DRAFT DECISION
Evoenergy
Distribution Determination

2019 to 2024

Attachment 1
Annual revenue requirement

September 2018

AUSTRALIAN ENERGY REGULATOR

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Note

This attachment forms part of the AER's draft decision on the distribution determination that will apply to Evoenergy for the 2019–2024 regulatory control period. It should be read with all other parts of the draft decision.

The draft decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

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Attachment 16 – Negotiated services framework and criteria

Attachment 17 – Connection policy

Attachment 18 – Tariff structure statement

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Shortened forms

Shortened form	Extended form
ARR	annual revenue requirement
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
distributor	distribution network service provider
DMIAM	demand management innovation allowance (mechanism)
NER	national electricity rules
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RIN	regulatory information notice
TNSP	transmission network service provider

1 Annual revenue requirement

This attachment sets out our draft decision on Evoenergy's annual revenue requirements (ARRs) and expected revenues for the 2019–24 regulatory control period for its distribution and transmission (dual function assets) networks. 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 apply transmission pricing to these assets.[1]

The ARR is the sum of the various building block costs for each year of the regulatory control period before smoothing. The ARRs are smoothed across the period to reduce fluctuations between years and to determine expected revenues for each year. The expected revenues are the amounts that Evoenergy will target for distribution annual pricing and transmission pricing purposes and recover from customers for the provision of standard control services for each year of the regulatory control period.

1.1 Draft decision

Our draft decision does not accept Evoenergy's proposed total ARR of $804.5 million and $146.6 million ($ nominal) over the 2019–24 regulatory control period for its distribution and transmission networks respectively. This is because we have not accepted the building block costs in Evoenergy's proposal. We determine a total ARR for Evoenergy for the 2019–24 regulatory control period, reflecting our draft decision on the various building block costs, of:

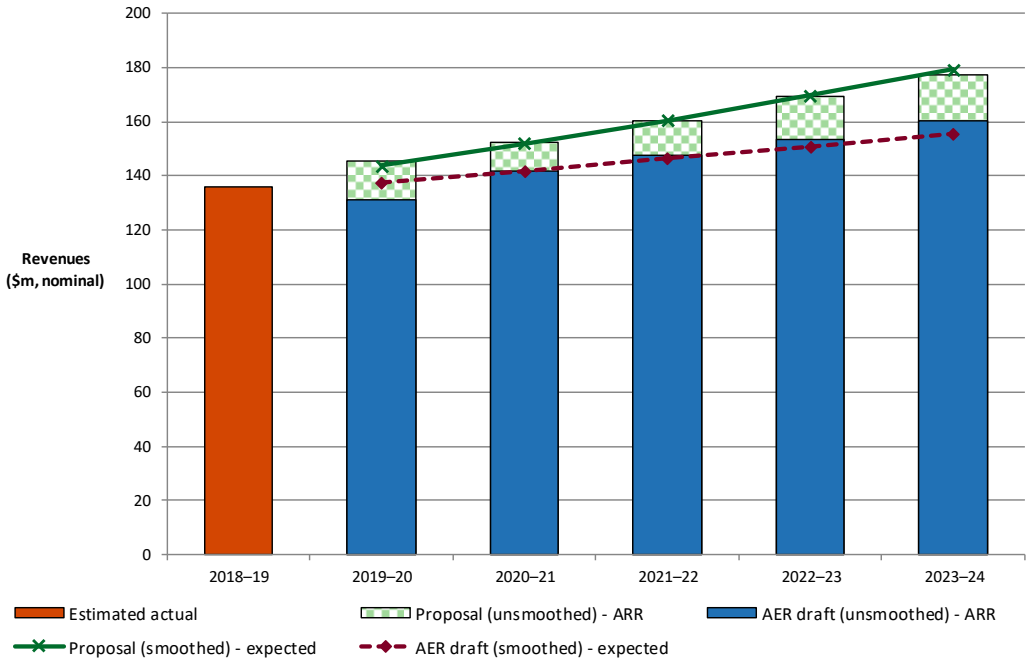
- $733.6 million ($ nominal) for its distribution network. This is a reduction of $71.0 million ($ nominal) or 8.8 per cent to Evoenergy's proposal.
- $139.5 million ($ nominal) for its transmission network. This is a reduction of $7.1 million ($ nominal) or 4.8 per cent to Evoenergy's proposal.

We determine the annual expected revenue (smoothed) and X factor for each regulatory year of the 2019–24 regulatory control period by smoothing the ARR. Our draft decision is to approve total expected revenues (smoothed) of $732.1 million and $139.4 million ($ nominal) for the 2019–24 regulatory control period for Evoenergy's distribution and transmission networks respectively.

Figure 1.1 and Figure 1.2 show the difference between Evoenergy's proposal and our draft decision for Evoenergy's distribution and transmission networks respectively. Table 1.1 and Table 1.2 show our draft decision on the building block costs, the ARR, annual expected revenue and X factor for each year of the 2019–24 regulatory control period for Evoenergy's distribution and transmission networks respectively.

