Explanatory note—EBIT per customer

The Australian Energy Regulator (AER) reports four regulatory profitability measures for regulated networks. We publish explanatory notes to accompany each of these measures.

This note explains our approach to report on EBIT per Customer for the network service providers (NSP or NSPs) we regulate as well as factors that should be taken into consideration when interpreting these ratios. This note discusses:

- What is EBIT per customer
- Notes on interpreting EBIT per customer
- How we calculate EBIT per customer

What is EBIT per customer?

EBIT per customer is a simple ratio of a NSP's reported net earnings before interest and tax expense (EBIT) over the total reported number of customers connected to the network in a year.

EBIT per customer differs from other profitability measures that rely on asset or equity values and provides an alternative perspective on drivers of operational profit margins.

Where:

- EBIT is Earnings before Interest and Tax
- The customer numbers are dependent on the energy source and energy sector of the NSP. The source of the customer numbers is provided below.

Notes on interpreting EBIT per customer

EBIT per customer is best compared against the individual NSP's past performance. This comparison will track changes in the measure through time to identify drivers of variation in return outcomes such as the regulatory asset base, allowed returns or both.

EBIT per customer is not a measure of profit per residential customer, as NSPs also provide energy to commercial and industrial customers. All these customer types contribute to the revenue NSPs collect, and to the costs of providing network services.

Due to this, the NSP's individual customer profiles can have a significant influence on the average profits it earns per customer.

Common EBIT

EBIT, used in calculating EBIT per customer, is the same as the EBIT we use to calculate the return on assets. All notes on interpreting the return on assets are also relevant to this measure. We set out below some additional factors specific to EBIT per customer.

Comparisons between networks

Differences in a given year in EBIT per customer between NSPs are significantly explained by the size of the NSPs' Regulatory Asset Bases (RAB) and the number of customers they serve.

In addition, there are a number of other factors that can influence the variance of EBIT per customer results.

These factors should be taken into consideration when interpreting EBIT per customer results:

- Customer profiles
- Revenue smoothing
- Unders and overs arrangements
- Cost pass through events
- Other pass-through events
- NSW/ACT transitional decisions and remittal processes

Customer profiles

By describing an NSP's 'customer profile' we refer to the composition of customers including the type and size serviced by a network.

A NSP's customer profile may be influenced by the geographical area that it services that determines network size and topology, and customer density. We collect data on customers across the classifications of:

- Residential
- Small commercial
- Large scale commercial and industrial.

Generally different classes of users share the costs of providing network services. This makes it difficult to isolate the costs required to serve a particular customer or group of customers.

Therefore it is difficult to estimate EBIT per customer figures for the different customer classes.

For example, when compared to residential customers, a small or medium enterprise (SMEs) or large scale industrial user make up a small proportion of overall customer numbers, but contribute a relatively high proportion to network revenue given their higher energy needs.

Holding other things constant we would expect EBIT per customer for SMEs and large industrial users to be higher than EBIT per customer for residential customers.

How we calculate EBIT per customer

This section sets out the approach and data sources we used to calculate EBIT per customer.

The data used to calculate EBIT per customer is sourced from the following sources:

- The latest approved or proposed roll-forward models (RFMs) for the NSP.
- The latest approved or proposed post-tax revenue models (PTRMs) for the NSP.
- Annual submissions reported by the NSPs to the AER.

We have described calculation of EBIT in our explanatory note on the return on assets and so focus here on our derivation of customer numbers.

Customer Numbers

Customer numbers are sourced for different sources according to the energy source and sector:

Sector	Source
Electricity distribution	The STPIS reliability sheet of the Annual Reporting RIN (table 6.2.4).
Electricity transmission	The sum of the customer numbers from the electricity distribution NSPs connected to the electricity transmission network operating in the same jurisdiction; and

Directly connected electricity transmission network customers (direct connections points) which are sourced from the operational data worksheet of the Economic Benchmarking RIN (table 3.4.2). |