

# Final Decision

## Ausgrid Electricity Distribution Determination 2024 to 2029 (1 July 2024 to 30 June 2029)

### Attachment 1 Annual revenue requirement

April 2024

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#### **Amendment record**

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1	30 April 2024	22

## List of attachments

This attachment forms part of the AER's final decision on the distribution determination that will apply to Ausgrid 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 12 – Customer service incentive scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

Attachment 16 – Alternative control services

Attachment 19 – Tariff structure statement

Attachment 20 – Metering services

# Contents

- List of attachments .....iii**
- 1 Annual revenue requirement .....1**
  - 1.1 Final decision..... 1
  - 1.2 Ausgrid’s revised proposal..... 3
  - 1.3 Assessment approach ..... 5
  - 1.4 Reasons for final decision..... 5
- Shortened forms.....18**

# 1 Annual revenue requirement

This attachment sets out our final decision on Ausgrid’s annual revenue requirement (ARR) and expected revenues for the provision of standard control services (SCS) over the 2024–29 regulatory control period (period) for its distribution and transmission (dual function assets) networks. Ausgrid’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.<sup>1</sup>

Specifically, we set out our final decision on:<sup>2</sup>

- the ARRs (unsmoothed), which are the sum of the annual building block costs
- the total revenue requirement, which is the sum of the ARRs
- the annual expected revenues (smoothed)
- the X factors.

We determine Ausgrid’s ARRs using a building block approach. We determine the X factors by smoothing the ARRs over the period. The X factor is used in the CPI–X methodology to determine the annual expected revenue (smoothed).

## 1.1 Final decision

For the 2024–29 period, we determine total ARRs of \$8,908.2 million and \$1,018.5 million (\$ nominal, unsmoothed) for Ausgrid’s distribution and transmission networks respectively. These amounts are increases of \$279.2 million (3.2%) and \$31.4 million (3.2%) to Ausgrid’s revised proposal for its distribution and transmission networks respectively.

For distribution, the increase in total revenues is largely driven by our final decision approving a higher forecast operating expenditure (opex), regulatory depreciation and return on capital building blocks which are \$125.7 million, \$77.3 million and \$45.9 million higher than Ausgrid’s revised proposal, respectively. For transmission, the increase in total revenues is largely driven by a higher regulatory depreciation, return on capital and forecast opex building block which are \$12.4 million, \$9.5 million and \$6.3 million higher than Ausgrid’s revised proposal, respectively.

We determine the annual expected revenue (smoothed) and X factor for each regulatory year of the 2024–29 period by smoothing the ARRs. For the 2024–29 period, our final decision is to approve total expected revenues of \$8,956.2 million and \$1,024.7 million (\$ nominal, smoothed) for Ausgrid’s distribution and transmission networks respectively. Our approved X factor profile:<sup>3</sup>

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<sup>1</sup> AER, *Framework and approach: Ausgrid Endeavour Energy and Essential Energy (New South Wales), Regulatory control period commencing 1 July 2024*, July 2022, p. 54.

<sup>2</sup> NER, cll. 6.3.2(a)(1), 6.5.9(a) and 6.5.9(b)(1)–(2).

<sup>3</sup> Ausgrid is not required to apply an X factor for 2024–25 because we set the 2024–25 expected revenue in this decision.

- For distribution is –6.03% per annum for 2025–26 to 2027–28, and 4.97% for the remaining year of 2028–29.
- For transmission is –25.00% for 2025–26, followed by –10.20% for 2026–27, and 3.62% per annum for the remaining years of 2027–28 and 2028–29.

Table 1.1 and Table 1.2 set out our final decision on the building block costs, the ARR, annual expected revenue, and X factors over the 2024–29 period for Ausgrid’s distribution and transmission networks respectively.

**Table 1.1 AER's final decision on Ausgrid's ARR, annual expected revenue and X factor for the 2024–29 period – distribution (\$ million, nominal)**

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Return on capital	954.8	996.5	1,039.5	1,083.8	1,128.1	5,202.7
Regulatory depreciation <sup>a</sup>	98.4	125.2	155.5	174.7	151.6	705.4
Operating expenditure <sup>b</sup>	450.4	467.8	492.2	504.7	519.5	2,434.5
Revenue adjustments <sup>c</sup>	151.2	201.0	66.4	1.8	20.2	440.6
Cost of corporate income tax	24.6	24.4	25.2	26.6	24.2	125.0
Annual revenue requirement (unsmoothed)	1,679.3	1,814.9	1,778.8	1,791.6	1,843.7	8,908.2
<b>Annual expected revenue (smoothed)</b>	<b>1,538.5</b>	<b>1,674.7</b>	<b>1,822.9</b>	<b>1,984.2</b>	<b>1,935.8</b>	<b>8,956.2</b>
X factor <sup>d</sup>	n/a <sup>e</sup>	–6.03%	–6.03%	–6.03%	4.97%	n/a

Source: AER analysis.

- Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening regulatory asset base (RAB).
- Includes debt raising costs.
- Includes revenue adjustments from the efficiency benefit sharing scheme (EBSS), the capital expenditure sharing scheme (CESS), shared asset adjustments and the demand management innovation allowance mechanism (DMIAM).
- 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.
- Ausgrid is not required to apply an X factor for 2024–25 because we set the 2024–25 expected revenue in this decision. The expected revenue for 2024–25 is around 3.0% higher than the approved total annual revenue for 2023–24 in real terms, or 5.7% higher in nominal terms.

**Table 1.2 AER's final decision on Ausgrid's ARR, annual expected revenue and X factor for the 2024–29 period – transmission (\$ million, nominal)**

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Return on capital	148.6	153.2	157.3	161.4	166.4	786.9
Regulatory depreciation <sup>a</sup>	8.3	11.9	16.0	17.1	17.7	71.0
Operating expenditure <sup>b</sup>	23.6	24.5	25.7	26.3	27.1	127.1
Revenue adjustments <sup>c</sup>	6.1	8.6	1.8	-1.5	-0.6	14.5
Cost of corporate income tax	3.7	3.9	4.0	3.4	3.9	19.0
Annual revenue requirement (unsmoothed)	190.4	202.1	204.9	206.6	214.6	1,018.5
<b>Annual expected revenue (smoothed)</b>	<b>155.4</b>	<b>199.5</b>	<b>225.6</b>	<b>223.3</b>	<b>220.9</b>	<b>1,024.7</b>
X factor <sup>d</sup>	n/a <sup>e</sup>	-25.00%	-10.20%	3.62%	3.62%	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 EBSS and CESS.
- (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.
- (e) Ausgrid is not required to apply an X factor for 2024–25 because we set the 2024–25 expected revenue in this decision. The expected revenue for 2024–25 is around 30.0% higher than the approved total annual revenue for 2023–24 in real terms, or 33.5% higher in nominal terms.

