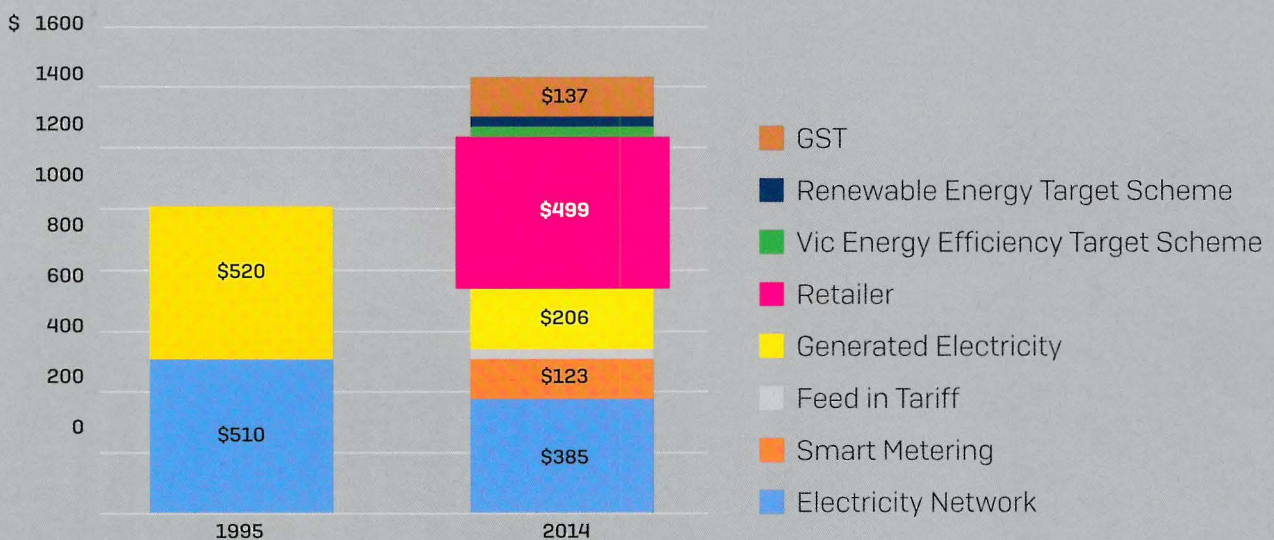


# ELECTRICITY PRICES

## Skyrocketing electricity prices – where does your money go?<sup>1</sup>

- ✘ Retail costs have gone from 0% of your bill in 1995 to approximately 40%, or \$499 a year<sup>2</sup>.
- ✘ Retailers buy wholesale electricity, sell it to customers at retail prices and send you the bills.
- ✘ In 2009 Victoria removed any cap on the electricity retail prices that companies can charge customers.
- ✘ "There has been a massive jump in electricity bills in Victoria, with retailers charging more than triple what they were six years ago"<sup>3</sup>.
- ✘ Retail price regulation remains a state government responsibility.

**Composition of Average Household Electricity Bill 1995 and 2014 (in 2014 \$)**



**Retail charges rise of 212% since 2008 "is just totally unacceptable,"**

Former Deputy Premier John Thwaites.

<sup>1</sup>Oakley Greenwood, Causes of residential electricity bill changes in Victoria, 1995 to 2014. <sup>2</sup>Causes of residential electricity bill changes in Victoria, 1995 to 2014. <sup>3</sup>Carbon and Energy Markets Report, 2015. "Former Deputy Premier John Thwaites, ABC Radio AM July 7, 2015

Continued overleaf



# ELECTRICITY PRICES

## Where does the third of your bill paid to Electricity Distribution Businesses go ?

Distribution Businesses spend only approximately 35% of customer revenue on operations and maintenance.

That is less than the proportion of customers' bills that Distribution Businesses use to pay interest on the large debts they have over their assets.



AusNet Services project that by 2020, approximately 45% of customer revenue will be used to pay interest on debt they have over their Victorian network<sup>1</sup>.



