

# Final Decision

## Evoenergy Electricity Distribution Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

### Attachment 2 Regulatory asset base

April 2024

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#### **Amendment record**

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1	30 April 2024	15

## List of attachments

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

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

The final decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 13 – Classification of services

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Attachment 16 – Alternative control services

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## 2 Regulatory asset base

Our distribution determination includes Evoenergy’s opening regulatory asset base (RAB) values as at 1 July 2024 and the projected RAB value for the 2024–29 regulatory control period (period) for its distribution and transmission (dual function assets)<sup>1</sup> networks.<sup>2</sup> The value of the RAB substantially impacts Evoenergy’s revenue requirement, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and return of capital (depreciation) components of the distribution determination.<sup>3</sup> This final decision sets out:

- the opening RAB values as at 1 July 2024
- the forecast closing RAB values as at 30 June 2029
- that depreciation based on forecast capital expenditure (capex) is to be used for establishing the RAB as at the commencement of the 2029–34 period.<sup>4</sup>

### 2.1 Final decision

#### 2.1.1 Opening RAB values as at 1 July 2024

Our final decision is to determine opening RAB values of \$937.6 million and \$190.4 million (\$ nominal) as at 1 July 2024 for Evoenergy’s distribution and transmission networks, respectively. These values are \$0.5 million (0.05%) and \$0.1 million (0.05%) lower than Evoenergy’s revised proposed opening RAB values of \$938.1 million and \$190.5 million (\$ nominal) as at 1 July 2024.<sup>5</sup> These decreases reflect our updates to the roll forward models (RFM) for actual consumer price index (CPI) for 2023–24.

The opening RAB for Evoenergy’s distribution network determined in our final decision is \$4.0 million (0.4%) lower than that in our draft decision of \$941.6 million (\$ nominal). For its transmission network, the opening RAB determined in our final decision is \$9.2 million (5.1%) higher than the draft decision value of \$181.2 million (\$ nominal).<sup>6</sup>

To determine the opening RAB value as at 1 July 2024, we have rolled forward the RAB over the 2019–24 period to arrive at a closing RAB value at 30 June 2024 in accordance with our RFM. This roll forward includes an adjustment at the end of the 2019–24 period to account

<sup>1</sup> Evoenergy’s dual function assets are high voltage assets which support the broader NSW/ACT transmission network owned and operated by Transgrid. The AER has decided to continue applying transmission pricing to these assets. See: AER, *Framework and approach Evoenergy (ACT), Regulatory control period commencing 1 July 2024*, July 2022, p. 49.

<sup>2</sup> National Electricity Rules (NER), cl. 6.12.1(6).

<sup>3</sup> The size of the RAB also impacts the benchmark debt raising cost allowance. However, this amount is usually relatively small and therefore not a significant determinant of revenues overall.

<sup>4</sup> NER, cl. 6.12.1(18).

<sup>5</sup> Evoenergy, *Distribution PTRM*, November 2023; Evoenergy, *Transmission PTRM*, November 2023.

<sup>6</sup> This is mainly driven by updates to the capex for 2022–23 (to reflect actual values) and the capex for 2023–24 (to reflect more up-to-date estimated values). Compared to the opening RAB values determined in our draft decision, these updates decrease the opening RAB value by \$3.5 million for Evoenergy’s distribution network and increase the opening RAB value by \$9.3 million for its transmission networks, all else being equal.

for the difference between actual 2018–19 capex and the estimate approved in the 2019–24 determination.<sup>7</sup>

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

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

	2019–20	2020–21	2021–22	2022–23	2023–24 <sup>a</sup>
Opening RAB	796.0	811.5	803.4	830.7	920.0
Net capex <sup>b</sup>	55.8	42.8	59.7	89.9	52.2
Indexation on opening RAB	14.6	7.0	28.1	65.1	37.3
Less: straight-line depreciation <sup>c</sup>	54.9	57.9	60.5	65.7	72.6
Interim closing RAB	811.5	803.4	830.7	920.0	936.9
Difference between estimated and actual capex in 2018–19	-	-	-	-	0.6
Return on difference for 2018–19 capex	-	-	-	-	0.2
<b>Closing RAB as at 30 June 2024</b>	-	-	-	-	<b>937.6</b>

Source: AER analysis.

