Draft Decision

Evoenergy Electricity Distribution Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 2
Regulatory asset base

September 2023

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Tel: 1300 585 165

AER reference: AER212496

Amendment record

Version	Date	Pages
1	28 September 2023	21

Contents

2 Regulatory asset base

The regulatory asset base (RAB) is the value of the assets used by Evoenergy to provide standard control services, comprising of its distribution and transmission (dual function assets) networks.[1] Evoenergy's dual function assets are high voltage assets which support the broader NSW/ACT transmission network owned and operated by Transgrid. The AER has decided to continue applying transmission pricing to these assets.[2]

Our distribution determination specifies the RAB as at the commencement of the regulatory control period and the appropriate method for the indexation of the RAB.[3] The indexation of the RAB is one of the building blocks that form the annual revenue requirement for each year of the 2024-29 regulatory control period.[4] We set the RAB as the foundation for determining a distributor's revenue requirements and use the opening RAB for each regulatory year to determine the return on capital and return of capital (regulatory depreciation) building blocks.[5]

This attachment presents our draft decision on the opening RAB value as at 1 July 2024 for Evoenergy and our forecast of its RAB values over the 2024–29 period. It also presents our draft decision for establishing the RAB as at the commencement of the 2029–34 period using depreciation that is based on forecast capital expenditure (capex).[6]

2.1 Draft decision

We determine opening RAB values of $941.6 million and $181.2 million ($ nominal) as at 1 July 2024 for Evoenergy's distribution and transmission networks respectively. These values are $7.2 million (or 0.7%) and $1.3 million (or 0.7%) lower than Evoenergy's proposed opening RAB values of $948.7 and $182.5 million ($ nominal) as at 1 July 2024 for its distribution and transmission assets respectively.[7] These decreases are largely due to the updates we made to the consumer price index (CPI) inputs for 2022–23 and 2023–24 in the roll forward model (RFM) to reflect more up-to-date values:

- We have updated the actual CPI for 2022–23 to 7.83%, reflecting the 2022 December quarter CPI published by the Australian Bureau of statistics (ABS), which became available after Evoenergy submitted its proposal. This compares to Evoenergy's proposed estimated CPI of 8.00%.
- We have also updated the estimated CPI for 2023–24 with the latest Reserve Bank of Australia (RBA) forecast published in its *Statement on Monetary Policy* to reflect the latest economic conditions.[8] For our draft decision, we adopt an estimated CPI value of

1 NER, cl. 6.5.1(a).

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

3 NER, cl. 6.3.2(a)(1) and (2)

4 NER, cll. 6.4.3(a)(1) and (b)(1).

5 NER, cll. 6.4.3(a)(2) and (3).

6 NER, cl. 6.12.1(18).

7 Evoenergy, *Distribution RFM*, January 2023; Evoenergy, *Transmission RFM,* January 2023.

8 RBA, *Statement on Monetary Policy, Appendix: Forecasts*, August 2023.

4.10% for 2023–24, compared to Evoenergy's proposed 4.70%.[9] The CPI input for 2023–24 will be updated again to reflect the actual CPI published by the ABS for our final decision.

As the RAB must be maintained in real dollar terms by indexing for inflation,[10] the combined effect of our above amendments to CPI results in reductions to the opening RAB values as at 1 July 2024 by $6.9 million (0.7%) and $1.5 million (0.8%) for Evoenergy's distribution and transmission networks respectively, compared to Evoenergy's proposal.

While we accept the proposed method for calculating the opening RAB, we made a few minor revisions to Evoenergy's proposed inputs in the RFMs. For both the distribution and transmission RFMs, these changes included:

- updating the nominal vanilla weighted average cost of capital (WACC) for 2023–24, equity raising costs (for transmission only) and the forecast straight-line depreciation inputs. These updates are required to reflect the 2023–24 return on debt update in the post-tax revenue model (PTRM) for the 2019–24 period, which became available after Evoenergy submitted its proposal
- correcting inconsistencies in some annually reported data related to capex, disposals and capital contributions.

The net total impact of all these amendments is a further reduction of $0.3 million to the distribution opening RAB value, while it is an increase of $0.2 million for the transmission opening RAB value.

To determine the opening RAB as at 1 July 2024, we have rolled forward the RAB over the 2019–24 period to determine a closing RAB value at 30 June 2024 in accordance with our RFM.[11] This roll forward process includes an adjustment at the end of the 2019–24 period to account for the difference between actual 2018–19 capex and the estimate approved in the 2019–24 determination.[12]

Table 2.1 and Table 2.2 set out our draft decision on the roll forward of Evoenergy's RABs over the 2019–24 period for its distribution and transmission networks respectively.

9 RBA, *Statement on Monetary Policy, Appendix: Forecasts*, November 2022.

10 NER, cll 6.4.3(b)(1) and 6.5.1(e)(3).

11 AER, *Electricity distribution network service providers: Roll forward model (version 3.1)*, May 2022.

12 The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2019–24 determination.

Table 2.1 AER's draft decision on Evoenergy's RAB for the 2019–24 period – distribution ($million, nominal)

	2019–20	2020–21	2021–22	2022–23[a]	2023–24[b]
Opening capital base	796.0	811.5	803.4	830.7	918.6
Capital expenditure[c]	55.8	42.8	59.7	88.5	57.2
Inflation indexation on opening RAB[d]	14.6	7.0	28.1	65.1	37.7
Less: straight-line depreciation[e]	54.9	57.9	60.5	65.7	72.6
Interim closing RAB	811.5	803.4	830.7	918.6	940.8
Difference between estimated and actual capex in 2018-19					0.6
Return on difference for 2018-19 capex					0.2
Closing RAB as at 30 June 2024					**941.6**

Source: AER analysis.

(a) Based on estimated capex provided by Evoenergy. We will update the RAB roll forward with actual capex in the final decision.

(b) Based on estimated capex provided by Evoenergy. We expect to update the RAB roll forward with a revised capex estimate in the final decision, and true-up the RAB for actual capex at the next distribution determination.

(c) Net of disposals and capital contributions, and adjusted for actual CPI and half-year WACC.

(d) We will update the RAB roll forward for actual CPI for 2023–24 in the final decision.

(e) Adjusted for actual CPI. Based on forecast capex.