## 1.2 Ausgrid's revised proposal

For the 2024–29 period, Ausgrid's revised proposal included total expected revenues (smoothed) of \$8,687.9 million and \$997.5 million (\$ nominal) for its distribution and transmission networks respectively.

Table 1.3 and Table 1.4 set out Ausgrid's revised proposed building block costs, the ARR, annual expected revenue and X factor for each year of the 2024–29 period for its distribution and transmission networks respectively.

**Table 1.3 Ausgrid’s revised proposed ARR, annual expected revenue and X factor for the 2024–29 period – distribution (\$ million, nominal)**

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Return on capital	938.8	982.9	1,029.2	1,078.6	1,127.4	5,156.8
Regulatory depreciation <sup>a</sup>	76.7	106.1	139.1	162.7	143.6	628.1
Operating expenditure <sup>b</sup>	428.2	446.9	460.5	477.7	495.4	2,308.8
Revenue adjustments <sup>c</sup>	151.6	201.9	66.7	1.6	20.3	442.1
Cost of corporate income tax	19.2	18.3	18.7	19.7	17.4	93.3
Annual revenue requirement (unsmoothed)	1,614.5	1,756.0	1,714.2	1,740.3	1,804.0	8,629.0
<b>Annual expected revenue (smoothed)</b>	<b>1,495.8</b>	<b>1,568.4</b>	<b>1,716.7</b>	<b>1,879.0</b>	<b>2,028.1</b>	<b>8,687.9</b>
X factor	n/a <sup>d</sup>	-2.00%	-6.47%	-6.47%	-5.00%	n/a

Source: Ausgrid, *Revised proposal – Att. 4.3 – PTRM for distribution*, November 2023.

- (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 EBSS, CESS, shared asset adjustments and DMIAM.  
(d) Ausgrid is not required to apply an X factor for 2024–25 because we set the 2024–25 expected revenue in this decision.

**Table 1.4 Ausgrid’s revised proposed ARR, annual expected revenue and X factor for the 2024–29 period – transmission (\$ million, nominal)**

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Return on capital	146.1	150.9	155.3	159.8	165.2	777.4
Regulatory depreciation <sup>a</sup>	4.9	8.9	13.4	15.1	16.3	58.6
Operating expenditure <sup>b</sup>	22.5	23.4	24.1	25.0	25.9	120.8
Revenue adjustments <sup>c</sup>	6.2	8.7	1.8	-1.5	-0.6	14.6
Cost of corporate income tax	3.2	3.0	3.2	3.1	3.2	15.7
Annual revenue requirement (unsmoothed)	182.9	194.9	197.9	201.4	210.0	987.1
<b>Annual expected revenue (smoothed)</b>	<b>155.6</b>	<b>172.8</b>	<b>196.3</b>	<b>222.9</b>	<b>249.8</b>	<b>997.5</b>
X factor	n/a <sup>d</sup>	-8.00%	-10.49%	-10.49%	-9.00%	n/a

Source: Ausgrid, *Revised proposal – Att. 4.5 – PTRM for transmission*, November 2023.

- (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 EBSS and CESS.  
(d) Ausgrid is not required to apply an X factor for 2024–25 because we set the 2024–25 expected revenue in this decision.



## 1.3 Assessment approach

We did not change the building block approach we use to determine the expected revenue from our draft decision. Attachment 1 (section 1.3) of our draft decision details that approach.<sup>4</sup>

## 1.4 Reasons for final decision

For the 2024–29 period, we determine total ARRs of \$8,908.2 million and \$1,018.5 million (\$ nominal, unsmoothed) for Ausgrid’s distribution and transmission networks respectively. These amounts are increases of \$279.2 million (3.2%) and \$31.4 million (3.2%) to Ausgrid’s revised proposed total ARRs of \$8,629.0 million and \$987.1 million (\$ nominal) for its distribution and transmission networks respectively. These changes reflect the impact of our final decision on the various building block costs.

Figure 1.1 and Figure 1.2 show the building block components in this final determination that comprise the ARR for Ausgrid, and the corresponding components from its revised proposal and our draft decision for Ausgrid’s distribution and transmission networks respectively.

The changes we made to Ausgrid’s revised proposed building blocks for its distribution and transmission networks respectively are (in nominal terms):