- (a) Based on estimated capex provided by Evoenergy. We will true-up the RAB for actual capex at the next distribution determination.
- (b) Net of disposals and capital contributions, and adjusted for actual CPI and half-year weighted average cost of capital (WACC).
- (c) Adjusted for actual CPI. Based on forecast capex.

<sup>7</sup> The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2019–24 determination. See NER, cl. S6.2.1(e)(3).

**Table 2.2 AER’s final decision on Evoenergy’s RAB for the 2019–24 period – transmission (\$ million, nominal)**

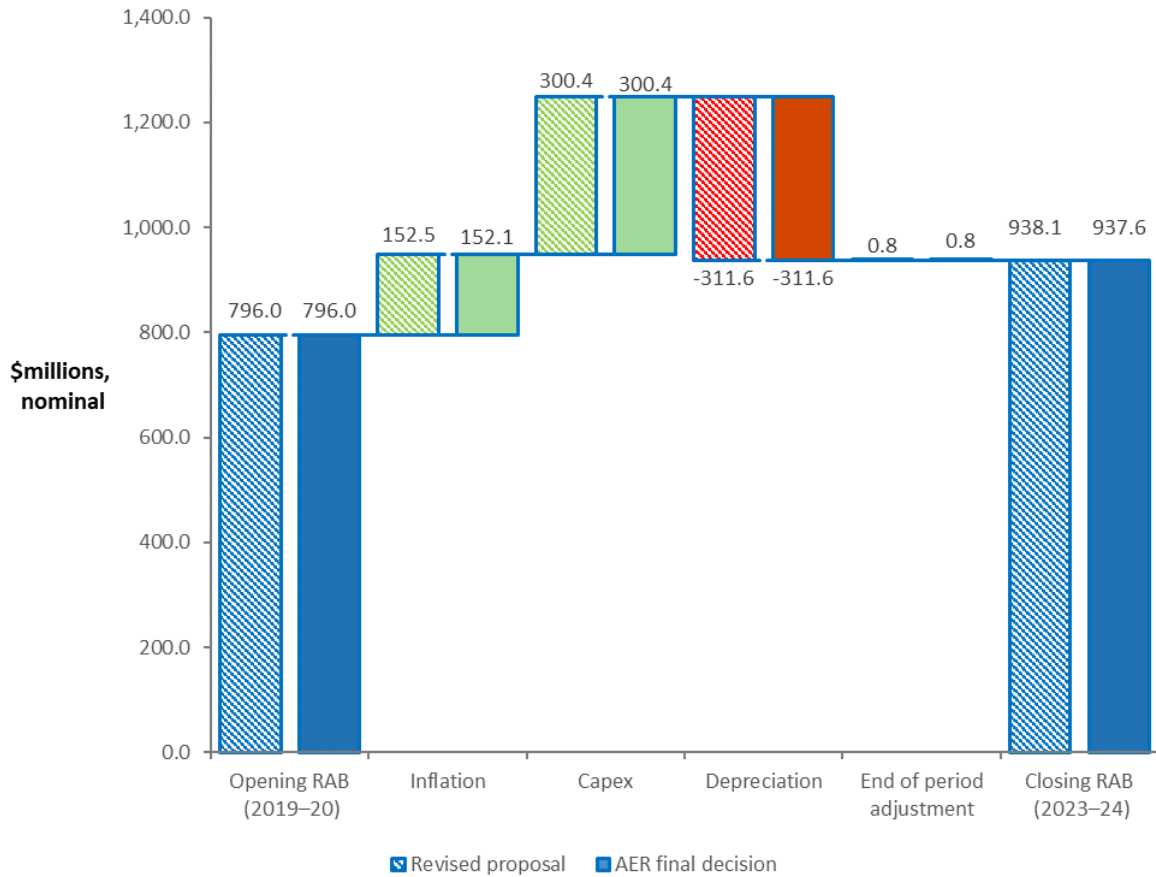
	2019–20	2020–21	2021–22	2022–23	2023–24 <sup>a</sup>
Opening RAB	177.3	179.3	177.9	182.9	190.1
Net capex <sup>b</sup>	9.5	8.4	10.6	5.6	13.3
Indexation on opening RAB	3.3	1.5	6.2	14.3	7.7
Less: straight-line depreciation <sup>c</sup>	10.8	11.3	11.8	12.8	14.1
Interim closing RAB	179.3	177.9	182.9	190.1	197.0
Difference between estimated and actual capex in 2018–19	-	-	-	-	-4.9
Return on difference for 2018–19 capex	-	-	-	-	-1.8
<b>Closing RAB as at 30 June 2024</b>	-	-	-	-	<b>190.4</b>

