

Draft Decision

Evoenergy

Electricity Distribution

Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 1

Annual revenue requirement

September 2023

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1 Annual revenue requirement

This attachment sets out our draft decision on Evoenergy's annual revenue requirement (ARR) and expected revenues for the provision of standard control services (SCS) over the 2024–29 regulatory control period for its distribution and transmission (dual function assets) networks. Evoenergy's dual function assets are high voltage assets which support the broader ACT/NSW transmission network owned and operated by Transgrid. The AER has decided to continue applying transmission pricing to these assets.¹

Specifically, we set out our draft decision on:²

- the ARRs (unsmoothed), which are the sum of annual building block costs
- the total revenue requirement, which is the sum of the ARRs
- the annual expected revenues (smoothed)
- the X factors.

We determine Evoenergy's ARR using a building block approach. We determine the X factors by smoothing the ARR over the 2024–29 period. The X factor is used in the CPI–X methodology to determine the annual expected revenue (smoothed).

1.1 Draft decision

For the 2024–29 period, we determine total ARRs of \$876.5 million and \$165.8 million (\$ nominal, unsmoothed) for Evoenergy's distribution and transmission networks respectively. These amounts reflect our draft decision on the various building block costs and represent reductions of \$31.5 million (3.5%) and \$3.9 million (2.3%) to Evoenergy's proposed total ARRs of \$907.9 million and \$169.7 million for its distribution and transmission networks respectively. The reductions in total revenues are largely driven by the lower forecast operating expenditure (opex) building block determined in this draft decision, which have been partially offset by increases to other building blocks such as return on capital, cost of corporate income tax and revenue adjustments.

We determine the annual expected revenue (smoothed) and X factor for each regulatory year of the 2024–29 period by smoothing the ARR. For the 2024–29 period, our draft decision is to approve total expected revenues of \$877.8 million and \$166.0 million (\$ nominal, smoothed) for Evoenergy's distribution and transmission networks respectively.

At the time of making this draft decision, we have used placeholder values for certain components such as the rate of return and expected inflation. We will make further updates for these values as part of our final decision. It is for this reason that we expect the total expected revenues approved in our final decision to be different to this draft decision.

¹ AER, *Framework and approach: Evoenergy (ACT), Regulatory control period commencing 1 July 2024*, July 2022, p. 49.

² NER, cl. 6.3.2(a)(1), 6.5.9(a) and 6.5.9(b)(1)–(2).

Table 1.1 and Table 1.2 set out our draft decision on the building block costs, the ARR, annual expected revenue and X factor for the 2024–29 period for Evoenergy’s distribution and transmission networks respectively.

Table 1.1 AER's draft decision on Evoenergy's ARR, annual expected revenue and

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Return on capital	54.7	57.4	59.2	62.3	65.6	299.0
Regulatory depreciation ^a	50.4	56.9	50.1	53.0	43.6	253.9
Operating expenditure ^b	60.5	61.1	61.5	62.1	62.5	307.8
Revenue adjustments ^c	0.8	0.9	0.9	0.9	0.9	4.5
Cost of corporate income tax	2.2	3.1	2.1	2.5	1.5	11.3
Annual revenue requirement (unsmoothed)	168.6	179.3	173.7	180.8	174.1	876.5
Annual expected revenue (smoothed)	162.7	178.1	178.6	179.0	179.4	877.8
X factor ^d	n/a ^e	–6.50%	2.50%	2.50%	2.50%	n/a

Source: AER analysis.

- (a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening regulatory asset base (RAB).
- (b) Includes debt raising costs.
- (c) Includes revenue adjustments from the capital expenditure sharing scheme (CESS) and the demand management innovation allowance mechanism (DMIAM).
- (d) The X factors will be revised to reflect the annual return on debt update. Under the CPI–X framework, the X factor measures the real rate of change in annual expected revenue from one year to the next. A negative X factor represents a real increase in revenue. Conversely, a positive X factor represents a real decrease in revenue.
- (e) Evoenergy is not required to apply an X factor for 2024–25 because we set the 2024–25 expected revenue in this decision. The expected revenue for 2024–25 is around 6.94% higher than the approved total annual revenue for 2023–24 in real terms, or 9.9% higher in nominal terms.

Table 1.2 AER's draft decision on Evoenergy's ARR, annual expected revenue and X factor for the 2024–29 period – transmission (\$million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Return on capital	10.5	10.8	11.1	11.2	11.1	54.7
Regulatory depreciation ^a	9.4	10.8	9.9	9.8	8.5	48.2
Operating expenditure ^b	11.3	11.4	11.5	11.6	11.7	57.6
Revenue adjustments ^c	0.4	0.4	0.4	0.4	0.4	2.0
Cost of corporate income tax	0.5	0.7	0.7	0.8	0.5	3.3
Annual revenue requirement (unsmoothed)	32.1	34.1	33.5	33.8	32.2	165.8
Annual expected revenue (smoothed)	31.9	33.9	33.6	33.4	33.2	166.0
X factor ^d	n/a ^e	–3.50%	3.50%	3.50%	3.30%	n/a

Source: AER analysis.

- (a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening RAB.
- (b) Includes debt raising costs.
- (c) Includes revenue adjustments from the CESS.
- (d) The X factors will be revised to reflect the annual return on debt update. Under the CPI–X framework, the X factor measures the real rate of change in annual expected revenue from one year to the next. A negative X factor represents a real increase in revenue. Conversely, a positive X factor represents a real decrease in revenue.
- (e) Evoenergy is not required to apply an X factor for 2024–25 because we set the 2024–25 expected revenue in this decision. The expected revenue for 2024–25 is around 5.77% higher than the approved total annual revenue for 2023–24 in real terms, or 8.7% higher in nominal terms.

1.2 Evoenergy's proposal

For the 2024–29 period, Evoenergy proposed total expected revenues (smoothed) of \$908.6 million (\$ nominal) and \$169.9 million (\$ nominal) for its distribution and transmission networks respectively.

Table 1.3 and Table 1.4 set out Evoenergy's proposed building block costs, the ARR, annual expected revenue and X factor for each year of the 2024–29 period for its distribution and transmission networks respectively.

Table 1.3 Evoenergy's proposed ARR, annual expected revenue and X factor for the 2024–29 period – distribution (\$million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Return on capital	53.1	55.5	57.1	60.3	64.7	290.8
Regulatory depreciation ^a	50.3	56.9	50.0	52.9	43.2	253.4
Operating expenditure ^b	65.8	68.5	71.4	74.5	77.8	358.0
Revenue adjustments ^c	-0.1	-1.5	-0.7	0.6	1.0	-0.7
Cost of corporate income tax	1.7	2.5	1.2	1.2	0.0	6.5
Annual revenue requirement (unsmoothed)	170.8	181.9	179.0	189.5	186.7	907.9
Annual expected revenue (smoothed)	171.5	176.5	181.6	186.8	192.3	908.6
X factor	n/a ^d	-0.05%	-0.05%	-0.05%	-0.05%	n/a

Source: Evoenergy, *Distribution PTRM*, January 2023

- (a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening RAB.
(b) Includes debt raising costs.
(c) Includes revenue adjustments from the efficiency benefit sharing scheme (EBSS), CESS and DMIAM.
(d) Evoenergy is not required to apply an X factor for 2024–25 because we set the 2024–25 expected revenue in this decision.

