

 FINAL DECISION

Endeavour Energy distribution determination

 2015−16 to 2018−19

Attachment 1 – Annual revenue requirement

April 2015

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1. Note
2. This attachment forms part of the AER's final decision on Endeavour Energy’s regulatory proposal 2015–19. It should be read with other parts of the final decision.
3. The final decision includes the following documents:
4. Overview

Attachment 1 - Annual revenue requirement

Attachment 2 - Regulatory asset base

Attachment 3 - Rate of return

Attachment 4 - Value of imputation credits

Attachment 5 - Regulatory depreciation

Attachment 6 - Capital expenditure

Attachment 7 - Operating expenditure

Attachment 8 - Corporate income tax

Attachment 9 - Efficiency benefit sharing scheme

Attachment 10 - Capital expenditure sharing scheme

Attachment 11 - Service target performance incentive scheme

Attachment 12 - Demand management incentive scheme

Attachment 13 - Classification of services

Attachment 14 - Control mechanism

Attachment 15 - Pass through events

Attachment 16 - Alternative control services

Attachment 17 - Negotiated services framework and criteria

Attachment 18 - Connection policy

Attachment 19 - Analysis of financial viability

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1. Shortened forms

| 1. Shortened form
 | 1. Extended form
 |
| --- | --- |
| 1. ACS
 | 1. alternative control services
 |
| 1. AEMC
 | 1. Australian Energy Market Commission
 |
| 1. AEMO
 | 1. Australian Energy Market Operator
 |
| 1. AER
 | 1. Australian Energy Regulator
 |
| 1. ANS
 | 1. ancillary network services
 |
| 1. ARR
 | 1. annual revenue requirement
 |
| 1. augex
 | 1. augmentation expenditure
 |
| 1. capex
 | 1. capital expenditure
 |
| 1. CCP
 | 1. Consumer Challenge Panel
 |
| 1. CESS
 | 1. capital expenditure sharing scheme
 |
| 1. CPI
 | 1. consumer price index
 |
| 1. DRP
 | 1. debt risk premium
 |
| 1. DMIA
 | 1. demand management innovation allowance
 |
| 1. DMIS
 | 1. demand management incentive scheme
 |
| 1. distributor
 | 1. distribution network service provider
 |
| 1. DUoS
 | 1. distribution use of system
 |
| 1. EBSS
 | 1. efficiency benefit sharing scheme
 |
| 1. ERP
 | 1. equity risk premium
 |
| 1. Expenditure Assessment Guideline
 | 1. expenditure forecast assessment Guideline for electricity distribution
 |
| 1. F&A
 | 1. framework and approach
 |
| 1. MRP
 | 1. market risk premium
 |
| 1. NEL
 | 1. national electricity law
 |
| 1. NEM
 | 1. national electricity market
 |
| 1. NEO
 | 1. national electricity objective
 |
| 1. NER
 | 1. national electricity rules
 |
| 1. NSP
 | 1. network service provider
 |
| 1. opex
 | 1. operating expenditure
 |
| 1. PPI
 | 1. partial performance indicators
 |
| 1. PTRM
 | 1. post-tax revenue model
 |
| 1. RAB
 | 1. regulatory asset base
 |
| 1. RBA
 | 1. Reserve Bank of Australia
 |
| 1. repex
 | 1. replacement expenditure
 |
| 1. RFM
 | 1. roll forward model
 |
| 1. RIN
 | 1. regulatory information notice
 |
| 1. RPP
 | 1. revenue and pricing principles
 |
| 1. SAIDI
 | 1. system average interruption duration index
 |
| 1. SAIFI
 | 1. system average interruption frequency index
 |
| 1. SLCAPM
 | 1. Sharpe-Lintner capital asset pricing model
 |
| 1. STPIS
 | 1. service target performance incentive scheme
 |
| 1. WACC
 | 1. weighted average cost of capital
 |

# Annual revenue requirement

1. The annual revenue requirement (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 Endeavour Energy will target for annual pricing purposes and recover from customers for the provision of standard control services for each year of the regulatory control period. This attachment sets out our final decision on Endeavour Energy's ARRs for the 2014–19 period and expected revenues for the 2015–19 regulatory control period. We consider these two periods to account for the 2014–15 transitional year that was set out in the transitional rules.

