

Final Decision

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

Overview

April 2024

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This Overview forms part of the AER's final decision on the distribution determination that will apply to Power and Water Corporation for the 2024–29 period. It should be read with all other parts of the 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 13 – Classification of services

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Executive Summary

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia as it transitions to net zero emissions. The regulatory framework governing electricity transmission and distribution networks is the National Electricity Law and Rules (NEL and NER) as applied in the Northern Territory (NT NEL and NT NER). Our work 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 the NT electricity distribution network service provider Power and Water Corporation (PWC), 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 PWC can recover from its customers in the 2024–29 period.

On 29 October 2021, PWC 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 PWC's F&A was published in July 2022.

PWC states that its initial proposal, submitted on 31 January 2023, was informed by consultation with its customers and stakeholders over its 18-month engagement program. It had been guided by the Better Resets Handbook (the Handbook) expectations, 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 PWC'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 PWC's total revenue for the 2024–29 period. 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 PWC's proposal, and received a number of submissions prior to publishing our draft decision on 28 September 2023.

Our draft decision acknowledged PWC has provided a reasonable quality proposal, which it developed through a genuine engagement process. However, we did not accept elements of PWC's proposal, including proposed capital expenditure (capex) and operating expenditure (opex) and its tariff structure statement. We accepted 4 out of 5 contingent projects in the proposal. PWC 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 PWC's revised proposal.

¹ Power and Water Corporation, *Regulatory Proposal for the 2024-29 regulatory period*, 31 Jan 2023, p. 4, 9, 13 and pp. 33-40.

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 PWC has proposed is likely to deliver these efficient outcomes and is therefore in the long-term interests of consumers.

Our final decision on PWC's revised proposal

Our final decision is that PWC can recover \$1,054.8 million (\$ nominal, smoothed) from consumers over the 2024–29 period. This is \$6.3 million (0.6%) more than PWC's revised proposal, and \$38.4 million (3.8%) more than our draft decision. The increase in overall revenue in this final decision compared to PWC's revised proposal is driven by updates in data related to external economic factors, such as a lower expected inflation rate, which increases the regulatory depreciation building block.

The majority of PWC's customers are subject to the NT Government's Electricity Pricing Order (Pricing Order).⁴ The Pricing Order sets the retail prices that residential and small commercial customers (consuming less than 750 MWh per annum) can be charged for electricity and related services. This means any estimated bill increases in the final decision will not flow through to most customers, however it will impact NT residents. This is via the impact on the state budget through any funding required to cover the shortfall of prices in providing for cost recovery.

For illustrative purposes, keeping in mind the Pricing Order, we estimate that the total revenue from this final decision would result in an average increase of \$116 per annum to the typical electricity bill for PWC's residential customers over the 2024–29 period. For small business customers, the impact would be an increase on average of \$332 per annum. PWC's revised proposal has attempted to balance customer affordability concerns with an uplift in technical capabilities to address the transition towards net zero and an uplift of organisational culture through the single site consolidation project.

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

Our final decision accepts PWC's proposed total capex forecast of \$537.8 million (\$2023–24). PWC proposed \$538.2 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 \$528.0 million (\$2023–24) did not accept \$10.2 million of PWC's proposed single site consolidation project. Our alternative capex forecast is 1.9% less than PWC's revised proposal and not materially different. Our final decision capex forecast for PWC is \$105.0 million or 24.3% higher than the capex forecast in our draft decision for the 2024–29 period.

PWC has broadly accepted our draft decision around business-as-usual capex. In responding to our draft decision PWC's revised total capex forecast, includes substantial reductions to future networks Consumer Energy Resources (CER) integration, OT capability uplift and the single site consolidation projects.

We have accepted PWC's two new proposed contingent projects for unlocking large-scale renewables in the Darwin-Katherine area. This is in addition to the 4 contingent projects that we accepted in our draft decision. We consider PWC's contingent projects are reasonably necessary to address potential system strength issues posed by the transition to renewables and the changing generation mix in the NT, and to meet localised new demand associated with the development of specific commercial projects.

Our final decision is to accept PWC's total forecast operating expenditure (opex) of \$387.2 million (\$2023–24) for the 2024–29 period. Our alternative estimate of \$385.6 million (\$2023–24) is not materially different from PWC's revised proposal total opex forecast. Therefore, 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 PWC is \$22.8 million or 6.3% higher than the opex forecast in our draft decision for the 2024–29 period.

The key drivers of the increase in opex in the next regulatory control period relative to opex in this period are the inclusion of five step changes for operational technology uplift, future networks (CER integration), cyber security requirements, cloud computing and insurance premium increases. PWC's revised opex proposal addressed key aspects of the feedback in our draft decision that further information was required to justify these step changes. This included moderating opex in areas such as the operational technology uplift and CER integration step changes.

Our final decision is to approve PWC's revised 2024–29 tariff structure statement (TSS) with the amendment of removing individually calculated tariffs for new customers. We have assessed all elements of PWC's tariffs, with this amendment included, and consider them compliant with the pricing principles for direct control services in the NT National Electricity Rules (NT NER) and consistent with other applicable requirements of the NT NER.

PWC accepted our draft decision on its tariff structure statement and removed its proposed flat tariff (Tariff 7) for 'super users' in response, with the consequence of increasing the prominence of the existing assignment policy of offering individually calculated tariffs to new customers. We consider that PWC's framework for individually calculated tariffs is overly complex and insufficiently transparent such that individually calculated tariffs developed under the approach might not comply with NT NER pricing principles. This led to the final decision amendment.

Our final decision accepts PWC’s reasons for not proposing new tariff options targeting flexible load like EVs. We consider that PWC’s residential time-of-use tariff approved in the draft decision and tariff assignment policy are appropriate currently for managing EV charging load. The time-of-use tariff will encourage EV charging for customers with smart meter at times that benefit the network, particularly during the high solar period. This will also increase the solar hosting capacity of the network.

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%).⁵ 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.⁶

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 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.⁷

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 the total generation capacity. It also includes facilitating consumer-owned batteries and coordinated CER via 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.⁸

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.

⁵ Energy Consumers Australia, <https://ecss.energyconsumersaustralia.com.au/sentiment-survey-dec-2023/>

⁶ 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')

⁷ AEMO, *Draft 2024 Integrated System Plan (ISP)*, 17 January 2024, pp. 9-11.

⁸ AEMO, *Draft 2024 Forecasting Assumptions Update*, December 2023, p. 24

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 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 these risks.

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, 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 NT 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.

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. PWC's revised proposal does attempt to consider the value of

avoided emissions in relation to additional solar exports and the shift in EV charging profile associated with the preferred option for CER integration.⁹

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

The Consumer Challenge Panel, sub-panel 27 (CCP27) 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

CCP27 highlighted in its submission on PWC's revised proposal the importance of ongoing engagement. Further that PWC has made a strong start to establishing an ongoing engagement process through developing its Peoples' Panels and more frequent engagement with industry partners. CCP27 suggests PWC is well-placed to develop a comprehensive business-as-usual customer and stakeholder engagement strategy.

PWC has integrated some consumer preferences into its revised proposal with support for investment in the energy transition through enabling large-scale renewables through contingent projects and CER through integration investment. PWC says it has opted for a measured and staged approach to investment in major projects such as future networks CER integration and ICT including operational technology uplift, in response to consumer feedback on support for the transition but affordability concerns due to increasing cost-of-living pressures.

Following this decision, we encourage PWC 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 into the review 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

⁹ Power and Water Corporation, *Attachment 3.1 DER integration – Regulatory Business Case 2024-29*, November 2023, pp. 46-47.

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

¹¹ Consumer Challenge Panel 27, *Advice to AER – Power and Water Corporation Electricity Distribution Revised Revenue Proposal (2024-29)*, January 2024, pp. 20-21.

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 haven 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 would allow PWC to recover a total revenue of \$1,054.8 million (\$ nominal, smoothed) from its consumers from 1 July 2024 to 30 June 2029.

In the sections below we briefly outline what is driving PWC’s revenue, and the key differences between our final decision revenue compared to the \$1,016.4 million in our draft decision, and the \$1,048.4 million in its revised proposal.

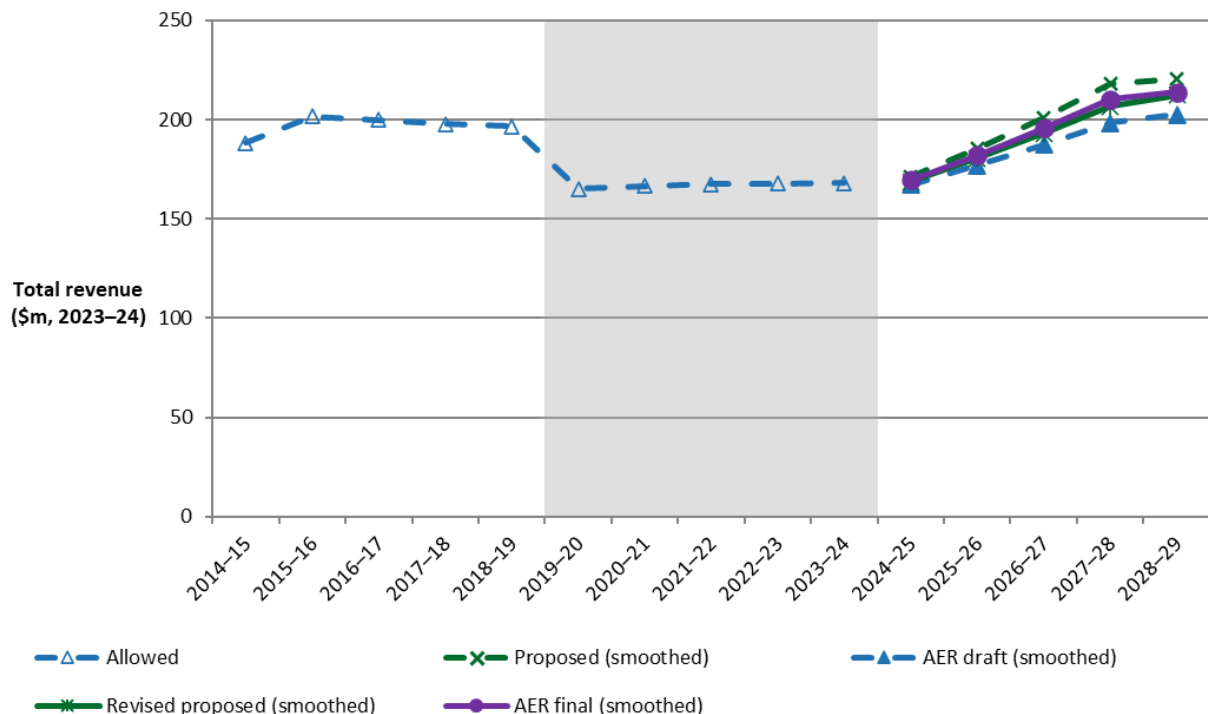
1.1 What is driving revenue?