Table 1.4 Evoenergy's proposed ARR, annual expected revenue and X factor for the 2024–29 period – transmission (\$million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Return on capital	10.2	10.4	10.6	10.7	11.0	52.8
Regulatory depreciation ^a	9.8	10.6	9.7	9.6	8.4	48.1
Operating expenditure ^b	12.3	12.8	13.4	14.0	14.6	67.0
Revenue adjustments ^c	-0.2	-0.5	-0.3	-0.1	-0.0	-1.2
Cost of corporate income tax	0.5	0.7	0.6	0.7	0.5	3.0
Annual revenue requirement (unsmoothed)	32.7	34.0	33.8	34.9	34.4	169.7
Annual expected revenue (smoothed)	32.6	33.3	34.0	34.7	35.4	169.9
X factor	n/a ^d	0.73%	0.73%	0.73%	0.73%	n/a

Source: Evoenergy, *Transmission PTRM*, January 2023

- (a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening RAB.
(b) Includes debt raising costs.
(c) Includes revenue adjustments from EBSS and CESS.
(d) Evoenergy is not required to apply an X factor for 2024–25 because we set the 2024–25 expected revenue in this decision.

1.3 Assessment approach

In this section, we describe the building block approach used to determine the ARR and expected revenue for Evoenergy for each year of the 2024–29 period.³

1.3.1 The building block approach

The ARR is calculated using the post-tax revenue model (PTRM).⁴ For the applicable control mechanism (Attachment 13) applying to SCS, the revenue to be earned by the distributor (expected revenues) for the regulatory control period must be equal to the net present value (NPV) of the total revenue requirement.⁵ The total revenue requirement is the sum of the ARRs for the regulatory control period. In turn, the ARR must be determined using a building block approach.⁶ Therefore, we adopt a building block approach when making our decision on Evoenergy’s total ARR and expected revenue for each regulatory year of the regulatory control period. Under this approach, we determine the value of the building block costs that make up the ARR for each regulatory year. The ARR for each year is the sum of the building block costs. These building block costs are set out in section 1.3.2.

We developed the PTRM, which brings together the various building block costs and calculates the ARR for each year of the regulatory control period.⁷ The PTRM also calculates the X factors required under the CPI–X methodology⁸ which is used to escalate the expected revenue for each year (other than the first year) of the regulatory control period.⁹ Using the X factors and ARR, the annual expected revenue (smoothed) is forecast for each year of the regulatory control period. Evoenergy’s proposal must be prepared using our PTRM.¹⁰

The ARR can be lumpy over the regulatory control period. To minimise price shocks, revenues are smoothed within a regulatory control period while maintaining the principle of cost recovery under the building block approach. Smoothing requires diverting some of the cost recovery to adjacent years within the regulatory control period so that the NPV of the annual expected revenue (smoothed revenues) is equal to the NPV of the ARR (unsmoothed revenues). That is, a smoothed profile of the expected revenue is determined for the regulatory control period under the CPI–X methodology.

The expected revenue for the first year is generally set equal to the ARR for the first year of the regulatory control period. At times, it may be more appropriate to set the expected revenue for the first year to align with the revenue from the last year of the previous regulatory control period to avoid any large revenue variation between periods (or P_0).¹¹

³ NER, cl. 6.3.2(a)(1), 6.5.9(b)(2).

⁴ NER, cl. 6.4.2.

⁵ NER, cl. 6.5.9(b)(3)(i).

⁶ NER, cl. 6.4.3.

⁷ NER, cl. 6.4.2.

⁸ NER, cl. 6.2.6(a).

⁹ NER, cl. 6.5.9.

¹⁰ NER, cl. 6.3.1(c).

¹¹ The expected revenue for year 1 of the next regulatory control period may include adjustments for the performance incentive that applied during the previous regulatory control period, and under or over recovery adjustments from previous regulatory years.

In this determination for Evoenergy, we first calculate the ARR for each year of the 2024–29 period. To do this we consider the various costs facing Evoenergy and the trade-offs and interactions between these costs, service quality and across years. This reflects our holistic assessment of Evoenergy's proposal.

We understand the trade-offs that occur between building block costs and test the sensitivity of these costs to their various driver elements. These trade-offs are discussed in the interrelationships section of the various attachments to this draft decision and are reflected in the calculations made in the PTRM.¹² Such understanding allows us to exercise judgement in determining the final inputs into the PTRM and the ARRs that result from this modelling.

Having determined the total revenue requirement for the 2024–29 period, we smooth the ARR for each regulatory year across that period. This step reduces revenue variations between years, and calculates the expected revenue and X factor for each year.¹³ The X factors equalise (in NPV terms) the total expected revenues to be earned by Evoenergy with the total revenue requirement for the 2024–29 period.¹⁴ The X factor profile must also minimise, as far as reasonably possible, the variance between the expected revenue and ARR for the last regulatory year of the period.¹⁵ By minimising this divergence, it helps to manage the prospect of a significant revenue change (and consequently prices) between the last year of the 2024–29 period, and first year of the following 2029–34 period. We consider a divergence of up to 3% between the expected revenue and ARR for the last year of the regulatory control period is reasonable, if this can promote smoother price changes across the regulatory control periods.

The building block costs (and the elements that drive those costs) used to determine the unsmoothed ARR are set out in section 1.3.2.

1.3.2 Building block costs

The efficient costs to be recovered by a distributor can be thought of as being made up of various building block costs. Our draft decision assesses each of the building block costs and the elements that drive these costs. The building block costs are approved reflecting trade-offs and interactions between the cost elements, service quality and across years.

Table 1.5 Table 1.5 shows the building block costs that form the ARR for each year and where discussion on the elements that drive these costs can be found within this draft decision.

¹² There are trade-offs that are not modelled in the PTRM but are reflected in the inputs to the PTRM. For example, service quality is not explicitly modelled in the PTRM, but the trade-offs between service quality and price are reflected in the forecast capital expenditure and operating expenditure inputs to the model. Other trade-offs are obvious from the calculations in the PTRM. For example, while it may be expected that a lower RAB would also lower revenues, the PTRM shows that this will not occur if the reduction in the RAB is due solely to an increase in the depreciation rate. In such circumstances, revenues increase as the increased depreciation more than offsets the reduction in the return on capital caused by the lower RAB.

¹³ NER, cl. 6.5.9(a).

¹⁴ NER, cl. 6.5.9(b)(3)(i). The X factors represent the real revenue path over the 2024–29 period under the CPI-X framework.

¹⁵ NER, cl. 6.5.9(b)(2).

