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Pre-determination conference

Draft decision

ETSA Utilities distribution determination 2010–11 to 2014–15

Mr Steve Edwell
Chairman
9 December 2009

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Key messages

- ETSA network investment to rise over 2010 – 2015
  - security, safety and reliability
- Capex of over $1.6 billion, up 93% (real)
- Opex of over $1.0 billion, up 42% (real)
- Implications for small retail customers
  - charges to rise by $77 (5%) in 2010-11 and
  - $40 a year (3%) thereafter

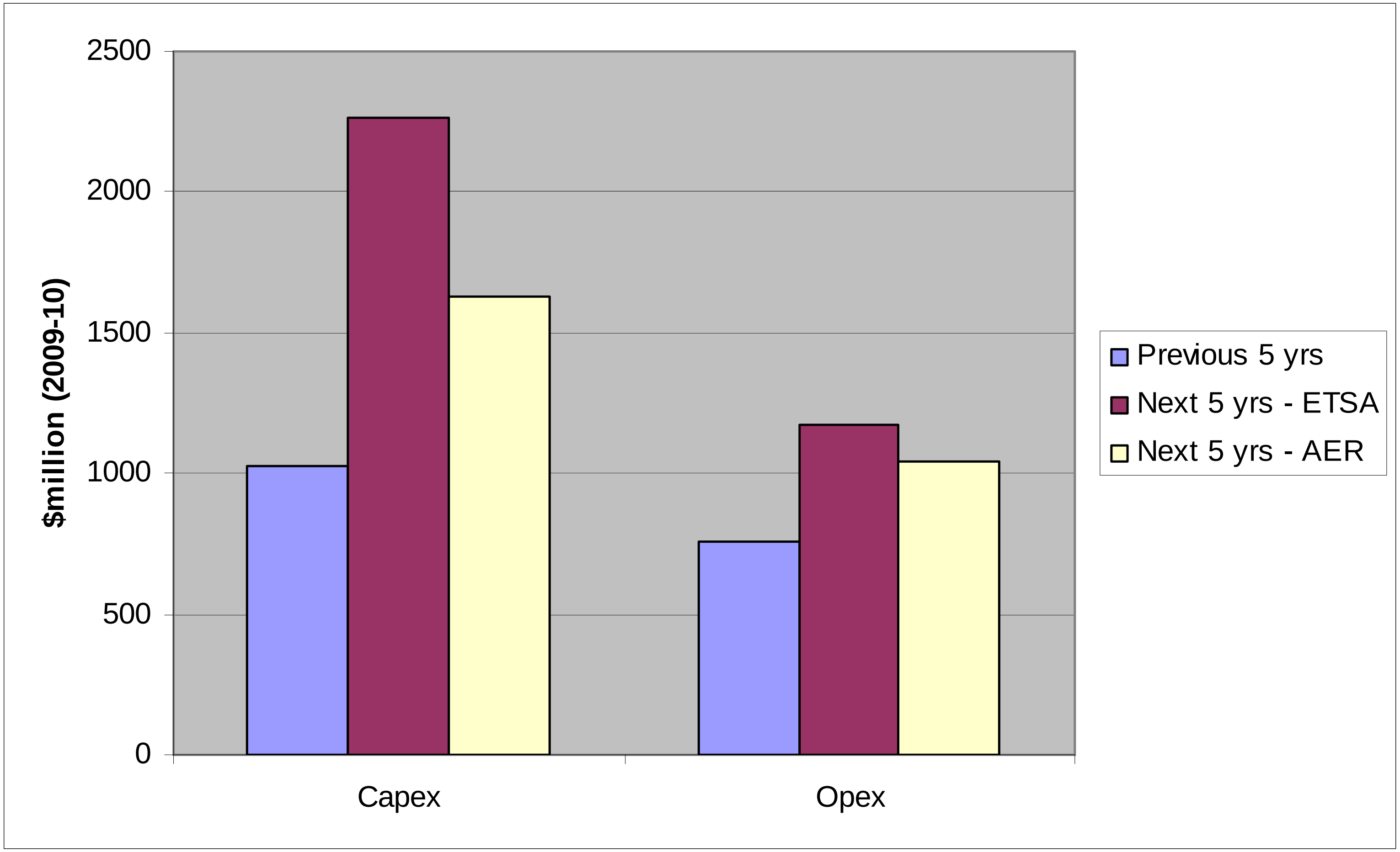
SA electricity distribution reset

- Framework and Approach issued November 2008
- Proposal lodged 1 July 2009
  - Included responses to regulatory information notices
  - Largely consistent with framework and approach
- Comprehensive review process
  - Public forum held in Adelaide during August
  - Submissions received (28 August 2009)
  - Reviewed by expert consultants (PB and others)
- Draft determinations and consultants reports published on 30 November 2009

Key drivers

- Customer growth
  - Expansion of CBD and surrounding areas
- Growth in peak energy demand
  - Continuing penetration/upgrade of air conditioners