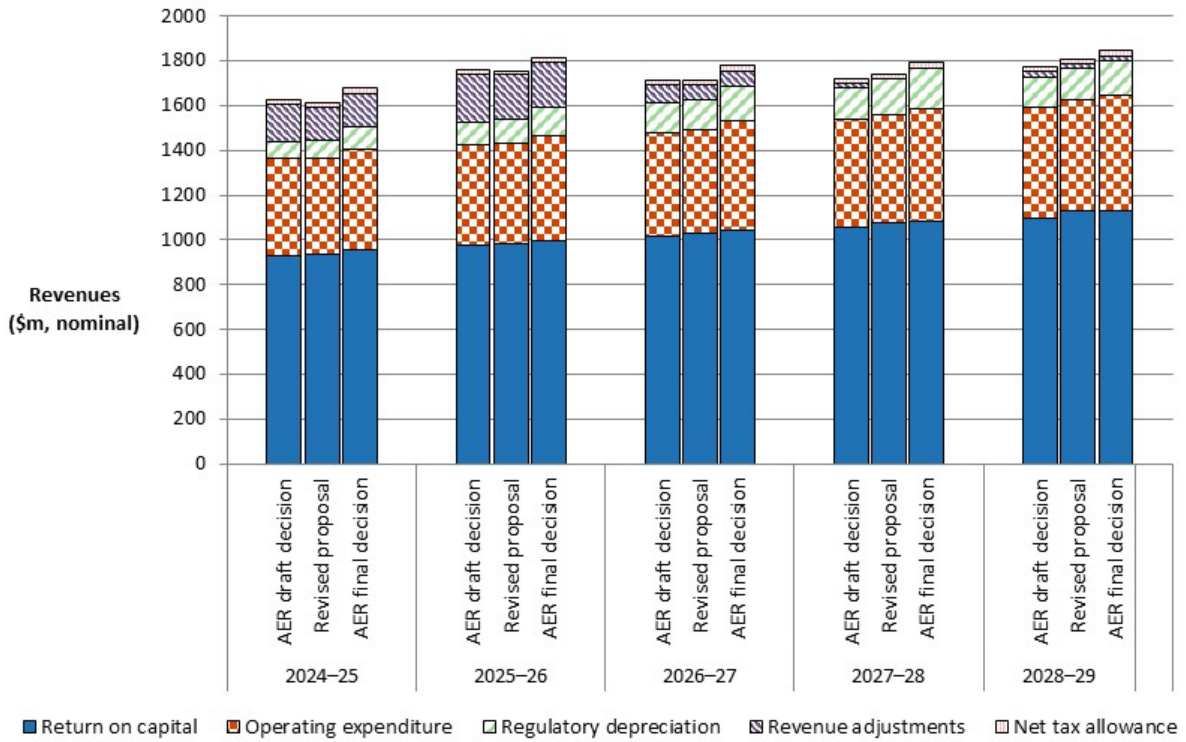
- increases in the return on capital of \$45.9 million (0.9%) and \$9.5 million (1.2%) (Attachments 2 and 5, and section 2.2 of the Overview). This is driven by a higher average rate of return over the 2024–29 period which more than offsets the reductions we made to forecast capex in our final decision
- increases in the regulatory depreciation of \$77.3 million (12.3%) and \$12.4 million (21.2%) (Attachment 4). This is driven primarily by the lower expected inflation rate in our final decision than at the time of Ausgrid’s revised proposal, which reduces the indexation adjustment to regulatory depreciation. This more than offsets the impact of the reductions we made to forecast capex in our final decision
- increases in the opex forecast of \$125.7 million (5.4%) and \$6.3 million (5.2%) (Attachment 6). This is driven by our final decision to not accept Ausgrid’s revised proposal to treat Software as a Service (SaaS) costs as capex. As such, our final decision is to reallocate these SaaS costs back into opex
- reductions in the revenue adjustments of \$1.5 million (0.3%) and \$0.1 million (0.8%) (section 2.7 of the Overview). This is driven by a lower EBSS reward in our final decision
- increases in the cost of corporate income tax of \$31.7 million (34.0%) and \$3.3 million (20.7%) (Attachment 7). This is driven by a higher regulatory depreciation amount and a higher return on equity amount.<sup>5</sup>

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<sup>4</sup> AER, *Draft decision, Attachment 1 – Annual revenue requirement – Ausgrid – 2024 Distribution revenue proposal*, September 2023, pp. 6–8.

<sup>5</sup> All else being equal, a higher regulatory depreciation and return on equity amount increases the cost of corporate income tax as they are both components of revenue for tax purposes.

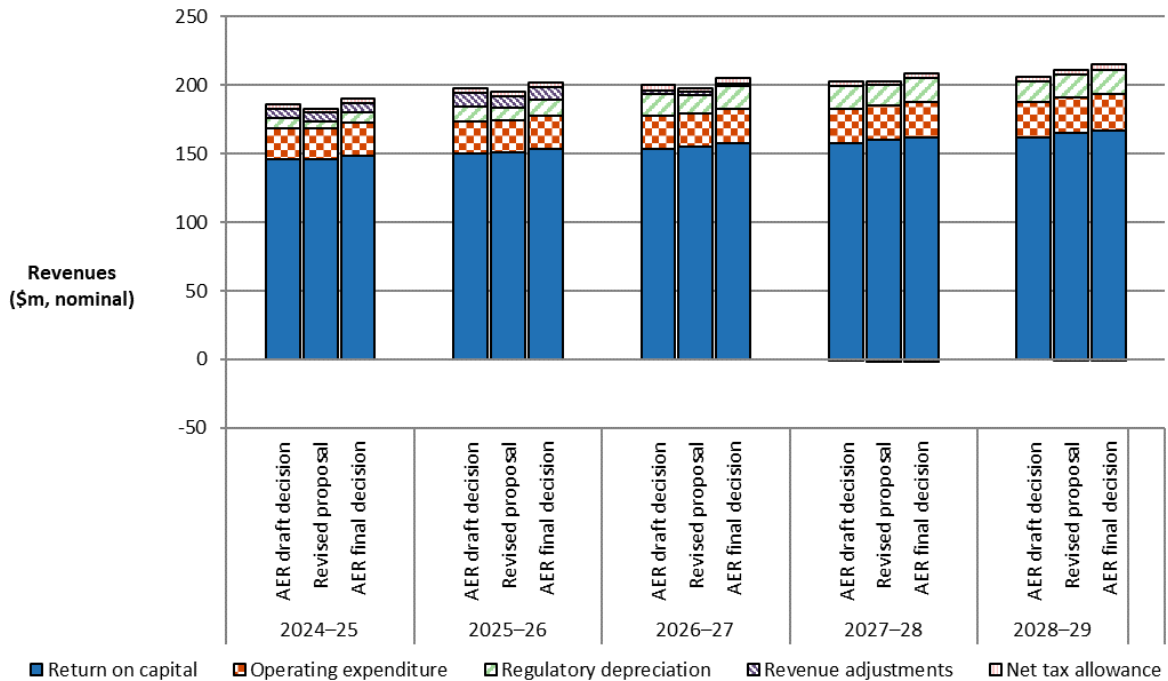
**Figure 1.1 AER's draft and final decisions, and Ausgrid's revised proposed ARR – distribution (\$ million, nominal)**



Source: AER analysis; Ausgrid, *Revised proposal – Att. 4.3 – PTRM for distribution*, November 2023.

Note: Revenue adjustments include EBSS, CESS, shared asset adjustments and DMIAM amounts. Opex includes debt raising costs.

**Figure 1.2 AER's draft and final decisions, and Ausgrid's revised proposed ARR – transmission (\$ million, nominal)**



Source: AER analysis; Ausgrid, *Revised proposal – Att. 4.5 – PTRM for transmission*, November 2023.

