

COMMONWEALTH OF AUSTRALIA

National Electricity Law

IN THE AUSTRALIAN COMPETITION TRIBUNAL

File No 2 of 2010



**RE: APPLICATION UNDER S 71B OF THE NATIONAL ELECTRICITY LAW
FOR A REVIEW OF A DISTRIBUTION DETERMINATION MADE BY THE
AUSTRALIAN ENERGY REGULATOR IN RELATION TO ENERGEX
LIMITED PURSUANT TO CLAUSE 6.11.1 THE NATIONAL ELECTRICITY
RULES**

BY: ENERGEX LIMITED (ACN 078 849 055)

DETERMINATION

TRIBUNAL: Justice Middleton (Deputy President)
Mr R Davey
Mr R Shogren

DATE OF ORDER: 19 May 2011

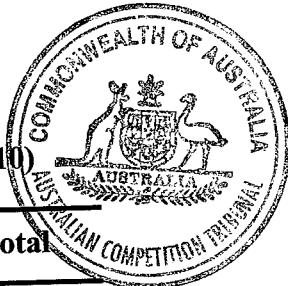
WHERE MADE: Melbourne

THE TRIBUNAL DETERMINES THAT:

1. Pursuant to s 71P(2)(a) of the National Electricity Law, the "Final decision - Queensland Distribution Determination 2010-11 to 2014-15" (Final Decision) made by the Australian Energy Regulator in May 2010 (and referred to in the "Energex Distribution Determination 2010-11 to 2014-15" dated 4 May 2010) is varied as follows:

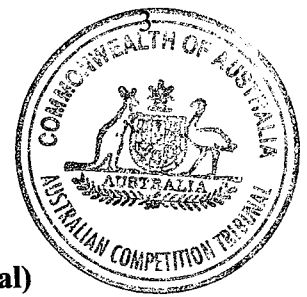
(a) Table 8.18 of the Final Decision is amended as follows:

Table 8.18: AER conclusion on Qld DNSP's debt raising costs (\$m, 2009-10)



	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Energex	4.1	4.6	5.0	5.5	5.9	25.1
Ergon Energy	3.7	4.1	4.4	4.8	5.1 5.2	22.1 22.2

Note: Total may not add due to rounding.



(b) Table 8.19 of the Final Decision is amended as follows:

Table 8.19: AER conclusion on benchmark equity raising cost (\$m, nominal)

Cash flow analysis	Energex	Ergon Energy	Notes
Dividends	1301.8 1052.3	886.7 720.1	Set to distribute imputation credits assumed in the PTRM
Dividends reinvested	390.5 315.7	266.0 216.0	30% of dividends paid
Cost of dividend reinvestment plans	3.9 3.2	2.7 2.2	Dividends reinvested multiplied by benchmark cost (1%)
Capex funding requirement	5703.7	4681.1 4813.7	This is the forecast capex funding requirement (not the capex value that includes a half year WACC adjustment)
Debt component	3292.1	2489.1 2572.2	Set to equal 60% of RAB increase (not capex)
Equity component	2411.6	2192.0 2241.5	Residual of capex funding requirement and debt component
Retained cash flows available for reinvestment	1376.7 1767.0	1770.9 2043.4	Includes dividends reinvested
External equity requirement	1034.9 644.6	421.2 198.1	Equal to equity component less retained cash flows
External equity raising cost	31.0 19.3	12.6 5.9	External equity requirement multiplied by benchmark direct cost (3%)
Total equity raising cost	35.0 22.5	15.3 8.1	Sum of dividend reinvestment plan cost and external equity raising cost
Total equity raising cost (\$2009–10)	32.7 21.2	14.2 7.6	To be added to the RAB at the start of the next regulatory control period

(c) Table 9.2 and Table 16 of the Final Decision are amended as follows:



Table 9.2 & 16: AER conclusion on corporate income tax allowances (\$m, nominal)

	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Energex	32.5	35.1	38.5	42.5	45.6	194.3
	80.6	87.4	96.0	105.9	113.5	483.3
Ergon Energy	9.6	27.4	29.6	34.4	33.4	134.4
	23.8	68.3	73.8	85.9	83.6	335.4

Note: Totals may not add due to rounding.

