

Final Decision

Evoenergy Electricity Distribution Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Overview

April 2024

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List of attachments

This Overview forms part of the AER's final decision on the distribution determination that will apply to Evoenergy for the 2024–29 period. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. In these circumstances, our draft decision reasons form part of this final decision.

The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision.

The final decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 13 – Classification of services

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Attachment 20 – Metering Services

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). Our work is guided by the National Electricity Objective (NEO).

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 Australian Capital Territory (ACT) electricity distribution network service provider Evoenergy, for the period 1 July 2024 to 30 June 2029 (2024–29 period).

This final decision is the conclusion of over two and a half years work to determine what Evoenergy can recover from its customers in the 2024–29 period.

On 29 October 2021, Evoenergy formally requested we revise its Framework and approach (F&A) paper. The F&A is responsible for determining which services we will regulate, and why, and the broad nature of the regulatory arrangement. Our final decision on Evoenergy's F&A was published in July 2022.

Evoenergy states that its initial proposal, submitted on 31 January 2023, was shaped by extensive consultation with its customers and stakeholders over its 18-month engagement program. This includes consideration of the ACT Government's climate change response with a legislated target of net zero by 2045. It had been guided by the Better Resets Handbook (the Handbook), and while not on the early signal pathway, worked to develop an initial proposal that reflects consumer preferences and is capable of being accepted.¹

In March 2023, our Issues paper highlighted key elements of Evoenergy's proposal, based on our preliminary review that we considered likely to be the focus of our assessment. We also highlighted that additional factors impacting the Australian economy may affect Evoenergy's total revenue for 2024–29. In particular, there has been increases in interest rates and inflation over the 2019–24 regulatory period.

We held a public forum in April 2023, to assist stakeholders in their consideration of Evoenergy's proposal, and received a number of submissions prior to publishing our draft decision on 28 September 2023.

Our draft decision acknowledged Evoenergy has provided a good quality proposal, which it developed through a robust engagement process. However, we did not accept elements of Evoenergy's proposal, including proposed capital expenditure (capex) and operating expenditure (opex) and its tariff structure statement. Evoenergy responded to our draft decision in its revised proposal, submitted 30 November 2023. Interested stakeholders were invited to provide submissions on our draft decision and Evoenergy's revised proposal.

¹ Evoenergy, *Regulatory Proposal for the ACT electricity distribution network 1 July 2024 to 30 June 2029*, 31 Jan 2023, Sections 1.3 and 3, p. 50.

Our assessment has been balanced so that consumers only pay for what is necessary and in their long-term interests. When we undertake our expenditure assessments, we consider whether or not we are satisfied that proposed expenditure reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs (the capex and opex criteria).² We must make our decision in a manner that will, or is likely to, deliver efficient outcomes in terms of the price, quality, safety, reliability and security of supply, and to achieve targets for reducing Australia's greenhouse gas emissions that benefit consumers in the long term (as required under the NEO).³

In practice, this has involved us applying our various analytical tools, such as the replacement capital expenditure (repex) model and our economic benchmarking for operating expenditure, scrutinising the business cases and supporting information provided by the businesses, and having regard to the advice provided by our expert consultants. In addition, our findings have been informed by the various stakeholder submissions we received, and the information on consumer preferences and priorities elicited through the consumer engagement processes of the businesses and from our Consumer Challenge Panel.

We have assessed that the majority of expenditure Evoenergy has proposed is likely to deliver these efficient outcomes and is therefore in the long-term interests of consumers.

We acknowledge that the accelerating ACT energy transition, with electrification of gas and fast uptake of electric vehicles, will be further supported by the ACT Government's Integrated Energy Plan.

Our final decision on Evoenergy's revised proposal

Our final decision is that Evoenergy can recover \$1,100.3 million (\$nominal, smoothed) from consumers over the 2024–29 period. This is \$4.6 million (0.4%) more than Evoenergy's revised proposal, and \$56.6 million (5.4%) more than our draft decision. The increase in overall revenue in this final decision compared to Evoenergy's revised proposal is mainly driven by updates in data related to external economic factors, such as a lower expected inflation rate (which increases the regulatory depreciation building block) and a higher forecast rate of return.

There has also been an increase in total revenue in the final decision compared to the draft decision. In addition to the external economic factors, the major drivers of this have been: higher opex reflecting a different base-year level of opex efficiency and a new smart-metering step change, and a higher return on capital component arising from the acceptance of higher proposed augmentation capex driven by increases in major project costs and forecast demand.⁴

For illustrative purposes, we estimate that the total revenue from this final decision would result in an average increase of \$18 per annum to the average electricity bill for Evoenergy's residential customers over the 2024–29 period. For small business customers, the impact would be an increase on average of \$98 per annum. Evoenergy's revised proposal has sought to balance addressing customer and ACT government support for a fast transition

² National Electricity Rules (NER), cl.6.5.6(c) and cl. 6.5.7(c).

³ National Electricity Law (NEL), ss. 7, 16(1)(a).

⁴ There is also an increase in forecast demand, which is driven predominately by economic growth in the ACT and in part by the ACT Government's policy on achieving a net zero emission target by 2045.

towards net zero with elements of its capital expenditure (capex), operating expenditure (opex) and tariffs against continued recognition of the importance of affordability for vulnerable customers. It also includes residential tariff reform that, Evoenergy submitted, seeks to balance simplicity and cost-reflectivity with support for the energy transition.

Our final decision accepts Evoenergy’s proposed total capex forecast of \$516.5 million (\$2023–24). Evoenergy proposed \$519.4 million (\$2023–24) in its revised proposal and we have made modelling adjustments to update the consumer price index and real cost escalation assumptions. Overall we are satisfied that this reflects prudent and efficient costs to maintain the safety, reliability and security of the network. Our alternative estimate for total capex of \$505.1 million (\$2023-24) is 2.8% less than Evoenergy’s revised proposal and not materially different. Our final decision capex forecast for Evoenergy is \$100.2 million or 24.1% higher than the capex forecast in our draft decision for the 2024–29 period.

Evoenergy has broadly accepted our draft decision on capex apart from some replacement expenditure (replex) asset categories, and updated its peak demand forecast in accordance with our draft decision in terms of modelling improvements and revised data. Responding to our draft decision, Evoenergy has substantially reduced the scope of EV-driven augmentation projects in its revised proposal. Evoenergy maintains that investment in EV-demand driven projects is still required, but to a lesser extent than in its initial proposal. The reduced scope of EV-demand driven projects reflects a revised uptake in EVs and charging profiles, which remains consistent with the ACT Government’s policy on achieving a net zero emission target by 2045. The reduction in EV-driven augmentation expenditure has largely been offset by an increase in forecast augmentation costs for 2 major non-EV driven zone substation projects due to recent market tendered prices, which we consider are reasonable. Our assessment of replex for the final decision also identified improvements to asset management practices that we feel should be considered further by Evoenergy during the 2024–29 period.

Our final decision is to approve total forecast opex of \$362.0 million, including debt raising costs, for the 2024–29 period as reasonably reflecting the opex criteria.⁵ This is consistent with Evoenergy’s revised proposed opex forecast of \$364.8 million, less the portion of its smart meter step change costs (\$2.8 million) which we have allocated to alternative control services (ACS) costs. We are satisfied this reflects prudent and efficient costs to achieve the opex objectives in the 2024–29 period. Our final decision opex forecast for Evoenergy is \$25.5 million or 7.6% higher than the opex forecast in our draft decision for the 2024–29 period.

Our alternative estimate of total forecast opex is not materially different to Evoenergy’s revised proposal forecast. We have concluded, based on further evidence in the revised proposal and our updated analysis, that Evoenergy’s lower actual opex in its revised proposed base year of 2022–23 is not materially inefficient. We have largely accepted Evoenergy’s revised proposal step change for accelerated smart meter rollout.

Our final decision is to approve Evoenergy’s revised 2024–29 tariff structure statement (TSS) with the amendment of extending battery tariffs to other storage technologies with similar connection and load profile characteristics. Compared to its initial TSS proposal, Evoenergy’s

⁵ The opex criteria are set out in cl. 6.5.6(c) of the NER and the opex factors are set out in cl. 6.5.6(e). We must not accept a distributor’s proposed opex if we are not satisfied that it reasonably reflects those criteria: NER, cl. 6.5.5(d).

revised TSS withdrew all contingent tariff adjustments and introduced a basic export level to its grid-scale battery tariff. These changes align with our draft decision.

Evoenergy’s revised TSS included withdrawal of its proposed residential export reward tariff, adjustments to the structure of proposed residential tariffs and the introduction of individually calculated tariffs. These changes were in response to stakeholder feedback, including around simpler network tariffs, provided to Evoenergy later in the consultation process. Evoenergy submitted that its withdrawal of the proposed residential export reward tariff was also in response to additional identified costs associated with billing system implementation. The revised TSS emphasised the role in its residential tariffs of ‘solar soak’ lower prices in the middle of the day to encourage consumption of solar exports to the grid, as an alternative to an export charge to discourage export of rooftop solar to the grid. Our final decision is to accept Evoenergy’s proposed adjustments to its TSS.

Our final position is to maintain legacy metering as an alternative control service, with costs recovered through a flat metering charge across all customers who have, or have had, an Evoenergy legacy meter. This is consistent with our draft decision.

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

Our draft decision reflected that the 2024–29 revenue determinations had been developed during a challenging time for energy consumers. Economy wide factors have resulted in higher inflation and interest rates, and cost-of-living pressures and affordability concerns continue to be important to consumers. Energy Consumers Australia’s recent sentiment survey observed that 54% of households believe having affordable energy prices is the most important issue for the future energy system (up 5%).⁶ While consumers note current cost-of-living pressures and the challenges ahead for the energy system in terms of the importance of affordable energy prices for all Australians, they are also considering the importance of the energy transition and the pace at which this should be occurring.⁷

Our final decisions for the 2024–29 businesses continue to seek the balance of affordability, with necessary expenditure required to support the energy transformation, and to address important emerging issues such as network cybersecurity, climate resilience, integration of consumer energy resources (CER) and digitalisation.

Our draft decisions noted the role distributors could play in the energy transition. We also noted that the Australian Energy Market Operator’s (AEMO’s) recent Draft Integrated System Plan stated that the lowest cost way to supply electricity throughout Australia’s transition to a net zero economy is with new transmission and modernised distribution networks. These will connect a diverse mix of utility-scale renewables, rooftop solar and distributed solar, and firming technologies such as energy storage, to consumers.⁸

AEMO’s Optimal Development Path (Step Change) includes a forecast of a four-fold increase in rooftop solar capacity by 2050, representing almost a third of total generation capacity. It also includes facilitating consumer-owned batteries and coordinated CER via

⁶ Energy Consumers Australia, <https://ecss.energyconsumersaustralia.com.au/sentiment-survey-dec-2023/>

⁷ See <https://ecss.energyconsumersaustralia.com.au/sentiment-survey-dec-2023/featured-content-household-sentiment-dec-2023/> (‘Challenges ahead for the energy system’ and ‘Speed of transition’)

⁸ AEMO, *Draft 2024 Integrated System Plan (ISP)*, 17 January 2024, pp. 9-11.

Virtual Power Plants to deliver flexible demand response to the National Electricity Market, representing almost half of the total dispatchable capacity. AEMO's draft 2024 Forecasting Assumptions update also outlines that electric vehicle (EV) uptake is forecast to increase from the 2023 yearly projections under all scenarios.⁹

Given these ongoing developments, we maintain that flexibility in response to a rapidly changing energy industry is important. We consider the national regulatory framework can adapt to changes in technology, emerging business models and evolving customer preferences.

Alongside the transitioning energy market, the current environment has several uncertainties that network businesses are required to consider, including evolving threats around cybersecurity and climate risk. These issues have been considerations for all businesses in developing their 2024–29 proposals. All have proposed, to varying extents, investments in the new and emerging areas of CER integration, climate resilience, and cybersecurity.

We recognise the continuing need for investments in these important areas. We have provided efficient levels of funding to enable the businesses to continue to respond prudently to the cyber security risks and climate change-related risks that their networks face.

In addition, our decisions provide both necessary funding for export service levels so customers with rooftop solar may export their excess electricity to the grid, and appropriate price signals to optimise network capacity. Where network tariff price signals are passed through in a retail offer, and customers are well placed to respond, appropriately structured network tariffs can enable growth in the value and number of people with CER, particularly rooftop solar. Energy storage operating in line with the right price signals will direct more renewables to peak evening periods when fossil fuel generation still dominates supply.

Similarly for the forecast increase in electricity demand from a continued uptake of EVs, the right mix of investment and price will facilitate new, clean, forms of transport at least cost to electricity customers.

Innovation will assist customers who are able to respond with greater opportunities to reduce their bills. The accelerated roll-out of smart meters to customers, flagged by the AEMC's metering review, is a critical enabler for the energy transition, including the integration of CER work programs. Our decisions facilitate cost recovery of old legacy network-delivered meters in the quickest, least cost way to all customers.