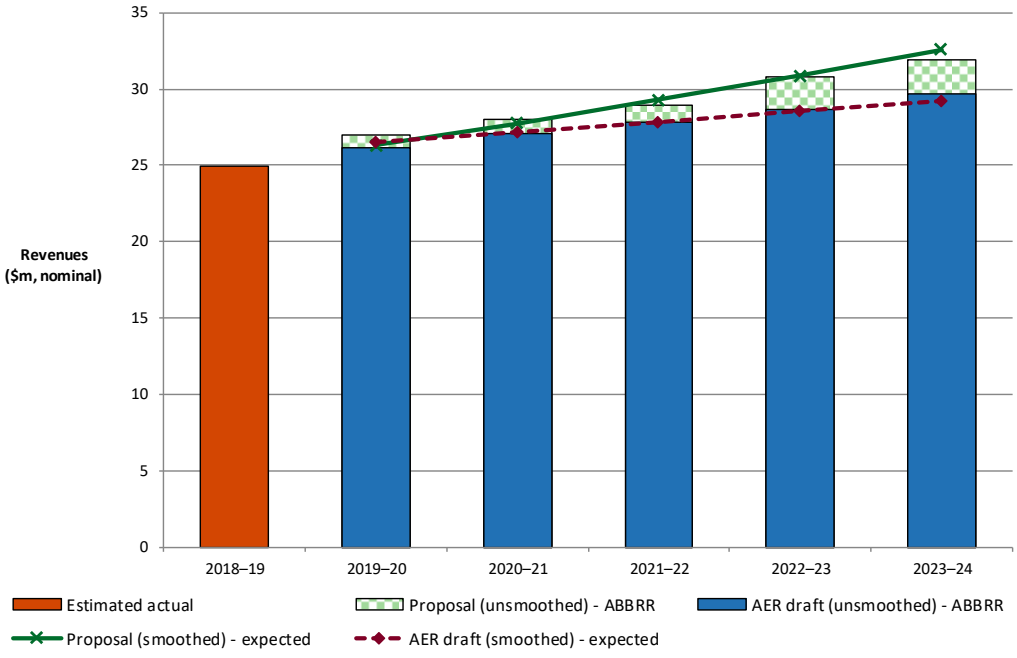
[1] AER, *Framework and approach ActewAGL Regulatory control period commencing 1 July 2019,* July 2017, p. 13

Figure 1.1 AER's draft decision on Evoenergy's revenue for the 2019–24 regulatory control period – distribution ($million, nominal)



Source: Evoenergy, *Post Tax Revenue Model (PTRM) – Distribution,* January 2018.
AER analysis.

Figure 1.2 AER's draft decision on Evoenergy's revenue for the 2019–24 regulatory control period – transmission ($million, nominal)



Source: Evoenergy, *Proposed PTRM – Transmission,* January 2018.
AER analysis.

Table 1.1 AER's draft decision on Evoenergy's revenues for the 2019–24 regulatory control period – distribution ($million, nominal)

	2019–20	2020–21	2021–22	2022–23	2023–24	Total
Return on capital	45.9	46.6	47.3	47.6	48.7	236.0
Regulatory depreciation[a]	35.4	38.3	41.1	44.0	47.3	206.1
Operating expenditure[b]	50.8	52.8	54.9	57.1	59.4	275.1
Revenue adjustments[c]	–5.2	–0.4	–0.4	–0.4	–0.4	–6.9
Net tax allowance	4.1	4.4	4.6	5.0	5.1	23.2
Annual revenue requirement (unsmoothed)	130.9	141.6	147.5	153.3	160.2	733.6
Annual expected revenue (smoothed)	**137.7**	**141.9**	**146.3**	**150.8**	**155.4**	**732.1**
X factor[d]	n/a[e]	–0.60%	–0.60%	–0.60%	–0.60%	n/a

Source: AER analysis.

(a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening RAB.

(b) Includes debt raising costs.

(c) Includes revenue adjustments from the capital expenditure sharing scheme (CESS), demand management innovation allowance mechanism (DMIAM) and an amount resulting from the remittal decision for the 2014–19 regulatory control period.

(d) The X factors will be revised to reflect the annual return on debt update. Under the CPI–X framework, the X factor measures the real rate of change in annual expected revenue from one year to the next. A negative X factor represents a real increase in revenue. Conversely, a positive X factor represents a real decrease in revenue. An X factor of zero per cent means the revenue is unchanged in real terms from year to year.

(e) Evoenergy is not required to apply an X factor for 2019–20 because we set the 2019–20 expected revenue in this decision. The expected revenue for 2019–20 is around 2.2 per cent lower than the expected revenue for 2018–19 in real terms or 0.2 per cent higher in nominal terms.

Table 1.2 AER's draft decision on Evoenergy's revenues for the 2019–24 regulatory control period – transmission ($million, nominal)

	2019–20	2020–21	2021–22	2022–23	2023–24	Total
Return on capital	10.1	10.0	9.8	9.6	9.4	48.8
Regulatory depreciation[a]	6.5	7.1	7.7	8.3	9.0	38.5
Operating expenditure[b]	8.3	8.6	8.9	9.3	9.7	44.8
Revenue adjustments[c]	0.8	0.8	0.8	0.8	0.8	4.0
Net tax allowance	0.6	0.6	0.7	0.7	0.8	3.4
Annual revenue requirement (unsmoothed)	26.2	27.1	27.9	28.7	29.7	139.5
Annual expected revenue (smoothed)	**26.5**	**27.2**	**27.9**	**28.5**	**29.2**	**139.4**
X factor[d]	n/a[e]	0.00%	0.00%	0.00%	0.00%	n/a

Source: AER analysis.

(a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening RAB.

(b) Includes debt raising costs.

(c) Includes revenue adjustments from the capital expenditure sharing scheme (CESS). The amount resulting from the remittal decision for the 2014–19 regulatory control period is not included here and will be made as part of the unders/overs account adjustment for the 2019–24 regulatory control period.

(d) The X factors will be revised to reflect the annual return on debt update. Under the CPI–X framework, the X factor measures the real rate of change in annual expected revenue from one year to the next. A negative X factor represents a real increase in revenue. Conversely, a positive X factor represents a real decrease in revenue. An X factor of zero per cent means the revenue is unchanged in real terms from year to year.