(d) Table 10.4 and Table 18 of the Final Decision are amended as follows:

Table 10.4 & 18: AER conclusion on regulatory depreciation for the Qld DNSPs (\$m, nominal)

	2010-11	2011-12	2012-13	2013-14	2014-15	Total
Energex	78.5	87.2	98.1	110.2	111.5	485.5
				110.3	111.6	485.6
Ergon Energy	145.0	146.9	150.3	164.1	144.6	750.9
		147.0	150.4	164.3	144.8	751.3

Note: Regulatory depreciation represents the net effect of the straight line depreciation of the Qld DNSPs' assets and the indexation of those assets due to inflation. These depreciation allowances included equity raising costs that were amortised. The depreciation allowance for Ergon Energy does not include its accelerated depreciation claim for destroyed assets. These assets are accounted for separately in the PTRM.



(e) Table 16.6 of the Final Decision is amended as follows:

Table 16.6: AER's roll-forward of Energex's regulatory asset base (\$m, nominal)

	2010-11	2011-12	2012-13	2013-14	2014-15
Opening RAB	7867.3	9002.0	10 171.9	11 344.0	12 503.2
		8989.9	10 159.7	11 331.8	12 490.9
Net capex ^a	1213.1	1257.1	1270.2	1269.4	1367.8
	1201.0				
Indexation of the opening RAB	198.3	226.9	256.3	285.9	315.1
		226.5	256.0	285.6	314.8
Straight-line depreciation	-276.7	-314.0	-354.4	-396.1	-426.6
		-313.8	-354.1	-395.8	-426.3
Closing RAB	9002.0	10 171.9	11 344.0	12 503.2	13 759.4
	8989.9	10 159.7	11 331.8	12 490.9	13 747.2

Note: The straight-line depreciation less the indexation of the opening RAB provides the regulatory depreciation building block allowance.

(a) In accordance with the timing assumptions of the PTRM, the nominal capex values include a half WACC allowance to compensate for the average six-month period before capex is added to the RAB for revenue modelling purposes. Net capex also includes capitalised equity raising costs.

(f) Table 16.7 of the Final Decision is amended as follows:

Table 16.7: AER decision on Energex's net tax allowance (\$m, nominal)

	2010-11	2011-12	2012-13	2013-14	2014-15
Tax payable	93.0	100.3	110.2	121.6	130.4
	107.4	116.5	127.9	141.1	151.3
Value of imputation credits	-60.5	-65.2	-71.6	-79.0	-84.8
	-26.9	-29.1	-32.0	-35.3	-37.8
Net tax allowance	32.6	35.1	38.6	42.6	45.6
	80.6	87.4	96.0	105.9	113.5

Note: Totals may not add due to rounding.

(g) Table 16.10 and Table 21 of the Final Decision are amended as follows:



Table 16.10 & 21: AER decision on Energex's annual revenue requirements and X factors (\$m, nominal)

	2010-11	2011-12	2012-13	2013-14	2014-15
Regulatory depreciation ^a	78.5	87.2	98.1	110.2 110.3	111.5 111.6
Return on capital ^a	764.5	874.8 873.6	988.5 987.3	1102.4 1101.2	1215.1 1213.9
Operating expenditure ^b	326.6	336.7	354.8 354.7	372.5	377.6 377.5
Tax allowance	32.6 80.6	35.1 87.4	38.6 96.0	42.6	45.6
Capital contributions	-65.1	-69.1	-71.5	-74.2	-76.4
Revenue from shared assets	-4.0	-4.7	-5.5	-6.1	-5.7
Annual revenue requirements	1133.1 1181.1	1259.9 1311.1	1402.9 1459.2	1547.5 1609.6	1667.7 1734.4
Expected revenues	1135.1	1255.6 1292.1	1388.9 1470.9	1536.4 1674.4	1699.6 1741.0
Forecast CPI (%)	2.52	2.52	2.52	2.52	2.52
X factors ^c (%)	-18.20	-7.90 -11.04	-7.90 -11.04	-7.90 -11.04	-7.90 -1.42


(a) Includes equity raising costs.