Table 1.5 Building block costs

Building block costs	Attachments where elements are discussed
Return on capital	Regulatory asset base (Attachment 2) Rate of return (Attachment 3) Capital expenditure (Attachment 5)
Regulatory depreciation (return of capital)	Regulatory asset base (Attachment 2) Regulatory depreciation (Attachment 4) Capital expenditure (Attachment 5)
Operating expenditure	Operating expenditure (Attachment 6)
Estimated cost of corporate income tax	Corporate income tax (Attachment 7)
Other revenue adjustments	
Adjustment for shared assets	Annual revenue requirement (Attachment 1)
Operating efficiency benefits/penalties	Efficiency benefit sharing scheme (Attachment 8)
Capital efficiency benefits/penalties	Capital expenditure sharing scheme (Attachment 9)
Demand management innovation allowance	Demand management incentive scheme and Demand management innovation allowance mechanism (Attachment 11)

1.4 Reasons for draft decision

For the 2024–29 period, we determine total ARRs of \$876.5 million and \$165.8 million (\$ nominal, unsmoothed) for Evoenergy’s distribution and transmission networks respectively. These amounts are reductions of \$31.5 million (3.5%) and \$3.9 million (2.3%) to Evoenergy’s proposed total ARRs of \$907.9 million and \$169.7 million for its distribution and transmission networks respectively. These reductions reflect the impact of our draft decision on the various building block costs.

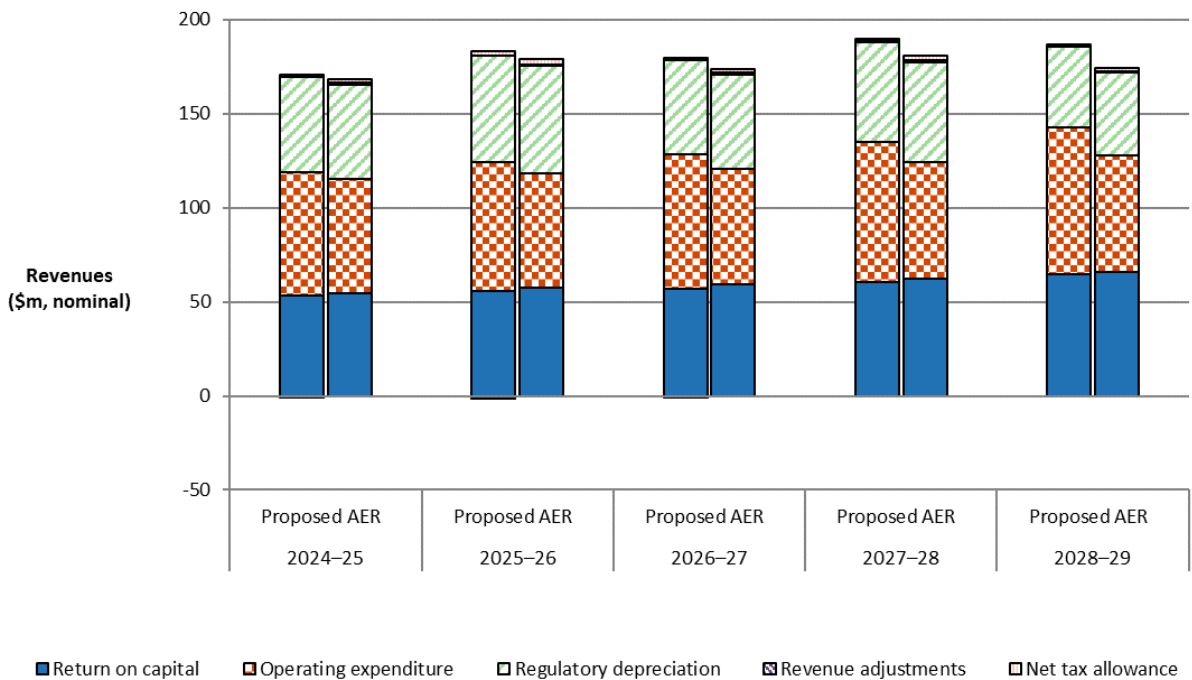
The changes we made to Evoenergy’s proposed building blocks for its distribution and transmission networks include (in nominal terms):

- increases in the return on capital of \$8.3 million (2.8%) and \$1.9 million (3.5%) (Attachments 2, 3 and 5). This is driven largely by a higher rate of return which more than offsets the reductions we made to forecast capex
- increases in the regulatory depreciation of \$0.5 million (0.2%) and \$0.2 million (0.4%) (Attachments 2, 4 and 5). The reduction in the forecast capex has been more than offset by a lower expected inflation rate for the 2024–29 period, which reduces the indexation adjustment to regulatory depreciation
- reductions in the opex forecast of \$50.2 million (14.0%) and \$9.4 million (14.0%) (Attachment 6). This is largely driven by a base year opex efficiency adjustment and other component reductions

- increases in the cost of corporate income tax of \$4.8 million (72.9%) and \$0.3 million (8.8%) (Attachment 7). This is largely driven by reduced immediate expensing of capex, resulting from the reduction to forecast capex
- increases in the revenue adjustments of \$5.2 million and \$3.2 million (Attachments 8, 9 and 11). This largely reflects our higher approved CESS rewards compared to Evoenergy’s proposal.

Figure 1.1 and Figure 1.2 show the building block components from our determination that make up the ARR for Evoenergy, and the corresponding components from its proposal, for its distribution and transmission networks.

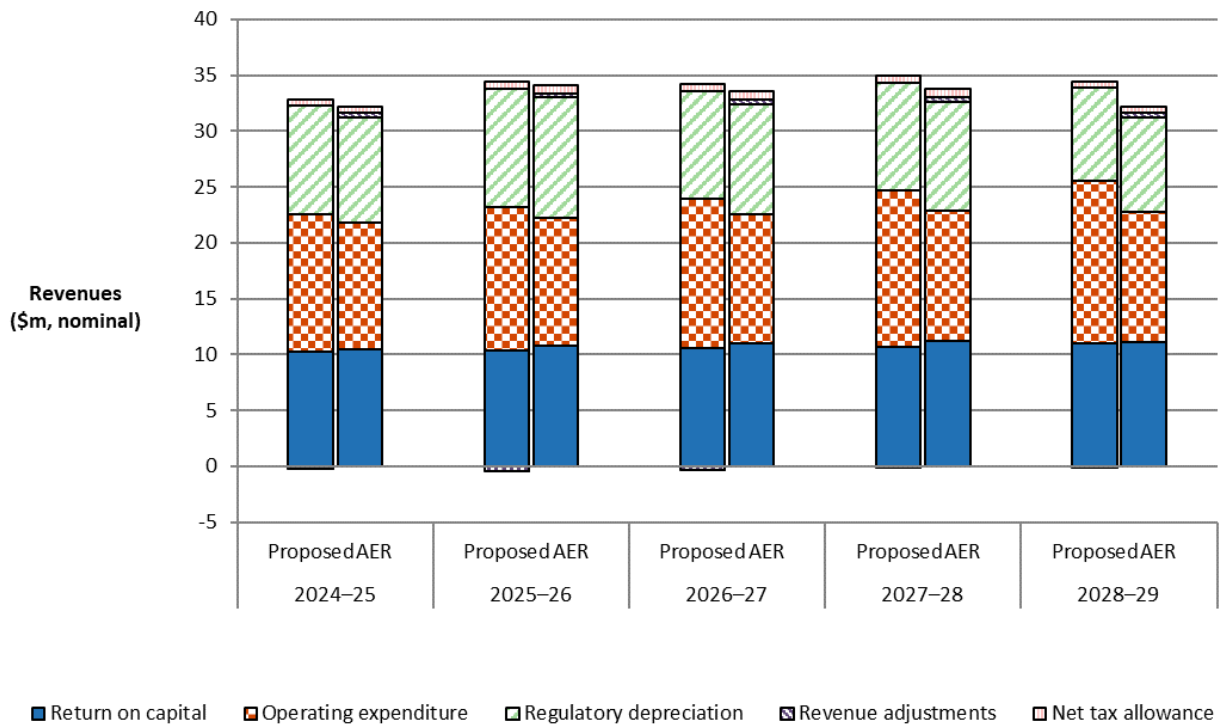
Figure 1.1 AER's draft decision and Evoenergy's proposed ARR – distribution (\$million, nominal)



Source: AER analysis; Evoenergy, *Distribution PTRM*, January 2023.