## Final decision

1. We do not accept Endeavour Energy's revised proposed total revenue requirement[[1]](#footnote-1) of $5355.0 million ($ nominal) over the 2014–19 period. This is because we have not accepted the building block costs that Endeavour Energy proposed in its revised proposal. We determine a total revenue requirement for Endeavour Energy of $4158.2 million ($ nominal) for the 2014–19 period. This is a reduction of $1196.9 million ($ nominal) or 22.4 per cent to Endeavour Energy's revised proposal and reflects the impact of our final decisions on the various building block costs.
2. We approved in our transitional determination the placeholder revenue for 2014–15 of $949.5 million for Endeavour Energy.[[2]](#footnote-2) Under the transitional rules, we are required to determine the ARR for 2014–15 as part of this full determination process and do a true-up for the difference between the placeholder revenue and the ARR. We have now determined the ARR for 2014–15 of $858.6 million for Endeavour Energy. The difference is therefore $90.9 million. We have applied this difference as part of the smoothing process to establish the annual expected revenue for the 2015–19 regulatory control period.
3. As a result of our smoothing of the ARRs, our final decision on the annual expected revenue and X factor for each regulatory year of the 2015–19 regulatory control period is set out in Table 1.1. Our final decision is to approve total expected revenues (smoothed) of $3182.8 million ($ nominal) for the 2015–19 regulatory control period.[[3]](#footnote-3)
4. Figure 1.1 shows the difference between Endeavour Energy's revised proposal and our decision (draft and final).

Figure 1.1 AER's final decision on Endeavour Energy's revenues for the 2014–19 period ($million, nominal)

1. 

Source: AER analysis; Endeavour Energy, Regulatory proposal, May 2014, Attachment 4.02; Endeavour Energy, Revised regulatory proposal, January 2015, Attachment 4.01.

1. Table 1.1 shows our final decision on the building block costs, the ARR, annual expected revenue and X factor for each year of the 2014–19 period.

Table 1.1 AER's final decision on Endeavour Energy's revenues for the 2014–19 period ($million, nominal)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   | 2014–15 | 2015–16 | 2016–17 | 2017–18 | 2018–19 | Total |
| Return on capital | 376.4 | 397.1 | 415.7 | 430.4 | 444.8 | 2064.4 |
| Regulatory depreciation | 69.3 | 78.9 | 89.7 | 93.8 | 100.0 | 431.7 |
| Operating expenditure | 244.3 | 254.1 | 264.4 | 275.3 | 287.3 | 1325.4 |
| Revenue adjustmentsa | 81.8 | 13.2 | 27.4 | -24.4 | 0.7 | 98.7 |
| Net tax allowance | 36.2 | 34.7 | 38.7 | 38.3 | 39.5 | 187.4 |
| Metering and ANS costsb | 50.5 | n/a | n/a | n/a | n/a | 50.5 |
| Annual revenue requirement (unsmoothed) | 858.6 | 778.0 | 835.9 | 813.4 | 872.2 | 4158.2 |
| **Annual expected revenue (smoothed)** | **949.5** | **804.0** | **798.5** | **792.9** | **787.5** | **4132.3** |
| X factorc | n/ad | 17.29% | 3.00% | 3.00% | 3.00% | n/a |

Source: AER analysis.

(a) Revenue adjustments include efficiency benefit sharing scheme carry-overs and forecast DMIA.

(b) These are the efficient total costs of metering and ancillary network services as determined by the AER. In the draft decision we included only the net costs of ACS (that is, the total ACS costs less revenues of $9.6 million recovered through separate charges for 2014–15). For the final decision we included the total ACS costs consistent with Endeavour Energy's revised proposal.

