



# Ausgrid, Endeavour Energy and Essential Energy 2019-24: our draft decisions

Pre-determination conference

13 November 2018

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

# Agenda

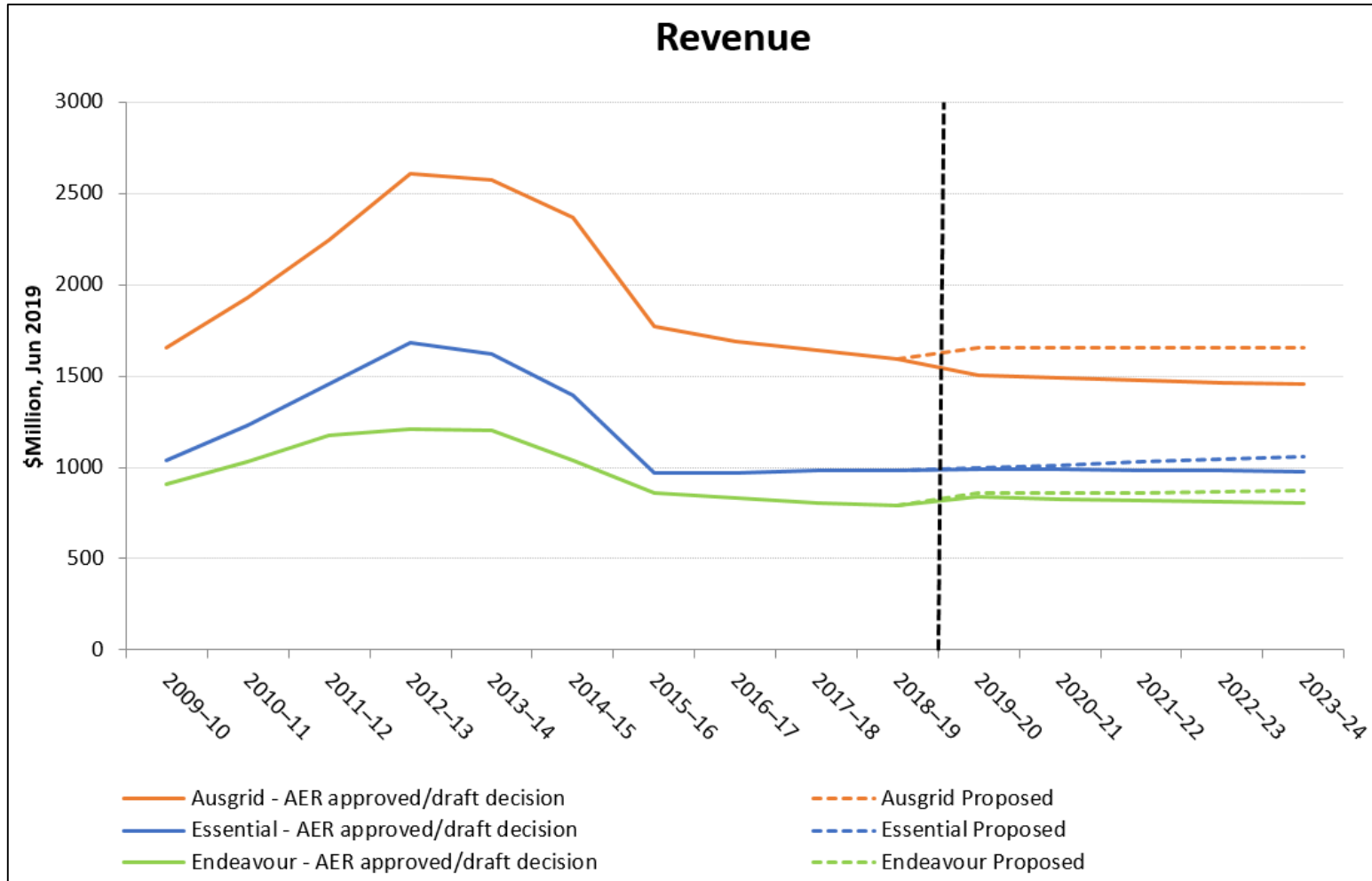
- AER welcome and introductions
- AER's draft decisions
- Insights from AER Consumer Challenge Panel

*Morning tea break*

- Insights from consumers (ECA, EUAA, PIAC)
- Next steps for Essential, Endeavour and Ausgrid
- Thank you and close