Note: Revenue adjustments include CESS and DMIAM amounts. Opex includes debt raising costs.

Figure 1.2 AER's draft decision and Evoenergy's proposed ARR – transmission (\$million, nominal)



Source: AER analysis; Evoenergy, *Transmission PTRM*, January 2023.

Note: Revenue adjustments include CESS. Opex includes debt raising costs.

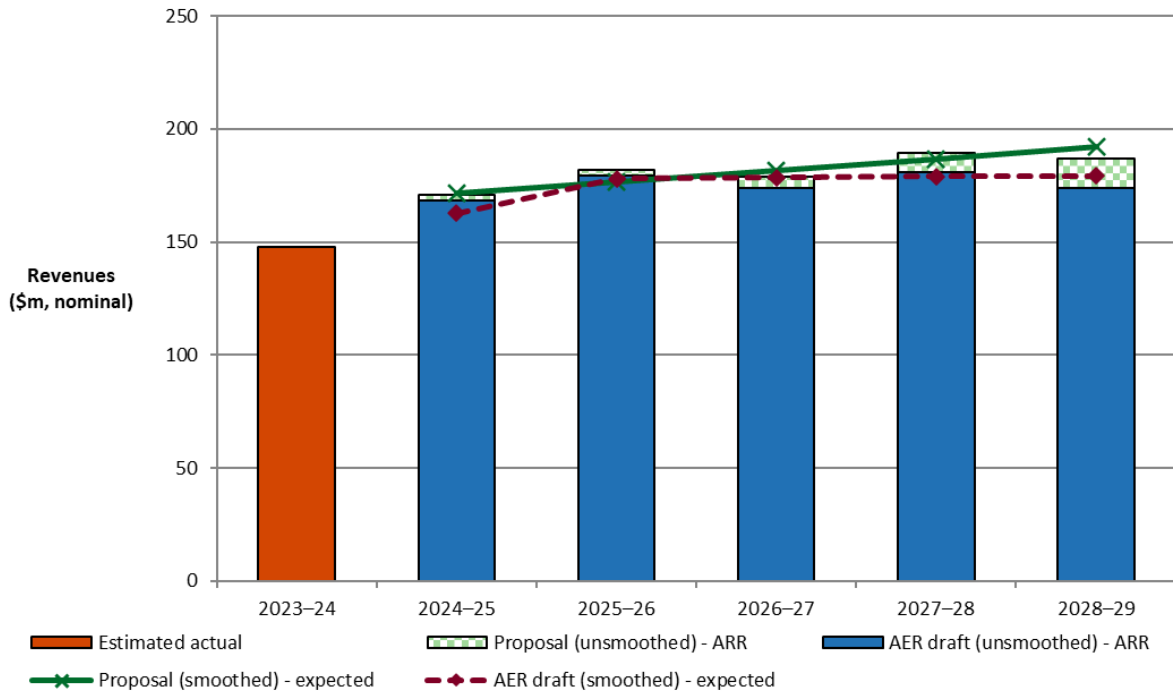
1.4.1 X factor and annual expected revenue

For this draft decision, we determine X factors for Evoenergy as set out in Table 1.1 and Table 1.2 for its distribution and transmission networks respectively. The NPVs of the ARRs are \$739.2 million and \$140.0 million (\$ nominal) as at 1 July 2024 for Evoenergy's distribution and transmission networks respectively. Based on these NPVs and applying the CPI-X framework, we determine that the:

- expected revenue (smoothed) for Evoenergy's distribution network is \$162.7 million in 2024–25 increasing to \$179.4 million in 2028–29 (\$ nominal). The resulting total expected revenue is \$877.7 million for the 2024–29 period
- expected revenue (smoothed) for Evoenergy's transmission network is \$31.9 million in 2024–25 increasing to \$33.2 million in 2028–29 (\$ nominal). The resulting total expected revenue is \$166.0 million for the 2024–29 period.

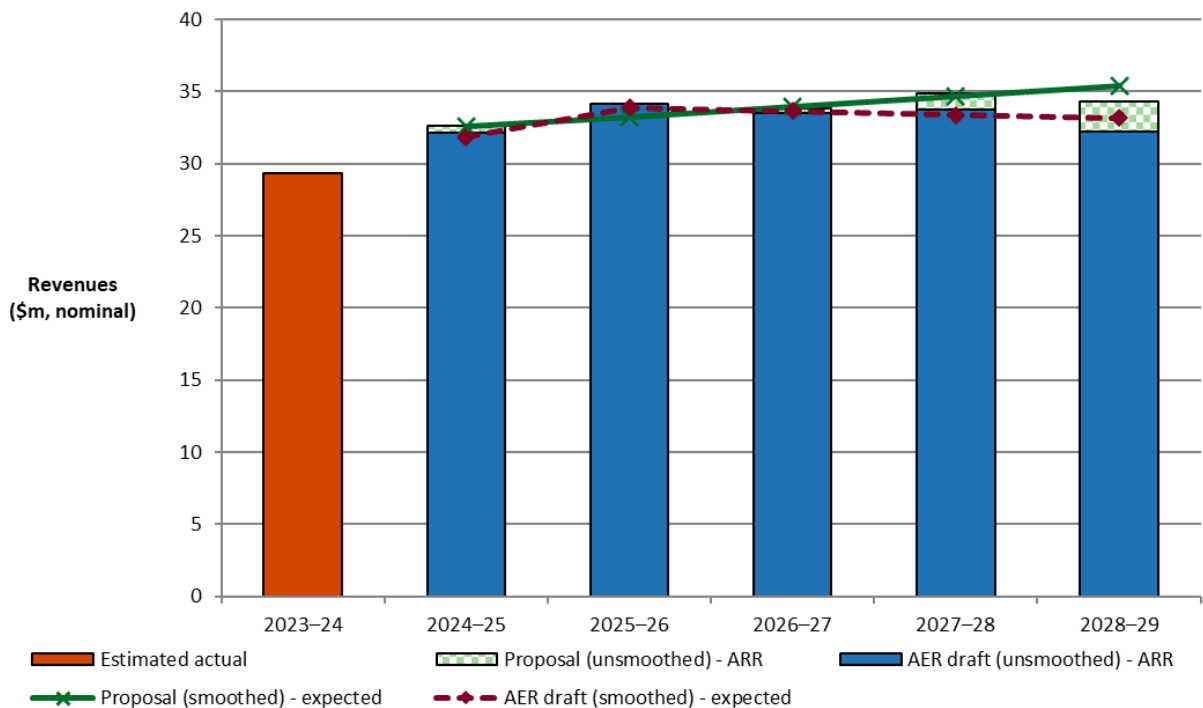
Figure 1.3 and Figure 1.4 show our draft decision on Evoenergy's annual expected revenue (smoothed revenue) and the ARR (unsmoothed revenue) for the 2024–29 period for its distribution and transmission networks respectively.