(c) The X factor from 2016–17 to 2018–19 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.

(d) In our transitional decision, we determined the placeholder revenue for 2014–15. In this final decision to update the 2014–15 revenue for our assessment of efficient costs we determined X factors for the final four years of the 2014–19 period. This is to adjust Endeavour Energy's total revenue requirement for the
2015–19 regulatory control period for the difference between the placeholder revenue and our decision on Endeavour Energy's efficient costs for 2014–15.

## Endeavour Energy’s revised proposal

1. Endeavour Energy's revised proposal included a total revenue requirement of $5355.0 million ($ nominal) for the 2014–19 period.
2. Table 1.2 shows Endeavour Energy's revised proposed building block cost, the ARR, expected revenue and X factor for each year of the 2014–19 period.

Table 1.2 Endeavour Energy's revised proposed revenues for the
2014–19 period ($million, nominal)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   | 2014–15 | 2015–16 | 2016–17 | 2017–18 | 2018–19 | Total |
| Return on capital | 493.8 | 526.7 | 552.4 | 572.9 | 529.8 | 2738.6 |
| Regulatory depreciationa | 62.8 | 72.2 | 82.8 | 86.7 | 92.9 | 397.4 |
| Operating expenditure | 300.7 | 322.0 | 322.2 | 325.8 | 329.7 | 1600.4 |
| Revenue adjustmentsb | 98.7 | 30.7 | 42.8 | 34.6 | 0.0 | 206.9 |
| Net tax allowance | 65.9 | 65.2 | 71.7 | 72.0 | 74.5 | 349.2 |
| Meters and ANS costsc | 62.5 | n/a | n/a | n/a | n/a | 62.5 |
| Annual revenue requirement (unsmoothed) | 1084.4 | 1016.8 | 1071.8 | 1092.1 | 1090.0 | 5355.0 |
| **Annual expected revenue (smoothed)** | **949.5** | **1058.6** | **1092.2** | **1123.5** | **1167.1** | **5390.8** |
| X factor | 8.74% | –8.78% | –0.65% | –0.36% | –1.35% | n/a |

Source: Endeavour Energy, Revised regulatory proposal, January 2015, Attachment 4.01a.

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

(b) Revenue adjustments include proposed efficiency benefit sharing scheme carry-overs, DMIA carry-overs and forecast DMIA.

(c) These are the total costs of metering and ancillary network services.

## AER’s assessment approach

We did not change our assessment approach for the ARR from our draft decision. Section 1.3 of our draft decision details that approach. As noted in the draft decision, we have reviewed our revenue smoothing for the final decision and this is discussed further in section 1.4.2.

## Reasons for final decision

1. For this final decision, we determine a total revenue requirement of $4158.2 million ($ nominal) for Endeavour Energy over the 2014–19 period. This is $1196.9 million ($ nominal) or 22.4 per cent below Endeavour Energy's revised proposal and reflects the impact of our final decision on the various building block costs. Figure 1.2 shows the difference between Endeavour Energy's revised proposed ARRs and our final decision.

Figure 1.2 AER's final decision and Endeavour Energy's revised proposed annual revenue requirement ($million, nominal)

1. 

Source: AER analysis; Endeavour Energy, Revised regulatory proposal, January 2015, Attachment 4.01.

The most significant changes to Endeavour Energy's revised proposal include: a reduction to the rate of return of 2.1 per cent for 2014–15 and 2.2 per cent for 2015–19 (attachment 3), and a reduction in the opex allowance of 16.9 per cent (attachment 7).

