

AER Draft Decisions 28 September 2018

TasNetworks, EVOEnergy, Power and Water



24 October 2018

Key points

These Draft Decisions are the first of the latest round of determinations and provide insights into the AER's latest thinking that will be applied to our EDPR. Key implications are outlined below.

- ▶ **Heavy (15-25%) cuts to capex, particularly ICT capex, have been applied to all businesses.**
 - › ICT capex program benefits need to be strongly quantified
 - › Reliance on repex model using industry average unit costs
- ▶ **As for opex, the AER has:**
 - › Changed its output growth measurement; and
 - › Announced a review of its productivity adjustment.

The NSW DB Draft Decisions are due late October.

Price Path



Network	Annual nominal price change from 2018-19	Change in average real revenue
TasNetworks	1.8%	+ 1.3%
Power and Water	-9.2%	- 19.1%
EVOEnergy	0.6%	- 4.2%

Opex

\$ nominal	Proposal (\$M)	Draft Decision (\$M)	% Change
Power and Water Corporation	339.3	305.9	-9.8%
TasNetworks	410.5	410.5	0%
Evoenergy (ActewAGL)	311.4	297.1	-4.6%

▶ The AER applied the base step trend forecasting approach

- › For TasNetworks, the alternative estimate had a different composition of factors but was still accepted as not materially dissimilar
- › Used top-down approaches for all 3 but also a bottom-up for Power and Water as base year expenditure was inefficient

▶ Proposed step changes were an important focus

- › Step changes were significant drivers in draft decision, particularly vegetation management as they were all cut

▶ Forecast price growth was also overstated

Capex

<i>\$ nominal</i>	Proposal (\$M)	Draft Decision (\$M)	% Change
Power and Water Corporation	383.0	315.6	-17.6%
TasNetworks	734.4	550.9	-25.0%
Evoenergy (ActewAGL)	329.8	261.4	-20.7%

- ▶ **2 networks proposed an increase in ICT capex of 109% (PWC), 32% (TN), 1 proposed a 31% decrease (EVO) – all received heavy cuts**
 - › For Evoenergy, ADMS not allowed due to lack on information on optimal timing, noting DER has been connecting to the network for 15 years.
 - › Some ICT cases referred to cost saving and reliability benefits not incorporated in proposals
 - › AER did not allow contingency costs
- ▶ **Repex was also a focus**
 - › Heavy use of repex model
 - › Reduction to TasNetworks' repex by 29% as considered they had overstated risk, and they can spend less than forecast to maintain reliability
 - › Evoenergy's repex cut by 9% due to conservative assumptions underpinning underground cable replacements (eg probability of safety incident determined qualitatively, used higher value of fatality than other DBs)