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

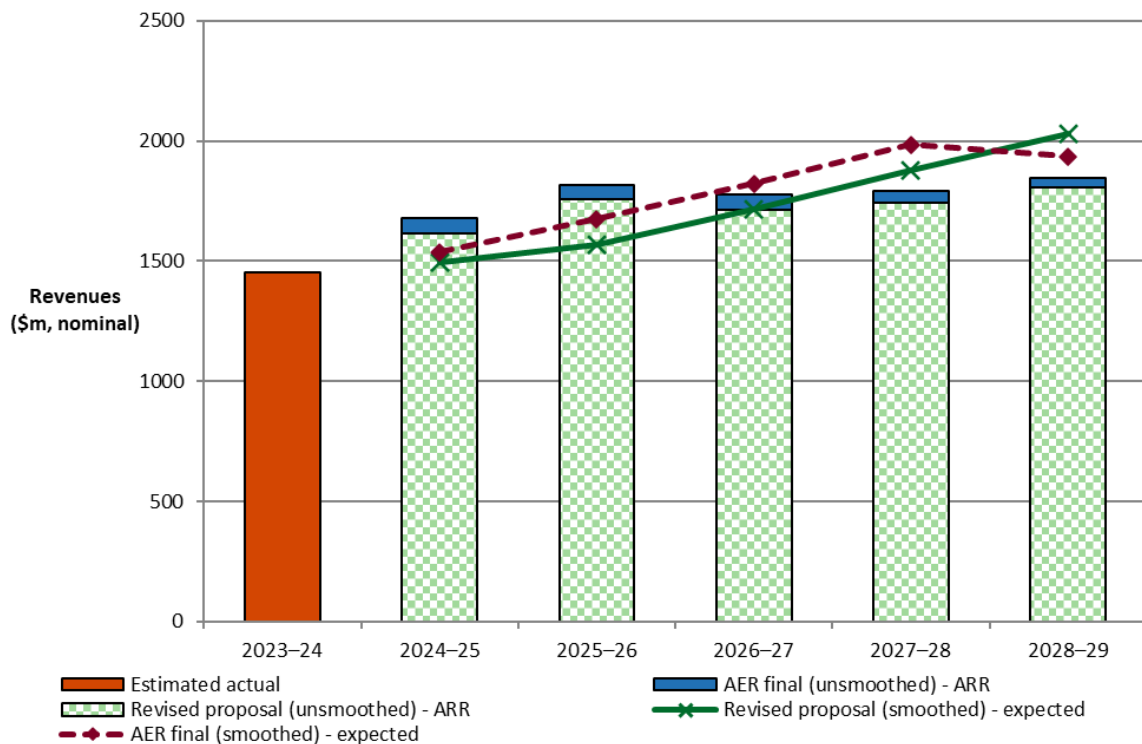
### 1.4.1 X factor and annual expected revenue

For this final decision, we determine X factors for Ausgrid as set out in Table 1.1 and Table 1.2 for its distribution and transmission networks respectively. The net present values (NPVs) of the ARR are \$7,477.7 million and \$854.1 million (\$2023–24) as at 1 July 2024 for Ausgrid’s distribution and transmission networks respectively. Based on these NPVs and applying the CPI–X framework, we determine that:

- For distribution, the expected revenue (smoothed) is \$1,538.5 million in 2024–25 increasing to \$1,935.8 million in 2028–29 (\$ nominal). The resulting total expected revenue is \$8,956.2 million for the 2024–29 period.
- For transmission, the expected revenue (smoothed) is \$155.4 million in 2024–25 increasing to \$220.9 million in 2028–29 (\$ nominal). The resulting total expected revenue is \$1,024.7 million for the 2024–29 period.

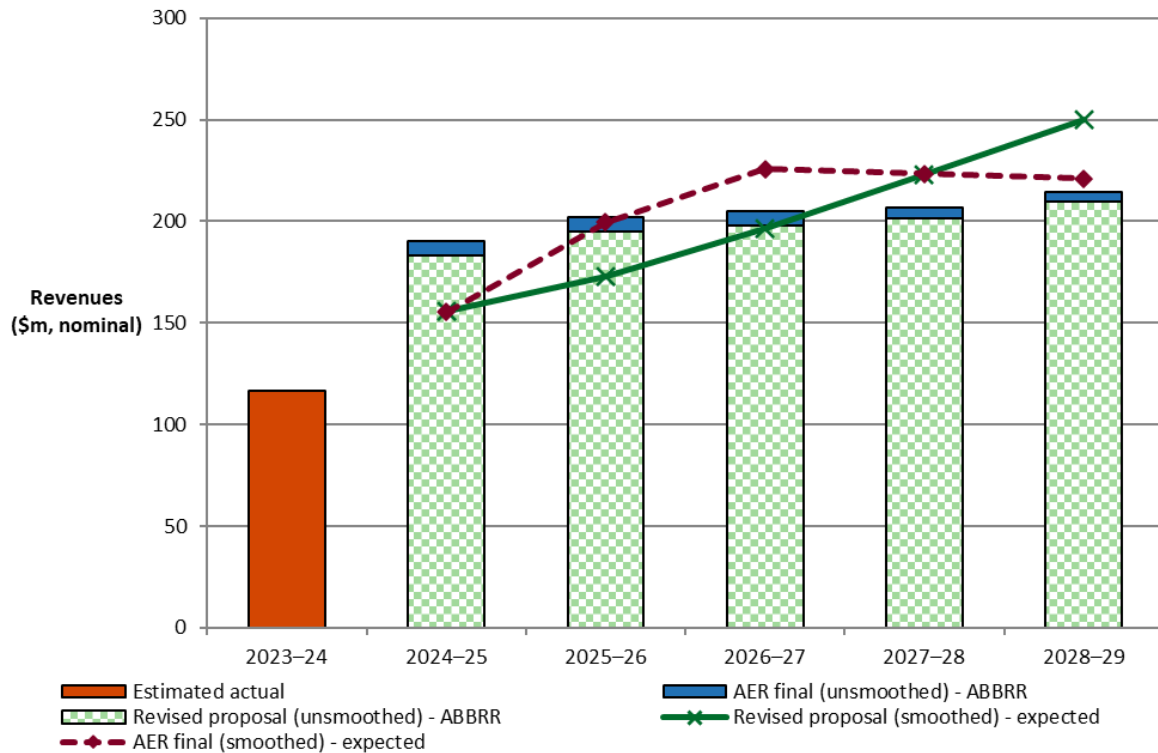
Figure 1.3 and Figure 1.4 show our final decision on Ausgrid’s annual expected revenue (smoothed revenue) and the ARR (unsmoothed revenue) for the 2024–29 period for its distribution and transmission networks respectively.