\$ 1 million a year of Victorian customers' bills have been paid by SP Ausnet to their parent company, Singapore Power, for the use of their logo.

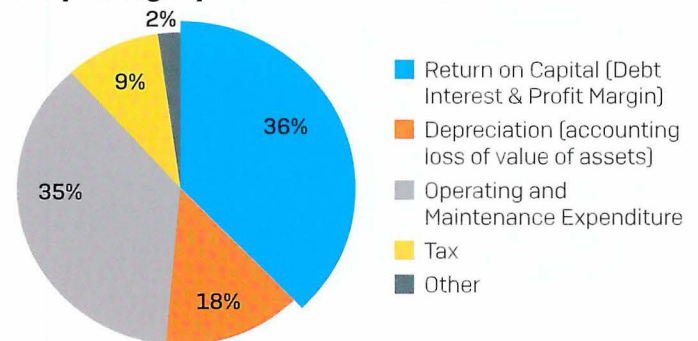


The rules and regulations Victoria has agreed to under the National Energy Market (NEM) allow the Distribution to have high debt and charge interest of up to 9.7% on to customers.

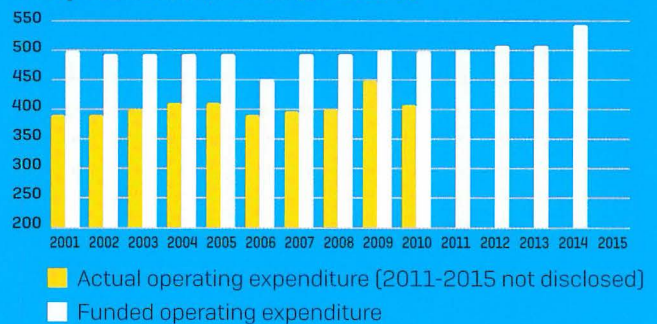


Notably the Australian Energy Regulator (AER) also allows Distribution Businesses to pass on the cost of fire insurance to customers, so Distribution Businesses have no financial incentive to reduce fire starts from the assets they own.

### Network Distributors' expenses 2016 % by category



### Distributors under-spend of revenue on operations. \$ Million (in 2010 \$)



<sup>1</sup>AusNet services 2015 'unsmoothed revenue requirement' aer pricing proposal 2015

On average, Distribution Businesses have spent approximately 20% less, or \$100 million less a year on operations and maintenance, than they have been funded to provide.

