news release

AUSTRALIAN ENERGY REGULATOR

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AER EXPECTS FINAL DECISIONS TO LOWER ELECTRICITY BILLS FOR NSW AND ACT CUSTOMERS

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The Australian Energy Regulator (AER) has issued final decisions on the revenue proposals submitted by ACT and NSW electricity distribution and transmission businesses for the period starting on 1 July 2015. Directlink is owned by APA Group (ASX: APA)

The final decisions set the revenues that these businesses can recover from customers over the next four years. Up to 50 per cent of an average household's energy bill can be attributed to the cost of delivering electricity through the transmission and distribution networks.

"The AER's final decisions will lower electricity network charges. This is expected to result in lower electricity bills for customers in the ACT and NSW," AER Chair Paula Conboy said.

Network business	Business revised proposal	AER final decision	Percentage difference	Expected bill reduction for average household in 2015–16
Distribution				
ActewAGL	$863 million	$591 million	-32 per cent	$112 (5.8 per cent)
Ausgrid	$9754 million	$6576 million	-33 per cent	$165 (8.0 per cent)
Endeavour Energy	$4441 million	$3183 million	-28 per cent	$106 (5.3 per cent)
Essential Energy	$5546 million	$3826 million	-31 per cent	$313 (11.9 per cent)
Transmission				
TransGrid	$2906 million	$2189 million	-25 per cent	$25 (1.1 per cent) (for both TransGrid and Directlink combined)
Directlink	$79 million	$69 million	-12 per cent	

"Through our Better Regulation program the AER has developed new guidelines and techniques, including improved benchmarking, to better forecast how much network businesses operating prudently and efficiently should need to spend," Ms Conboy said.

"The AER has access to a consistent body of evidence indicating that the distribution businesses in NSW and the ACT are not operating as efficiently as other networks. Our final decision provides sufficient operating expenditure for an efficient network business, to provide a safe and reliable service to customers."

"Any costs above efficient levels will need to be funded by the network owners, not customers," Ms Conboy said.

"The demand for electricity has fallen and is expected to remain reasonably flat over the 2015 to 2019 regulatory control period. This puts less strain on the network and requires less investment to provide a reliable supply of energy. This final determination reduces the spending proposal to enspure that only prudent and efficient costs are recovered from consumers."

"The AER has not accepted the revenue allowances proposed by any of the ACT and NSW electricity businesses. In part, this is due to our decision to apply a lower rate of return and corporate tax allowance, consistent with our rate of return guideline and recent market trends," Ms Conboy said.

"The perceptions of risk which increased during the global financial crisis, when the AER made its last determination, are now decreasing. This means that the lower cost of capital for debt and equity translate into the lower financing costs necessary to attract efficient investment."

While the final decisions allow greater amounts for operating and capital expenditure compared to the draft, the rate of return on capital is lower.

The AER established an expert panel including consumer advocates to advise on how pricing proposals meet consumer expectations. The Consumer Challenge Panel (CCP) assists the AER to make better regulatory determinations by providing input on issues of importance to consumers.

"We have seen an unprecedented level of consumer engagement in the AER's decision making process. On the whole, consumers told us that the levels of expenditure sought by the businesses were not sufficiently justified."

Further information on the CCP and Better Regulation program will be found on the AER website http://www.aer.gov.au. More detailed information for each of the final decisions can be found in the separate fact sheets for each business.

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