

Draft Decision

**Power and Water Corporation
Electricity Distribution
Determination 2024 to 2029
(1 July 2024 to 30 June 2029)**

Overview

September 2023

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AER reference: AER212492

Amendment record

Version	Date	Pages
1.0	28 September 2023	44

Invitation for submissions

Power and Water Corporation has the opportunity to submit a revised proposal in response to this draft decision by **30 November** 2023.

Interested stakeholders are invited to make a submission on both our draft decision and Power and Water Corporation’s revised proposal (once submitted) by 19 January 2024.

Submissions should be sent to: AERresets2024-29@ aer.gov.au

Alternatively, submissions can be sent to:

Kris Funston
Executive General Manager
Australian Energy Regulator
GPO Box 1313
Canberra ACT 2601

Submissions should be in Microsoft Word or another text readable document format.

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. We will treat submissions as public documents unless otherwise requested.

Parties wishing to submit confidential information should:

1. Clearly identify the information that is the subject of the confidential claim.
2. Provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submission will be published on our website.

Pre-determination conference

Consumer engagement is a valuable input to our determination. We encourage all interested stakeholders to join us and Power and Water Corporation at an online public forum on Wednesday, **18 October 2023**. Details of how to register for this forum are available on our website and through Eventbrite ([external link](#)).

List of attachments

This attachment forms part of the AER's draft decision on the distribution determination that will apply to Power and Water Corporation for the 2024–29 period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

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Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Not applicable

Attachment 11 – Demand management incentive scheme and demand management innovation allowance mechanism

Attachment 12 – Not applicable

Attachment 13 – Classification of services

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Attachment 16 – Alternative control services

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Attachment 18 – Connection policy

Attachment 19 – Tariff structure statement

Executive summary

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia as it transitions to net zero emissions. The regulatory framework governing electricity transmission and distribution networks is the National Electricity Law and Rules (NEL and NER) as applied in the Northern Territory (NT NEL and NT NER). Our work in this area is guided by the National Electricity Objective (NEO) as one of the National Energy Objectives.

A regulated network business must periodically apply to us to determine the maximum allowed revenue it can recover from consumers for using its network. On 31 January 2023 we received a revenue proposal from the Northern Territory (NT) electricity network service provider Power and Water Corporation (Power and Water), for the period 1 July 2024 to 30 June 2029 (2024–29 period). This is our draft decision on that combined proposal.

Ensuring consumers pay no more than necessary for safe and reliable energy while supporting the energy transition

Our draft decision comes at a challenging time for energy consumers and the sector more broadly. It seeks to balance affordability with necessary expenditure required to support the energy transition.

Consumers are facing cost-of-living pressures and affordability is a key issue. In SEC Newgate's Mood of the Nation report June 2023¹, the number one issue among the Australian public is reducing cost increases for household bills and 84% of Australians are extremely or quite concerned about electricity bills. Energy Consumers Australia (ECA) similarly noted in a June 2023 energy consumer sentiment survey² that Australian consumers are increasingly worried about the affordability of rising energy costs, with more than 50% concerned about being able to pay electricity bills.

Cost of living pressures are high in the NT. The Northern Territory Council of Social Service Cost of Living report of April 2023 says utilities, transport and housing are unaffordable for many households.³ Our analysis shows that Power and Water's network charges make up around 44% of its residential customers electricity bills.

At the same time, the energy sector is undergoing a significant decarbonisation and electrification transition requiring expenditure to enable additional utility-scale and distributed renewables and storage connections. The June 2023 sentiment survey by ECA⁴ also revealed that 27% of households think Australia should transition to a 100% renewable energy market by 2030, while a further 16% of households think this should happen by 2040.

On 31 August 2023, the Australian Energy Market Operator released its annual *Electricity Statement of Opportunities* (ESOO).⁵ The report highlights that 'Australia's NEM is perched on the edge of one of the largest transformations since the market was formed over 20 years

¹ SEC Newgate Australia, *SEC Newgate Mood of the Nation*, June 2023.

² Energy Consumers Australia, *June 2023 - Energy Consumer Sentiment Survey*, June 2023.

³ Northern Territory Council of Social Service, *Cost of Living report*, April 2023.

⁴ Energy Consumers Australia, *June 2023 - Energy Consumer Sentiment Survey*, June 2023.

⁵ AEMO, [Electricity Statement of Opportunities](#), August 2023.

ago.’⁶ The ESOO flags that the ‘scale of opportunity to meet an imminent and growing need for firm capacity, new forms of energy production and significant consumer energy investments is unparalleled in Australia’s energy history’.⁷ The sentiments of the report are timely for our draft decision and assessment of how to move towards the future. While the NT is not a part of the NEM, the challenges are the same and the sentiments of the report are timely.

In order to deliver a 50% renewable energy target by 2030, the NT Government has developed the Darwin-Katherine electricity system plan and the Alice Springs Future Grid Roadmap to 2030.⁸ These are designed to inform the future development of their respective grids to deliver secure, affordable, reliable and clean energy to consumers.

Many households are actively investing in consumer energy resources (CER) such as solar, batteries and electric vehicles (EVs). While these investments will provide benefits to individual households and the overall energy system, their integration into the existing energy network will require increased expenditure by network businesses.

Tariff reform is required to support the energy transition, particularly around CER such as EVs. Appropriately structured tariffs can enable growth in the value of and number of people with CER, while creating investment signals that limit the level of network investment required and resulting price increases for consumers. For example, export reward tariffs are now being proposed to deal with two-way flows on networks and contingent tariff adjustments are being proposed to deal with uncertainty about the rate of change in uptake of CER. We are also encouraging network businesses to explore additional tariff options to deal with increasing EV numbers.

These changes are occurring at the same time as networks are needing to increase expenditure in order to address important emerging issues such as network cyber security, climate resilience, and digitalisation.

In making this draft decision, we have sought to balance the need for efficient and prudent investments in these new and emerging areas that support the energy transition, while at the same time ensuring consumers facing cost-of-living pressures pay no more than necessary for electricity services that meet their current and future needs. We recognise and support the need for innovative approaches to help drive an affordable energy transition.

Our assessment of Power and Water’s proposal

Power and Water’s regulatory proposal has been shaped by customer and stakeholder insights. Power and Water says three key themes were identified during engagement as important for customers and stakeholders and responded to in the proposal. These are support for vulnerable customers; keeping prices affordable; and enabling connection of more large- and small-scale renewables.

This draft decision allows Power and Water to recover an estimated \$1,016.4 million (\$nominal, smoothed) from consumers over the 2024–29 period. Our draft decision is a 6.8% decrease from the Power and Water’s proposed revenue. The decrease in overall revenue is

⁶ AEMO, [Electricity Statement of Opportunities](#), August 2023, p.3

⁷ AEMO, [Electricity Statement of Opportunities](#), August 2023, p.3

⁸ NT Government, [Territory Renewable Energy - Electricity system plans](#), 2021.

mainly driven by our draft decision reductions to Power and Water’s capital expenditure (capex) and operating expenditure (opex).

We note the majority of Power and Water’s customers are subject to the NT Government’s Electricity Pricing Order (Pricing Order).⁹ This caps retail prices for customers using less than 750MWh of electricity per annum. It is up to retailers to determine prices in accordance with the Pricing Order and pass on to customers the revenues we determine for Power and Water. As such, it is important to recognise the customer impact of any changes to Power and Water’s revenue as a result of our draft decision is constrained by the Pricing Order.

Our assessment recognises that Power and Water’s network is very different to others in Australia. There are three physically separate networks over a wider geographical area with a lower population density, regularly facing diverse extreme weather conditions. These differences have informed Power and Water Corporation’s proposal and how we assess the proposal.

Power and Water has provided a reasonable quality regulatory proposal, which the Consumer Challenge Panel, sub-panel 27 (CCP27) describes as based on a genuine engagement process. Power and Water’s proposal represents a step up in quality compared to its last proposal. We think there is still scope for improvement in terms of its engagement with consumers and in the provision of key information to explain and justify its proposal. Power and Water has engaged constructively with us through information requests to allow us to better understand the drivers of its proposal and to close gaps in its supporting information. Our draft decision highlights where we require further information and justification from Power and Water as part of its revised proposal.

As discussed above, uncertainty, evolving threat around cybersecurity, climate risk and the transitioning energy market have been central considerations for businesses in developing their current proposals. Similar to other businesses, Power and Water has proposed investments in the new and emerging areas of CER integration and cybersecurity. We recognise the need for investments in these important areas as part of the energy transition.

We acknowledge the significant work businesses have undertaken to understand these challenging areas of expenditure. However, having considered its proposal against each of the criteria under the NER, our draft decision on these matters notes a number of areas where we are not yet satisfied that the proposals reflect the prudent and efficient costs of meeting customer and community needs.

The guidance provided in our draft decision will provide an opportunity for Power and Water to consider what further information and analysis may be required to support a prudent and efficient investment in its revised proposal. In doing so, we have also been mindful that these decisions consider new areas of expenditure such as CER integration, climate resilience and cybersecurity, where our assessment approaches are evolving.

While we accept many aspects of Power and Water’s proposal, our review has identified other areas, such as components of forecast capex and opex, where we think Power and Water’s proposal does not as yet meet the requirements under the NT NER. Our draft decision is not to accept Power and Water’s proposed capex forecast. Our draft decision on

⁹ The Pricing Order can be found on the Utilities Commission’s website at: <https://utilicom.nt.gov.au/publications/correspondence-directions-and-notice/electricity-pricing-order-1-july-2023-30-june-2024>.

forecast capex is 24% lower than Power and Water’s proposal. Power and Water has proposed a 39% increase in forecast capex in comparison to the current period, which we consider is not sufficiently justified in terms of prudence and efficiency. We have particular concerns with the proposed non-network property capex, where it has forecast a 341% increase compared to the 2019–24 period, largely for single-site property consolidation in Darwin. Power and Water acknowledged that the ‘one-off’ project to consolidate Power and Water’s staff across five sites into one location is still at a conceptual stage of design.

We also have concerns with the proposed Information and Communication Technologies (ICT) capex in regard to the scope, need and benefits of the Operational Technology uplift project. We note that the site consolidation and ICT capex were added to the proposal after Power and Water completed consultation on the draft revenue proposal in September 2022. We encourage Power and Water to provide us with additional justification on its proposed site consolidation and ICT capex in its revised proposal.

Our draft decision is not to accept Power and Water’s proposed opex forecast. Our draft decision on forecast opex is 12.3% lower than Power and Water’s proposal. A key driver is that at this stage, we do not have sufficient information to establish the prudence and/or efficiency of the step changes Power and Water proposed. We have not included, or included a reduced amount, for five of the six step changes proposed by Power and Water. We have included a step change for cyber security but are seeking further information as to the efficiency of the costs proposed. We have also partly included the step change for future networks (CER enablement) but at a lower cost than Power and Water proposed. We encourage Power and Water to provide us with additional justifying information in relation to its proposed opex step changes in its revised proposal.

We have accepted many aspects of Power and Water’s tariff structure statement. There is evidence of positive although modest reforms to support retail competition and shift the default tariff for low consumption customers from demand to time-of-use. However, we have not approved the proposed ‘super users’ tariff, because Power and Water has not demonstrated that it is cost reflective, and we consider it may create a cross-subsidy to the benefit of high voltage super user customers. Power and Water did not propose two-way pricing for the 2024–29 period but has provided an Export Tariff Transition Strategy to explain its longer-term strategy and stakeholder engagement plans.

Power and Water has identified five contingent projects in its proposal with an estimated \$342 million of associated capex. These projects relate to significant potential network augmentations to enable dispatch of low-cost renewable generation in response to the NT Government’s 50% renewable target by 2030 or to meet localised new demand associated with the development of specific commercial projects. We are supportive of the need of these projects in advancing the energy transition. We have accepted four of these five projects, with revised triggers to meet NER requirements. However, our draft decision does not approve the remaining contingent project (\$45.7 million of capex) for unlocking existing large-scale renewable generation in the Darwin-Katherine area, as Power and Water has not as yet demonstrated sufficient need. Power and Water is encouraged to present additional evidence to demonstrate the need, prudence and efficiency of the proposed Darwin-Katherine renewable generation enablement contingent project.

In this Overview and the accompanying detailed attachments, we have set out the assessment approaches applied, and enquiries made, as part of our review, with the benefit of which we have been able to arrive at this draft decision.

This draft decision is the mid-point in our assessment of Power and Water’s proposal. Where we have not accepted its proposal, Power and Water now has the opportunity to respond in a revised proposal that incorporates the substance of the changes required by, and addresses matters raised in, this draft decision.

