

26 May 2016

## **AER's final determination on United Energy's 2016-2020 regulatory proposal**

United Energy notes the Australian Energy Regulator's (AER) final determination on its 2016-20 regulatory proposal.

The AER's final determination will see a 14% increase in total allowable revenue compared to its draft decision.

Despite increases in the cost of distribution network services, customers will be better off as a result of reduced smart metering costs and are already benefiting from a price cut in 2016.

United Energy's customers will pay approximately \$33 less for total electricity distribution network charges at the end of the current regulatory period (2020) than they paid in 2015.

United Energy Chief Executive Officer, Tony Narvaez said that while he was pleased the AER had agreed with the case put forward for additional revenue in some areas, he was disappointed by certain aspects of the final determination.

"The final determination falls short of allowing adequate expenditure to deal with the issue of ageing assets on our network, which increase the risk of equipment failure and may lead to a less reliable service.

"Our proposal set out a prudent investment plan to maintain a network to match the needs and expectations of our community. We remain concerned that the cuts may compromise our ability to manage the issue of ageing infrastructure over the remainder of the regulatory period," he said.

Consistent with its preliminary determination, the AER has applied a figure of 0.4 to the valuation of taxation credits (gamma) in preference to United Energy's proposal of 0.25. In doing so, the AER has rejected the Australian Competition Tribunal's (ACT) recent decision on the matter.

United Energy will work through the detail of the AER's final determination to decide whether it intends to lodge an appeal to the ACT.

### **Media enquiries:**

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# 2016-2020 EDPR Final AER Decision (Nominal)



## AER Proposed Revenue Building Block Summary

(\$m nominal)	AER Draft Decision	UE Revised Proposal	AER Final Decision	% Change Draft – Final
Return on capital	701.0	1,000.9	746.9	6.5%
Reg Depreciation	315.4	463.3	421.9	33.7%
Operating Expenditure <sup>1</sup>	711.2	830.4	779.1	9.6%
Revenue adjustments (EBSS and shared assets)	28.9	38.0	40.8	41.2%
Tax allowance	84.6	184.4	112.7	33.3%
<b>Total Revenue (unsmoothed)<sup>1</sup></b>	<b>1,841.2</b>	<b>2,517.1</b>	<b>2,101.3</b>	<b>14.1%</b>

## Expected Revenue (smoothed)

(\$m nominal)	AER Draft Decision	UE Revised Proposal	AER Final Decision	% Change Draft – Final
Total revenue	1,832.3	2,551.2	2,106.1	14.9%

## AER Proposed Tariff Path

	2016	2017	2018	2019	2020
Draft Decision	CPI – 8.72%	CPI – 8.72%	CPI – 0%	CPI – 0%	CPI – 0%
Final Decision	CPI – 8.72%	CPI + 4.21%	CPI + 3.50%	CPI + 3.50%	CPI – 0%

## WACC Parameters

	AER Draft Decision	UE Revised Proposal	AER Final Decision
Rf – equity only	2.76%	2.94%	2.94%
Implied DRP	2.58%	4.86%	2.68%
Equity Beta	0.7	0.91	0.7
MRP	6.50%	7.80%	6.50%
Gamma	0.4	0.25	0.4
Gearing	60%	60%	60%
Nominal Vanilla WACC	6.12%	8.70%	6.37%
Post tax Nominal ROE	7.30%	10.05%	7.50%

## Capital Expenditure

(\$m nominal)	AER Draft Decision	UE Revised Proposal	AER Final Decision	% Change Draft – Final
Augmentation	132.3	130.8	131.9	(0.3%)
Connections	263.1	336.6	339.8	29.1%
Replacement	436.4	598.1	475.5	9.0%
Non-Network General	143.4	194.7	179.6	25.2%
<b>Total gross capex</b>	<b>975.3</b>	<b>1,260.2</b>	<b>1,126.7</b>	<b>15.5%</b>
Less customer contributions	98.6	145.0	146.4	48.5%
<b>Total Net capex</b>	<b>876.7</b>	<b>1,115.2</b>	<b>980.3</b>	<b>11.8%</b>

1. For the Final Decision the AER has included approximately \$55m in operating expenditure that has been transferred across from metering expenditure. Therefore this is a reallocation and not a net increase in allowed revenues.