**Figure 1.3 AER’s final decision on Ausgrid’s revenue for the 2024–29 period – distribution (\$ million, nominal)**



Source: AER analysis; Ausgrid, *Revised proposal – Att. 4.3 – PTRM for distribution*, November 2023.

**Figure 1.4 AER’s final decision on Ausgrid’s revenue for the 2024–29 period – transmission (\$ million, nominal)**



Source: AER analysis; Ausgrid, *Revised proposal – Att. 4.5 – PTRM for transmission*, November 2023.

Note: The revenue in 2023–24 includes the impact of a one-off large negative revenue adjustment for the 2014–19 remittal decision which is included in the 2019–24 determination for Ausgrid’s dual function assets.

To determine the profile of expected revenue for Ausgrid over the 2024–29 period, we have set the expected revenue for the first regulatory year at \$1,538.5 million and \$155.4 million (\$ nominal) for its distribution and transmission networks respectively. These are \$140.8 million and \$34.9 million lower than the respective ARR for that first year. We then apply an expected inflation rate of 2.66% per annum and a profile of X factors to determine the expected revenue in subsequent years.<sup>6</sup>

The X factors we set must be such as to minimise, as far as reasonably possible, the variance between the expected revenue (smoothed) and the ARR (unsmoothed) in the last year of the 2024–29 period.<sup>7</sup> This helps to minimise any potential large revenue variance (and thus price shocks) at the commencement of the 2029–34 period. Our standard approach has been to keep a divergence of up to +/-3% between the smoothed and unsmoothed revenues for the last year of the regulatory period, if this can achieve smoother price changes across the regulatory control periods.

For Ausgrid’s distribution and transmission networks, our draft decision revenue smoothing profiles provided a final year revenue difference of 5.0% and 3.0% for its distribution and

<sup>6</sup> NER, cl. 6.5.9(a).

<sup>7</sup> NER, cl. 6.5.9(b)(2).

transmission network respectively.<sup>8</sup> However, Ausgrid’s revised proposed revenue smoothing profiles resulted in a final year difference between its expected revenue and ARR of 12.4% and 19.0% respectively. This reflected Ausgrid’s revised proposal to reapply its initial proposal’s revenue smoothing profile for both its distribution and transmission networks. Ausgrid’s proposed smoothing sought to minimise revenue increases in the initial years of the 2024–29 period to reflect customer preferences expressed in its Voice of Community Panel stakeholder engagement in 2022.<sup>9</sup> However, since that time Ausgrid has not engaged further with its stakeholders on this matter nor have we received any stakeholder submissions on revenue smoothing.

For this final decision, our approach is to smooth the increase in expected revenues over the first four (2024–25 to 2027–28) and first three regulatory years (2024–25 to 2026–27) for Ausgrid’s distribution and transmission networks respectively. This results in a final year revenue difference of 5.0% and 3.0% for Ausgrid’s distribution and transmission networks respectively, which are both lower than Ausgrid’s revised proposal:

- For distribution, our final decision approach results in an X factor profile that limits the initial revenue increase in the first year of the 2024–29 period, which was supported by stakeholders whilst balancing the requirements of the NER.<sup>10</sup>
- For transmission, our final decision approach results in an X factor profile with a large revenue increase in the first year of the 2024–29 period. Ausgrid’s transmission revenue smoothing profile for the 2024–29 period is impacted by the outcome of Ausgrid’s appeal to the Australian Competition Tribunal of the 2014–19 determination, which resulted in a large one-off negative revenue adjustment for the 2019–24 period. This resulted in a smoothed 2023–24 expected revenue that is lower than would normally be the case. Accordingly, this is causing a large step-up in revenue for the first year of the 2024–29 period. Consistent with our draft decision, we note that Ausgrid’s transmission revenues only make up a small portion of its total combined revenues and hence the transmission smoothing profile is not expected to have a material impact on the price paths experienced by customers.<sup>11</sup> Our final decision therefore applies our preferred final year difference of  $\pm 3\%$  target range which will minimise the impact of the 2014–19 remittal decision persisting into the 2029–34 period.

On balance, we consider that our profile of X factors for this final decision result in expected revenues in the last year of the regulatory control period that are as close as reasonably possible to the ARRs for that year for Ausgrid’s distribution and transmission networks respectively.<sup>12</sup> We are satisfied that our revenue smoothing approach balances the need of promoting smoother price changes for customers across the 2024–29 period and minimising

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<sup>8</sup> Our draft decision relaxed our preferred final year difference target range of  $\pm 3\%$  for Ausgrid’s distribution network.

<sup>9</sup> Ausgrid, *Att. 4.1 – 2024–29 Proposed revenue*, Nov 2023, p. 18.

<sup>10</sup> Under the NER, the X factor must be such as to minimise variance between expected revenue for the last year of the regulatory control period and the annual revenue requirement for that year. See NER, cl. 6.5.9(b)(2).

<sup>11</sup> AER, *Draft Decision Attachment 1 – Annual revenue requirement – Ausgrid – 2024–29 Distribution revenue proposal*, September 2023, pp. 12–13.

<sup>12</sup> NER, cl. 6.5.9(b)(2).

a large revenue variance at the commencement of the subsequent regulatory control period (2029–34).

Our final decision results in average increases of 5.9% per annum and 13.7% per annum (\$ nominal) in the expected revenues over the 2024–29 period for Ausgrid’s distribution and transmission network respectively:<sup>13</sup>

- For distribution, this consists of initial increases of 5.7% in 2024–25 and annual increases of 8.9% from 2025–26 to 2027–28, followed by an annual decrease of 2.4% in the final year of the 2024–29 period.<sup>14</sup>
- For transmission, this consists of initial increases of 33.5% in 2024–2025<sup>15</sup> and 28.3% in 2025–26, and a further increase of 13.1% in 2026–27, followed by reductions of 1.1% per annum over the remaining 2 years of the 2024–29 period.<sup>16</sup>

Our final decision also results in an increase of 3.5% and 93.9%<sup>17</sup> in real terms (\$2023–24) to Ausgrid’s total ARR relative to that in the 2019–24 period for its distribution and transmission network respectively. For distribution, the outcome is largely due to a higher return on capital and revenue adjustment amount in this final decision for the 2024–29 period than those approved in the 2019–24 determination. For transmission, the outcome is largely the result of a higher revenue adjustment in this final decision for the 2024–29 period due to the expiry of a one-off large negative revenue adjustment for the 2014–19 remittal decision included in the 2019–24 determination for Ausgrid’s dual function assets.