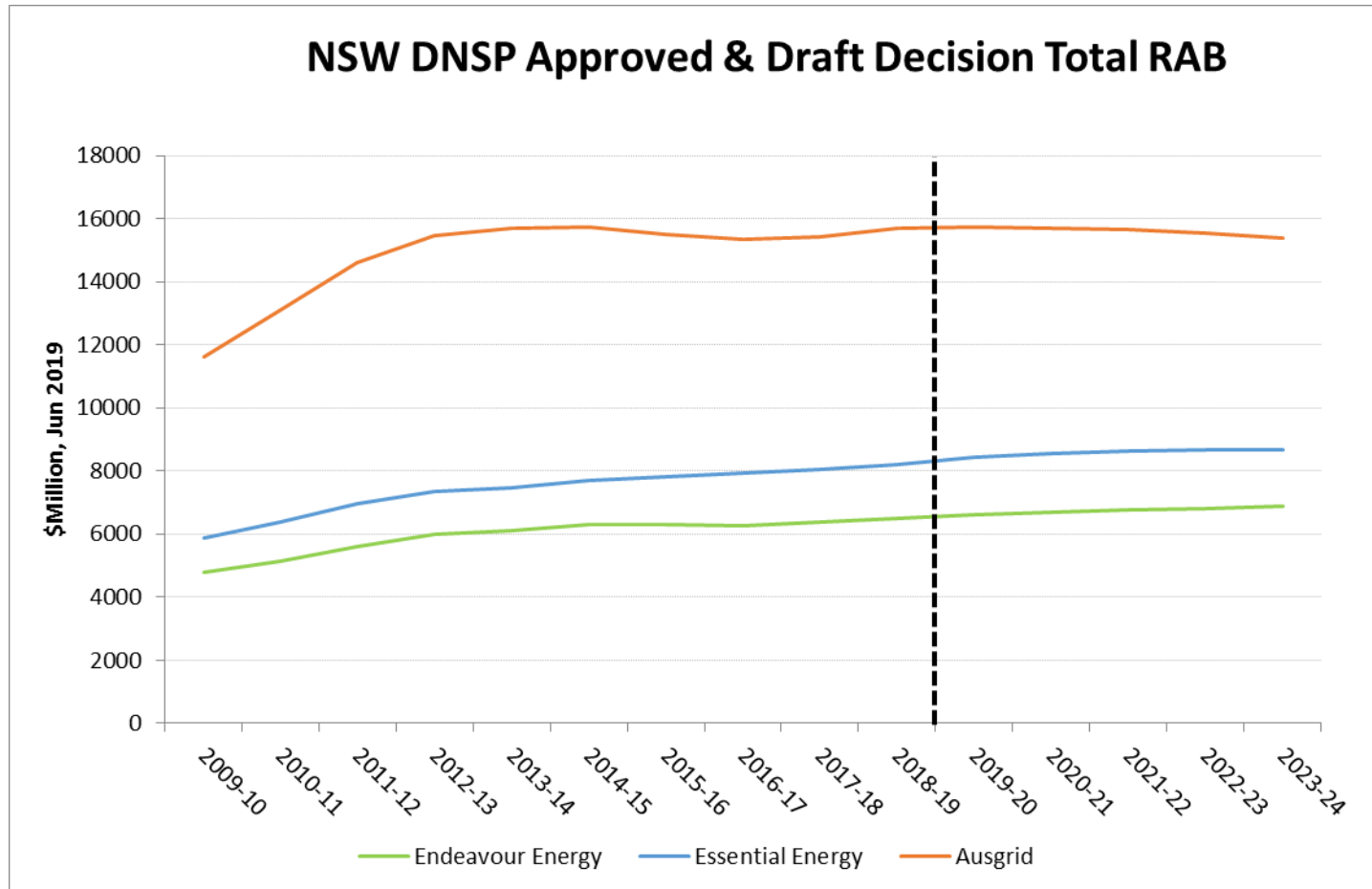
# What is our draft decision?

