

2014 NETWORK PRICE DETERMINATION – FINAL DETERMINATION FACT SHEET

On 24 April 2014, the Utilities Commission (Commission) released its Final Determination for the network charges able to be levied by Power and Water Corporation (PWC) Networks for the five-year regulatory control period commencing 1 July 2014.

Why is there a Determination?

Network charges relate to the transmission and distribution of electricity to customers. Network charges are paid by network users (mostly electricity retailers, including PWC Retail) to PWC Networks and represent only one component of bundled retail electricity prices, which also include generation, system operation and retailer charges.

Due to the natural monopoly characteristics of electricity networks, network charges are regulated in all Australian jurisdictions. In the Territory, these charges are regulated by the Commission in accordance with Territory legislation, including the *Electricity Networks (Third Party Access) Act*.

The Commission is required by legislation to make a Network Price Determination every five years. This is the fourth regulatory control period for which the Commission has made such a Determination.

How was the Determination made?

The Final Determination is the culmination of an extensive two-year review process including consultation with stakeholder groups and assessment of detailed regulatory proposals provided by PWC Networks. A Draft Determination was released for consultation in December 2013.

In making the Final Determination, the Commission sought technical advice on a number of key aspects including PWC Network's demand forecasts, proposed capital expenditure and proposed operating and maintenance expenditure.

The Commission's Final Determination is based on an assessment of the efficient costs required to operate PWC's electricity network over the next regulatory control period to meet specified standards of service and increasing electricity demands, together with an appropriate rate of return on the network assets. These principles are consistent with those applied to other network service providers in other jurisdictions. The Commission has also considered the processes and procedures applied by the Australian Energy Regulator in the National Electricity Market.

What is the Final Determination?

The Commission has determined that the maximum total revenue to be earned by PWC Networks for standard network control services across the five year regulatory control period commencing 1 July 2014 is \$1 034 million (nominal). This is about \$196 million less than the amount sought by PWC Networks in its initial regulatory proposal of September 2013 and \$181 million less than the amount sought by PWC Networks in its revised regulatory proposal of January 2014.

The Commission's Final Determination provides PWC Networks with operating expenditure at a similar level to its actual expenditure in the current regulatory control period (2009 to 2014), recognising the step change that has occurred since 2009 with PWC moving to a more robust, condition-based preventative maintenance program, but it provides little further real increase.



The Commission has established a revenue path across the five year regulatory control period that is consistent with the approved total revenue amount. Under the revenue path, PWC Networks' allowed revenue increases by 29.8 per cent in real terms in 2014-15 compared to the previous year.

The Commission has also established pricing principles and price controls to be applied by PWC Networks in the development of its annual network tariffs that match the revenue caps approved by the Commission. The Commission has also approved procedures to be used by PWC Networks in the determination of charges for network extensions and augmentations.

What are reasons for the increase in revenue?

Key factors driving the increase in allowed revenue across the next regulatory control period commencing 1 July 2014 compared to the previous period include an allowance for increased operating and maintenance expenditure and an increase in the allowable depreciation expense.

In 2009, it was found that PWC did not have systems and processes in place to collect and analyse the necessary information to allow it to appropriately manage and maintain its network assets. During the previous regulatory control period, PWC moved from a 'run-to-fail' asset management regime to a condition-based asset management regime with increased focus on condition monitoring and preventative maintenance.

Included in the maximum total revenue is an amount of \$42 million approved by the Commission in May 2013 for remedial capital, operating and maintenance expenditure (already incurred by PWC Networks) associated with moving toward a more robust condition-based maintenance program.

What will the impact be for customers?

The customer impact of the Commission's Final Determination depends on the manner in which those charges are reflected in retail electricity bills paid by customers.

Retail tariffs for residential and small to medium-sized customers consuming less than 750 MWh of electricity per annum are regulated through a Pricing Order (made by the Government) that specifies the maximum amount PWC Retail is able to charge these categories of customers. A change to network charges as a result of the Commission's Final Determination will have no impact on the retail bills of these customers.

For commercial customers on negotiated retail contracts (consuming more than 750 MWh per annum), the impact of network charge variations on retail bills will depend on the terms of the contract between each such customer and its retailer. For retail customers using between 750 MWh and 2 GWh per annum, there is currently a Government Pricing Order in place that limits the rate at which PWC Retail can increase an individual retail customer's retail price.

Does the Final Determination relate to the Government's proposed splitting of PWC?

No. The Determination relates to PWC Networks as the network service provider. The Government's proposed structural separation of PWC relates to the generation and retail business units of PWC. Any costs associated with the structural separation of generation and retail business units are not related to the provision of network services.

Further Information

The Commission's Final Determination and related documents can be downloaded from the Commission's website at www.utilicom.nt.gov.au or by contacting the Commission office on +61 8 8999 5480 or utilities.commission@nt.gov.au.