Figure 1.5 and Figure 1.6 compare our final and draft decision building blocks for Ausgrid’s distribution and transmission networks for the 2024–29 period with its proposed and revised proposed revenue requirements for the same period, and the approved unsmoothed revenue for the 2019–24 period.

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<sup>13</sup> In real 2023–24 dollar terms, our approved expected revenue for Ausgrid results in average increases of 3.1% per annum and 10.7% per annum over the 2024–29 period for its distribution and transmission networks respectively.

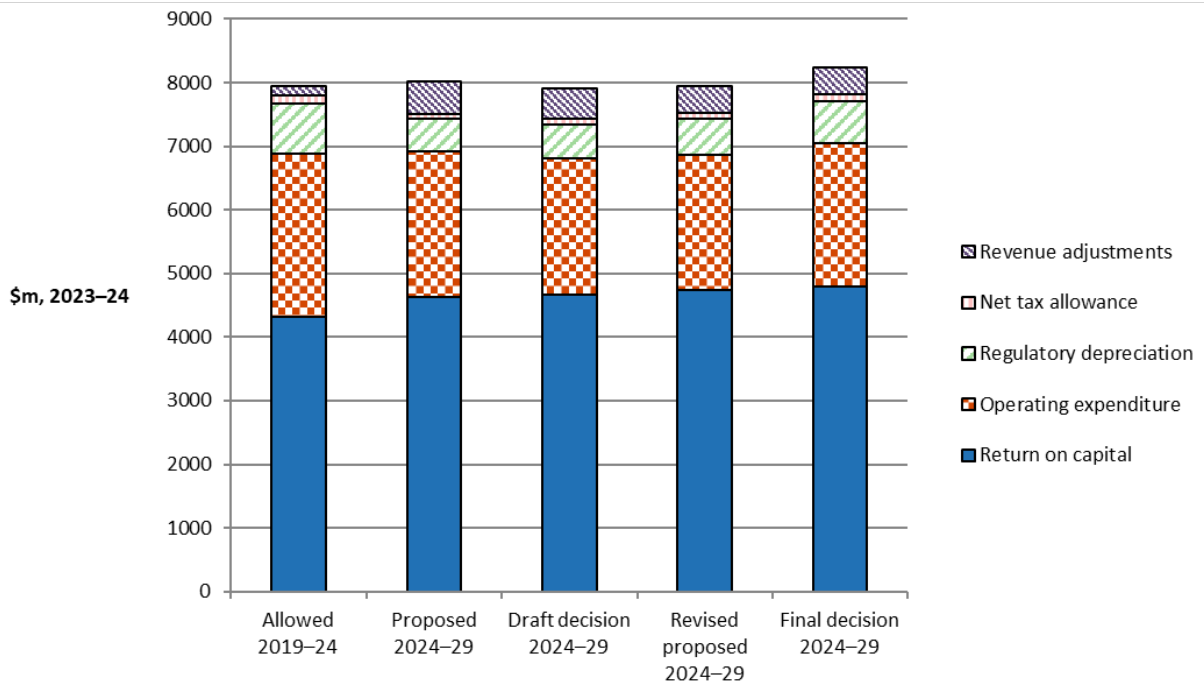
<sup>14</sup> In real 2023–24 dollar terms, this consists of an initial increase of 3.0% in 2024–25, annual increases of 6.0% from 2025–26 to 2027–28, followed by an annual decrease of 5.0% in the final year of the 2024–29 period.

<sup>15</sup> The large change in expected revenue from 2023–24 to 2024–25 revenue is due to the impact of a one-off large negative revenue adjustment for the 2014–19 remittal decision which was included in the 2019–24 determination for Ausgrid’s dual function assets.

<sup>16</sup> In real 2023–24 dollar terms, this consists of initial increases of 30.0% in 2024–25 and 25.0% in 2025–26, and a further increase of 10.2% in 2026–27; followed by decreases of 3.6% per annum over the remaining 2 years of the 2024–29 period.

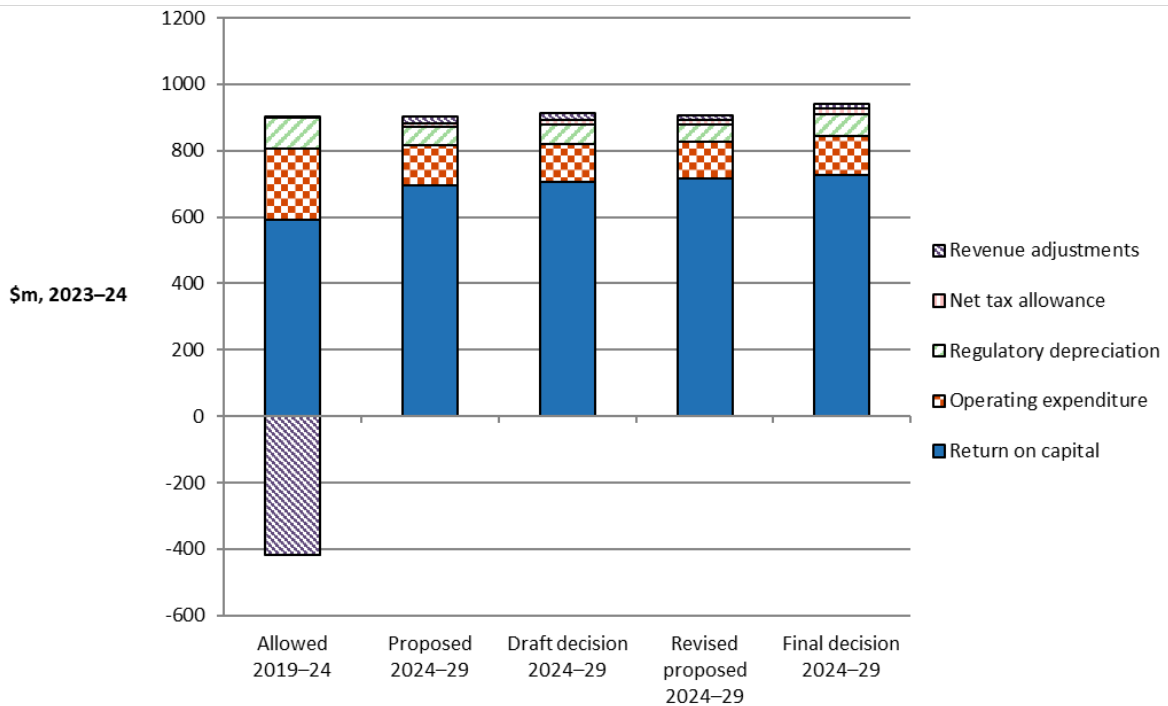
<sup>17</sup> This is mainly due to a one-off large negative revenue adjustment for the 2014–19 remittal decision which was included in the 2019–24 determination for Ausgrid’s dual function assets.