Figure 1.3 AER's draft decision on Evoenergy's revenue for the 2024–29 period – distribution (\$million, nominal)



Source: AER analysis.

Figure 1.4 AER's draft decision on Evoenergy's revenue for the 2024–29 period – transmission (\$million, nominal)



Source: AER analysis.

To determine the profile of expected revenue for Evoenergy over the 2024–29 period, we have set the expected revenue for the first regulatory year at \$162.7 million and \$31.9 million (\$ nominal) for its distribution and transmission networks respectively. These are \$5.9 million

and \$0.3 million lower than the respective ARR for that first year. We then apply an expected inflation rate of 2.80% per annum and a profile of X factors to determine the expected revenue in subsequent years.¹⁶ We consider that our profile of X factors results in an expected revenue in the last year of the regulatory control period that is as close as reasonably possible to the ARR for that year.¹⁷ We will review this smoothing profile for the final decision.

Our draft decision results in an average increase of 3.9% per annum and 2.5% per annum (\$ nominal) in the expected revenues over the 2024–29 period for Evoenergy’s distribution and transmission networks respectively:¹⁸

- For its distribution network, this consists of initial increases of 9.9% in 2024–25 and 9.5% in 2025–26, followed by average annual increases of 0.2% during the remainder of the 2024–29 period.¹⁹
- For its transmission network, this consists of initial increases of 8.7% from 2023–24 to 2024–25 and 6.4% from 2024–25 to 2025–26, followed by average annual reductions of 0.8% during the remainder of the 2024–29 period.²⁰

Our draft decision also results in an increase of 3.6% in real terms (\$2023–24) to Evoenergy’s total ARR relative to that in the 2019–24 period for its distribution network. Its transmission network sees a reduction of 2.0% in real terms (\$2023–24) over the same period. For distribution, the outcome is largely due to an increase in the return on capital in this draft decision for the 2024–29 period than that approved in the 2019–24 determination. For transmission, the outcome is largely due to reductions in revenue adjustments and the forecast cost of corporate income tax amount in this draft decision for the 2024–29 period than those approved in the 2019–24 determination.

Figure 1.5 and Figure 1.6 compare our draft decision building blocks for Evoenergy’s distribution and transmission networks for the 2024–29 period with its proposal for the same period, and the approved unsmoothed revenue for the 2019–24 period.

¹⁶ NER, cl. 6.5.9(a).

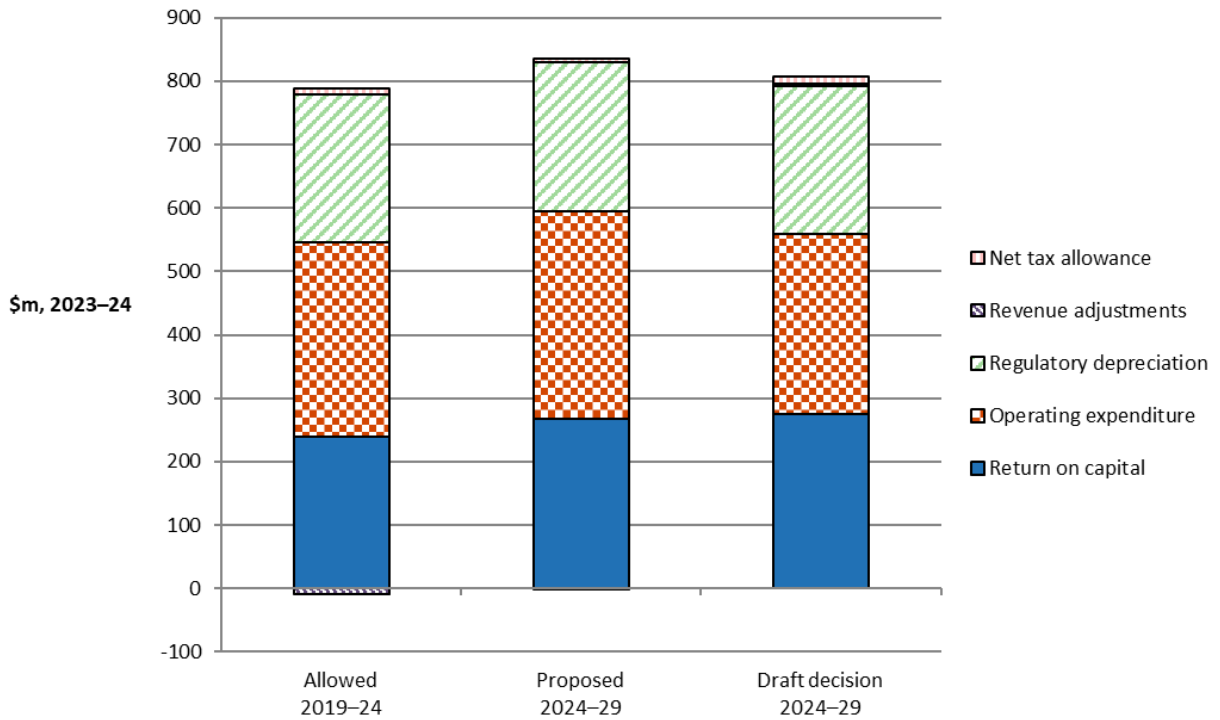
¹⁷ NER, cl. 6.5.9(b)(2). We consider a divergence of up to 3% between the expected revenue and ARR for the last year of the regulatory control period is appropriate, if this can achieve smoother price changes for users over the regulatory control period. In the present circumstances, based on the X factors we have determined for Evoenergy, the divergences are around 3.0% and 2.9% for its distribution and transmission networks respectively.

¹⁸ In real 2023–24 dollar terms, our approved expected revenue for Evoenergy results in an average increase of 0.7% per annum and an average reduction of 0.4% per annum over the 2024–29 period for its distribution and transmission networks respectively.

¹⁹ In real 2023–24 dollar terms, this consists of initial increases of 6.9% in 2024–25 and 6.5% in 2025–26, followed by annual average reductions of 2.5% during the remainder of the 2024–29 period.

