

## APPENDIX 1 - AER ISSUES NETWORK REVENUES DRAFT DECISIONS FOR NSW ELECTRICITY DISTRIBUTION

The Australian Energy Regulator (AER) has issued draft decisions for Ausgrid, Endeavour Energy and Essential Energy's revenue proposals for the four years starting on 1 July 2015. These draft decisions form part of the AER's consultation process in determining an appropriate level of revenues that these businesses may recover from their customers.

Ausgrid, Endeavour Energy and Essential Energy are the distribution businesses responsible for the poles and wires that transport electricity to homes and businesses in NSW. These draft decisions propose the revenue amounts (and therefore charges) that these three businesses can recover from their customers from 1 July 2015 to 30 June 2019.

For a typical electricity customer in NSW, distribution network service charges represent about 40 per cent of the total electricity bill with generation costs, transmission charges, and retailer's charges making up the remainder.

"We estimate that our draft decisions, if implemented, would reduce annual electricity bills for a typical residential household living in NSW, on average, by \$219 (10 per cent) in 2015–16. Similarly, annual electricity bills for small business customers, such as shop owners, would reduce by an average of \$360 (10 per cent) in 2015–16. These reductions would be followed by small increases in each of the three subsequent years," AER Chair Ms Paula Conboy said.

The AER has proposed capital expenditure of \$5928 million and operating expenditure of \$4608 million over the period 2014–19 for these three businesses (38 and 35 per cent less than what the businesses proposed).

The AER undertook extensive benchmarking work that found that NSW businesses are less efficient than their counterparts in Victoria and South Australia.

While the AER acknowledges that the businesses have begun cutting costs, the AER considers that there is considerable scope for further efficiencies. The AER has proposed reductions in operating costs ranging from 22% for Endeavour Energy to 38% for Ausgrid and Essential Energy.

"The demand for electricity is falling which puts less strain on the networks and requires less investment to provide a reliable supply of energy. These draft determinations reduce the spending proposals to ensure that only prudent and efficient costs are recovered from consumers," Ms Conboy said.

"We recognise that we are proposing significant reductions to allowed revenues and we are seeking comments on whether consumers should pay some of the additional costs of a transition to efficient levels."

The AER has set a rate of return of 7.15 per cent. This is lower than when we last made our decision, reflecting lower interest rates and improved financial market conditions.

“Perceptions of risk increased during the global financial crisis, but are now decreasing. This means that the lower cost of capital for debt and equity translates into the lower financing costs necessary to attract efficient investment,” Ms Conboy said.

**Table 1 % difference between original proposal and AER draft determinations**

Distribution business	Business proposal	AER draft decision	% difference
Ausgrid	\$10092 million	\$6565 million	-35 %
Endeavour Energy	\$4338 million	\$3057 million	-30 %
Essential Energy	\$5562 million	\$3679 million	-34 %

Notes: These figures reflect total nominal revenue from 2015–16 to 2018–19. The AER has adjusted the business proposals to reflect our April 2014 placeholder decision on 2014–15 revenue.

In its draft decisions, the AER has not approved the public lighting price increases sought by Essential Energy and Ausgrid. The AER has questioned some of the assumptions on which the proposed prices were based. The draft decision contains smaller price increases than sought by the businesses.

In response to the AER's draft decisions, Ausgrid, Endeavour Energy and Essential Energy may provide revised regulatory proposals to the AER by 20 January 2015. Submissions on the AER's draft decisions and the revised regulatory proposals are invited by interested parties and may be made by 13 February 2015.

The AER will make its final determinations in April 2015 after considering further submissions from the NSW businesses, customers, and other stakeholders.

**Media inquiries**

**AER Media 1300 138 917  
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