The amended National Electricity Objective and the current regulatory determination resets

The NEL requires us to make our decision in a manner that contributes, or is likely to contribute, to achieving the NEO. The focus of the NEO is on promoting efficient investment in, and operation and use of, electricity services (rather than assets) in the long-term interests of consumers. This is not delivered by any one of the NEO's factors in isolation, but rather by balancing them in reaching a regulatory decision. Prior to the emissions objective rule change, the 2024–29 businesses' proposals were already considering the challenges faced by the energy transition, including the steps needed to deliver net zero.

⁹ AEMO, [Draft 2024 Forecasting Assumptions Update](#), December 2023, p. 24

Many of the businesses have been proactive in considering the impact of emissions reduction as part of their regulatory proposals. In considering customer and stakeholder engagement provided as part of the regulatory resets, many of these network service providers noted that stakeholders were advising that climate change mitigation was a priority to them and should be incorporated or prioritised accordingly in regulatory proposals.

We have had regard to the recently published interim value of emissions reduction in these final decisions where relevant. In the 2024–29 regulatory determinations, only a limited number of businesses used a quantitative value in their initial and revised proposals, and it was related to a relatively small component of the proposed overall expenditure, such as in the case of certain CER-related expenditure. In those cases, we have considered the interim value of emissions reduction in assessing whether to accept or reject specific programs as part of our final decisions.

Consumers at the centre of proposals

As outlined in our draft decision, consumer engagement is an important facet of our assessment; together with ensuring we are satisfied that the proposed forecast reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs. Genuine engagement with consumers is resulting in better quality proposals.

Since the release of the Handbook we have seen a strong commitment from all 2024–29 businesses to engage with customers and have their preferences considered and reflected in their revenue proposals.¹⁰

Evoenergy has continued its engagement program since the draft decision, including by informing and testing customers on key issues through its Deep Dive Panel workshops. We acknowledged in our draft decision that Evoenergy has demonstrated a significant step-up in consultation with customers and stakeholders. However, engagement was deeper on tariffs than on some other ‘building block’ areas such as opex.

Evoenergy has integrated some consumer preferences into its revised proposal in the areas of consumer and stakeholder support for investment in the energy transition, limiting spending associated with demand forecasts because of cost concerns, the need for a fair approach to the energy transition, support for tariff refinements including balancing simplicity with cost signalling, and the need for flexibility within the regulatory regime during the energy transition.

The Consumer Challenge Panel, sub-panel 26 (CCP26) has highlighted that ongoing engagement is likely to deliver considerable benefits. Consumer engagement is likely to reduce the volume of bespoke reset-related engagement activities that are needed to adequately inform regulatory proposals, through businesses having a better understanding of the long-term insights from their consumers.¹¹

CCP26 acknowledged that Evoenergy’s engagement process was well run. CCP26 contends there was some support expressed by Deep Dive panellists for investment in response to climate change and in enabling electric vehicles. However, CCP26 also observed that the

¹⁰ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 13.

¹¹ Consumer Challenge Panel 26, *Advice to AER - 2024-29 Revised Electricity Determination and Draft Decision – Evoenergy*, January 2024, p. 19

revised proposal does not adequately respond to affordability issues and recent cost-of-living concerns raised by consumers during Panel workshops.

Following this decision, we encourage Evoenergy to build on the work undertaken during this process to ensure consumer engagement becomes a sustainable and continuous business-as-usual process.

The 2024-29 final decisions mark the completion of the first businesses whose proposals have been developed using the expectations and guidance in the Handbook. We have heard from consumer stakeholders broadly, that while the guidance of the Handbook has been valuable, there should be consideration of the application of the Handbook and early signal pathway.

The Handbook not only sets important expectations on how network businesses engage with consumers, but outlines our expectations for capex, opex, regulatory depreciation and tariff structure statements. These aspects are important to ensure we continue to encourage networks to develop high quality proposals through genuine engagement with consumers and that meet our expectations to constrain cost increases.

We acknowledge the importance of seeking insights and learning from this process for future regulatory determinations. We are not undertaking a formal review of the Handbook at this stage, however we are capturing the feedback already provided and have been refining our process in response. We will continue to develop the successful application of the Handbook as we work with the businesses on current and upcoming determinations.

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1 Our final decision

Our final decision allows Evoenergy to recover a total revenue of \$1,100.3 million (\$ nominal, smoothed) from its consumers from 1 July 2024 to 30 June 2029. Our final decision provides for the combined revenue of Evoenergy’s distribution and dual function (transmission) assets.¹²

In the sections below we briefly outline what is driving Evoenergy’s revenue, and the key differences between our final decision revenue compared to the \$1,043.7 million in our draft decision, and the \$1,095.7 million in its revised proposal.¹³

1.1 What is driving revenue?

Revenue is driven by changes in real costs and inflation. We assess costs (such as capex and opex) in real terms.

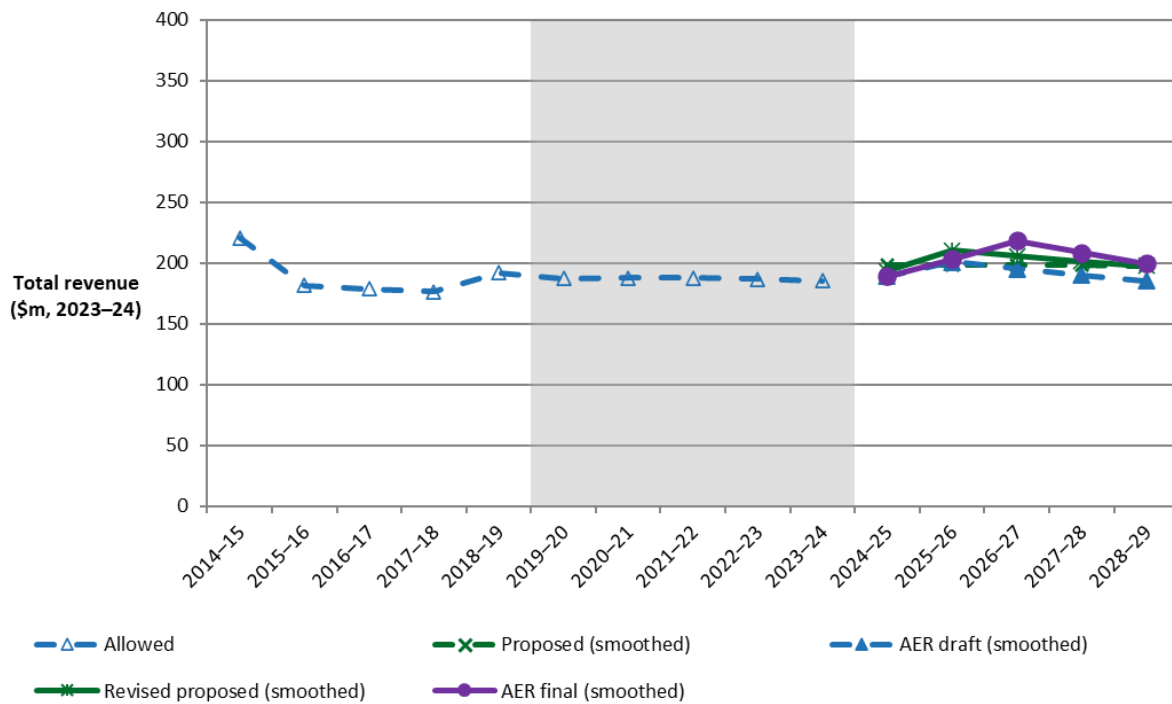
Over time, inflation impacts the spending power of money. To compare revenue from one period to the next on a like-for-like basis, in this section we use ‘real’ values based on a common year (2023–24) that have been adjusted for the impact of inflation instead of the nominal values above.

In real terms, this final decision would allow Evoenergy to recover \$1,015.4 million (\$2023–24, smoothed) from consumers over the 2024–29 period. This is 8.7% higher than our decision for the current (2019–24) period. Changes in Evoenergy’s revenue over time are shown in Figure 1.

¹² The costs attributed to the dual function assets are recovered as a net transfer of payments between Evoenergy and Transgrid. This is because Transgrid is the coordinating transmission network service provider for New South Wales and the ACT.

¹³ The amounts presented in this overview combine both the distribution and transmission networks numbers. A breakdown of the distribution and transmission numbers can be found in the attachments to this final decision.

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



Source: AER analysis.

In real terms, this final decision would allow Evoenergy to recover a total building block revenue of \$1,013.7 million (\$2023–24, unsmoothed) over the 2024–29 period. Figure 2 highlights the key drivers of the change between the revenue approved for Evoenergy for the 2019–24 period and in this final decision for the 2024–29 period. Similar to our observations in the draft decision, it shows that our final decision provides for reductions in the building blocks for:

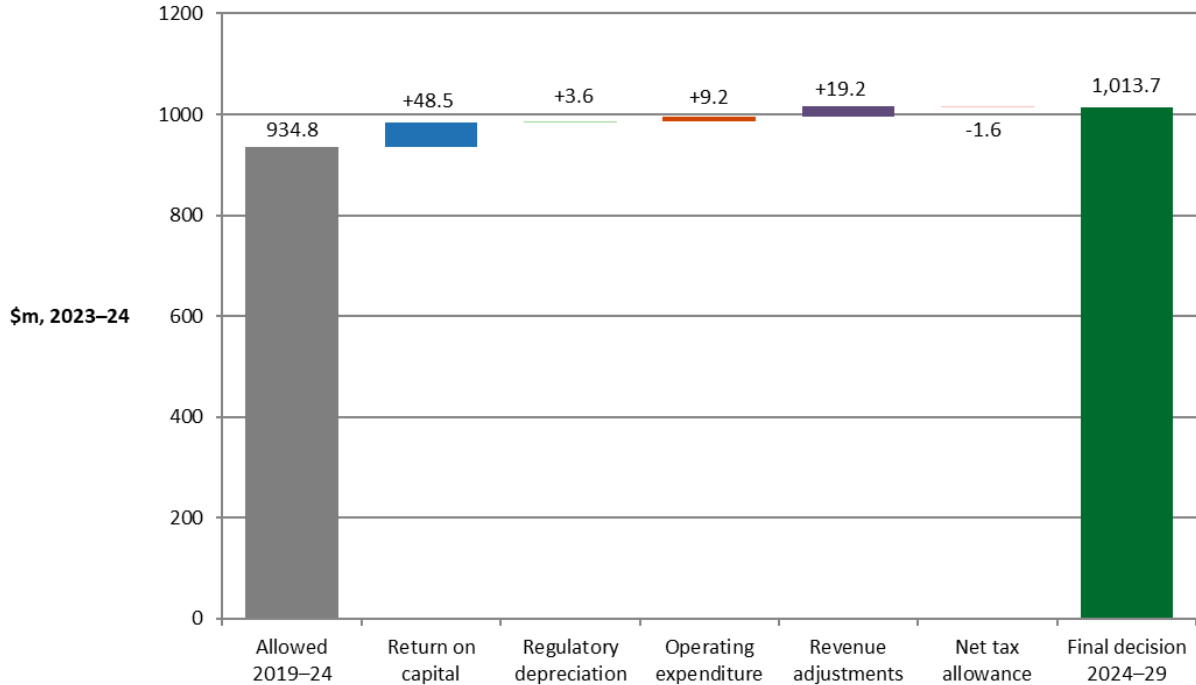
- net tax allowance, which is \$1.6 million (11.3%) lower than the 2019–24 period, primarily due to a higher immediate expensing of capex forecast for the 2024–29 period.

Figure 2 also shows that our final decision provides for increases in the building blocks for:

- return of capital (regulatory depreciation), which is \$3.6 million (1.3%) higher than the 2019–24 period, driven higher straight-line depreciation due to a higher capex forecast for the 2024–29 period
- opex, which is \$9.2 million (2.6%) higher than the 2019–24 period, driven primarily by increased expenditure for step changes, partially offset by lower revealed opex in the base year
- return on capital, which is based on the opening regulatory asset base (RAB), capex and rate of return. This is \$48.5 million (16.7%) higher than the 2019–24 period, driven by an increase in the RAB due in part to higher actual inflation in that period, and a higher rate of return being applied in the 2024–29 period, in accordance with the 2022 Rate of Return Instrument

- revenue adjustments, which are \$19.2 million higher than the 2019–24 period, mainly due to a higher efficient benefit sharing scheme (EBSS) rewards determined in this final decision compared to the 2019–24 period.