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 PWC to recover \$971.2 million (\$2023–24, smoothed) from consumers over the 2024–29 period. This is 16.3% higher than our decision for the current (2019–24) period. Changes in PWC’s revenue over time are shown in Figure 1.

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



Source: AER analysis.

In real terms, this final decision would allow PWC to recover a total building block revenue of \$969.5 million (\$2023–24, unsmoothed) over the 2024–29 period. Figure 2 highlights the key drivers of the change between the revenue approved for PWC for the 2019–24 period and in

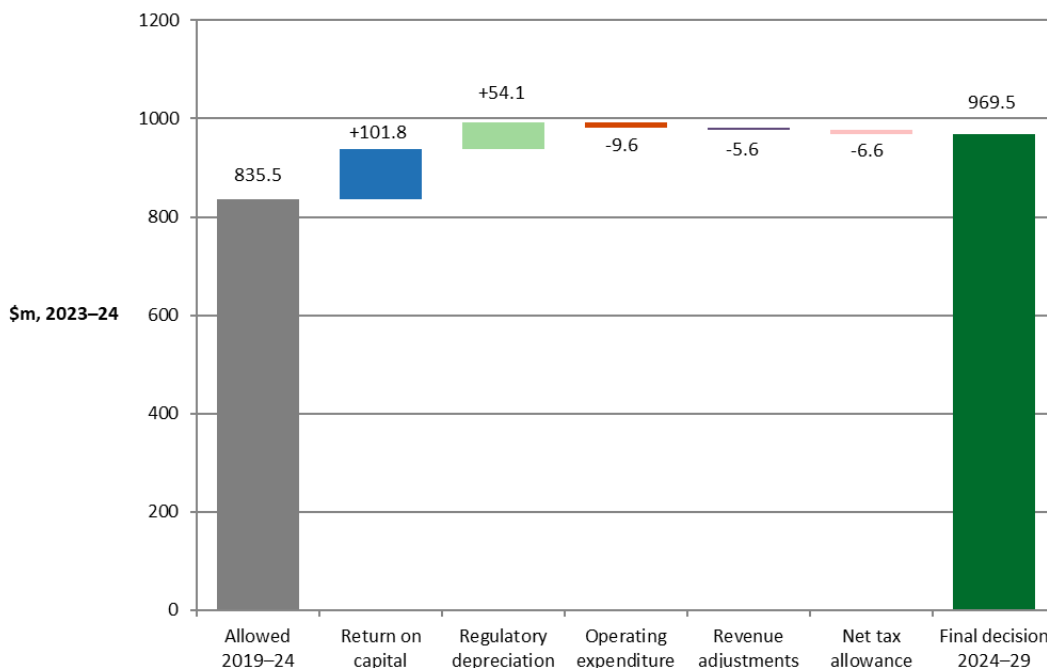
this final decision for the 2024–29 period. Similar to our observations in the draft decision, it shows that our final decision provides for increases in the building blocks for:

- return on capital, which is based on the opening regulatory asset base (RAB), capex and rate of return. This is \$101.8 million (35.8%) 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
- return of capital (regulatory depreciation), which is \$54.1 million (36.6%) higher than the 2019–24 period, driven primarily by an increase in capex spent on short lived assets and a higher opening RAB as at 1 July 2024 compared to the value we determined in the 2019–24 determination.

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

- opex, which is \$9.6 million (2.4%) lower than the 2019–24 period, driven primarily by PWC’s reported opex in its 2021–22 base year being lower than our opex forecast for that year (due in part to changes in how PWC now capitalises and allocates overheads and in part to some efficiency savings). This is partly offset by its step changes in the 2024–29 period which increase costs.
- net tax allowance, which is nil for the 2024–29 period, being \$6.6 million (100%) lower than the 2019–24 period, primarily due to higher tax depreciation determined in this final decision compared to 2019–24 period
- revenue adjustments, which are lower by \$5.6 million than the 2019–24 period, mainly due to the application of capital expenditure sharing scheme (CESS) penalties for overspending the capex allowance in that period.

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

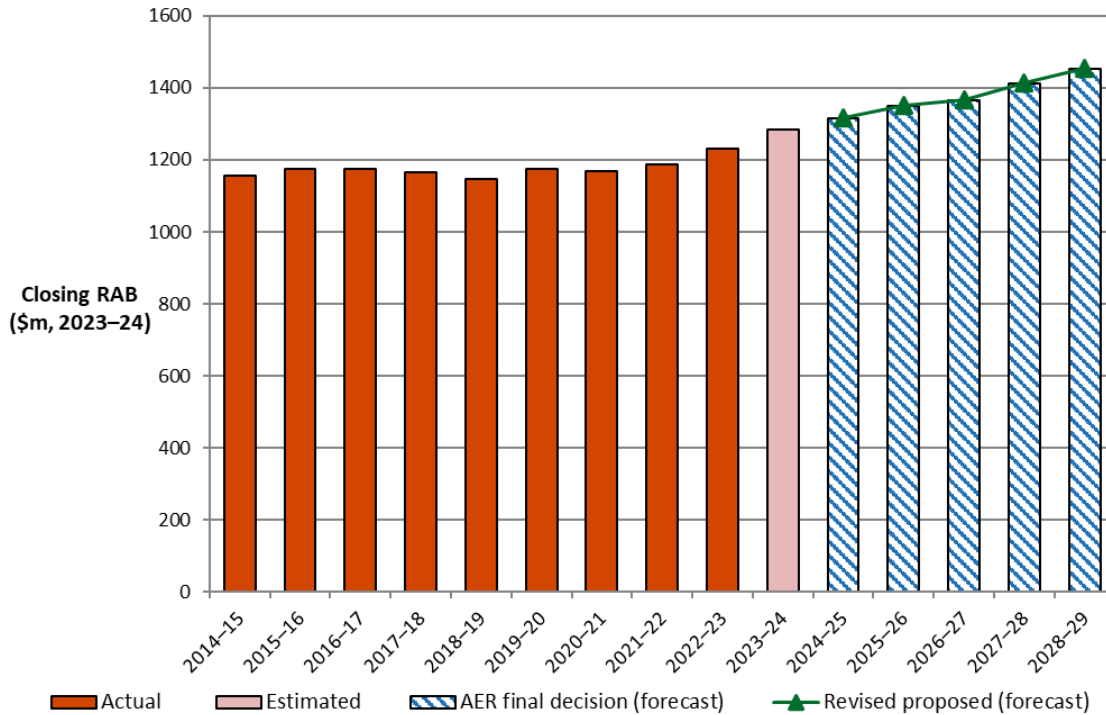


Source: AER analysis.

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

Figure 3 shows the value of PWC’s RAB over time. After RAB growth of 11.9% in real terms over the 2019–24 period, our final decision results in a further forecast increase of the RAB by \$170.3 million (\$2023–24) or 13.3% over the 2024–29 period. As observed in the draft decision, this increase is mainly driven by forecast capex over the 2024–29 period.

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



Source: AER analysis.

1.2 Key differences between our final decision and Power and Water Corporation’s revised proposal

Our draft decision did not accept core components of PWC’s proposal and made reductions to the proposed forecast capex and opex amounts. PWC’s revised proposal broadly accepted our draft decision. However, it sought a higher forecast capex and provided further supporting information to justify these capex additions are prudent and efficient. PWC’s revised proposal also sought additional forecast opex reflecting the re-inclusion of step changes from its initial proposal and provided further supporting information to address the issues we raised in our draft decision. Our final decision has broadly accepted PWC’s higher revised proposed capex and opex amounts compared to our draft decision.

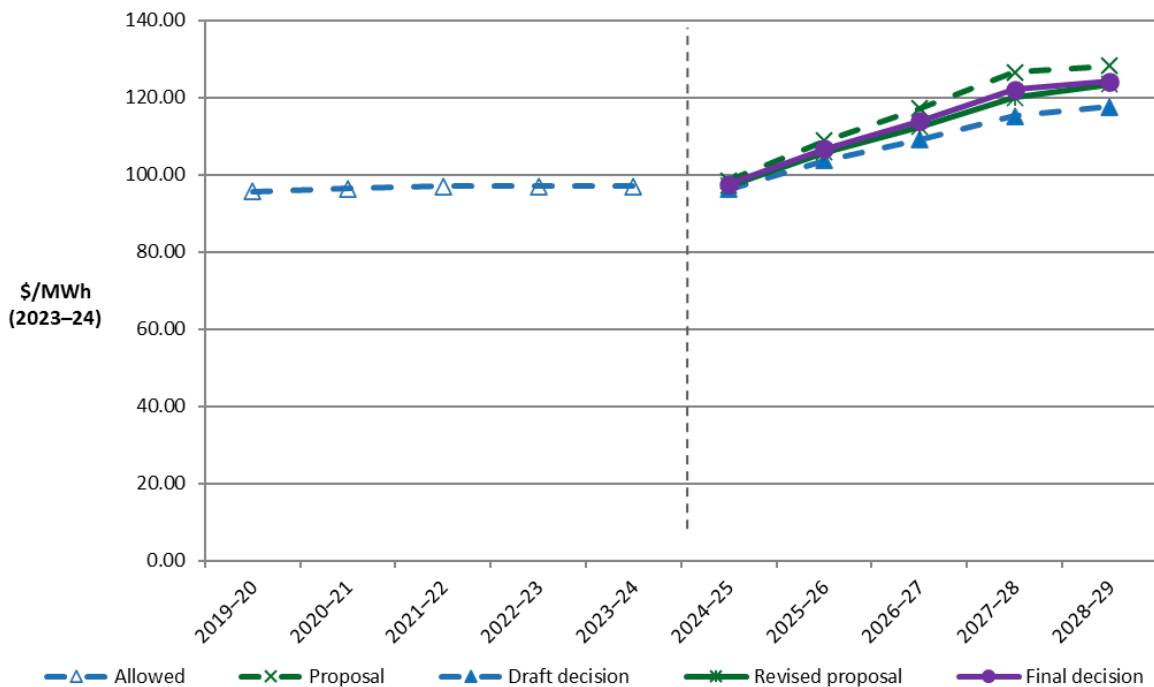
Our final decision determines a total unsmoothed revenue that is \$9.7 million (1.0%) (\$2023–24) higher than PWC’s revised proposal. This is primarily due to a higher regulatory depreciation amount, driven by a lower expected inflation rate in our final decision than at the time of PWC’s revised proposal.

