AUSTRALIAN ENERGY REGULATOR

Final decision: Ausgrid 2019–24

We have made a final revenue determination for Ausgrid, the electricity distribution network operator for Sydney, the Central Coast and the Hunter Valley. Our final decision allows Ausgrid to recover $7,703.3 million ($ nominal) in revenue from its customers over five years, from 1 July 2019 to 30 June 2024.

Estimated impact on customer bills ($ nominal)

The distribution network tariffs that will be set by reference to our final decision are only one contributor to electricity bills, and make up around 36 per cent of the total retail electricity bills Ausgrid's customers pay.

Under our final decision, the average annual electricity bill for a residential or small business customer on Ausgrid's network is estimated to be around 3.3 per cent lower by 30 June 2024 compared to the current 2018–19 level, holding all other components of the bill constant.

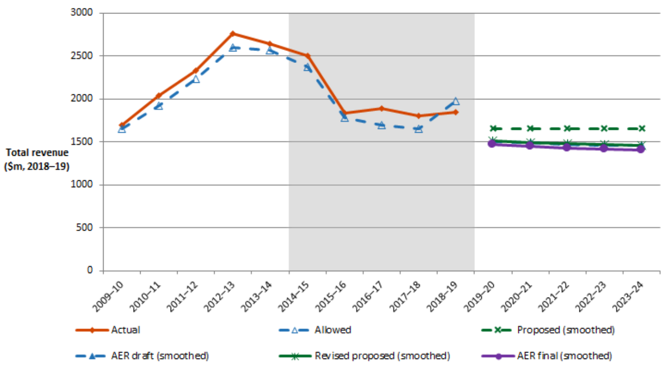
This suggests that the average annual electricity bill for a residential and small business customer on Ausgrid's network is estimated to be around $67 and $156 lower, respectively, by the end of the 2019–24 period.

Overview

The Australian Energy Regulator (AER) regulates Ausgrid's revenue by setting the total revenue it may recover from its customers. Our final decision includes revenue for Ausgrid's distribution and dual function (transmission) assets.

Our final decision allows for a 24.3 per cent real reduction in Ausgrid's total revenue from the allowed revenue in the current period.

Ausgrid's past and proposed total revenue, and AER final decision revenue allowance ($ million, 2018–19)



Our final decision is $237.2 million ($ nominal) lower than our draft decision, and $270.6 million ($ nominal) lower than Ausgrid's revised proposal.

Having assessed Ausgrid's revised regulatory proposal, we consider our final decision is justified as it:

- builds on the operational efficiencies Ausgrid has achieved in response to our lower approved revenues for the current period and locks in ongoing efficiency gains for future periods for the benefit of customers
- is reflective of the views of consumers following further engagement, particularly in respect of Ausgrid's capital expenditure requirements and approach to forecasting operating expenditure productivity growth.

Previously, our draft decision noted that in a number of respects, we agreed with Ausgrid on the key drivers identified through its earlier stakeholder engagement as influencing its revenue requirement for the 2019–24 period. While Ausgrid's initial regulatory proposal proposed reductions to both operating and capital expenditure relative to the current period, our draft decision set out a number of areas where we considered Ausgrid had not justified its proposed expenditure based on the information available to us at the time.

Since our draft decision and prior to Ausgrid lodging its revised proposal in January 2019, Ausgrid made good use of the limited time it had by meaningfully engaging with consumer groups and our staff to narrow or eliminate the key areas of contention following our draft decision. Ausgrid mobilised its resources well over a short period time and clearly demonstrated in its revised proposal how it had incorporated the views of consumer groups following further engagement, particularly in respect of its capital expenditure requirements and approach to forecasting operating expenditure productivity growth.

Our final decision also incorporates the revenue impact of our 2014–19 remade final decision for Ausgrid (remittal). We remade our decision in January 2019, following receipt of Ausgrid's remittal proposal. Under that decision, Ausgrid will return to customers from 1 July 2019 approximately $319.8 million ($2018–19) over the 2019–24 period.

Rate of return and gamma

In December 2018, the National Electricity Law and National Gas Law were amended to require us to make a binding rate of return instrument (2018 Instrument). As a binding instrument, it sets out the methodology for calculating the rate of return. The method must be capable of automatic application to all regulated network service providers without the exercise of discretion.

The 2018 Instrument specifies the return on debt as a formula, being the trailing average portfolio approach, and requires a business that is not already using a trailing average to transition to it over a 10-year period that is in the future.

As required under the National Electricity Rules, we have applied the 2018 Instrument and estimate an allowed rate of return of 5.72 per cent (nominal vanilla). Our final decision also applies a gamma value (imputation credits) of 0.585, as per the 2018 Instrument.

Ausgrid's revised proposal adopted the 2018 Instrument.

Capital expenditure (capex)

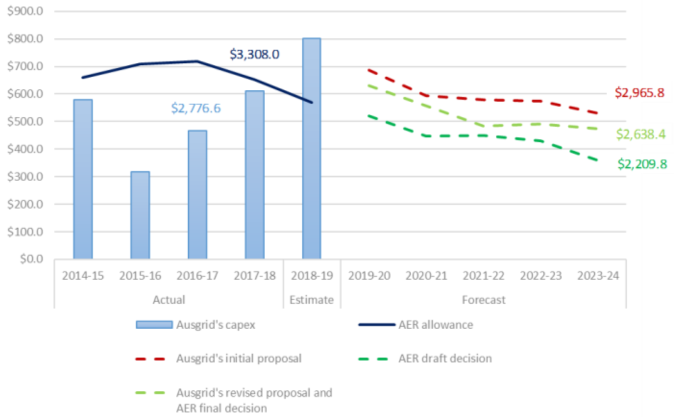
Capex — the capital costs and expenditure incurred in the provision of network services — mostly relates to assets with long lives, the costs of which are recovered over several regulatory periods.

Capex is added to Ausgrid's regulatory asset base (RAB), which is used to determine the return on capital and regulatory depreciation (return of capital) 'building block' allowances. All else being equal, higher forecast capex will lead to a higher projected RAB value and higher return on capital and regulatory depreciation allowances.

Our final decision on Ausgrid's revenue includes a total net capex forecast of $2,638.4 million ($2018–19) for 2019–24. This is 5 per cent lower than Ausgrid's actual and estimated net capex over the current period.

Our final decision accepts Ausgrid's revised total net capex forecast. We are satisfied that Ausgrid's revised total net capex forecast reasonably reflects the capex criteria and is consistent with the efficient costs that a prudent operator would incur in the 2019–24 period.

Ausgrid's past and proposed capex, and AER final decision capex allowance ($ million, 2018–19)



Operating expenditure (opex)

Opex refers to the operating, maintenance and other non-capital expenses incurred in the provision of network services.

Our final decision on Ausgrid's revenue includes a total forecast opex of $2,323.8 million ($2018–19) for 2019–24. This is 11.8 per cent lower than Ausgrid's opex allowance for the current period.

Our final decision accepts Ausgrid's revised opex forecast, which includes a 1 per cent per year productivity growth component from 1 July 2020. We are satisfied that Ausgrid's revised opex forecast reasonably reflects the opex criteria and is efficient.

Ausgrid's past and proposed opex, and AER final decision opex allowance ($ million, 2018–19)

For more information:

More information on our 2019–24 final decision and Ausgrid's revised proposal is on our website: www.aer.gov.au.