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

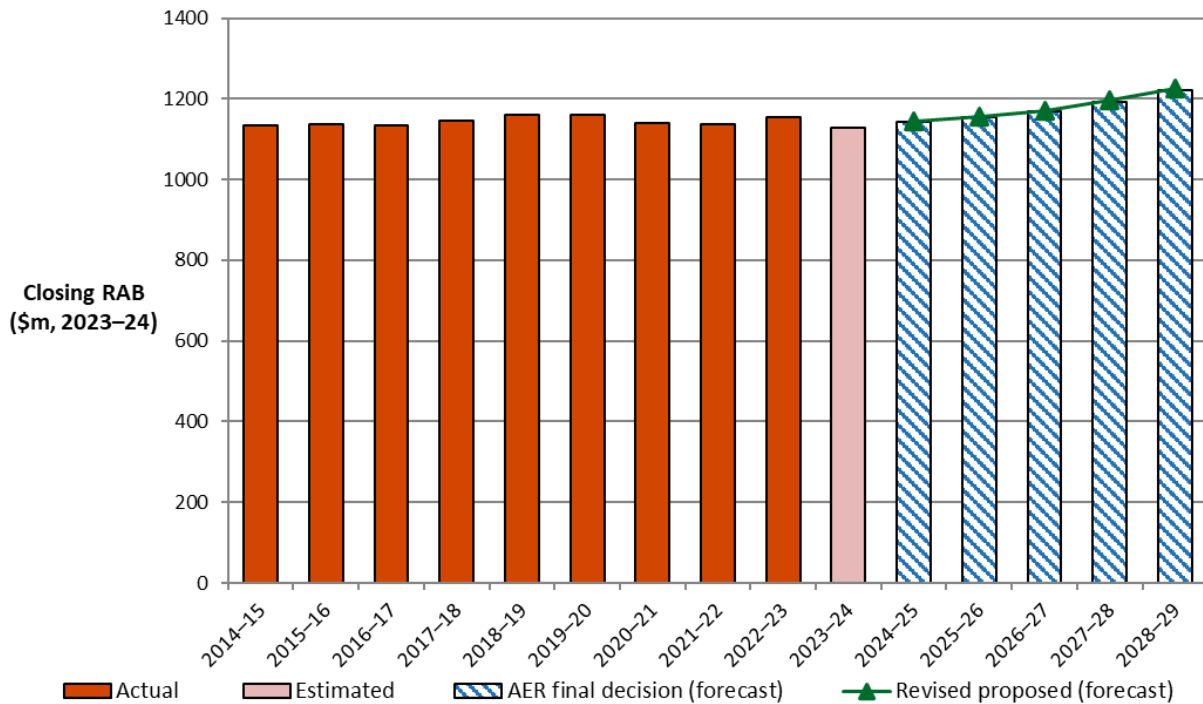


Source: AER analysis.

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 Evoenergy’s combined RAB over time. After a RAB reduction of 2.8% in real terms over the 2019–24 period, our final decision results in an increase of the RAB by \$93.9 million (\$2023–24) or 8.3% over the 2024–29 period. The growth in RAB over 2024–29 is primarily driven by higher forecast capex than the 2019–24 period.

Figure 3 Evoenergy’s RAB value over time – distribution and transmission (\$ million, 2023–24)



Source: AER analysis.

1.2 Key differences between our final decision and Evoenergy’s revised proposal

Our draft decision did not accept core components of Evoenergy’s proposal and made reductions to the proposed forecast capex and opex amounts. Evoenergy’s revised proposal broadly accepted our draft decision on capex. However, it sought additional forecast capex compared to the draft decision reflecting higher augmentation capex. This is due to an increase in costs for a number of major capital projects and an increase in forecast demand, driven predominately by economic growth in the ACT and in part by the ACT Government’s policy on achieving a net zero emission target by 2045. Evoenergy’s revised proposal also included a higher opex forecast reflecting a base-year level of opex efficiency and a new smart-metering step change. Our final decision has broadly accepted Evoenergy’s higher revised proposed capex and opex amounts in its revised proposal.

Our final decision determines a total unsmoothed revenue that is \$6.4 million (0.6%) (\$2023–24) higher than Evoenergy’s revised proposal. This is primarily due to a higher regulatory depreciation amount, driven by a lower expected inflation rate in our final decision than at the time of Evoenergy’s revised proposal. This higher regulatory depreciation amount in turn leads to higher estimated cost of corporate income tax amount. Expected impact of our final decision on electricity bills

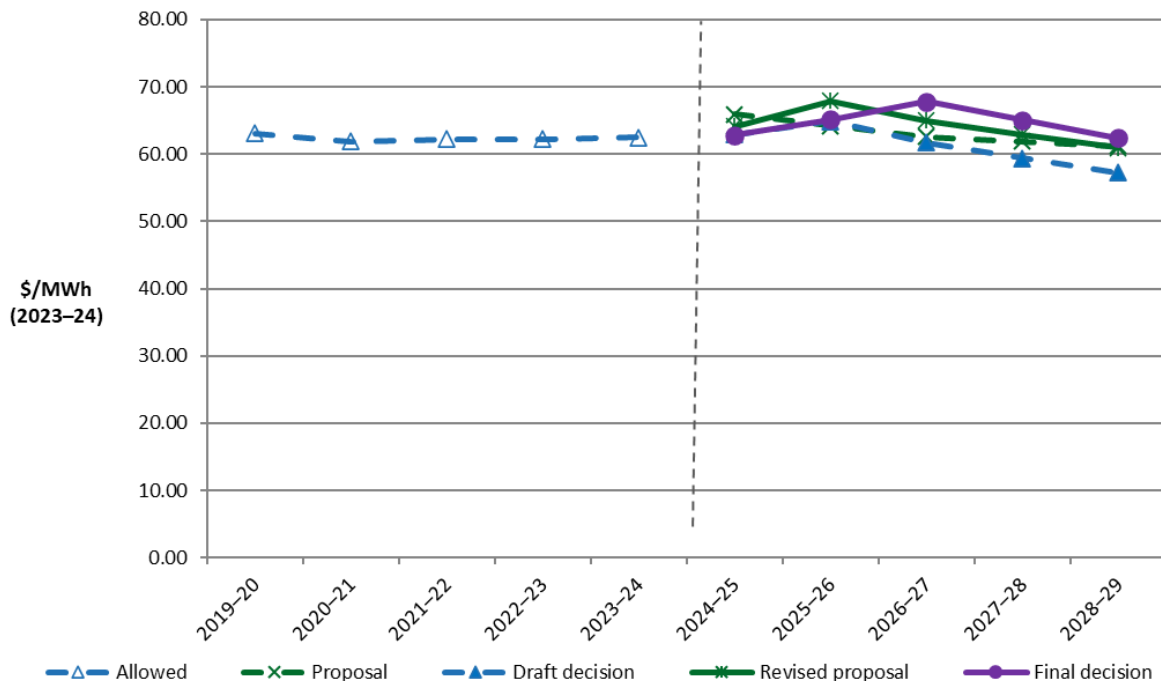
1.3 Expected impact of our final decision on electricity bills

Evoenergy recovers its distribution 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. Evoenergy’s transmission (dual function assets) regulated revenues are recovered through transmission charges, as we have decided to continue applying transmission pricing to these assets.¹⁴

For illustrative purposes only, we estimate the impact of this final decision would be a total increase to Evoenergy’s network charges (distribution and transmission) of around 4.2% in real terms by 2028–29 compared to 2023–24 levels, or an average increase of 0.8% per annum.¹⁵ This estimate will be 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 – distribution and transmission (\$2023–24, \$/MWh)



Source: AER analysis.

1.3.1 Potential bill impact

Evoenergy’s network charges (distribution and transmission) make up around 21% of its residential customers’ electricity bills and 27% of its small business customers’ electricity bills. Other components of the electricity supply chain—the cost of purchasing energy from the wholesale market, core 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 prices ultimately paid by consumers.¹⁶ These sit

¹⁴ AER, *Framework and approach: Evoenergy (ACT), Regulatory control period commencing 1 July 2024*, July 2022, p. 49.

¹⁵ The average increase to indicative network charges of 0.8% (\$2023–24) per annum reflects two components: 1) The final decision combined smoothed revenue average increase of 2.6% per annum (\$2023–24); and 2) The forecast energy delivered in Evoenergy’s distribution network area which is expected to increase on average by 1.8% per annum.

¹⁶ AEMC, *Data Portal*, [Trends in ACT supply chain components 2023/24](#).

outside the decision we are making here and will also continue to change throughout the period.

In nominal terms, which include the impact of expected inflation, the impact of this final decision would be an increase to Evoenergy’s network component of consumers’ energy bills.¹⁷ For illustrative purposes only, we estimate the impact of our final decision on the average annual electricity bill for a customer in Evoenergy’s network area, as it is today, would be:

- an increase of \$90 (4.0%) by 2028–29, or an average of \$18 per annum for a residential customer
- an increase of \$489 (5.1%) by 2028–29, or an average of \$98 per annum for a small business customer.¹⁸

Our decision on Evoenergy’s revised 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 NER that may operate to increase or decrease those charges. These include cost pass through events approved in this final decision. The triggers we have set out for these events in this decision will, if met, allow Evoenergy to apply for additional revenue throughout the period, at which point proposed costs will be subject to further consultation and assessment.

1.4 Consumer Engagement

Our draft decision acknowledged that Evoenergy’s consumer engagement demonstrated a significant step-up in consultation with customers and stakeholders in accordance with the Better Resets Handbook expectations.¹⁹

The AER’s CCP26 noted that engagement on tariffs occurred at greater depth than on some ‘building block’ topics, particularly opex. We encouraged Evoenergy to consult with customers and stakeholders on all capex, opex and contingent project proposals that could materially impact customer affordability.

Following submission of its initial proposal, Evoenergy carried out further engagement with a focus on simplification of residential tariffs. Evoenergy established a new ‘Deep Dive’ Panel of around 30 people representing a broad cross-section of the ACT community. Topics of discussion included striking a balance between keeping network tariffs simple and signalling efficient costs of using the network, supporting the uptake of renewable energy, and achieving net zero emissions in the ACT.

¹⁷ This includes the combined impact of Evoenergy’s distribution and transmission (dual function asset) components.

¹⁸ Our estimated bill impact is based on the typical annual electricity usage of 6,500 kWh and 25,000 kWh for residential and small business customers in the ACT, respectively. Source: Independent Competition and Regulatory Commission, *Retail electricity price recalibration 2023-24: standing offer prices for the supply of electricity to small customers*, June 2023, p. iv.

¹⁹ AER, *Draft Decision Overview – Evoenergy – 2024-29 Distribution revenue proposal*, September 2023.

The key topics and feedback themes identified by Evoenergy through its consumer engagement, which it submitted are reflected in its revised proposal, included:

- consumer and stakeholder support for investment in energy transition and CER
- cost concerns and the need for a fair approach to the energy transition that acknowledges possible impacts on vulnerable communities
- tariff refinements including the simplification of residential tariffs, removal of the proposed residential export reward tariff and exploring future tariff options for Electric Vehicles
- the need for flexibility within the regulatory regime to manage uncertainty and support a rapid energy transition.

CCP26 observed in its submission on the revised proposal and our draft decision that the engagement process, including the ‘Deep Dive’ panel, was well run and tested whether community views remained the same on key themes and issues. CCP26 submitted that there was some support from consumers for extra augex to support a response to climate change. They observed strong consumer interest in EVs, with some support for extra augex but no consideration of options or bill impacts. Additional information was provided around the Security of Critical infrastructure step change and a new step change for the roll-out of smart meters.

In the view of CCP26, there was no justification solely on the basis of the ‘Deep Dives’ for revised proposal changes targeting residential tariff simplification and removal of the export tariff. Also, there was no attempt in the revised proposal to address recent cost-of-living concerns raised by consumers. CCP26 also noted that a dominant theme in the Evoenergy (and NSW businesses) proposals of uncertainty due to the unfolding energy transition and impacts of climate change on electricity network infrastructure.

We also received submissions on the revised proposal and draft decision from ACT Council of Social Service (ACTCOSS), ActewAGL Retail, Peter Sutherland (ANU), Red and Lumo Energy, Tesla and Origin Energy (late submission).

Key issues raised by ACTCOSS in their submission and how we have had regard to them in the final decision include:

- **Expected impact of steep increases in bills early in the regulatory period in the context of cost-of-living issues.** To address this we have adopted distribution and transmission revenue smoothing profiles in our final decision to moderate increases in revenue and associated bill impacts in the first three years of the 2024–29 period.
- **Transparent indication of expected impacts of the final decision for consumers.** Our final decision states for illustrative purposes potential bill impacts for an average residential customer and average small business customer, both over the entire regulatory period and as an average per annum.
- **Encouragement to continue to consult with low income and vulnerable energy customers.** Our final decision encourages Evoenergy to ensure consumer engagement becomes a sustainable and continuous business-as-usual process and to continue to consider the Handbook expectations in developing high quality

proposals through genuine engagement with consumers that constrain cost increases.

- **Support for capex reduction through equity focused options for network load management and reducing peak demand.** We support strategies for capex reduction such as consumer education and investment in energy efficiency. We also support consideration of possible non-network solutions. This includes through tariff reform and the price signals approved in Evoenergy’s simplified cost-reflective residential demand and time-of-use tariffs, and ‘solar soak’ pricing in the middle of the day.
- **Ensuring that network tariffs are not a barrier to EV uptake for low-income consumers.** EV uptake in the ACT is currently outperforming the most optimistic forecast. The approved TSS provides EV owners with options to manage their network bill through the demand and time-of-use tariffs. Existing controlled load tariffs are also available for EV charging. Network tariff options should not represent a barrier to EV uptake for low-income consumers.
- **Support for implementing residential export tariffs and providing rooftop solar customers with choice on export tariffs or limits during peak periods.** Our final decision approves Evoenergy’s withdrawal of its proposed residential export reward tariff, due to billing system change costs associated with implementing export reward tariffs. The approved revised TSS includes low ‘solar soak’ prices in the middle of the day to encourage consumption of solar exports to the grid and assist with managing export-related network costs.