Source: AER analysis.

- (a) Based on estimated capex provided by Evoenergy. We will true-up the RAB for actual capex at the next distribution determination.
- (b) Net of disposals and capital contributions, and adjusted for actual CPI and half-year WACC.
- (c) Adjusted for actual CPI. Based on forecast capex.

Figure 2.1 and Figure 2.2 show the key drivers of change in Evoenergy’s distribution and transmission RAB values over the 2019–24 period for this final decision, respectively. Overall, the closing RAB values at the end of the 2019–24 period are 18% higher for its distribution network and 7% higher for its transmission network than the respective opening RAB values at the start of that period, in nominal terms. New capex increases Evoenergy’s distribution and transmission RAB values by 38% and 27% respectively, while inflation indexation increases both distribution and transmission RAB values by 19%. Depreciation, on the other hand, reduces the distribution and transmission RAB values by 39% and 34% respectively. End of period adjustment increases the distribution RAB by 0.1%, but decreases the transmission RAB by 4%.

**Figure 2.1 Key drivers of change in the RAB over the 2019–24 period – Evoenergy’s revised proposal compared with the AER’s final decision – distribution (\$ million, nominal)**

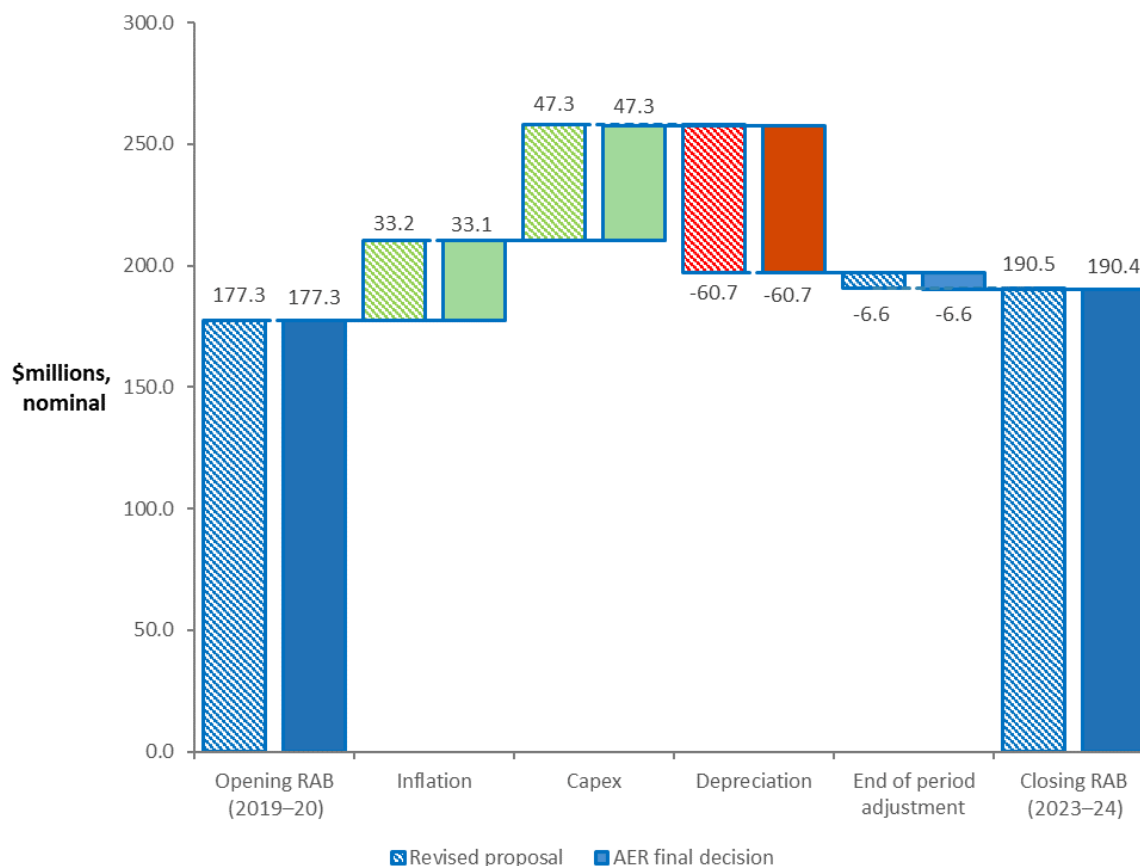


Source: AER analysis.

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



**Figure 2.2 Key drivers of change in the RAB over the 2019–24 period – Evoenergy’s revised proposal compared with the AER’s final decision – transmission (\$ million, nominal)**



Source: AER analysis.

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

In the draft decision, we reduced Evoenergy’s proposed opening RAB values as at 1 July 2024 by \$7.2 million (0.8%) and \$1.3 million (0.7%) for its distribution and transmission networks, respectively. These reductions were largely due to the updates we made to the CPI inputs for 2022–23 and 2023–24 in the RFMs to reflect more up-to-date values. We also amended the following inputs which also affected the opening RAB values:<sup>8</sup>