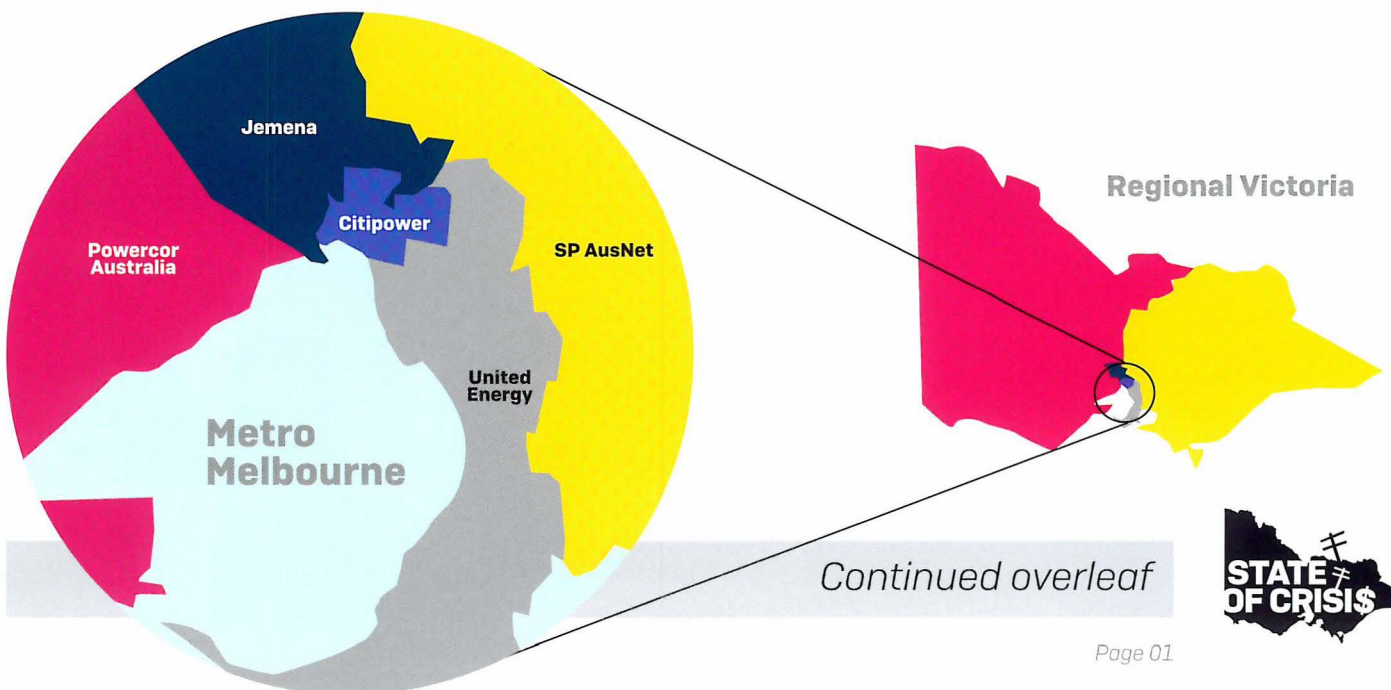


# ELECTRICITY COMPANIES

## Who are Victoria's network Distribution Businesses?

Four of the five Distribution Businesses in Victoria are majority owned by foreign entities. The majority of Victoria's Distribution assets are owned by the Singapore and Chinese governments.

Distribution Business	Customer Numbers	Line Length Km	Vic Network Asset Value	Majority Ownership	Parent Owner
<b>Powercor</b>	765,241	74,181	\$3.1 billion	Cheung Kong Infrastructure/ Power Assets 51% & Spark Infrastructure 49%	Cheung Kong Group of companies 51%, ASX Listed 49%
<b>AusNet Services Formerly SP Ausnet</b>	685,194	44,842	\$3.1 billion	Singapore Power 31% State Grid Corporation 20%	Singapore & Chinese Governments combined 51%
<b>CitiPower</b>	325,917	4,481	\$1.9 billion	Cheung Kong Infrastructure/ Power Assets 51% & Spark Infrastructure 49%	Cheung Kong Group of companies 51%, ASX Listed 49%
<b>United Energy</b>	658,453	12,842	\$1.7 billion	DUET GROUP 66% & JEMENA 34%	Singapore & Chinese Governments combined 34%, ASX Listed 66%
<b>Jemena</b>	318,429	6,161	\$1.1 billion	Singapore Power 60% State Grid Corporation 40%	Chinese Government 60% Singapore Government 40%



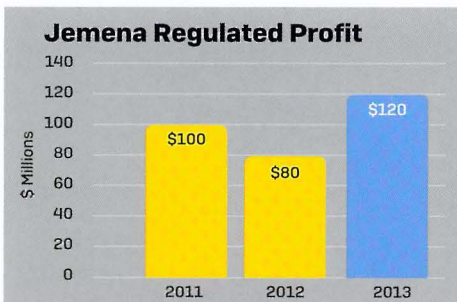
# ELECTRICITY COMPANIES

## How Distribution Businesses operate and profit

The regulations allow Victorian Distribution Businesses to project operating costs over 5 years, which the regulator uses to increase tariffs to customers:

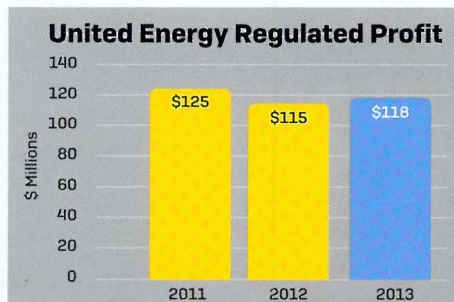
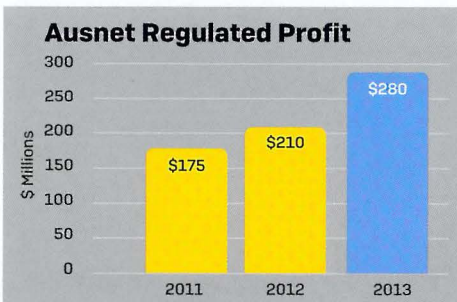
- The Distributors are then allowed to keep as profits amounts not spent over those 5 years.
- On average, historically Victorian Distribution Businesses have under-spent on operations by about 20%, or \$100 million a year combined.
- The Victorian Distribution Businesses annual under-expenditure is no longer reported to the Victorian public.

### Distributors' profits from core regulated Distribution Services, Victoria 2011- 2013



The combined profit from regulated distribution services for Victorian Distribution Businesses in 2013 was \$873,000,000.

This represents operating profit margins of between 26% and 56%.



Notably, the Australian Tax Office reported last year that CitiPower and Powercor, **despite making an income of \$1.4 billion dollars, paid no tax in Australia. Likewise SP Ausnet and Jemena made over \$1.3 billion, and paid no tax.**

**Profit Margin as % of Total Revenue**  
Core distribution services 2011 - 13

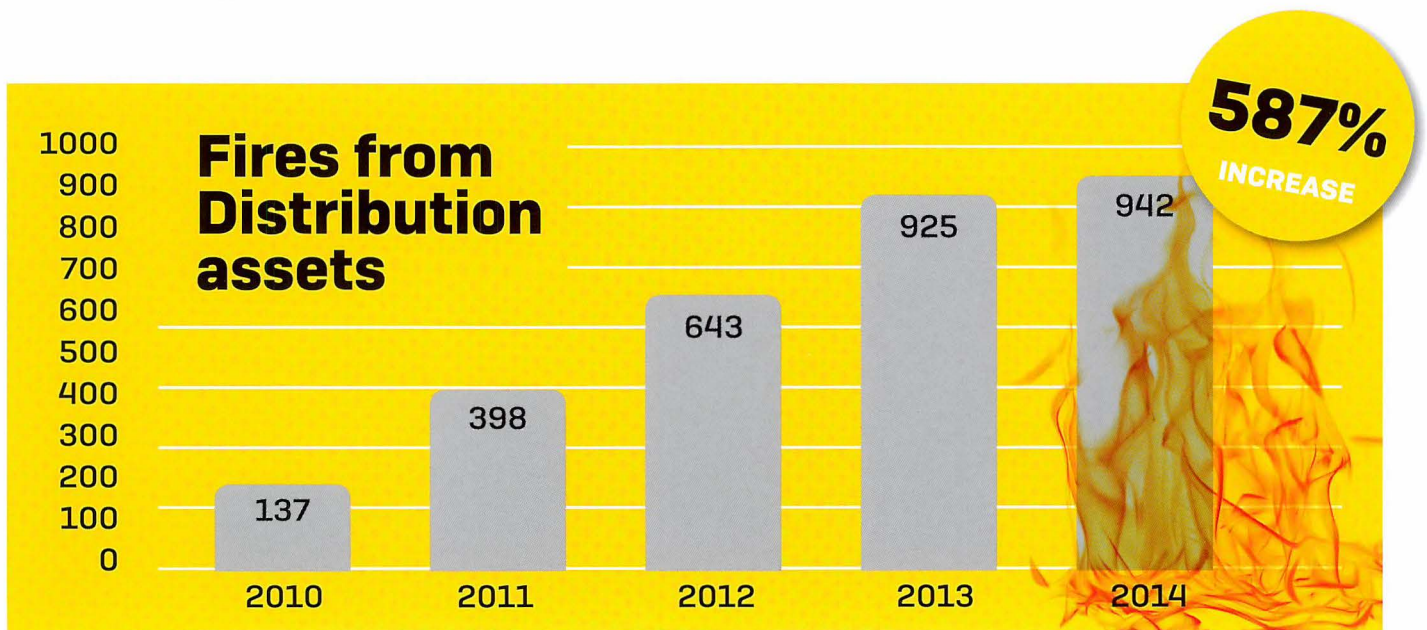
Company	Profit Margin (%)
SP Ausnet	0.38
Citipower	0.58
Jemena	0.35
Powercor	0.32
United Energy	0.26