Both ActewAGL and Origin Energy expressed support for Evoenergy’s removal of the proposed residential export tariff. ActewAGL, Red and Lumo Energy expressed support for simplification of residential network tariffs.

We consider Evoenergy’s consumer engagement has been sincere in informing customers, with a significant step-up in consultation with customers and stakeholders in accordance with Better Resets Handbook expectations. However, engagement was deeper on tariffs than on some other ‘building block’ areas such as opex. The Deep Dive Panel workshops appear to have worked well in focusing on informing around key proposals that had changed materially between the initial and revised proposals.

2 Key components of our final decision on revenue

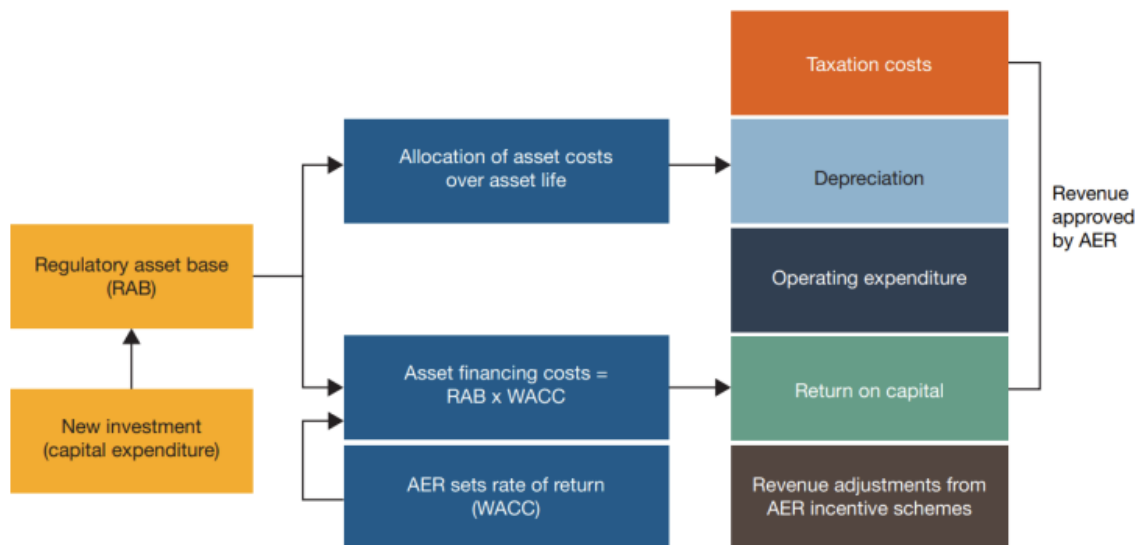
Building block approach

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 drive 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.

Evoenergy’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 NEL and 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 cost 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 EBSS and CESS
- estimated cost of corporate income tax.

Figure 5 The building block model to forecast network revenue



Source: AER.

Revenue smoothing

Our final decision includes a determination of Evoenergy’s annual revenue requirement (ARR) (unsmoothed revenue) and annual expected revenue (smoothed revenue) across the 2024–29 period. The expected revenues we set in this final decision are the amounts that Evoenergy will target for its annual pricing purposes and recover from its customers for the provision of standard control services for each year of the 2024–29 period.²⁰

The ARR is the sum of the various building block costs for each year of the regulatory control period, which can be lumpy over the period. To minimise price shocks, revenues are smoothed within a regulatory control period while maintaining the principle of cost recovery under the building block approach. As such, revenue smoothing requires diverting some of the cost recovery to adjacent years within the regulatory control period.

Revenue smoothing also helps to minimise any potential large revenue variance (and thus price shocks) at the commencement of the 2029–34 period. Our standard approach has been to keep a divergence of up to +/-3% between the smoothed and unsmoothed revenues for the last year of the regulatory period, if this can achieve smoother price changes across the regulatory control periods.

For this final decision, we approved higher revenues than those in Evoenergy’s revised proposal. This is mainly driven by external economic factors, which involves updating data to reflect lower expected inflation rate, which increases the regulatory depreciation building block, and higher interest rates, which increases the allowed rate of return.

Evoenergy’s combined unsmoothed revenue for the first year of the 2024–29 period (2024–25) is about 16.9% (nominal) higher than its approved revenue for the last year of the 2019–24 period (2023–24). We are mindful that the magnitude of this increase in revenue would have a significant impact on network charges for Evoenergy’s customers.

Consequently, we have smoothed the increase in expected revenues over the first 3 years of the 2024–29 period for Evoenergy. We have also relaxed our standard approach to the final year difference between the smoothed and unsmoothed revenue being kept to +/-3%, to further help ease the price increases for customers in the earlier years of the 2024–29 period. In the present circumstances, we have determined that the final year revenue difference is 4.7%.

Our final decision results in initial increases of 9.4% (nominal) to the smoothed revenue in 2024–2025 to 2026–27, followed by average annual reductions of 0.5% (nominal) per annum over the remaining 2 years of the 2024–29 period (2027–28 and 2028–29).²¹

2.1 Regulatory asset base

The RAB accounts for the value of regulated assets over time. To set the value of the RAB for a new regulatory period, we take the opening value of the RAB from the end of the last

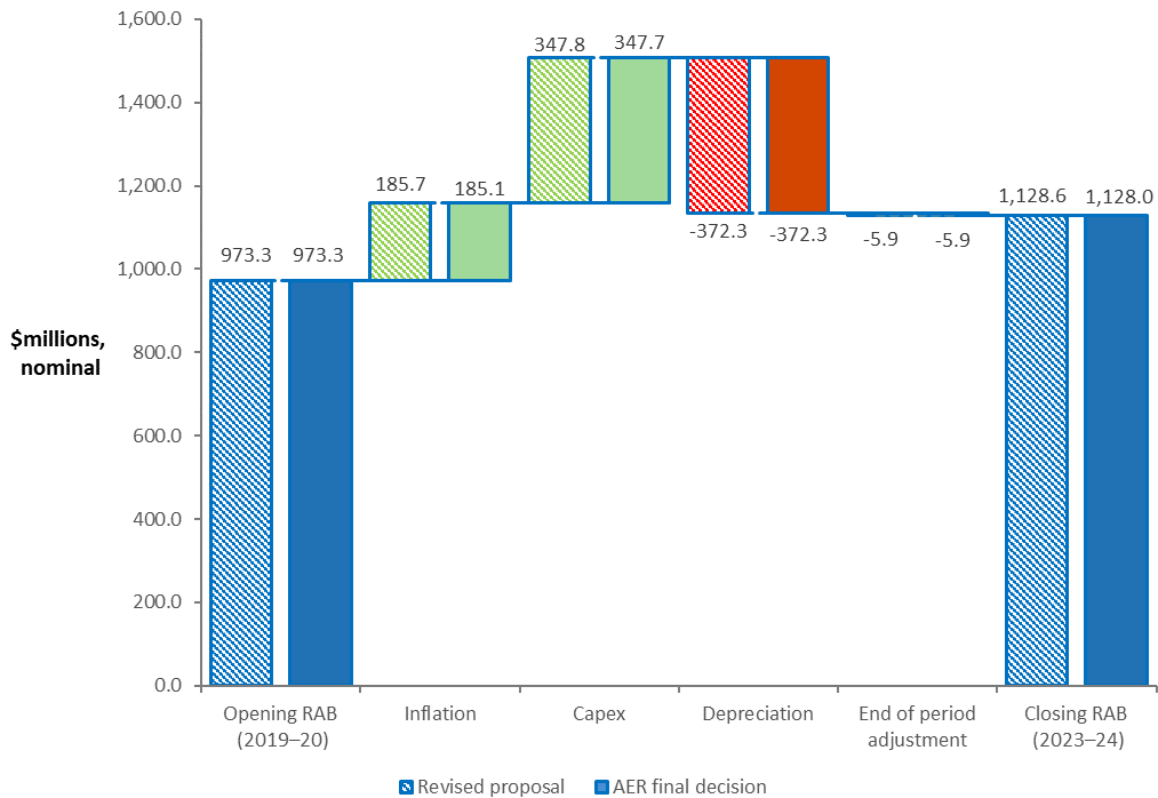
²⁰ Our final decision expected revenues have not factored in any changes arising from incentive scheme amounts, cost pass throughs or unders/overs reconciliation that usually occur in the annual pricing process to come up with the total allowed revenue.

²¹ This reflects the combined distribution and transmission smoothed revenues for Evoenergy.

period and roll it forward each 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 regulatory depreciation building blocks. It substantially impacts Evoenergy’s revenue and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and regulatory depreciation components of the revenue determination.

For this final decision, we have determined a combined opening RAB value of \$1,128.0 million (\$ nominal) as at 1 July 2024. This value is \$0.5 million (0.05%) lower than Evoenergy’s revised proposed opening RAB of \$1,128.6 million. This reduction is largely due to the updates we made to the consumer price index (CPI) input for 2023–24 to reflect the actual outcome in the roll forward model (RFM). Figure 6 shows the key drivers of change in Evoenergy’s RAB over the 2019–24 period compared to its revised proposal.

Figure 6 Key drivers of change in the RAB over the 2019–24 period – revised proposal compared to the AER’s final decision – distribution and transmission (\$ million, nominal)



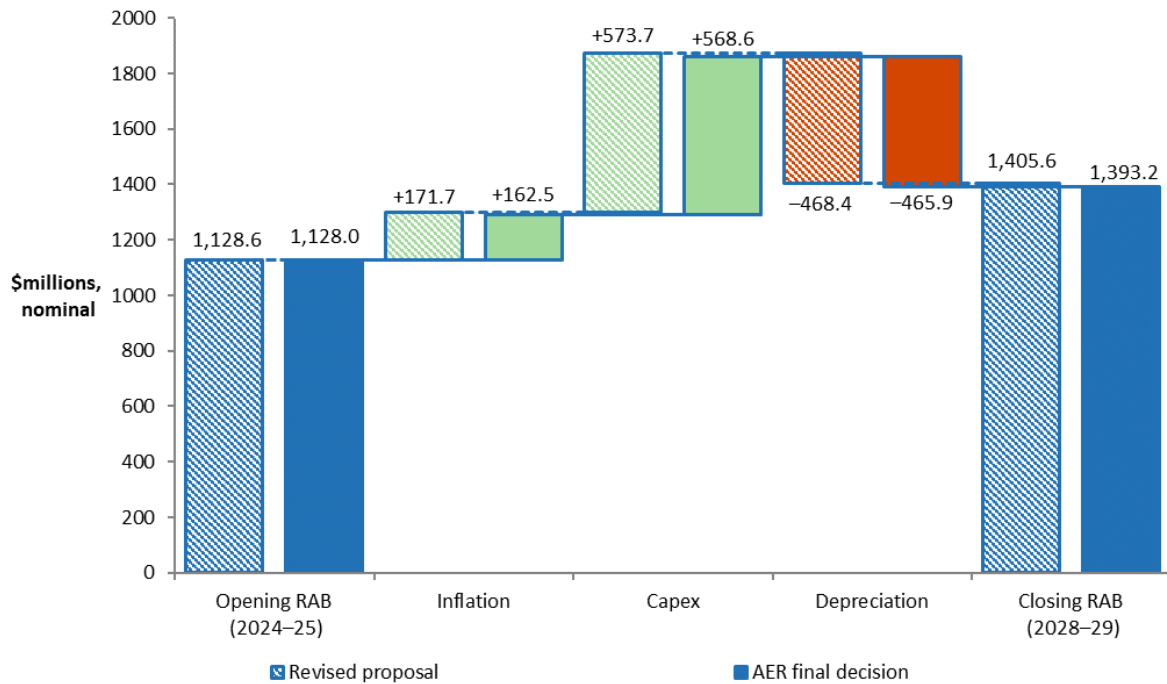
Source: AER analysis.

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

Figure 7 likewise shows the key drivers of change in Evoenergy’s combined RAB over the 2024–29 period compared to its revised proposal. Our final decision projects an increase of \$265.2 million (23.5%) to the RAB by the end of the 2024–29 period compared to the \$277.1 million (24.6%) increase in Evoenergy’s revised proposal. We have determined a projected

closing RAB of \$1,393.2 million (\$ nominal) as at 30 June 2029, which is \$12.4 million (0.9%) lower than Evoenergy’s revised proposal of \$1,405.6 million. This lower value is mainly due to a lower expected inflation rate applied in our final decision. It also reflects our final decision on the opening RAB as at 1 July 2024, forecast capex and forecast depreciation (discussed in the sections below).

Figure 7 Key drivers of change in the RAB over the 2024–29 period – revised proposal compared to the AER’s final decision – distribution and transmission (\$ million, nominal)



Source: AER analysis.

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

2.2 Rate of return and value of imputation credits

The return each business is to receive on its RAB (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 RAB.

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 give a return on equity to investors.

