

APPENDIX 4 - AER ISSUES NETWORK REVENUES DRAFT DECISION FOR DIRECTLINK TRANSMISSION

The Australian Energy Regulator (AER) has issued its draft decision for Directlink’s revenue proposal for the five 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 business may recover from their customers.

Directlink is the high voltage interconnector that links the New South Wales and Queensland networks. This draft decision proposes the revenue amounts that Directlink can recover from customers from 1 July 2015 to 30 June 2020.

Directlink’s revenues are recovered through TransGrid’s transmission charges. For a typical electricity customer in NSW or the ACT, transmission network service charges represent about seven per cent of the total electricity bill with generation costs, distribution charges, and retailer’s charges making up the remainder.

“We estimate that the combined result of our draft decisions for TransGrid and Directlink, if implemented, would be reductions to annual electricity bills for a typical residential household living in NSW, on average, by \$24 in 2015–16. Similarly, annual electricity bills for small business customers, such as shop owners, would reduce by an average of \$38 in 2015–16,” AER Chair Ms Paula Conboy said.

The AER has proposed a capital expenditure of \$29 million and an operating expenditure of \$18 million over the five year period 2014–19 for Directlink (27 and 37 per cent less than what Directlink has proposed). This is broadly consistent with Directlink’s current levels of expenditure. While Directlink has proposed for continued increases from existing levels of expenditure, the AER is not satisfied that these increases are required.

“This draft decision reduces the spending proposals to ensure that only prudent and efficient costs are recovered from consumers,” Ms Conboy said.

The AER has set a rate of return of 6.80 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

Directlink’s proposal	AER draft decision	% difference
\$99 million	\$76 million	–23 %

Notes: These figures reflect total nominal revenue from 2015–16 to 2019–20.

In response to the AER's draft decision, Directlink may provide a revised revenue proposal to the AER by 13 January 2015. Submissions on the AER's draft decision and the revised revenue proposal are invited by interested parties and may be made by 6 February 2015.

The AER will make its final determination in April 2015 after considering further submissions from Directlink, customers, and other stakeholders.

Media inquiries

AER Media 1300 138 917

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