## Revenue over time (\$m, 2018-19)



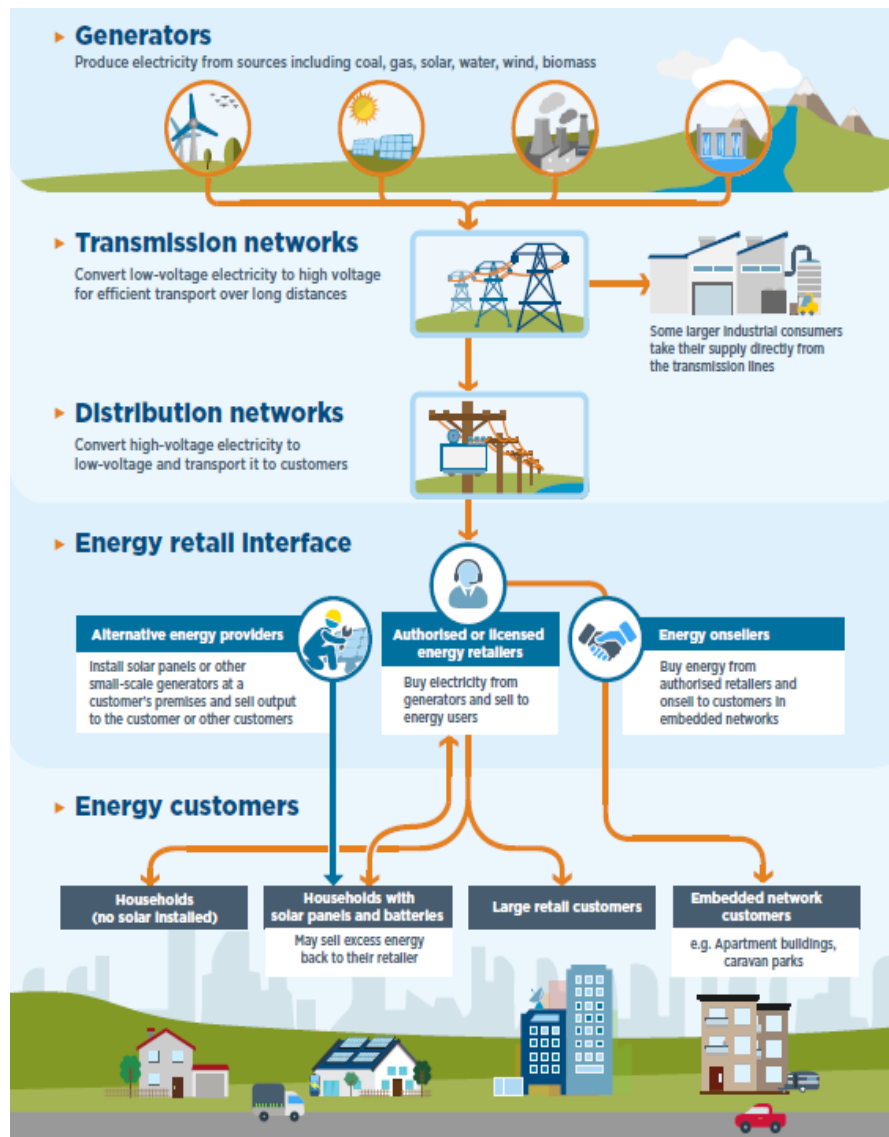
# Regulatory asset base

## Projected RAB (\$m, 2018-19)



# What would this mean for customers?

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

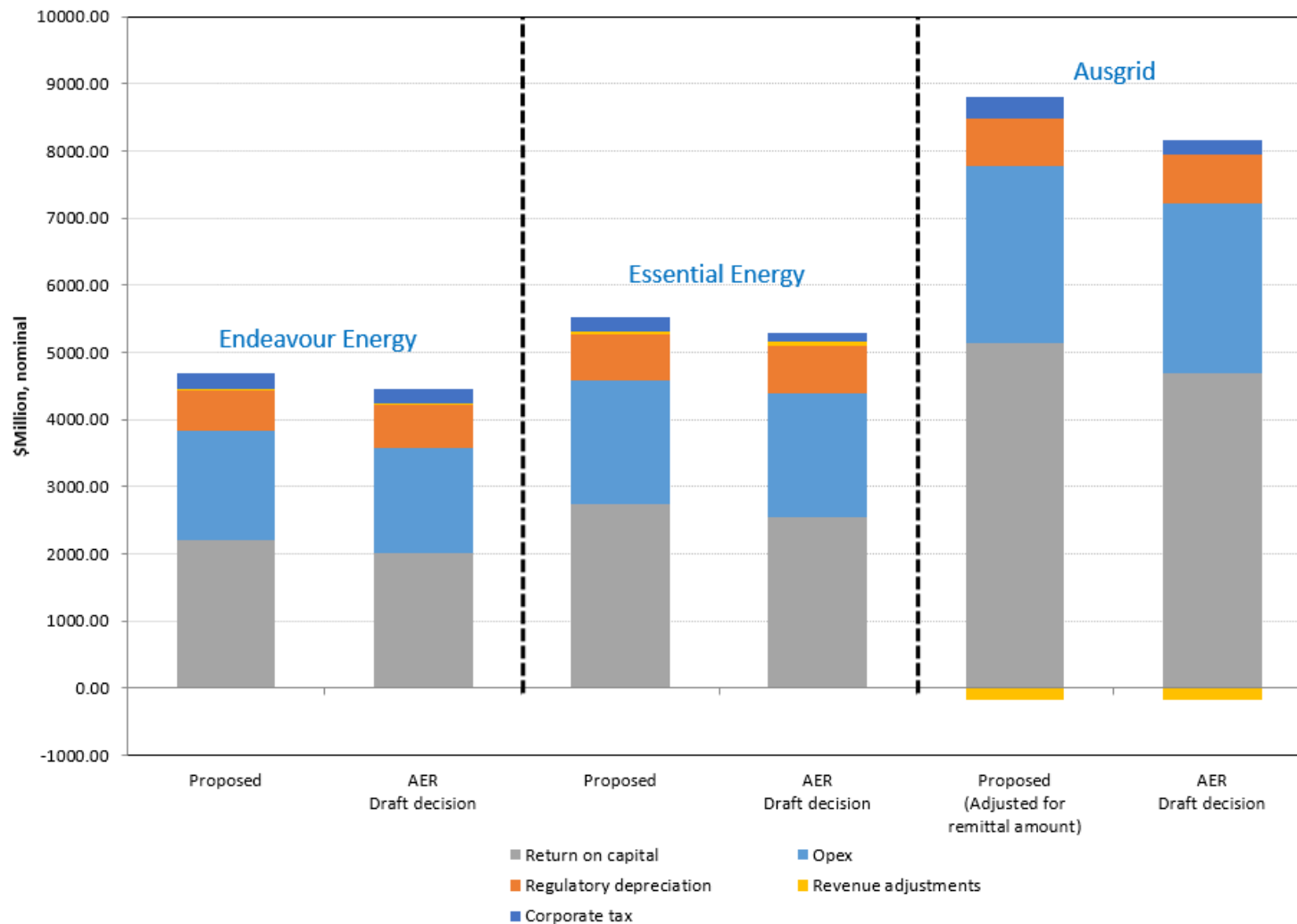


# Estimated impact on average annual electricity bills

(\$ nominal)	2019–20	2020–21	2021–22	2022–23	2023–24
<b>Ausgrid</b>					
Annual change	-2.8%	0.3%	-0.2%	0.1%	0.1%
Residential annual bill	-\$48	\$4	-\$4	-\$1	-\$1
Small business annual bill	-\$111	\$10	-\$9	\$3	\$3
<b>Endeavour Energy</b>					
Annual change	-0.4%	0.2%	0.3%	0.3%	0%
Residential annual bill	-\$6	\$4	\$4	\$4	\$0
Small business annual bill	-\$12	\$7	\$8	\$8	\$1
<b>Essential Energy</b>					
Annual change	0.7%	0.8%	0.8%	0.7%	0.7%
Residential annual bill	\$14	\$15	\$16	\$13	\$13
Small business annual bill	\$61	\$67	\$70	\$57	\$59

# How do we differ from the proposals (key building blocks)?

Comparison of proposed and draft decision revenue 2019-24 (\$m, nominal – unsmoothed)