The estimate of the rate of return is important for promoting efficient prices in the long-term interests of consumers. If the rate of return is set too low, the network business may not be able to attract sufficient funds to be able to make the required investments in the network and reliability may decline. Conversely, if the rate of return is set too high, the network business may seek to spend too much and consumers will pay inefficiently high tariffs.

The NEL requires us to apply the 2022 Rate of Return Instrument (Instrument)²² to estimate the rate of return for Evoenergy. Evoenergy’s revised proposal adopted the 2022 Instrument.²³ The 5.85% (nominal vanilla) rate of return in this final decision is higher than the 5.81% placeholder in the revised proposal, principally due to an increase in interest rates.

Our calculated rate of return in Table 1 would apply to the first year of the 2024–29 regulatory control period. A different rate of return may apply for the remaining years of the 2024–29 regulatory control period. This is because we will update the return on debt component of the rate of return each year, in accordance with the 2022 Instrument, to use a 10-year trailing average portfolio return on debt that is rolled-forward each year. Hence, only 10% of the return on debt is calculated from the most recent averaging period, with 90% from prior periods.

Our final decision accepts Evoenergy’s proposed risk-free rate²⁴ and debt averaging periods²⁵ because they satisfied the 2022 Instrument.²⁶ For this final decision, we adopt the confidential appendix setting out the averaging periods issued with our draft decision.

Table 1 Final decision on Evoenergy’s rate of return (nominal)

	AER’s draft decision (2024–29)	Evoenergy’s revised proposal (2024–29)	AER’s final decision (2024–29)	Allowed return over the regulatory control period
Nominal risk-free rate	3.95%	3.95%	4.09% ^a	
Market risk premium	6.20%	6.20%	6.20%	
Equity beta	0.6	0.6	0.6	
Return on equity (nominal post-tax)	7.67%	7.67%	7.81%	Constant (%)
Return on debt (nominal pre-tax)	4.56%	4.56%	4.55% ^b	Updated annually
Gearing	60%	60%	60%	Constant (60%)
Nominal vanilla WACC	5.81%	5.81%	5.85% ^c	Updated annually for return on debt
Expected inflation	2.80%	2.80%	2.66%	Constant (%)

²² AER, *Rate of return Instrument (version 1.2)*, February 2023. See <https://www.aer.gov.au/publications/guidelines-schemes-models/rate-of-return-instrument-2022/final-decision>

²³ Evoenergy, *Revised regulatory proposal*, 30 November 2023. p. 39.

²⁴ AER - *Draft Decision Appendix A - CONFIDENTIAL Appendix to Attachment 3 - Rate of return – Evoenergy Distribution revenue proposal*, September 2023, p. 1.

²⁵ AER - *Draft Decision Appendix A - CONFIDENTIAL Appendix to Attachment 3 - Rate of return – Evoenergy Distribution revenue proposal*, September 2023, p. 2.

²⁶ AER, *Rate of return Instrument (Version 1.2)*, February 2023, cl 7–8, 23–25.

Source: AER analysis; AER, Draft Decision Attachment 3 - Rate of return - Evoenergy - 2024-29 Distribution revenue proposal, 28 September 2023, p. 2; Evoenergy, *Distribution PTRM*, 30 November 2023; Evoenergy, *Transmission PTRM*, 30 November 2023.

- (a) Calculated using Evoenergy’s actual nominated risk-free rate averaging period from 1 March 2024 to 31 March 2024.
- (b) Calculated using Evoenergy’s actual nominated return on debt averaging period.
- (c) Applied to the first year of the 2024–29 regulatory control period.

Debt and equity raising costs

In addition to providing for the required rate of return on debt and equity, we provide an allowance for the transaction costs associated with raising debt and equity. We include debt raising costs in the opex forecast because these are regular and ongoing costs, and equity raising costs in the capex forecast because these costs are incurred once and would be associated with funding particular capital investments. Our approach to forecasting capital raising costs is set out in more detail in our draft decision.²⁷

Evoenergy has proposed to use our approach to estimate equity raising costs.²⁸ We have updated our estimate for the 2024–29 regulatory control period based on the benchmark approach using updated inputs. This results in zero equity raising costs.

Our final decision accepts Evoenergy’s’ revised opex proposal therefore we do not provide substitute estimates of its debt raising cost using our benchmark approach.²⁹

Imputation credits

Our final decision applies a value of imputation credits (gamma) of 0.57 as set out in the 2022 Instrument.³⁰ Evoenergy’s revised proposal has also adopted the value of gamma set out in the 2022 Instrument.³¹

Expected inflation

As set out in Table 2 our estimate of expected inflation is 2.66%. It is an estimate of the average annual rate of inflation expected over a five-year period based on the outcome of our 2020 inflation review.³²

Evoenergy’s revised proposal adopted our current approach for estimating expected inflation.³³

²⁷ AER - *Draft Decision - Attachment 3 - Rate of return – Evoenergy – 2024-29 Distribution revenue proposal*, September 2023, pp. 4-6.

²⁸ Evoenergy, *Distribution PTRM*, 30 November 2023.; Evoenergy, *Transmission PTRM*, 30 November 2023.

²⁹ Evoenergy, *Distribution PTRM*, 30 November 2023.; Evoenergy, *Transmission PTRM*, 30 November 2023.

³⁰ AER, *Rate of return Instrument (version 1.2)*, February 2023, cl. 27.

³¹ Evoenergy, *Distribution PTRM*, 30 November 2023.; Evoenergy, *Transmission PTRM*, 30 November 2023.

³² AER, *Final position, Regulatory treatment of inflation*, December 2020.

³³ Evoenergy, *Revised regulatory proposal*, 30 November 2023. p. 27.

Table 2 Final decision on Evoenergy’s forecast inflation (%)

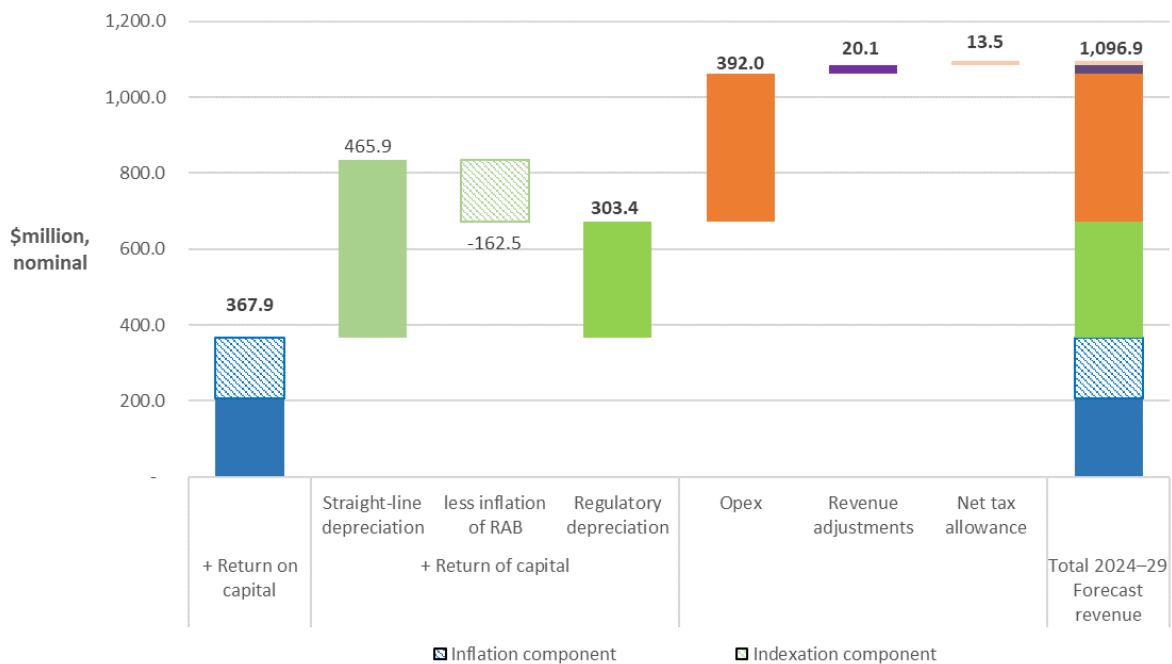
	Year 1	Year 2	Year 3	Year 4	Year 5	Geometric average
Expected inflation	3.10%	2.60%	2.57%	2.53%	2.50%	2.66%

Source: AER Analysis; RBA, Statement on Monetary Policy, February 2024, Table 3.1: Detailed Forecast Table. See <https://www.rba.gov.au/publications/smp/2024/feb/outlook.html#table31>

Our final decision uses the Reserve Bank of Australia’s (RBA) February 2024 Statement of Monetary Policy (SMP) which contains a consumer price index (CPI) forecast for the year-ending June 2024 and June 2025. This means the first two years of the 2024–29 regulatory control period are based on RBA forecasts and, thereafter, a linear glide-path from year three to the mid-point of the RBA’s inflation target band of 2.5% in year five.

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

Figure 8 Inflation components in final decision revenue building blocks – distribution and transmission (\$ 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 final decision determines a combined regulatory depreciation amount of \$303.4 million (\$ nominal) for the 2024–29 period. This is an increase of \$6.7 million (2.3%) from Evoenergy’s revised proposal of \$296.7 million.

This increase is primarily due to our final 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 this final decision reduces the indexation of the RAB that is offset against straight-line depreciation in determining regulatory depreciation.

2.4 Capital expenditure

Capital expenditure (capex) refers to the investment made in the distribution network to provide standard control 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.³⁴

Overall, we are satisfied that Evoenergy’s proposed total forecast capex of \$516.5 million (\$2023–24)³⁵ reasonably reflects prudent and efficient costs to maintain the safety, reliability and security of the network, while also reflecting NEO’s the emissions reduction objective.

We determined an alternative estimate for capex of \$505.1 million (\$2023–24) because we did not accept Evoenergy’s proposed uplift in replacement expenditure of \$14.3 million. Our alternative capex forecast is 2.8% or \$14.3 million less than Evoenergy’s revised proposal and is not materially different to Evoenergy’s total capex forecast. We are satisfied that Evoenergy’s estimate reasonably reflects the capex criteria.

Table 3 sets out our final decision for Evoenergy by capex category.

³⁴ NER, cl. 6A.5.4(a).

³⁵ Evoenergy proposed \$519.4 million (\$2023–24) in its revised proposal and we have made modelling adjustments to update the consumer price index (CPI) and real cost escalation assumptions (including the exclusion of external contract labour cost escalation). This has resulted in a \$2.9 million reduction to the total capex forecast (\$516.5 million).

Table 3 AER's final decision by capex category (\$million, \$2023–24)

Category	Evoenergy revised proposal and AER final decision
Augmentation ³⁶	185.9
Replacement	109.0
Connections	124.0
Property	3.0
ICT	39.2
Fleet	13.9
Non-network capex - other	12.4
Capitalised overheads	89.7
Gross Total	577.1
Less Customer contribution connections	53.5
Less Disposals	4.2
Modelling adjustments	-2.9
Net Total	516.5

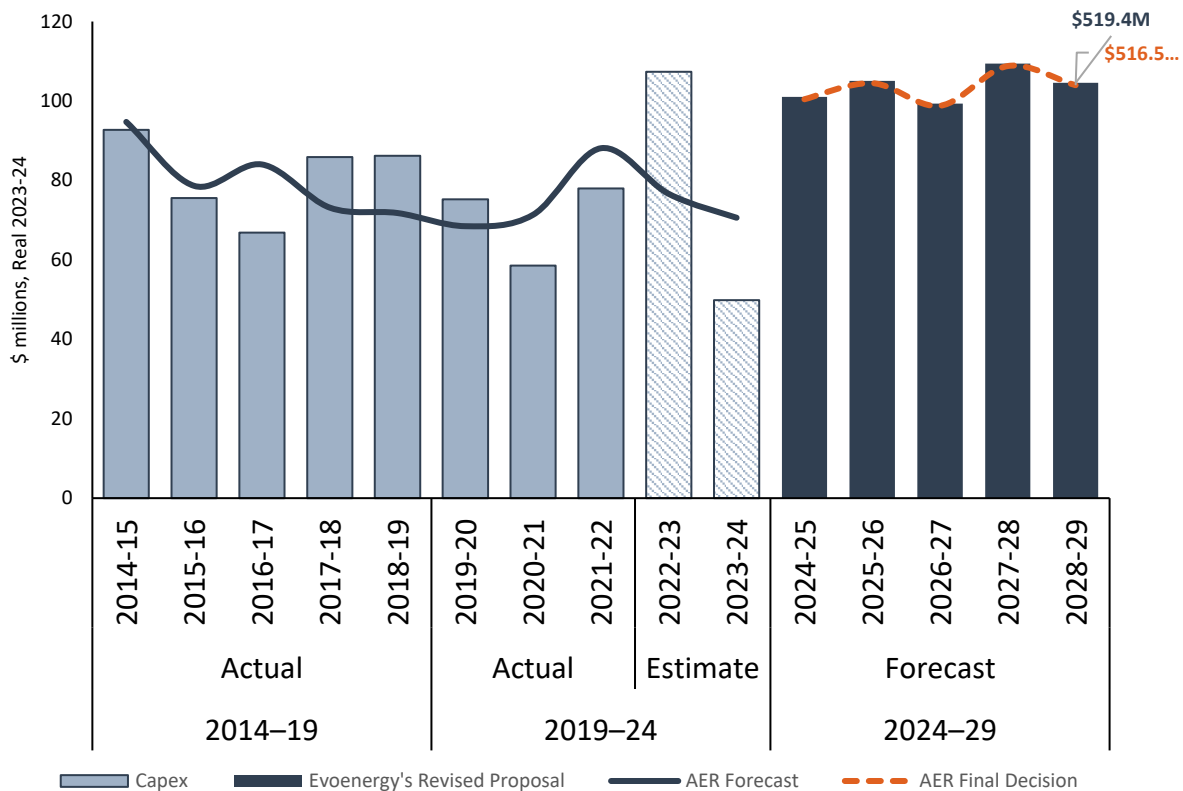
Source: Evoenergy's capex model and AER analysis.