Table 2.2 AER's draft decision on Evoenergy's RAB for the 2019–24 period – transmission ($million, nominal)

	2019–20	2020–21	2021–22	2022–23[a]	2023–24[b]
Opening RAB	177.3	179.3	177.9	182.9	200.4
Capital expenditure[c]	9.5	8.4	10.6	15.9	–6.7
Inflation indexation on opening RAB[d]	3.3	1.5	6.2	14.3	8.2
Less: straight-line depreciation[e]	10.8	11.3	11.8	12.8	14.1
Interim closing RAB	179.3	177.9	182.9	200.4	187.8
Difference between estimated and actual capex in 2018-19					–4.9
Return on difference for 2018-19 capex					–1.8
Closing RAB as at 30 June 2024					**181.2**

Source: AER analysis.
(a) Based on estimated capex provided by Evoenergy. We will update the RAB roll forward with actual capex in the final decision.
(b) Based on estimated capex provided by Evoenergy. We expect to update the RAB roll forward with a revised capex estimate in the final decision, and true-up the RAB for actual capex at the next distribution determination.
(c) Net of disposals and capital contributions, and adjusted for actual CPI and half-year WACC.
(d) We will update the RAB roll forward for actual CPI for 2023–24 in the final decision.
(e) Adjusted for actual CPI. Based on forecast capex.

We determine forecast closing RAB values of $1,101.8 million ($ nominal) and $177.9 million ($ nominal) as at 30 June 2029 for Evoenergy's distribution and transmission networks respectively. This is $103.9 million and $24.3 million lower than Evoenergy's proposed closing RAB values of $1,205.7 million ($ nominal) and $202.1 million ($ nominal).[13] The reductions are mainly due to our draft decision on forecast capex (Attachment 5). Our draft decisions on the opening RAB as at 1 July 2024, the expected inflation rate (Attachment 3), forecast depreciation (Attachment 4) and forecast capex (Attachment 5) also affect the forecast closing RAB value as at 30 June 2029.[14]

Table 2.3 and Table 2.4 set out our draft decision on the forecast RAB values for Evoenergy over the 2024–29 period for its distribution and transmission networks respectively.

13 Evoenergy, *Distribution RFM*, January 2023; Evoenergy, *Transmission RFM,* January 2023.

14 Capex enters the RAB net of forecast disposals and capital contributions. It includes equity raising costs (where relevant) and the half-year WACC to account for the timing assumptions in the PTRM. Therefore, our draft decision on the forecast RAB also reflects our amendments to the rate of return for the 2024–29 period (Attachment 3).

Table 2.3 AER's draft decision on Evoenergy's RAB for the 2024–29 period – distribution ($million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29
Opening RAB	941.6	968.1	989.3	1,026.9	1,061.7
Capital expenditure[a]	76.9	78.1	87.7	87.8	83.7
Inflation indexation on opening RAB	26.4	27.1	27.7	28.8	29.7
Less: straight-line depreciation	76.7	84.0	77.8	81.7	73.3
Closing RAB	**968.2**	**989.3**	**1,026.9**	**1,061.8**	**1,101.8**

Source: AER analysis.

(a) Net of forecast disposals and capital contributions. In accordance with the timing assumptions of the PTRM, the capex includes a half-year WACC allowance to compensate for the six month period before capex is added to the RAB for revenue modelling.

Table 2.4 AER's draft decision on Evoenergy's RAB for the 2024–29 period – transmission ($million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29
Opening RAB	181.2	182.4	184.8	184.6	179.9
Capital expenditure[a]	10.6	13.2	9.7	5.1	6.4
Inflation indexation on opening RAB	5.1	5.1	5.2	5.2	5.0
Less: straight-line depreciation	14.4	15.9	15.0	14.9	13.5
Closing RAB	**182.4**	**184.8**	**184.6**	**179.9**	**177.9**

Source: AER analysis.

(a) Net of forecast disposals and capital contributions. In accordance with the timing assumptions of the PTRM, the capex includes a half-year WACC allowance to compensate for the six month period before capex is added to the RAB for revenue modelling.

We determine that the forecast depreciation approach is to be used to establish the opening RAB at the commencement of the 2029–34 period for Evoenergy's distribution and transmission networks.[15] We consider this approach is consistent with the capital expenditure incentive objective in that it will provide sufficient incentives for Evoenergy to achieve capex efficiency gains over the 2024–29 period. This approach is also consistent with our *Framework and approach* (F&A) paper.[16]

2.2 Evoenergy's proposal

Evoenergy used our RFM to establish an opening RAB as at 1 July 2024 and our PTRM to roll forward the RAB over the 2024–29 period.

15 NER, cl. 6.12.1(18).

16 AER, *Framework and approach Evoenergy (ACT), Regulatory control period commencing, 1 July 2024*, July 2022, p. 48.

Evoenergy proposed opening RAB values of $796.0 million and $177.3 million ($ nominal) as at 1 July 2019 for its distribution and transmission networks respectively. Rolling forward this RAB with actual/estimated capex and using depreciation based on forecast capex approved for the 2019–24 period, Evoenergy proposed closing RAB values of $948.7 million and of $182.5 million ($ nominal) as at 30 June 2024 for its distribution and transmission networks respectively.

Table 2.5 and Table 2.6 set out Evoenergy's proposed roll forward of its RABs during the 2019–24 period for its distribution and transmission networks respectively.

Table 2.5 Evoenergy's proposed RAB for the 2019–24 period – distribution ($million, nominal)

	2019-20	2020-21	2021-22	2022-23[a]	2023-24[a]
Opening RAB	796.0	811.5	803.4	830.7	920.0
Capital expenditure[b]	55.8	42.8	59.7	88.6	57.4
Inflation indexation on opening RAB	14.6	7.0	28.1	66.5	43.2
Less: straight-line depreciation[c]	54.9	57.9	60.5	65.7	72.7
Interim closing RAB	811.5	803.4	830.7	920.0	948.0
Difference between estimated and actual capex in 2018-–9					0.6
Return on difference for 2018–19 capex					0.2
Closing RAB as at 30 June 2024					**948.7**

Source: Evoenergy, *Distribution RFM-*, January 2023.
(a) Based on estimated capex.
(b) Net of disposals and capital contributions, and adjusted for actual CPI and half-year WACC.
(c) Adjusted for actual CPI. Based on forecast capex.

Table 2.6 Evoenergy's proposed RAB for the 2019–24 period – transmission ($million, nominal)

	2019-20	2020-21	2021-22	2022-23[a]	2023-24[a]
Opening capital base	177.3	179.2	177.8	182.8	200.6
Net capex[b]	9.4	8.4	10.6	15.9	–6.8
Inflation indexation on opening RAB	3.3	1.5	6.2	14.6	9.4
Less: straight-line depreciation[c]	10.8	11.3	11.8	12.8	14.1
Interim closing RAB	179.2	177.8	182.8	200.6	189.2
Difference between estimated and actual capex in 2018–19					–4.9
Return on difference for 2018–19 capex					–1.8
Closing RAB as at 30 June 2024					**182.5**

Source: Evoenergy, *Transmission RFM*, January 2023.
(a) Based on estimated capex.
(b) Net of disposals and capital contributions, and adjusted for actual CPI and half-year WACC.
(c) Adjusted for actual CPI. Based on forecast capex.