- We updated the nominal vanilla weighted average cost of capital (WACC) for 2023–24, equity raising costs (for transmission only) and the forecast straight-line depreciation to be consistent with the values in our 2023–24 return on debt updated post-tax revenue model (PTRM).
- We corrected inconsistencies in some annually reported data related to capex, disposals and capital contributions.

<sup>8</sup> AER, *Draft decision Attachment 2 - Regulatory asset base - Evoenergy - 2024–29 distribution revenue proposal*, September 2023, pp. 1–2.

We noted the roll forward of Evoenergy’s RABs included estimated capex for 2022–23 and 2023–24, and estimated inflation for 2023–24, because the actual values for these inputs were not yet available at the time of the draft decision.<sup>9</sup>

In its revised proposal, Evoenergy adopted all out draft decision changes. In addition, Evoenergy has updated the estimated capex for 2022–23 with actuals and revised the capex estimates for 2023–24 with latest figures. We have checked the actual capex amounts for 2022–23 in Evoenergy’s revised proposed RFMs and are satisfied they reconcile with the values presented in Evoenergy’s annual reporting Regulatory Information Notice (RIN) for that year. For this final decision, we also accept Evoenergy’s revised 2023–24 net capex estimates of \$52.2 million and \$13.3 million (\$ nominal) for its distribution and transmission networks respectively, reflecting more recent data.<sup>10</sup> These amounts are lower compared to the \$57.2 million approved in our draft decision for Evoenergy’s distribution network and higher compared to the –\$6.7 million (\$ nominal) approved in our draft decision for its transmission network. We note that the financial impact of any difference between actual and estimated capex for 2023–24 will be accounted for at the next distribution determination.

