

Final decision:

SP AusNet (transmission) 2014–17

We have made a final decision for the principal transmission network operator in Victoria, SP AusNet. Our final decision allows SP AusNet to recover \$1600 million (\$nominal) from its customers over three years commencing 1 April 2014.

Overview

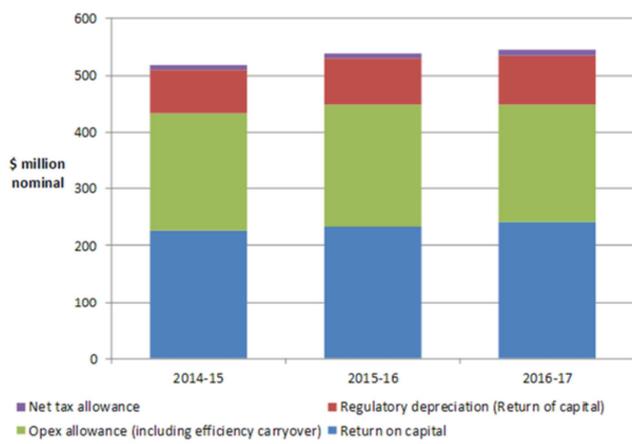
We are Australia's national energy market regulator responsible for making economic regulation of all electricity transmission networks in eastern and southern Australia in the customer's interest.

SP AusNet is the principal transmission network service provider (TNSP) in Victoria. It owns and operates the 'towers and lines' that deliver electricity from generators to consumers in cities and towns. Under the National Electricity Law (NEL) and National Electricity Rules (NER), SP AusNet is required to have its revenue requirement periodically assessed by us.

In February 2013, SP AusNet submitted its revenue proposal for the regulatory control period 1 April 2014 to 31 March 2017.

We regulate TNSPs by setting the maximum allowed revenue they can recover from their customers. Our final decision allows SP AusNet to recover \$1600 million (\$nominal) from its customers. The annual amounts are shown below.

Annual building block revenue requirement



The revenue we determine affects the transmission component of a customer's final bill. Generally,

transmission charges make up about 5 per cent of a typical residential customer's final bill in Victoria but for other large customers it can be more significant. Other components in consumer bills include the cost of generation, distribution network charges, and retailer costs.

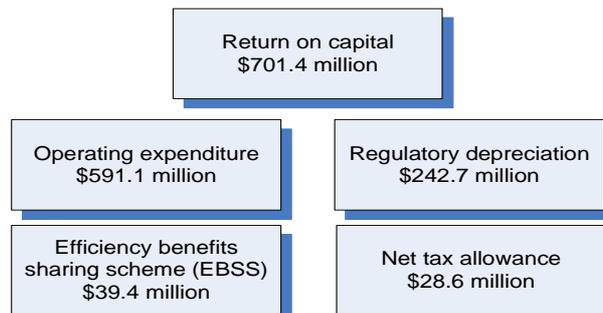
Our final decision provides that SP AusNet will recover \$1600 million (\$nominal) in the 2014–17 regulatory period. As a result, based on estimated energy use, we expect average transmission charges to fall by around 5 per cent per annum (real, \$2013–14). An average Victorian household or Victorian business, may see electricity bills decline by about \$4 or \$16 per annum, respectively.

Our assessment

In making our assessment, a TNSP first proposes its forecast revenue requirement. This is based on an estimate of a number of cost categories called 'building blocks'. We also include the gains (or losses) arising from our efficiency benefit sharing incentive scheme which is referred to as EBSS carryover amounts.

Together, these building blocks make up the maximum allowed revenue that SP AusNet can earn through levying transmission charges on customers. In this way, it should recover no more than the efficient cost of providing transmission services to its customers.