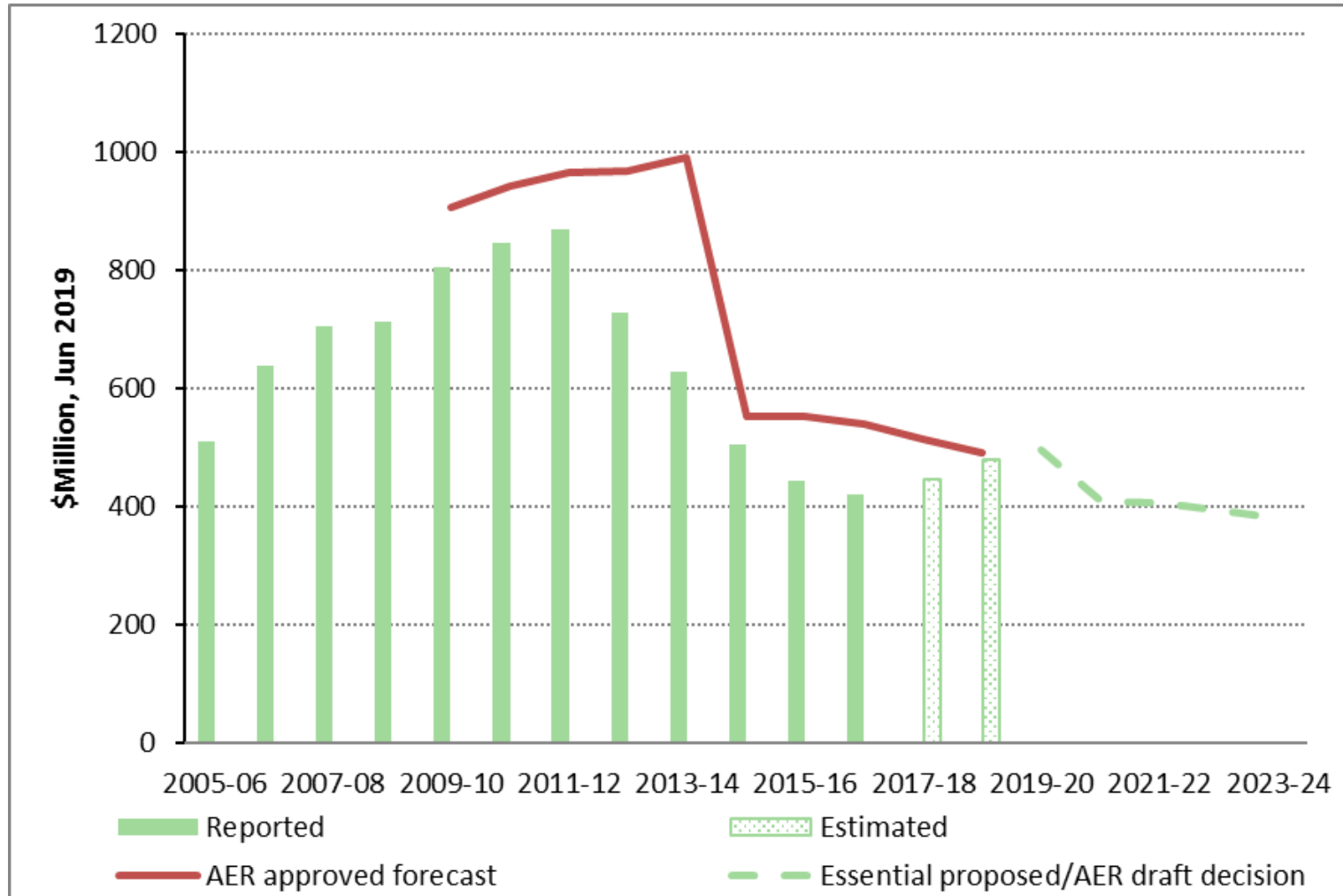
# Rate of return

## Nominal vanilla WACC (%)

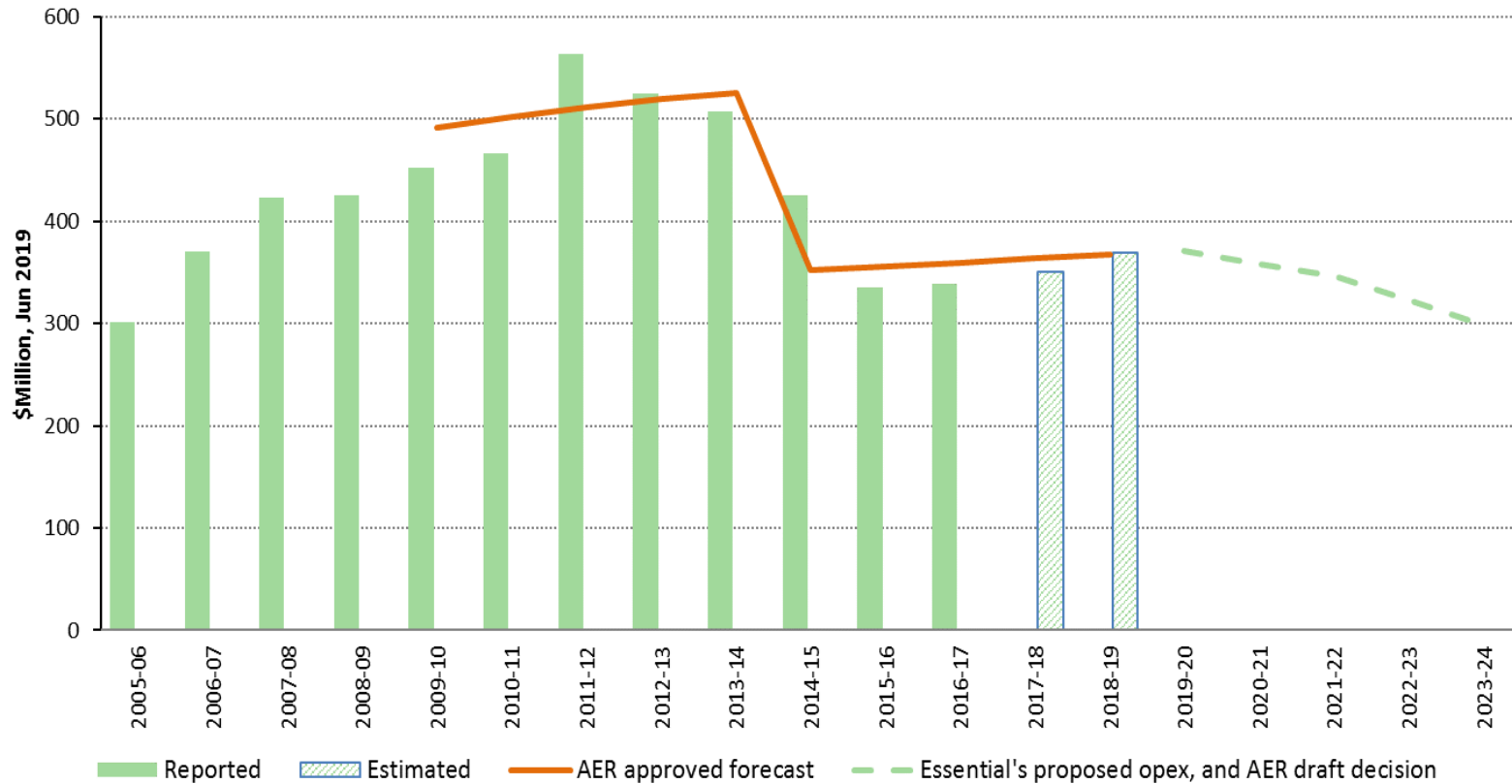
	2009-14	2014-19	2019-24 proposed (2013 guideline)	2019-24 draft decision (draft 2018 guideline)
Ausgrid	10.02	6.74	6.33	5.96
Endeavour Energy	10.02	6.74	6.11	5.96
Essential Energy	10.02	6.74	6.34	5.96