(e) Evoenergy is not required to apply an X factor for 2019–20 because we set the 2019–20 expected revenue in this decision. The expected revenue for 2019–20 is around 2.7 per cent higher than the expected revenue for 2018–19 in real terms or 5.2 per cent higher in nominal terms.

1.2 Evoenergy's proposal

Evoenergy proposed a total revenue requirement of $804.5 million and $146.6 million ($ nominal) for the 2019–24 regulatory control period for its distribution and transmission networks respectively. Table 1.3 and Table 1.4 show Evoenergy's proposed building block costs, the ARR, expected revenue and X factor for each year of the 2019–24 regulatory control period for its distribution and transmission networks respectively.

Table 1.3 Evoenergy's proposed revenues for the 2019–24 regulatory control period – distribution ($million, nominal)

	2019–20	2020–21	2021–22	2022–23	2023–24	Total
Return on capital	50.8	52.3	54.1	55.9	57.3	270.4
Regulatory depreciation[a]	35.1	38.1	41.3	45.4	48.9	208.7
Operating expenditure[b]	52.9	55.3	57.9	60.6	63.2	289.9
Revenue adjustments[c]	0.7	0.3	0.3	0.3	0.3	2.0
Net tax allowance	6.0	6.3	6.7	7.2	7.4	33.6
Annual revenue requirement (unsmoothed)	145.4	152.4	160.3	169.4	177.1	804.5
Annual expected revenue (smoothed)	**143.8**	**151.9**	**160.5**	**169.6**	**179.2**	**805.0**
X factor[c]	n/a[d]	–3.08%	–3.08%	–3.08%	–3.08%	n/a

Source: Evoenergy, *Proposed PTRM – Distribution,* January 2018.

(a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening RAB.

(b) Includes debt raising costs.

(c) Includes revenue adjustments from CESS and DMIAM.

(d) Evoenergy is not required to apply an X factor for 2019–20 because we set the 2019–20 expected revenue in this decision.

Table 1.4 Evoenergy's proposed revenues for the 2019–24 regulatory control period – transmission ($million, nominal)

	2019–20	2020–21	2021–22	2022–23	2023–24	Total
Return on capital	11.2	11.2	11.0	11.5	11.3	56.1
Regulatory depreciation[a]	6.4	7.1	7.7	8.6	9.4	39.2
Operating expenditure[b]	8.4	8.8	9.2	9.6	10.1	46.0
Revenue adjustments[c]	0.1	0.0	0.0	0.0	0.0	0.1
Net tax allowance	0.9	1.0	1.0	1.1	1.2	5.2
Annual revenue requirement (unsmoothed)	26.9	28.0	28.9	30.8	31.9	146.6
Annual expected revenue (smoothed)	**26.3**	**27.7**	**29.3**	**30.9**	**32.6**	**146.8**
X factor	n/a[d]	–2.92%	–2.92%	–2.92%	–2.92%	n/a

Source: Evoenergy, *Proposed PTRM – Transmission,* January 2018.

(a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening RAB.

(b) Includes debt raising costs.

(c) Includes revenue adjustments from CESS.

(d) Evoenergy is not required to apply an X factor for 2019–20 because we set the 2019–20 expected revenue in this decision.

1.3 Assessment approach

In this section, we describe the approach used to determine the ARR and expected revenue for Evoenergy for each year of the 2019–24 regulatory control period.[2]

In this determination we first calculate the ARR for each year of the 2019–24 regulatory control period. To do this we consider the various costs facing the distributor and the trade-offs and interactions between these costs, service quality and across years. This reflects our holistic assessment of the distributor's proposal.

The ARR for each year is the sum of the building block costs. These building block costs are set out in section 1.3.1. The AER's post-tax revenue model (PTRM) brings together these building block costs and calculates the resulting ARRs.

We understand the trade-offs that occur between building block costs and test the sensitivity of these costs to their various driver elements. These trade-offs are discussed in the various attachments to this draft decision and are reflected in the calculations made in the PTRM.[3] Such understanding allows us to exercise judgement in determining the final inputs into the PTRM and the ARRs that result from this modelling.

Having calculated the total revenue requirement for the 2019–24 regulatory control period, we smooth the ARRs for each regulatory year across that period. This step reduces revenue variations between years, and calculates the expected revenue and X factor for each year.[4] The X factors equalise (in net present value terms) the total expected revenues to be earned by the distributor with the total revenue requirement for the 2019–24 regulatory control period.[5] They must usually minimise, as far as reasonably possible, the variance between the expected revenue and ARR for the last regulatory year of the period.[6] By minimising this divergence, it helps to manage the prospect of a significant revenue change (and consequently prices) between the last year of the 2019–24 regulatory control period, and first year of the following 2024–29 regulatory control period. We therefore consider a divergence of up to 3 per cent between the expected revenue and ARR for the last year of the regulatory control period is reasonable, if this can promote smoother price changes over the regulatory control period.

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2 NER, cll. 6.3.2(a)(1) and 6.5.9(b)(2).

3 There are trade-offs that are not modelled in the PTRM but are reflected in the inputs to the PTRM. For example, service quality is not explicitly modelled in the PTRM, but the trade-offs between service quality and price are reflected in the forecast capex and opex inputs to the model. Other trade-offs are obvious from the calculations in the PTRM. For example, while someone may expect a lower regulatory asset base to also lower revenues, the PTRM shows that this will not occur if the reduction in the regulatory asset base is due solely to an increase in the depreciation rate. In such circumstances, revenues increase as the increased depreciation allowance more than offsets the reduction in the return on capital caused by the lower regulatory asset base.

4 NER, cl. 6.5.9(a).

5 NER, cl. 6.5.9(3)(i). The X factors represent the real revenue path over the 2019–24 regulatory control period under the CPI–X framework.