  - Heatwaves
- Replacement of ageing assets
  - Reliability and network security
- Implications are:
  - Higher capex and opex driving total investment and investment costs

ETSA capex and opex



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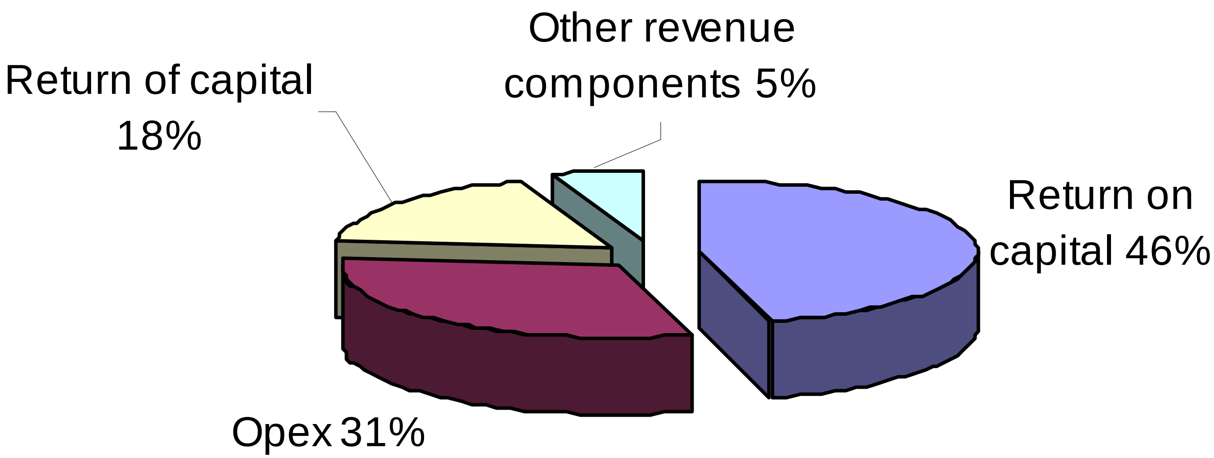
Total revenue



Total revenue = $3.5 billion

Cost of capital

- ETSA:
  - adopted the WACC parameters defined by the SORI but proposed to vary the market risk premium (MRP) to 8 per cent
  - proposed a WACC of 9.36 per cent
- AER:
  - did not approve the proposed MRP, and maintained it at the SORI level of 6.5 per cent
  - has determined a WACC of 10.02 per cent
  - will update the WACC for the final decision

Indicative price impacts

- Average residential customer bill will increase in 2010–11 by just over 5% or around $77.

- Beyond 2010-11, further price rises for residential customers will be around 3% or $40 each year.

- Increase in network charges over the regulatory control period is approximately 38 per cent less than proposed.

- These numbers are indicative only. Final determination in April.

- The AER will consider ETSA Utilities' pricing proposal in May 2010.

