AUSTRALIAN ENERGY REGULATOR

Final decision: Murraylink 2018–23

We have made a revenue determination for Murraylink, the electricity transmission interconnector between South Australia (SA) and Victoria (VIC). Our decision is not expected to have a material impact on the transmission component of the average annual electricity bill.

About the AER

We, the Australian Energy Regulator (AER), regulate the revenues of Murraylink by setting the maximum allowed revenue it may recover from its customers.

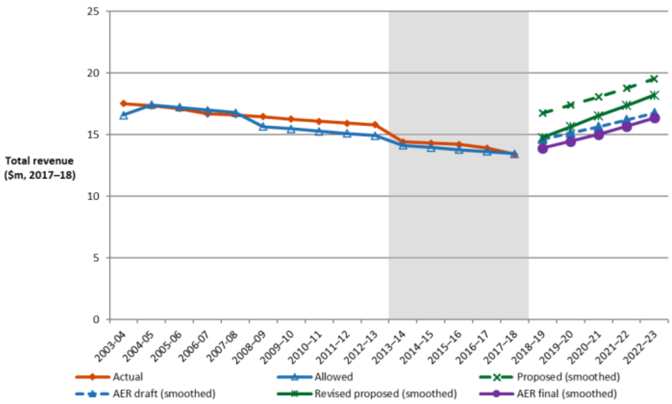
Our work is guided by the National Electricity Objective (NEO) which promotes efficient investment in, and operation and use of, electricity services in the long term interests of consumers. We set network revenues so that they reflect efficient costs. By only allowing efficient costs, we regulate network prices so that energy consumers pay no more than necessary for the safe and reliable delivery of electricity services.

Our determination

Our decision allows Murraylink to recover $81.4 million ($nominal) revenues in the next period. This is a reduction of 8.8 per cent (or $7.8 million) from Murraylink's revised proposed revenue allowance.

Compared to our previous decision for 2013–18, our final decision approves average annual revenues for the 2018–23 period that are 9.4 per cent (or $1.3 million) higher in real dollar terms. The reason for this increase is the need to upgrade Murraylink's obsolete control and protection system to maintain the continued reliability and security of supply.

Murraylink's past revenue and the AER's revenue allowance ($million, 2017–18)



Estimated bill impact

The revenue we determine affects the transmission component of a customer's electricity bill. Transmission charges make up around 7 per cent of the bill for typical residential customers in SA and 6 per cent in VIC. Other components of customer's bills include the costs of generation, distribution, retailing and environmental policies.

Murraylink is a small component of the broader transmission networks that serve SA and VIC, which explains the modest impact this Murraylink final decision will have on average annual electricity bills in each region. Murraylink's network charges are built into the charges of the main transmission service providers in SA (ElectraNet) and VIC (AusNet).

In our final decision for ElectraNet for 2018–23, we have provided an estimate of the combined effect of our final decisions for ElectraNet and Murraylink on transmission charges and electricity bills in SA.

Capital expenditure

Our final decision allows for annual revenue that is higher in real terms than the previous regulatory period and will increase gradually over the forecast period. Murraylink's revenue has been reducing steadily over the past 15 years as the initial capital investment for the Murraylink asset depreciated. During this period, Murraylink has not had to incur any substantial re-investment in capital given the age of the asset. However, it is now at a point where a key component – the control and protection system – is coming to the end of its life and is considered obsolete. It is this control system upgrade required to maintain the continued reliability and security of supply across the interconnector that is driving the upturn in revenue over the 2018–23 regulatory control period.

Return on capital

Our final decision includes a reduction in Murraylink's return on capital compared to the previous period and to Murraylink's proposal. This reduction is driven by lower estimated rates of return on debt and equity for the 2018–23 regulatory period. The falls are mainly caused by reductions in the risk-free rate, debt risk premium and equity beta due to the more favourable market environment at present.