

Media Release



South Australia's independent economic regulatory authority – regulating energy, ports and rail.

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ELECTRICITY PRICING REPORTS

After an extensive period of research and consultations, the Essential Services Commission today released two important Draft Reports on electricity prices in South Australia, which together set out how prices to customers will be controlled over the next few years.

The Draft Reports contain the Commission's conclusions on:

- ▲ A price path for AGL SA's retailer controllable costs for standing contract customers for the three years, starting 1 January 2005; and
- ▲ ETSA Utilities distribution charges for all customers for the period 1 July 2005 to 30 June 2010.

The Commission's draft price determinations for both standing contract and distribution prices fix those prices at a significantly lower level than that sought by both AGL SA and ETSA Utilities.

The determinations provide for real reductions in electricity prices for South Australians relative to the consumer price index.

Retailer controllable costs comprise approximately half of residential customers' bills, with network charges comprising the other half (excluding GST).

Key Outcomes for Residential Customers

- ▲ For standing contract customers, the AGL draft price determination will result in approximately a 1.2% increase in prices from 1 January 2005, or about 25 cents per week for the average standing contract customer. The AGL component of the bill will increase each 1 July thereafter by 1.05% below the annual rate of inflation.
- ▲ The ETSA Utilities draft price determination will result in a price reduction for the average residential customer of about 6%, or over \$60 per year, from 1 July 2005. The network component will generally increase each 1 July thereafter by 1.3% below the annual rate of inflation.
- ▲ For a typical customer using off-peak water heating there will be a \$14 per year reduction in network charges for that service from 1 July 2005.

Further details of each draft price determination are attached.

The Commission has released the AGL Price Path Inquiry Report and the ETSA Distribution Price Determination as drafts, and is seeking comments on those reports by February 2005.

The AGL price determination is to be finalized in mid-December to take effect from 1 January 2005.

ETSA Utilities Draft Price Determination



South Australia's independent economic regulatory authority – regulating energy, ports and rail.

The Essential Services Commission has released a *Draft Price Determination* setting out the distribution pricing regime which it proposes to apply to South Australia's monopoly electricity distribution business, ETSA Utilities, from 1 July 2005 – 30 June 2010.

The Commission's *Draft Price Determination* means that while ETSA Utilities will be funded to spend more on maintaining and improving its network, the financial rate of return on funds invested in the business has been reduced from the current level, leading to overall reductions in the level of distribution charges to South Australian customers.

The Commission is proposing that ETSA Utilities will reduce network charges in real terms, but has at the same time provided for significant funds to replace aging infrastructure, and for the on-going maintenance of and investment in the South Australian electricity distribution system.

Distribution charges represent about 50% of a residential customer's electricity bill.

The average residential customer consumes approximately 5MWh standard electricity and 2MWh off-peak water heating electricity each year.

Price Reductions for Households

The reductions in average network charges arising from the Commission's proposals result in a 12% reduction in network charges for the average customer, which is a cut to the average electricity bill of about 6% or over \$60 (including GST) per year from 1 July 2005.

Households using off-peak hot water will further benefit by a substantial reduction in charges for that service amounting to a \$14 pa reduction.

How the reductions have come about

The proposed distribution price reductions proposed by the Commission are possible because of a combination of factors, including:

- ▲ A reduction by the Commission in the allowed rate of regulatory return on assets from the 8.26% allowed in the period from 2000 to 2005, to 6.81% for the 2005 to 2010 regulatory period;
- ▲ Reallocation of costs between business and residential customers; and
- ▲ Allocation of costs over an increasing demand and customer base.
- ▲ The *Draft Price Determination* strikes an appropriate balance between keeping prices as low as possible and ensuring adequate investment in expanding and upgrading the network.

On-going network investment

In making the *Draft Price Determination*, the Commission has carefully considered the need to ensure on-going investment in the network.

The distribution network must be properly maintained, aging assets must be replaced, and the network must be enhanced to meet both demand growth and community and business expectations of a robust electricity distribution network for the 2005 - 2010 regulatory period and beyond.

To meet these requirements, the Commission's *Draft Price Determination* provides for increases in both capital and operating expenditure over the five-year period, above the levels in the current period.

Based on an assumed 3% p.a. growth in peak demand and a 1.7% p.a. growth in energy sales, a total capital expenditure benchmark of \$723 million (37% higher than current levels but 15% lower than that proposed by ETSA Utilities); and a total operating expenditure benchmark of \$630 million (approximately 22% greater than

operating expenditure in the current regulatory period but 16% lower than that proposed by ETSA Utilities), are proposed by the Commission.