6 NER, cl. 6.5.9(b)(2).

The building block costs (and the elements that drive those costs) used to determine the unsmoothed ARR are set out in section 1.3.1.

1.3.1 The building block costs

The efficient costs to be recovered by a distributor can be thought of as being made up of various building block costs. Our draft decision assesses each of the building block costs and the elements that drive these costs. The building block costs are approved reflecting trade-offs and interactions between the cost elements, service quality and across years.

Table 1.5 shows the building block costs that form the ARR for each year and where discussion on the elements that drive these costs can be found within this draft decision.

Table 1.5 Building block costs

Building block costs	Attachments where elements are discussed
Return on capital	Regulatory asset base (attachment 2) Rate of return (attachment 3) Capital expenditure (attachment 5)
Regulatory depreciation (return of capital)	Regulatory asset base (attachment 2) Regulatory depreciation (attachment 4) Capital expenditure (attachment 5)
Operating expenditure	Operating expenditure (attachment 6)
Estimated cost of corporate tax	Corporate income tax (attachment 7)
Other revenue adjustments	
Adjustment for shared assets	Annual revenue requirement (attachment 1)
Operating efficiency benefits/penalties	Efficiency benefit sharing scheme (attachment 8)
Capital efficiency benefits/penalties	Capital expenditure sharing scheme (attachment 9)
Demand management innovation allowance	Demand management incentive scheme (attachment 11)

1.4 Reasons for draft decision

We determine a total ARR of $733.6 million and $139.5 million ($ nominal) for Evoenergy over the 2019–24 regulatory control period for its distribution and transmission networks respectively. This is a reduction of $71.0 million ($ nominal) or 8.8 per cent to Evoenergy's proposal for its distribution network and $7.1 million ($ nominal) or 4.8 per cent to Evoenergy's proposal for its transmission network. This reflects the impact of our draft decision on the various building block costs.

Figure 1.3 and Figure 1.4 show the building block components from our determination that make up the ARR for Evoenergy, and the corresponding components from its proposal for the distribution and transmission networks respectively.

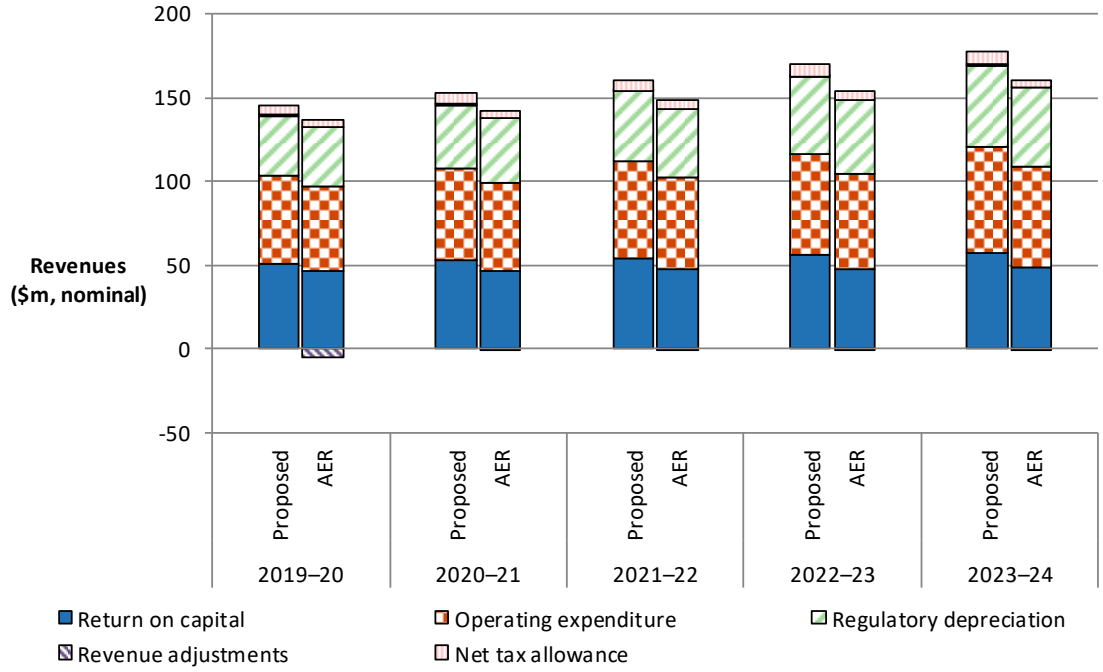
The changes we made to Evoenergy's proposed building blocks include (in nominal terms):[7]

- a reduction in the return on capital allowance of $41.7 million or 12.8 per cent (attachments 2, 3 and 5)
- a reduction in the regulatory depreciation allowance of $3.2 million or 1.3 per cent (attachment 4)
- a reduction in the opex allowance of $16.0 million or 4.8 per cent (attachment 6)
- a reduction in the cost of corporate income tax allowance of $12.2 million or 31.5 per cent (attachment 7 and section 2.2 of the overview)
- a reduction in revenue adjustments of $4.9 million or 238.5 per cent arising from the inclusion of a (negative) adjustment for the remittal decision for the 2014–19 regulatory control period and changes to CESS (attachment 9) and DMIAM (attachment 11).[8]

[7] The listed amounts are the combined amounts for both the distribution and transmission networks.

[8] Our draft decision 2019–24 distribution network PTRM contains a revenue adjustment of –$4.73 million ($ 2018–19) in 2019–20 to account for the outcome of the remittal decision for the 2014–19 regulatory control period; AER, *Draft Decision Evoenergy 2014–19 electricity distribution determination*, September 2018.