1.3 Expected impact of our final decision on electricity bills

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

For illustrative purposes only, we estimate the impact of this final decision would be a total increase to PWC’s distribution charges of around 31.6% in real terms by 2028–29 compared to 2023–24 levels, or an average increase of 5.6% per annum.¹² 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 (\$2023–24, \$/MWh)



Source: AER analysis.

1.3.1 Potential bill impact

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

PWC’s distribution network charges make up around 45% of its residential customers’ electricity bills and 32% of its small business customers’ electricity bills. Other components of the electricity supply chain—the cost of purchasing energy from the wholesale market, 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

¹² The average increase to indicative distribution charges of 5.6% (\$2023–24) per annum reflects two components: 1) The final decision smoothed revenue average increase of 6.3% per annum (\$2023–24); and 2) The forecast energy delivered in PWC’s distribution network area which is expected to increase on average by 0.6% per annum.

contribute to the prices ultimately paid by consumers. These sit 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 PWC’s network component of customers’ energy bills. For illustrative purposes only, given the application of the Pricing Order, we estimate the impact of our final decision on the average annual electricity bill for a customer in the Northern Territory, as it is today, would be:

- an increase of \$579 (22.3%) by 2028–29, or an average of \$116 per annum for a residential customer
- an increase of \$1,661 (16.1%) by 2028–29, or an average of \$332 per annum for a small business customer.¹³

Our decision on PWC’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 NT NER that may operate to increase or decrease those charges. These include cost pass through events or contingent projects proposed by PWC and approved in this final decision. The triggers we have set out for these events or contingent projects in this decision will, if met, allow PWC 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 noted that PWC had been guided by, but had not met, the Better Resets Handbook expectations around genuine consumer engagement on capex and opex proposals.¹⁴ The engagement approach built significantly on PWC’s experiences from the previous determination. However, PWC acknowledged challenges it faces in this area, and submitted that further work is required to continue to build its engagement framework.

The AER’s Consumer Challenge Panel (CCP27) observed that there had been genuine consumer engagement by PWC but questioned whether PWC had effectively responded to customer’s affordability concerns. CCP27 also raised concerns around a lack of engagement on key matters including the single site consolidation project, ICT capex, and six opex step changes which had become significant parts of PWC’s proposal.

Following submission of its initial proposal, PWC continued its customer engagement program with a focus on large capex projects and associated opex step changes. This included three sets of People’s Panels in Alice Springs and Darwin, Business Forums, retailer and generator on-on-one meetings, stakeholder and business customer on-on-one meetings.

¹³ Our estimated bill impact is based on the typical annual electricity usage of 8,500 kWh and 30,000 kWh for residential and small business customers in the Northern Territory, respectively. Source: PWC, *Reset RIN Workbook 5 Indicative Bill Impact*, January 2023.

¹⁴ AER, *Draft Decision Overview – Power and Water Corporation – 2024-29 Distribution revenue proposal*, September 2023.

The key focus areas and themes for consumer engagement after the initial proposal included:

- informing and gauging support for the benefits and costs of large capex projects and associated opex step changes associated with the single site consolidation (capex only), Operational Technology (OT) capability uplift projects, and the Future Networks program
- the value customers and stakeholders place on the ability to utilise renewable generation and enable CER
- the importance of affordable prices for residential customers
- concerns on the affordability and reliability of supply and the importance of transparency and simplicity in energy costs for small-to-medium business customers.

PWC submitted that its revised proposal reflects community feedback that informed its initial proposal and engagement feedback across 2023:¹⁵

- Facilitating renewables with continued investment for better data visibility on rooftop solar and support for the energy transition through proposed contingent projects for unlocking existing large-scale renewables across the NT. Delaying and staging investments, lowering cost impacts on customers while ensuring the NT is still supported for a renewable future.
- Managing network health with continuous investment in and oversight of ICT systems, including to gain continuous visibility of network assets for condition-driven replacement.
- Improving utilisation through introducing pricing signals and community education to better manage customer network use. This also includes an accelerated smart meter roll-out with replacement of all meters by mid-2029.
- The ICT investment program, including operational technology uplift, has been supported in the revised proposal but with substantial reductions in proposed investment. This reflects People’s Panel residential customer feedback of continued support but at a slower pace than first proposed.
- The Future Networks program, including the CER integration project, similarly remains supported in the revised proposal but with substantial reductions in estimates of proposed investment. This again reflects People’s Panel feedback of continued support but in a more measured approach that learns from existing solutions and/or more advanced technologies in other jurisdictions.
- The single site consolidation project is included in the revised proposal in a lower cost, modified form than in the initial proposal, along with a detailed business case. This aligns with People’s Panel feedback that offered qualified support but required more information, with clarification of scope and potential benefits.

CCP27 observed that PWC consumer engagement activities since May 2023 had focused on matters not discussed with customers prior to the initial proposal. These included the single site consolidation project, capex and opex step changes associated with the Future Networks program and operational technology capability uplift projects. Key themes of support for vulnerable customers and price affordability were recognised in the initial proposal and

¹⁵ Power and Water Corporation, *PWC – Revised proposal – 0.1 – Revised Regulatory Proposal*, November 2023, pp. 4-9.

reiterated by customers in subsequent engagement but did not feature strongly in the revised proposal.

CCP27 questioned whether PWC could undertake additional action to address affordability concerns of customers. For example, by absorbing the proposed opex step change for cloud migration. CCP27 supported the commitment by PWC to develop a new Customer Experience Strategy with extensive customer research and a strategy formulated in collaboration with staff and customers.

We also received submissions on the revised proposal and draft decision from Jacana Energy, Rimfire Energy and Tesla. Issues raised by Jacana Energy included:

- Questions around costs and benefits of the single site consolidation project.
- Support for the Future Networks CER integration project to further enable rooftop solar PV uptake.
- Support for PWC's two new revised proposal contingent projects for unlocking large-scale renewables in the Darwin-Katherine area.

Rimfire Energy submitted support for a fast-tracked smart meter roll-out program with completion in the 2024–29 period.

Tesla submitted support for network innovation to manage the risk of excess variable renewable energy. The preferred use-case is energy storage for later use and time-shift loads to charge during periods of high solar penetration rather than curtailment.

We consider PWC's consumer engagement has been genuine in informing customers but limited on key projects until late in the reset process. PWC's consumer engagement has been restricted by limited resources and the limited availability and capacity of interested customers and other stakeholders, given the impact of regulated retail prices in the Northern Territory.

2 Key components of our final decision on revenue

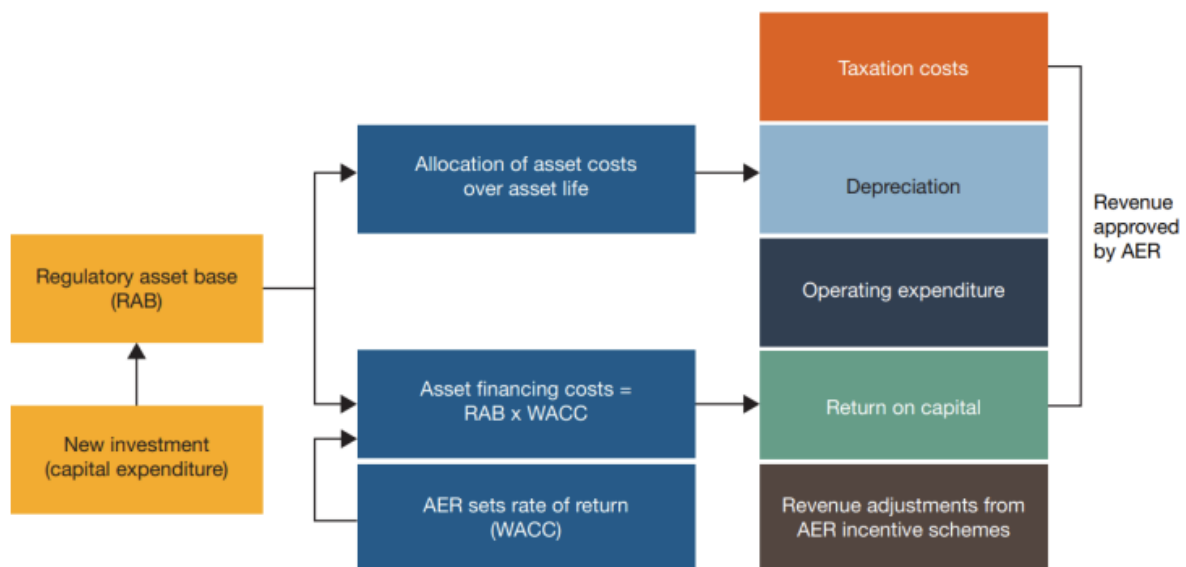
Building block approach

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.

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

- return on the RAB – or return on capital, to compensate investors for the opportunity cost of funds invested in this business
- depreciation of the RAB – or return of capital, to return the initial investment 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 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 PWC’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 PWC 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.¹⁶

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.

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

PWC’s unsmoothed revenue for the first year of the 2024–29 period (2024–25) is about 18.7% (nominal) higher than its approved revenue for the last year of the 2019–24 period (2023–24). We have smoothed the increase in expected revenues over the 2024–29 period for PWC.

Our final decision results in increases of 10.3% per annum (nominal) to the smoothed revenues in the first 4 years of the 2024–29 period (2024–25 to 2027–28), followed by an increase of 4.4% in the last year of the 2024–29 period (2028–29).