### Revenue true-up for transitional year

1. The five regulatory years for 2014–19 are split over two regulatory control periods due to the transitional rules. There is a 'transitional regulatory control period' for 2014–15, and a 'subsequent regulatory control period' for 2015–19.[[4]](#footnote-4) We are required to make both a decision on the transitional placeholder revenue for 2014–15 and then a decision on the revenues for the full 2014–19 period.[[5]](#footnote-5)
2. In April 2014, as required under the transitional rules, we conducted a high level review of Endeavour Energy's proposed revenue requirement for its transitional regulatory control period (2014–15). We determined a placeholder revenue allowance of $949.5 million ($ nominal)[[6]](#footnote-6) for Endeavour Energy in the transitional determination.[[7]](#footnote-7) This revenue includes all costs associated with standard control services, including type 5 and 6 metering services and ancillary network services (ANS) which were re-classified from standard control services to alternative control services (ACS) as at 1 July 2014. The transitional rules[[8]](#footnote-8) prevented the reallocation of type 5 and 6 and ANS costs in 2014–15 despite the change in classification from standard control services to alternative control services as at 1 July 2014.[[9]](#footnote-9)
3. In our draft decision, we made a full regulatory determination for the years 2015–16 to 2018–19 for Endeavour Energy, and we accounted for any true-up related to the transitional regulatory control period (2014–15). As part of this, we are required to determine ARRs for each year of the five year period (2014–19) and use a net present value (NPV) neutral true-up mechanism to account for any difference between:[[10]](#footnote-10)
* the placeholder revenue for the transitional regulatory control period, and
* the ARR for 2014–15 that is established through the full determination process.
1. Endeavour Energy's revised proposal adopted our approach for the true-up.
2. In its submission to the draft decision, AGL opposed including opex in the 2014–15 true-up. AGL considered it punitive to include opex in the true-up because these businesses have little control over the 2014–15 opex at this point in time.[[11]](#footnote-11) We consider that the transitional rules require a true-up to be performed for the difference between the revenue determined in this full determination and the placeholder revenue for the transitional year.[[12]](#footnote-12) This requires us to include our final decision on the opex allowance for 2014–15 as part of our true-up.
3. Our final decision approves the 2014–15 ARR of $858.6 million for Endeavour Energy. The ARR for 2014–15 includes our forecasts of efficient costs associated with standard control services. It also includes the costs associated with type 5 and 6 metering services and ANS consistent with the transitional rules.[[13]](#footnote-13) We do not accept Endeavour Energy's revised proposed costs of $62.5 million associated with these services. Our final decision is to include a value of $50.5 million for the costs associated with these services.[[14]](#footnote-14) The difference reflects our determination of efficient costs associated with providing these services. Therefore, the difference between the ARR ($858.6 million) and the placeholder revenue ($949.5 million) should be returned to customers.
4. To give effect to the true-up, we have set Endeavour Energy's first year expected revenue in the PTRM equal to the AER approved placeholder revenue for 2014–15 of $949.5 million. This is the only practical option as prices were set for 2014–15 based on this approved placeholder amount. However, this practicality also means that the difference in the revenues for 2014–15 between the transitional and full determinations will need to be accounted for in the 2015–19 regulatory control period. That is, the placeholder revenue for 2014–15 established from the transitional determination provides a base from which the expected revenues (smoothed) for the remaining four years of the 2014–19 period are calculated. This is done through the determination of the X factors for each of the remaining years in that period.[[15]](#footnote-15) This gives effect to the true-up requirements under the NER and ensures that the difference of $90.9 million is returned to customers over the 2015–19 regulatory control period (adjusted for the time value of money).