Final decision: Building blocks (\$nominal)



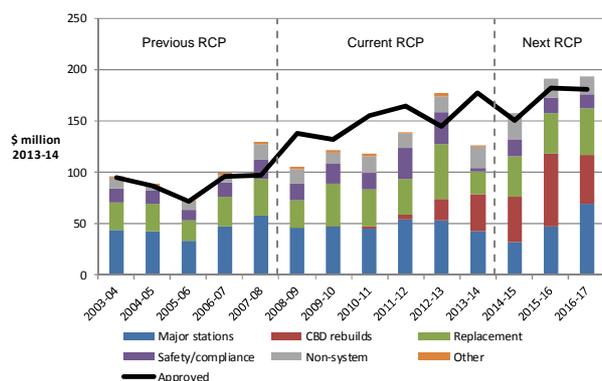
We also apply our service target performance incentive scheme (STPIS) to incentivise TNSPs to maintain and improve service levels. This financial reward (or penalty) is applied annually once the actual service levels are known.

Capital expenditure

We did not accept SP AusNet’s proposed forecast capital expenditure (capex) of \$542 million (\$2013–14). We instead estimated an amount of \$513 million (\$2013–14) for efficient capital expenditure. A key feature of SP AusNet’s allowed capex program includes expenditure for replacement and refurbishment of several major terminal stations. Two of the terminal stations supply electricity to the Melbourne central business district.

Capex refers to the cost of building new facilities or replacing existing infrastructure. Factors that influence the required level of capex include the age and condition of existing assets. Due to the arrangements in Victoria, we are not required to approve capex for SP AusNet to augment its network. In Victoria, AEMO has this regulatory responsibility.

SP AusNet’s actual and forecast capex



Note: RCP means “regulatory control period”

Operating expenditure

We did not accept SP AusNet’s proposed \$600 million (\$2013–14) operating expenditure (opex) forecast. We instead estimated a substitute of \$560 million (\$2013–14) (\$591 million, \$nominal).

Opex refers to the non-capital cost of running a business. It includes controllable and non-controllable costs.

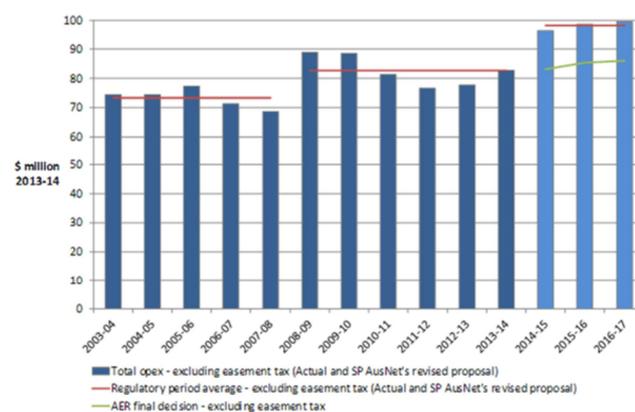
SP AusNet’s proposal was made up of \$276 million for controllable opex (\$2013–14, mid-year) and \$324 million (\$2013–14) for non-controllable opex. Our final decision includes an allowance of \$238 million (\$2013–14, mid-year) for controllable opex and \$322 million for non-controllable opex.

SP AusNet’s controllable opex over the past 10 years has been relatively stable. Yet, SP AusNet proposed an 18 per cent (real) increase on its annual average controllable opex in the previous regulatory period (2008–14). We rejected SP AusNet’s proposal for controllable opex, and based our decision on what would be an efficient and prudent amount to deliver transmission services.

Our final decision provides a 1.8 per cent real increase to SP AusNet’s annual average controllable opex compared to the previous regulatory period (2008–14). This is mainly driven by input cost escalation and increases in insurance premiums.

SP AusNet is liable to pay a land and easement tax to the Victorian government. Our final decision on SP AusNet’s non-controllable opex includes \$305 million for its land and easement tax liability.

SP AusNet’s actual and forecast opex



Return on capital

Our final decision sets the allowed rate of return on capital (or ‘cost of capital’) at 7.87 per cent. In comparison, it was 9.76 per cent during the previous regulatory period. This is primarily due to low interest rates.

The lower cost of capital reduces SP AusNet’s average annual revenue requirements compared to the past. This should contribute to the downward pressure on transmission prices for consumers in the forthcoming regulatory period.

Significant investment is required to build a transmission network. The return SP AusNet must pay lenders and investors is referred to as the cost of capital. Even a small difference in the cost of capital can have a big impact on revenues. The allowance reflects the required return by applying the rate of return for the investments made in the regulatory asset base.

More information

Our final decision, stakeholder submissions and other supporting material is on our website: www.aer.gov.au