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 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 PWC’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 an opening RAB value of \$1,283.5 million (\$ nominal) as at 1 July 2024. This value is \$1.1 million (0.1%) lower than PWC’s revised proposed opening RAB of \$1,284.6 million. This reduction is largely due to the updates we made in the roll forward model (RFM) for:

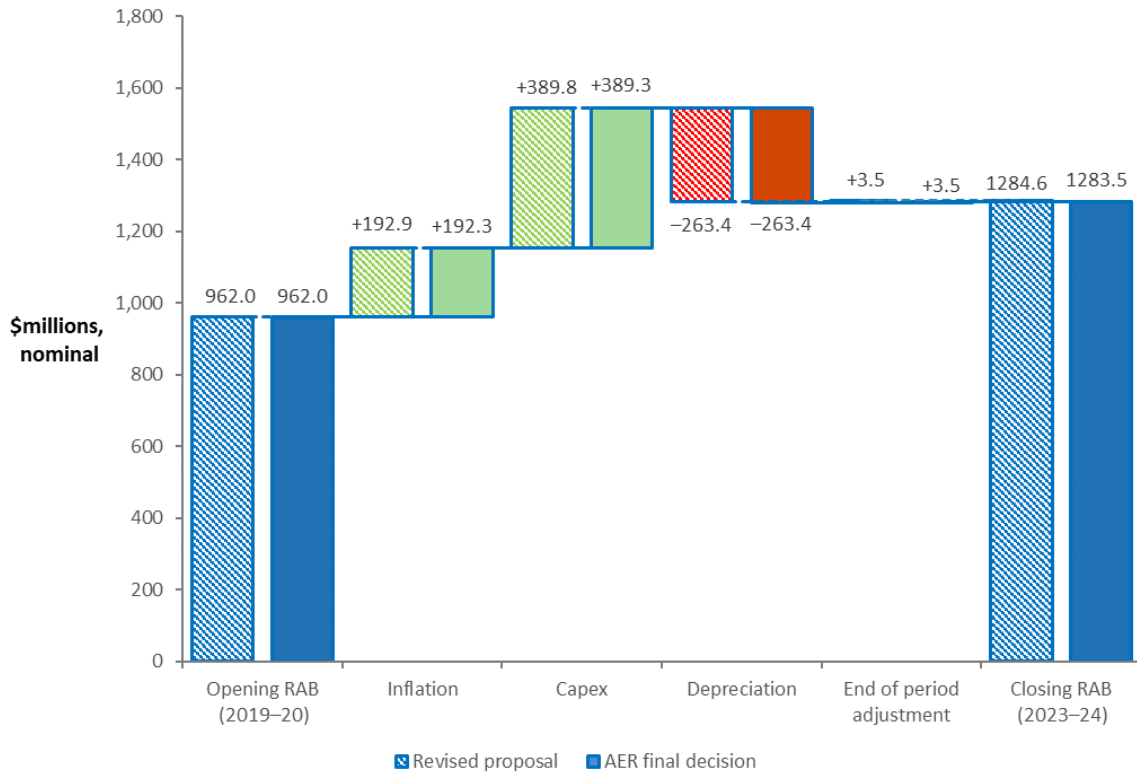
- the consumer price index (CPI) input for 2023–24 to reflect the actual outcome

¹⁶ 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.

- 2019–20 and 2020–21 actual capex inputs to align with PWC’s revised capex in its re-submitted annual reporting regulatory information notices (RINs) for these years.

Figure 6 shows the key drivers of change in PWC’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 (\$ million, nominal)

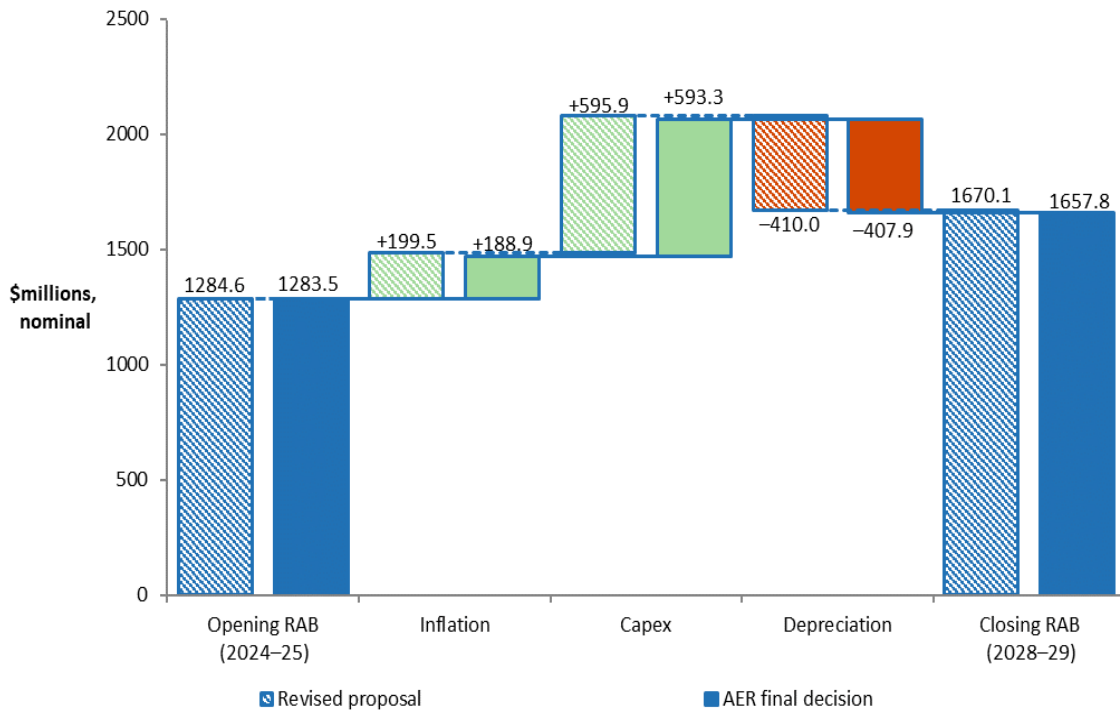


Source: AER analysis.

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 PWC’s RAB over the 2024–29 period compared to its revised proposal. Our final decision projects an increase of \$374.2 million (29.2%) to the RAB by the end of the 2024–29 period compared to the \$385.4 million (30.0%) increase in PWC’s revised proposal. We have determined a projected closing RAB of \$1,657.8 million (\$ nominal) as at 30 June 2029, which is \$12.3 million (0.7%) lower than PWC’s revised proposal of \$1,670.1 million. This lower value is mainly due to a lower expected inflation rate applied in our final decision and reductions we made to PWC’s revised proposed forecast capex. It also reflects our final decision on 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 (\$ 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)¹⁷ to estimate the rate of return for PWC. PWC’s revised proposal adopted the 2022 Instrument.¹⁸ The 5.68% (nominal vanilla) rate of return in this final decision is higher than the 5.61% placeholder in the revised proposal, principally due to an increase in interest rates.

¹⁷ 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>

¹⁸ PWC, *Revised Proposal – 0.1 – Revised Regulatory Proposal*, 30 November 2023, p. xxv.

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 PWC’s proposed risk free rate¹⁹ and debt averaging periods²⁰ because they satisfied the 2022 Instrument.²¹ For this final decision, we adopt the confidential appendix setting out the averaging periods issued with our draft decision.

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

| | AER’s draft decision (2024–29) | PWC’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% | 4.19% ^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% | 7.91% | Constant (%) |
| Return on debt (nominal pre-tax) | 4.24% | 4.24% | 4.19% ^b | Updated annually |
| Gearing | 60% | 60% | 60% | Constant (60%) |
| Nominal vanilla WACC | 5.61% | 5.61% | 5.68% ^c | Updated annually for return on debt |
| Expected inflation | 2.80% | 2.80% | 2.66% | Constant (%) |

Source: AER analysis; AER, *Draft Decision Attachment 03 - Rate of return – Power and Water Corporation - 2024-29 Distribution revenue proposal*, 28 September 2023, p. 5; PWC, *Revised Proposal – 2.1 – 2024-29 SCS PTRM*, 30 November 2023.

- (a) Calculated using PWC’s actual nominated risk-free rate averaging period from 2 February 2024 to 29 February 2024.
- (b) Calculated using PWC’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

¹⁹ AER - *Draft Decision Appendix A - CONFIDENTIAL Appendix to Attachment 3 - Rate of return - PWC - 2024-29 Distribution revenue proposal*, September 2023, p. 1.

²⁰ AER - *Draft Decision Appendix A - CONFIDENTIAL Appendix to Attachment 3 - Rate of return – PWC – 2024-29 Distribution revenue proposal*, September 2023, p. 2.

²¹ AER, *Rate of return Instrument (Version 1.2)*, February 2023, cl 7–8, 23–25.

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.²²

PWC has proposed to use our approach to estimate equity raising costs.²³ 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 PWC’s revised opex proposal therefore we do not provide substitute estimates of its debt raising cost using our benchmark approach.²⁴

Imputation credits

Our final decision applies a value of imputation credits (gamma) of 0.57 as set out in the 2022 Instrument.²⁵ PWC’s revised proposal has also adopted the value of gamma set out in the 2022 Instrument.²⁶

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.²⁷

PWC’s revised proposal adopted our current approach for estimating expected inflation.²⁸

Table 2 Final decision on PWC’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

²² AER - Draft Decision Attachment 03 - Rate of return - Power and Water Corporation - 2024-29 Distribution revenue proposal, September 2023, pp. 4-6.

²³ PWC, Revised Proposal – 2.1 – 2024-29 SCS PTRM, 30 November 2023.

²⁴ PWC, Revised Proposal – 2.1 – 2024-29 SCS PTRM, 30 November 2023.

²⁵ AER, Rate of return Instrument (version 1.2), February 2023, cll. 27.