Evoenergy proposed forecast closing RAB values of $1,205.7 million and $202.1 million ($ nominal) as at 30 June 2029 for its distribution and transmission networks respectively.[17] These values reflect its proposed opening RAB, forecast capex, expected inflation, and depreciation (based on forecast capex) over the 2024–29 period. Evoenergy's projected RAB over the 2024–29 period is shown in Table 2.7 and Table 2.8 for its distribution and transmission networks respectively.

Table 2.7 Evoenergy's proposed RAB for the 2024–29 period – distribution ($million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29
Opening RAB	948.7	979.7	1,006.1	1,056.4	1,121.2
Capital expenditure[a]	81.3	83.3	100.3	117.7	127.8
Inflation indexation on opening RAB	27.0	27.9	28.7	30.1	31.9
Less: straight-line depreciation	77.4	84.8	78.7	83.0	75.2
Closing RAB	**979.7**	**1,006.1**	**1,056.4**	**1,121.2**	**1,205.7**

Source: Evoenergy, *Distribution PTRM*, January 2023.
(a) Net of forecast disposals and capital contributions. Inclusive of half-year WACC to account for the timing assumptions in the PTRM.

[17] Evoenergy, *Distribution PTRM*, January 2023; Evoenergy, *Transmission PTRM*, January 2023.

Table 2.8 Evoenergy's proposed RAB for the 2024–29 period – transmission ($million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29
Opening RAB	182.5	183.1	186.0	187.3	190.4
Capital expenditurea	10.4	13.5	10.9	12.8	20.1
Inflation indexation on opening RAB	5.2	5.2	5.3	5.3	5.4
Less: straight-line depreciation	15.0	15.8	15.0	15.0	13.8
Closing RAB	**183.1**	**186.0**	**187.3**	**190.4**	**202.1**

Source: Evoenergy, *Transmission PTRM*, January 2023.
(a) Net of forecast disposals and capital contributions. Inclusive of half-year WACC to account for the timing assumptions in the PTRM.

2.3 Assessment approach

We roll forward Evoenergy's RAB over the 2019–24 period to arrive at an opening RAB value at 1 July 2024. This value must be adjusted for any differences in estimated and actual capex.[18] It may also be adjusted to reflect any changes in the use of the assets, with only assets used to provide standard control services to be included in the RAB.[19]

To determine the opening RAB at 1 July 2024, we developed an asset base RFM that a distributor must use in preparing its regulatory proposal.[20] We used the RFM to roll forward Evoenergy's RAB from the beginning of the final year of the 2014–19 period,[21] through the 2019–24 period, to the beginning of the 2024–29 period.

The roll forward for each year of the above period occurs by:

- adding actual inflation (indexation) adjustment to the opening RAB for the relevant year. This adjustment is consistent with the inflation factor used in the control mechanism.[22]
- adding actual or estimated capex to the RAB for the relevant year.[23] We review a distributor's past capex and may exclude past capex from being rolled into the RAB where total capex exceeds the regulatory allowance.[24] The details of our assessment approach for capex overspending are set out in the *Capital expenditure incentive guideline*. [25] We note that our review of past capex does not include the last two years of

18 NER, cl. S6.2.1(e)(3).

19 NER, cl. S6.2.1(e)(7). See also NER, cl. 6.24.2(b) services provided by means of dual function assets are deemed to be standard control services.

20 NER, cll. 6.5.1(b), 6.5.1(e), S6.1.3(7); AER, *Electricity distribution network service providers: Roll forward model version 3.1*, May 2022.

21 NER, cl. S6.2.1(e)(3).

22 NER, cl. 6.5.1(e)(3).

23 NER, cl. S6.2.1(e)(4).

24 NER, cl. S6.2.2A. Under the NER, cl. S6.2.2A(b), the exclusion of inefficient capex could only come from three areas: overspend in capex, margin paid to third party and capitalisation of opex as defined in cll. S6.2.2A (c), (d) and (e) of the NER.

25 AER, *Capital expenditure incentive guideline for electricity network service providers*, April 2023, pp. 13–21.

the 2019–24 period—these will instead be reviewed at the next distribution determination.[26] We check actual capex amounts against audited annual reporting regulatory information notice (RIN) data and generally accept the capex reported in those RINs in rolling forward the RAB.[27] However, there may be instances where adjustments are required to the annual reporting RIN data.[28]

- subtracting depreciation from the RAB for the relevant year, calculated in accordance with the distribution determination for Evoenergy's 2019–24 period.[29] Depreciation based on forecast or actual capex can be used to roll forward the RAB.[30] For this draft decision, we use depreciation based on forecast capex for rolling forward Evoenergy's RAB over the 2019–24 period. [31] Depreciation based on forecast capex will also be used for the 2024–29 RAB roll forward at the next distribution determination.[32]
- subtracting any gross proceeds for asset disposals for the relevant year from capex to be added to the RAB.[33] We check these amounts against audited annual reporting RIN data.

These annual adjustments give the closing RAB for any particular year, which then becomes the opening RAB for the following year. Through this process the RFM rolls forward the RAB to the end of the 2019–24 period. The PTRM used to calculate the annual revenue requirement for the 2024–29 period, generally adopts the same RAB roll forward approach as the RFM. However, in the PTRM, the annual adjustments to the RAB are based on forecasts, rather than actual amounts.[34]

The opening RAB for the 2029–34 period can be determined using depreciation based either on forecast or actual capex incurred during the 2024–29 period.[35] To roll forward the RAB using depreciation based on forecast capex, we would use the forecast depreciation contained in the PTRM for the 2024–29 period, adjusted for actual inflation. If the approach to roll forward the RAB using depreciation based on actual capex was adopted, we would recalculate the depreciation based on actual capex incurred during the 2024–29 period.

Our decision on whether to use actual or forecast depreciation must be consistent with the capex incentive objective.[36] This objective is to ensure that increases to the RAB through

---

26 NER, cl. S6.2.2A(a1). The two year lag ensures that actual capex (instead of estimated capex) is available when the review of past capex commences.

27 We will update any estimated capex with actual capex at the time of the next distribution determination.

28 For example, we make adjustment for movements in capitalised provisions if the actual capex amounts reported in the RIN include capitalised provisions.

29 NER, cl. S6.2.1(e)(5).

30 NER, cl. 6.12.1(18).

31 The use of forecast depreciation is consistent with the depreciation approach established in the 2019–24 distribution determination for Evoenergy. See AER, *Final decision, Evoenergy distribution determination 2019 to 2024, Attachment 2, Regulatory asset base*, April 2019, p. 12.