We received no submissions on our approach to calculating the opening RAB. Our position in the final decision is limited to updates for more recent data in the RFM. This includes updating the 2023–24 estimated inflation input with actual CPI of 4.05% based on the December 2023 CPI from the Australian Bureau of Statistics (ABS), which became available after Evoenergy submitted its revised proposal.

## 2.1.2 Ex post review of 2017–22 capex

We also consider the extent to which our roll forward of the RAB to 1 July 2024 contributes to the achievement of the capex incentive objective.<sup>11</sup> The review period of past capex for this distribution determination is over 2017–18 to 2021–22.<sup>12</sup> As discussed in the draft decision, we consider that the capex incurred in those years are consistent with the capex criteria and can therefore be included in the RAB.<sup>13</sup>

For this final decision, we have included Evoenergy’s actual capex for 2022–23 and estimated capex for 2023–24 in the RAB roll forward to 1 July 2024. At the next distribution determination, the actual capex for 2022–23 and 2023–24 will form part of the review period for whether past capex should be excluded for inefficiency reasons.<sup>14</sup> Our RAB roll forward applies the incentive framework approved in the previous distribution determination, which

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<sup>9</sup> AER, *Draft decision: Evoenergy distribution determination 2024–29 – Attachment 2 – Regulatory asset base*, September 2023, pp. 1–4.

<sup>10</sup> These amounts are net of disposals and capital contributions, and include a half-year WACC allowance to compensate for the six-month period before capex is added to the RAB. They reflect the updated actual inflation rate for 2023–24 in our final decision.

<sup>11</sup> NER, cl. 6.12.2(b) and 6.4A(a).

<sup>12</sup> NER, cl. S6.2.2.A(a1).

<sup>13</sup> NER, cl. S6.2.1(f); AER, *Draft decision: Evoenergy distribution determination 2024–29 – Attachment 2 – Regulatory asset base*, September 2023, pp. 16–17.

<sup>14</sup> Here, 'inefficiency' of past capex refers to three specific assessments (labelled the overspending, margin and capitalisation requirements) detailed in NER, cl. S6.2.2A. The details of our ex-post assessment approach for capex are set out in AER, *Capital expenditure incentive guideline for electricity network service providers*, April 2023, pp. 12–21.

included the use of a forecast depreciation approach in combination with the application of the capital expenditure sharing scheme (CESS).<sup>15</sup> As such, we consider that the 2019–24 RAB roll forward contributes to an opening RAB (as at 1 July 2024) that includes capex that reflects prudent and efficient costs, in accordance with the capex criteria.<sup>16</sup>

### 2.1.3 Forecast closing RAB as at 30 June 2029

Once we have determined the opening RAB value as at 1 July 2024, we roll forward that value by adding forecast capex and inflation, and reducing it by depreciation to arrive at a forecast closing value for the RAB as at the end of the 2024–29 period.<sup>17</sup>

For this final decision, we determine a forecast closing RAB values at 30 June 2029 of \$1,176.3 million and \$217.0 million (\$ nominal) for Evoenergy’s distribution and transmission networks, respectively. They are \$10.6 million (0.9%) and \$1.8 million (0.8%) lower compared to Evoenergy’s revised proposal RAB values of \$1,186.9 million and \$218.8 million (\$ nominal) for its distribution and transmission networks, respectively. These reductions are mainly due to a lower expected inflation rate applied in our final decision compared to Evoenergy’s revised proposal (section 2.2 of the Overview to this final decision). Our final decision on the forecast closing RAB values also reflect the amended opening RAB values as at 1 July 2024 and our final decision on forecast depreciation (Attachment 4) and forecast capex (Attachment 5).<sup>18</sup>

