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Ms Paula Conboy
Chair
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3000

Dear Ms Conboy

Power and Water Corporation 2019-2024 – Revised Regulatory Proposal and Tariff Structure Statement

We are pleased to submit Power and Water Corporation's (Power and Water) Revised Regulatory Proposal and revised Tariff Structure Statement (TSS) for our 2019-24 regulatory control period. They are our response to the Australian Energy Regulator's (AER) September 2018 Draft Decision, which itself responded to our Initial Regulatory Proposal, initial TSS and other supporting documentation that we submitted to the AER between January and March 2018.

Our Revised Regulatory Proposal and TSS are guided by our commitment to deliver the electricity distribution services our customers need and value as efficiently as possible. They have benefited from significant input and feedback from our customers and other stakeholders.

We appreciate the AER's openness and consultation in preparing its Draft Decision and its willingness to discuss it with us prior to its release.

We welcome and accept much of the AER's Draft Decision because we recognise that it will enable us to provide distribution services that benefit our customers, including by:

- Improving the reliability of poor performing rural and urban areas;
- Rolling out smart meters on a new and replacement basis, thereby helping make energy technology and pricing innovations available to our customers; and
- Providing more cost reflective tariff structures.

However, there are a limited number of matters where we do not agree with the AER's Draft Decision and seek changes in its Final Decision. In particular, we are proposing:

- Higher forecast operating expenditure (opex) based on our 2017-18 audited opex – our Initial Regulatory Proposal used 2016-17 as the base year; and
- A higher rate of return because we don't accept the AER's Draft Decision to apply a return on debt transition. We maintain our position from our Initial Regulatory Proposal and provide further justification for why we consider this appropriate.

We have adjusted or further justified other elements of our plans in our Revised Regulatory Proposal in response to the AER's Draft Decision. We are proposing the following for our Standard Control Services for our 2019-24 regulatory control period:

- Revised net capex of \$339.3 million (Real \$2018-19), which is \$44.9 million (Real \$2018-19) less than our Initial Regulatory Proposal of \$384.2 million (Real \$2018-19). This compares with the AER's substitute capex allowance in its Draft Decision of \$316.4 million (Real \$2018-19);
- Revised net opex of \$351.3 million (Real \$2018-19), which is \$12.0 million (Real \$2018-19) more than our Initial Regulatory Proposal of \$339.3 million (Real \$2018-19). This compares with the AER's substitute opex allowance in its Draft Decision of \$305.9 million (Real \$2018-19); and
- Revised 'smoothed' revenue requirement (or maximum allowed revenue) of \$863.5 million (\$Nominal), which is \$104.7 million (\$nominal) higher than that in the AER's Draft Decision and \$64.4 million (\$Nominal) lower than that in our Initial Regulatory Proposal. The revised proposal revenue requirement results in a 17.57% revenue reduction in 2019-20 and a 3.92% increase in the four years after this, in real terms (i.e. ignoring inflation).

Our Revised Regulatory Proposal will deliver network bill savings (excluding the impact of inflation) for most of our customers:

- Small Household – 20 per cent or \$219 reduction for a typical small residential customer consuming 8,500 kWh per year with an accumulation meter, or 7 per cent or \$71 reduction if the customer has a smart meter. This customer class currently has retail price protection through the electricity Pricing Order, so our charges will not directly affect their retail electricity bill.
- Large Household – 27 per cent or \$489 reduction for a typical large residential customer consuming 15,000 kWh per year with an accumulation meter, or 24 per cent or \$427 reduction if the customer has a smart meter. This customer class currently has retail price protection through the electricity Pricing Order, so our charges will not directly affect their retail electricity bill.
- Small business – 1 per cent or \$18 increase for a typical small business customer consuming 30,000 kWh per year with an accumulation meter, or 31 per cent or \$1,065 reduction if the customer has a smart meter. This customer class currently has retail price protection through the electricity Pricing Order, so our charges will not directly affect their retail electricity bill.
- Large business – 2 per cent or \$2,033 increase for a typical large business customer consuming 1,000,000 kWh per year.
- Large industrial business – 6 per cent or \$18,586 decrease for a typical large industrial business customer consuming 6,000,000 kWh per year.

We look forward to engaging with the AER, as it reviews our Revised Regulatory Proposal, TSS and supporting documentation. If you have any questions or concerns, please contact Ms Jodi Triggs, Senior Executive Manager – Network Regulation and Commercial, on (08) 8943 6555 or via email Jodi.Triggs@powerwater.com.au.

Yours sincerely



Michael Thomson

Chief Executive

29 November 2018