

APPENDIX 2 - AER ISSUES NETWORK REVENUES DRAFT DECISION FOR ACT ELECTRICITY DISTRIBUTION (ACTEWAGL)

The Australian Energy Regulator (AER) has issued its draft decision for ActewAGL for the four years starting on 1 July 2015. The draft decision forms part of the AER's consultation process in determining an appropriate level of revenues that the company may recover from its customers.

ActewAGL is the distribution business responsible for the poles and wires that transport electricity to homes and businesses in the ACT. This draft decision proposes the revenue amounts (and therefore charges) that it can recover from ACT customers from 1 July 2015 to 30 June 2019.

For a typical electricity customer in the ACT, distribution network service charges represent about 35 per cent of the total electricity bill with generation costs, transmission charges, and the retailer's charges making up the remainder.

"We estimate that our draft decision, if implemented, would reduce annual electricity bills for a typical residential household living in Canberra, on average, by \$182 (9 per cent) in 2015–16. Similarly, annual electricity bills for small business customers, such as shop owners, would reduce by an average of \$273 (9 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.

In its draft decision the AER has proposed a capital expenditure of \$263 million and an operating expenditure of \$241 million for ActewAGL (36 and 42 per cent less than what ActewAGL has proposed) over the 2014–19 period.

The AER undertook extensive benchmarking work that found that ActewAGL is less efficient than its counterparts in Victoria and South Australia.

"The demand for electricity is falling which puts less strain on the networks and requires less investment to provide a reliable supply of energy. This draft determination reduces the spending proposal 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 6.88 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 determination

Distribution business	Business proposal	AER draft decision	% difference
ActewAGL	\$892 million	\$576 million	-35 %

Notes: These figures reflect total nominal revenue from 2015–16 to 2018–19.

In response to the AER's draft decision, ActewAGL may provide a revised regulatory proposal to the AER by 20 January 2015. Submissions on the AER's draft decision and the revised regulatory proposal are invited by interested parties and may be made by 13 February 2015. The AER will make its final determination in April 2015 after considering further submissions from ActewAGL, customers, and other stakeholders.

Media inquiries

AER Media 1300 138 917

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