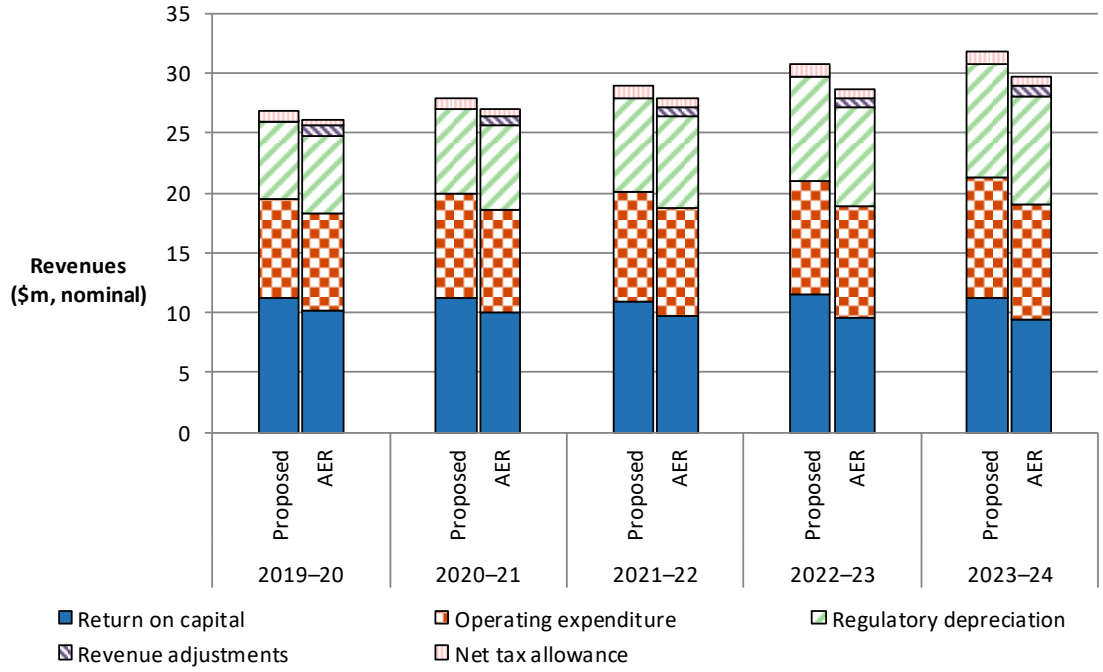
Figure 1.3 AER's draft decision and Evoenergy's proposed annual revenue requirement – distribution ($million, nominal)



Source: Evoenergy, *Proposed PTRM – Distribution,* January 2018.
AER analysis.

Note: Revenue adjustments include CESS, DMIAM and an amount resulting from the remittal decision for the 2014–19 regulatory control period. Opex includes debt raising costs.

Figure 1.4 AER's draft decision and Evoenergy's proposed annual revenue requirement – transmission ($million, nominal)



Source: Evoenergy, *Proposed PTRM – Transmission,* January 2018.
AER analysis.

Note: Revenue adjustments include CESS. Opex includes debt raising costs.

1.4.1 Revenue smoothing

We have taken into account the building block costs determined in this decision when smoothing the expected revenues for Evoenergy over the 2019–24 regulatory control period. In doing so, we first set the expected revenue for the first regulatory year (2019–20) at $137.7 million and $26.5 million ($ nominal) for Evoenergy's distribution and transmission networks respectively. These are higher than the 2019–20 ARRs (unsmoothed) of $130.9 million and $26.2 million we determined for Evoenergy's distribution and transmission networks respectively. We then applied a profile of X factors to determine the expected revenue in subsequent years.

To smooth the revenue increases from the second regulatory year (2020–21) onwards, we have applied a constant X factor over the entire length of the period for both Evoenergy's distribution and transmission networks. This allows for a relatively predictive price movement over the regulatory control period, and provides a stable trend moving forward. This approach smooths the revenues by allowing for a more gradual path for higher revenues over the 2019–24 regulatory control period.

Based on the X factors we have determined for Evoenergy, the differences between the expected revenue and ARR for 2023–24 are 3.0 per cent and 1.6 per cent for its distribution and transmission networks respectively. These divergences are within our target band of 3 per cent. Therefore, we consider that our profiles of X factors result in an expected revenue in the last year of the regulatory control period that is as close as

reasonably possible to the ARR for that year.[9] We will review this smoothing for the final decision.

1.4.2 Shared assets

Distributors, such as Evoenergy, may use assets to provide both the standard control services we regulate and other unregulated services. These assets are called 'shared assets'.[10] If the revenue from shared assets is material, ten per cent of the unregulated revenues that a distributor earns from shared assets will be used to reduce the distributor's revenue for standard control services.[11]

The shared asset principles establish that use of share assets should be material before cost reductions are applied.[12] The NER do not define materiality in this context. Our approach to what constitutes a material use of shared assets is that unregulated use of shared assets in a specific regulatory year is material when a distributor's annual average unregulated revenue from shared assets is expected to be greater than one per cent of its expected revenue for that regulatory year.[13]

Evoenergy submitted that its total revenue requirement is not subject to a shared asset adjustment because its forecast annual unregulated revenue from shared assets does not exceed the AER's materiality threshold.[14]

Evoenergy did not however provide these forecast unregulated revenues in its proposal. In response to an information request, Evoenergy submitted that it was still negotiating with various relevant entities and that it should be able to provide information on forecast unregulated revenue as part of its revised proposal.[15] Therefore, we have not applied a shared asset revenue adjustment for this draft decision but we will assess the materiality of Evoenergy's unregulated revenues as part of our final decision.