32 Refer to section 2.4.3 for the reasons.

33 NER, cl. S6.2.1(e)(6).

34 NER, cl. S6.2.3.

35 NER, cl. S6.2.2B.

36 AER, *Framework and approach Evoenergy (ACT), Regulatory control period commencing, 1 July 2024*, July 2022, p. 48.

capex only occur where that capex reasonably reflects the capex criteria.[37] In deciding between actual and forecast depreciation, we have regard to:[38]

- the incentives the service provider has to undertake efficient capex
- substitution possibilities between assets with different lives and the relative benefits of each
- the extent of overspending and inefficient overspending relative to the allowed forecast
- the capex incentive guideline
- the capex factors.

2.3.1 Interrelationships

The RAB is an input into the determination of the return on capital and depreciation (return of capital) building block amounts.[39] Factors that influence the RAB will therefore flow through to these building block components and the annual revenue requirement. Other things being equal, a higher RAB increases both the return on capital and depreciation amounts.

The RAB is determined by various factors, including:

- the opening RAB (meaning the value of existing assets at the beginning of the regulatory control period)
- net capex[40]
- depreciation
- indexation adjustment – so the RAB is presented in nominal terms, consistent with the rate of return.

The opening RAB at the start of a regulatory control period depends on the value of existing assets and will depend on actual net capex, actual inflation outcomes and depreciation in the past.

The RAB when projected to the end of the period increases due to both forecast new capex and the indexation adjustment. The size of the indexation adjustment depends on expected inflation (which also affects the nominal rate of return or WACC) and the size of the RAB at the start of each regulatory year.

Depreciation reduces the RAB. The forecast depreciation depends on the size of the opening RAB, the forecast net capex and depreciation schedules applied to the assets. By convention, the indexation adjustment is also offset against depreciation to prevent double counting of inflation in the RAB and WACC, which are both presented in nominal terms. This

---

37 NER, cl, 6.4A(a).

38 NER, cl. S6.2.2B(b) and (c).

39 The size of the RAB also impacts the benchmark debt raising cost allowance. However, this amount is usually relatively small and therefore not a significant determinant of revenues overall.

40 Net capex is gross capex less disposals and capital contributions. The rate of return or WACC also influences the size of the capex. This is because the capex is not depreciated in the year it is first incurred, but added to the RAB at the end of the year. Instead, the capex amount is escalated by half-year WACC to arrive at an end of year value. It then begins depreciating the following year.

reduces the regulatory depreciation building block that feeds into the annual revenue requirement.

We maintain the RAB in real terms by indexing for inflation.[41] A nominal rate of return (WACC) is multiplied by the opening RAB to produce the return on capital building block.[42] To prevent the double counting of inflation through the nominal WACC and indexed RAB,[43] the regulatory depreciation building block has an offsetting reduction for indexation of the RAB.[44] Indexation of the RAB and the offsetting adjustment made to depreciation results in smoother revenue recovery profile over the life of an asset than if the RAB was un-indexed. If the RAB was un-indexed, there would be no need for an offsetting adjustment to the depreciation calculation of total revenue. This alternative approach provides for overall revenues being higher early in the asset's life (as a result of more depreciation being returned to the distributor) and lower in the future—producing a steeper downward sloping profile of total revenue.[45] The implications of an un-indexed RAB are discussed further in Attachment 4.

Figure 2.1and Figure 2.2 show the key drivers of the changes in the RABs over the 2024–29 period as proposed by Evoenergy for its distribution and transmission networks respectively. Overall, the closing RABs at the end of the 2024–29 period would be 27% higher for the distribution network and 11% higher for the transmission network than the respective opening RABs at the start of that period based on the proposal, in nominal terms. The proposed forecast net capex increases the RAB by 54% for the distribution network and 37% for the transmission network. Expected inflation increases it by 15% for the distribution network and 15% for the transmission network. On the other hand, forecast depreciation reduces the RAB by about 42% for the distribution network and 41% for the transmission network.

41 NER, cll. 6.3.2(a)(2), 6.5.1(e)(3).

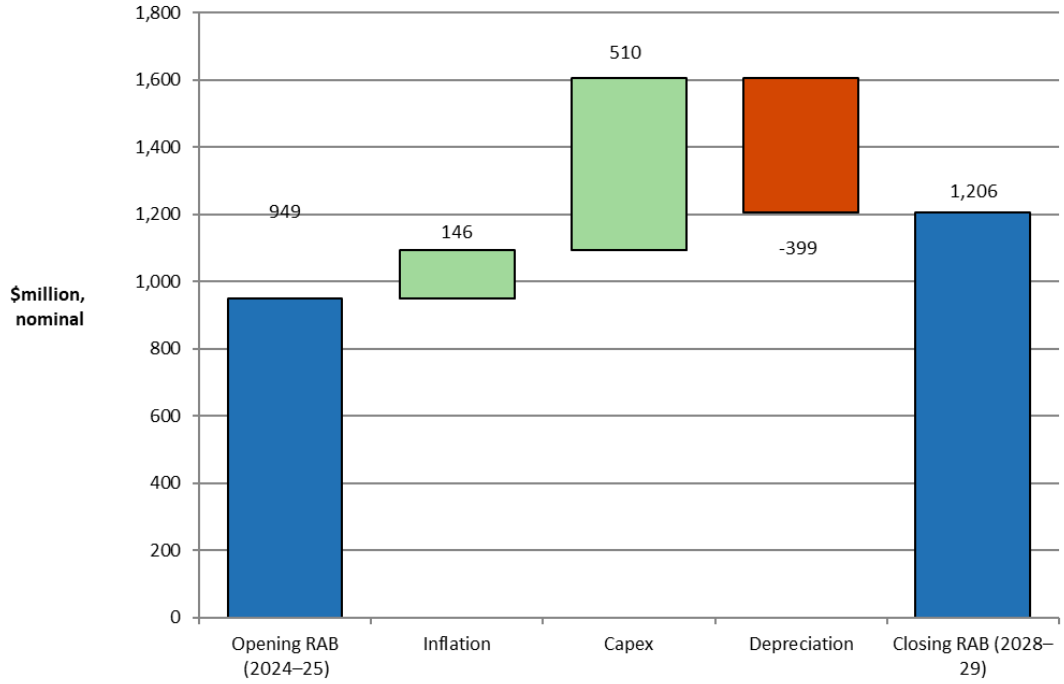
42 NER, cl. 6.5.2; AER, *Rate of return instrument*, cll. 1, 3, 36(c), February 2023.

43 NER, cl. 6.4.3(b)(1)(ii).

44 If the asset lives are extremely long, such that the RAB depreciation rate is lower than the inflation rate, then negative regulatory depreciation can emerge. The indexation adjustment is greater than the RAB depreciation in such circumstances. Please also refer to section 4.3.1 of Attachment 4 of this draft decision for further explanation of the offsetting adjustment to the depreciation.