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

**Table 2.3 AER’s final decision on Evoenergy’s RAB for the 2024–29 period – distribution (\$ million, nominal)**

	2024–25	2025–26	2026–27	2027–28	2028–29
Opening RAB	937.6	974.8	1,013.4	1,058.9	1,108.5
Net capex <sup>a</sup>	87.0	95.9	95.9	102.4	111.8
Indexation on opening RAB	24.9	25.9	27.0	28.2	29.5
Less: straight-line depreciation	74.7	83.2	77.4	81.0	73.5
<b>Closing RAB</b>	<b>974.8</b>	<b>1,013.4</b>	<b>1,058.9</b>	<b>1,108.5</b>	<b>1,176.3</b>

Source: AER analysis.

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

<sup>15</sup> AER, *Final decision: Evoenergy distribution determination 2019–24 – Attachment 2 – Regulatory asset base*, April 2019, p. 12.

<sup>16</sup> NER, cll. 6.4A(a), 6.5.7(a), 6.5.7(c) and 6.12.2(b).

<sup>17</sup> NER, cl. S6.2.3.

<sup>18</sup> Capex enters the RAB net of forecast disposals. It includes equity raising costs (where relevant) and the half-year WACC to account for the timing assumptions in the PTRM. Therefore, our final decision on the forecast RAB also reflects our amendments to the rate of return for the 2024–29 period (section 2.2 of the Overview to this final decision).

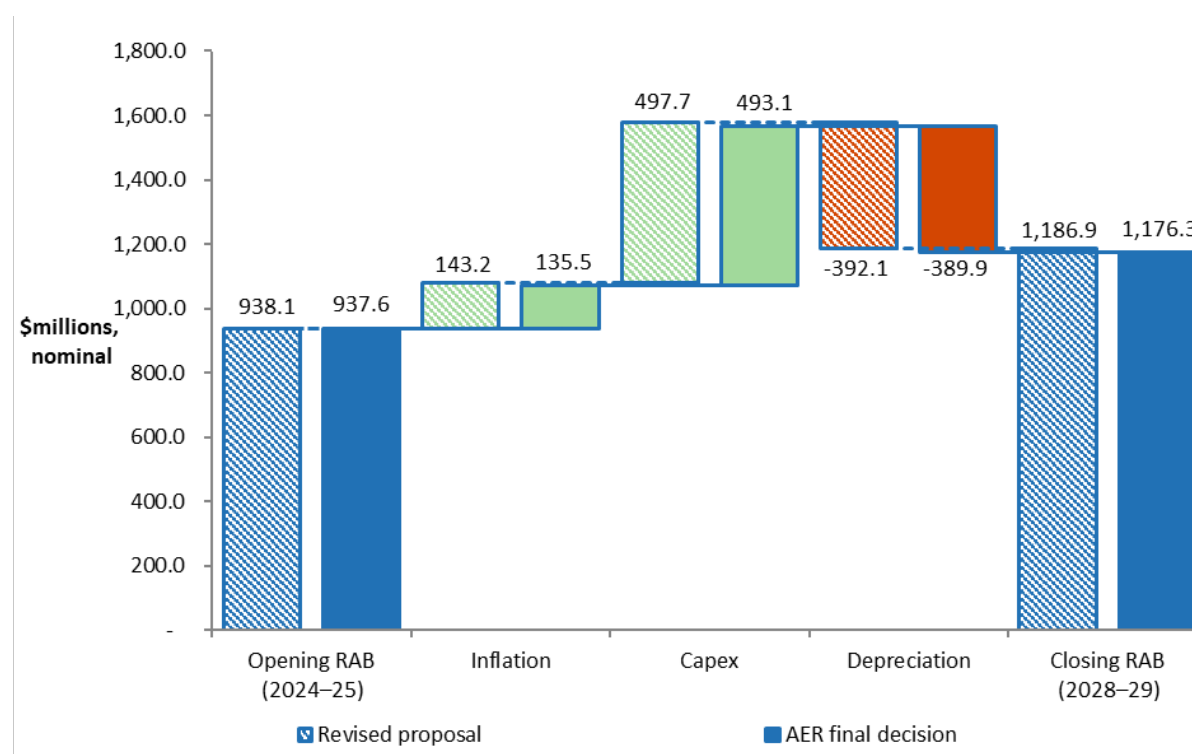
**Table 2.4 AER’s final decision on Evoenergy’s RAB for the 2024–29 period – transmission (\$ million, nominal)**