The role of consumer engagement in driving regulatory proposals

In December 2021, we released the Better Resets Handbook (the Handbook) for the purpose of encouraging networks to better engage and have customers preferences drive the development of regulatory proposals.¹⁰ The principles for considering consumer engagement in network revenue determinations is set out in the Handbook, with the objective stating:

Networks that engage in genuine engagement with consumers are likely to result in better quality proposals being submitted to the AER. Proposals that reflect consumer preferences, and meet our expectations, are more likely to be largely or wholly accepted at the draft decision stage, creating a more effective and efficient regulatory process for all stakeholders.¹¹

The Handbook provides guidance on our expectations for how a network business can engage with consumers. It also sets out our expectations under the NER framework, in topic areas such as capex and opex, regulatory depreciation and tariff structure statements, which tend to have the most significant impact on consumers.¹²

Consumer engagement is an important facet of our assessment; however, we are still required to ensure we are satisfied that the proposed forecast reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs. We are looking to see how consumer values and preferences are shaping engagement. When assessing a proposal, we should be able to see how a business has linked customer preferences to the expenditure proposed. Where consumer views on an issue are diverse, a business needs to set out those views and how they have balanced the divergence of preferences. Diversity of views will always be prevalent between stakeholders and a business should seek to find mutually acceptable solutions where there are divergent consumer views.¹³

Our role in understanding consumer engagement is not to validate or invalidate the engagement undertaken by a business. All network businesses are distinct, and the engagement undertaken should reflect the purposes and needs identified for that business. We recognise that consumer engagement is dynamic and will involve continuous improvement.

We also recognise the different roles stakeholders will play in developing a business’s engagement process and acknowledge this is an evolving space. The nature of how a network engages with its consumers may include examples such as: an advisory panel, or a representative peoples panel. How a business undertakes this engagement is not prescribed in the Handbook, but it asks that engagement is undertaken sincerely with consumers to

¹⁰ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 1.

¹¹ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 3.

¹² The expectations being for electricity distribution businesses only. AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p.4.

¹³ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 16.

understand and reflect their preferences in proposals.¹⁴ The AER’s Consumer Challenge Panel may also have a role in a business’ engagement, for example in specific circumstances of a pre-lodgement engagement process or the observation of a specific, unique piece of engagement.

We observe that Power and Water has demonstrated an improvement in consultation with customers and stakeholders. Power and Water’s engagement approach for its 2024–29 proposal builds significantly on its experiences from its previous determination. Power and Water has openly acknowledged the challenges it faces, and that further work will need to be done to build its engagement framework. We acknowledge the continued work of Power and Water to consider how it can engage with its customers in the future. Stakeholder submissions indicate that there has been genuine consumer engagement, but concerns have been raised about Power and Water’s response to considerations of affordability for consumers in its proposal.

Our view, informed by stakeholder submissions, is that Power and Water has been guided by but not met the Handbook expectations around genuine consumer engagement on capex and opex proposals.¹⁵ Stakeholders indicated there was a lack of consultation on property (site consolidation) and ICT capex which have now become significant parts of Power and Water’s proposal. Similarly, there has not been consultation with consumers on significant changes to Power and Water’s Draft Plan¹⁶ (six new step changes) that materially increased proposed opex. Power and Water’s projects and investment proposals arising from the development of its customer experience strategy will be subject to broad customer engagement. We encourage Power and Water to effectively consult with customers and stakeholders on all capex, opex and contingent projects proposals that could materially impact customer affordability (recognising electricity retail price controls in the NT), in their revised proposal.

The amended NEO and the current regulatory determination resets

A new emissions objective has been added to the existing economic efficiency framework in all three energy objectives, including the NEO. The long-term interests of consumers will extend to the achievement of Commonwealth, State and Territory targets for reducing Australia’s greenhouse gas emissions, or that are likely to contribute to reducing Australia’s greenhouse gas emissions. This is based on the *National Energy Laws Amendment (Emissions Reduction Objectives) Act* which passed the South Australian Parliament in September 2023. The Act states that the amended NEO applies to the revenue determinations for Ausgrid, Endeavour Energy, Essential Energy, Evoenergy, TasNetworks Distribution, TasNetworks Transmission and Power and Water Corporation (NT), for the 2024–29 regulatory control period.

We published final guidance on the amended national energy objectives in September 2023. This guidance included how we will operationalise the amended NEO and applies only to the affected network service providers for the 2024-29 regulatory determinations.

We think inclusion of emissions reduction in the NEO is a significant reform in how energy systems are governed and will be invaluable to progressing the energy transition. As the

¹⁴ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 12.

¹⁵ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 19–29.

¹⁶ Power and Water Corporation, [Power and Water Draft Plan - Questions for our stakeholders to prepare our 2024-29 regulatory proposal](#), August 2022.

independent regulator, the NEO guides our work to promote the long-term interests of consumers with respect to achieving emission reduction targets, alongside our existing considerations including price, quality, safety and reliability of energy supply.

We recognise that Power and Water is in the early stages of considering the transition to net zero and emissions reduction, with an aim to enable the NT Government’s goal of 50% power consumption to be provided by renewable energy by 2030.

If Power and Water’s revised proposal includes material new expenditure items because of the amended NEO, we would expect it to demonstrate that the expenditure aligns with consumer preferences and the criteria for prudent and efficient expenditure, consistent with the Better Resets Handbook. We will continue to work with the affected network service providers as they prepare and consult on their revised regulatory proposals.

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1 Our draft decision

Our draft decision would, if implemented, allow Power and Water to recover a total revenue of \$1,016.4 million (\$ nominal, smoothed) from its consumers from 1 July 2024 to 30 June 2029.

In the sections below we briefly outline what is driving Power and Water’s revenue, and the key differences between our draft decision revenue compared to the \$1,091.1 million in Power and Water’s proposal.

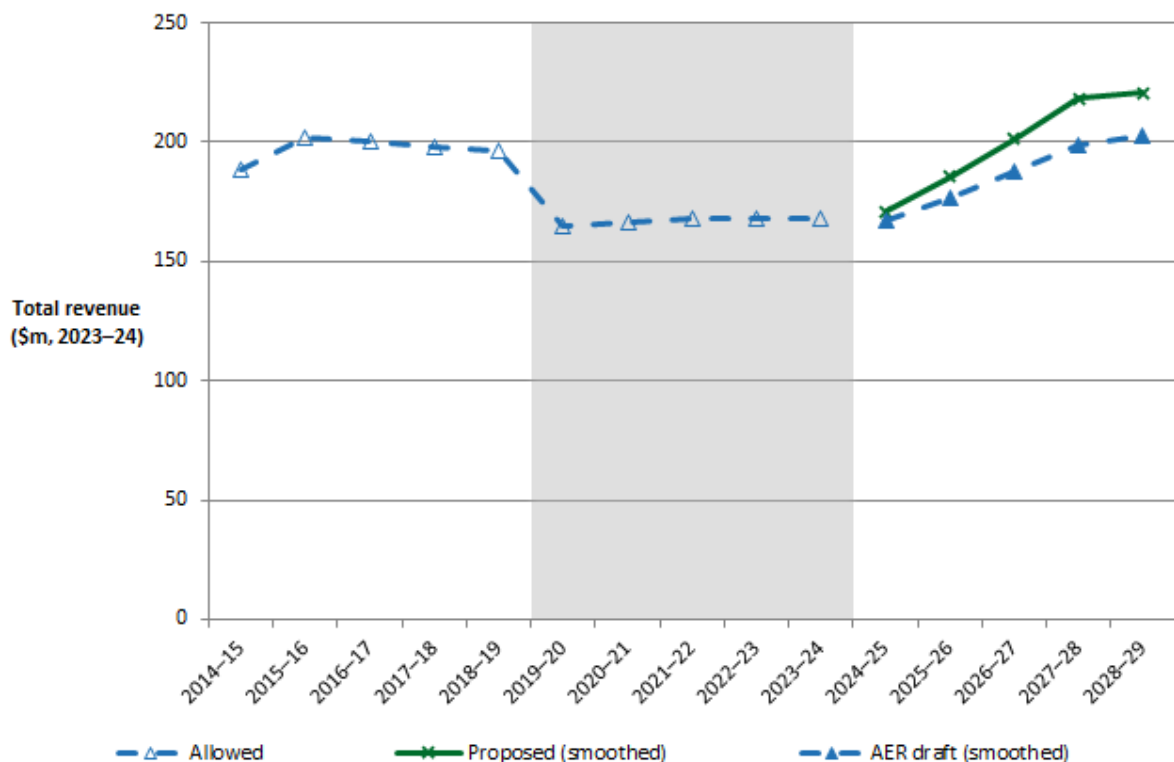
1.1 What is driving revenue?

Revenue is driven by changes in real costs and inflation. We assess costs (such as capital and operating expenditures) in real terms.

Over time, inflation impacts the spending power of money. To compare revenue from one period to the next on a like-for-like basis, in this section we use ‘real’ values based on a common year (2023–24) that have been adjusted for the impact of inflation instead of the nominal values above.

In real terms, this draft decision would allow Power and Water to recover \$932.3 million (\$2023–24, smoothed) from consumers over the 2024–29 period. This is 11.6% higher than our decision for the current (2019–24) period. Changes in Power and Water’s revenue over time are shown in Figure 1.

Figure 1 Changes in regulated revenue over time (\$ million, 2023–24)



Source: AER analysis.

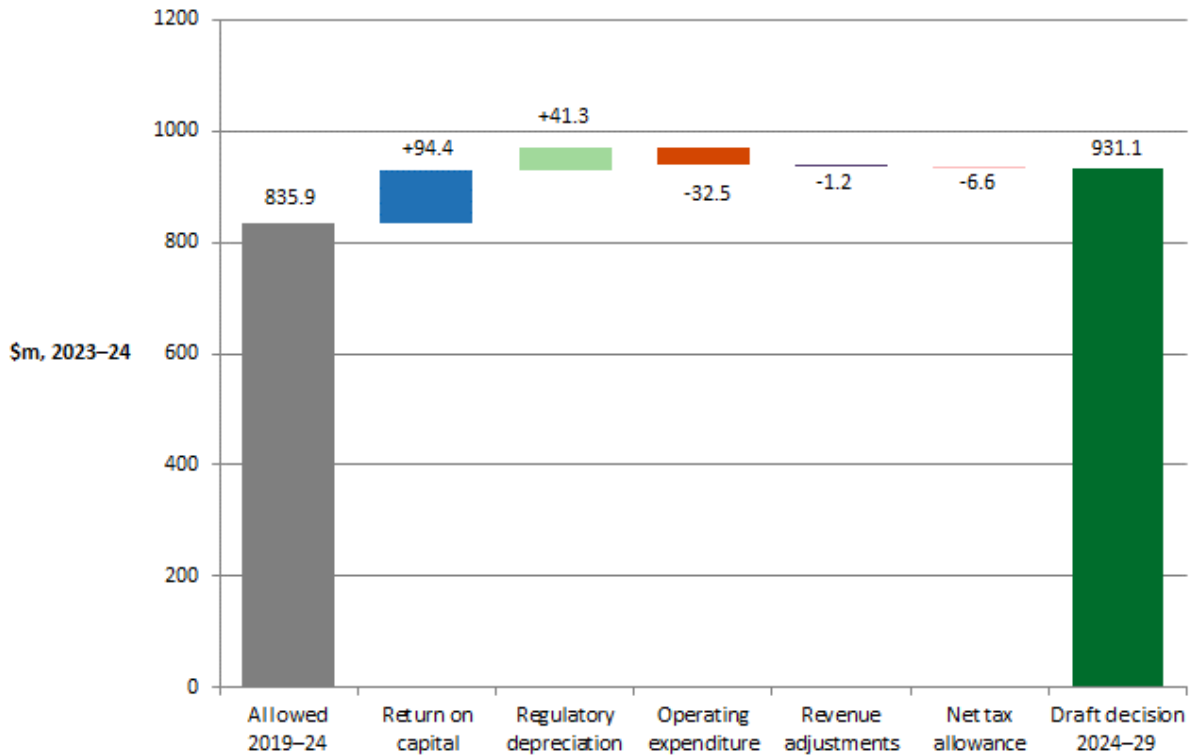
In real terms, this draft decision would allow Power and Water to recover a total building block revenue of \$931.1 million (\$2023–24, unsmoothed). Figure 2 highlights the key drivers of the change between the revenue approved for Power and Water for the 2019–24 period and in this draft decision for the 2024–29 period. It shows that our draft decision provides for increases in the building blocks for:

- return on capital, which is based on the opening regulatory asset base (RAB), capex and rate of return. This is \$94.4 million (33.2%) higher than the 2019–24 period, driven by an increase in the RAB and a higher rate of return being applied in the 2024–29 period, in accordance with the 2022 Rate of Return Instrument
- return of capital (regulatory depreciation), which is \$41.3 million (27.9%) higher than the 2019–24 period, driven primarily by an increase in capex spent on short lived assets and a higher opening RAB as at 1 July 2024 compared to the value we determined in the 2019–24 determination.