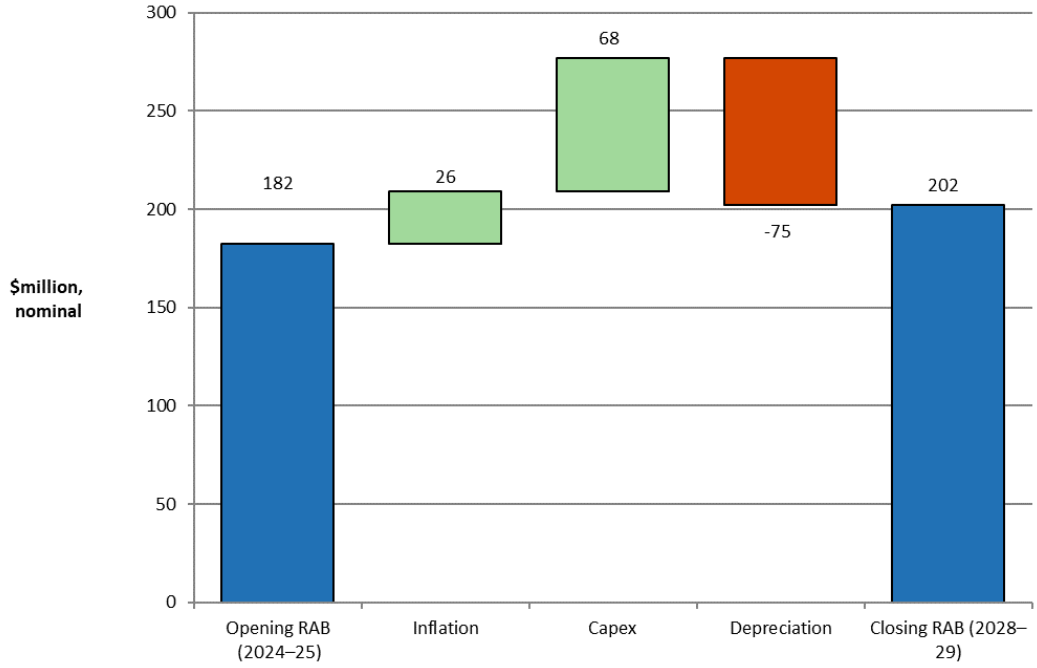
45 A change of approach from an indexed RAB to an un-indexed RAB would result in an initial step change increase in revenues to preserve NPV neutrality.

Figure 2.1 Key drivers of changes in the RAB proposed by Evoenergy – distribution ($million, nominal)



Source: Evoenergy, *Distribution PTRM*, January 2023.
Note: Capex is net of forecast disposals and capital contributions. It is Inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

Figure 2.2 Key drivers of changes in the RAB proposed by Evoenergy – transmission ($million, nominal)



Source: Evoenergy, *Transmission PTRM*, January 2023.
Note: Capex is net of forecast disposals and capital contributions. It is Inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

Evoenergy's proposed forecast straight-line depreciation amounts for the 2024–29 period are $399.0 million and $74.5 million ($ nominal) for its distribution and transmission networks respectively.[46] We have accepted Evoenergy's depreciation proposal, subject to some input updates in its depreciation tracking module, as it satisfies the requirements of the National Electricity Rules (NER) in terms of the assigned asset lives.[47] This is discussed in Attachment 4. The depreciation amount largely depends on the opening RAB, which in turn depends on capex in the past.[48] Depreciation associated with forecast capex is a relatively smaller amount.

However, we do have concerns with the size of the forecast capex, the largest driver of the increase in the RAB over the 2024–29 period, proposed by Evoenergy. For this draft decision, we have reduced Evoenergy's proposed forecast capex by $96.1 million (18.8%) and $22.8 million (33.6%) ($ nominal) over the 2024–29 period for its distribution and transmission network respectively.[49] Our review of Evoenergy's forecast capex is set out in Attachment 5 of this draft decision.

A 10% increase in the opening RAB at 1 July 2024 causes revenues to increase by around 6% for Evoenergy's distribution and transmission networks respectively. However, the impact on revenues of the annual change in RAB depends on the source of the RAB change, as some drivers affect more than one building block cost.[50]

2.4 Reasons for draft decision

We determine opening RAB values of $941.6 million and $181.2 million ($ nominal) as at 1 July 2024 for Evoenergy's distribution and transmission networks respectively. These amounts are $7.1 million (or 0.7%) and $1.3 million (or 0.7%) lower than the proposal.

We forecast closing RAB values of $1,101.8 million and $177.9 million ($ nominal) as at 30 June 2029 for Evoenergy's distribution and transmission networks respectively. These amounts are $103.9 million (or 8.6%) and $24.3 million (or 12.0%) lower than the proposal. The reasons for our decision are discussed below.

2.4.1 Opening RABs as at 1 July 2024

We determine opening RAB values of $941.6 million and $181.2 million as at 1 July 2024 for Evoenergy's distribution and transmission networks respectively. These amounts are $7.2 million (or 0.7%) and $1.3 million (or 0.7%) lower than Evoenergy's proposed opening RAB

---

46 This is the forecast straight-line depreciation.

47 NER, cl. 6.5.5(b).

48 At the time of this draft decision, the roll forward of Evoenergy's RAB includes estimated capex values for 2022–23 and 2023–24. We expect to update the 2022–23 estimated capex with actuals in the final decision. We may also update the 2023–24 estimated capex with a revised estimate in the final decision.