Note: Numbers may not sum due to rounding. Modelling adjustments relate to updates to the consumer price index (CPI) and real cost escalation assumptions (including the exclusion of external contract labour cost escalation).

Figure 9 outlines Evoenergy's historical capex trend, its proposed forecast for the 2024–29 regulatory control period, and our final decision.

³⁶ Augmentation expenditure of \$185.9 million includes Evoenergy's revised proposal CER expenditure of \$4.7 million (\$2023–24).

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



Source: AER analysis. Capex is net of asset disposals.

Evoenergy has broadly accepted our draft decision on capex and updated its demand forecast in line with our draft decision except for a few repex asset categories such as secondary systems, ground assets and zone substations.

In responding to our draft decision, Evoenergy has also reduced its augmentation for EV driven projects from \$74.8 million in its initial proposal to \$25.1 million in the revised proposal. However, this has been largely offset by a \$42.6 million (or 121%) increase in forecast augmentation costs for 2 of its major non-EV driven projects, the Molonglo and Strathnairn Zone Substations, based on more recent market tendered prices it received in 2023. Overall, the reduction in EV-demand driven projects has been offset by the increase in zone substation costs, resulting in a forecast that is similar to Evoenergy’s initial proposal.

Having assessed the revised proposal repex, we have not included all of Evoenergy’s proposed replacement expenditure in our alternative forecast of total capex. Our alternative forecast is \$94.7 million, which is \$14.3 million or 2.8% lower than Evoenergy’s revised repex proposal of \$109.0 million. In undertaking our assessment of Evoenergy’s repex, we also identified improvements to Evoenergy’s asset management practices that should be considered further, including enhanced condition-based asset management practices and demonstrating expected asset performance service outcomes from its investment in repex.

As for the demand forecast, Evoenergy’s revised proposal substantially addressed our concerns raised in the draft decision, including modelling improvements and updating data. Our final decision is to accept Evoenergy’s revised proposal demand forecast.

As for the augmentation expenditure, Evoenergy has reduced the scope of the EV projects and programs and our assessment focused on the zone substation cost increases. We reviewed the appropriateness of the tendering process and its outcome, as well as the scope of the component projects for the cost increases for the Molonglo and Strathnairn Zone Substations. We consider that the revised substation costs are reasonable because these are based on recent market prices in Evoenergy’s circumstance. Our final decision is to accept Evoenergy’s augmentation capital expenditure of \$185.9 million (\$2023–24) in its revised proposal.

Our final decision on Evoenergy’s capex forecast for the 2024–29 regulatory control period is set out in attachment 5 –capital expenditure.

2.5 Operating expenditure

Our final decision is to not accept Evoenergy’s revised proposal total opex forecast of \$364.8 million (\$2023–24).³⁷ We consider Evoenergy’s revised proposal total opex forecast largely reflects prudent and efficient costs to achieve the opex objectives in the 2024–29 period. However, we consider \$2.8 million of Evoenergy’s smart meter step change is not properly allocated to standard control services (SCS),³⁸ and should be reallocated to alternative control services (ACS). Specifically, this cost relates to development and delivery of the legacy meter retirement plan.

Accounting for this reallocation, our alternative estimate of total forecast opex of \$360.6 million is not materially different to Evoenergy’s revised proposal opex forecast of \$362.0 million on a like for like basis (i.e. if Evoenergy’s revised proposal had allocated the same proportion of its smart meter step change costs to ACS).

Our final decision is therefore to approve total forecast opex of \$362.0 million, including debt raising costs, for the 2024–29 period as reasonably reflecting the opex criteria.³⁹ This is consistent with Evoenergy’s revised proposed opex forecast of \$364.8 million, less the portion of its smart meter step change costs (\$2.8 million) which we have allocated to ACS costs, as discussed in section 6.4.3 in Attachment 6.

Our final decision opex forecast for Evoenergy is:

- \$25.5 million (or 7.6%) higher than the opex forecast in our draft decision for the 2024–29 period
- \$32.7 million (or 9.9%) higher than Evoenergy’s actual (and estimated) opex in the 2019–24 period
- \$6.2 million (or 1.7%) higher than the opex forecast we approved in our final decision for the 2019–24 period.

Figure 10 compares the opex forecast we approve in this final decision for the 2024–29 period to Evoenergy’s revised proposal and our alternative estimate, the forecasts we

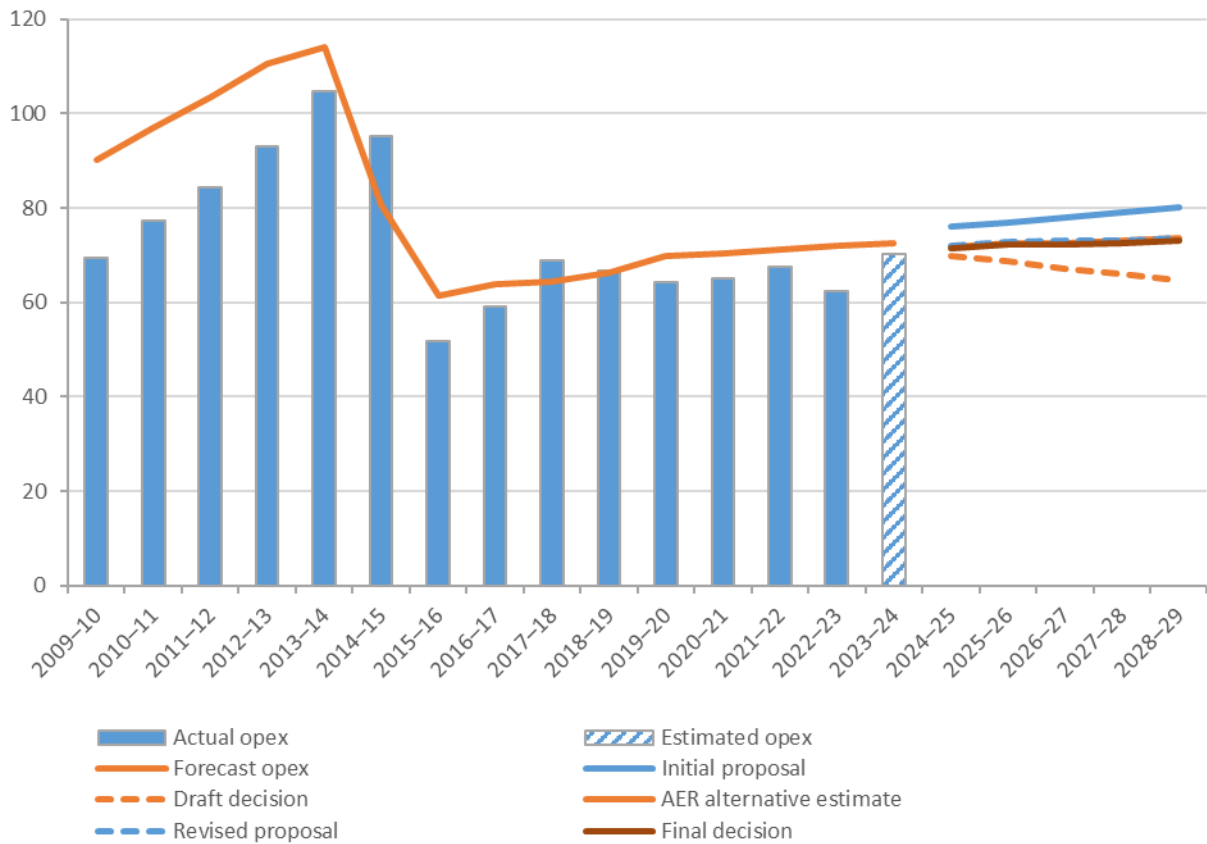
³⁷ All dollars in this section, unless otherwise indicated, are in \$2023–24.

³⁸ NER, cl. 6.5.6(b)(2).

³⁹ The opex criteria are set out in cl. 6.5.6(c) of the NER and the opex factors are set out in cl. 6.5.6(e). We must not accept a distributor’s proposed opex if we are not satisfied that it reasonably reflects those criteria: NER, cl. 6.5.5(d).

approved for the last two regulatory periods from 2009–10 to 2023–24, and Evoenergy’s actual and estimated opex across that period.

Figure 10: Comparison of past and forecast opex (\$2023–24, million)



Source: Evoenergy, Regulatory accounts 2014–15 to 2020–21; AER, Draft decision, Evoenergy distribution determination 2024–29 – Opex model, September 2023; AER analysis.

Note: Includes debt raising costs and movements in provisions. Evoenergy revised its Cost Allocation Method in 2014–15 meaning that opex prior to this revision is not on a like-for-like basis with opex in the years following.

The following factors have contributed to our alternative estimate of total forecast opex not being materially different to Evoenergy’s revised proposal forecast:

- Base year opex efficiency:** we have not made a negative efficiency adjustment to Evoenergy’s base year opex, as we did in our draft decision. Our final decision, based on Evoenergy’s revised proposal and our updated analysis, is that Evoenergy’s opex in its revised base year of 2022–23 is not materially inefficient and so no efficiency adjustment is justified.
- Smart meter step change:** we have largely accepted Evoenergy’s new proposed step change in its revised proposal for its accelerated smart meter rollout, but we have allocated a small portion of these costs (\$2.8 million of \$9 million) to ACS.

In our draft decision, we reduced Evoenergy’s forecast opex because we found that Evoenergy’s opex in the base year (2021–22) was materially inefficient, and required adjustment to ensure forecast opex in the 2024–29 period was prudent and efficient. We have not reached the same conclusion of material inefficiency in Evoenergy’s base year opex for this final decision. The key reasons for this are:

- Evoenergy revised its base year from 2021–22 to 2022–23, when actual opex was 6.5% lower (\$66.4 million in 2021–22 compared to \$62.0 million in 2022–23). This substantially narrowed the efficiency gap we had identified in our draft decision, when we compared actual opex against the estimated modelled efficient opex
- Mechanical updates impacting the estimated modelled efficient opex, including to account for the more recent *2023 Annual Benchmarking Report* results published since our draft decision, and the additional year of actual data available for our application of the benchmarking roll forward model
- We made some allowance for differences in the network overhead capitalisation practices of distribution network service providers. This recognises that while Evoenergy has historically expensed 100% of network overheads, other networks have expensed only 50-70% of network overheads. Not accounting for this difference would likely disadvantage Evoenergy in terms of measured relative opex efficiency. We did not make this allowance in our draft decision.

Taken together, these factors led us to conclude that there was not sufficient evidence to find Evoenergy’s revised base year opex was materially inefficient.

Our reasoning behind these positions is outlined in further detail in Attachment 6.

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 final decision determines a combined estimated cost of corporate income tax amount of \$13.5 million (\$ nominal) for Evoenergy over the 2024–29 period. This is an increase of \$1.5 million (12.7%) from Evoenergy’s revised proposal of \$12.0 million.

This increase is primarily due to our final decision on a higher regulatory depreciation amount and higher return on equity amount (see section 2.2 and 2.3). Regulatory depreciation and return on equity are both components of revenue for tax purposes. Therefore, higher regulatory depreciation and higher return on equity increase the estimated taxable income for Evoenergy, which in turn increase the estimated cost of corporate income tax.

2.7 Revenue adjustments

Our calculation of Evoenergy’s total revenue includes adjustments under the EBSS and CESS that applied in its determination for the current period. These mechanisms provide a continuous incentive for Evoenergy to pursue efficiency improvements in opex and capex, and a fair sharing of these between Evoenergy and its users.

Our final decision includes:

- a revenue adjustment (increment) of \$1.99 million (\$2023–24) for the CESS. This is from the application of the CESS in the 2019–24 period and the corresponding CESS carryover true-up for 2018–19. Our final decision is \$0.04 million less than Evoenergy’s proposed increment of \$2.03 million, due to including a true-up carryover amount and updating capex to reflect latest available information.

- a revenue adjustment of \$14.7 million (\$2023–24) from the application of the EBSS in the 2019–24 period. This is \$1.1 million less than Evoenergy’s revised proposal, due to:
 - inclusion of the latest inflation forecast from the Reserve Bank of Australia’s February *Statement of Monetary Policy* to convert amounts to 2023–24 dollars
 - removal of costs, both forecast and actual expenditure, associated with the administration of the Large Feed-in Tariff Scheme. These costs became, and are now recovered through, a jurisdictional scheme.
- An allowance of \$2.0 million (\$2023–24) for the Demand Management Innovation Allowance Mechanism (DMIAM). In each year of the 2024–29 period, Evoenergy will submit demand management projects for approval under the DMIAM. Any part of the allowance that is not spent on an approved project will be returned to consumers in the subsequent regulatory control period.