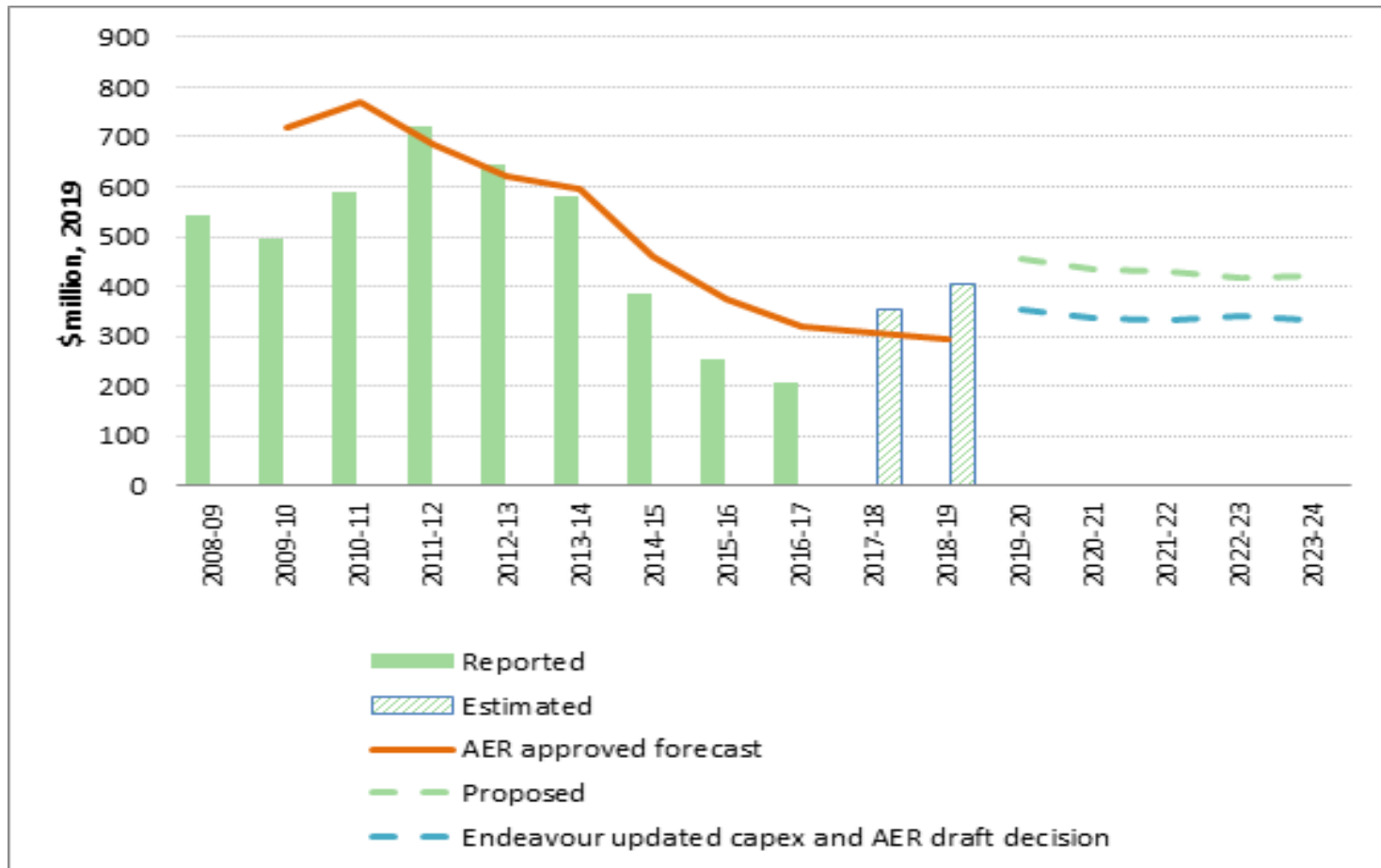
# Our draft capex forecast for Essential (\$m, 2018-19)



# Our draft opex forecast for Essential (\$m, 2018-19)



# Our draft capex forecast for Endeavour (\$m, 2018-19)



## Our draft capex forecast for Endeavour (cont.)

(\$million, 2018-19)	Endeavour's 30 April proposal	Our alternative estimate	Difference (%)
Augmentation	416.8	349.8	(16%)
Connections	309.4	118.7	(62%)
Replacement	800.5	600.3	(25%)
Non-Network	170.0	170.0	0
Capitalised overheads	400.0	400.0	0
Other System	41.4	41.4	0
Reliability Compliance	20.0	20.0	0
<b>Gross Capex (includes capital contributions and asset disposals)</b>	<b>2692.8</b>	<b>2,434.6</b>	<b>(10%)</b>
Capital Contributions	534.7	709.8	33%
Asset Disposals	-	24.5	0
<b>Net Capex (excludes capital contributions and asset disposals)</b>	<b>2,133.5</b>	<b>1,700.3</b>	<b>(20%)</b>