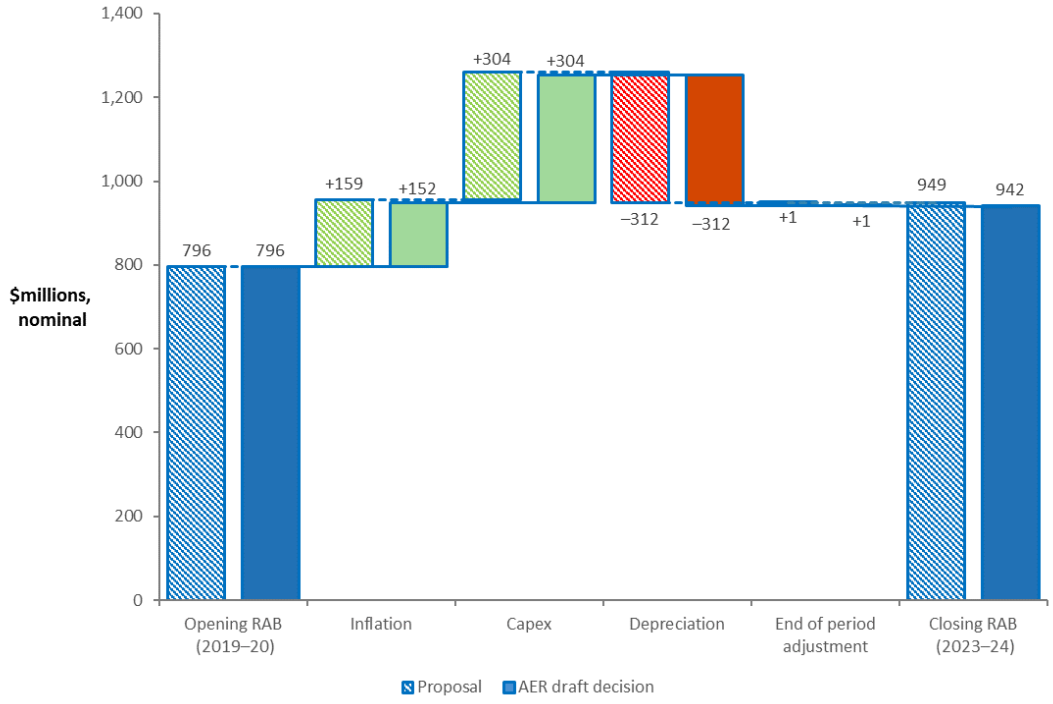
49 This amount is net of disposals and capital contributions, and inclusive of the half-year WACC adjustment.

50 If capex causes the RAB increase, return on capital, depreciation, and debt raising costs all increase too. If a reduction in depreciation causes the RAB increase, revenue could increase or decrease. In this case, the higher return on capital is offset (perhaps more than offset) by the reduction in depreciation allowance. Inflation naturally increases the RAB in nominal terms.

values of $948.7 million and $182.5 million ($ nominal) as at 1 July 2024.[51] The reductions are mainly driven by updates to the CPI inputs for 2022–23 and 2023–24.

Figure 2.3 and Figure 2.4 show the key drivers of the change in Evoenergy's distribution and transmission RABs respectively over the 2019–24 period for this draft decision. Overall, the closing distribution and transmission RAB values at the end of the 2019–24 period are 18% higher and 2% higher, respectively, than the opening RABs at the start of that period, in nominal terms. The new net capex increases the distribution and transmission RABs by 38% and 21%, while indexation increases them by 19% and 19% respectively. Depreciation, on the other hand, reduces the RAB by 39% and 34% respectively. End of period adjustments increase the distribution RAB by less than 1% but reduce the transmission RAB by 4%.

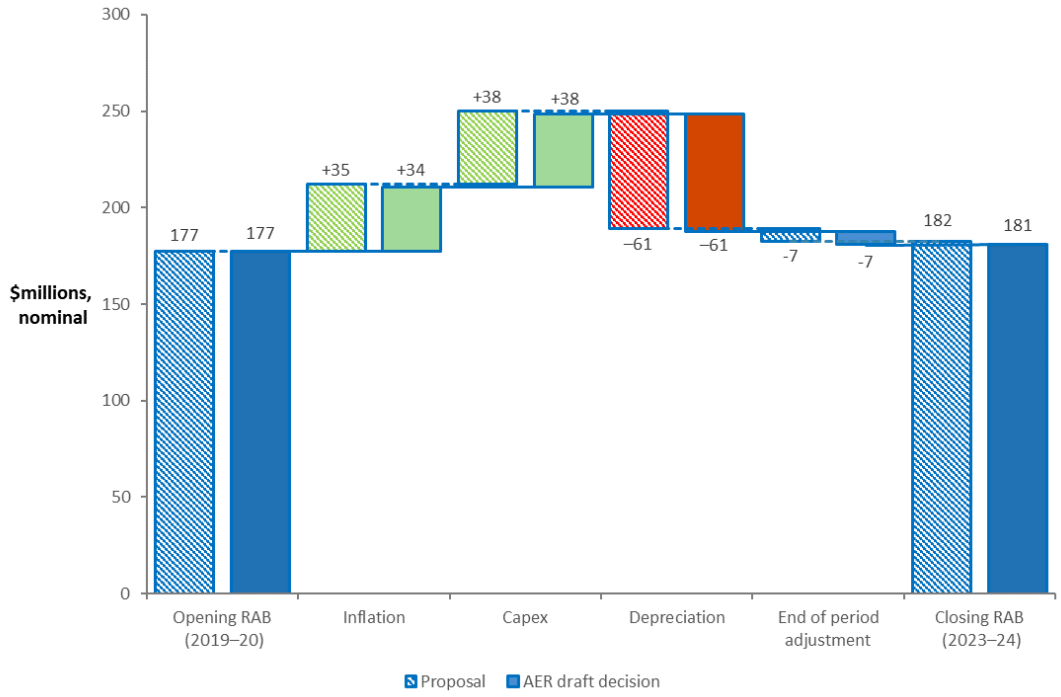
Figure 2.3 Key drivers of changes in the RAB over the 2019–24 period – Evoenergy's proposal compared with the AER's draft decision – distribution ($million, nominal)



Source: AER analysis.
Note: Capex is net of disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

51 Evoenergy, *Evoenergy-Distribution RFM-January 2023_Public,* January 2023; Evoenergy, *Evoenergy-Transmission RFM-January 2023_Public,* January 2023.

Figure 2.4 Key drivers of changes in the RAB over the 2019–24 period – Evoenergy's proposal compared with the AER's draft decision – transmission ($million, nominal)



Source: AER analysis.
Note: Capex is net of disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

In the following sections we discuss our assessment of Evoenergy's proposed inputs in the RFMs and the ex post review of 2017–22 capex for RAB roll forward purposes.

2.4.1.1 Key inputs in the RFM

To determine the opening RAB for Evoenergy as at 1 July 2024, we have rolled forward the RAB over the 2019–24 period to determine a closing RAB value as at 30 June 2024. In doing so, we reviewed the key inputs of Evoenergy's proposed RFMs, such as actual inflation, rate of return, gross capex values, asset disposal values, capital contribution values, forecast depreciation amounts and asset lives. We found most of these inputs were correct and reconcile with relevant data sources such as ABS data, annual reporting RINs and the 2019–24 decision models.[52] However, we consider that some of Evoenergy's proposed RFM inputs require updating with newly available data or corrections.

Therefore, we have made the following amendments to Evoenergy's proposed RFM inputs:

- Updated Evoenergy's estimate of the 2022–23 inflation of 8.00% with actual CPI of 7.83% published by the ABS, which became available after Evoenergy submitted its proposal. We also updated the estimated CPI for 2023–24 to better reflect the latest economic conditions. Evoenergy's proposal used 4.70% as the estimated CPI input for

52 At the time of this draft decision, the roll forward of Evoenergy's RAB includes estimated capex values for 2022–23 and 2023–24. We expect to update the 2022–23 estimated capex with actuals in the final decision. We may also update the 2023–24 estimated capex with a revised estimate in the final decision.

