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AER RATE OF RETURN DECISION DISAPPOINTING

A decision by the energy regulator to make material cuts to network returns is not in the long-term interests of consumers, Energy Networks CEO Andrew Dillon said today.

“This is a short-sighted decision that is inconsistent with market evidence and could end up delivering perverse results for customers,” Mr Dillon said.

“Energy users will ultimately be the losers if regulatory settings don’t support financeable outcomes for networks that enable access to low cost capital markets.

“Australia’s network sector now faces lower regulated returns than our peers. Our regulated equity returns for networks used to be comparable to the United Kingdom, the United States and New Zealand. They now resemble those of heavily centralised Eastern European countries with poor reliability.”

Mr Dillon said the decision lacked balance given the distribution and transmission components of power bills had fallen across the country and made up as little as 26 per cent of average bills in some regions. Combined with strong network productivity, it was clear customers were already getting better services from networks at lower cost.

“Capital expenditure on networks is already at decade lows. A lower rate of return isn’t needed to reduce networks’ spending on infrastructure, that’s already happening,” he said.

“This decision will discourage energy networks from investing in the technologies needed to modernise the 20th century grid to accommodate the rapidly increasing amounts of solar and storage that customers want and government policy is driving.

“The Australian Energy Market Operator has forecast that failing to invest in a more connected grid that links states and increases competition, could cost customers up to \$1.2 billion more.

“The Rate of Return decision misses the critical point that a key part of lowering long-term power prices is strategic investment in the grid, increasing the risk that timely investment will not occur.”

Mr Dillon said the regulator’s decision ignored recent surveys of infrastructure investors that warned of rising regulatory risk.

“It is unclear how the strong evidence presented by networks following the draft decision has been taken into account, with some final outcomes not discussed with networks,” he said.

“Energy customers have suffered over the past 20 years from the cost and reliability impacts of political decisions taken with a short-term focus. Today’s decision risks repeating the mistakes of the past.”

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Energy Networks Australia represents Australia’s electricity transmission and distribution networks and gas distribution networks. Our members provide energy to virtually every household and business in Australia.