# DECADES OF NEGLIGENCE

## The consequences of decades of under-expenditure on the network

There is no shortage of evidence of the consequences of Distribution Businesses under-expenditure on the distribution network. Age and fault-related fire starts are the most evident.<sup>1</sup>



### Assets approaching rapidly increasing failure rates

"Electricity assets can be expected to demonstrate rapidly increasing failure rates as they near the end of their service life, while much of the current asset base is approaching this point in its lifecycle".<sup>2</sup>

"SP AusNet's 25% increase in fires due to High Voltage fuse failures in 2014 'is worrying'"<sup>3</sup>

### Increase pole & crossarm fires

"There has been an increase in pole and crossarm fires over the last four years. There were no pole and crossarm

fires in 2011 and now they account for 39 % of all fires.

"CitiPower has not explained the increase in pole and crossarm fires, which is emerging as a significant asset management issue."<sup>4</sup>

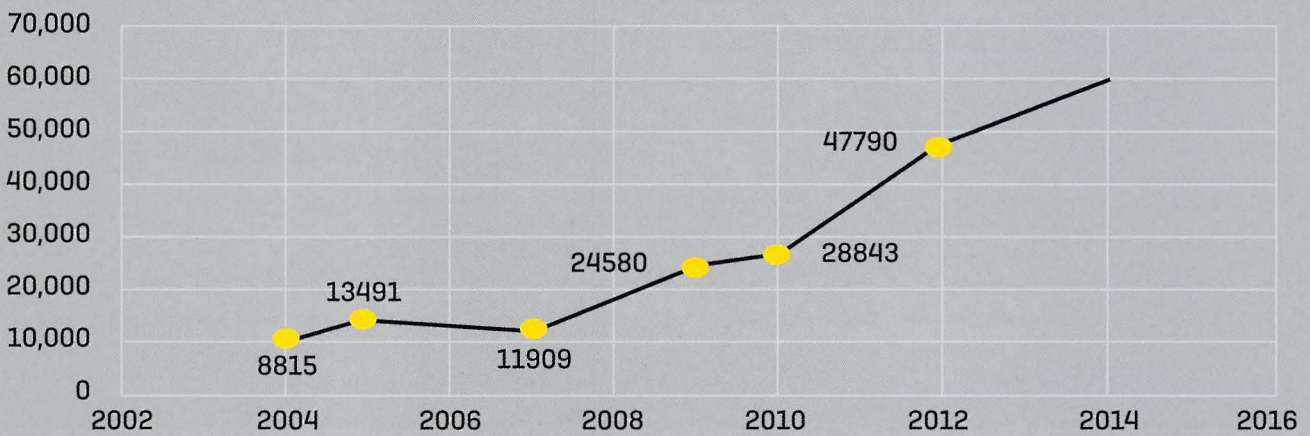
### Statistically significant trends in Victoria:

- in the increase in average minutes of outages per customer of 10 minutes per year in Victoria, and
- in average durations per outage<sup>5</sup>

<sup>1</sup>Reference: Energy Safe Victoria Annual 'Safety Performance Report on Victorian Electricity Network' 2012- 2015. <sup>2</sup>Energy Safe Victoria, by Jaguar Consulting 2013. <sup>3</sup>Energy Safe Victoria, 2015. <sup>4</sup>Energy Safe Victoria, 2015. <sup>5</sup>Energy Safe Victoria | Safety Performance Report on Victorian Electricity Networks 2014 (July 2015). <sup>5</sup>Productivity Commission, Electricity Network Regulation, Inquiry report, 2013.