The total effect of these revenue adjustments is a combined \$18.7 million (\$2023–24) revenue adjustment building block in this final decision compared to \$19.8 million in Evoenergy’s revised 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 final decision is that the following incentive schemes will continue to apply to Evoenergy in the 2024–29 period:

3.1 Capital Expenditure Sharing Scheme (CESS)

The CESS mechanism was recently updated in April 2023. The changes to the CESS only apply to its application in the 2024–29 period and onwards. Our decision on CESS revenue increments to be added to capex allowance in the 2024–29 uses the CESS mechanism as it was before the update.⁴⁰

Our final decision includes a revenue adjustment (increment) of \$1.99 million (\$2023–24) for the CESS. This is from the application of the CESS in the 2019–24 period and the corresponding CESS carryover true-up for 2018–19. Our final decision is \$0.04 million less than Evoenergy’s proposed increment of \$2.03 million, due to including a true-up carryover amount and updating capex to reflect latest available information.

Table 4 CESS revenue increments in 2024–29 (\$ million 2023–24)

Segment	CESS item	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Distribution	CESS revenue increment as per NER 6.4.3(a)(5)	0.73	0.73	0.73	0.73	0.73	3.66
	CESS carryover true-up for 2018–19	-0.05	-0.05	-0.05	-0.05	-0.05	-0.27
	AER final decision CESS	0.68	0.68	0.68	0.68	0.68	3.39
Transmission	CESS revenue increment as per NER 6.4.3(a)(5)	-0.74	-0.74	-0.74	-0.74	-0.74	-3.69
	CESS carryover true-up for 2018–19	0.46	0.46	0.46	0.46	0.46	2.29
	AER final decision CESS	-0.28	-0.28	-0.28	-0.28	-0.28	-1.4
Total	AER final decision CESS	0.4	0.4	0.4	0.4	0.4	1.99

Note: Numbers may not sum due to rounding.

The reasoning for our final decision is consistent with our draft decision.

⁴⁰ That is, for CESS revenue increments based on spending in the 2019–24 regulatory period, we follow this guideline: AER, Capital expenditure incentive guideline, November 2013. However, in applying the CESS in the 2024–29 period, we refer to this guideline: AER, Final decision - Capital expenditure incentive guideline, April 2023.

3.2 Efficiency Benefit Sharing Scheme (EBSS)

Our final decision is to include EBSS carryover amounts totalling \$14.7 million (\$2023–24) from the application of the EBSS in the 2019–24 regulatory period. This is a \$1.1 million decrease compared to Evoenergy’s proposed carryover amount of \$15.8 million. This difference reflects adjustments we made to account for the most recent inflation figures (not available at the time Evoenergy submitted its revised proposal) to convert amounts into 2023–24 dollars; and removal of costs associated with the administration of the Large Feed-in Tariff Scheme.

We will continue to apply version 2 of the EBSS to Evoenergy in the 2024–29 regulatory period. This is different to our draft decision position, as we have not made an efficiency adjustment to Evoenergy’s base year opex. Where actual base year opex is used to forecast required opex in the following period, we consider the EBSS should be applied. This provides a continuous incentive to pursue efficiency improvements in opex and provide for a fair sharing of these between Evoenergy and network users. Consumers benefit from improved efficiencies through lower opex in regulated revenues for future periods. In calculating EBSS carryover amounts, we will exclude cost categories and make adjustments, as required by the scheme and set out in Attachment 8 of our final decision.

3.3 Service Target Performance Incentive Scheme (STPIS)

Evoenergy Energy accepted our draft decision to apply STPIS 2.0 for the 2024–29 period and updated its STPIS incentive rates, reliability performance targets and historical reliability performance to take into account its actual performance in FY23.⁴¹

Our final decision is to apply the STPIS 2.0⁴², consistent with our draft decision, albeit with changes to reliability targets, incentive rates and value of customer reliability as a result of updates to the final revenue numbers and the CPI.⁴³ The reasoning behind our decision is outlined in our draft decision.

Our final decision on each of these parameters is contained in Table , Table and Table . The parameters that will apply to each component of the STPIS are also published as part of this final decision.

⁴¹ Evoenergy, *Revised Regulatory Proposal: Evoenergy electricity distribution determination 2024 to 2029*, 30 November 2023, p. 45

⁴² AER, *Electricity distribution network service providers—service target performance incentive scheme version 2.0*, November 2018.

⁴³ AER, *Draft Decision Attachment 10 - Service target performance incentive scheme -Evoenergy – 2024–29 Distribution revenue proposal*, September 2023, p. 2.

Table 5 Final decision - STPIS reliability targets for Evoenergy for the 2024– 29 period

	Urban	Short rural	Network
SAIDI (minutes) ⁴⁴	34.3977	52.1413	
SAIFI (interruptions) ⁴⁵	0.5511	0.7537	
Telephone answering (percentage of calls within 30 seconds)			73.89

Source: AER analysis.

Table 6 Final decision - STPIS incentive rates for Evoenergy for the 2024–29 period

	Urban	Short rural	Network
ir - SAIDI	0.0845	0.0193	
ir - SAIFI	3.5172	0.8884	
ir - Telephone answering			-0.04%

Source: AER analysis.

Note: ir is the incentive rate (expressed in a percentage per unit of the parameter) and ir for telephone answering is per unit of the 'telephone answering' parameter

Table 7 Value of customer reliability (VCR) (\$/MWh)

Feeder types	Urban	Short rural
VCR	49,333	49,333

Source: Source: AER analysis.

⁴⁴ System Average Interruption Duration Index (SAIDI).

⁴⁵ System Average Interruption Frequency Index (SAIFI).

3.4 Demand Management Incentive Scheme (DMIS) and Demand Management Innovation Allowance Mechanism (DMIAM)

Our final decision is to apply the DMIS and DMIAM to Evoenergy in the 2024–29 period. This approach is consistent with Evoenergy’s revised proposal⁴⁶ and our draft decision on DMIS and DMIAM.⁴⁷

Evoenergy’s revised proposal outlined that the DMIAM allowance is insufficient to support the level of innovation that consumers are prepared to fund.⁴⁸ We acknowledge Evoenergy concerns about the level of DMIAM allowance. However, consideration about the scheme’s design as it relates to allowances is not within scope of our DMIAM decision and can only be considered if the scheme is reviewed.

The DMIAM allowance for Evoenergy for the 2024–29 period, based on the final PTRM for Evoenergy, is contained in section 2.7 of this overview.

3.5 Customer Service Incentive Scheme (CSIS)

A Customer Service Incentive Scheme (CSIS) 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.

As per our draft decision, after consulting with consumers, Evoenergy chose to withdraw from proposing a CSIS.⁴⁹

⁴⁶ Evoenergy, *Revised Regulatory Proposal: Evoenergy electricity distribution determination 2024 to 2029*, 30 November 2023, p. 28. .

⁴⁷ AER, *Draft Decision Attachment 11 - DMIS and DMIAM – Evoenergy – 2024–29 Distribution revenue proposal*, September 2023, p. 1.

⁴⁹ AER, *Draft Decision Overview - Evoenergy - 2024-29 Distribution revenue proposal*, September 2023, p. 34.

4 Tariff structure statement

Evoenergy’s revised 2024–29 regulatory proposal includes its third tariff structure statement. This 2024–29 tariff structure statement will apply from 1 July 2024 and remain in effect for the 2024–29 regulatory period.

Our final decision is to approve Evoenergy’s revised 2024–29 tariff structure statement with one amendment. The amendment is to explicitly extend Evoenergy’s battery tariffs to storage technologies other than batteries, i.e. technologies with similar connection and load profile characteristics.

The amendment complements the changes Evoenergy already made in its revised tariff structure statement to align with our draft decision. These changes include:

- withdrawing all contingent tariff adjustments (to address our draft decision requirements on contingent tariff adjustments and Evoenergy’s proposed trigger events)
- introducing a basic export level to its grid-scale battery tariff.

Evoenergy’s tariff structure statement proposed some additional changes that responded to stakeholder feedback and reflected updated implementation costs for its proposed two-way tariff. Our final decision on each of these items is to allow Evoenergy to:

- adjust the structure of its proposed residential tariffs
- introduce individually calculated tariffs
- withdraw its proposed residential export reward tariff.

We place importance on customer consultation and Evoenergy had, prior to the draft decision, demonstrated significant engagement on and broad stakeholder support for its proposed two-way pricing. However, subsequent to its initial proposal Evoenergy identified additional costs with its billing system that it had not identified at the time of its initial proposal that would make the implementation of export pricing cost prohibitive. There was also support from some retailers for removal of the proposed residential export reward tariff. We also note that in its revised tariff structure statement Evoenergy further emphasised the role, within its residential tariffs, of its low priced (solar soak) period in the middle of the day. It contended this would ‘soak up’ solar exports to the grid.

In Attachment 19 we describe our assessment of Evoenergy’s revised tariff structure statement and explain our final decision to approve it.

5 Other price terms and conditions

In this section, we consider the other aspects of our determination. These may be described as the terms and conditions of our determination that cover how Evoenergy must set its prices. This includes the classification of services and the framework for Evoenergy’s negotiated services.

5.1 Metering services

Smart meters are foundational to a more connected, modern, and efficient energy system and one mechanism to ensure that future technologies, services, and innovations are supported. Throughout the 2024–29 regulatory determinations we signalled that the AEMC’s final decision on the transitioning of legacy meters may require us to consider different classification and/or price/revenue control settings for the businesses.

The key objective of the AEMC’s final decision, released in August 2023, is to target a 100% replacement of distribution network owned accumulation meters with smart meters offered by other parties by 30 June 2030.⁵⁰ Our draft decision indicated this would constitute a material change in circumstances, which would justify departure from the classification of legacy meter services in the framework and approach (F&A).⁵¹

We had identified concerns that customers whose meters are replaced later in the replacement program would incur inequitably higher prices than those whose meters are replaced earlier. While socialisation of metering costs generally occurs at the retail level, we were concerned that retailer’s ability to socialise differs based on a number of settings, so socialisation at the network level would produce more consistent outcomes for customers.

Our draft decision asked businesses to consider whether reclassification of legacy meter services to standard control services was likely to be more appropriate, as this would result in the socialisation of metering costs across a wider customer group.

Since the publication of our draft decision, we have engaged with the businesses on the most appropriate outcome to ensure customers are not inequitably impacted from rising costs in the transition and prevented from realising the benefits the smart meters provide.

While we looked to maintain consistency of approach to legacy metering services across the 2024–29 businesses, further consideration of the individual circumstances of the businesses identified that a tailored approach would be required to ensure we are providing an outcome that is in the long-term interest of consumers.

For Evoenergy, our final position is to accept its revised proposal to maintain legacy metering services as alternative control services. Evoenergy will apply its alternative control service tariff to all customers who have, or have had, a legacy meter. In this way Evoenergy will give effect to our draft decision to socialise legacy metering costs.

⁵⁰ AEMC, *Final Report: Review of the regulatory framework for metering services*, August 2023.

⁵¹ AER, *Draft Decision Attachment 20 – Metering services – Evoenergy – 2024–29 Distribution revenue proposal*, September 2023.

Other metering issues raised by Evoenergy’s revised proposals, including issues related to service classification, are addressed in attachment 13 to this decision.

The reasons for our decision are discussed in detail at attachment 20.

5.2 Classification of services

As discussed in section 5.1, the AEMC’s final decision on metering resulted in a material change of circumstance to justify a departure from final F&A.⁵²

In its revised proposal, as a result of a material change in circumstances occurring following the final decision of the AEMC’s review of the regulatory framework for metering services, Evoenergy proposed changes to its classification of services it provides.

In addition, Evoenergy also proposed changes to include new unregulated distribution services, requesting that a material change of circumstance had occurred as a result of the continued growth and path of the energy transition.

Our final decision for Evoenergy, is to accept the majority of changes proposed to support the transition of legacy meters under the AEMC’s final decision. However, we have not accepted the proposed changes for new unregulated distribution services, except for the inclusion of a clarifying example of leasing space on electricity infrastructure for electric vehicle (EV) charging.

Details of our reasoning and the final list of classified services for Evoenergy are set out in attachment 13 to this decision.

5.3 Negotiating framework and criteria

In our draft decision, we approved Evoenergy’s proposed distribution negotiating framework for the 2024–29 period.⁵³ We did not receive any objections or submissions on our draft decision. Our final decision maintains the decision to approve Evoenergy’s negotiating framework.

We are also required to decide on the negotiated distribution service criteria for the distributor. Our final decision is to retain the negotiated distribution service criteria published for Evoenergy in February 2023 for the 2024–29 period.⁵⁴ Details of negotiated distribution service criteria are set out in attachment 17 of our draft decision.⁵⁵

⁵² AER, *Final framework and approach for Evoenergy for the 2024-29 regulatory control period*, July 2022.