Figure 2 also shows that our draft decision provides for reductions in the building blocks for:

- opex, which is \$32.5 million (8.2%) lower than the 2019–24 period, driven primarily by Power and Water’s reported opex in its 2021–22 base year being lower than our opex forecast for that year due to Power and Water achieving some efficiency savings and increasing the amount of overhead opex it capitalises (meaning the comparison is not on a like-for-like basis). Our draft decision also does not include most of the step changes Power and Water proposed as at this stage we do not have sufficient information to establish their prudence and/or efficiency
- net tax allowance, which is nil for the 2024-29 period, being \$6.6 million (100%) lower than the 2019–24 period, primarily due to higher tax depreciation determined in this draft decision compared to 2019–24 period
- revenue adjustments, which are marginally lower by \$1.2 million than the 2019–24 period, mainly due to the application of capital expenditure sharing scheme (CESS) penalties for overspending the capex allowance in that period.

Figure 2 Changes in total revenue between 2019–24 to 2024–29 (\$ million, 2023–24, unsmoothed)

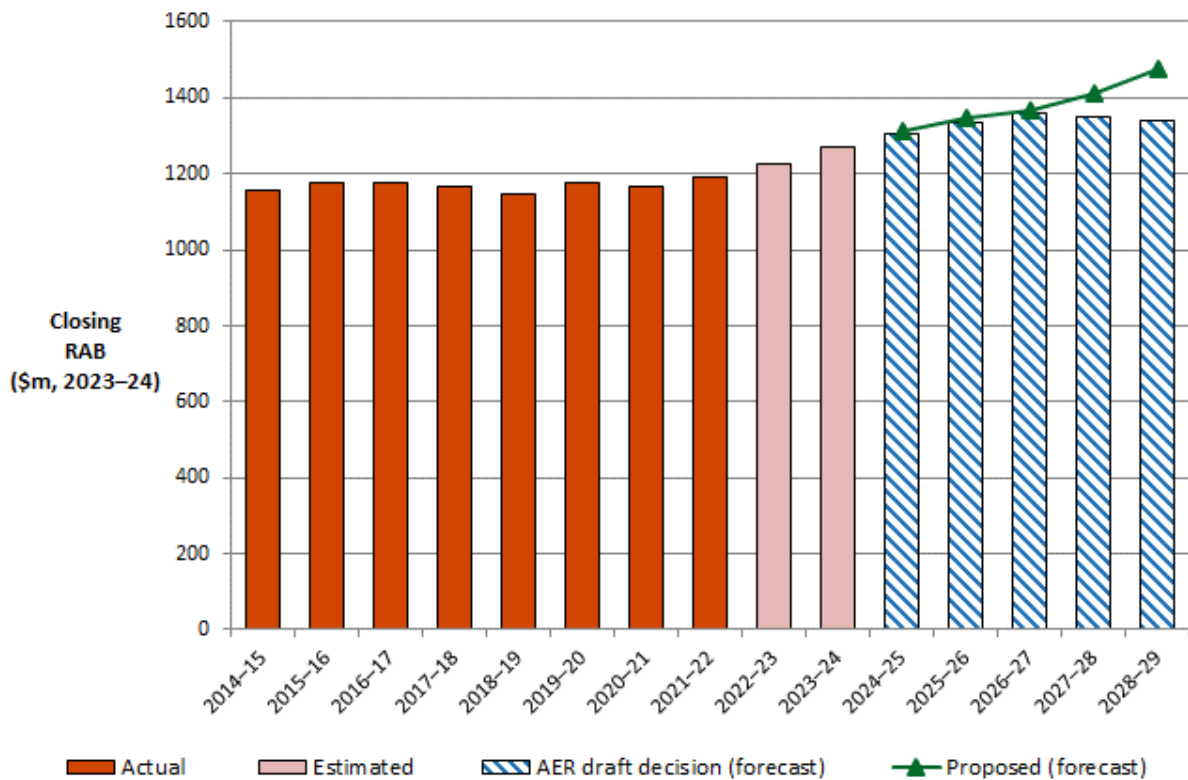


Source: AER analysis.

Note: This comparison is based on converting 2019–24 forecast opex for inflation to 2023–24 dollar terms using lagged CPI.

Figure 3 shows the value of Power and Water’s RAB over time. After estimated RAB growth of 10.7% over the current 2019–24 period, our draft decision results in a further forecast increase of the RAB by \$69.9 million (\$2023–24) or 5.5% over the 2024–29 period. This increase is mainly driven by forecast capex over the 2024–29 period.

Figure 3 Power and Water Corporation’s RAB value over time (\$ million, 2023–24)



Source: AER analysis.

1.2 Key differences between our draft decision and Power and Water’s proposal

Our draft decision accepts much of Power and Water Corporation’s proposal. The main areas of difference between our draft decision and Power and Water Corporation’s proposal are elements of its forecast opex and capex proposals where our draft decision has made reductions. We did not accept all of Power and Water’s proposed step changes in its opex forecast resulting in a reduction of \$50.9 million (\$2023–24) to the opex building block. We also made reductions to Power and Water’s capex forecast, which in turn impacts the return on capital and return of capital building blocks.

Movements in some market variables such as updates to actual/estimated inflation for 2022–23 and 2023–24, and the rate of return have also led to revenue outcomes that are lower in our draft decision than in Power and Water’s proposal. Our draft decision adopts a lower overall rate of return than the proposal as a result of updates to market variables consistent with the 2022 Rate of Return Instrument. This lower rate of return combined with a lower forecast capex results in a \$12.9 million (\$2023–24) reduction to the return on capital building block. Corrections to Power and Water’s tax depreciation calculations, combined with other draft decision adjustments have also resulted in a reduction to the estimated cost of corporate income tax amount to zero.

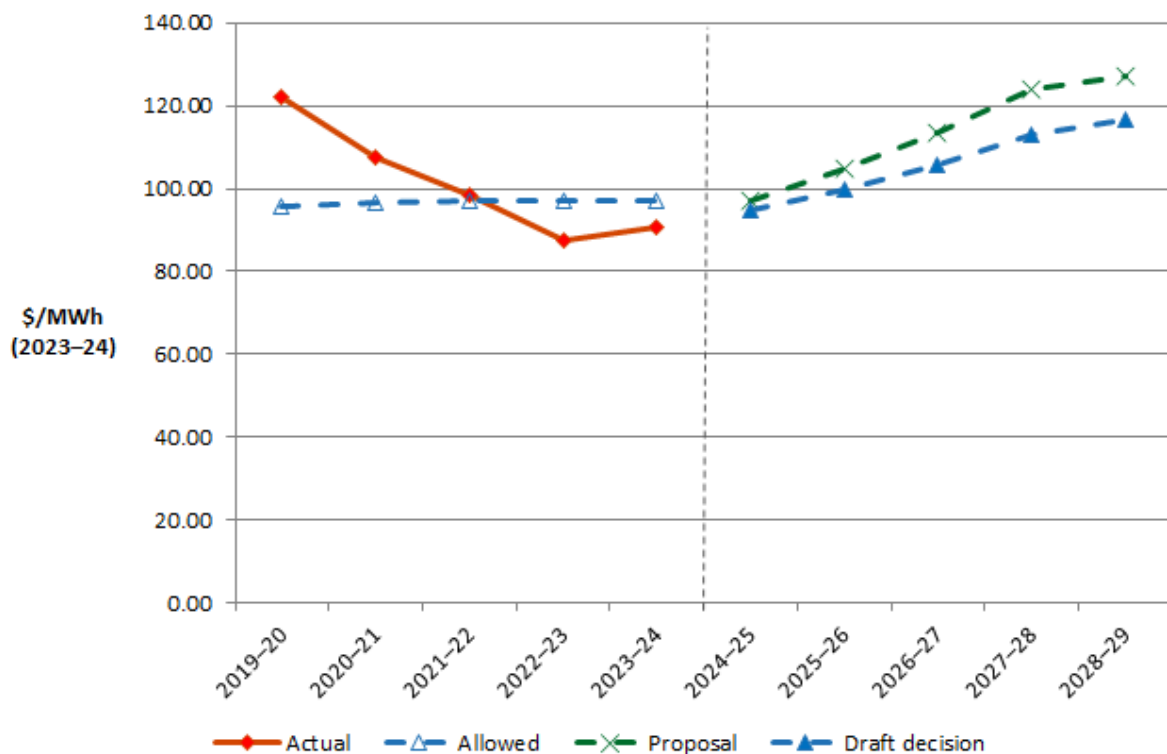
These reductions are partly offset by a higher regulatory depreciation amount, driven by the lower expected inflation rate in our draft decision than at the time of Power and Water’s proposal.

1.3 Expected impact of our draft decision on distribution network costs

Power and Water recovers its regulated revenue through distribution charges, set annually by reference to the tariff structure statement and pricing formulae approved by us as part of this decision.

For illustrative purposes only, we estimate that the modelled impact of this draft decision would be a total increase to average distribution charges of around 28.5% in real terms by 2028–29, compared to 2023–24 levels, or an average increase of 5.2% per annum. This estimate is subject to ongoing revenue adjustments and changes in consumer energy consumption. Figure 4 compares this indicative price path for the 2024–29 period to the 2019–24 period.

Figure 4 Change in indicative charges for 2019–24 to 2024–29 (\$2023–24, \$/MWh)



Source: AER analysis.

Potential bill impact

Most of Power and Water’s customers are subject to the NT Government’s Pricing Order which caps retail prices. As such, it is important to recognise the customer impact of any changes to Power and Water’s revenue as a result of our draft decision is constrained by the Pricing Order.

Power and Water’s distribution network charges make up around 44% of its residential customers’ electricity bills and 32% of its small business customers’ electricity bills. Other components of the electricity supply chain—the cost of purchasing energy from the wholesale market, transmission network charges, environmental schemes and the costs and margins applied by electricity retailers in determining the prices they will charge consumers

for supply—also contribute to the overall costs of supply. These sit outside the decision we are making here and will also continue to change throughout the period.

This is a draft decision, and the final decision outcomes are likely to change. In nominal terms, which include the impact of expected inflation, the impact of this draft decision would be an increase to the distribution component of customers' energy bills. For illustrative purposes only given the application of the Pricing Order, the modelled impact of our draft decision on the average annual electricity bill for a residential customer in the Northern Territory, as it is today, would be an increase of \$551 (21.2%) by 2028–29, or an average of \$110 per annum. For small business customers, the impact would be an increase of \$1,581 (15.3%), or an average of \$316 per annum.

Our decision on Power and Water's proposal will set the revenue allowance that forms the major component of its network charges for the next 5 years. It provides a baseline or starting point for that period.

Over the 2024–29 period there are several additional mechanisms under the NT NER that may operate to increase or decrease those charges. These may include cost pass through events defined in the NT NER. They may also include the contingent projects and additional cost pass through events proposed by Power and Water and approved in this draft decision. The triggers we have set out for these projects and events in this decision will, if met, allow Power and Water to apply for additional revenue for these projects throughout the period, at which point proposed costs will be subject to further consultation and assessment.

1.4 Power and Water's consumer engagement

The 2024–29 determinations are the first cohort of decisions to be made since publishing the Handbook. We believe that genuine, high quality consumer engagement by Power and Water is essential to ensuring that its proposal is driven by consumer preferences, supports delivery of services that meet the needs of its consumers, and does so at a price that is affordable and efficient.

Power and Water's consumer engagement strategy stated that:

Customers are at the centre of everything we do. As an essential service provider our role is to serve the community. It is vital we listen to what our customers and stakeholders expect from our networks both now and into the future. The five-year regulatory proposal process provides an opportunity for customers to provide input into our strategic direction and ensure their values, vision and priorities are reflected in our expenditure plans.¹⁷

The process acknowledges that consumer engagement will continue as part of Power and Water's business-as-usual activities throughout the regulatory period.¹⁸

¹⁷ PWC, *1.01 Engagement Attachment*, 31 Jan 23, p. 2.

¹⁸ PWC, *1.01 Engagement Attachment*, 31 Jan 23, p. 2.

1.4.1 Power and Water’s engagement on its proposal

Our Issues paper for Power and Water outlined its extensive consultation undertaken regarding the nature, breadth and depth and the impact of its consumer engagement.¹⁹

For Power and Water, the 2024–29 proposal represents the second revenue reset submitted to the AER and its engagement program demonstrated significant growth and maturity to its previous reset.