	2024–25	2025–26	2026–27	2027–28	2028–29
Opening RAB	190.4	198.6	203.6	206.3	216.9
Net capex <sup>a</sup>	17.7	16.0	12.7	20.4	8.8
Indexation on opening RAB	5.1	5.3	5.4	5.5	5.8
Less: straight-line depreciation	14.6	16.2	15.4	15.3	14.4
<b>Closing RAB</b>	<b>198.6</b>	<b>203.6</b>	<b>206.3</b>	<b>216.9</b>	<b>217.0</b>

Source: AER analysis.

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

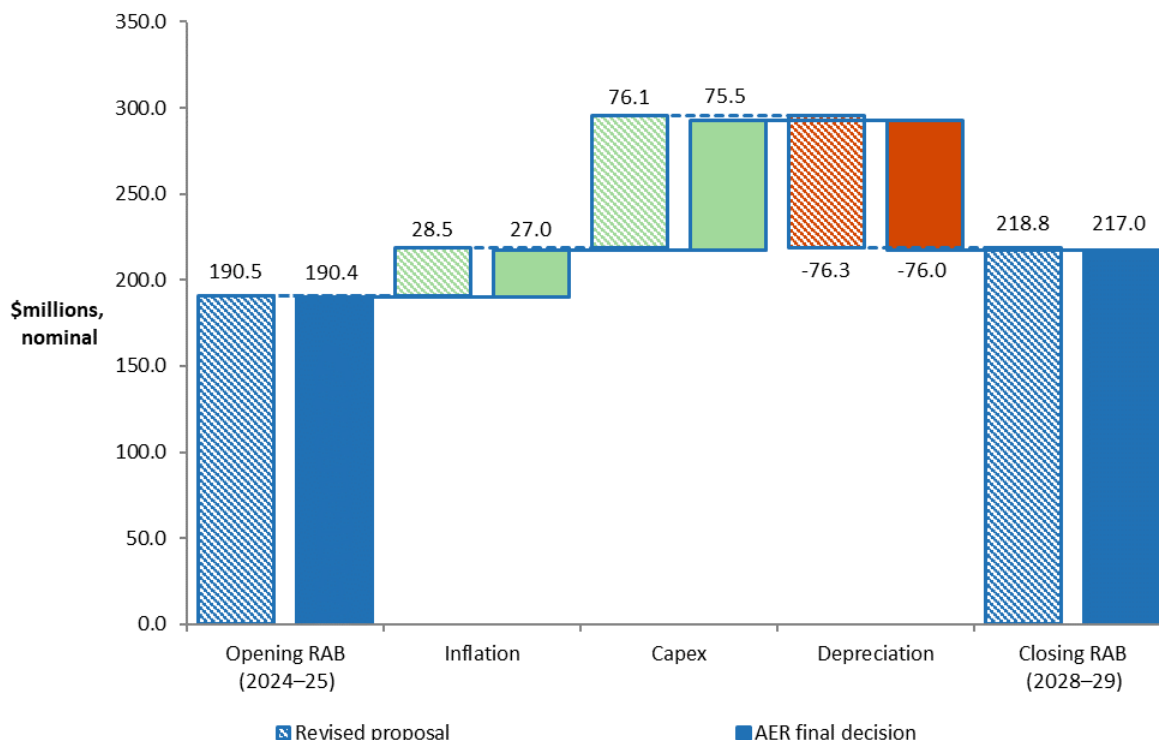
Figure 2.3 and Figure 2.4 show the key drivers of change in Evoenergy’s distribution and transmission RAB values over the 2024–29 period for this final decision, respectively. Overall, the closing RAB values at the end of the 2024–29 period are forecast to be 25% and 14% higher than the opening RAB values at the start of that period for Evoenergy’s distribution and transmission networks respectively, in nominal terms. The approved forecast net capex increases its distribution and transmission RAB values by 53% and 40%, respectively. Expected inflation increases the RAB by 14% for its distribution network and 14% for its transmission network. Forecast depreciation, on the other hand, reduces its distribution and transmission RAB values by 42% and 40% respectively.

