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Network Value Write Downs a Risk for Consumers

New research indicates electricity consumers would face higher - not lower – network charges under proposals to write down the regulatory value of network assets.

The Energy Network Association (ENA) today released the paper [*Written-Down Value? – Assessing Proposals for Electricity Network Asset Write Downs*](#) by Executive Director, Economic Regulation Garth Crawford.

ENA Chief Executive Officer, John Bradley said the research was the first economic analysis assessing recent calls to expose network owners to large retrospective regulatory asset write-downs.

“The analysis shows that, rather than saving money, consumers could pay over \$320 million more per year if network investors faced new risks of write-downs.

“Calls for asset write-downs may seem appealing but this analysis shows it would increase networks financing costs substantially offsetting any other savings for consumers,” Mr Bradley said.

Mr Bradley said the analysis of multiple scenarios found even extremely large asset write downs would not achieve price reductions for consumers, who would pay higher bills in all scenarios.

“Asset write downs could drive the cost of financing to levels not seen since the GFC. This cost increase would outweigh any savings to consumers intended from a lower asset base and lower depreciation charges.

“Over the past two decades, regulators and policy makers have sought to provide certainty for investors and a low risk environment because it lowers costs to consumers.

“If this low-risk environment is lost, Australia could ruin its hard-won reputation with investors for regulatory predictability without delivering lower electricity bill outcomes for customers,” Mr Bradley said.

Mr Bradley said the analysis was conservative and did not factor in the potential for investors requiring a sovereign risk premium if the current regulatory regime is retrospectively abandoned.

“The research paper conservatively estimates that electricity network charges could increase by up to 7% based on current network investments. The cost of future network investment could represent an additional cost of up to \$1.8 billion over the next decade.

Mr Bradley said that other key outcomes of the analysis were;

- write-downs would reverse existing downward pressures on the cost of capital and network prices;
- by increasing prices to customers, write-downs would be likely to increase, not lower, any risk of a utility death-spiral’;
- a relatively small increase of 0.5% in financing costs is enough to completely offset any benefits of lower asset values after a write-down.

Mr Bradley said Australia’s regulatory framework already provides strong incentives for network businesses to apply the best possible forecasting and avoid over investment.

“If network businesses are overspending against capital expenditure forecasts they already face the risk of write-downs and independent reviews have previously found no evidence of deliberate over-forecasting.”

Mr Bradley said that while there was likely to be a need for the regulatory system to evolve over time to embrace new technologies and challenges, it was important for both policy makers and stakeholders to assess evidence of the consequences of making of making poor choices.

“This work shows that consumers have a direct interest in maintaining investor confidence in an independent regulatory regime which supports efficient investment in significant infrastructure,” Mr Bradley said.

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Note: Three scenarios were examined, ranging from propositions that would be the equivalent of setting the entire value of electricity distribution network assets across South Australia, Tasmania and the ACT to zero (**Scenario A**), the economic equivalent of instantaneously stranding the entire value of electricity distribution network assets across both Victoria and Tasmania (**Scenario B**) and economic equivalent to setting the economic value of every electricity transmission network asset across the National Electricity Market to zero. (**Scenario C**).

FIGURE 1: IMPACTS OF ASSET WRITE-DOWNS ON REVENUE REQUIREMENTS OF ELECTRICITY NETWORKS

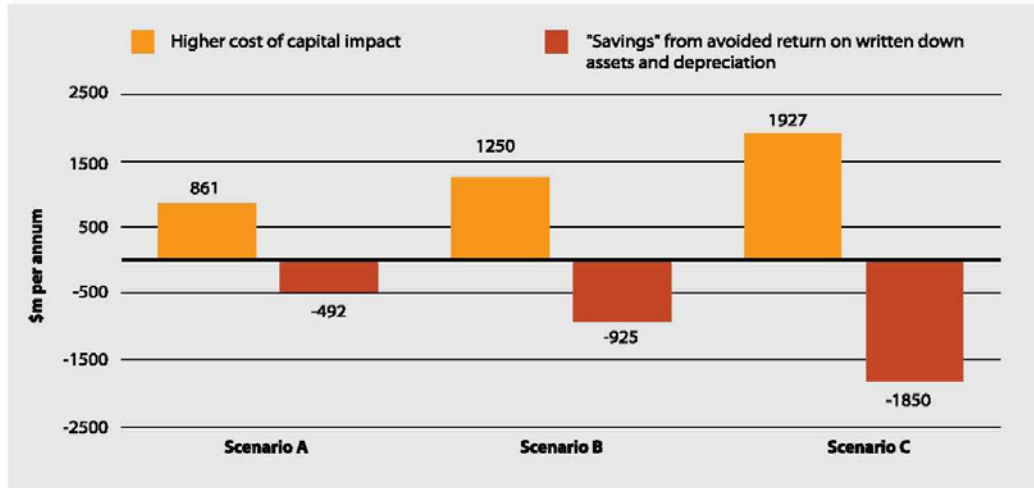


FIGURE 2: ESTIMATED FIRST YEAR ELECTRICITY BILL IMPACTS – MEDIAN AUSTRALIAN HOUSEHOLD