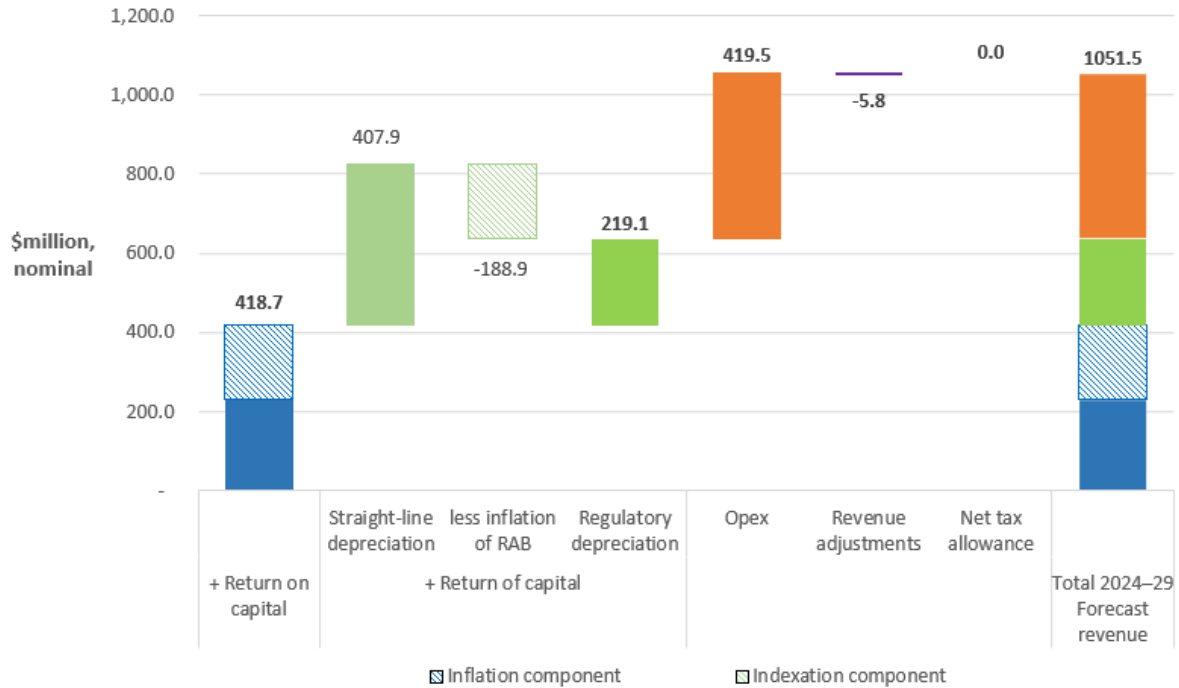
²⁶ PWC, Revised Proposal – 2.1 – 2024-29 SCS PTRM, 30 November 2023.

²⁷ AER, Final position, Regulatory treatment of inflation, December 2020.

²⁸ PWC, Revised Proposal – 2.1 – 2024-29 SCS PTRM, 30 November 2023.

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 (\$ 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 regulatory depreciation amount of \$219.1 million (\$ nominal) for the 2024–29 period. This is an increase of \$8.6 million (4.1%) from PWC’s revised proposal of \$210.5 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. The reasons for our decision are discussed in Attachment 4.

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.²⁹

Overall, we are satisfied that PWC proposal total forecast capex of \$537.8 million (\$2023–24)³⁰ reasonably reflects prudent and efficient costs to maintain the safety, reliability and security of the network.

We determined an alternative estimate for capex of \$528.0 million (\$2023–24) because we did not accept \$10.2 million of PWC’s proposed single site consolidation project. Our alternative capex forecast is 1.9% less than PWC’s revised proposal and not materially different to its total capex forecast. We are satisfied that PWC’s estimate reasonably reflects the capex criteria.

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

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

| Category | PWC revised proposal and AER final decision |
|--|---|
| Augmentation | 33.0 |
| Replacement | 175.5 |
| Connections | 7.0 |
| Property | 92.8 |
| ICT | 64.0 |
| Fleet | 13.9 |
| CER | 3.7 |
| Non-network capex - other | 8.6 |
| Capitalised overheads | 146.6 |
| Gross Total | 545.1 |
| Less Customer contribution connections | 6.1 |
| Less Disposals | 0.8 |
| Modelling adjustments | -0.4 |
| Net Total | 537.8 |

Source: PWC’s capex model and AER analysis.

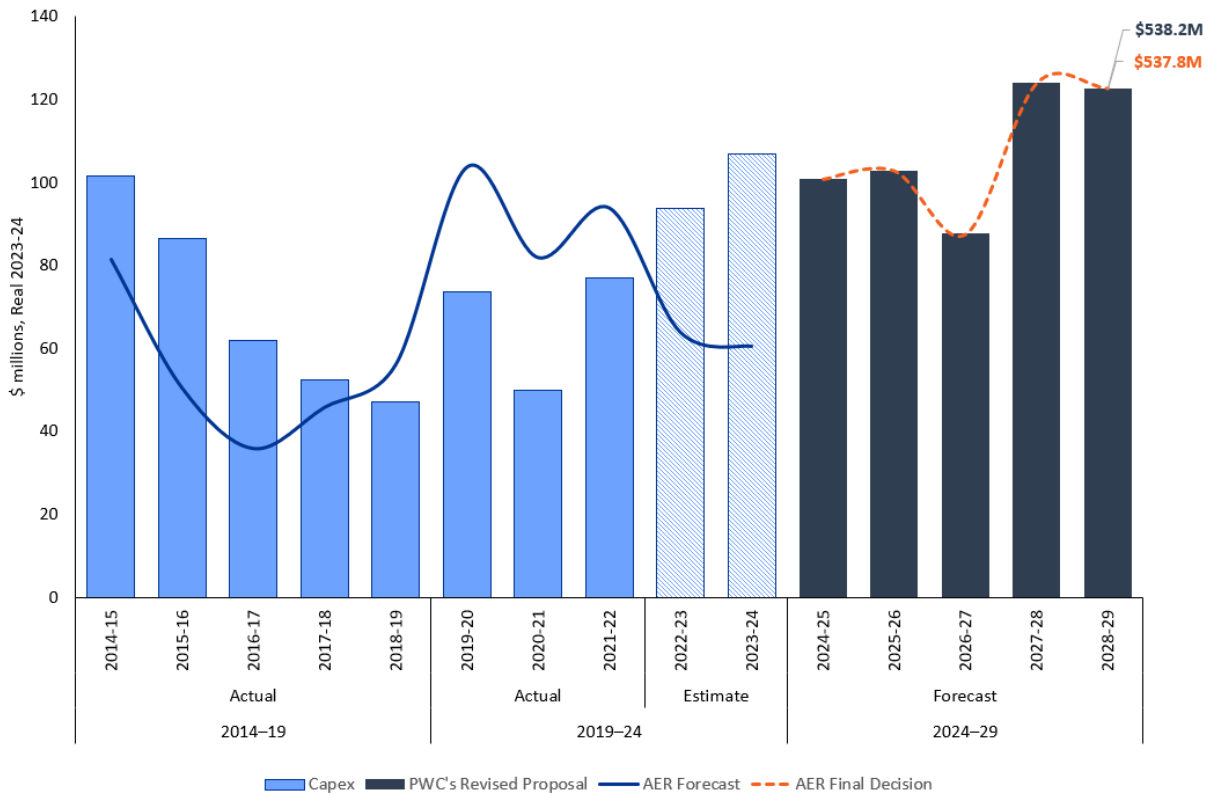
Note: Numbers may not sum due to rounding. Modelling adjustments relate to updates to the consumer price index (CPI) and real cost escalation assumptions (including the exclusion of external contract labour cost escalation).

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

²⁹ NER, cl. 6A.5.4(a).

³⁰ Power and Water proposed \$538.2 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 \$0.4 million reduction to the total capex forecast (\$537.8 million).

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



Source: AER Analysis.

PWC responded to our draft decision by:

- scaling back its forecast for capex projects we did not accept in our draft decision, including a 72% reduction in CER, a 13% reduction in property and a 9.4% reduction in ICT compared to Power and Water’s initial proposal. The forecast capex of \$76.1 million capex for the single site consolidation project also reflects a modified project at a lower cost compared to the initial proposal of \$89.8 million
- providing further information to justify the projects including business cases demonstrating a positive economic return for the single site consolidation project and the operational technology capability uplift component of ICT.

We consider PWC’s revised proposal has provided adequate supporting information for the projects and other than an adjustment to the single site consolidation project to remove general construction contingency allowances, we consider that PWC’s total capex forecast is reasonable.

Our final decision also accepts PWC’s proposed contingent projects, which we consider are reasonably necessary to address potential system strength issues posed by the transition to renewables and the changing generation mix in the NT, and to meet localised new demand associated with the development of specific commercial projects.

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

2.5 Operating expenditure

Opex refers to the operating, maintenance and other non-capital expenses incurred in the provision of standard control services. Forecast opex for standard control services is one of the building blocks we use to determine a service provider's annual total revenue requirement.

Our final decision is to accept PWC's total opex forecast of \$387.2 million (\$2023–24) for the 2024–29 regulatory control period.³¹ Our alternative estimate of \$385.6 million (\$2023–24) is not materially different (\$1.7 million, \$2023–24, or 0.4% lower) from PWC's revised proposal total opex forecast. Therefore, we are satisfied that PWC's total opex forecast reasonably reflects the opex criteria, having regard to the opex factors.³²

Our final decision, which is the same as PWC's revised proposal total opex forecast, is:

- \$13.0 million, or 3.2% lower than the opex forecast we approved in our final decision for the 2019–24 regulatory control period³³
- \$20.8 million, or 5.7% higher than PWC's actual (and estimated) opex in the 2019–24 period adjusted for capitalisation backcast (which was discussed in our draft decision)³⁴
- \$28.1 million, or 6.8% lower than PWC's initial proposal
- \$22.8 million, or 6.3% higher than our draft decision.³⁵

These comparisons can be seen in Figure 10 which sets out the opex forecast we approve in this final decision for the next regulatory period (the blue line), which is PWC's revised opex proposal (also the blue line), as well as PWC's actual and estimated opex in the current regulatory control period (the blue bars). We have also included the forecasts we approved in past decisions (the orange line), PWC's initial opex proposal for the 2024–29 period (the blue dashed line) and our alternative estimate for the draft decision (the orange dotted line). PWC's total opex over the period 2009–19 when PWC was regulated by the Northern Territory (NT) Utility Commission is also shown.