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New incentive arrangements

- The draft determination has introduced incentive schemes:
  - a service target performance incentive scheme (STPIS)
  - an efficiency benefit sharing scheme (EBSS)
  - a demand management incentive scheme (DMIS)
- Aims to improve service quality, encourage efficiency and manage demand

Questions

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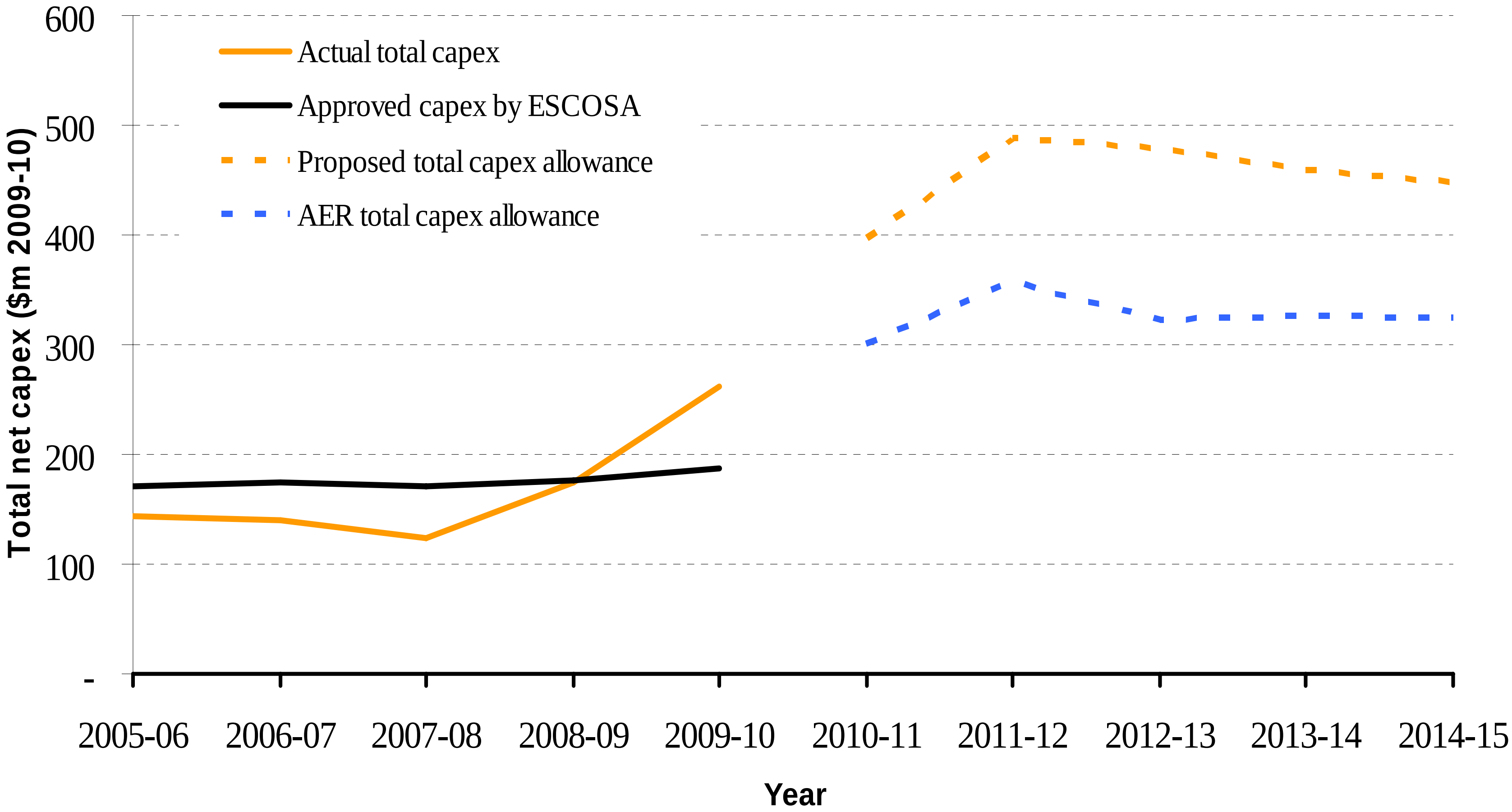
Opening RAB