2023–24, reflecting the RBA's forecast published in November 2022.[53] For this draft decision, we have updated this value to 4.10%, reflecting the RBA's forecast published in August 2023.[54]

- Updated the nominal vanilla WACC for 2023–24, equity raising costs (for transmission only) and the forecast straight-line depreciation inputs to reflect the 2023–24 return on debt update in the PTRM for the 2019–24 period, which became available after Evoenergy submitted its proposal.
- Corrected inconsistencies in some annually reported data related to capex, disposals and capital contributions. We consulted with Evoenergy on these changes, which it agreed with.[55]

These amendments have resulted in total reductions of $7.2 million (or 0.7%) and $1.3 million (or 0.7%) ($ nominal) to Evoenergy's opening RAB values as at 1 July 2024 for its distribution and transmission networks respectively.

2.4.1.2 Ex post review of 2017–22 capex

We also consider the extent to which our roll forward of the RAB to 1 July 2024 contributes to the achievement of the capital expenditure incentive objective.[56] In the 2019–24 distribution determination, we noted that the 2017–18 and 2018–19 capex would form part of the review period for whether past capex should be excluded for inefficiency reasons in this distribution determination.[57] The capex for 2019–22 also forms part of the review period.

Consistent with the requirements of the NER we have excluded the last two years of the 2019–24 period from the review of past capex for this distribution determination.[58] This approach ensures that actual capex (instead of estimated capex) is available when the review of past capex commences.

Evoenergy's total actual capex incurred from 2017–18 to 2021–22 is above the forecast allowance set at the previous relevant distribution determinations. Therefore, the overspending requirement for an efficiency review of past capex is satisfied.[59] For the reasons discussed in Attachment 5, we consider the capex incurred in those years is consistent with the capital expenditure criteria and can therefore be included in the RAB.[60]

Further, for the purposes of this draft decision, we have included estimated capex for 2022–23 and 2023–24 in the RAB roll forward to 1 July 2024. At the next distribution determination, the 2022–23 and 2023–24 capex will form part of the review period for whether past capex

---

53 RBA, *Statement on Monetary Policy, Appendix: Forecasts*, November 2022.

54 RBA, *Statement on Monetary Policy, Appendix: Forecasts*, August 2023.

55 Evoenergy, *RE: Evoenergy - Information request - #022 - Modelling issues – 20230503*, 12 May 2023.

56 NER, cl. 6.12.2(b).

57 AER, *Final decision, Evoenergy distribution determination 2019–24, Attachment 2 Regulatory asset base,* April 2019, p. 7.

58 NER, cl. S6.2.2.A(a1).

59 NER, cl. S6.2.2A(c).

60 Please see appendix C of attachment 5 of this draft decision.

should be excluded for inefficiency reasons.[61] Our RAB roll forward applies the incentive framework approved in the previous distribution determination, which included the use of a forecast depreciation approach in combination with the application of the capital expenditure sharing scheme (CESS).[62] As such, we consider that the 2019–24 RAB roll forwards contribute to opening RABs (as at 1 July 2024) that includes capex that reflects prudent and efficient costs, in accordance with the capital expenditure criteria.[63]

2.4.2 Forecast closing RAB as at 30 June 2029

We forecast closing RAB values of $1,101.8 million and $177.9 million ($ nominal) by 30 June 2029 for Evoenergy's distribution and transmission networks respectively. These are $103.9 million and $24.3 million lower compared to Evoenergy's proposal for its distribution and transmission networks respectively. These reductions reflect our draft decision on the inputs for determining the forecast RAB in the PTRM.

The change in the size of the RAB over the 2024–29 period depends on our assessment of its various components including expected inflation (Attachment 3), forecast depreciation (Attachment 4) and forecast capex (Attachment 5). Inflation and capex increase the RAB, while depreciation and disposals reduce it.

To determine the forecast RAB value for Evoenergy, we amended the following PTRM inputs:

- We reduced Evoenergy's proposed opening RAB value as at 1 July 2024 by $7.1 million (0.8%) and $1.3 million (0.7%) ($ nominal) for its distribution and transmission networks respectively (section 2.4.1).
- We updated Evoenergy's proposed expected inflation rate of 2.85% per annum to 2.80% per annum over the 2024–29 period (Attachment 3). Compared to the proposal, our draft decision results in a decrease to the indexation of the RAB component for the 2024–29 period by $6.0 million (4.1%) and $0.9 million (3.5%) ($ nominal) for its distribution and transmission networks respectively.
- We reduced Evoenergy's proposed forecast straight-line depreciation the 2024–29 period by $5.5 million (1.4%) and $0.7 million (1.0%) ($ nominal) for its distribution and transmission networks respectively (Attachment 4).
- We reduced Evoenergy's proposed forecast capex for the 2024–29 period by $96.1 million 18.8%) and $22.8 million (33.6%) ($ nominal) for its distribution and transmission networks respectively (Attachment 5).[64]

---

61 Here, 'inefficiency' of past capex refers to three specific assessments (labelled the overspending, margin and capitalisation requirements) detailed in NER, cl. S6.2.2A. The details of our ex post assessment approach for capex are set out in AER, *Capital expenditure incentive guideline for electricity network service providers*, April 2023, pp. 13–21.

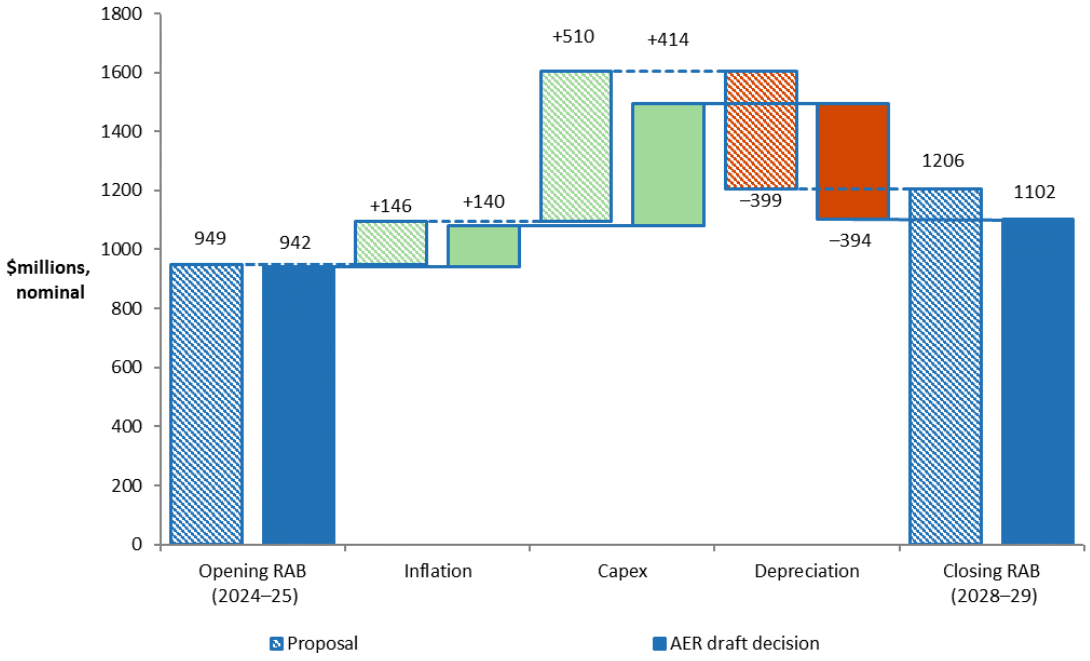
62 AER, *Final decision, Evoenergy Distribution Determination, Attachment 2 – Regulatory asset base,* April 2019, p. 12.