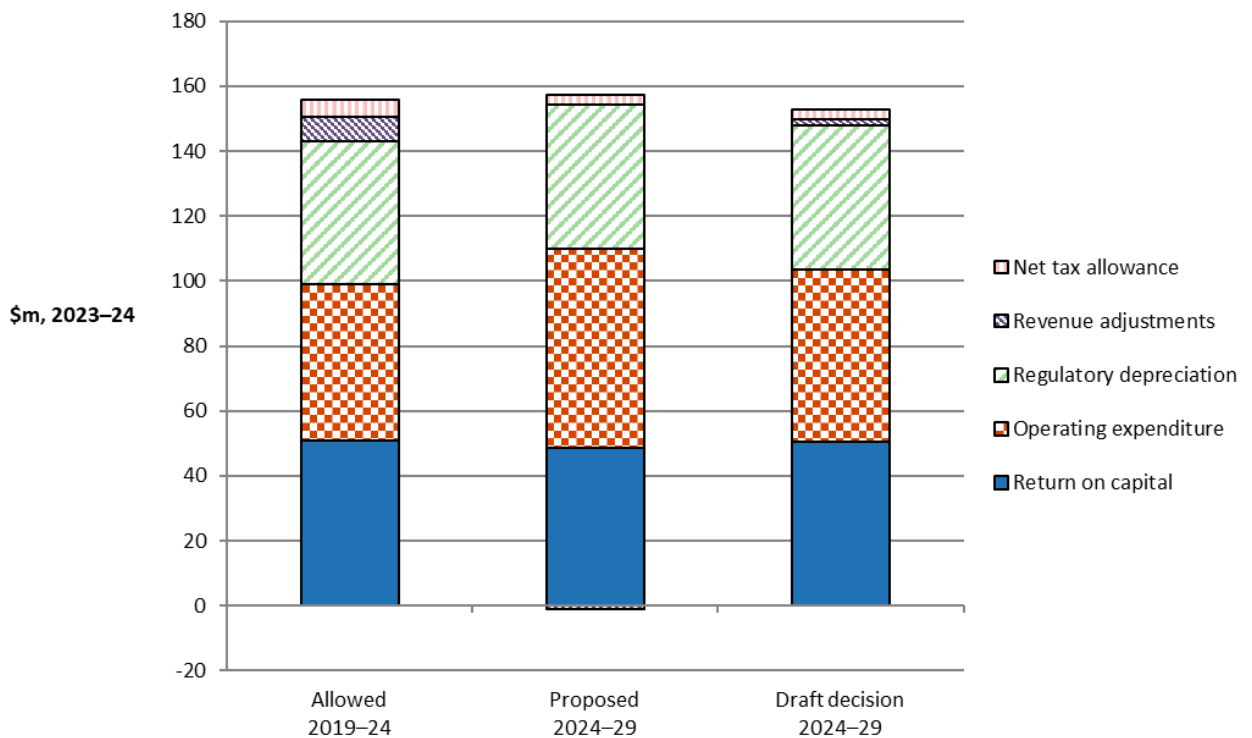
²⁰ In real 2023–24 dollar terms, this consists of initial increases of 5.8% in 2024–25 and 3.5% in 2025–26, followed by annual average reductions of 3.4% during the remainder of the 2024–29 period.

Figure 1.5 Total revenue by building block components – distribution (\$million, 2023–24)



Source: AER analysis.

Figure 1.6 Total revenue by building block components – transmission (\$million, 2023–24)



Source: AER analysis.

1.4.2 Shared assets

Distributors, such as Evoenergy, may use assets to provide both the SCS we regulate and unregulated services, for example by the stringing of telecommunications cables on the electricity network poles for the provision of telecommunication services. These assets are called ‘shared assets’.²¹ If the revenue from shared assets is material, 10% of the unregulated revenues that a distributor earns from shared assets will be used to reduce the distributor's revenue for SCS.²²

The shared asset principles establish that use of shared assets should be material before cost reductions are applied.²³ The National Electricity Rules (NER) do not define materiality in this context. Our approach to what constitutes a material use of shared assets is that unregulated use of shared assets in a specific regulatory year is material when a distributor's annual average unregulated revenue from shared assets is expected to be greater than 1% of its expected revenue for that regulatory year.²⁴

Evoenergy submitted that it expected to begin earning some shared assets revenue in the 2024–29 period. However, no shared asset adjustment is required because its forecast annual unregulated revenue from shared assets does not exceed the AER's materiality threshold.²⁵

We consider Evoenergy's forecast unregulated revenues from shared assets for the 2024–29 period are reasonable. However, Evoenergy's forecast unregulated revenues must be compared to the regulated revenues we determine, rather than those proposed by Evoenergy. Based on the lower expected revenues in our draft decision, we consider that the materiality threshold is not met in any year the 2024–29 period. As such, our draft decision does not apply any shared asset revenue adjustment.²⁶

1.4.3 Indicative average distribution price impact

Our draft decision on Evoenergy's expected revenues ultimately affects the prices customers pay for electricity. There are several steps required in translating our revenue decision into indicative distribution price impacts.

We regulate Evoenergy's SCS for its distribution and transmission networks under a revenue cap form of control. This means our draft decision on Evoenergy's expected revenues does not directly translate to price impacts. This is because Evoenergy's revenue is fixed under the revenue cap form of control, so changes in the consumption of electricity will affect the prices ultimately charged to consumers.

For Evoenergy's distribution network, we are not required to establish the distribution prices for Evoenergy as part of this determination. However, we will assess Evoenergy's annual pricing proposals before the commencement of each regulatory year within the 2024–29

²¹ NER, cl. 6.4.4.

²² AER, *Shared asset guideline*, November 2013, Appendix A, p. 15.

²³ NER, cl. 6.4.4(c)(3).

²⁴ AER, *Shared asset guideline*, November 2013, pp. 8–9.

²⁵ Evoenergy, *Regulatory proposal*, January 2023, p. 74.

²⁶ We will reassess the materiality of the forecast shared asset unregulated revenues for our final decision.

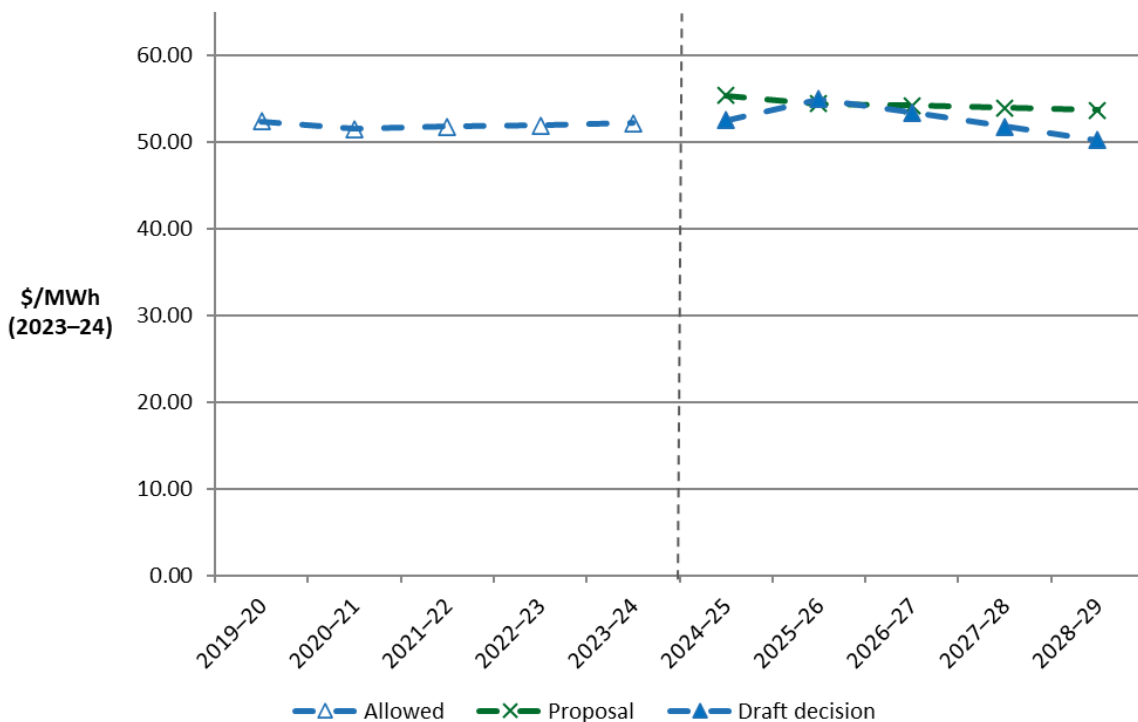
period. In each assessment we will administer the pricing requirements set in this distribution determination.