- ETSA Utilities proposed an opening RAB as at 1 July 2010 of **$3011m** for its distribution network
- The AER did not accept ETSA Utilities' proposed revaluation of easements and the reinstatement of certain capital contributions
- Metering assets associated with alternative control services have been removed from the proposed opening RAB
- The AER determined ETSA Utilities' opening RAB to be **$2768m**

Demand forecasting

- The AER engaged consultants to review ETSA Utilities' demand forecasts - AEMO reviewed maximum demand and energy sales forecasting methodologies and forecasts, and MMA reviewed customer number forecasts
- AEMO concluded:
  - ETSA Utilities' maximum demand forecasts were reasonable
  - ETSA Utilities' energy sales forecasts were too low
- MMA concluded:
  - ETSA Utilities' customer numbers were reasonable
- The AER accepted ETSA Utilities' peak demand and customer number forecasts, but concluded that their energy sales did not provide a realistic expectation of demand

Capex



Actual total capex
Approved capex by ESCOSA
Proposed total capex allowance
AER total capex allowance
600
500
400
300
200
100
-
Total net capex ($m 2009-10)
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
Year

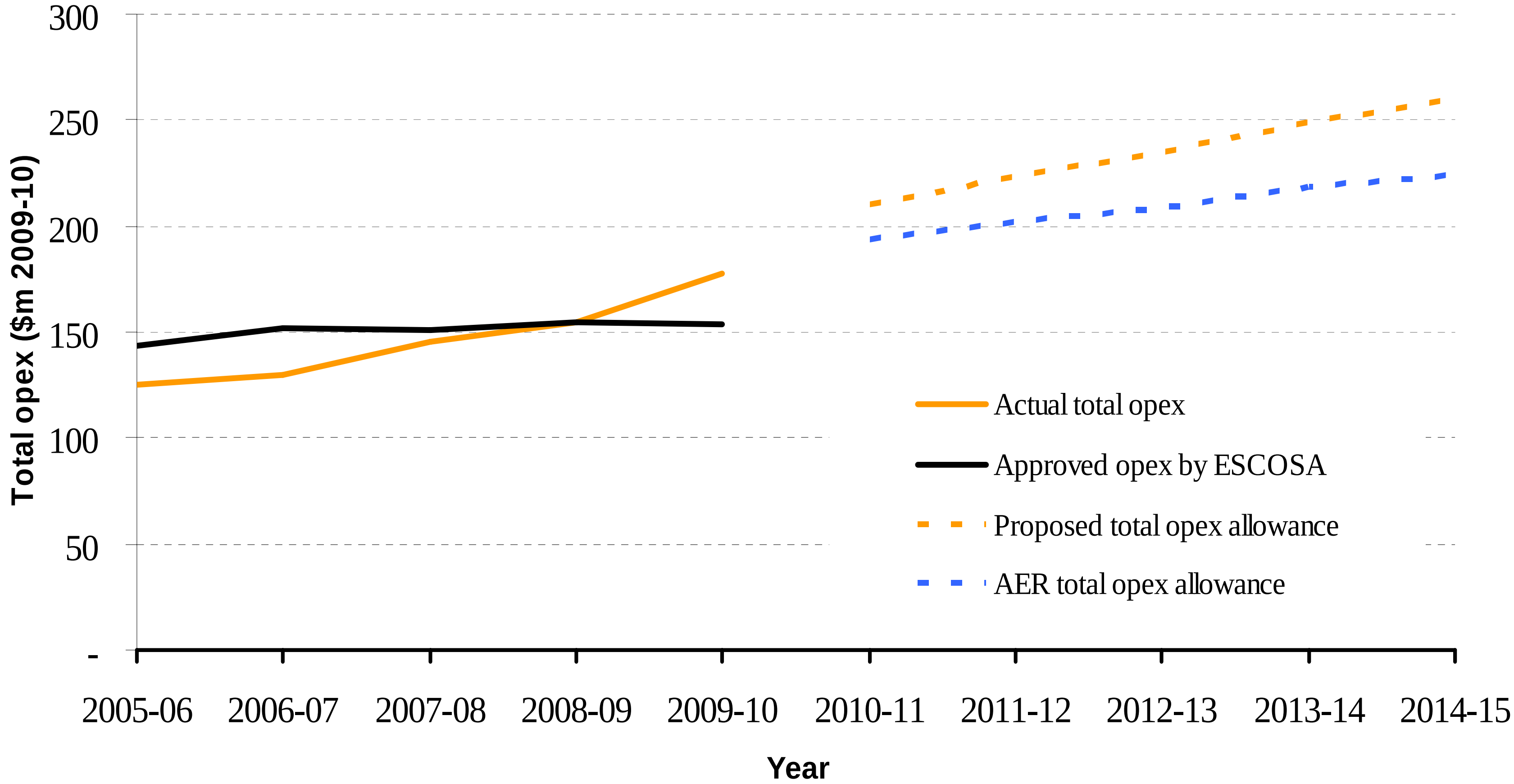
Capex (continued)