63 NER, cll. 6.4A(a), 65.7(a), 6.5.7(c) and 6.12.2(b).

64 Capex net of disposals and customer contributions, and inclusive of half-year WACC adjustment.

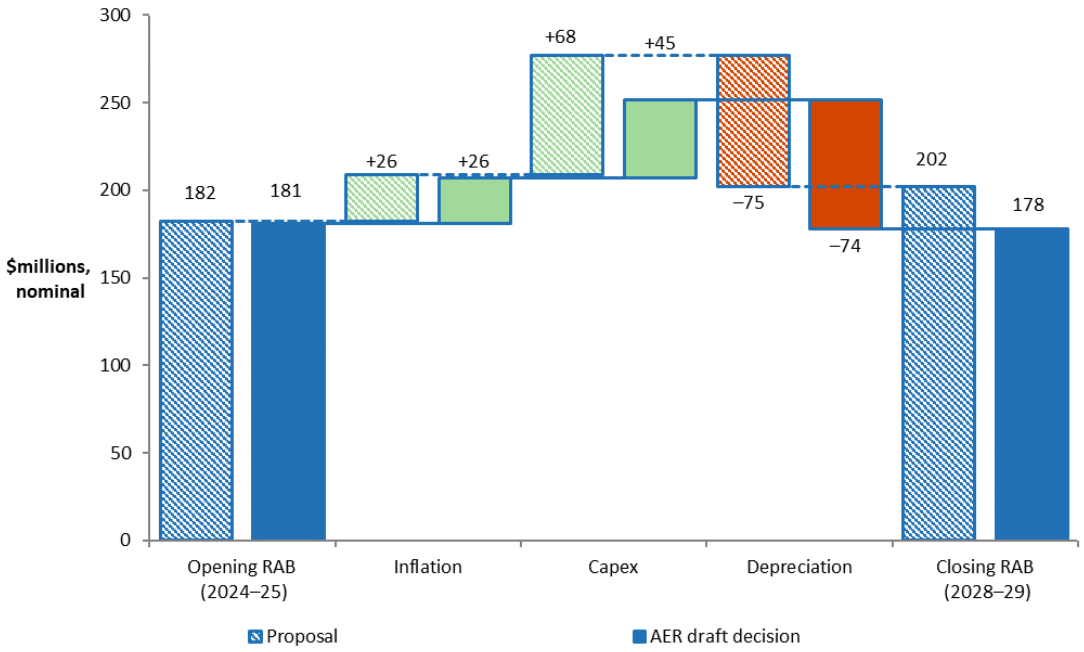
Figure 2.5 and Figure 2.6 show the key drivers of the change in Evoenergy's distribution and transmission RABs respectively over the 2024–29 period for this draft decision. Overall, our draft decision closing distribution and transmission RAB values at the end of the 2024–29 period are forecast to be 17% higher and 2% lower, respectively, than the opening RABs at the start of that period, in nominal terms. The approved forecast net capex increases the distribution and transmission RABs by 44% and 25% respectively. Expected inflation increases the RAB by 15% for the distribution network and 14% for the transmission network. On the other hand, forecast depreciation reduces the RAB by 42% for the distribution network and 41% for the transmission.

Figure 2.5 Key drivers of changes in RAB over the 2024–29 period – Evoenergy's proposal compared with the AER's draft decision – distribution ($million, nominal)



Source: AER analysis.
Note: Capex is net of forecast disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

Figure 2.6 Key drivers of changes in RAB over the 2024–29 period – Evoenergy's proposal compared with the AER's draft decision – transmission ($million, nominal)



Source: AER analysis.
Note: Capex is net of forecast disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

2.4.3 Application of depreciation approach in RAB roll forward for next distribution determination

We determine that the depreciation approach to be applied to establish Evoenergy's opening RAB at the commencement of the 2029–34 period at will be based on the depreciation schedules (straight-line) using forecast capex at the asset class level approved for the 2024–29 period. We consider this approach will provide sufficient incentives for Evoenergy to achieve capex efficiency gains over the 2024–29 period.[65]

Evoenergy's proposal did not specify what depreciation approach to use in the roll forward of the RAB for the commencement of its 2029–34 period. However, we consider that the forecast depreciation approach should be used to establish the opening RAB as at 1 July 2029. This approach is also consistent with our F&A paper.[66]

We have used forecast depreciation for this draft decision when rolling forward the opening RAB at the commencement of the 2024–29 period (section 2.4.1). The use of forecast depreciation to establish the opening RAB for the commencement of the 2029–34 period at the next distribution determination therefore maintains the current approach.

As discussed in Attachment 9, Evoenergy is currently subject to the CESS for the 2019–24 period. We will continue to apply the CESS to Evoenergy over the 2024–29 period. We

---

65 NER, cll. 6.12.1(18) and S6.2.2B.

66 AER, *Framework and approach Evoenergy (ACT), Regulatory control period commencing, 1 July 2024*, July 2022, p. 48.

consider that the CESS will provide sufficient incentives for Evoenergy to achieve capex efficiency gains over that period. We are satisfied that the use of a forecast depreciation approach in combination with the application of the CESS and our other ex post capex measures are sufficient to achieve the capex incentive objective.[67]

[67] Our ex post capex measures are set out in the capex incentives guideline, AER, *Capital expenditure incentive guideline for electricity network service providers*, April 2023, pp. 13–21. The guideline also sets out how all our capex incentive measures are consistent with the capex incentive objective.

Shortened Forms

Term	Definition
ABS	Australia Bureau of Statistics
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
F&A	Framework and approach
NER	National Electricity Rules
NPV	net present value
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
RFM	roll forward model
RIN	regulatory information notice
WACC	weighted average cost of capital