1.4.3 Indicative average distribution price impact

Our draft decision on Evoenergy's expected revenues ultimately affects the prices consumers pay for electricity. There are several steps required in translating our revenue decision into indicative distribution price impact.

We regulate Evoenergy's standard control services for its distribution and transmission networks under a revenue cap form of control. This means our draft decision on Evoenergy's expected revenues do not directly translate to price impacts. This is because Evoenergy's revenue is fixed under the revenue cap form of control, so

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9 NER, cl. 6.5.9(b)(2).

10 NER, cl. 6.4.4.

11 AER, *Shared asset guideline*, November 2013.

12 NER, cl. 6.4.4(c)(3).

13 AER, *Shared asset guideline*, November 2013, p. 8.

14 Evoenergy, *Regulatory proposal 2019–24 Attachment 12: Annual revenue requirement* January 2018, p. 12–3.

15 Evoenergy, *Response to IR#16*, 18 April 2018.

changes in the consumption of electricity will affect the prices ultimately charged to consumers.

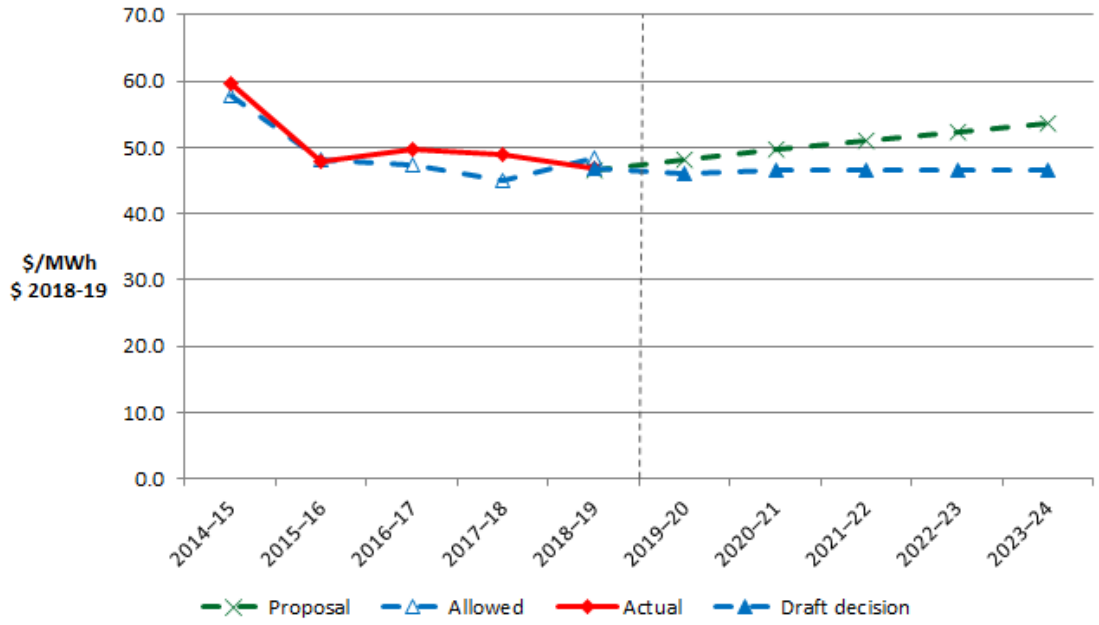
For Evoenergy's distribution network, we are not required to establish the distribution prices as part of this determination. However, we will assess Evoenergy's annual pricing proposals before the commencement of each regulatory year within the 2019–24 regulatory control period. In each assessment we will administer the pricing requirements set in this distribution determination.

For Evoenergy's transmission network, the charges are collected with regard to the entire transmission network across NSW/ACT because Evoenergy's dual function assets are a small, embedded component of the broader transmission network. TransGrid, which is the coordinating TNSP for this network region, establishes transmission charges and then provides Evoenergy with its portion of revenues.

For this draft decision, we have estimated some indicative average distribution and transmission price impacts flowing from our determination on the expected revenues for Evoenergy over the 2019–24 regulatory control period. In this section, our estimates only relate to standard control services (that is, the core electricity network charges), not alternative control services (such as metering charges). These indicative price impacts assume that actual energy consumption across the 2019–24 regulatory control period matches Evoenergy's forecast energy consumption, which we have adopted for this draft decision.

Figure 1.5 and Figure 1.6 show Evoenergy's indicative average price path over the period 2014–15 to 2023–24 in real 2018–19 dollar terms based on the expected revenues established in our draft decision compared to Evoenergy's proposed revenue requirement for its distribution and transmission networks respectively. The indicative price path is estimated using the approved expected revenue and dividing by forecast energy consumption for each year of the 2019–24 regulatory control period.