Power and Water’s consumer engagement program was based on a set of objectives and principles designed to optimise customer engagement, deliver outputs that reflect the views of our customers and stakeholders and which would inform the practical development of our plans and forecasts.²⁰ The engagement program was driven by a set of principles; asking customers what matters to them; target engagement on key issues; galvanise the interest of stakeholders; be 'on message' and prepare beforehand; and provide a transparent feedback framework.²¹

Over 18 months it met with more than 450 people, held over 35 workshops, and spent more than 150 hours talking with and listening to customers and stakeholders.²² In the NT, a Pricing Order sets the retail prices that the majority of customers may be charged for electricity and related services.²³ However, engagement with Power and Water’s customers and stakeholders has been a critical and ongoing element of Power and Water’s preparation of its 2024–29 proposal, and where practicable it has built feedback into its expenditure plan.²⁴

Power and Water’s consumer engagement also identified three key themes – support vulnerable customers, affordability, and enabling renewables.²⁵ Power and Water’s customer engagement activities for its proposal were scoped across 3-phases, formally commencing in 2021.²⁶ The phased approach included developing baseline and initial deep dives, testing and confirming, and final proposal testing. In PWC’s proposal they committed to continue engagement through a fourth phase.²⁷

Power and Water’s submissions noted that:

Power and Water’s customers want affordable energy and without price shocks in the future, if these can be avoided and this is reflected in the change in investment focus between the draft plan and the regulatory proposal with change to asset replacement spend. Power and Water have instead proposed additional investment in ICT

19 AER, *Issues Paper – Power and Water Corporation - 2024-29 Distribution revenue proposal*, March 2023, pp. 6-8.

20 PWC, *1.01 Engagement Attachment*, 31 Jan 23, p. 2

21 PWC, *1.01 Engagement Attachment*, 31 Jan 23, p. 2

22 PWC, *Regulatory Proposal for the 2024–29 regulatory period*, January 2023, p. 9.

23 PWC, *Regulatory Proposal for the 2024–29 regulatory period*, January 2023, p. 2.

24 PWC, *1.01 Engagement Attachment*, 31 Jan 23, p. iii.

25 PWC, *1.01 Engagement Attachment*, 31 Jan 23, pp. 4.

26 PWC, *1.01 Engagement Attachment*, 31 Jan 23, pp. 14-17.

27 PWC, *1.01 Engagement Attachment*, 31 Jan 23, pp. 14.

systems and process to improve asset management capabilities and make better decisions.²⁸

Power and Water has engaged through a variety of channels, with a diverse group of stakeholders, including residential and business customers, retailers and generators, government, and local councils.²⁹ It also established a Reset Advisory Committee (RAC) to engage on the development of its draft plan. The Consumer Challenge Panel, sub-panel 27 (CCP27) and AER staff have had the opportunity to observe a sample of Power and Water’s engagement throughout its pre-lodgement journey, including meetings with its RAC. Power and Water commissioned a report from experienced consumer advocate Dr Andrew Nance, which provided valuable insights on the experience and outcomes of Power and Water’s approach to date and feedback received from customers.³⁰

The report from Dr Nance highlighted the unique challenges that Power and Water are faced with, for example noting the issue of scale is the most relevant for Territorians.³¹ Dr Nance noted that Power and Water is responsible for three networks; Darwin – Katherine, Alice Springs and Tennant Creek. The size and nature of the three networks warrants a bespoke approach to customers in each case.³²

1.4.2 What we have heard from stakeholders

In our Issues paper, we asked stakeholders to consider a number of questions in relation to Power and Water’s engagement including whether the key themes of engagement resonated with their own preferences, if stakeholders thought Power and Water engaged meaningfully with consumers on all elements of its proposal, and to what extent stakeholders felt able to influence the topics engaged on by Power and Water.³³

We received a number of submissions on the Power and Water proposal as outlined at section 6 of this decision. These submissions covered issues such as, but not limited to: additional opex cost for the payment of Essential System Services, Power and Water’s capex, demand management, contingent projects, incentive schemes, control mechanisms, tariffs, alternative control services and metering.

The CCP27 focussed its review of Power and Water’s engagement with their Reset Advisory Committee (RAC).³⁴ CCP27 considered that Power and Water is genuinely committed to engaging with consumers to inform its 2024–29 regulatory proposal.³⁵ In its proposal, Power and Water acknowledged that the RAC was originally scheduled to meet 14 times prior to

²⁸ PWC, *Regulatory Proposal for the 2024–29 regulatory period*, January 2023, p13

²⁹ PWC, *1.03 Draft plan – feedback summary report*, 31 Jan 23, p. 3.

³⁰ PWC, *1.02 - Dr Andrew Nance - Independent Consumer Report*, 31 Jan 23; PWC, *Regulatory Proposal for the 2024–29 regulatory period*, January 2023, p.39.

³¹ PWC - *1.02 - Dr Andrew Nance - Independent Consumer Report* - 31 Jan 23 p.6

³² PWC - *1.02 - Dr Andrew Nance - Independent Consumer Report* - 31 Jan 23 p.12

³³ AER, *Issues Paper – Power and Water Corporation - 2024-29 Distribution revenue proposal*, March 2023, see p.6-9

³⁴ Consumer Challenge Panel 27 - *Advice to AER - 2024-29 Electricity Determination - Power and Water Corporation* - May 2023 p. 5

³⁵ Consumer Challenge Panel 27 - *Advice to AER - 2024-29 Electricity Determination - Power and Water Corporation* - May 2023 p. 5

submission of its regulatory proposal to provide consistency of engagement and feedback on issues as they develop. Although fewer formal RAC meetings were held than originally anticipated, primarily driven by the ability to convene a quorum, engagement was continued with these stakeholder groups through other forums.

The RAC was an area where Power and Water experienced challenges in attracting and sustaining involvement in the engagement process over an extended period. In response to this ‘lesson learned’, Power and Water are planning to restructure and reform the RAC in 2023 and seek advice from an independent consultant on practical mechanisms to support the effectiveness and sustainability of future engagement, specifically in the NT context and with recognition of the needs and challenges faced by Territorians.³⁶ CCP27 noted that Power and Water demonstrated a reasonable investment in time and expertise, and a clear intent by Power and Water to elicit consumer views to inform aspects of their proposal³⁷ but Power and Water had struggled to sustain its RAC and some other business as usual processes over the past year.³⁸

The CCP27 also noted Power and Water engaged broadly capturing the views of individual customers in Darwin/Katherine and Alice Springs through face-to-face focus groups, its People’s Panel and surveys. However, Power and Water’s engagement with customers in Tennant Creek was limited, and that the views of these customers were commonly inferred from the views of customers in other locations.³⁹ Jacana Energy noted that whilst Power and Water engaged with stakeholders’ material changes were being made to Power and Water’s proposal. Jacana Energy stated that it was often unclear in the consultation process what the changes were, why they were made, and the rationale for the change. Jacana Energy also stated there were limited opportunities for stakeholders to provide feedback on those changes; and that it was difficult to give meaningful feedback when changes were being made to the various versions.⁴⁰

The CCP27 observed that Power and Water had genuine difficulties consulting with customers to any significant extent on important matters, such as metering, embedded energy resources and operational efficiency. Similarly, CCP27 noted key issues such as network performance, customer service capability and the development of customer energy resources were presented to consumers with good intention, but it is not clear how this targeted engagement specifically influenced Power and Water’s proposal.⁴¹

³⁶ PWC, *1.01 Engagement Attachment*, 31 Jan 23, pp. 35.

³⁷ Consumer Challenge Panel 27 - *Advice to AER - 2024-29 Electricity Determination - Power and Water Corporation* - May 2023 p. 7

³⁸ Consumer Challenge Panel 27 - *Advice to AER - 2024-29 Electricity Determination - Power and Water Corporation* - May 2023 p. 6

³⁹ Consumer Challenge Panel 27 - *Advice to AER - 2024-29 Electricity Determination - Power and Water Corporation* - May 2023 p. 6

⁴⁰ Jacana Energy - *Submission - 2024-29 Electricity Determination - Power and Water Corporation* - May 2023 p.2

⁴¹ Consumer Challenge Panel 27 - *Advice to AER - 2024-29 Electricity Determination - Power and Water Corporation* - May 2023 p. 7

CCP27 noted a key message on affordability from Power and Water’s March/April People’s Panels was:

Panel members recognise that some of their recommendations would increase overall costs and prices but want Power and Water to work out how to mitigate this impact on vulnerable members of the community⁴²

CCP27 questioned whether Power and Water has effectively responded to customers’ affordability concerns.⁴³

Jacana Energy also noted that Power and Water acknowledged the topics Jacana Energy raised and the ways in which low income residential customers Power and Water could assist in improving affordability for low income residential customers. However, Power and Water’s regulatory proposal fails to clearly outline or propose any specific protections for this customer group.⁴⁴ Jacana Energy stated that a number of new key issues (namely the proposed site consolidation at the Ben Hammond complex, increased non-network ICT capex, increased scope and cost for the future network program and operational technology capability uplift) were announced in Power and Water’s regulatory proposal. The projects were not raised or discussed by Power and Water during any of its consumer engagements where Jacana Energy was in attendance.⁴⁵ The CCP27 also noted the proposed opex step changes have varied considerably between Power and Water’s Draft Plan and its Proposal.⁴⁶ In its Proposal, Power and Water proposed six step changes totalling \$52.2 million for the 2024–29 period.⁴⁷

CCP27 also observed that Power and Water is planning to develop a customer experience strategy. CCP27 expect Power and Water’s projects and investment proposals arising from the development of the strategy will be subject to broad customer engagement. CCP27 also see the need for Power and Water to retest customer preferences as part of its engagement to inform and prepare for its Revised Proposal. CCP27 noted that since publishing its Draft Plan, Power and Water has indicated it has “undertaken a thorough review of [its] strategy and expenditure program.”⁴⁸ As a result of the review, Power and Water’s proposal now includes two major capex investments that were not included in its Draft Plan, namely a proposal to co-locate staff into one Power and Water-owned location with an associated capex investment of around \$90 million; and increase in expenditure on major IT systems replacement of around \$30 million. CCP27 have not observed any engagement with customers or stakeholders on these changes or proposed investments.

⁴² Power and Water Corporation, *Peoples Panel Summary Report 2022*, p. 6

⁴³ Consumer Challenge Panel 27 - *Advice to AER - 2024-29 Electricity Determination - Power and Water Corporation* - May 2023 p. 17

⁴⁴ Jacana Energy - *Submission - 2024-29 Electricity Determination - Power and Water Corporation* - May 2023 p.1

⁴⁵ Jacana Energy - *Submission - 2024-29 Electricity Determination - Power and Water Corporation* - May 2023 p.1

⁴⁶ Power and Water Corporation, *Attachment 9.02 Operating Expenditure Step Changes*, 31 January 2023, p. vii

⁴⁷ AER, *Issues Paper, Power and Water Corporation Electricity Distribution Determination 1 July 2024 to 30 June 2029*, March 2023, p. 20

⁴⁸ Power and Water Corporation, *Regulatory Proposal for the 2024-29 regulatory period*, January 2023, p. 17

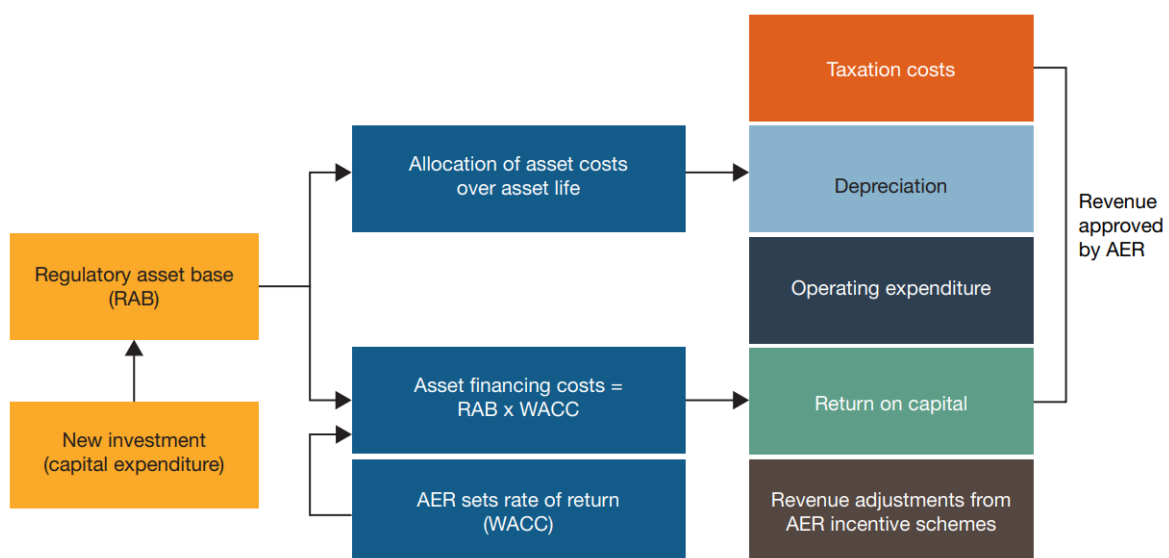
2 Key components of our draft decision on revenue

The foundation of our regulatory approach is a benchmark incentive framework to setting maximum revenues: once regulated revenues are set for a five-year period, a network that keeps its actual costs below the regulatory forecast of costs retains part of the benefit. This provides an incentive for service providers to become more efficient over time. It delivers benefits to consumers as efficient costs are revealed and drives lower cost benchmarks in subsequent regulatory periods. By only allowing efficient costs in our approved revenues, we promote delivery of the NEO and ensure consumers pay no more than necessary for the safe and reliable delivery of electricity.

