

AER Draft Determinations on QLD and SA Electricity Distribution Revenues for 2010-2015

EUAA Assessment

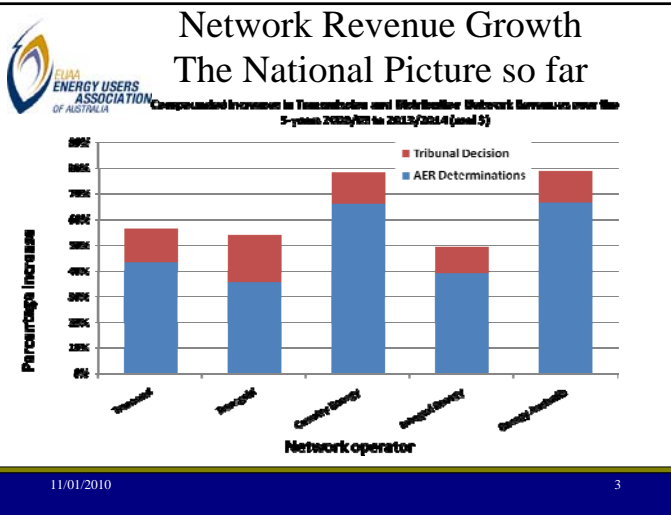
8th December 2009

Outline

- Overview of Draft Determinations for Energex and Ergon - National Picture and recent Tribunal Decision
- Draft Determination: Energex
- Pricing Impacts Energex
- Draft Determination: Ergon Energy
- Pricing Impacts Ergon
- Users' assessment
(Preliminary assessment only possible for now due to complexity and number of DD's. We expect to have additional points later.)

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Overview of AER's Energex Draft Determination

- AER made limited reductions to Energex Capex of 12%
- Opex was allowed almost unchanged
- AER has allowed a high WACC (approx 10%). This partially offsets the reduction in capex and led to relatively small reductions in revenue requirements.
- AER has stated that Benchmarking is only one of 10 items it must have regard to, and that it disagreed with the level of importance that the EUAA placed on it.
 ❖ *EUAA cannot agree with this and neither does Ofgem*

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Further Overview of Energex Draft Determination

- AER stated that it fulfilled its requirements under the Rules to have regard to benchmarking.
 - ❖ We can find no evidence to support this in the DDs
- It only attempted to apply what it called “benchmarking” to the opex but not capex.
 - ❖ Required to do both, and capex the much bigger component
- We are disappointed with their response to our request to benchmark the businesses.
- Origin Energy and ECCSA in their submissions also expressed concern about the lack of Benchmarking.
- Essentially ticked the boxes on DM. It is disappointing that more was not done in this area, especially given the large capex program.

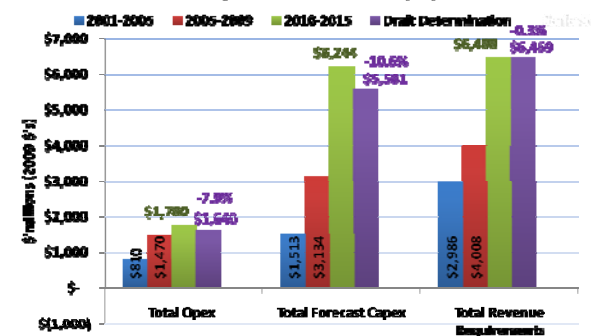
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QLD Draft Determination Energex

Energex 2010-2015 Revenue proposal



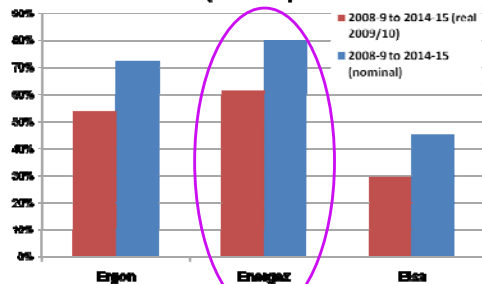
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Impacts on network Prices

AER's forecast of compounded price increase (X-factors)



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Price Transparency

- Price transparency is important to users.
 - ❖ We welcome the AER's request to the DB's to increase notice period.
- It would be helpful if the AER stated annual average percentage increases for the distribution business resulting from its decision.
- These should **not** be reframed as total bill impacts using assumptions about distribution costs as a percentage of total costs

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Overview of the AER's Ergon Draft Determination

- ❑ AER made limited reductions to Ergon Capex of 16%
- ❑ Opex was allowed almost unchanged
- ❑ AER has allowed a high WACC (approx 10%). This partially offsets the reduction in capex and led to relatively small reductions in revenue requirements.
- ❑ We are disappointed with their response to our request to benchmark the businesses.
- ❑ Essentially ticked the boxes on DM. It is disappointing that more was not done in this area, especially given the large capex program.
- ❑ Same points as before on price transparency

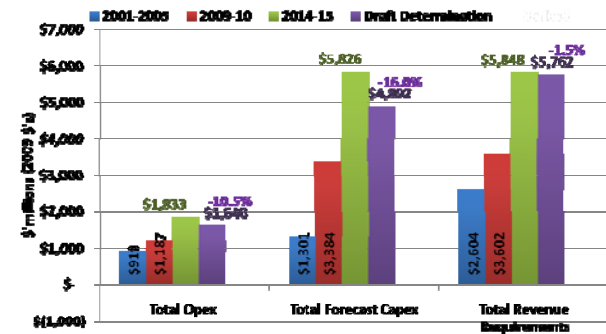
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QLD Draft Determination Ergon Energy

Ergon Energy 2010-2015 Revenue proposal



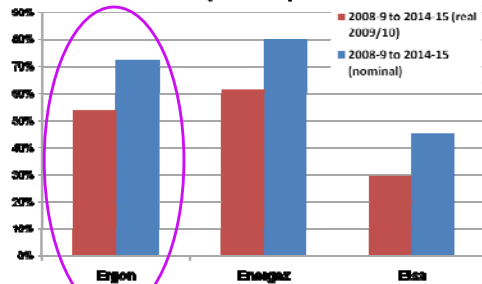
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Impacts on network Prices

AER's forecast of compounded price increase (X-factors)



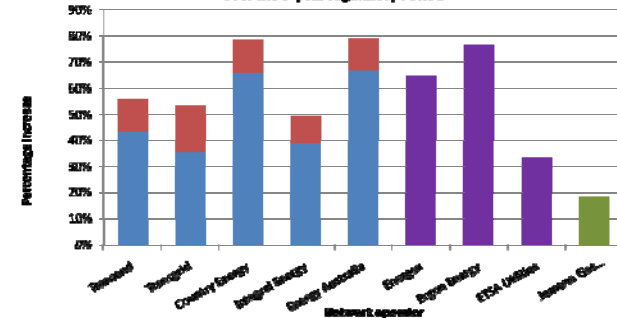
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Network Revenue Growth The National Picture

Compounded increases in Transmission and Distribution Network revenues over the 5-year regulatory period



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AER Determinations Overall Assessment

- ❑ Welcome reductions in inefficient expenditure for ETSA
- ❑ Limited reductions in QLD DB's capex
- ❑ Minor adjustments to opex
- ❑ No Benchmarking of capex at all, and problematic benchmarking of opex.
- ❑ Large WACC (8% real), c.f. Ofgem allowed much less in UK (4.75% real).
- ❑ Insufficient priority given to Demand Management
- ❑ **Very large increases in Prices**