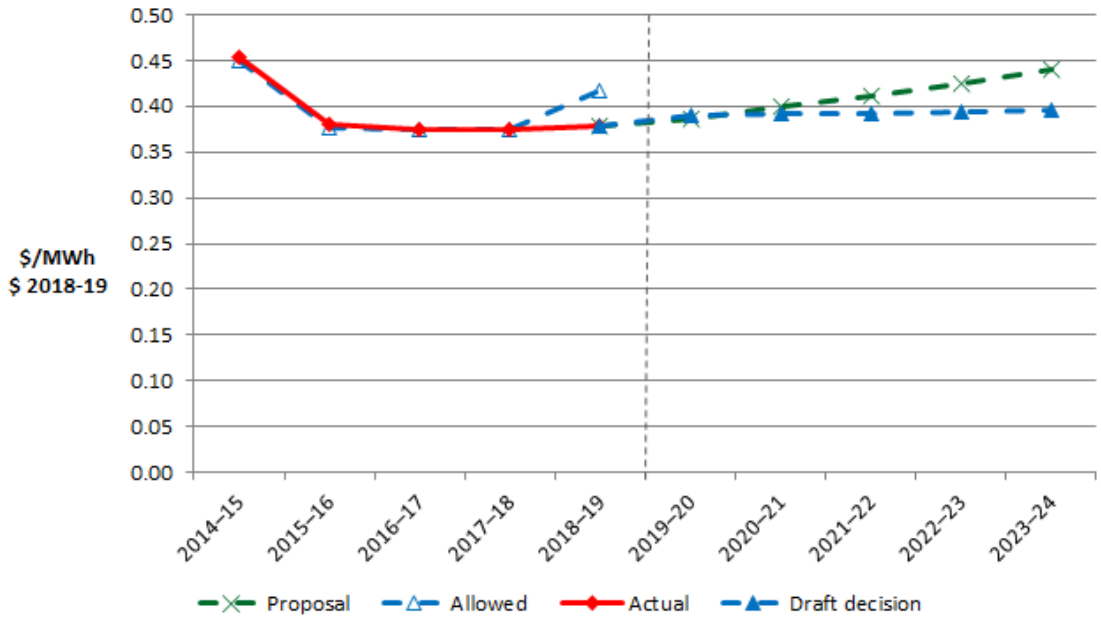
Figure 1.5 Indicative price path for Evoenergy – distribution ($/MWh, 2018–19)



Source: AER analysis.

Notes: The 'Allowed' and 'Actual' plots shown for the 2014–19 regulatory control period are calculated based on year 't' revenues. This is consistent with the 'Proposal' and 'Draft decision' plots for the 2019–24 regulatory control period. For pricing purposes, Evoenergy's distribution network operated under a revenue yield form of control for the 2014–19 regulatory control period which uses year 't-2' revenues.

Figure 1.6 Indicative price path for Evoenergy – transmission ($/MWh, 2018–19)



Source: AER analysis.

Notes: The price path plots for the transmission network are based on actual and forecast energy throughput amounts for TransGrid's transmission network across NSW/ACT. This reflects that Evoenergy's transmission network is a small, embedded component of the broader TransGrid transmission network.

We estimate that our draft decision on Evoenergy's annual expected revenue will result in a decrease to average network charges of about 0.1 per cent per annum for its distribution network and an increase to average network charges of about 0.9 per cent per annum for its transmission network over the 2019–24 regulatory control period in real 2018–19 dollar terms.[16] This compares to the real average increases of approximately 2.9 per cent and 3.1 per cent per annum proposed by Evoenergy over the 2019–24 regulatory control period for its distribution and transmission networks respectively.[17] These high-level estimates reflect the aggregate change across the entire network and do not reflect the particular tariff components for specific end users.

Table 1.6 and Table 1.7 display in nominal terms the comparison of the revenue and price impacts of Evoenergy's proposal and our draft decision for the distribution and transmission networks respectively.

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16 In nominal terms we estimate average network charges to increase by 2.3 and 3.4 per cent per annum for Evoenergy's distribution and transmission networks respectively. These amounts reflect an expected inflation rate of 2.45 per cent per annum as determined in this draft decision.

17 In nominal terms Evoenergy's proposal would increase network charges by 5.5 and 5.9 per cent per annum for its distribution and transmission networks respectively. This amount reflects an expected inflation rate of 2.50 per cent per annum as proposed by Evoenergy.

Table 1.6 Comparison of revenue and price impacts of Evoenergy's proposal and the AER's draft decision – distribution ($nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24
AER draft decision						
Revenue ($million)	136.1	137.7	141.9	146.3	150.8	155.4
Price path ($/MWh)[a]	47.0	47.3	48.9	50.0	51.4	52.7
Revenue (change)		1.2%	3.1%	3.1%	3.1%	3.1%
Price path (change)		0.6%	3.6%	2.2%	2.7%	2.6%
Evoenergy proposal						
Revenue ($million)	136.1	143.8	151.9	160.5	169.6	179.2
Price path ($/MWh)[a]	46.5	49.3	52.4	54.9	57.8	60.8
Revenue (change)		5.7%	5.7%	5.7%	5.7%	5.7%
Price path (change)		6.1%	6.2%	4.8%	5.3%	5.2%

Source: AER analysis.

(a) The price path is in nominal terms and is constructed by dividing nominal expected revenue for standard control services by forecast energy consumption for each year of the regulatory control period.

Table 1.7 Comparison of revenue and price impacts of Evoenergy's proposal and the AER's draft decision – transmission ($nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24
AER draft decision						
Revenue ($million)	25.0	26.5	27.2	27.9	28.5	29.2
Price path ($/MWh)[a]	0.38	0.40	0.41	0.42	0.43	0.45
Revenue (change)		6.3%	2.4%	2.4%	2.4%	2.4%
Price path (change)		5.9%	2.8%	2.6%	2.9%	2.7%
Evoenergy proposal						
Revenue ($million)	25.0	26.3	27.7	29.3	30.9	32.6
Price path ($/MWh)[a]	0.37	0.40	0.42	0.44	0.47	0.50
Revenue (change)		5.3%	5.5%	5.5%	5.5%	5.5%
Price path (change)		6.2%	5.8%	5.7%	5.9%	5.8%

Source: AER analysis.

(a) The price path is in nominal terms and is constructed by dividing nominal expected revenue for standard control services by forecast energy consumption for each year of the regulatory control period.