	<i>Capital Expenditure</i>	<i>Operating Expenditure</i>
Current expenditure	\$535 million	\$515 million
ETSA Submission	\$850 million	\$746 million
Commission Draft Decision	\$723 million	\$630 million

The Commission believes its *Draft Price Determination* will enable investment in the network infrastructure for future years while maintaining current supply reliability to customers.

The expenditure benchmarks proposed by the Commission do not dictate the actual amount of expenditure that ETSA Utilities must incur or how ETSA Utilities should direct its expenditure. ETSA Utilities is responsible for managing its daily network operations and it must decide appropriate expenditures to meet its obligations.

New Initiatives and Service Improvements

The Commission has placed a high priority on a number of initiatives to improve the quality and reliability of the distribution services provided by ETSA Utilities:

- ▲ Regional reliability targets for seven regions of the State, to focus regional resources to achieve improvements;
- ▲ A guaranteed service level scheme to compensate customers who experience poor reliability or service, such as supply interruptions of excessive duration or an excessive number of interruptions
- ▲ An innovative demand management programme to trial a variety of methods for reducing electricity demand and encouraging energy efficiency, designed to reduce both network and wholesale electricity costs, thus allowing a reduction in electricity charges to consumers over time;
- ▲ Funding for improved reliability on Kangaroo Island;
- ▲ New arrangements for partial customer funding of network augmentations;
- ▲ Increased funding for safety and environmental initiatives; and
- ▲ Continued funding for undergrounding of powerlines.

Consultation

The Commission has undertaken extensive consultation with ETSA Utilities, the Consumer Advisory Committee, stakeholders and other interested parties and has received a number of written submissions. Comments are now sought on all aspects of the *Draft Price Determination*

Financial viability of the industry

The Commission has been mindful of the need to facilitate the maintenance of a financially viable electricity supply industry. However, electricity distribution is not and should not be, a “high risk, high return business”. The return on investment provided in the *Draft Price Determination* is appropriate for the risk characteristics of a distribution business.

Next steps

Before the Commission makes its final Price Determination in March 2005, ETSA Utilities, consumers and other interested parties are invited to make submissions on the *Draft Price Determination*. Submissions must be received by the Commission by 11 February 2005.

AGL Retail Electricity Price Path

Draft Inquiry Report & Draft Price Determination



South Australia's independent economic regulatory authority – regulating energy, ports and rail.

Following 6 months of extensive research, consultation and deliberations, the Essential Services Commission has released a *Draft Price Determination* on a 3-year price path for standing contract residential and small business customers of AGL SA, together with a draft Report on the Inquiry into a Retail Electricity Price Path.

The *Draft Price Determination* and Draft Inquiry Report are based on a complete and thorough analysis and review of AGL SA's electricity costs as the standing contract retailer.

Customers affected

The *Draft Price Determination* applies to prices that can be charged by AGL SA to residential and small business customers who use less than 160MWh of electricity per year and have not entered a market contract. It relates to nine current tariffs of AGL SA.

Commission investigations and analysis

To establish the Price Path, the Commission examined and made conclusions about the prudent costs for the three key components of AGL SA's controllable costs: wholesale energy costs, retailer operating costs and retail margin. The Commission considered the three-year price path submission put forward by AGL SA in August 2004. It also undertook a detailed review of AGL's actual costs and engaged specialist consultants and auditors to provide it with advice and analysis of AGL's actual wholesale electricity costs and retail operating costs. It released an Issues Paper and a Discussion Paper, and received 20 submissions which it considered in preparing its Draft Inquiry Report and *Draft Price Determination*.

Commission proposed Price Path

Following its extensive analysis and review, the Commission has allowed AGL SA a price increase of about one-third that which AGL SA put forward in its Price Path Proposal. The Commission has, however, set a price which it believes will enable AGL SA to make a satisfactory return on its investment in the retail business.

Residential Customer Impacts

Under the Commission's *Draft Price Determination*, typical residential customers using 5,000kWh a year will pay a small increase of about 2.5% for the retailer component (which is approximately 50% of the customer bill) or approximately a 1.2% increase in the actual bill, from 1 January 2005. This is the first increase in the retailer component of the price since January 2003 and is about 25 cents per week for the average customer. From July 2005 the retailer component will increase annually by CPI minus 1.05%.

The proposed Price Path will provide price certainty for standing contract customers over a three-year period. Over the entire three-year period the retailer component will increase by less than the rate of inflation (as measured by the Consumer Price Index). The allowed price increases result primarily from the cost of wholesale electricity in South Australia.

Next Steps

The Commission will allow a short period of consultation on the *Draft Price Determination*. Submissions need to be received by 15 December 2004 after which the Commission will finalise its views in time for a Final Price Determination to take effect from 1 January 2005.

Submissions on the draft Inquiry Report will be received until 11 February 2005, after which time the Commission will finalise its Report in accordance with the Terms of Reference of the Inquiry.