### Smoothing of revenues

1. The smoothing profile of revenues has been impacted significantly by the shortened subsequent regulatory control period, the requirement for a true-up of the 2014–15 placeholder revenue, and the removal of metering and ANS costs from standard control services from 1 July 2015. The true-up for 2014–15 and the removal of metering and ANS costs from standard control services have significant impacts on the decrease in revenues from 2014–15 to 2015–16.
2. The NSW service providers submitted that the draft decision smoothing profile did not provide them with the appropriate opportunity to improve tariff efficiency and equity without imposing price shocks. The submission suggested a smoothing profile that applied a staged reduction in revenues to achieve the significant reductions in revenues.[[16]](#footnote-16) This concern was repeated in Endeavour Energy's revised proposal.[[17]](#footnote-17)
3. For this final decision, the expected revenue in the last year of the regulatory control period is not required to be as close as reasonably possible to the ARR for that year, due to the transitional provisions.[[18]](#footnote-18) Typically, we would target a divergence of less than 3 per cent between the expected revenue and ARR for the last year of the regulatory control period, if this can promote smoother price changes over the regulatory control period. However, as a result of the shortened regulatory control period, the required true-up for 2014–15, and that metering and ANS costs are removed from standard control services from 1 July 2015, we consider that our final decision X factors results in a revenue profile that is reasonable and reflects the NSW service providers' preferred smoothing profile outlined in their submission. We have allowed the difference between smoothed and unsmoothed revenues in the last year of the 2014–19 period to diverge more than would be usual. This approach smooths the revenues further than in the draft decision and allows for a more gradual path for lower revenues over the 2014–19 period.
4. Our final decision smoothing profile results in a difference between the expected revenue and ARR for 2018–19 of around 10 per cent.[[19]](#footnote-19) While this divergence is significant, the smoothing avoids the situation of a larger price decrease in 2015–16 followed by significant price increases for the remaining three years of the regulatory control period.

Table 1.3 shows the expected revenues (smoothed) of Endeavour Energy's revised proposal and our final decision expected revenues (smoothed). Both use the 2014–15 placeholder revenue as a base to account for the true-up.

Table 1.3 Endeavour Energy's revised proposal and AER's final decision smoothed expected revenues for the 2014–19 period ($ million, nominal)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|   | 2014–15 | 2015–16 | 2016–17 | 2017–18 | 2018–19 |
| Endeavour Energy's revised proposal  | 949.5 | 1058.6 | 1092.2 | 1123.5 | 1167.1 |
| X factor | n/a | –8.78% | –0.65% | –0.36% | –1.35% |
| AER final decision  | 949.5 | 804.0 | 798.5 | 792.9 | 787.5 |
| X factor | n/a | 17.29% | 3.00% | 3.00% | 3.00% |

Source: Endeavour Energy, Revised regulatory proposal, January 2015, Attachment 4.01a.; AER analysis.

### Shared assets

1. In the draft decision, we considered that Endeavour Energy's forecast shared asset unregulated revenues do not meet the minimum threshold for adjustments to be made to its ARR.[[20]](#footnote-20) We continue to maintain this view. Our final decision is therefore consistent with our draft decision.

### Indicative average distribution price impact

1. Our final decision on Endeavour Energy's expected revenues ultimately affects the prices consumers pay for electricity. Because we are regulating Endeavour Energy's standard control services under a revenue cap, the adjustments that we have made to Endeavour Energy's expected revenues do not directly translate to price impacts. This is because Endeavour Energy's revenue is fixed under the revenue cap form of control, so changes in the consumption of electricity will affect the prices ultimately charged to consumers. We are not required to establish the distribution prices for Endeavour Energy as part of this determination. However, we will assess Endeavour Energy's annual pricing proposals before the commencement of each regulatory year for the 2015–19 regulatory control period based to administer the pricing requirements of this distribution determination.
2. Endeavour Energy's revised proposal criticised our draft decision representation of its proposed price impacts. It indicated that we misrepresented its initial proposal's indicative prices by adjusting it to give effect to the true-up required for the placeholder revenue.[[21]](#footnote-21) We consider that this adjustment was necessary to allow comparison with our draft decision on a like-for-like basis, which accounted for the transitional year true-up. Endeavour Energy's initial proposal did not account for the transitional year true-up. Therefore, Endeavour Energy's initial proposal did not present the proper price path which must account for the true-up. For this final decision a similar adjustment is not required because Endeavour Energy's revised proposal adopted our draft decision true-up approach.
3. For this final decision, we have estimated some indicative average distribution price impacts flowing from our determination on the expected revenues for Endeavour Energy over the 2014–19 period. Figure 1.3 shows Endeavour Energy’s indicative price path based on the expected revenues established in our final decision compared to its revised proposed revenue requirement. We used data on price changes provided by Endeavour Energy in response to an information request,[[22]](#footnote-22) which appeared to be consistent with price cap calculations. We have adopted the data to determine the movement in overall prices. For presentational purposes, the prices are scaled so that the price index begins at 1.0 in 2013–14. This index provides a simple overall measure of the relative movement in expected distribution prices over the 2014–19 period.