**Figure 2.3 Key drivers of change in the RAB over the 2024–29 period – Evoenergy’s revised proposal compared with the AER’s final decision – distribution (\$ million, nominal)**

Source: AER analysis.

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

**Figure 2.4 Key drivers of change in the RAB over the 2024–29 period – Evoenergy’s revised proposal compared with the AER’s final decision – transmission (\$ million, nominal)**



Source: AER analysis.

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

Forecast net capex is a significant driver of the increases in the RAB values. In our final decision, we accept Evoenergy’s revised proposed forecast capex subject to some minor modelling updates as we are satisfied that it reasonably reflects the capex criteria. Therefore, we approve the forecast net capex amounts of \$447.4 million and \$69.1 million (\$2023–24) for Evoenergy’s distribution and transmission networks respectively for the 2024–29 period. They are 0.6% and 0.4% lower than the revised proposed amounts of \$450.0 million and \$69.4 million (\$2023–24) for its distribution and transmission networks respectively. Refer to Attachment 5 to this final decision for the discussion on forecast capex.

### 2.1.4 Application of depreciation approach in RAB roll forward for the next distribution determination

When we roll forward Evoenergy’s RABs for the 2024–29 period at the next distribution determination, we must adjust for depreciation. For this final decision, we determine that the depreciation approach to be applied to establish Evoenergy’s opening RABs at the commencement of the 2029–34 period will be based on the depreciation schedules (straight-

line) using forecast capex at the asset class level approved for the 2024–29 period.<sup>19</sup> This approach is consistent with our draft decision. Further, this approach is consistent with our Framework and approach.<sup>20</sup> Evoenergy’s revised proposal did not raise any issues with this approach.

As discussed in section 3.1 of the Overview to this final decision, we will also apply the CESS to Evoenergy for the 2024–29 period. We consider that the CESS will provide sufficient incentives for Evoenergy to achieve capex efficiency gains over that period. We are satisfied that the use of a forecast depreciation approach in combination with the application of the CESS and our other ex post capex measures are sufficient to achieve the capex incentive objective.<sup>21</sup>

## 2.2 Assessment approach

We did not change our assessment approach for the RAB from our draft decision. Attachment 2 (section 2.3) of our draft decision details that approach.<sup>22</sup>

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<sup>19</sup> NER, cl. 6.12.1(18).

<sup>20</sup> AER, *Framework and approach Evoenergy (ACT), Regulatory control period commencing 1 July 2024*, July 2022, p. 53.

<sup>21</sup> Our ex-post capex measures are set out in the capital expenditure incentive guideline. The guideline also sets out how all our capex incentive measures are consistent with the capex incentive objective. AER, *Capital expenditure incentive guideline for electricity network service providers*, April 2023, pp. 12–21.

<sup>22</sup> AER, *Draft decision: Evoenergy distribution determination 2024–29 – Attachment 2 – Regulatory asset base*, September 2023, pp. 8–13.

## Shortened forms

Term	Definition
ABS	Australian Bureau of Statistics
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
NER	National Electricity Rules
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model
RIN	regulatory information notice
WACC	weighted average cost of capital

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