³¹ PWC, *Revised proposal, Attachment 01, Revised regulatory proposal*, 30 November 2023, p. 31.

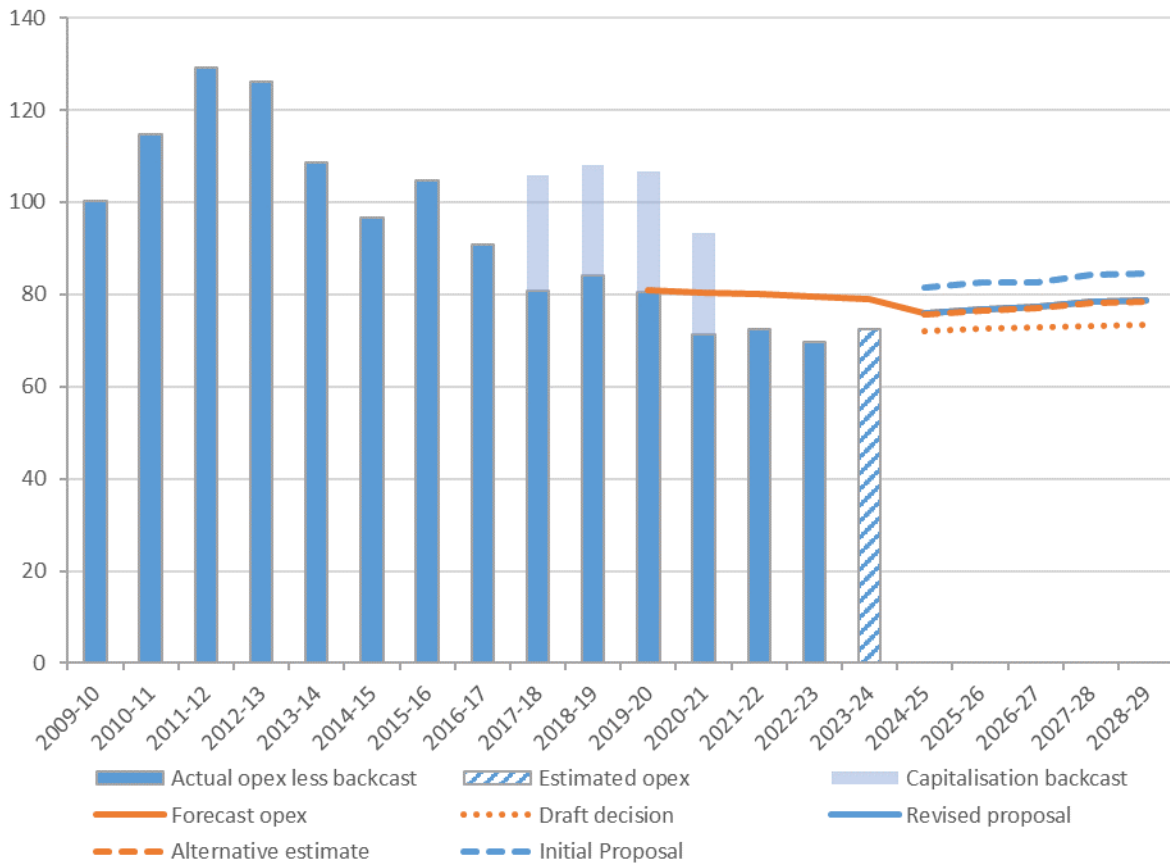
³² NT NER, cl. 6.5.6(c) and 6.5.6(e).

³³ This difference is calculated based on the opex allowance for the five-year 2019–24 period converted to real 2023–24 dollars using unlagged inflation.

³⁴ AER, *Draft Decision Attachment 06 - Operating expenditure – Power and Water Electricity Distribution Determination 2024 to 2029*, September 2023, pp.11–12.

³⁵ Due to a change PWC made effective from 1 July 2021 to the way it capitalises network and corporate overheads, PWC's actual and estimated opex and the opex we forecast for the 2019–24 regulatory control period are not reported on a like for like basis with its forecast for the 2024–29 regulatory control period. See the note in Figure 10 for more information.

Figure 10 Historical and forecast opex (\$million, 2023–24)



Source: PWC, *Distribution economic benchmarking – regulatory information notice response (EB RIN) 2011–12 to 2022–23*; PWC, *Proposal Attachment 9.01 - Operating expenditure*, January 2023, pp 8-10; PWC, *Proposal – Attachment 9.03 2024–29 SCS Opex model*, January 2023; PWC, *RIN1.09 - 2024–29 Reset RIN Workbook 1 Forecast Data*, January 2023; PWC, *Revised Proposal Attachment 5.03 - 2024–2029 SCS Opex Model*, November 2023; AER analysis.

Note: In June 2021, under its existing Cost Allocation Method, PWC changed its capitalisation approach to reallocate a higher proportion of corporate and network overheads opex to direct opex and capital project-related capex. PWC’s reported opex for 2021–22 and 2022–23, estimated opex for 2023–24, and its opex forecast for the 2024–29 regulatory control period are based on this approach. To provide an opex time series that could be used to compare historical and forecast opex on a like-for-like basis, PWC created a backcast of its actual opex from 2017–18 to 2020–21 on the same basis (these are the dark blue bars). The AER’s opex forecast for the 2019–24 period (the orange line) is not on a like-for-like basis with PWC’s reported, estimated and proposed opex from 2021–22 onwards as we do not have sufficient information to adjust our 2019–24 forecast to account for PWC’s change to its capitalisation policy. The AER did not provide an opex forecast for the 2009–2019 regulatory control period as PWC was regulated by the NT Utility Commission.

PWC applied our standard base-trend-step forecasting methodology in its revised proposal to forecast opex for the 2024–29 period. The minor difference of \$1.7 million (\$2023–24) or 0.4% between PWC’s opex proposal, which we have accepted, and our alternative estimate is due to our alternative estimate using the most recently available data on actual and forecast inflation, wage price growth forecasts and our own debt raising cost forecast.

The key drivers of the increase in opex in the next regulatory control period relative to actual (and estimated) opex in this period are the inclusion of five step changes for operational technology uplift, future networks (CER integration), cyber security requirements, cloud computing and insurance premium increases.

PWC’s revised opex proposal addressed key aspects of the feedback in our draft decision that further information was required to justify these step changes. This included that PWC further consider more proportionate and deliverable step change proposals where appropriate, and that it more clearly consider the trade-offs between the benefits of the proposed expenditure and the affordability impacts on electricity consumers. In PWC’s revised proposal the operational technology uplift and future network (CER integration) step changes in particular were rescaled, targeting more clearly defined benefits at significantly lower cost and we have included these as prudent and efficient costs in our alternative estimate. Further, following information request and consultation processes with PWC in relation to the cyber security, cloud and insurance premium step changes we obtained sufficient evidence to also include the proposed costs in our alternative estimate.

After undertaking no consultation on the step changes included in its initial proposal, PWC undertook some useful but limited engagement on the operational technology uplift, cyber security and future networks (CER integration) step changes in developing its revised proposal. This provided high level support for action to improve PWC’s capacities in these areas while also highlighting affordability concerns of its customers. This late consumer engagement is welcomed, but we note its effectiveness was questioned by some stakeholders.³⁶

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 an estimated cost of corporate income tax amount of zero for PWC over the 2024–29 period, which is consistent with PWC’s revised proposal.

We expect PWC to incur a forecast tax loss over the 2024–29 period.³⁷ We have determined that \$31.5 million in tax losses as at 30 June 2029 will be carried forward to the 2029–34 period where it can be used to offset future tax liabilities. The forecast tax loss arises because PWC’s forecast tax expenses will exceed its revenue for tax assessment purposes over the 2024–29 period. This is mainly due to PWC’s forecast immediate expensing of capital expenditure (capex) over the 2024–29 period which has resulted in higher forecast tax depreciation.

2.7 Revenue adjustments

Our calculation of PWC’s total revenue includes adjustments under the CESS that applied in its determination for the current period. This mechanism provides a continuous incentive for PWC to pursue efficiency improvements in capex, and a fair sharing of these between PWC and its users. The efficiency benefit sharing scheme (EBSS) related to providing continuous incentives to pursue efficiency improvements in opex was not in place during the 2019–24 period and therefore no revenue adjustments apply.

³⁶ Consumer Challenge Panel 27, *Advice to the AER – 2024–29 Revised electricity determination and draft decision – Power and Water Corporation*, January 2024, pp. 5, 10 and 12.

³⁷ A forecast tax loss occurs when the forecast assessable income is lower than the forecast tax expense. In this event no tax is payable. Any residual amount of tax loss will be carried forward over to future regulatory control periods to offset future taxable income until the tax loss is fully exhausted.

Our final decision includes:

- a revenue adjustment (decrement) of \$7.3 million (\$2023–24) under the CESS. This is from the application of the CESS in the 2019–24 period. Our final decision is \$0.1 million more than PWC’s proposed decrement of \$7.4 million, due to updating modelling inputs and capex to reflect the latest available information.
- an allowance of \$2.0 million (\$2023–24) for the Demand Management Innovation Allowance Mechanism (DMIAM). In each year of the 2024–29 period, PWC 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 combined effect of these revenue adjustments is a negative \$5.3 million (\$2023–24) revenue adjustment building block in this final decision compared to the negative \$5.4 million in PWC’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 PWC in the 2024–29 period.

3.1 Efficiency Benefit Sharing Scheme (EBSS)

The purpose of the Efficiency Benefit Sharing Scheme (EBSS) is explained in our draft decision overview.³⁸ Consistent with the draft decision,³⁹ our final decision is to apply version 2 of the EBSS⁴⁰ for the first time in the 2024–29 period. We will exclude debt-raising costs in applying the EBSS. We will also make adjustments as permitted by the EBSS, such as removing demand management innovation allowance costs, and movement in provisions.

We also note that as this scheme did not apply in the 2019–24 period there were no reward or penalties or resulting revenue adjustments in the 2024–29 period.

3.2 Capital Expenditure Sharing Scheme (CESS)

The capital expenditure sharing scheme (CESS) incentivises businesses to undertake efficient capex throughout the period by rewarding efficiency gains and penalising efficiency losses, each measured by reference to the difference between forecast and actual capex. Consumers benefit from improved efficiencies through a lower RAB, which is reflected in regulated revenues for future periods.