Figure 1.3 AER's final decision and Endeavour Energy's revised proposed indicative price path (nominal price index)



Source: AER analysis; Endeavour Energy, Regulatory proposal, May 2014, Attachment 4.02; Endeavour Energy, Revised regulatory proposal, January 2015, Attachment 4.01; Endeavour Energy, Response to Information Request 'AER Endeavour Energy 048', 5 March 2015.

Notes: The nominal price index is calculated by the AER based on the indicative weighted average price changes and the demand forecasts provided by Endeavour Energy, and adjusting for the change in overall revenue substituted by the AER.

1. We estimate that our final decision on Endeavour Energy's annual expected revenue will result in a decrease to average distribution charges by about 5.3 per cent per annum over the 2014–19 period in nominal terms. This amount includes a forecast inflation rate of 2.38 per cent per annum. In real terms we estimate average distribution charges to decline by 7.5 per cent per annum. This compares to a decline of 0.1 per cent per annum proposed by Endeavour Energy (based on Endeavour Energy's proposed forecast inflation rate of 2.50 per cent per annum). Our transitional determination resulted in an expected reduction in distribution charges of about 6.0 per cent in 2014–15. We estimate that our final decision will further reduce distribution charges by another 14.2 per cent in 2015–16, followed by decreases of about 2.0 per cent per annum from 2016–17 to 2018–19. This compares to the nominal increase of approximately 12.9 per cent in 2015–16, followed by increases of 2.0 per cent per annum from 2016–17 to 2018–19 in Endeavour Energy's revised proposal.
2. Table 1.4 displays the comparison of the price impacts of Endeavour Energy’s revised proposal and our final decision revenue allowance.

Table 1.4 Comparison of revenue and price impacts of Endeavour Energy’s revised proposal and AER's final decision

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|   | 2013–14 | 2014–15 | 2015–16 | 2016–17 | 2017–18 | 2018–19 |
| **Endeavour Energy revised proposal** |  |  |  |  |  |
| Revenue ($m, nominal) | 1015.0 | 949.5 | 1058.6 | 1092.2 | 1123.5 | 1167.1 |
| Price path (nominal index) | 1.00 | 0.94 | 1.06 | 1.08 | 1.10 | 1.13 |
| Revenue (change %) |   | –6.5% | 11.5% | 3.2% | 2.9% | 3.9% |
| Price path (change %) |   | –6.0% | 12.9% | 2.0% | 2.0% | 2.0% |
| **AER final decision** |  |  |  |  |  |  |
| Revenue ($m, nominal) | 1015.0 | 949.5 | 804.0 | 798.5 | 792.9 | 787.5 |
| Price path (nominal index) | 1.00 | 0.94 | 0.81 | 0.79 | 0.78 | 0.76 |
| Revenue (change %) |   | –6.5% | –15.3% | –0.7% | –0.7% | –0.7% |
| Price path (change %) |   | –6.0% | –14.2% | –1.8% | –1.5% | –2.5% |

Source: AER analysis.