**Figure 1.5 Total revenue by building block components – distribution (\$ million, 2023–24)**



Source: AER analysis.

**Figure 1.6 Total revenue by building block components – transmission (\$ million, 2023–24)**



Source: AER analysis.

Note: The allowed 2019–24 revenue adjustment include a one-off large negative revenue adjustment for the 2014–19 remittal decision which was included in the 2019–24 determination for Ausgrid’s dual function assets.

## 1.4.2 Shared assets

Our final decision is to apply a shared assets revenue adjustment to Ausgrid’s total expected revenue for the 2024–29 period.

In our draft decision, we accepted Ausgrid’s proposal to apply a shared assets revenue adjustment to its revenue using the method from our share assets guideline.<sup>18</sup> However, we amended Ausgrid’s proposed shared asset revenue adjustment amount of \$15.2 million to \$16.6 million (\$2023–24). This minor amendment was implemented so as to apply the methodology set out in the shared asset guideline which requires the revenue adjustment amount to be calculated as 10% of the unregulated revenues that a distributor earns from its shared assets.<sup>19</sup>

Ausgrid’s revised proposal adopted our draft decision shared assets revenue adjustment.<sup>20</sup> Consistent with the draft decision, we confirm our assessment that Ausgrid’s forecast unregulated revenues from shared assets for the 2024–29 period are reasonable. Our final decision will see \$16.6 million (\$2023–24) shared with customers across the 2024–29 period.

Table 1.5 compares the shared asset revenue adjustment in Ausgrid’s revised proposal and our final decision.

**Table 1.5 AER’s final decision on Ausgrid’s shared asset revenue adjustment (\$ million, 2023–24)**

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Ausgrid’s revised proposal	–2.9	–3.1	–3.5	–3.5	–3.6	–16.6
<b>AER final decision</b>	<b>–2.9</b>	<b>–3.1</b>	<b>–3.5</b>	<b>–3.5</b>	<b>–3.6</b>	<b>–16.6</b>

Source: AER analysis; Ausgrid, *Revised proposal – Att. 4.3 – PTRM for distribution*, November 2023.

## 1.4.3 Indicative average distribution price impact

Our final decision on Ausgrid’s expected revenues ultimately affects the prices customers pay for electricity. There are several steps required in translating our revenue decision into indicative distribution price impacts.

We regulate Ausgrid’s SCS for its distribution and transmission networks under a revenue cap form of control. This means our final decision on Ausgrid’s expected revenue does not directly translate to price impacts. This is because Ausgrid’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 customers.

For these reasons, we are not required to establish the distribution prices as part of this determination for Ausgrid’s distribution network. However, we will assess Ausgrid’s annual pricing proposals before the commencement of each regulatory year within the 2024–29

<sup>18</sup> AER, Draft decision, *Attachment 1 – Annual revenue requirement – Ausgrid – 2024–29 Distribution revenue proposal*, September 2023, pp. 15–16.

<sup>19</sup> AER, *Shared asset guideline*, November 2013, p. 11

<sup>20</sup> Ausgrid, *Att. 4.1 - 2024–29 Proposed revenue*, November 2023, p. 16.



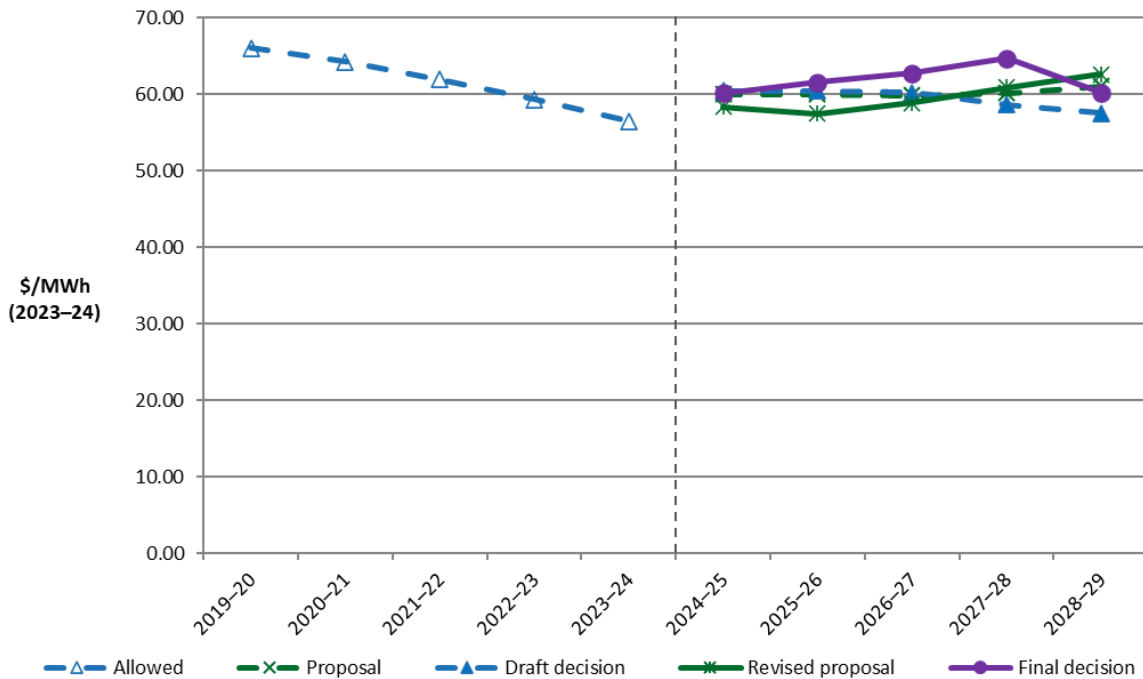
period. In each assessment we will administer the pricing requirements set in this distribution determination.