Power and Water’s proposed revenue reflects its forecast of the efficient cost of providing distribution network services over the 2024–29 period. Its revenue proposal, and our assessment of it under the NT NEL and NT NER, are based on a ‘building block’ approach which looks at five cost components (see Figure 5):

- return on the RAB – or return on capital, to compensate investors for the opportunity cost of funds invested in this business
- depreciation of the RAB – or return of capital, to return the initial investment to investors over time
- forecast opex – the operating, maintenance and other non-capital expenses, incurred in the provision of network services
- revenue increments/decrements – resulting from the application of incentive schemes, such as the CESS
- estimated cost of corporate income tax.

Figure 5 The building block model to forecast network revenue



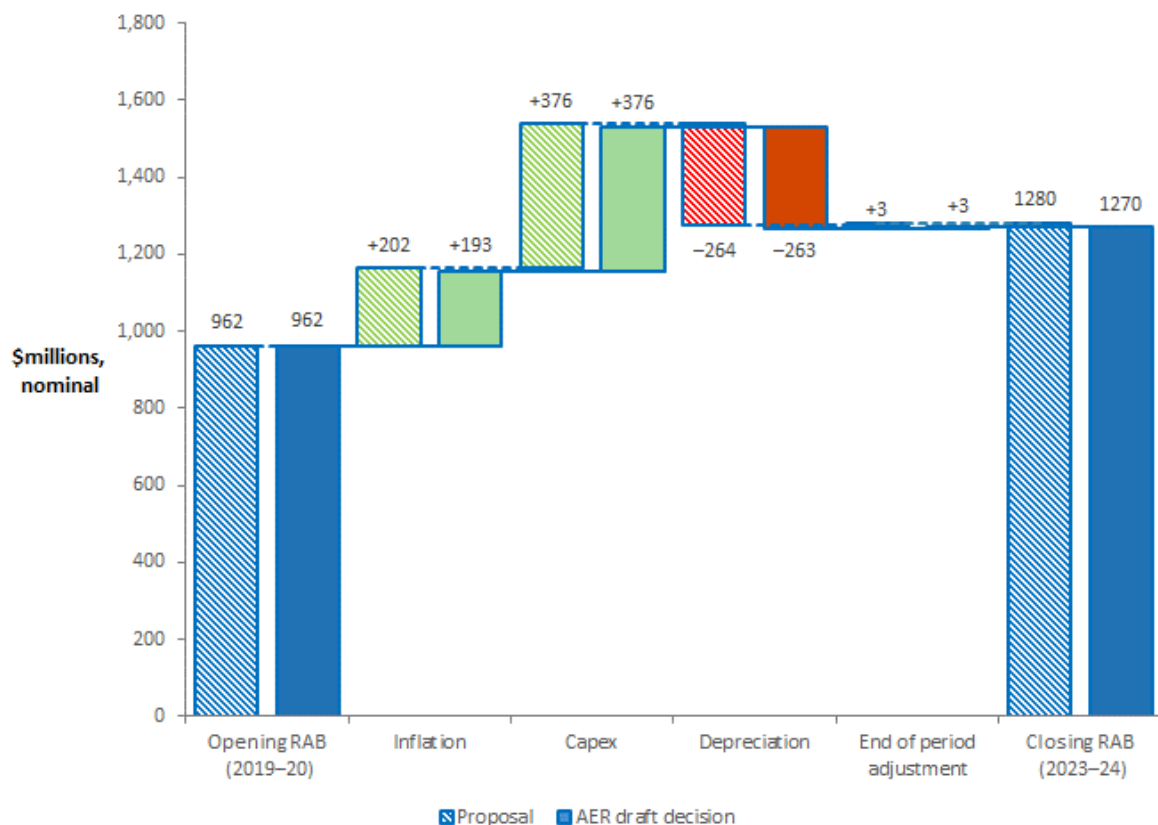
Source: AER.

2.1 Regulatory asset base

The RAB accounts for the value of regulated assets over time. To set revenue for a new regulatory period, we take the opening value of the RAB from the end of the last period and roll it forward year by year by indexing it for inflation, adding new capex and subtracting depreciation and other possible factors (such as disposals). This gives us a closing value for the RAB at the end of each year of the regulatory period. The value of the RAB is used to determine the return on capital and depreciation building blocks. It substantially impacts Power and Water’s revenue requirement, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and depreciation components of the revenue determination.

For this draft decision, we have determined an opening RAB value of \$1,270.2 million (\$ nominal) as at 1 July 2024. This value is \$9.3 million (0.7%) lower than Power and Water’s proposed opening RAB of \$1,279.5 million. This reduction is 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. Figure 6 shows the key drivers of the change in Power and Water’s RAB over the 2019–24 period compared to its proposal.

Figure 6 Key drivers of changes in the RAB over the 2019–24 period – proposal compared with AER draft decision (\$ million, nominal)



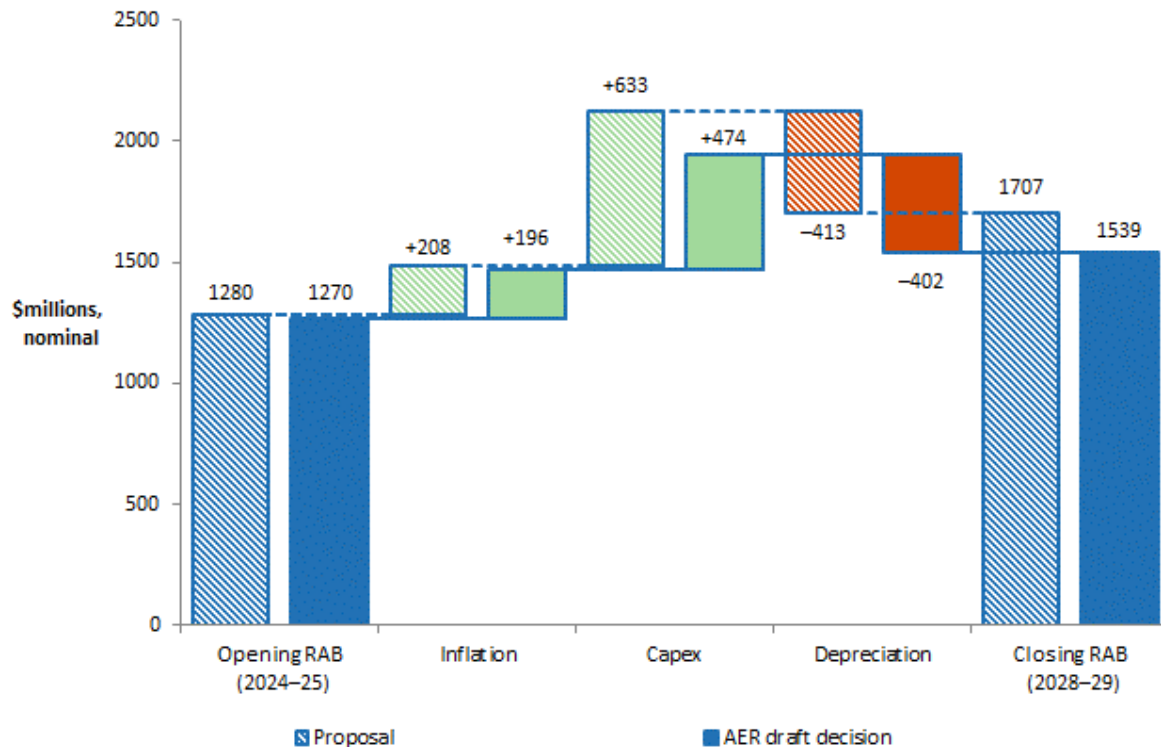
Source: AER analysis.

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.

Figure 7 likewise shows the key drivers of the change in Power and Water’s RAB over the 2024–29 period compared to its proposal. Our draft decision projects an increase of \$268.4

million (21.1%) to the RAB by the end of the 2024–29 period compared to the \$427.7 million (33.4%) increase in Power and Water’s proposal. We have determined a projected closing RAB of \$1,538.6 million (\$ nominal) as at 30 June 2029, which is \$168.6 million (9.9%) lower than Power and Water’s proposed \$1,707.2 million. This lower value is mainly due to our draft decisions on the expected inflation rate, forecast depreciation and forecast capex (discussed in the sections below). It also reflects our draft decision on the opening RAB as at 1 July 2024.

Figure 7 Key drivers of changes in the RAB over the 2024–29 period – proposal compared with AER’s draft decision (\$ 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 post-tax revenue model.

2.2 Rate of return and value of imputation credits

The return each business receives on its capital base (the ‘return on capital’) is a key driver of proposed revenues. We calculate the regulated return on capital by applying a rate of return to the value of the capital base. We estimate the rate of return by combining the returns of two sources of funds for investment – equity and debt. The allowed rate of return provides the business with a return on capital to service the interest rate on its loans and gives a return on equity to investors.

Power and Water’s proposal applied our 2018 Rate of Return Instrument to estimate the rate of return.⁴⁹ This draft decision applies the new 2022 Rate of Return Instrument:⁵⁰

- Our draft decision applies a rate of return of 5.61% for the first year of the 2024–29 period, compared to the placeholder rate of return of 5.67% used in Power and Water’s proposal. This difference is due to updates to the return on debt, the risk-free rate, and the market risk premium in the 2022 Instrument.
- Our draft decision applies a value of imputation credits (gamma) of 0.57 as set out in the 2022 Instrument,⁵¹ compared to 0.585 in the 2018 Instrument.⁵²

Our estimate of expected inflation for the purposes of this draft decision is 2.80% per annum. It is an estimate of the average annual rate of inflation expected over a five-year period based on the approach adopted in our 2020 Inflation Review⁵³ and the forecast from the Reserve Bank of Australia’s August 2023 Statement on Monetary Policy.⁵⁴ This is lower than the estimate used in Power and Water’s proposal (2.92%), which was taken from an earlier Statement on Monetary Policy.

Figure 8 isolates the impact of expected inflation from other parts of our draft decision, to illustrate its impact on the return on capital and regulatory depreciation building blocks and the total revenue allowance. Other elements held constant, lower expected inflation reduces the return on capital but increases regulatory depreciation.

⁴⁹ AER, *Rate of return Instrument*, December 2018. See <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/rate-of-return-guideline-2018/final-decision>

⁵⁰ The 2022 Rate of Return Instrument was amended in August 2023. See <https://www.aer.gov.au/publications/guidelines-schemes-models/rate-of-return-instrument-2022/final-decision>

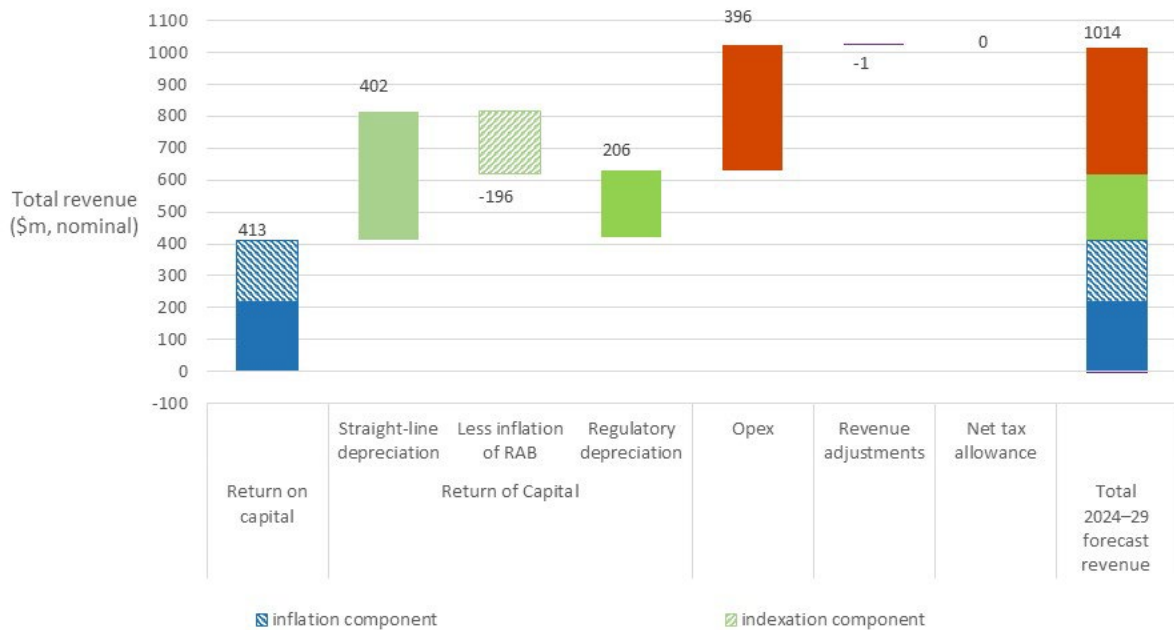
⁵¹ AER, *Rate of return Instrument, Explanatory Statement*, February 2023, pp. 240–250.