1. Distribution charges represent approximately 39 per cent on average of Endeavour Energy's typical customer's annual electricity bill.[[23]](#footnote-23) We expect that our final decision, holding all other components of the bill constant, will reduce the average annual electricity bills for residential customers in Endeavour Energy's network. This is because we estimate that our final decision will result in lower distribution charges on average over the 2014–19 period compared to Endeavour Energy's revised proposal as discussed above.
2. Based on the lower distribution charges from our transitional determination passing through to customers, we estimate the average annual electricity bill for Endeavour Energy's residential customers could be expected to reduce by about $48 or 2.3 per cent ($ nominal) in 2014–15. Based on the distribution charges from our final decision passing through to customers, we would expect the average annual electricity bill for residential customers to reduce by a further $106 or 5.3 per cent in 2015–16. This would be followed by reductions of between $10 and $15 (0.5 per cent and 0.8 per cent) per annum from 2016–17 to 2018–19. By comparison, had we accepted Endeavour Energy's revised proposal, the average annual electricity bill for residential customers would increase by $96 or 4.9 per cent in 2015–16. This would be followed by increases of $17 (0.8 per cent) per annum between 2016–17 to 2018–19.
3. Our estimate of the potential impact our final decision will have for Endeavour Energy's residential customers is based on the typical annual electricity usage of 6500 kWh per annum for a residential customer in NSW.[[24]](#footnote-24) Customers with different usage will experience different changes in their bills. We also note that there are other factors, such as transmission network costs, wholesale and retail costs, which affect electricity bills.
4. Similarly, for an average small business customer in NSW that uses approximately 10 MWh of electricity per annum, our final decision for Endeavour Energy is expected to lead to lower average annual electricity bills. We estimate that based on the lower distribution charges arising from our transitional determination passing through to customers, the average annual electricity bill for small business customers in Endeavour Energy's network could be expected to reduce by about $68 or 2.3 per cent ($ nominal) in 2014–15. Based on the distribution charges from our final decision passing through to customers, we would expect the average annual electricity bills for small business customers to reduce by a further $152 or 5.3 per cent in 2015–16. This would be followed by reductions of between $14 and $22 (0.5 per cent and 0.8 per cent) per annum from 2016–17 to 2018–19. By comparison, had we accepted Endeavour Energy's revised proposal, the average annual electricity bill for small business customers would increase by $138 or 4.9 per cent in 2015–16. This would be followed by increases of about $24 (0.8 per cent) per annum between 2016–17 and 2018–19.
5. Table 1.5 shows the estimated average annual impact of our final decision for the 2014–19 period and Endeavour Energy's revised proposal on the average residential and small business customers' annual electricity bills.

Table 1. Estimated impact of Endeavour Energy’s revised proposal and AER's final decision on annual electricity bills for the 2014–19 period ($ nominal)

|   | 2013–14 | 2014–15 | 2015–16 | 2016–17 | 2017–18 | 2018–19 |
| --- | --- | --- | --- | --- | --- | --- |
| **Endeavour Energy proposal** |  |  |  |  |  |
| Residential annual billa | 2026 | 1978 | 2075 | 2091 | 2108 | 2126 |
| Annual change |   | –48 (–2.3%) | 96 (4.9%) | 17 (0.8%) | 17 (0.8%) | 17 (0.8%) |
| Small business annual billb | 2909 | 2841 | 2979 | 3003 | 3027 | 3052 |
| Annual change |   | –68 (–2.3%) | 138 (4.9%) | 24 (0.8%) | 24 (0.8%) | 25 (0.8%) |
| **AER final decision** |   |   |   |   |   |   |
| Residential annual billa | 2026 | 1978 | 1873 | 1861 | 1852 | 1836 |
| Annual change |   | –48 (–2.3%) | –106 (–5.3%) | –12 (–0.6%) | –10 (–0.5%) | –15 (–0.8%) |
| Small business annual billb | 2909 | 2841 | 2689 | 2672 | 2659 | 2636 |
| Annual change |   | –68 (–2.3%) | –152 (–5.3%) | –17 (–0.6%) | –14 (–0.5%) | –22 (–0.8%) |

 Source: AER analysis; AER[, Energy Made Easy](http://www.energymadeeasy.gov.au); IPART, Final report: Review of regulated retail prices for electricity - from 1 July 2013 to 30 June 2016, June 2013, p. 5.

(a) Based on the annual bill for a typical consumption of 6500 kWh per year during the period 1 July 2013 to 30 June 2014. The bills reflect regulated price only. Sample postcode: 2500.