- ETSA Utilities proposed net capex of **$2266m** ($2009–10)

- The AER made adjustment to proposed allowance:
  - Demand driven capex
  - Asset replacement capex
  - Security of supply capex
  - Adjustment to cost escalators
  - Capex associated with alternative control metering services

- The AER approved capex of **$1628m** ($2009–10)
- A reduction of appropriately 28 per cent of ETSA Utilities proposed capex

Opex



300
250
200
150
100
50
-
Total opex ($m 2009-10)
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
Year
Actual total opex
Approved opex by ESCOSA
Proposed total opex allowance
AER total opex allowance

Opex (continued)

- ETSA Utilities proposed opex of **$1175m** ($2009–10)
- The main adjustments made by the AER were to:
  - Vegetation management
  - Scale escalators
  - Input cost escalators
  - Self insurance
  - Debt raising costs
  - Other support costs

- AER approved total opex of **$1044m** ($2009–10)
- A reduction of approximately 11 per cent of ETSA Utilities' proposed opex

Building block revenues

ETSA Utilities' annual revenue requirements and X factors ($m, nominal)

	2010–11	2011–12	2012–13	2013–14	2014–15
Regulatory depreciation	100.3	113.1	126.6	142.4	157.9
Return on capital	277.5	300.3	327.9	350.9	373.7
Tax allowance	31.9	33.0	32.4	34.0	35.2
Operating expenditure	192.3	204.6	216.8	232.7	244.3
Capex carryover	8.4	7.6	4.3	0.1	0.0
Annual revenue requirements	610.4	658.6	708.0	760.3	811.3
Expected revenues	616.4	653.2	703.9	756.8	818.4
Forecast CPI (%)	2.45	2.45	2.45	2.45	2.45
X Factors (%)	-10.95	-3.9	-3.9	-3.9	-3.9

Alternative control services – metering

- The AER has not accepted ETSA Utilities' proposed reclassification of alternative control metering services as standard control services
- The AER will apply the WAPC control mechanism to ETSA Utilities' alternative control services
- ETSA Utilities will resubmit its separate alternative control services building block PTRM and WAPC as part of its revised regulatory proposal
- The AER has therefore not assessed ETSA Utilities' alternative control metering services building block components, tariff components, forecast customer numbers or the X factor

Questions

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Next steps – process and timetable

• **14 January 2010**	ETSA Utilities to lodge revised proposal
• **16 February 2010**	Submissions on draft determination close
• **30 April 2010**	AER must release final decision on distribution determination
• **21 May 2010**	ETSA Utilities submits pricing proposal
• **1 June 2010**	AER approves pricing proposal
• **1 July 2010**	Commencement of the next regulatory control period