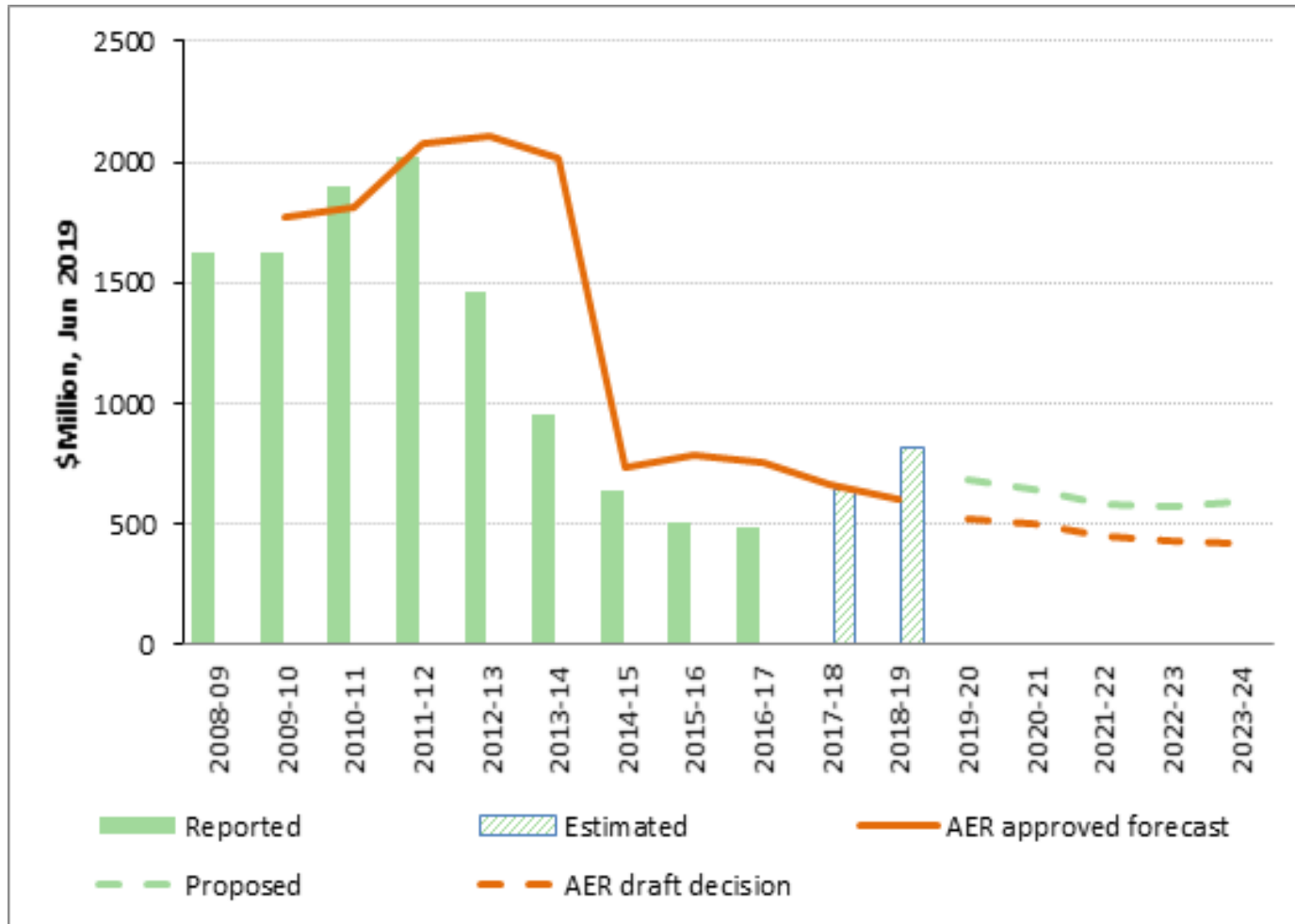
# Our draft opex forecast for Endeavour (\$m, 2018-19)



## Our draft opex forecast for Endeavour (cont.)

(\$million, 2018-19)	Endeavour	Our alternative estimate	Difference (\$m)
Base opex	1331.6	1,333.6	2.0
2017–18 to 2018–19 increment	25.9	25.9	0.0
Price growth	57.2	20.8	–36.3
Output growth	70.9	71.7	0.8
Productivity growth	–	–	–
Debt raising costs	18.5	16.6	–1.9
Total opex	1504.0	1468.5	–35.5