(b) Includes debt raising costs, demand management incentive allowance and self insurance.

(c) Negative values for X indicate real revenue increases under the CPI-X formula.

(h) Table 16.11 and Table 22 of the Final Decision are amended as follows:

Table 16.11 & 22: Retail price impacts (per cent)




	2010–11	2011–12	2012–13	2013–14	2014–15
Energex's proposal					
Real impacts	8.8	1.9	1.9	1.9	1.9
Nominal impacts	10.1	2.9	2.9	2.9	2.9
AER's decision (<i>amended by Tribunal</i>)					
Real impacts	5.6	1.7	1.7	1.7	1.7
		2.9	2.9	2.9	-0.8
Nominal impacts	6.8	2.7	2.7	2.7	2.7
		4.0	4.0	4.0	0.1

Note: Calculations assume distribution network charges make up 40 per cent of retail electricity prices and 3.6 per cent demand growth per annum for the next regulatory control period. Inflation of 2.52 per cent assumed for calculating the nominal impacts.

(i) Table 17.9 and Table 25 of the Final Decision are amended as follows:

Table 17.9 & 25: AER conclusion Energex approved revenue requirement and X factors (\$m, nominal)



	2010-11	2011-12	2012-13	2013-14	2014-15
Regulatory depreciation	6.7	7.6	8.5	9.6	10.7
Return on capital	9.4	10.6	11.7	12.8	14.0
Tax allowance	2.2	2.2	2.2	2.2	2.2
	5.4	5.5	5.5	5.5	5.5
Opex	12.1	12.6	13.2	13.8	14.2
Adjustment for non-system revenue allocation	4.5	1.9	2.2	2.5	2.3
	1.6		2.3	2.6	2.4
Annual revenue requirement ^a	32.0	34.8	37.8	40.9	43.4
	35.2	38.1	41.2	44.3	46.8
Forecast CPI (%)	2.52	2.52	2.52	2.52	2.52
X factors ^b (%)	25.04	-3.65	-3.65	-3.65	-3.65
		-10.91	-10.91	-3.62	0.49
Smoothed annual revenue requirement	33.2	35.3	37.5	39.9	42.4
		37.8	43.0	45.6	46.6

Note: Totals may not add due to rounding.

(a) This is the unsmoothed annual revenue requirement.

(b) Negative values for X indicate real price increases under the CPI-X formula.

(j) Table 17.10 of the Final Decision is amended as follows:

Table 17.10: AER conclusion Energex's street lighting prices (dollars per light per day, GST exclusive)

	First year price path ^a (%)	2010-11	2011-12	2012-13	2013-14	2014-15
Major non-contributed	-11.16	0.85	0.89 0.93	0.93 1.01	0.97 1.10	1.01 1.20
Major contributed	-75.64	0.23	0.24 0.25	0.25 0.27	0.26 0.30	0.28 0.33
Minor non-contributed	39.55	0.34	0.36 0.37	0.37 0.41	0.39 0.44	0.41 0.48
Minor contributed	-41.47	0.09	0.10	0.10 0.11	0.11 0.12	0.11 0.13
Price path (%)		n/a	4.52 9.17	4.52 9.17	4.52 9.17	4.52 9.17

(a) The first year price path shows the percentage change in prices between 2009-10 and 2010-11.

2. There be no order as to costs.

Dated entered: 19 May 2011




REGISTRAR

Australian Competition Tribunal