The 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.⁴¹

Our final decision includes a revenue adjustment (decrement) of -\$7.3 million (\$2023–24) under the CESS (see Table 4). This is from the application of the CESS in the 2019–24 period. Our final decision is \$0.1 million more than PWC’s proposed decrement of \$7.4 million, due to updating modelling inputs and capex to reflect the latest available information.

³⁸ AER, *Draft Decision Overview – Power and Water Corporation – 2024–29 Distribution revenue proposal*, September 2023.

³⁹ AER, *Draft Decision Attachment 08 - Efficiency benefit sharing scheme – Power and Water Corporation 2024–29 Distribution revenue proposal*, September 2023.

⁴⁰ AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

⁴¹ 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.

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

| Revenue Adjustments | 2024–25 | 2025–26 | 2026–27 | 2027–28 | 2028–29 | Total |
|--|--------------|--------------|--------------|--------------|--------------|-------------|
| CESS revenue increments as per NER 6.4.3(a)(5) | -1.48 | -1.48 | -1.48 | -1.48 | -1.48 | -7.4 |
| AER final decision CESS | -1.46 | -1.46 | -1.46 | -1.46 | -1.46 | -7.3 |

Note: Numbers may not sum due to rounding.

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

3.3 Service Target Performance Incentive Scheme (STPIS)

The STPIS version 2 will not apply to PWC in the 2024–29 period, due to the unavailability of reliable historic supply interruption data. However, we will be collecting relevant data during the 2024–29 period to establish suitable targets for the following regulatory control period.⁴²

The reasoning for our final decision is consistent with our draft decision overview.⁴³

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 PWC in the 2024–29 period. This approach is consistent with PWC’s revised proposal⁴⁴ and our draft decision on DMIS and DMIAM.⁴⁵

The reasoning for our final decision is consistent with our draft decision.^{46,47}

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

⁴² AER, *Framework and approach Power and Water Corporation (Northern Territory) Regulatory control period commencing 1 July 2024*, July 2022, pp. 40–41.

⁴³ AER, *Draft Decision Overview – Power and Water Corporation – 2024–29 Distribution revenue proposal*, September 2023, p. 34.

⁴⁴ Power and Water Corporation, *Revised Regulatory Proposal: Response to the AER’s draft decision*, 30 November 2023, p. xxv.

⁴⁵ AER, *Draft Decision Attachment 11 - DMIS and DMIAM – Power and Water Corporation – 2024–29 Distribution revenue proposal*, September 2023.

⁴⁶ AER, *Draft Decision Overview – Power and Water Corporation – 2024–29 Distribution revenue proposal*, September 2023, p. 34.

⁴⁷ AER, *Demand management incentive scheme, Electricity distribution network service providers*, December 2017, cl 2.1(2).

3.5 Customer Service Incentive Scheme (CSIS)

We will not apply a CSIS to PWC in the 2024–29 regulatory period because it is still in the early stages of economic regulation under the NER framework. Further, PWC considered that it would be inappropriate to apply the CSIS while it is still in the process of fully implementing the existing suite of incentive schemes.⁴⁸

The reasoning for our final decision is consistent with our draft decision overview.⁴⁹

⁴⁸ AER, *Framework and approach Power and Water Corporation (Northern Territory) Regulatory control period commencing 1 July 2024*, July 2022, pp. 40–41.

⁴⁹ AER, *Draft Decision Overview – Power and Water Corporation – 2024–29 Distribution revenue proposal*, September 2023, p.35.

4 Tariff structure statement

PWC’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.

A tariff structure statement provides consumers and retailers with certainty and transparency in relation to how and when network tariffs will change. It describes:

- the distributor’s tariff classes and structures
- the distributor’s policies and procedures for assigning customers to tariffs and tariff classes
- the charging parameters for each tariff
- the distributor’s approach to setting tariff prices in annual pricing proposals.

It is accompanied by an indicative pricing schedule.

PWC accepted our draft decision on its tariff structure statement. In doing so, PWC removed its proposed flat tariff (Tariff 7) for ‘super users’ (customers consuming more than 10GWh pa and connecting at the high voltage level).⁵⁰

The retailer Jacana Energy submitted concerns with PWC’s mandatory reassignment policy (it preferred an opt-in approach) and the potential for increased cost recovery from some tariff classes.⁵¹ The NT NER enable PWC to collect its allowed revenue through network tariffs and require tariffs to reflect long-run marginal cost and each tariffs revenues to reflect total efficient costs of serving respective customers, and set bounds on how much revenue can be recovered from a tariff class.⁵² The NT government’s electricity pricing order currently regulates how retailers in the Northern Territory can pass on retail tariffs but in general, a retailer may choose to pass on the network price signals directly or repackage them, including as a flat rate. We consider that Jacana Energy’s analysis of comparing 2022–23 prices with 2023–24 prices reflects the increased revenue that PWC proposed under its revenue cap and not the structure of the tariffs themselves. We have assessed PWC’s tariffs and consider them compliant with the NT NER pricing principles.

Our final decision is to approve PWC’s revised 2024–29 tariff structure statement with one amendment. The amendment removes the individually calculated tariffs for new business customers. We set out our consideration of this issue in the next section, along with our consideration of tariff options targeting flexible load.

We are satisfied that with this amendment, all elements of PWC’s revised 2024–29 tariff structure statement comply with the pricing principles for direct control services in the NER and are consistent with other applicable requirements of the NER.

⁵⁰ PWC, *Revised proposal - 7.2 - Tariff Structure Explanatory Statement*, 30 November 2023, pp. 42–43.

⁵¹ Jacana Energy, *Submission on Power and Water Corporation’s revised proposal and draft decision 2024–29*, January 2024.

⁵² NT NER cil. 6.18.5(e), 6.18.5(f) and 6.18.5(g).

Individually calculated tariffs

Our final decision amends PWC’s revised tariff structure statement to remove the individually calculated tariff.

Individually calculated tariffs are for specific customers. They are typically offered to large business users to signal bespoke, localised price signals due to their outsized impact on the distribution network.

As noted above, PWC’s revised tariff structure statement removed its proposed Tariff 7. This change responded to our draft decision requirement that the tariff be amended to include a cost reflective charging parameter that reflected the long-run marginal costs of providing the service.⁵³ PWC removed the tariff entirely to address our concern. However, this change consequently increased the prominence of PWC’s existing (and to date unused) assignment policy of offering individually calculated tariffs to *new* super users if their power requirement is greater than 2MVA and PWC considered that:

- the connection charge impacts should be reflected in the tariff, or
- material network support benefits are being captured and shared, or
- material uneconomic network bypass risk exists.

While PWC clarified that these individually calculated tariffs would be based on the default tariff with demand charges, PWC noted it could:

- convert the demand charge into an annual capacity charge based on the customer’s capacity
- apply additional discounts to consumption and demand charges.⁵⁴

We consider this approach is overly complex and insufficiently transparent and that it is possible that individually calculated tariffs developed under the approach would not comply with the NER pricing principles. The considerations and adjustments listed above have the potential to dilute or completely remove the cost reflective price signal. While PWC proposed to seek our approval of specific individually calculated tariff structures through the annual pricing process, that process is not appropriate for that purpose.⁵⁵ An approved tariff structure statement must set out sufficient detail for customers, or prospective customers, to understand the tariffs they could face. While individually calculated tariffs are often confidential, we consider PWC’s proposed approach does not provide sufficient detail for either customers or the AER to determine that all tariffs developed under it will reflect long-run marginal cost.

We also consider that PWC has an alternative and appropriate option for the relevant new customers in its Tariff 6, which it will continue to use for existing, similarly sized customers. We note that to date PWC has never assigned a customer its existing individually calculated tariff which suggests it is not a necessary tariff option.

⁵³ NER cl.6.18.5(f).

⁵⁴ Power and Water information request: *PWC IR#030 – Individually calculated tariffs – 20240108*.

⁵⁵ Power and Water information request: *PWC IR#030 – Individually calculated tariffs – 20240108 - follow-up response*.

Electric vehicles and flexible load tariffs

We accept PWC’s reasons for not proposing new tariff options targeting flexible load like electric vehicles (EVs). We consider that PWC’s residential time-of-use tariff and tariff assignment policy are appropriate for managing EV charging load at this time.

Our draft decisions had requested all distributors to consider introducing tariffs for flexible load, including targeted controlled load tariffs, in recognition of the potential rapid uptake of EVs in the 2024–29 period.

PWC, like other distributors, decided to not propose any new tariff option in its revised tariff structure statement. Following publication of the draft decision, the AER met with distributors to discuss the feasibility of a controlled load tariff to target EVs. Most distributors agreed that traditional controlled load tariffs may not be appropriate for flexible loads like EVs. PWC does not currently offer any controlled load tariffs.

Instead, PWC proposed to rely on its new residential time-of-use tariff already approved in the draft decision to manage EV charging load. PWC’s time-of-use tariff structure, if passed through in retail offers, would encourage EV charging at times that benefit the network, particularly during the high solar period. All EV customers with smart meters will face the default network tariff with a low-priced period in the middle of the day to incentivise customers to shift flexible load to that period, and higher priced peak periods to encourage load shifting out of those periods.

PWC’s approach supports the energy transition more generally by supporting the integration and further uptake of consumer energy recourses. The intended effect of the tariff in incentivising EV charging during the middle of the day, increases the solar energy hosting capacity of the network, i.e. it allows increased exports from solar energy, encouraging further uptake of rooftop solar.

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 PWC must set its prices. This includes the classification of services and the framework for PWC’s negotiated services.

5.1 Classification of services

In its revised proposal, PWC did not propose any changes to our draft decision on the classification of the services it provides.⁵⁶ Our final decision is to retain the classification structure and the services list as published in our draft decision for PWC.⁵⁷ The list of classified services PWC will provide for 2024–29 is set out in attachment 13 to this decision.

5.2 Negotiated services framework and criteria

In our draft decision, we approved PWC’s proposed distribution negotiating framework for the 2024–29 period.⁵⁸ We did not receive any objections or submissions on our draft decision. Our final decision maintains the decision to approve PWC’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 PWC in February 2023 for the 2024–29 period.⁵⁹ Details of negotiated distribution service criteria are set out in attachment 17 of our draft decision.⁶⁰

5.3 Connection policy

In our draft decision, we did not approve PWC’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 NT NER requirements.⁶¹

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

⁵⁶ Power and Water Corporation, *Revised Regulatory Proposal – Response to the AER’s draft decision*, November 2023.

