

AER REJECTS SIGNIFICANT PRICE RISES BY VICTORIAN ELECTRICITY DISTRIBUTORS

The Australian Energy Regulator has today released its final determination on electricity distribution in Victoria, deciding that substantial increases in network expenditure were not justified.

The AER makes determinations setting the maximum levels of expenditure electricity distributors can pass on to consumers in their electricity charges. Typically, distribution costs account for about 40% of electricity bills. This decision applies to five electricity distributors: CitiPower, Powercor, SPAusNet, United Energy and Jemena Electricity Networks, for five years from January 2011 to December 2015.

"The overall result for Victoria is positive, with no major increases. In fact some consumers will see slight reductions and others marginal increases on their quarterly bills", AER chairman Andrew Reeves said today.

On a \$400 residential quarterly bill, the determination results in a range of outcomes, from a reduction of about \$6.40 for some customers, to an increase of \$20.52 for others in 2011. The range is due to the different circumstances and expenditure needs of each of the distributors.

Change to \$400 quarterly residential bill arising from distribution prices [\$, nominal] Assuming distribution costs of 40% of total bill and CPI of 2.57% for each year

| | 2011 | Average p.a. 2012-15 |
|---------------|---------|-------------------------|
| CitiPower | -\$6.40 | \$12.29 |
| Powercor | \$4.30 | \$10.85 |
| Jemena | \$12.31 | \$10.60 |
| United Energy | \$4.73 | \$11.59 |
| SP AusNet | \$20.52 | \$14.45 |
| average | \$7.09 | \$11.96 |

In response to the draft determination the Victorian distributors put their case to spend 70 per cent more in capital expenditure over the next five years than in the 2006–10 period.

"When you consider the fundamental characteristics of the Victorian distribution network, we were not satisfied with the case for greater increases put by the distributors," Mr Reeves said. "This AER decision grants the distributors a total of 45 percent more capital expenditure over the period."

The final decision leads to increases in network charges in the first year of around 4.4 per cent on average, and further increases of around 6.5 per cent in each of the following four years.

"In a relatively stable environment, past expenditure is a good guide to future needs. However, as required by the regulatory regime, the AER has accepted the need for additional expenditure to replace ageing infrastructure - built in the 1960's and 70's - meet new bushfire safety standards and maintain reliability in the face of growing costs and demand. This is in part due to the growth in energy intensive appliances, like home air conditioners," Mr Reeves added.

"On the whole, the Victorian distributors are efficient operators of a mature and comparatively reliable network. They have had the benefit of a strong economy and strong sales, but we recognise also that costs of debt are markedly higher than five years ago when prices were last set," Mr Reeves said.

The AER has also allowed some extra funds for bushfire mitigation. In the event of any further regulatory changes flowing from the Victorian Bushfires Royal Commission, the AER will review any proposed increase in costs.

In making this decision, the AER took into account advice from independent experts and submissions from interested parties. All documents are on the AER's website, www.aer.gov.au.

Separate to the revenue determinations for Victoria, the AER has also assessed applications from the Victorian distribution businesses to amend AML (smart meter) charges for households and small businesses. Charges for single phase single element meters will reduce for CitiPower and Powercor customers. For Jemena Electricity Networks, SP AusNet and United Energy customers, charges for 2011 are consistent with those previously approved by the AER in 2009.

Media inquiries

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General inquiries

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Key factors impacting on network prices, by distribution business

Citipower

Capital expenditure

| Current period | proposed | AER decision |
|----------------|----------|--------------|
| \$481.5m | \$930.3m | \$767.5m |

Key drivers:

New customer growth: 1.6%
Replacement/safety: \$198m
Augmentation: \$492m
Other:\$77.5m

Operating expenditure

| Current period | proposed | AER decision |
|----------------|----------|--------------|
| \$166.1m | \$256.6m | \$228.6m |

Main additions: \$26.4m largely related to new safety obligations

Powercor

Capital expenditure

| Current period | proposed | AER decision |
|----------------|----------|--------------|
| \$930.3m | \$1.61b | \$1.32b |

New customer growth: 1.9%
Replacement/safety \$408m
Augmentation: \$705m
Other:\$211m

Operational expenditure

| Current period | proposed | AER decision |
|----------------|----------|--------------|
| \$619m | \$926.6m | \$798.4m |

Main additions: \$88.9m largely related to new safety obligations

Jemena

Capital expenditure

| Current period | proposed | AER decision |
|----------------|----------|--------------|
| \$338.6m | \$581.9m | \$434m |

Key drivers:

New customer growth: 1.5%
Replacement/safety: \$133m
Augmentation: \$201m

Other:\$100m

Operational expenditure

| Current period | proposed | AER decision |
|----------------|----------|--------------|
| \$253.1m | \$341m | \$284m |

Main additions: \$36.3m mainly related to new safety obligations

SP AusNet

Capital expenditure

| Current period | proposed | AER decision |
|----------------|----------|--------------|
| \$974.3m | \$1.53b | \$1.42b |

Key drivers:

New customer growth: 1.7%
Replacement/safety: \$423m
Augmentation: \$821m
Other:\$173m

Operational expenditure

| Current period | proposed | AER decision |
|----------------|----------|--------------|
| \$594.7m | \$960m | \$855m |

Main additions: \$185.9m mainly related to new safety obligations

United Energy

Capital expenditure

| Current period | proposed | AER decision |
|----------------|----------|--------------|
| \$509.1m | \$815.4m | \$753m |

Key drivers:

New customer growth: 0.8%
Replacement/safety: \$324m
Augmentation: \$297m
Other:\$132m

Operational expenditure

| Current period | proposed | AER decision |
|----------------|----------|--------------|
| \$422.3m | \$637.5m | \$547.5m |

Main additions: \$56m mainly related to new safety obligations

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