

AER ISSUES PRELIMINARY DECISIONS FOR VICTORIA

29 October 2015

The Australian Energy Regulator has issued preliminary decisions for AusNet Services (ASX:AST), CitiPower, Powercor, Jemena and United Energy, which are expected to reduce the amount consumers pay for electricity in Victoria. CitiPower and Powercor are part owned by Spark Infrastructure (ASX:SKI). United Energy is part owned by DUET Group (ASX:DUE).

The preliminary decisions will be effective from 1 January 2016 and are expected to lead to savings of between \$27 and \$75 on the average Victorian household's annual electricity bill over the next five years, depending on the distribution network servicing their home and whether the savings are passed on in full by retailers.

"The AER's role is to ensure that consumers pay no more than necessary for the safe and reliable delivery of electricity by setting the maximum overall revenue these monopoly businesses can recover from customers," AER Chair Paula Conboy said.

"This means allowing sufficient revenue for the businesses to augment their networks where necessary, replace assets that have reached the end of their economic life, and invest in information and communication technology to manage the transition to 'smart' networks."

"The AER's goal in regulating the networks is to create incentives for these monopoly businesses to spend efficiently and to share the benefits of efficiency gains with consumers over time," Ms Conboy said.

"The Victorian networks, which contribute between 20 to 37 per cent of an average Victorian household's electricity bill, have already achieved significant efficiencies in line with the regulatory regime. While we found some savings in proposing operating expenditure, the bulk of the savings have come from lower financing costs."

Estimated electricity bill impacts 2016–20:

| Network business | Business revenue proposal | AER preliminary decision | Network revenue percentage difference | Expected total bill reduction for average households over 2016–20 |
|------------------------|---------------------------|--------------------------|---------------------------------------|---|
| AusNet Services | \$3566 million | \$2878 million | - 19.3 per cent | \$27 |
| CitiPower | \$1716 million | \$1413 million | - 17.6 per cent | \$30 |
| Jemena | \$1409 million | \$1163 million | - 17.5 per cent | \$75 |
| Powercor | \$3653 million | \$3086 million | - 15.5 per cent | \$42 |
| United Energy | \$2315 million | \$1832 million | - 20.9 per cent | \$46 |

Note: (\$ Nominal)

Our preliminary decisions reflect a number of factors that impact on the Victorian distribution businesses' underlying costs, in particular:

- an improved investment environment with significantly lower interest rates compared to previous years, which translates to lower financing costs necessary to attract efficient investment
- forecast flat demand for electricity going forward, which means less pressure on the Victorian businesses to expand the capacity of their networks compared to previous periods.

In addition to the reductions in network charges, our preliminary decisions will reduce annual metering charges by 15 to 40 per cent in 2016. This reflects the completion of the rollout of 'smart meters' in Victoria, which means consumers are now largely paying for the business-as-usual costs of maintaining the metering infrastructure.

The AER is now seeking feedback on whether the preliminary decisions have struck the right balance between keeping prices as low as possible, while enabling continued investment of \$5.3 billion in the Victorian distribution networks. Feedback will be considered before the final decisions are made in April 2016, to lock-in new network charges from January 2017 until 2020.

The preliminary decisions have been developed in consultation with stakeholders and the AER's Consumer Challenge Panel. Further consultation will commence immediately.

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Further information is available at www.aer.gov.au