⁵² AER, *Rate of return Instrument, Explanatory Statement*, December 2018, pp. 307–382.

⁵³ AER, *Final position – Regulatory treatment of inflation*, December 2020.

⁵⁴ RBA, Statement on Monetary Policy, August 2023, Table 1: Forecast Table. See <https://www.rba.gov.au/publications/smp/2023/aug/forecasts.html>

Figure 8 Inflation components in draft decision revenue building blocks (\$ million, nominal)



Source: AER analysis.

2.3 Regulatory depreciation (return of capital)

Depreciation is a method used in our decision to allocate the cost of an asset over its useful life. It is the amount provided so capital investors recover their investment over the economic life of the asset (otherwise referred to as ‘return of capital’). When determining total revenue, we include an amount for the depreciation of the projected RAB. The regulatory depreciation amount is the net total of the straight-line depreciation less the indexation of the RAB.

Our draft decision determines a regulatory depreciation amount of \$206.0 million (\$ nominal) for the 2024–29 period. This is an increase of \$1.1 million (0.5%) from Power and Water’s proposal of \$204.9 million.

This increase is primarily due to our draft decision on the expected inflation rate for the 2024–29 period, which affects the projected RAB over this period. The lower expected inflation rate applied in the draft decision reduces the indexation of the RAB that is offset against straight-line depreciation in determining regulatory depreciation. Forecasts of expected inflation and components that make up the projected RAB will be updated again in Power and Water’s revised proposal and our final decision.

2.4 Capital expenditure

Capital expenditure (capex) refers to the investment made in the distribution network to provide prescribed distribution services. This investment mostly relates to assets with long lives (30-50 years is typical) and these costs are recovered over several regulatory periods. On an annual basis, the financing and depreciation costs associated with these assets are

recovered through the return of, and on, capital building blocks that contribute to the total revenue requirement.⁵⁵

Our draft decision is that we are not satisfied that Power and Water’s proposed total forecast capex of \$568 million (\$2023–24) reasonably reflects the prudent and efficient costs to maintain the safety, reliability and security of the network. Our substitute forecast is \$432.8 million, which is 24% below Power and Water’s forecast.

Table 1 outlines our substitute estimate of forecast capex and compares this to Power and Water’s proposed forecast capex.

Table 1 AER’s draft decision on Power and Water’s total net capex forecast (\$ million, \$2023–24)

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Power and Water’s proposal	102.2	103.9	92.4	122.0	147.6	568.0
AER’s draft decision	101.2	102.2	93.7	67.5	68.1	432.8
Difference (\$)	-1.0	-1.8	1.3	-54.5	-79.4	-135.2
Difference (%)	-0.93%	-1.7%	1.4%	-44.6%	-53.8%	-23.8%

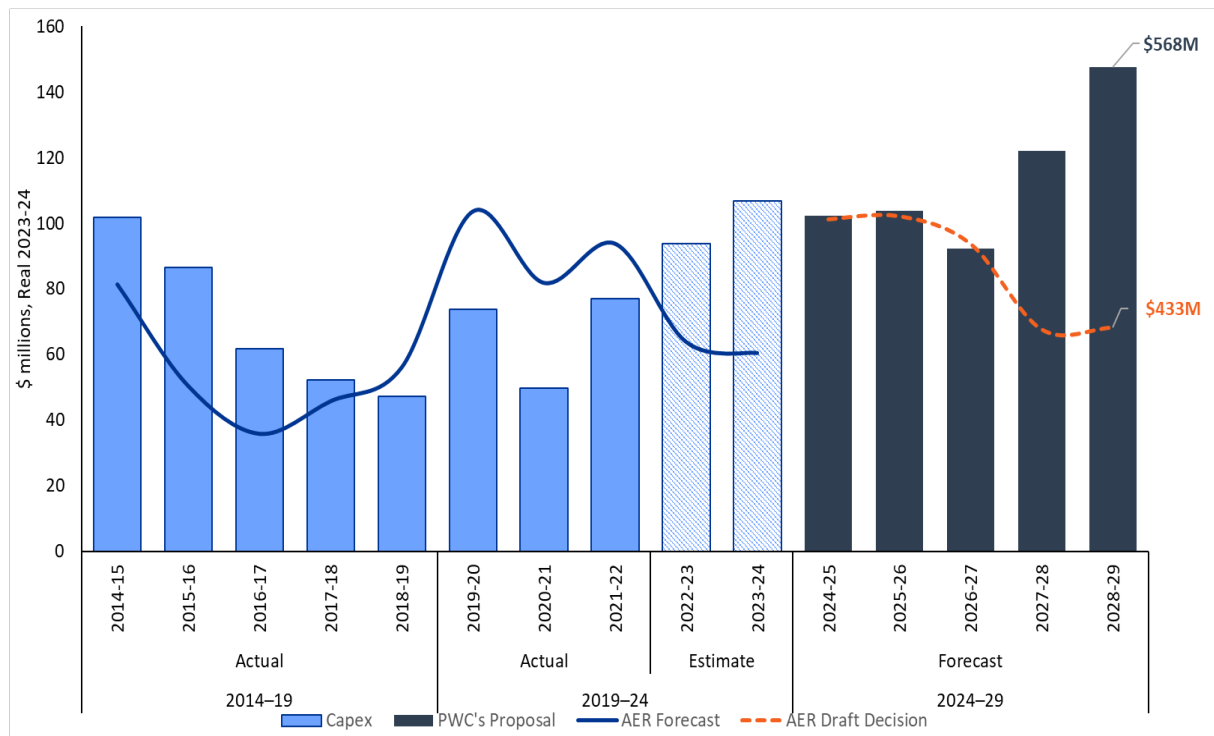
Source: AER analysis and Power and Water’s proposal.

Note: Numbers may not add up due to rounding. Modelling adjustments relate to updates to the consumer price index (CPI), real cost escalation assumptions and Power and Water’s updated capex model.

Figure 9 outlines Power and Water’s historical capex trend, its proposed forecast for the 2024–29 regulatory control period, and our draft decision.

⁵⁵ NT NER, cl. 6.4.3.

Figure 9 Power and Water’s historical and forecast capex (\$ million, \$2023–24)



Source: AER analysis.

The increase in proposed capex over the 2024–29 period arises largely from two non-network related projects and programs:

- Power and Water’s plans to co-locate staff into one Power and Water owned location. This non-network property project is the primary driver of the proposed capex uplift in the later years of the regulatory control period shown in Figure 9 above.
- an uplift in Power and Water’s asset management capabilities, with a focus on information and communication technology (ICT) systems, operating technology and the replacement of aging assets. Power and Water is seeking to improve its asset data and risk-based asset management practices and undertake further asset replacement in order to establish a smoother level of network replacement capex in the future by investing in its people and systems (non-network capex).

For our draft decision forecast total capex of \$432.8 million (\$2023–24), we have not included elements of Power and Water’s proposed:

- Property forecast

Power and Water proposed \$106.7 million for property capex. Our draft decision is to include \$22.2 million. This is \$84.5 million or 79% less than what Power and Water proposed. We have not included Power and Water’s proposed single site consolidation project, but allowed for property remediation costs and property leases, including an additional allowance for on-going business lease costs Power and Water will face in the absence of the single site reconciliation.

We consider that Power and Water’s proposed single site consolidation project capex does not reasonably reflect its capex requirements over the next regulatory period. This is because Power and Water did not provide any quantitative or substantial qualitative

analysis to show the project is prudent and efficient. Power and Water acknowledged that the project as proposed is not economic and will consider an alternative reduced scope option for the project. Power and Water are proposing to submit a revised business case, and cost benefit analysis, as a part of its revised proposal.

- ICT forecast

Power and Water proposed \$70.7 million for ICT. Our draft decision is to include \$48.2 million. Our draft decision does not include Power and Water’s proposed Operational Technology uplift capex but includes all of Power and Water’s other proposed ICT projects. Whilst our draft decision is to accept Power and Water’s proposed \$11.5 million in cyber security capex as prudent, this is a placeholder as we require Power and Water to provide additional information in its revised proposal to justify that these are efficient costs

We consider that the scope of and need for Power and Water’s Operational Technology uplift and the benefits associated with this project have not been demonstrated. Power and Water has not considered a range of options such as network voltage control, transformer tapping and phase balancing to address the identified need as well as providing a detailed cost estimate for the project. Power and Water has informed us that work is currently underway to refine the priority, scope and sequencing of operational technology functions deployed across the business. Power and Water are proposing to submit a revised business case, and proposed expenditure, as a part of its revised proposal.

- CER forecast

Power and Water proposed \$13.2 million in capex for consumer energy resources (CER) integration investments, primarily to develop comprehensive dynamic operating envelop capability and offer dynamic export limits to all CER customers from 2028. Our draft decision is \$1.1 million and does not include Power and Water’s proposed capex to implement dynamic operating envelopes but includes its expenditure for installer outreach programs, which combined with ongoing compliance activities (opex) will result in improved inverter compliance and minimise reductions to its static export limits.

Power and Water also proposed five contingent projects to enable dispatch of low-cost renewable generation and meet localised new demand associated with the development of specific commercial projects, with a total indicative cost of \$342 million. Our draft decision accepts four out of five of Power and Water’s proposed contingent projects, totalling \$296 million.

The full detail on our draft decision regarding capex is set out in attachment 5.

2.5 Operating expenditure

Opex is the forecast of operating, maintenance and other non-capital costs incurred in the provision of standard control services. Forecast opex is one of the building blocks we use to determine Power and Water’s total regulated revenue requirement.

Our draft decision is not to accept Power and Water’s proposed opex forecast of \$415.3 million (\$2023–24) for the 2024–29 regulatory control period. This is because we are not satisfied that it reasonably reflects the opex criteria.⁵⁶

Our draft decision is to include our alternative estimate of total forecast opex of \$364.4 million (\$2023–24) for Power and Water which we consider more reasonably reflects the opex criteria. This draft decision is:

- \$50.9 million (\$2023–24) (or 12.3%) lower than Power and Water’s proposal for the 2024–29 regulatory control period, largely reflecting that we have not included the majority of the step changes proposed by Power and Water
- \$53.3 million (\$2023–24) (or 12.8%) lower than Power and Water’s actual (and estimated) opex in the 2019–24 regulatory control period
- \$36.9 million (\$2023–24) (or 9.2%) lower than the opex forecast we approved in our final decision for the 2019–24 regulatory control period.^{57,58}

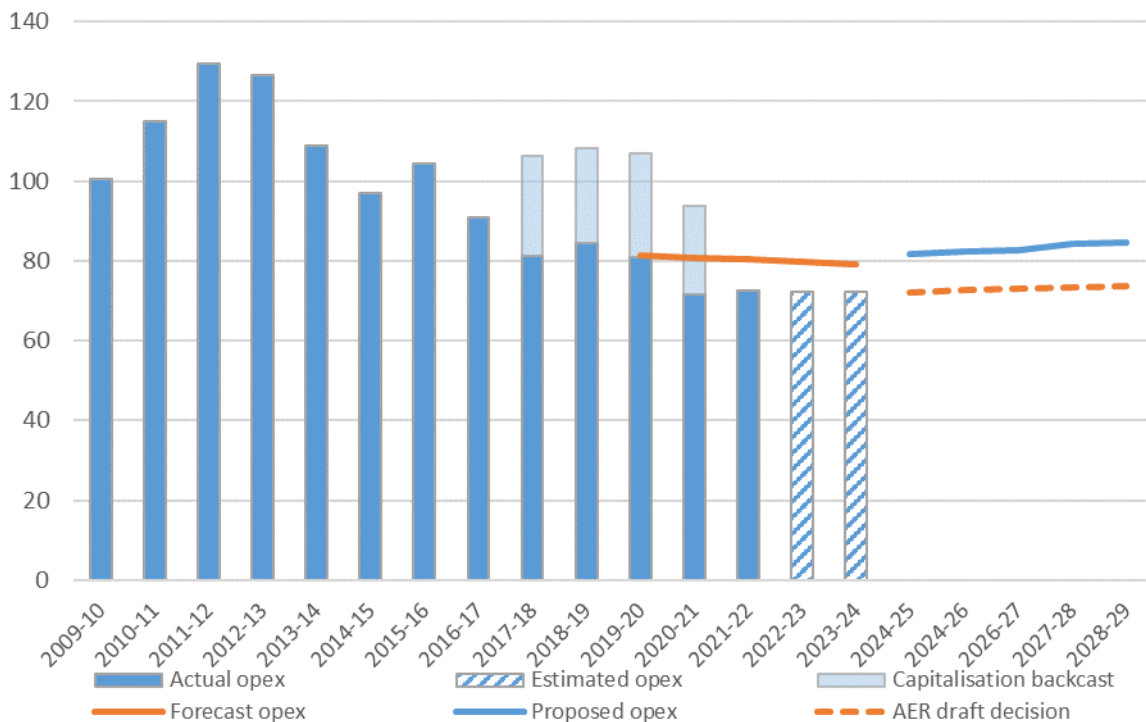
Figure 9 compares the opex forecast we approve in this draft decision for the 2024–29 regulatory control period to Power and Water’s proposal, as well as the forecasts we approved for the current regulatory control period and Power and Water’s actual and estimated opex across this current regulatory control period. Power and Water’s total opex over the period 2009–19 when it was regulated by the NT Utility Commission is also shown. As can be seen, our draft decision essentially trends forward opex from the current regulatory control period.

