

Overview of Final Decision on Electricity Distribution Prices

Overview of the Price Review process

October 2004

- 5 Victorian electricity distribution businesses submitted detailed price-service proposals to the Commission — AGLE, CitiPower, Powercor, SP AusNet and United Energy.
- Price-service proposals outlined key outcomes to be delivered over the five year period commencing 1 January 2006, the required revenue and resulting prices.
- Real price changes originally proposed by the businesses ranged from an increase of 7.8 per cent in 2006 with a 1 per cent increase per annum thereafter, to a decrease of 9.5 per cent in 2006 with a 1 per cent decrease per annum thereafter.

June 2005

- ESC released its Draft Decision about prices to apply for the five years from 1 January 2006.
- Draft Decision followed an extensive period of analysis and consultation, including advice from technical consultants, consultation papers, public submissions and public information sessions.
- Real price changes varied from a decrease of 14.0 per cent to 25.5 per cent in 2006 with annual decreases of 0.8 per cent to 2.1 per cent per annum thereafter.

October 2005

- ESC released its Final Decision about prices to apply for the five years from 1 January 2006.
- Final Decision incorporated additional analysis in response to submissions to the Draft Decision.
- Real price changes will vary from a decrease of 3.1 per cent to 16.4 per cent in 2006 with annual decreases of 0.8 per cent to 1.5 per cent thereafter.

Comparison of average annual real price reductions: 2006 to 2010 (per cent)

	Prescribed services (DUoS and metering)	
	2006	2007-10
AGLE	3.1	1.2
CitiPower	7.7	1.5
Powercor	16.4	1.1
SP AusNet	7.8	0.8
United Energy	15.6	1.4

Why are real prices reducing?

- Tariff revenue for the 2001-04 period exceeded the benchmark level, resulting in lower prices for the 2006-10 period.
- Operating and capital expenditure during the 2001-04 period has been less than the benchmark level – customers will now benefit from this lower level of spending.
- Real interest rates are lower than they were at the time of the 2001-05 price determination.

Why will the price reductions be greater than proposed by the businesses?

- Energy consumption and customer number growth is forecast to be in line with that experienced in recent years, which is higher than proposed by the businesses, resulting in lower prices.
- Businesses have achieved efficiencies in the current period. Operating and capital expenditure is lower than proposed by the businesses, but represent real increases of 35 and 43 per cent respectively over the level of expenditure for the 2001-05 period.¹
- A lower rate of return on assets that reflects financial market conditions. Businesses will earn a real after tax return of 5.9 per cent compared to their original price-service proposals ranging from 6.7 per cent to 7.3 per cent.
- Distributors have benefited from favourable economic and operating conditions during the current period. These benefits are being passed through to customers during the next period as required by legislation.

Why are the price reductions less than the Draft Decision?

- Energy consumption and customer numbers are forecast to be lower than the Draft Decision based on further information received since the Draft Decision.
- Adjustment to the calculation of the impact of growth on operating and maintenance expenditure.
- Finalisation of the Commission’s approach to the treatment of the distributors’ contractual arrangements.

Will the businesses deliver with lower prices?

- Incentives for businesses to improve service delivery have been strengthened.
- Fact Sheet 3 provides information regarding the payments that will be made to customers where guaranteed service levels are not met.
- The prices are consistent with the expenditure estimated to be required to provide the services – higher prices would provide no further certainty that services will be delivered.

What impact will this have on my household bill?

- The distribution charges are not separately itemised on the bills of household customers but represent around 40 per cent of an average household bill and less for larger customers.
- The impact of the price reductions on a household customer’s bill will depend on the customer’s retailer and how that retailer passes through the reductions.
- The price reductions are average reductions – the actual reduction applying to a specific customer may vary.

Estimate of an indicative reduction in an average household bill of \$800 (per annum)

	Reduction in 2006
AGLE	\$10
CitiPower	\$25
Powercor	\$53
SP AusNet	\$25
United Energy	\$50

Note: The reductions assume that the average price reduction is applied to each of the tariffs, that the distribution charges comprise 40 per cent of the household bill, and there is no impact associated with the service incentive arrangements.

¹ Assumes that in 2005 gross capex is the average of 2001-04 and opex is as per the forecast for 2005 in the Final Decision.