For Evoenergy's transmission network, the charges are collected with regard to the entire transmission network across NSW/ACT because Evoenergy's dual function assets are a small, embedded component of the broader transmission network. Transgrid, which is the coordinating transmission network service provider for this network region, establishes transmission charges and then provides Evoenergy with its portion of revenues.

For this draft decision, we have estimated some indicative average distribution and transmission price impacts flowing from our determination on the expected revenues for Evoenergy over the 2024–29 period. In this section, our estimates only relate to SCS (that is, the core electricity network charges), not alternative control services (such as metering charges). These indicative price impacts assume that actual energy consumption across the 2024–29 period matches Evoenergy's forecast energy consumption, which we have adopted for this draft decision. We also have not factored in any changes arising from incentive scheme amounts, cost pass throughs or unders/overs reconciliation that usually occur in the annual pricing process to come up with the total allowed revenue.

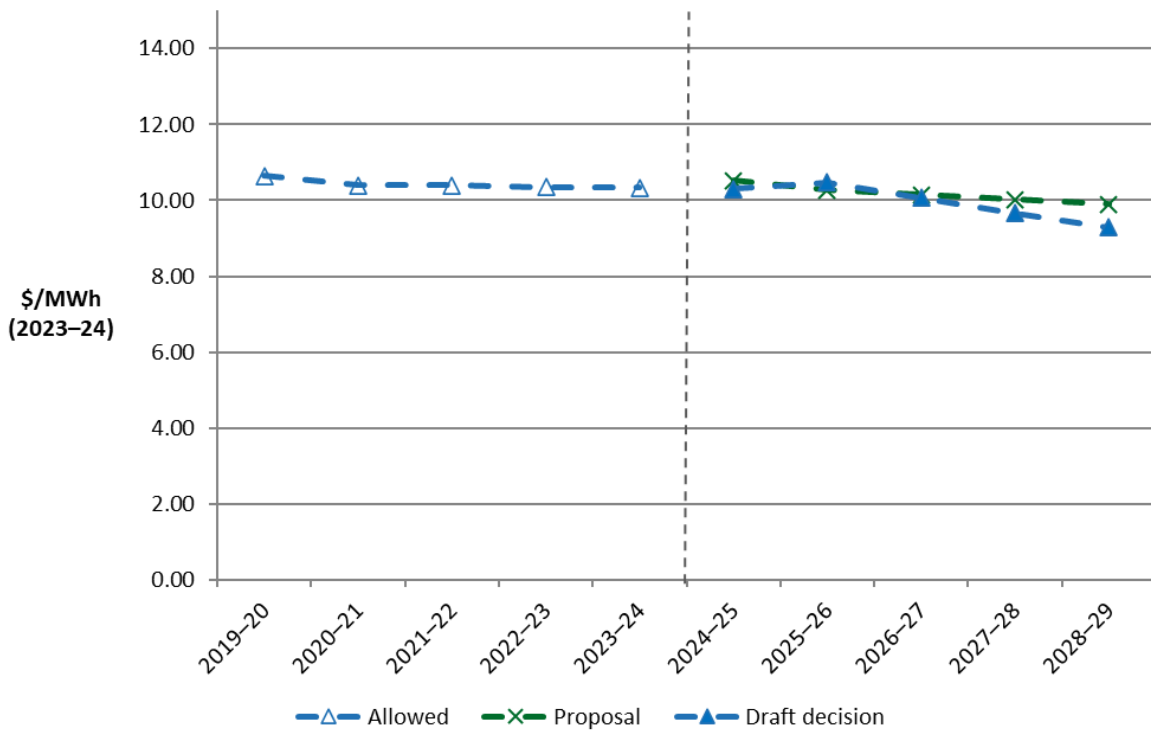
Figure 1.7 and Figure 1.8 show Evoenergy's indicative average price paths over the period from 2019–20 to 2028–29 in real 2023–24 dollar terms based on the expected revenues established in our draft decision compared to Evoenergy's proposed revenue requirements for its distribution and transmission networks respectively. The indicative price path is estimated using the approved expected revenue and dividing by forecast energy consumption for each year of the 2019–24 period.

Figure 1.7 Indicative price path for Evoenergy – distribution (\$/MWh, 2023–24)



Source: AER analysis.

Figure 1.8 Indicative price path for Evoenergy – transmission (\$/MWh, 2023–24)



Source: AER analysis.

We estimate that our draft decision on Evoenergy's annual expected revenue will result in an increase to average distribution charges by about 0.1% per annum, but a reduction to average transmission charges by about 1.2% per annum, over the 2024–29 period in real 2023–24 dollar terms.²⁷ This compares to the real average increases of approximately 1.5% and 0.01% per annum proposed by Evoenergy over the 2024–29 period for its distribution and transmission networks respectively.²⁸ These high-level estimates reflect the aggregate change across the entire network and do not reflect the particular tariff components for specific end users.

Table 1.6 and Table 1.7 display in nominal terms the comparison of the revenue and price impacts of Evoenergy's proposal and our draft decision for its distribution and transmission networks respectively.

²⁷ In nominal terms we estimate average distribution and transmission charges to increase by 2.9% and 1.5% per annum for Evoenergy's distribution and transmission networks respectively. These amounts reflect an expected inflation rate of 2.80% per annum as determined in this draft decision.

²⁸ In nominal terms Evoenergy's proposal would increase distribution and transmission network charges by 4.4% and 2.9% per annum for its distribution and transmission networks respectively. These amounts reflect an expected inflation rate of 2.85% per annum as proposed by Evoenergy in its proposal.

Table 1.6 Comparison of revenue and price impacts of Evoenergy's proposal and the AER's draft decision – distribution (\$ nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29
AER draft decision						
Revenue (\$million)	148.0	162.7	178.1	178.5	179.0	179.4
Price path (\$/MWh) ^a	49.94	54.05	58.17	58.07	57.87	57.69
Revenue (change %)	–	9.9%	9.5%	0.2%	0.2%	0.2%
Price path (change %)	–	8.2%	7.6%	–0.2%	–0.3%	–0.3%
Evoenergy proposal						
Revenue (\$million)	148.0	171.5	176.5	181.6	186.8	192.3
Price path (\$/MWh) ^a	49.94	56.97	57.62	59.05	60.41	61.83
Revenue (change %)	–	15.9%	2.9%	2.9%	2.9%	2.9%
Price path (change %)	–	14.1%	1.1%	2.5%	2.3%	2.4%

Source: AER analysis; Evoenergy, *Distribution PTRM*, January 2023.