⁵⁶ NT NER, cl. 6.5.6(c)-(d).

⁵⁷ Due to a change Power and Water made effective from 1 July 2021 to the way it capitalises network and corporate overheads, Power and Water’s actual and estimated opex, and the opex forecast we approved for the 2019–24 period is not reported on a like for like basis with its forecast for the 2024–29 regulatory control period. See the note in Figure 6.1 for more information.

⁵⁸ The \$36.9 million difference is calculated using our opex allowance for the five-year 2019–24 period converted to real 2023–24 dollars using unlagged inflation. The difference of \$32.5 million (\$2023–24) stated in section 1.1 has been calculated using lagged inflation.

Figure 9 Comparison of past and forecast opex (\$real, million)



Source: Power and Water, Regulatory accounts, AER Power and Water 2019–24 Post-tax revenue model; AER analysis

Note: In June 2021, Power and Water changed its capitalisation approach to reallocate a higher proportion of corporate and network overheads opex to direct opex and capital project-related capex. Power and Water’s opex from 2021–22 is presented on this basis. Power and Water’s opex from 2017–18 to 2020–21 has been backcast to also be on the same basis (i.e. removing the capitalisation backcast). It was not possible to adjust the AER’s opex forecast for the 2019–24 period to be on a like-for like basis with Power and Water’s opex from 2021–22 onwards.

Our draft decision to include a lower alternative estimate of total forecast opex largely reflects that at this stage we do not have sufficient information to establish the prudence and / or efficiency of the step changes Power and Water proposed. We are seeking further information in relation to these step changes in Power and Water’s revised proposal - the additional information we require is set out in more detail in Attachment 6. The following summarises the main factors that have contributed to our lower alternative estimate of total forecast opex:

- We have updated Power and Water’s opex amount in the base year (2021–22) from \$73.3 million (\$2023–24) to \$72.3 million (\$2023–24) in line with our standard approaches, decreasing our alternative estimate by \$5.3 million (\$2023–24) over the next regulatory control period. These updates included:
 - removing a demand management incentive allowance (DMIA) amount which Power and Water inadvertently included in its opex forecast
 - removing movements in provisions in line with our standard approach
 - using the latest inflation forecasts.
- We have not included, or included a reduced amount for, five of the six step changes proposed by Power and Water, which reduces our alternative estimate by \$46.7 million

(\$2023–24) over the next regulatory control period compared to Power and Water’s total opex proposal. Specifically:

- We have not included the proposed \$18.8 million (\$2023–24) operational technology (OT) capability uplift step change in our alternative estimate because Power and Water has stated that it is reevaluating the business case on which this step change is based and will provide updated information in its revised proposal.
- We have not included the proposed \$6.0 million (\$2023–24) regulatory obligation step change, the \$4.9 million (\$2023–24) insurance premium step change or the \$4.0 million (\$2023–24) cloud migration step change because while we agree that some additional level of funding in these areas may be prudent, we do not yet have sufficient information to fully determine this and an efficient estimate of costs. This decreases our alternative estimate by \$14.9 million (\$2023–24) over 2024–29 period.
- We have included \$1.1 million (\$2023–24) of the proposed \$14.1 million future network step change in our draft decision to improve inverter compliance as we consider this to be a more prudent and efficient option for enabling higher static export limits than the Dynamic Operating Environment - related expenditures proposed by Power and Water. Accordingly, we have not included the Dynamic Operating Environment-related components proposed by Power and Water as these are dependent on proposed Dynamic Operating Environment-related capex, which (as set out above and noted in Attachment 5) we are proposing to not accept. We have also not included the non-Dynamic Operating Environment related components of this step change (related to additional stakeholder engagement, network planning and connections activities) because while we agree that some additional level of funding in these areas may be prudent, we do not have sufficient information to confirm this or determine our efficient estimate. This decreases our alternative estimate by \$13.1 million (\$2023–24) over the next regulatory control period.

2.6 Corporate income tax

Our determination of the total revenue requirement includes the estimated cost of corporate income tax for 2024-29 period. Under the post-tax framework, this amount is calculated as part of the building blocks assessment using our post-tax revenue model (PTRM).

Our draft decision determines an estimated cost of corporate income tax amount of zero for Power and Water over the 2024–29 period, compared to Power and Water’s proposal of \$1.1 million (\$ nominal).

We expect Power and Water to incur a forecast tax loss over the 2024–29 period.⁵⁹ We have determined that \$23.3 million in tax losses as at 30 June 2029 will be carried forward to the 2029–34 period where it can be used to offset future tax liabilities. The forecast tax loss arises because Power and Water’s forecast tax expenses will exceed its revenue for tax assessment purposes over the 2024–29 period. This is mostly due to the continued

⁵⁹ A forecast tax loss occurs when the forecast assessable income is lower than the forecast tax expense. In this event no tax is payable. Any residual amount of tax loss will be carried forward over to future regulatory control periods to offset future taxable income until the tax loss is fully exhausted.

implementation of our findings from the 2018 *Review of the regulatory tax approach*, where the immediate expensing of capex and diminishing value method of tax depreciation have resulted in higher forecast tax depreciation.

2.7 Revenue adjustments

Our calculation of Power and Water’s total revenue includes adjustments under the CESS that applied in its determination for the current period. This mechanism provides a continuous incentive for Power and Water to pursue efficiency improvements in capex, and a fair sharing of these between Power and Water and its users. The efficiency benefit sharing scheme (EBSS) related to providing continuous incentives to pursue efficiency improvements in opex was not in place during the 2019–24 period.

Our draft decision includes a revenue adjustment (decrement) of \$2.81 million (\$2023–24) under the CESS. This is \$0.12 million more than Power and Water’s forecast of \$2.69 million because we applied updated modelling inputs, including inflation and the rate of return. The full detail on our draft decision regarding CESS is set out in attachment 9.

Our draft decision also includes an allowance of \$1.93 million (\$2023–24) for the Demand Management Innovation Allowance Mechanism (DMIAM). In each year of the 2024–29 period, Power and Water will submit demand management projects for approval under the DMIAM. Any part of the \$1.93 million that is not spent on an approved project will be returned to consumers in the subsequent regulatory control period.

The combined effect of these revenue adjustments is a negative \$0.8 million (\$2023–24) revenue adjustment building block in this draft decision compared to the negative \$0.7 million in Power and Water’s proposal.

3 Incentive schemes

Incentive schemes are a component of incentive-based regulation and complement our approach to assessing efficient costs. They provide important balancing incentives under network determinations, encouraging businesses to pursue expenditure efficiencies while maintaining the reliability and overall performance of the network. Our draft decision is that the following incentive schemes will apply to Power and Water in the 2024–29 period:

- **EBSS.** This provides a continuous incentive to pursue efficiency improvements in opex and provide for a fair sharing of these between networks and network users. Consumers benefit from improved efficiencies through lower opex in regulated revenues for future periods.

The EBSS will apply for the first time in the 2024–29 period. This reflects that we have relied on Power and Water's revealed opex for 2021–22 to determine forecast opex over the 2024–29 period (as we consider it is not materially inefficient). Given this, we consider it is reasonably likely that we will rely on Power and Water's revealed costs over the 2024–29 period to forecast opex in the following regulatory control period. For these reasons, we consider applying the EBSS to Power and Water in the 2024–29 period, and sharing efficiency improvement between networks and network users, is reasonable and consistent with the NT NER.

- **CESS.** This incentivises efficient capex throughout the period by rewarding efficiency gains and penalising efficiency losses, each measured by reference to the difference between forecast and actual capex. Consumers benefit from improved efficiencies through a lower RAB, which is reflected in regulated revenues for future periods.
- **The Service target performance incentive scheme (STPIS)** balances a business' incentive to reduce expenditure with the need to maintain or improve service quality. It achieves this by providing financial incentives to businesses to maintain and improve service performance and not by simply reducing costs at the expense of service quality. Once improvements are made, the benchmark performance targets will be tightened in future years.

Consistent with the framework and approach position, the STPIS version 2 will not apply to Power and Water in the 2024–29 period, due to the unavailability of reliable historic supply interruption data. However, we will be collecting relevant data during the 2024–29 period to establish suitable targets for the following regulatory control period.⁶⁰

- **Demand Management incentive Scheme (DMIS) and Demand Management Innovation Allowance Mechanism (DMIAM).** The DMIS provides network service providers with financial incentives for undertaking efficient demand management activities. The DMIAM funds research and development in demand management projects that have the potential to reduce long term network costs.

⁶⁰ AER, *Framework and approach Power and Water Corporation (Northern Territory) Regulatory control period commencing 1 July 2024*, July 2022, pp. 40–41.

Since our last determination for Power and Water, we have introduced two new incentive schemes:

- A Customer Service Incentive Scheme (CSIS), which is designed to encourage electricity distributors to engage with their customers, identify (through customer engagement) the customer services their customers want improved, and then set targets to improve those services based on their customers' preferences and support.

In accordance with our framework and approach, our draft decision is that a CSIS will not apply because Power and Water is still in the early stages of economic regulation under NER framework. Further, Power and Water considered that it would be inappropriate to apply the CSIS while it is still in the process of fully implementing the existing suite of incentive schemes.⁶¹

- An Export Services Incentive Scheme (ESIS), which allows distributors to propose bespoke incentives related to export services based on their network circumstances, customer preferences and evidence-based performance data. The scheme is a product of our consultation with stakeholders on incentivising and measuring export service performance, which considered appropriate incentive arrangements for export services to balance existing incentive schemes related to consumption services, as well as the introduction of network performance reporting on export service performance metrics.

The ESIS was first published in June 2023, and was not available at the time of Power and Water's proposal. Our draft decision is that an ESIS will not apply.

⁶¹ AER, *Framework and approach Power and Water Corporation (Northern Territory) Regulatory control period commencing 1 July 2024*, July 2022, pp. 40–41.

4 Tariff structure statement

Power and Water’s 2024–29 proposal includes its second tariff structure statement. Its current tariff structure statement applies to 30 June 2024.

The requirement on distributors to prepare a tariff structure statement stemmed from significant reforms in 2014 to the rules governing distribution network pricing. The purpose of the reforms is to empower customers to make informed choices by:

- providing better price signals—tariffs that reflect what it costs to use electricity at different times so that customers can make informed decisions to better manage their bills
- transitioning to greater cost reflectivity—requiring distributors to explicitly consider the impacts of tariff changes on customers, and engaging with customers, customer representatives and retailers in developing network tariff proposals over time
- managing future expectations—providing guidance for retailers, customers and suppliers of services such as local generation, batteries and demand management by setting out the distributor’s tariff approaches for the 5-year regulatory control period.

It is important to note that distributors charge retailers for the network services they provide to the retailer’s customers (end-customers). There is no obligation on retailers or energy service providers to pass the network tariff structure through to their end-customers. The structure of retail offers is determined by retailers responding to consumer preferences and competitive pressures, while also deciding how best to manage the network price signals. A retailer may choose to pass on the network price signals exactly or repackage them into their retail offers (including in insurance style flat rate retail offers).

Network tariff reform aims to help distributors charge retailers in a manner which more closely reflects the cost of providing electricity network capacity to their end customers and can support the energy transition currently underway. Where price signals are passed through and if customers are well placed to respond to these price signals, appropriately structured tariffs can enable growth in the value and number of people with consumer energy resources (CER). At the same time, this response to price signals can reduce network constraints and limit the level of network investment required, resulting in lower prices for all consumers.

The tariff structure statement must set out a number of matters. These include tariff classes, proposed tariffs and the structures and charging parameters, the strategy for introduction of export tariffs, and the approach to setting tariff levels in each year of the regulatory control period.⁶² The policies and procedures it will use to assign customers to tariffs or reassign customers from one tariff to another must also be outlined.

In this determination we decide the structure of tariffs that will form the basis of annual pricing proposals throughout the 2024–29 period.⁶³ We are also required to decide the

⁶² NER, cl. 6.18.1A(a).

