%	5.22%	Updated annually for return on debt
Forecast inflation	2.59%	2.42%	2.45%	Constant (%)

# Our draft capex forecast

## Capex over time (\$2018/19, million)

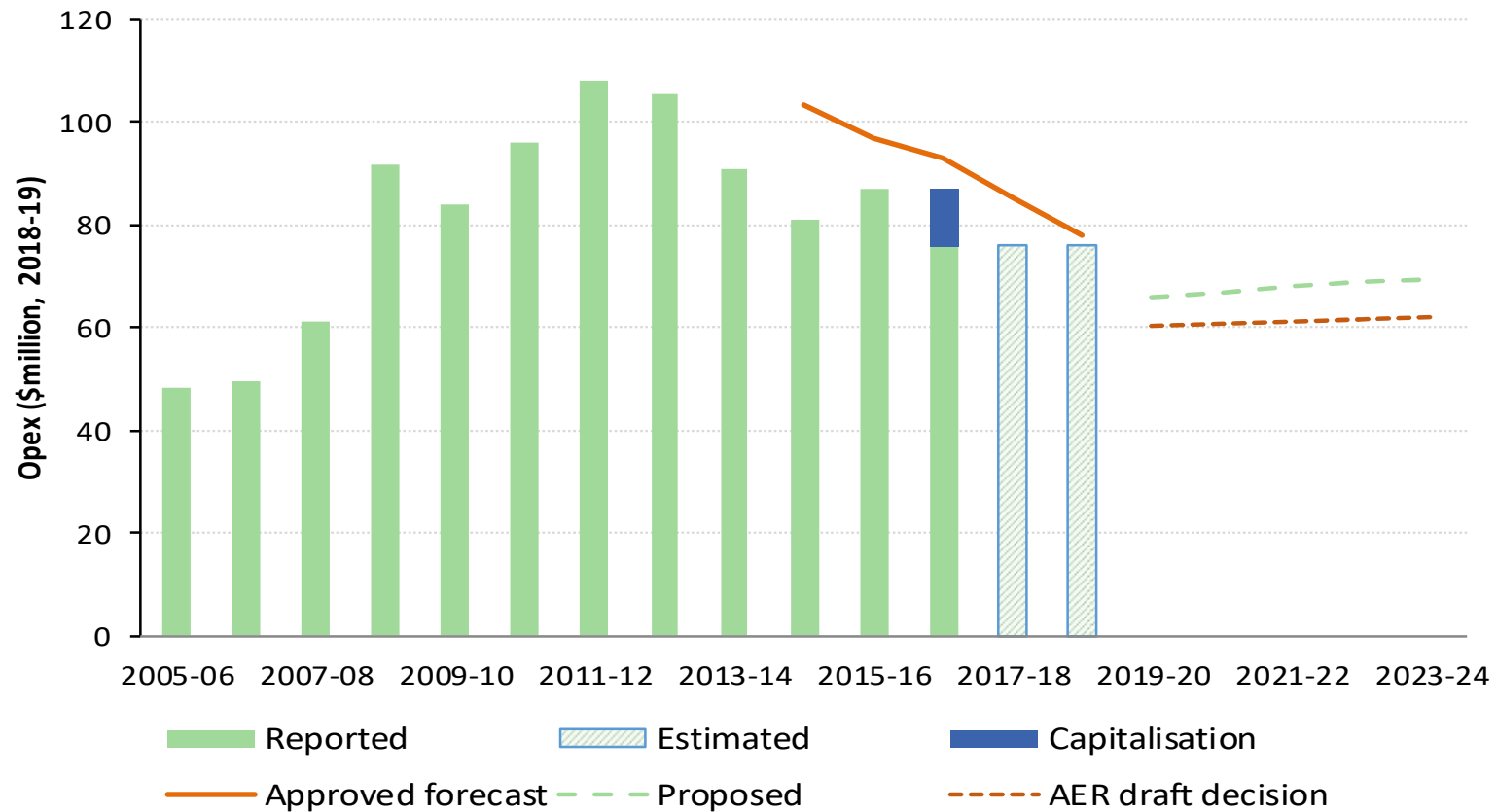


## Our draft capex forecast (cont.)

Category	PWC	Our alternative estimate	Difference
Augmentation	\$60.6	\$35.9	(40.8%)
Connections	\$62.7	\$61.6	(1.8%)
Replacement	\$148.6	\$129.0	(13.2%)
Non-Network other	\$69.4	\$54.8	(21.0%)
Non-Network ICT	\$35.7	\$25.7	(28.0%)
Capitalised overheads	\$66.9	\$58.4	(12.7%)
Total gross capex (includes capital contributions)	\$445.6	\$365.5	(18.0%)
Capital contributions	\$62.6	\$49.0	(21.7%)
Asset disposals	\$0.8	\$0.8	-
<b>Total net capex (excludes capital contributions and asset disposals)</b>	<b>\$382.2</b>	<b>\$315.6</b>	<b>(17.4%)</b>

# Our draft opex forecast

## Opex over time (\$2018-19, million)



## Our draft opex forecast (cont.)

	Power and Water's proposal	Our draft decision	Difference
Based on reported opex in 2016-17	378.9	375.1	−3.8
'Top-down' efficiency adjustment	−35.2	0.0	35.2
Individual cost category assessment reductions	0.0	−52.2	−52.2
Other adjustments	−27.3	−27.3	0.0
2016-17 to 2018-19 increment	0.0	1.2	1.2
Output growth	6.6	5.4	−1.3
Price growth	6.0	0.2	−5.8
Productivity growth	0.0	0.0	0.0
Step changes	7.4	0.9	−6.5
Debt raising costs	2.7	2.6	−0.2
Total opex	339.3	305.9	−33.4

## Incentive schemes

- Our draft decision is to apply:
  - capital expenditure sharing scheme (CESS)
  - demand management incentive scheme (DMIS) and innovation allowance mechanism (DMIAM).
- We will not apply:
  - service target performance incentive scheme (STPIS)
  - opex efficiency benefit sharing scheme (EBSS)

## Tariff structure statement (TSS)

- This is the first TSS for Power and Water.
- Power and Water proposed to introduce several major changes to its tariffs.
- We commend Power and Water for the significant consultation it undertook to develop its TSS, which propose significant reforms to its existing suite of current tariffs.
- Our draft decision is to accept a majority of the elements of Power and Water's TSS.
- However, our draft decision is also to not accept some elements of the TSS, and therefore to not approve the TSS as a whole.



## Next steps

Milestone	Date
<i>Power and Water submits its proposal</i>	<i>31 January 2018</i>
<i>AER issues paper published</i>	<i>29 March 2018</i>
<i>Public forum on Power and Water's proposal</i>	<i>12 April 2018</i>
<i>Submissions on Power and Water's proposal due</i>	<i>16 May 2018</i>
<i>AER draft decision published</i>	<i>27 September 2018</i>
<b>→ Public forum on draft decision</b>	<b>29 October 2018</b>
Power and Water submits its revised proposal	29 November 2018
Submissions on draft decision and revised proposal due	11 January 2019
AER final decision published	April 2019