(a) The price path is in nominal terms and is constructed by dividing nominal expected revenue for SCS by forecast energy consumption for each year of the regulatory control period.

Table 1.7 Comparison of revenue and price impacts of Evoenergy's proposal and the AER's draft decision – transmission (\$ nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29
AER draft decision						
Revenue (\$million)	29.3	31.9	33.9	33.6	33.4	33.2
Price path (\$/MWh) ^a	9.89	10.59	11.07	10.94	10.79	10.67
Revenue (change %)	–	8.7%	6.4%	–0.8%	–0.8%	–0.6%
Price path (change %)	–	7.1%	4.6%	–1.2%	–1.4%	–1.1%
Evoenergy proposal						
Revenue (\$million)	29.3	32.6	33.3	34.0	34.7	35.4
Price path (\$/MWh) ^a	9.89	10.82	10.86	11.05	11.21	11.39
Revenue (change %)	–	11.2%	2.1%	2.1%	2.1%	2.1%
Price path (change %)	–	9.4%	0.4%	1.7%	1.5%	1.6%

Source: AER analysis; Evoenergy, *Transmission PTRM*, January 2023.

(a) The price path is in nominal terms and is constructed by dividing nominal expected revenue for SCS by forecast energy consumption for each year of the regulatory control period.

1.4.4 Expected impact of draft decision on electricity bills

The annual electricity bill for customers in the ACT reflects the combined cost of all the electricity supply chain components—wholesale energy generation, transmission, distribution, metering, and retail costs. This draft decision primarily relates to Evoenergy’s distribution charges for SCS and transmission charges, which represent a combined network bill proportion of approximately 21.1% on average for residential customers’ and 27.2% on average for small business customers’ annual electricity bills in the ACT.²⁹

We estimate the expected bill impact by varying the distribution and transmission network charges in accordance with our draft decision in this attachment, while holding all other components—including the metering component and the broader transmission component associated with Transgrid’s determination—constant.³⁰ This approach isolates the effect of our draft decision on the core distribution and transmission network charges only for Evoenergy. However, this does not imply that other components will remain unchanged across the regulatory control period.³¹

Based on this approach, we expect that our draft decision on the distribution and transmission components will increase the average annual residential electricity bill in 2028–29 by about \$69 (\$ nominal) or 3.0% from the 2023–24 total bill level. By comparison, had we accepted Evoenergy’s proposal, the expected change in the distribution and transmission components would increase the average annual residential electricity bill in 2028–29 by about \$108 (\$ nominal) or 4.8% from the 2023–24 total bill level.

Similarly, we expect that our draft decision will result in the distribution and transmission components of the average annual electricity bill for a small business customer in 2028–29 to increase about \$381 (\$ nominal) or 4.0% from the 2023–24 total bill level. By comparison, had we accepted Evoenergy’s proposal, the expected change in the distribution and transmission components would increase the average annual small business electricity bill in 2028–29 by about \$594 (\$ nominal) or 6.2% from the 2023–24 total bill level.

Our estimated bill impact is based on the typical annual electricity usage of around 6,500 kWh and 25,000 kWh for residential and small business customers in the ACT, respectively.³² Therefore, customers with different usage will experience different changes in

²⁹ Evoenergy, *2023-24 - Electricity network pricing proposal*, 5 May 2023, p. 14; Independent Competition and Regulatory Commission, *Retail electricity price recalibration 2023-24: standing offer prices for the supply of electricity to small customers*, July 2023, p. 4. Evoenergy’s dual function assets are a small, embedded component of the broader transmission network owned and operated by Transgrid. This combined network bill proportion only accounts for Evoenergy’s dual function assets transmission component and does not include the broader transmission component for Transgrid.

³⁰ We also have not factored in any changes arising from incentive scheme amounts, cost pass throughs or unders/overs reconciliation that usually occur in the annual pricing process to come up with the total allowed revenue.

³¹ It also assumes that actual energy consumption will equal the forecast adopted in our draft decision. Since Evoenergy operates under a revenue cap, changes in energy consumption will also affect annual electricity bills across the 2024–29 period.

³² Independent Competition and Regulatory Commission, *Retail electricity price recalibration 2023-24: standing offer prices for the supply of electricity to small customers*, July 2023, p. iv.

their bills. We also note that there are other factors, such as metering, wholesale and retail costs, which affect electricity bills.

Table 1.8 shows the estimated impact of our draft decision and Evoenergy's proposal on the average annual electricity bills for residential and small business customers in the ACT over the 2024–29 period.

Table 1.8 Estimated impact of Evoenergy's proposal and AER's draft decision on annual electricity bills for the 2024–29 period (\$ nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29
AER draft decision						
Residential annual electricity bill	2267 ^a	2306	2343	2341	2338	2336
Annual change ^c	–	39 (1.7%)	37 (1.6%)	–2 (–0.1%)	–3 (–0.1%)	–2 (–0.1%)
Small business annual electricity bill	9572 ^b	9782	9987	9978	9964	9952
Annual change ^c	–	210 (2.2%)	205 (2.1%)	–9 (–0.1%)	–14 (–0.1%)	–12 (–0.1%)
Evoenergy proposal						
Residential annual electricity bill	2267 ^a	2331	2337	2350	2362	2375
Annual change ^c	–	64 (2.8%)	6 (0.2%)	13 (0.6%)	12 (0.5%)	13 (0.5%)
Small business annual electricity bill	9572 ^b	9924	9955	10027	10095	10166
Annual change ^c	–	353 (3.7%)	31 (0.3%)	72 (0.7%)	68 (0.7%)	71 (0.7%)

Source: AER analysis; Evoenergy, *2023-24 - Electricity network pricing proposal*, 5 May 2023, p. 14; Independent Competition and Regulatory Commission, *Retail electricity price recalibration 2023-24: standing offer prices for the supply of electricity to small customers*, July 2023, p. 4.

- (a) Annual bill for 2023–24 is sourced from Independent Competition and Regulatory Commission, *Retail electricity price recalibration 2023-24: standing offer prices for the supply of electricity to small customers* and reflects the average consumption of 6500 kWh for residential customers in the ACT.
- (b) Annual bill for 2023–24 is sourced from Independent Competition and Regulatory Commission, *Retail electricity price recalibration 2023-24: standing offer prices for the supply of electricity to small customers* and reflects the average consumption of 25000 kWh for small business customers in the ACT.
- (c) Annual change amounts and percentages are indicative. They are derived by varying the networks component of the 2023–24 bill amounts in proportion to yearly expected revenue divided by forecast energy as provided by Evoenergy. Actual bill impacts will vary depending on electricity consumption and tariff class.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
ARR	annual revenue requirement
CAPEX	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
DMIAM	demand management innovation allowance mechanism
EBSS	efficiency benefit sharing scheme
NER	National Electricity Rules
NPV	net present value
OPEX	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model
SCS	standard control services