⁶³ NER, cl. 6.12.1(14A).

policies and procedures for assigning or re-assigning customers to tariff classes.⁶⁴ While an indicative pricing schedule must accompany the tariff structure statement, the tariff levels for each tariff for each year of the 2024–29 period are not set as part of this determination.⁶⁵

Tariff levels for the regulatory year commencing 1 July 2024 will be subject to a separate approval process in May 2024, after we have made our final revenue determination in April 2024. Tariffs for the four years from 1 July 2025 will also be approved on an annual basis.⁶⁶

Power and Water has continued with its incremental progress on tariff reform. It focussed its efforts in its proposed tariff structure statement on segmenting its low voltage smart meter tariffs to support future retailer innovation and competition in the event the Northern Territory pricing order is reformed. It has responded to its stakeholder feedback in shifting its default tariffs for customers consuming below 750MWh from a demand to a time-of-use basis. It has also increased the cost reflectivity of its tariffs by shortening its peak demand charging window and introducing a low charge window through the middle of the day.

With respect to the rise of CER, Power and Water’s tariff structure statement includes low charges in the middle of the day in its proposed time-of-use tariffs, encouraging load to shift into times of excess solar generation. This facilitates the growth of CER while minimising network investment.

We consider Power and Water’s proposed tariff for its high voltage network customers consuming above 10,000 MWh pa (Tariff 7) is not compliant with the NER pricing principles.⁶⁷ These require that each tariff be based on the long-run marginal cost of providing the service to the retail customers assigned to the tariff.⁶⁸ The proposed Tariff 7 has no charging parameter that reflects the long-run-marginal cost of the service.

We require Power and Water to include a cost reflective charging parameter in its proposed super users tariff to reflect the long-run marginal cost of providing the service. In Attachment 19 we describe in further detail this change that we consider necessary for us to approve Power and Water’s tariff structure statement proposal.

⁶⁴ NER, cl. 6.12.1(17)

⁶⁵ NER, cl. 6.8.2(d1).

⁶⁶ This will occur pursuant to obligations in cl. 6.18.2 and cl. 6.18.8 of the NER.

⁶⁷ MWh pa: megawatt hours per annum

⁶⁸ NER, cl. 6.18.5(f).

5 Constituent decisions

Our draft decision on PWC’s distribution determination for the 2024–29 regulatory control period includes the following constituent components:

Constituent component
<p>In accordance with clause 6.12.1(1) of the NT NER, the AER's draft decision is that the classification of services set out in Attachment 13 will apply to Power and Water Corporation for the 2024–29 regulatory control period, for the reasons set out in that attachment.</p>
<p>In accordance with clause 6.12.1(2)(i) of the NT NER, the AER's draft decision is to not approve the annual revenue requirement set out in Power and Water Corporation building block proposal. Our draft decision on Power and Water Corporation’s annual revenue requirement for each year of the 2024–29 regulatory control period is set out in Attachment 1 of the draft decision.</p>
<p>In accordance with clause 6.12.1(2)(ii) of the NT NER, the AER's draft decision is to approve Power and Water Corporation’s proposal that the regulatory control period will commence on 1 July 2024. Also, in accordance with clause 6.12.1(2)(ii) of the NT NER, the AER's draft decision is to approve Power and Water Corporation’s proposal that the length of the regulatory control period will be five years from 1 July 2024 to 30 June 2029.</p>
<p>In accordance with clause 6.12.1(3)(ii) of the NT NER and acting in accordance with clause 6.5.7(d) of the NT NER, the AER's draft decision is to not accept Power and Water Corporation’s proposed total forecast capital expenditure of \$568 million (\$2023–24). Our draft decision therefore includes an alternative estimate of Power and Water Corporation’s total forecast capex for the 2024–29 regulatory control period of \$432.8 million (\$2023–24). The reasons for our draft decision are set out in Attachment 5.</p>
<p>In accordance with clause 6.12.1(4A)(i) of the NT NER, the AER’s draft decision is that the following projects are contingent projects for the purpose of this revenue determination for Power and Water Corporation:</p> <ul style="list-style-type: none"> • Shared transmission works to transport generation from a Renewable Energy Hub in Darwin-Katherine (\$120.8 million) • Holtze-Kowandi land development (\$60.8 million) • Middle Arm commercial development (\$69.1 million) • Wishart commercial development (\$45.6 million). <p>The AER’s draft decision is that Power and Water Corporation’s proposed Unlocking existing large scale renewable generation in Darwin-Katherine (\$45.7 million) project is not a contingent project for the purposes of the revenue determination for Power and Water Corporation.</p> <p>This is set out in Attachment 5 of this draft decision.</p>
<p>In accordance with clause 6.12.1(4A)(ii) of the NT NER, the AER's draft decision is that it is satisfied that the capital expenditure for the contingent projects as described in Power and Water Corporation’s revenue proposal, and as determined to be contingent projects by the AER, reasonably reflects the capital expenditure criteria, taking into account the capital expenditure factors. The reasons for our draft decision are set out in Attachment 5.</p>

Constituent component
<p>In accordance with clause 6A.12.1(4A)(iii) of the NT NER, the AER’s draft decision on the trigger events for the four contingent projects is set out in Attachment 5 of this draft decision and includes amendments to the triggers proposed by Power and Water Corporation.</p>
<p>In accordance with clause 6.12.1(4)(ii) of the NT NER and acting in accordance with 6.5.6(d) of the NT NER, the AER’s draft decision is to not accept Power and Water Corporation’s proposed total forecast operating expenditure, inclusive of debt raising costs, of \$415.3 million (\$2023–24). Our draft decision therefore includes an alternative estimate of Power and Water Corporation’s total forecast opex for the 2024–29 regulatory control period of \$364.4 million (\$2023–24) including debt raising costs and exclusive of DMIAM. The reasons for our draft decision are set out in Attachment 6.</p>
<p>In accordance with clause 6.12.1(5) of the NT NER and the 2022 Rate of Return Instrument, the AER’s draft decision is that the allowed rate of return for the 2024–25 regulatory year is 5.61% (nominal vanilla), for the reasons set out in Attachment 3 of the draft decision. The rate of return for the remaining regulatory years of the 2024–29 period will be updated annually because our decision is to apply a trailing average portfolio approach to estimating debt which incorporates annual updating of the allowed return on debt.</p>
<p>In accordance with clause 6.12.1(5A) of the NT NER and the 2022 Rate of Return Instrument, the AER’s draft decision on the value of imputation credits as referred to in clause 6.5.3 is to adopt a value of 0.57. The reasons for our draft decision are set out in Attachment 3.</p>
<p>In accordance with clause 6.12.1(6) of the NT NER, the AER’s draft decision on Power and Water Corporation’s regulatory asset base as at 1 July 2024 in accordance with clause 6.5.1 and schedule 6.2 is \$1,270.2 million (\$ nominal). The reasons for our draft decision are set out in Attachment 2.</p>
<p>In accordance with clause 6.12.1(7) of the NT NER, the AER’s draft decision on Power and Water Corporation’s estimated cost of corporate income tax is zero for each regulatory year of the 2019–29 regulatory control period. The reasons for our draft decision are set out in Attachment 7.</p>
<p>In accordance with clause 6.12.1(8) of the NT NER, the AER’s draft decision is to not approve the depreciation schedules submitted by Power and Water Corporation. Our draft decision substitutes alternative depreciation schedules that accord with clause 6.5.5(b). The regulatory depreciation amount approved in this draft decision is \$206.0 million (\$ nominal) for the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 4.</p>
<p>In accordance with clause 6.12.1(9) of the NT NER the AER makes the following draft decisions on how any applicable efficiency benefit sharing scheme (EBSS), capital expenditure sharing scheme (CESS), export services incentive scheme (ESIS), service target performance incentive scheme (STPIS), demand management incentive scheme (DMIS), demand management innovation allowance mechanism (DMIAM) or small-scale incentive scheme (customer service incentive scheme) is to apply:</p> <ul style="list-style-type: none"> • We will apply version 2 of the EBSS to Power and Water Corporation in the 2024–29 regulatory control period. Our reasons are set out in Attachment 8 of the draft decision. • We will apply the CESS as set out in the capital expenditure incentives guideline to Power and Water Corporation in the 2024–29 regulatory control period. This is discussed in Attachment 9. • We will not apply the ESIS for the 2024-29 regulatory control period. • We will not apply our STPIS version 2 to Power and Water Corporation for the 2024–29 regulatory control period.

Constituent component
<ul style="list-style-type: none"> • We will apply the DMIS and DMIAM to Power and Water Corporation for the 2024–29 regulatory control period. Our reasons are set out in Attachment 11. • We will not apply our customer service incentive scheme (CSIS) to Power and Water Corporation for the 2024–29 regulatory control period.
<p>In accordance with clause 6.12.1(10) of the NT NER, the AER's draft decision is that all other appropriate amounts, values and inputs are as set out in this draft determination including attachments.</p>
<p>In accordance with clause 6.12.1(11) of the NT NER and our framework and approach paper, the AER's draft decision on the form of control mechanisms (including the X-factor) for standard control services is a revenue cap. The revenue cap for Power and Water Corporation for any given regulatory year is the total annual revenue calculated using the formula in Attachment 14, which includes any adjustment required to move the Distribution Use of Service (DUoS) unders and overs account to zero. The reasons for our draft decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(12) of the NT NER and our framework and approach paper, the AER's draft decision on the form of the control mechanism for alternative control services is to apply price caps for all alternative control services. The reasons for our draft decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(13) of the NT NER, to demonstrate compliance with its distribution determination, the AER's draft decision is that Power and Water Corporation must maintain a DUoS unders and overs mechanism. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our draft decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(14) of the NT NER the AER's draft decision is to apply the following nominated pass through events to Power and Water Corporation for the 2024–29 regulatory control period in accordance with clause 6.5.10:</p> <ul style="list-style-type: none"> • Insurance coverage event • Insurer's credit risk event • Natural disaster event • Terrorism event. <p>The definitions of these events have, and our reasons for this decision, are set out in Attachment 15.</p>
<p>In accordance with clause 6.12.1(14A) of the NT NER, the AER's draft decision is to not approve the tariff structure statement proposed by Power and Water Corporation. The reasons for our draft decision are set out in Attachment 19.</p>
<p>In accordance with clause 6.12.1(15) of the NT NER, the AER's draft decision is that the negotiating framework as proposed by Power and Water Corporation will apply for the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 17.</p>
<p>In accordance with clause 6.12.1(16) of the NT NER, the AER's draft decision is to apply the negotiated distribution services criteria published in February 2023 to Power and Water Corporation. The reasons for our draft decision are set out in Attachment 17.</p>

Constituent component
<p>In accordance with clause 6.12.1(17) of the NT NER, the AER's draft decision on the procedures for assigning retail customers to tariff classes for Power and Water Corporation is set out in Attachment 19 of the draft decision.</p>
<p>In accordance with clause 6.12.1(18) of the NT NER, the AER's draft decision is that the depreciation approach to be used to establish the RAB at the commencement of Power and Water Corporation's regulatory control period as at 1 July 2029 is to be based on forecast capex. The reasons for our draft decision are set out in Attachment 2.</p>
<p>In accordance with clause 6.12.1(19) of the NT NER, the AER's draft decision on how Power and Water Corporation is to report to the AER on its recovery of designated pricing proposal charges and account for the under and over recovery of designated pricing proposal charges is the unders and overs mechanism. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our draft decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(20) of the NT NER, the AER's draft decision on how Power and Water Corporation is to report to the AER on its recovery of jurisdictional scheme amounts and account for the under and over recovery of jurisdictional scheme amounts is the unders and overs mechanism. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our draft decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(21) of the NT NER, the AER's draft decision is to not to approve the connection policy proposed by Power and Water Corporation. Our draft decision is to amend Power and Water Corporation's proposed connection policy as set out, and for the reasons given, in Attachment 18 of the draft decision.</p>

6 List of submissions

We received 3 submissions in response to Power and Water Corporation’s revenue proposal. These are listed below.⁶⁹

Submission from
Consumer Challenge Panel 27
Jacana Energy
Territory Generation

⁶⁹ Submissions are available on the AER website at <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/power-and-water-corporation-determination-2024%E2%80%9329/proposal#step-86569>

Shortened forms

Terms	Definition
ACS	alternative control services
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASP	Accredited Service Provider
capex	capital expenditure
CCP26	Consumer Challenge Panel, sub-panel 26
CESS	capital expenditure sharing scheme
CSIS	customer service incentive scheme
CER	Consumer Energy Resources
DMIAM	demand management innovation allowance mechanism
DMIS	demand management incentive scheme
DNSP or distributor	Distribution Network Service Provider
DUoS	Distribution Use of System Charges
EBSS	efficiency benefit sharing scheme
ECA	Energy Consumers Australia
ENA	Energy Networks Australia
ESB	Energy Security Board
F&A	framework and approach
GSL	guaranteed service level
ICT	information and communication technologies
NEL	National Electricity Laws
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
opex	operating expenditure
PIAC	Public Interest Advocacy Centre
RAB	regulated asset base
repex	replacement expenditure
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SAPS	stand-alone power systems
SCS	standard control service
Service classification guideline	Electricity distribution service classification guideline 2018
STPIS	service target performance incentive scheme
VCR	value of customer reliability