

Attachment A – Responses to questions on notice

Question 1: What was the return on equity the AER granted and what did the networks ask for? (Mr Conroy)

AER Response:

The AER's 2015 decisions for the NSW and ACT electricity distributors and the NSW gas distributor allowed a return on equity of 7.1% for each distributor. The NSW electricity distributors (AusGrid, Essential Energy and Endeavour Energy) proposed 10.15%; the ACT electricity distributor (ActewAGL) proposed 10.16% and the NSW gas distributor (JGN) proposed 9.87%.

The average return on equity proposed by the businesses was approximately 3% higher than the AER decision.

Question 2: How many times has that \$14,000 cap spot price been reached in Queensland in the last six to 12 months? (Mr Evans)

AER Response:

AEMO operates the market by matching generator supply offers against real time demand every five minutes. The highest price offer needed to meet demand sets the dispatch price. The spot price paid to generators is the average dispatch price over 30 minutes.

The 30-minute spot price did not reach the cap of \$14,000/MWh in Queensland in 2015-2016 nor has it been reached to date in 2016-2017.*

The 5-minute dispatch price reached the cap of \$14,000/MWh in Queensland on 7 occasions in 2015-2016. To date in 2016-2017 it has been reached on 12 occasions.*

Number of occasions the price reached the cap

Spot prices					
	QLD	NSW	VIC	SA	TAS
2015-16 FY (cap \$13800/MWh)	0	0	0	0	0
2016-17 FYTD* cap \$14000/MWh	0	1	0	0	0

Dispatch prices					
	QLD	NSW	VIC	SA	TAS
2015-16 FY (cap \$13800/MWh)	7	3	2	5	0
2016-17 FYTD* cap \$14000/MWh	12	25	0	41	3

Annual volume average spot price (using native demand), \$/MWh

	QLD	NSW	VIC	SA	TAS
2015-16 FY	64.1	54.4	50.11	67.07	97.14
2016-17 FYTD*	104.96	88.43	66.15	124.45	72.76

*As of 29 May 2017.

Question 3: Can you provide more details on where the demand management incentive scheme is up to? (Mr Conroy)

AER Response:

The AER commenced its process to develop a Demand Management Incentive Scheme (Scheme) in June 2016. Since then we have:

- Surveyed all interested stakeholders in July 2016 to understand their expectations and concerns;
- Held an issues day on 20 September 2016 with a broad range of stakeholders including consumer organisations, academic researchers and industry;
- Published a Demand Management Consultation Paper on 4 January 2017. We received 30 submissions in response to the paper; and
- Held an options day with stakeholders on 6 April 2017 and invited supplementary submissions.

The next stage in our process will be a meeting with stakeholders in late June to explain the direction of the draft Scheme and to receive comments. This will be followed by the publication of a draft Scheme in July/August, including an invitation for submissions. We are aiming to publish a final Scheme by the end of the year.

Question 4:

In earlier discussions with Mr Bandt, reference was made to how, with 20 per cent of capital employed for three per cent of the time throughout the year, a billion dollars is not an accurate figure because of the large replacement cost now feeding through. What dollar figure is accurate for how much is being spent now per year on that three per cent of time? (Mr Conroy)

AER Response:

Network utilisation levels vary with demand – within the year and across years. At times of high demand (peak times) networks may be fully utilised in some areas. At times of low demand, for example during the middle of the night, asset utilisation is significantly lower. On average between 2014-15 and 2016-17 approximately 20% of network assets were employed for 3% of the time. Collectively, the total RAB is \$87 billion giving a value of \$17 billion worth of assets being utilised for 3% of the time.

Question 5: Describe the different treatment of capex versus opex, in particular whether they get different returns on equity and, if they do, what are those returns on equity? (Mr Conroy, pages)

AER Response:

Under the building block approach, operating expenditures do not receive a return on equity. The annual efficient opex allowance determined by the AER is included in the revenues allowed to be recovered by a network business on a dollar for dollar basis. Network businesses are then incentivised during the period to look for efficiencies as they retain a proportion of the amount saved. The outturn opex for the regulatory period is then used to establish the base amount for the next regulatory period's opex allowance.

Capex receives a return on equity through the application of the weighted average cost of capital (WACC), whereby the value of the asset base at the start of each year in a regulatory period is multiplied by the WACC for the relevant year to calculate the return on capital that the network business is able to recover from its network customers. The return on equity

component (and the debt component) of the WACC varies for each AER decision for a network business depending on financial market conditions at the time.

Question 6:

You mentioned a figure of \$5 billion capital expenditure on the networks over the past couple of years. Do you have projections of what that will be, going forward? Have the transmission cost increases that we have seen over the last couple years for the consumer plateaued? Will they will flat line, come down, or continue escalating? (Mr Craig Kelly)

AER Response:

Actual capital expenditure (for transmission and distribution networks) has reduced in recent years from around \$8 billion in 2012 to less than \$5 billion in 2016. This downward trend largely reflects lower spending on network augmentation projects in this period. Our current forecasts show a continued fall in capital expenditure in the short to medium term but there are a number of factors which may offset this. An increasing number of asset replacement projects may occur to address asset age and there is potential for one or more high value contingent projects to be triggered.*

We are currently seeing a plateauing of network charges, largely due to lower WACC outcomes. However, we note that network charges will be impacted by the recent Full Federal Court decision and potentially by upcoming Australian Competition Tribunal decisions. We also note that any increase in the WACC, due to changing financial conditions, has the potential to materially impact on network charges.

* Contingent projects are capital projects that due to their uncertain timing or cost are not included in approved forecast capex. They are only included in forecast capex once a specified trigger event has occurred.