⁵³ AER, *Draft Decision Attachment 17 – Negotiated services framework and criteria – Evoenergy – 2024-29 Distribution revenue proposal*, September 2023.

⁵⁴ AER, *Proposed negotiated distribution service criteria for Evoenergy*, February 2023.

⁵⁵ AER, *Draft Decision Attachment 17 - Negotiated services framework and criteria – Evoenergy – 2024-29 Distribution revenue proposal*, September 2023, pp. 4-6.

5.4 Connection policy

In our draft decision, we did not approve Evoenergy’s proposed connection policy for the 2024–29 period. We modified its connection policy to the extent necessary to enable it to be approved in accordance with the NER requirements.⁵⁶

In its revised proposal, Evoenergy accepted all changes made to the initial connection policy. Evoenergy’s approved connection policy for the 2024–29 period is in attachment 18 of the final decision.⁵⁷

⁵⁶ NER, Part DA of chapter 6. AER, *Draft Decision Attachment 18 – Connection policy – Evoenergy – 2024-29 Distribution revenue proposal*, September 2023.

⁵⁷ Evoenergy, [Revised Regulatory Proposal: Evoenergy electricity distribution determination 2024 to 2029](#), 30 November 2023, p. 27.

6 Transmission pricing

Evoenergy accepted our draft decision and therefore did not submit a revised pricing methodology.⁵⁸ We consider Evoenergy’s proposed pricing methodology with the amendments required by our draft decision⁵⁹ gives effect to, and is consistent with, the NER pricing principles, and complies with the information requirements as per the pricing methodology guidelines.⁶⁰

The role of Evoenergy’s pricing methodology is to answer the question ‘who should pay how much’ in order for Evoenergy to recover its costs relating to its provision of transmission services.⁶¹ The pricing methodology must provide a ‘formula, process or approach’ that when applied:⁶²

- allocates the aggregate annual revenue requirement to the categories of prescribed transmission services that a Transmission Network Service Provider (TNSP) provides⁶³
- provides for the manner and sequence of adjustments to the annual service revenue requirement⁶⁴ and allocates that requirement to transmission network connection points⁶⁵
- determines the structure of prices that a TNSP may charge for each category of prescribed transmission services⁶⁶
- for a TNSP who is a System strength service provider, determines, for each system strength node on its transmission network, the system strength unit price for the system strength charging period commencing in the period.⁶⁷

Evoenergy submitted a transmission pricing methodology for our approval because its network includes high-voltage transmission assets, which are subject to the pricing arrangements for transmission standard control services.⁶⁸

Our detailed assessment of Evoenergy’s pricing methodology is set out in Attachment 21 of our draft decision.

⁵⁸ Evoenergy, *RE: Evoenergy – Information request - #055 – Transmission pricing methodology – 20240201*, 7 February 2024.

⁵⁹ AER - *Draft Decision Attachment 21 - Transmission Pricing methodology - Evoenergy - 2024-29 Distribution revenue proposal - September 2023*; AER - *Draft Decision Appendix B - Appendix to Attachment 21 - Evoenergy - Transmission Pricing Methodology - 13 July 2023 – Clean*.

⁶⁰ NER, cl. 6A.23.3 and 6A.24.1(c); AER, *Electricity transmission service providers pricing methodology guidelines*, 25 August 2022.

⁶¹ AEMC, *Rule determination: National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No. 22*, 21 December 2006, p. 1.

⁶² NER, cl. 6A.24.1(b).

⁶³ NER, cl. 6A.24.1(b)(1).

⁶⁴ NER, cl. 6A.24.1(b)(2).

⁶⁵ NER, cl. 6A.24.1(b)(3).

⁶⁶ NER, cl. 6A.24.1(b)(4).

⁶⁷ NER, cl. 6A.24.1(b)(5).

⁶⁸ NER, cl. 6.25.

7 Constituent decisions

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

Constituent component
In accordance with clause 6.12.1(1) of the NER, the AER's final decision is that the classification of services set out in Attachment 13 will apply to Evoenergy for the 2024–29 regulatory control period, for the reasons set out there.
In accordance with clause 6.12.1(2)(i) of the NER, the AER's final decision is to not approve the annual revenue requirement set out in Evoenergy’s building block proposal. Our final decision on Evoenergy’s annual revenue requirement for each year of the 2024–29 regulatory control period is set out in Attachment 1 of the final decision.
In accordance with clause 6.12.1(2)(ii) of the NER, the AER's final decision is to approve Evoenergy’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 NER, the AER's final decision is to approve Evoenergy’s proposal that the length of the regulatory control period will be five years from 1 July 2024 to 30 June 2029.
The AER did not receive a request for an asset exemption under clause 6.4.B.1 (a) (1) and therefore has not made a decision in accordance with clause 6.12.1(2A) of the NER.
In accordance with clause 6.12.1(3)(i) and acting in accordance with clause 6.5.7(c) of the NER, the AER's final decision is to accept Evoenergy’s proposed total forecast capital expenditure of \$516.5 million (2023–24). The reasons for our final decision are set out in Attachment 5 of the final decision.
In accordance with clause 6.12.1(4)(ii) and acting in accordance with clause 6.5.6(d) of the NER, the AER's final decision is to not accept Evoenergy’s proposed total forecast operating expenditure, inclusive of debt raising costs and exclusive of DMIAM of \$364.8 million (\$2023–24). Our final decision therefore includes an alternative estimate of Evoenergy’s total forecast opex for the 2024–29 regulatory control period of \$362.0 million (\$2023–24) including debt raising costs and exclusive of DMIAM. This is discussed in Attachment 6 of the final decision.
Evoenergy did not propose any contingent projects and the AER has not made a decision under clause 6.12.1(4A) of the NER.
In accordance with clause 6.12.1(5) of the NER and the 2022 Rate of Return Instrument, the AER's final decision is that the allowed rate of return for the 2024–25 regulatory year is 5.85% (nominal vanilla) as set out in section 2.2 in the overview. 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.
In accordance with clause 6.12.1(5A) of the NER and the 2022 Rate of Return Instrument, the AER's final decision on the value of imputation credits as referred to in clause 6.5.3 is to adopt a value of 0.57. This is set out in section 2.2 in the overview.

Constituent component

In accordance with clause 6.12.1(6) of the NER, the AER's final decision on Evoenergy's combined regulatory asset base as at 1 July 2024 in accordance with clause 6.5.1 and schedule 6.2 is \$1,128.0 million (\$ nominal). This is discussed in Attachment 2 of the final decision.

In accordance with clause 6.12.1(7) of the NER, the AER's final decision on Evoenergy's combined estimated cost of corporate income tax is \$13.5 million (\$nominal) for the 2024–29 regulatory control period. The reasons for our final decision are set out in Attachment 7 and the amount for each regulatory year of the 2024–29 regulatory control period is set out in the tables below.

Distribution

(\$ million, nominal)	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Tax payable	5.1	6.2	4.5	6.0	0.9	22.7
Less: value of imputation credits	2.9	3.5	2.6	3.4	0.5	12.9
Net cost of corporate income tax	2.2	2.7	1.9	2.6	0.4	9.8

Note: Figures in table may not add to the combined amount due to rounding.

Transmission

(\$ million, nominal)	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Tax payable	1.5	2.0	1.9	2.0	1.4	8.7
Less: value of imputation credits	0.9	1.1	1.1	1.1	0.8	5.0
Net cost of corporate income tax	0.7	0.8	0.8	0.8	0.6	3.8

Note: Figures in table may not add to the combined amount due to rounding.

In accordance with clause 6.12.1(8) of the NER, the AER's final decision is to not approve the depreciation schedules submitted by Evoenergy. Our final decision substitutes alternative depreciation schedules that accord with clause 6.5.5(b). The combined regulatory depreciation amount approved in this final decision is \$303.4 million (\$ nominal) for the 2024–29 regulatory control period. This is discussed in Attachment 4 of the final decision.

In accordance with clause 6.12.1(9) of the NER the AER makes the following final decisions on how any applicable efficiency benefit sharing scheme (EBSS), capital expenditure sharing scheme (CESS), 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:

- We will apply version 2 of the EBSS to Evoenergy in the 2024–29 regulatory control period. Our reasons are set out in Attachment 8 of the final decision.
- We will apply the CESS as set out in the Capital Expenditure Incentives Guideline to Evoenergy in the 2024–29 regulatory control period. This is discussed in this overview and Attachment 9 of the draft decision.
- We will not apply the ESIS for the 2024–29 regulatory control period.

Constituent component
<ul style="list-style-type: none"> • We will apply the STPIS version 2 to Evoenergy for the 2024–29 regulatory control period as set out in section 3.3 of the overview. • We will apply the DMIS and DMIAM to Evoenergy for the 2024–29 regulatory control period as set out in section 3.4 of the overview. • We will not apply the customer service incentive scheme (CSIS) as Evoenergy withdrew its proposed scheme prior to the draft decision.
<p>In accordance with clause 6.12.1(10) of the NER, the AER's final decision is that all other appropriate amounts, values and inputs are as set out in this final determination including attachments.</p>
<p>In accordance with clause 6.12.1(11) of the NER and our framework and approach paper, the AER's final decision on the form of control mechanisms (including the X-factor) for standard control services is a revenue cap. The revenue cap for Evoenergy 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 final decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(12) of the NER and our framework and approach paper, the AER's final 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 final decision are set out in Attachment 14, Attachment 16 and Attachment 20.</p>
<p>In accordance with clause 6.12.1(13) of the NER, to demonstrate compliance with its distribution determination, the AER's final decision is that Evoenergy 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 final decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(14) of the NER the AER's final decision is to apply the following nominated pass through events to Evoenergy 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 • Terrorism event • Natural disaster event. <p>These events have the definitions set out in Attachment 15 of the draft decision.</p>
<p>In accordance with clause 6.12.1(14A) of the NER, the AER's final decision is to approve the tariff structure statement proposed by Evoenergy with one amendment. The reasons for our final decision are set out in Attachment 19 of the final decision.</p>
<p>In accordance with clause 6.12.1(15) of the NER, the AER's final decision is that the negotiating framework as proposed by Evoenergy will apply for the 2024–29 regulatory control period. The reasons for our final decision are set out in Section 5.3 of this Overview.</p>
<p>In accordance with clause 6.12.1(16) of the NER, the AER's final decision is to apply the negotiated distribution services criteria published in February 2023 to Evoenergy. The reasons for our final decision are set out in Section 5.3 of this Overview.</p>

Constituent component
<p>In accordance with clause 6.12.1(17) of the NER, the AER's final decision on the procedures for assigning retail customers to tariff classes for Evoenergy is set out in Attachment 19 of the draft decision.</p>
<p>In accordance with clause 6.12.1(18) of the NER, the AER's final decision is that the depreciation approach to be used to establish the RAB at the commencement of Evoenergy's regulatory control period as at 1 July 2029 is to be based on forecast capex. The reasons for our final decision are set out in Attachment 2.</p>
<p>In accordance with clause 6.12.1(19) of the NER, the AER's final decision on how Evoenergy is to report to the AER on its recovery of designated pricing proposal charges, and how it must account for the under and over recovery of designated pricing proposal charges, is that it must use the unders and overs mechanism described in Attachment 14. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our final decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(20) of the NER, the AER's final decision on how Evoenergy is to report to the AER on its recovery of jurisdictional scheme amounts, and how it must account for the under and over recovery of jurisdictional scheme amounts, is that it must use the unders and overs mechanism described in Attachment 14. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our final decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(21) of the NER, the AER's final decision is to approve the connection policy proposed by Evoenergy as discussed in section 5.4.</p>
<p>In accordance with clause 6.12.1(17A) of the NER, the AER's final decision is to approve Evoenergy's proposed pricing methodology for transmission standard control services. Our reasons for this are set out in section 5.4 of this Overview as well as Attachment 21 of the AER's September 2023 draft decision.</p>

8 List of submissions

We received 7 submissions in response to Evoenergy’s revised proposal. These are listed below⁶⁹.

Submission from
ACTCOSS
ActewAGL Retail
Consumer Challenge Panel 26
Origin Energy (late submission)
Red and Lumo Energy
Peter Sutherland, Australian National University
Tesla

⁶⁹ Submissions are available on the AER website at <https://www.aer.gov.au/industry/registers/determinations/evoenergy-actewagl-determination-2024-29/consultation-submissions-draft-decision-and-revised-proposal>

Shortened forms

Term	Definition
ACS	alternative control services
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulatory
ARR	Annual Revenue Requirement
ASP	Accredited Service Provider
capex	capital expenditure
CCP26	Consumer Challenge Panel, sub-panel 27
CER	Consumer energy resources
CESS	capital expenditure sharing scheme
CPI	Consumer Price Index
CSIS	customer service incentive scheme
DER	Distributed 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
EV	electric vehicle
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 Objectives
NER	National Electricity Rules
opex	operating expenditure

Term	Definition
PIAC	Public Interest Advocacy Centre
RAB	regulated asset base
RBA	Reserve Bank of Australia
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
SMP	Statement of Monetary Policy
STPIS	service target performance incentive scheme
WACC	Weighted average cost of capital