(b) Based on the annual bill sourced from [Energy Made Easy](http://energymadeeasy.gov.au) for a typical consumption of 10000 kWh per year during the period 1 July 2013 to 30 June 2014. The bills reflect regulated price only. Sample postcode: 2500.

1. This is referred to in the transitional rules as a 'notional' revenue requirement. We have adopted the standard terminology in chapter 6 to avoid confusion, but it still gives effect to the transitional rules. [↑](#footnote-ref-1)
2. This is the amount determined in our transitional decision for 2014–15, see AER, Ausgrid Endeavour Energy Essential Energy ActewAGL, Transitional distribution decision 2014–15, April 2014, pp. 28-29. [↑](#footnote-ref-2)
3. Our smoothing involves a 'true-up' for the 2014–15 (transitional regulatory control period) placeholder revenue as required under clauses 11.56.4(h) and (i) of the NER. [↑](#footnote-ref-3)
4. NER cl. 11.55.1. [↑](#footnote-ref-4)
5. NER cll 11.56.1 and 11.56.4. [↑](#footnote-ref-5)
6. AER, Ausgrid Endeavour Energy Essential Energy ActewAGL, Transitional distribution decision 2014–15, April 2014, p. 17.  [↑](#footnote-ref-6)
7. In the draft decision we used a value of $939.9 million as the placeholder amount for 2014–15. This amount included only the net costs of ACS (that is, the total ACS cost less revenues of $9.6 million recovered through separate charges for 2014–15). In its revised proposal Endeavour Energy included the total ACS costs for 2014–15 and therefore included the placeholder decision revenue of $949.5 million. Both approaches achieve the same outcome, so we accept Endeavour Energy proposed approach to making the true-up for 2014–15. [↑](#footnote-ref-7)
8. NER, cll 11.56.3(a)(1) and 11.56.3(i). [↑](#footnote-ref-8)
9. AER, Stage 2 Framework and Approach – NSW Distributors, January 2014, p. 40. [↑](#footnote-ref-9)
10. NER, cl 11.56.4(h)-(i). [↑](#footnote-ref-10)
11. AGL, Submission on NSW DNSPs draft decision, 15 February 2015, p. 3. [↑](#footnote-ref-11)
12. NER, cl 11.56.4(h)-(i). [↑](#footnote-ref-12)
13. NER, cl 11.55.3(i). [↑](#footnote-ref-13)
14. Refer to attachment 16 – Alternative control services for further details. [↑](#footnote-ref-14)
15. The X factors represent the rate of change in the real revenue path over the 2014–19 period under the CPI–X framework. They must equalise (in net present value terms) the total expected revenues to be earned by the service provider with the total revenue requirement for that period. [↑](#footnote-ref-15)
16. Networks NSW, NSW DNSP's submission on the AER's draft determinations, 13 February 2015, pp. 7–8. [↑](#footnote-ref-16)
17. Endeavour Energy, Revised regulatory proposal, January 2015, pp. 80–81. [↑](#footnote-ref-17)
18. NER, cl 11.56.4(c). [↑](#footnote-ref-18)
19. Clause 11.56.4(c) of the NER removes the requirement under cl. 6.5.9(b)(2) of the NER, that the X factors be set to minimise the variance, as far as reasonably possible, between expected revenue and ARR of the last regulatory year of the regulatory control period . [↑](#footnote-ref-19)
20. AER, Draft decision Endeavour Energy distribution determination – Attachment 1 – Annual revenue requirement, November 2014, pp. 17–18 [↑](#footnote-ref-20)
21. Endeavour Energy, Revised regulatory proposal, January 2015, pp. 80–81. [↑](#footnote-ref-21)
22. Endeavour Energy, Response to Information Request 'AER Endeavour Energy 048', 5 March 2015. [↑](#footnote-ref-22)
23. Endeavour Energy, Regulatory proposal, June 2014, p. 1. [↑](#footnote-ref-23)
24. IPART, *Final report: Review of regulated retail prices for Electricity from 1 July 2013 to 30 June 2016*, June 2013, p. 5. [↑](#footnote-ref-24)