



JGN ME capex remittal

January 2018

Purpose of the round table

Background to the ME capex remittal

Approach to remaking the decision on ME capex

Trends in JGN's capex

Effects of ME capex remittal on prices

Purpose of today

- Share and listen to everyone's views
- Explain how we have arrived at our proposed remade ME capex decision
- No surprises in the draft decision and beyond
- Ensure the consumers' perspective has been considered, and is well informed.

Background

- JGN raised a number of issues at Tribunal regarding our final decision ME capex allowance.
- Tribunal remitted to the AER to make the capex decision *“including by reference to the current and ongoing contractual rates”* [Tribunal determination 1(c)].
- The Tribunal did not direct the AER to address any other issues under dispute
 - However, we have looked at the issues under dispute and made changes to the ME capex allowance where appropriate.

Our approach

- We are remaking only Tariff V expenditure
 - The issue with contractor rates only affects Tariff V mains and services expenditure.
- We are “uplifting” the contractor rates
 - We are giving full weight to the ‘new and current’ rates (more on this shortly).
- We are addressing some other issues that JGN raised at Tribunal.
- The AER Board has endorsed our approach.

How have we uplifted contractor costs?

1. We calculated the difference in contractor rates over the five-year period (used to calculate the Tariff V unit rates in the final decision) with the “new and current” rates (from July 2013)
2. Next, we calculated the contractor costs as a share of Tariff V mains and services expenditure
3. We multiplied (1) and (2) to get the “uplift rate”
4. Unit rates for Tariff V mains and services were multiplied by the uplift rate to give effect to the “new and current” contractor rates.

We have made some other changes

- We have made further changes because:
 - we have included additional items in the 2013-14 data that were excluded in the final decision
 - we have fixed some calculation errors.

Change to final decision calculation	\$m
Contractor rates	13.3
RIN error: I&C vol meter unit rates	1.4
Changes to 2013-14 data*	4.9
FD error: E to G services escalation	0.4
Adjustment to MD meters escalation^	0.2

* using updated data including non-routine costs, MDLs and Metreteks

^ adjusted to account for inclusion of MDLs and Metreteks in the MD meters unit rates

Proposed ME capex allowance

- We propose to approve \$319.7 million for 2015-20 as conforming capex.
(2017, escalated direct costs, excluding overheads)
- This is around \$20 million (around 7 per cent) higher than the allowance in the final decision.

	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Final decision	65.3	62.6	59.9	57.3	54.7	299.8
Remade decision	69.5	66.7	63.9	61.2	58.4	319.7
Difference (\$m)	4.2	4.1	4.0	3.9	3.7	19.9
Difference (%)	6.5	6.6	6.7	6.8	6.9	6.7

Effect on revenue and household bills

- Compared with the final decision, the remade decision on ME capex is expected to:
 - have a revenue impact of around \$2.5 million.
 - increase household bills by around 50-60 cents per year
 - we expect a net decrease in JGN's tariffs in the last two years of the regulatory period.

** all other things being equal.*

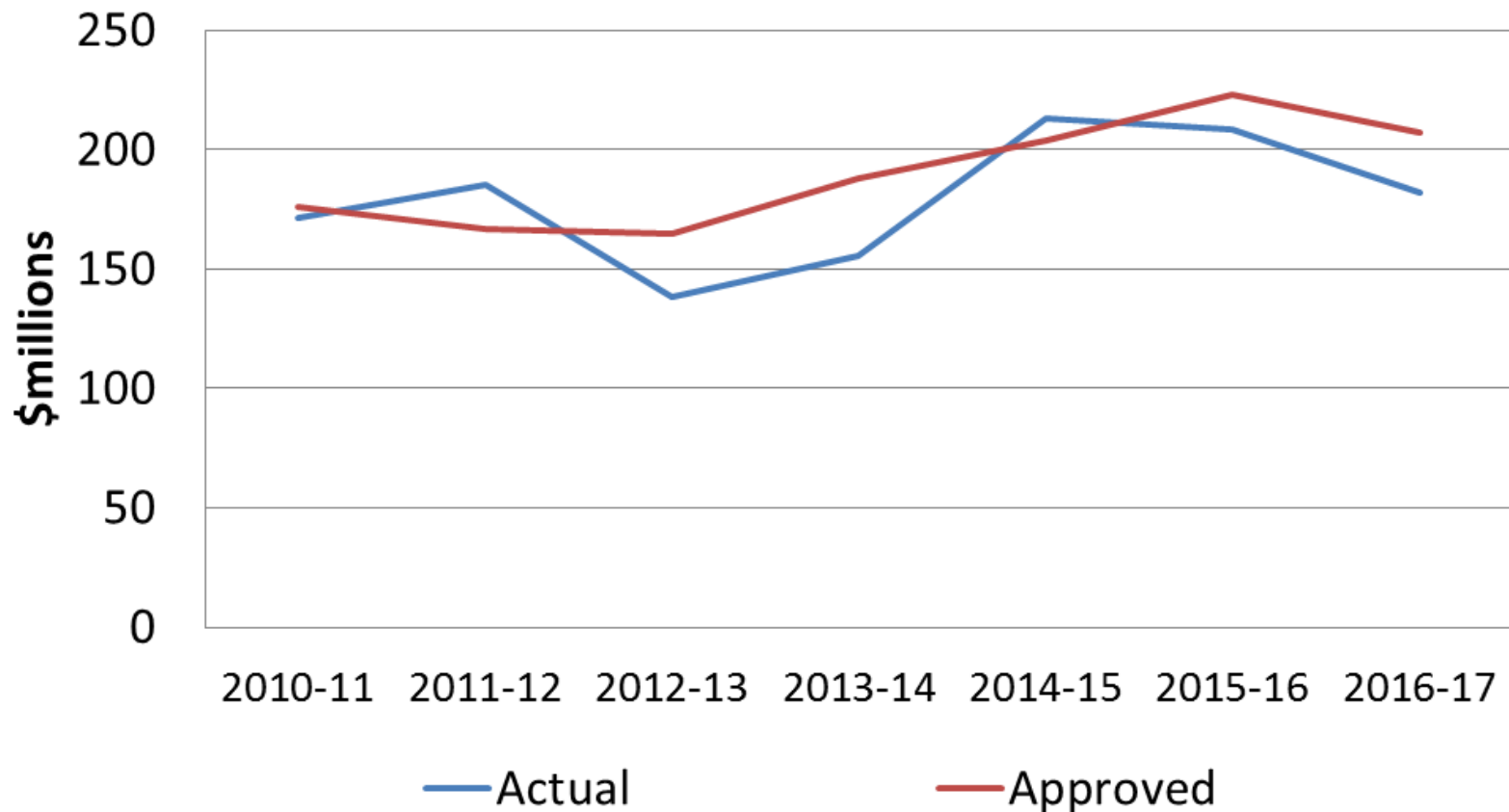
Please note these are estimates only.

JGN's capex for 2015-20 'on track'

- We have assessed JGN's actual capex data to 2016-17.
- Overall, JGN are currently tracking below their total capex allowance
 - this is an important consideration when remaking a decision that will best satisfy the NGO.
- Note that under price cap regulation:
 - a DNSP bears the costs of higher connection numbers
 - but keeps the additional revenue earned from the new connections (because demand likely to be higher than forecast).

JGN's capex - trend

Net capex 2010-11 to 2016-17: actual vs approved



Engagement doesn't end here

- We are happy to continue to speak with JGN and the CCP to work through any outstanding issues.
- Our goal is to come to an agreement ahead of the draft decision.
- We now open up for questions.