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Networks Deliver Lower Charges – But Caution Needed

Australian electricity customers are benefiting as network cost-saving initiatives, lower financing costs and reduced demand pressures flow through in regulatory decisions.

Energy Networks Association Chief Executive Officer, John Bradley, said lower charges across networks would provide significant benefits to small and large customers.

The AER has proposed total funding reductions of around \$6.5 billion across affected network businesses, or over \$100 million per month.

“It’s important to get the balance right - or we run the risk of higher catchup spending and greater price volatility for customers in future.

“The regulatory regime has just been overhauled to provide a clear voice for consumers – yet in many cases, these decisions ignore customer research. In some cases, the decisions may mean service or cost impacts which the AER has not consulted customers about,” Mr Bradley said.

Mr Bradley said networks were passing through significant cost saving opportunities but some funding cuts could put at risk safety, reliability and the long-term efficiency of the network.

“When network charges were last set, it was a perfect storm for high cost outcomes due to the impacts of the Global Financial Crisis on capital markets, the replacement of ageing infrastructure and forecast growth in demand.

“Today, network businesses are delivering savings from reduced financing costs, business efficiency programs, changes in demand growth and the removal of inefficient planning standards in some States,” Mr Bradley said.

Mr Bradley said sustainable network cost reductions were good news for Australian energy customers and would stimulate economic growth but the AER must also look at the customer service impacts of its decisions.

“These decisions reduce operating funding to a level not seen in 10 years in some NSW and ACT businesses.

“Major cuts to operating expenditure across distribution networks will potentially take money directly away from important areas like bushfire risk mitigation, vegetation management, responses to outages and inspections and maintenance.

“The AER has locked in a decision to cut operating funding in NSW and ACT by \$1.8 billion or 24 per cent over the next five years, without clearly demonstrating that adverse impacts on safety, maintenance and outage response times can be avoided.

“In South Australia, the AER’s proposed amendments ignore customer research supporting better vegetation management and bushfire risk mitigation measures in line with Victoria’s response to the Black Saturday fires.”

Mr Bradley said today’s decisions in NSW, ACT and Queensland could force reductions in available field and support staff; impacting the capacity to respond to outages, and undertake efficient maintenance programs.

“Every network business strongly supports the use of economic benchmarking as a tool by regulators, provided the analysis is rigorous and used with caution.

“We remain concerned about how it has been used in the NSW and ACT distribution determinations, as the primary mechanism for setting business critical operating expenses.

"Recent storm and flooding events in NSW demonstrates the essential role of experienced operational staff in managing extreme events with more than 1600 workers deployed into the field to clean up after the storms.

"At the height of the event, 225 000 homes and businesses were without power, with some customers in the most affected areas losing supply for over seven days."

Mr Bradley said while financing costs had fallen substantially since the last regulatory period, the AER had proposed some of the lowest regulatory cost of capital estimates in recent Australian history.

"Businesses and investors alike will be closely reviewing the robustness of the estimates and approaches set out in decisions, which are supposed to realistically reflect the cost of equity to fund long-lived network infrastructure," Mr Bradley said.

The Australian Energy Regulator today released its final decisions on network funding for NSW and ACT electricity distribution and transmission businesses as well as Tasmania's transmission network, and proposed decisions for Queensland and South Australian electricity distribution businesses.

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ENA is the peak national body for Australia's energy networks; and represents gas distribution and electricity network businesses on economic, technical, environment and safety regulation as well as national energy policy issues.