⁵⁷ AER, *Draft Decision Attachment 13 – Classification of services – Power and Water Corporation 2024-29 Distribution revenue proposal*, September 2023.

⁵⁸ AER, *Draft Decision Attachment 17 – Negotiated services framework and criteria – Power and Water Corporation 2024-29 Distribution revenue proposal*, September 2023.

⁵⁹ AER, *Proposed negotiated distribution service criteria for Power and Water Corporation*, February 2023.

⁶⁰ AER, *Draft Decision Attachment 17 - Negotiated services framework and criteria – Power and Water Corporation – 2024-29 Distribution revenue proposal*, September 2023, pp. 5-6.

⁶¹ NT NER, Part DA of chapter 6. AER, *Draft Decision Attachment 18 – Connection policy – Power and Water Corporation – 2024-29 Distribution revenue proposal*, September 2023.

6 Constituent decisions

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

| Constituent component |
|--|
| <p>In accordance with clause 6.12.1(1) of the NT NER, the AER's final decision is that the classification of services set out in Attachment 13 will apply to Power and Water Corporation for the 2024–29 regulatory control period.;</p> |
| <p>In accordance with clause 6.12.1(2)(i) of the NT NER, the AER's final decision is to not approve the annual revenue requirement set out in Power and Water Corporation building block proposal. Our final decision on Power and Water Corporation’s annual revenue requirement for each year of the 2024–29 regulatory control period is set out in Attachment 1 of the final decision.</p> |
| <p>In accordance with clause 6.12.1(2)(ii) of the NT NER, the AER's final decision is to approve Power and Water Corporation’s proposal that the regulatory control period will commence on 1 July 2024. Also, in accordance with clause 6.12.1(2)(ii) of the NT NER, the AER's final decision is to approve Power and Water Corporation’s proposal that the length of the regulatory control period will be five years from 1 July 2024 to 30 June 2029.</p> |
| <p>In accordance with clause 6.12.1(3)(i) of the NT NER and acting in accordance with clause 6.5.7(c) of the NT NER, the AER's final decision is to accept Power and Water’s proposed total forecast capital expenditure of \$537.8 million (\$2023–24). The reasons for our final decision are set out in Attachment 5 of the final decision.</p> |
| <p>In accordance with clause 6.12.1(4)(ii) of the NT NER and acting in accordance with 6.5.6(d) of the NT NER, the AER’s final decision is to accept Power and Water Corporation’s revised proposed total forecast operating expenditure, inclusive of debt raising costs, of \$387.2 million (\$2023–24). The reasons for our final decision are set out in Attachment 6.</p> |
| <p>In accordance with clause 6.12.1(4A)(i) of the NT NER, the AER’s final decision is that the following projects are contingent projects for the purpose of this revenue determination for Power and Water Corporation:</p> <ul style="list-style-type: none"> • Shared transmission works to transport generation from a Renewable Energy Hub in Darwin-Katherine (\$120.8 million) • Holtze-Kowandi land development (\$60.8 million) • Middle Arm commercial development (\$69.1 million) • Wishart commercial development (\$45.6 million) • Unlocking large scale renewables on the Darwin-Katherine Transmission Line (\$50 million) • Managing network voltage and system strength with an increasing proportion of inverter-based generation (\$100 million). <p>The capital expenditure approved for these contingent projects is as set out above. Other details of these projects are set out in Attachment 5 of the final decision.</p> |
| <p>In accordance with clause 6.12.1(4A)(ii) of the NT NER, the AER's final decision is that it is satisfied that the capital expenditure for the contingent projects as described in Power and Water’s revenue proposal, and as determined to be contingent projects by the AER, reasonably reflects the capital expenditure criteria, taking into account the capital expenditure factors. The reasons for our final decision are set out in Attachment 5 of the final decision.</p> |

| Constituent component |
|---|
| <p>In accordance with clause 6A.12.1(4A)(iii) of the NT NER, the AER’s final decision on the trigger events for the six contingent projects is set out in Attachment 5 of this final decision and includes amendments to the triggers proposed by Power and Water.</p> |
| <p>In accordance with clause 6.12.1(5) of the NT 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 5.68% (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.</p> |
| <p>In accordance with clause 6.12.1(5A) of the NT 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. The reasons for our final decision are set out in section 2.2 in the overview.</p> |
| <p>In accordance with clause 6.12.1(6) of the NT NER, the AER’s final decision on Power and Water Corporation’s regulatory asset base as at 1 July 2024 in accordance with clause 6.5.1 and schedule 6.2 is \$1,283.5 million (\$ nominal). The reasons for our final decision are set out in Attachment 2.</p> |
| <p>In accordance with clause 6.12.1(7) of the NT NER, the AER’s final decision on Power and Water Corporation’s estimated cost of corporate income tax is zero for the 2019–29 regulatory control period. The reasons for our final decision are set out in Attachment 7.</p> |
| <p>In accordance with clause 6.12.1(8) of the NT NER, the AER’s final decision is to not approve the depreciation schedules submitted by Power and Water Corporation. Our final decision substitutes alternative depreciation schedules that accord with clause 6.5.5(b). The regulatory depreciation amount approved in this final decision is \$219.1 million (\$ nominal) for the 2024–29 regulatory control period. The reasons for our final decision are set out in Attachment 4.</p> |
| <p>In accordance with clause 6.12.1(9) of the NT NER the AER makes the following 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 to Power and Water Corporation:</p> <ul style="list-style-type: none"> • We will apply for the first time version 2 of the EBSS to Power and Water Corporation in the 2024–29 regulatory control period. This is discussed in section 3 of this overview and Attachment 8 of the draft decision. • We will apply the CESS as set out in the updated capital expenditure incentives guideline to PWC 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. • We will not apply our STPIS version 2 to Power and Water Corporation for the 2024–29 regulatory control period as set out in section 3.3. • We will apply the DMIS and DMIAM to Power and Water Corporation for the 2024–29 regulatory control period as set out in section 3.4. • We will not apply the customer service incentive scheme (CSIS) to Power and Water Corporation for the 2024–29 regulatory control period as set out in section 3.5. |
| <p>In accordance with clause 6.12.1(10) of the NT 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> |

| Constituent component |
|---|
| <p>In accordance with clause 6.12.1(11) of the NT 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 Power and Water Corporation for any given regulatory year is the total annual revenue calculated using the formula in Attachment 14, which includes any adjustment required to move the Distribution Use of Service (DUoS) unders and overs account to zero. The reasons for our final decision are set out in Attachment 14.</p> |
| <p>In accordance with clause 6.12.1(12) of the NT NER and our framework and approach paper, the AER's 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 and Attachment 16.</p> |
| <p>In accordance with clause 6.12.1(13) of the NT NER, to demonstrate compliance with its distribution determination, the AER's final decision is that Power and Water Corporation must maintain a DUoS unders and overs mechanism. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our final decision are set out in Attachment 14.</p> |
| <p>In accordance with clause 6.12.1(14) of the NT NER the AER's final decision is to apply the following nominated pass through events to Power and Water Corporation for the 2024–29 regulatory control period in accordance with clause 6.5.10:</p> <ul style="list-style-type: none"> • Insurance coverage event • Insurer's credit risk event • Natural disaster event • Terrorism event • Network support event • Northern Territory Electricity Market priority reform restructure event (NTEM priority reform restructure event). <p>The definitions of these events, and our reasons for this decision, are set out in Attachment 15 of the final decision.</p> |
| <p>In accordance with clause 6.12.1(14A) of the NT NER, the AER's final decision is to approve the tariff structure statement proposed by Power and Water Corporation with one amendment. The reasons for our final decision are set out in section 4 of this overview document.</p> |
| <p>In accordance with clause 6.12.1(15) of the NT NER, the AER's final decision is that the negotiating framework as proposed by Power and Water Corporation will apply for the 2024–29 regulatory control period. The reasons for our final decision are set out in Section 5.2 of this Overview.</p> |
| <p>In accordance with clause 6.12.1(16) of the NT NER, the AER's final decision is to apply the Negotiated distribution services criteria published in February 2023 to Power and Water Corporation. The reasons for our final decision are set out in Section 5.2 of this Overview.</p> |
| <p>In accordance with clause 6.12.1(17) of the NT NER, the AER's final decision on the procedures for assigning retail customers to tariff classes for Power and Water Corporation is set out in Attachment 19 of the draft decision.</p> |
| <p>In accordance with clause 6.12.1(18) of the NT NER, the AER's final decision is that the depreciation approach based on forecast capex (forecast depreciation) is to be used to establish the RAB at the commencement of Power and Water Corporation's regulatory control period as at 1 July 2029. The reasons for our final decision are set out in Attachment 2.</p> |

| Constituent component |
|--|
| <p>In accordance with clause 6.12.1(19) of the NT NER, the AER's final decision on how Power and Water Corporation 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 NT NER, the AER's final decision on how Power and Water Corporation 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 NT NER, the AER's final decision is to approve the connection policy proposed by Power and Water Corporation as set out in section 5.3.</p> |

7 List of submissions

We received 5 submissions in response to Power and Water Corporation’s revised proposal. These are listed below⁶².

| Submission from |
|-----------------------------|
| Consumer Challenge Panel 27 |
| Jacana Energy |
| Rimfire Energy (I) |
| Rimfire Energy (II) |
| Tesla |

⁶² Submissions are available on the AER website at <https://www.aer.gov.au/industry/registers/determinations/power-and-water-corporation-determination-2024-29/consultation-submissions-draft-decision-and-revised-proposal>

Shortened forms

| Term | Definition |
|---------------------|--|
| ACS | alternative control services |
| AEMO | Australian Energy Market Operator |
| AER | Australian Energy Regulatory |
| ARR | Annual Revenue Requirement |
| ASP | Accredited Service Provider |
| capex | capital expenditure |
| CCP27 | 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 |
| PIAC | Public Interest Advocacy Centre |
| RAB | regulated asset base |

| Term | Definition |
|----------------------------------|--|
| 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 |