1.4.4 Expected impact of decision on electricity bills

The annual electricity bill for customers in the ACT will reflect the combined cost of all the electricity supply chain components—wholesale energy generation, transmission, distribution, metering, and retail costs. Our analysis is based on our calculation of Evoenergy's:

- distribution network charges, which are forecast to represent about 24.7 per cent of the average Evoenergy customer retail bill in 2018–19 [18]
- transmission network charges, which are forecast to represent an average of 0.1 per cent of the average Evoenergy customer retail bill in 2018–19.[19]

We estimate the expected bill impact by varying the distribution and transmission network charges in accordance with our draft decision, while holding all other components—including the metering component—constant. This approach isolates the effect of our draft decision on the core distribution and transmission network charges, and does not imply that other components will remain unchanged across the regulatory control period.[20]

Based on this approach, we expect that our draft decision will increase the average annual electricity bills for residential customers in the ACT. The networks component of the average annual residential electricity bill in 2023–24 is expected to increase by about $61 ($ nominal) from the 2018–19 level. This equates to a 3.0 per cent increase in the average customer's total bill over five years.

By comparison, had we accepted Evoenergy's proposal, the expected networks component of the average annual residential electricity bill in 2023–24 would increase by about $153 from the 2018–19 level. This equates to a 7.6 per cent increase in the average customer's total bill over five years.

Our estimate of the potential impact our draft decision will have for Evoenergy's residential customers is based on an average annual electricity usage of 8000 kWh per annum for a residential customer in the ACT.[21] Therefore, customers with different usage will experience different changes in their bills. We also note that there are other

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18 AEMC, *Residential electricity price trends report 2017 – Australian Capital Territory,* 18 December 2017

19 Bill data in the AEMC's *Residential electricity price trends report 2017 – Australian Capital Territory* yields a 2018–19 transmission bill proportion of 4.4 per cent for ACT customers and this is based on total transmission revenue collected across NSW/ACT (TransGrid, Ausgrid, Directlink and Evoenergy). Our adopted bill proportion percentage for Evoenergy's transmission network charges is the approved 2018–19 forecast transmission network revenue for Evoenergy divided by the total forecast 2018–19 transmission revenue for NSW/ACT multiplied by the AEMC's transmission bill proportion of 4.4 per cent. AEMC, *Residential electricity price trends report 2017 – Australian Capital Territory,* 18 December 2017

20 It also assumes that actual energy consumption will equal the forecast adopted in our draft decision. Since Evoenergy operates under a revenue cap, changes in energy consumption will also affect annual electricity bills across the 2019–24 regulatory control period.

21 Independent competition and regulatory commission (ICRC), *Standing offer prices for the supply of electricity to small customers from 1 July 2017 – Final Report*, June 2017. This usage amount is consistent with Evoenergy's, *Reset RIN template* submitted as part of its proposal.

factors, such as metering costs, other transmission network costs, wholesale and retail costs, which affect electricity bills.

Similarly, for an average small business customer in the ACT that uses approximately 25000 kWh of electricity per annum,[22] our draft decision for Evoenergy is expected to lead to higher average annual electricity bills. The networks component of the average annual small business electricity bill in 2023–24 is expected to increase by about $213 from the 2018–19 level. This equates to a 3.0 per cent increase in the average customer's total bill over five years.

By comparison, had we accepted Evoenergy's proposal, the expected networks component of the average annual small business electricity bill in 2023–24 would increase by about $533 from the 2018–19 level. This equates to a 7.6 per cent increase in the average customer's total bill over five years.

Table 1.8 shows the estimated annual average impact of our draft decision for the 2019–24 regulatory control period and Evoenergy's proposal on the average residential and small business customers' annual electricity bills in the ACT. As explained above, these bill impact estimates are indicative only, and individual customers' actual bills will depend on their usage patterns and the structure of their tariffs.

[22] Independent competition and regulatory commission (ICRC), *Standing offer prices for the supply of electricity to small customers from 1 July 2017 – Final Report*, June 2017. This usage amount is consistent with Evoenergy's, *Reset RIN template* submitted as part of its proposal.

Table 1.8 Estimated impact of Evoenergy's proposal and the AER's draft decision on average annual electricity bills for the 2019–24 regulatory control period ($ nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24
AER draft decision						
Residential annual bill[a]	2012	2015	2033	2044	2059	2073
Annual change[c]		3 (0.2%)	18 (0.9%)	11 (0.6%)	15 (0.7%)	14 (0.7%)
Small business annual bill[b]	6993	7004	7066	7106	7156	7206
Annual change[c]		11 (0.2%)	62 (0.9%)	39 (0.6%)	51 (0.7%)	49 (0.7%)
Evoenergy proposal						
Residential annual bill[a]	2012	2043	2075	2102	2133	2165
Annual change[c]		31 (1.5%)	33 (1.6%)	27 (1.3%)	31 (1.5%)	32 (1.5%)
Small business annual bill[b]	6993	7099	7213	7306	7415	7526
Annual change[c]		106 (1.5%)	113 (1.6%)	93 (1.3%)	109 (1.5%)	112 (1.5%)

Source: AER analysis; AER, Energy Made Easy website; AEMC, *Residential electricity price trends report 2017 – Australian Capital Territory*; ICRC *Standing offer prices for the supply of electricity to small customers from 1 July 2017 – Final Report*

(a) Annual bill for 2018–19 is sourced from Energy Made Easy website and reflects the average consumption of 8000 kWh for residential customers using single rate tariffs in ACT (postcode 2600).

(b) Annual bill for 2018–19 is sourced from Energy Made Easy website and reflects the average consumption of 25000 kWh for small business customers using single rate tariffs in ACT (postcode 2600).

(c) Annual change amounts and percentages are indicative. They are derived by varying the networks component of the 2018–19 bill amounts in proportion to yearly expected revenue divided by AEMO's forecast energy delivered for NSW/ACT for transmission and forecast energy for distribution as proposed by Evoenergy. Actual bill impacts will vary depending on electricity consumption and tariff class.