# COMPLAINTS SKYROCKET

**Total Electricity Complaints to Ombudsman\***



Energy Safe Victoria's "concern that aspects of current asset management practice may be placing network reliability at risk in the longer term as assets age and require replacement in substantial numbers in the future". 2015

**57% INCREASE**  
for Low Voltage Asset failures

**44% INCREASE**  
for Conductor and High Voltage Ties

**33% INCREASE**  
for High Voltage Injections

**Failure rates skyrocket**



\*Source: Energy, Water Ombudsman of Victoria, Annual Reports 2000 - 2015.  
[www.ewov.com.au/publications-and-media/2015-annual-report/annual-report-archive](http://www.ewov.com.au/publications-and-media/2015-annual-report/annual-report-archive)

# SELF REGULATION

Victoria is the only region in Australia, possibly the world, that has no technical regulator or regulated standards or requirements for the quality, condition, age or operational procedures for its distribution network.

Victorian Distribution Sector regulations almost exclusively require Distribution Businesses to adhere only to the standards that they set and alter themselves.

Victoria has an Energy Safe Regulator (ESV) that has been overseeing the decline in asset condition and increase in faults and fires, without imposing or enforcing any penalties for frequent, material under performance and non compliance.

## Black Saturday Royal Commission Final Report

"The Commission considers that now is the time to start replacing the ageing electricity infrastructure and to make major changes to its operation and management.

In view of the size of Victoria's electricity distribution network, any replacement program will take years to complete even if it begins immediately.

The Commission considers that Energy Safe Victoria needs to take a more proactive role as the electricity industry safety regulator."<sup>1</sup>

## Energy Safe Victoria safety report

"ESV has no substantive data on the age of the assets of the major electricity companies

ESV concern is that aspects of current asset management practice may be placing network reliability at risk in the longer term as assets age and require replacement in substantial numbers in the future.

ESV currently has almost no visibility of the potential impact of asset management practice on the network.<sup>3</sup>

## Hidden decision to end reliable electricity for Victorians

Since 2014 the State Government has been participating in a largely hidden processes, that concluded that Victorians would welcome more unreliable electricity supply and a less sustainable network.

The ideological justification for the reforms is to replace electricity reliability for all Victorian households and businesses, to one of 'consumer choice'.

## Value of Customer Reliability (VCR)

The regulators concluded the Customer 'Value of Reliability' (VCR) of electricity for Victorians has halved since 2008, and that Victorians value reliability less than all other Australians.

The new VCR is being used to reduce requirements for distribution and transmission businesses to invest in maintaining and augmenting the networks for reliable supply and a sustainable network.

*The Victorian Essential Services Commission found Victorians experienced an average 6 outages a year, but there is a 'long tail' of customers who experience substantially more. ESC 2015*

"As a result of the significant reduction in the VCR, many projects required to maintain current network performance will not proceed.

As a result, customers will gradually receive a lower level of network reliability performance. This outcome is a fair reflection of the lower value that customers place on reliability as indicated by the reductions in the VCR."<sup>2</sup>

## Hidden decision to hike peak prices and cut off power

Time of use retail marketing plans were introduced in Victoria several years ago.

The Essential Services Commission found that customers on time of use plans paid approximately \$1,000 a year more than customers who didn't. (2013)

There is further decreased value to 'time of use pricing' since electricity retailers have been increasing the fixed charge in bills up to 40%.<sup>4</sup>

Now the regulators have introduced rules to enable a "critical peak surcharge of up to \$47 per kilowatt hour". The average price paid by households at the moment is about 30c/kWh.

The objective is to stop people using power when it is most in demand, like heatwaves, instead of providing a network which can carry peak loads safely: unless customers pay exorbitant, exploitative peak margins.

<sup>1</sup>Black Saturday Royal Commission Final Report - Summary, 2010 Energy Safe Victoria, Safety Performance Report On Victorian Electricity Network 2014. <sup>2</sup>Powercor 2016-2020 AER Price Reset Service target performance incentive scheme, 2015.

<sup>3</sup>Energy Safe Victoria, Safety Performance Report On Victorian Electricity Network 2014, June 2015.

<sup>4</sup>Carbon & Energy Markets 2015