# Our draft capex forecast for Ausgrid (\$m, 2018-19)

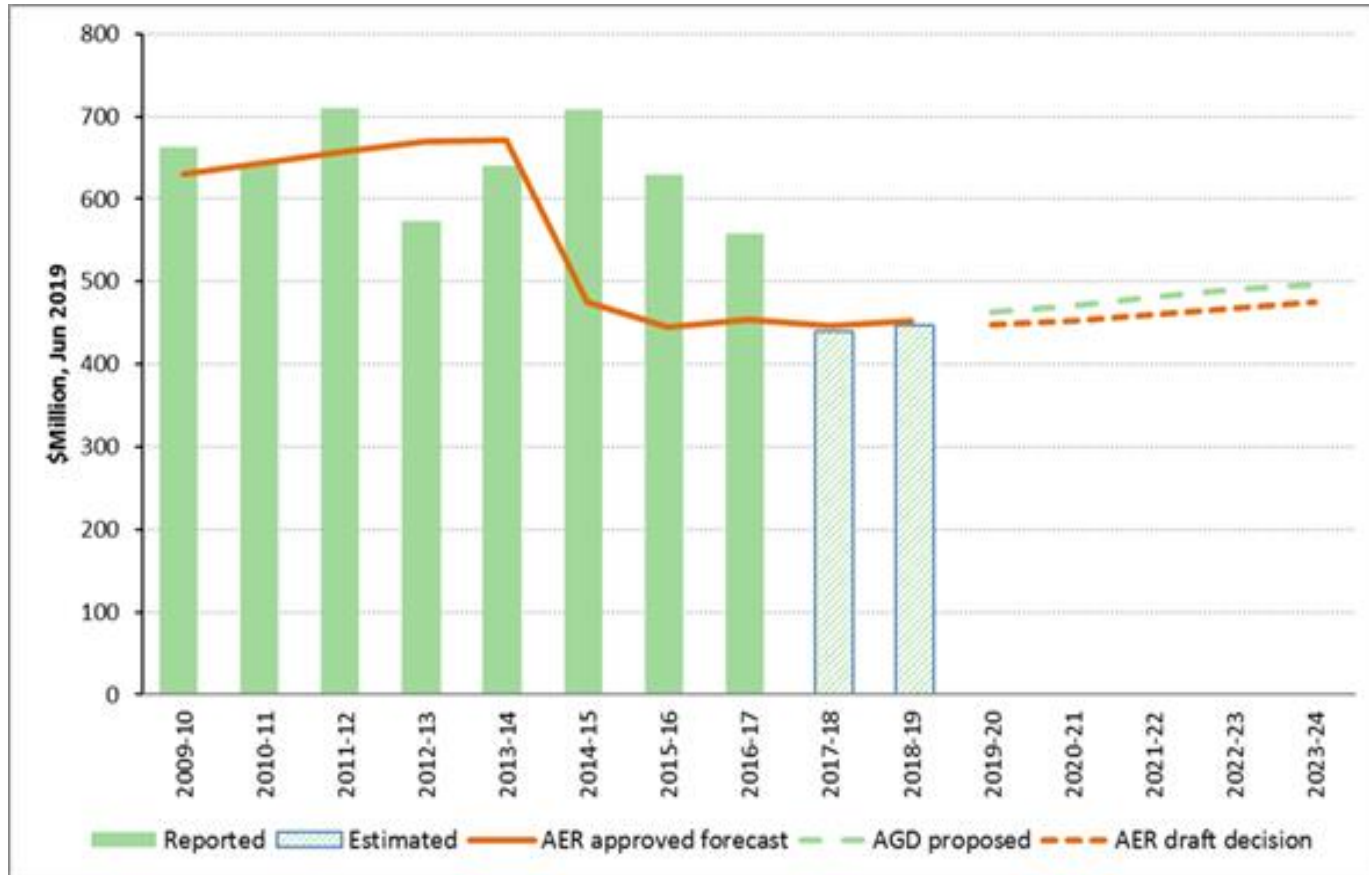


## Our draft capex forecast for Ausgrid (cont.)

(\$2018-19)	Ausgrid's proposal	Our substitute estimate	Difference (%)
<b>Augmentation</b>	189.1	168.6	(10.9%)
<b>Connections</b>	52.2	29.2	(44.1%)
<b>Replacement</b>	1,673.1	1,207.5	(27.8%)
<b>Non-Network</b>	548.0	345.4	(37.0%)
<b>Capitalised overheads</b>	621.3	577.1	(7.1%)
<b>Gross Capex (includes capital contributions)</b>	3,668.7	2,906.4	(20.8%)
<b>Less Capital Contributions</b>	585.0	578.7	(1.1%)
<b>Less Disposals</b>	117.9	117.9	
<b>Net Capex (excluding capital contributions)</b>	2,965.8	2,209.8	(25.5%)



# Our draft opex forecast for Ausgrid (\$m, 2018-19)



## Our draft opex forecast for Ausgrid (cont.)

	(\$2018-19)	Ausgrid	Our alternative estimate	
			Difference	
Base opex		2201.0	2197.1	-4.0
Base opex adjustment for Emergency Recoverable Works		26.8	–	-26.8
2017–18 to 2018–19 increment		33.3	18.4	-15.0
Price growth		56.0	32.4	-23.6
Output growth		56.1	49.1	-6.9
Productivity growth		–	–	0.0
Step changes		29.1	8.5	-20.7
Debt raising costs		40.2	38.7	-1.5
Total opex		2442.5	2344.1	-98.4

## Incentive schemes

- opex efficiency benefit sharing scheme (EBSS)
- capital expenditure sharing scheme (CESS)
- service target performance incentive scheme (STPIS)
- demand management incentive scheme (DMIS)
- demand management innovation allowance mechanism (DMIAM)

## Tariff structure statement (TSS)

- Significant changes to tariffs and tariff structures proposed for 2019-24 regulatory control period.
- Our draft decision broadly supports the direction of these reforms. However, we require changes to some aspects of TSS to comply with the NER.
- We commend Essential and Endeavour for significant consultation on TSS.
- We expect Ausgrid to engage constructively on its revised TSS.

# Next steps

Milestone	Date
<i>Proposals submitted</i>	30 April 2018
<i>AER issues paper published</i>	27 June 2018
<i>Public forum on proposals</i>	3 July 2018
<i>Submissions on proposals</i>	16 May 2018
<i>AER draft decisions published</i>	1 November 2018
<b>→ Public forum on draft decision</b>	<b>13 November 2018</b>
Revised proposals due	8 January 2019
Submissions on draft decision and revised proposal due	5 February 2019
AER final decision published	April 2019