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

For this final decision, we have estimated some indicative average distribution and transmission price impacts flowing from our determination on the expected revenues for Ausgrid over the 2024–29 period. In this section, our estimates only relate to SCS (that is, the core electricity network charges), not alternative control services (such as metering and public lighting charges). These indicative price impacts assume that actual energy consumption across the 2024–29 period matches Ausgrid's forecast energy consumption, which we have adopted for this final decision. We also have not factored in any changes arising from incentive scheme amounts, cost pass throughs or unders/overs reconciliation that usually occur in the annual pricing process to come up with the total allowed revenue.

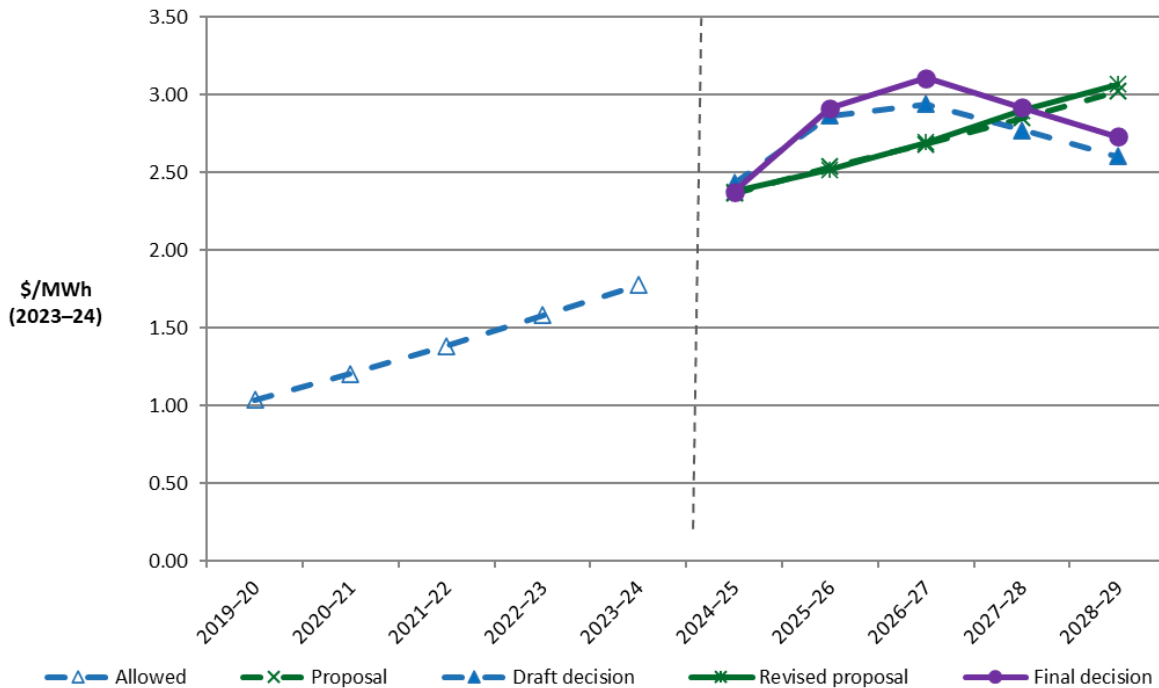
Figure 1.7 and Figure 1.8 show Ausgrid's indicative average price path over the period 2019–20 to 2028–29 in real 2023–24 dollar terms based on the expected revenues established in our final decision, compared to Ausgrid's revised proposed revenue requirements for its distribution and transmission networks respectively. The indicative price path is estimated using the approved expected revenue and dividing by forecast energy consumption for each year of the 2024–29 period.

**Figure 1.7 Indicative price path for Ausgrid – distribution (\$/MWh, 2023–24)**



Source: AER analysis.

**Figure 1.8 Indicative price path for Ausgrid – transmission (\$/MWh, 2023–24)**



Source: AER analysis.

Note: The allowed 2019–24 price path includes the impact of a one-off large negative revenue adjustment for the 2014–19 remittal decision which was included in the 2019–24 determination for Ausgrid’s dual function assets.

We estimate that our final decision on Ausgrid’s annual expected revenue will result in a increase to average distribution charges by about 0.2% per annum, and an increase to average transmission charges by about 8.2% per annum, over the 2024–29 period in real 2023–24 dollar terms.<sup>21</sup> Ausgrid’s revised proposal provided for real average increases of approximately 1.0% per annum and 10.7% per annum over the 2024–29 period for its distribution and transmission networks respectively.<sup>22</sup> 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 Ausgrid’s revised proposal and our final decision for its distribution and transmission networks respectively.

<sup>21</sup> In nominal terms, we estimate the average distribution and transmission charges to increase by 2.9% and 11.1% per annum for Ausgrid’s distribution and transmission networks respectively. These amounts reflect an expected inflation rate of 2.66% per annum as determined in this final decision.

<sup>22</sup> In nominal terms, Ausgrid’s revised proposal would increase the distribution and transmission charges by 3.9% and 13.8% per annum for Ausgrid’s distribution and transmission networks respectively. This amount reflects an expected inflation rate of 2.80% per annum as proposed by Ausgrid in its revised proposal.

**Table 1.6 Comparison of revenue and price impacts of Ausgrid’s revised proposal and the AER’s final decision – distribution (\$ nominal)**

	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29
<b>AER final decision</b>						
Revenue (\$ million)	1,455.0	1,538.5	1,674.7	1,822.9	1,984.2	1,935.8
Price path (\$/MWh) <sup>a</sup>	59.52	61.71	64.87	67.93	71.84	68.64
Revenue (change %)	–	5.7%	8.9%	8.9%	8.9%	–2.4%
Price path (change %)	–	3.7%	5.1%	4.7%	5.8%	–4.5%
<b>Ausgrid revised proposal</b>						
Revenue (\$ million)	1,455.0	1,495.8	1,568.4	1,716.7	1,879.0	2,028.1
Price path (\$/MWh) <sup>a</sup>	59.52	60.00	60.75	63.97	68.03	71.91
Revenue (change %)	–	2.8%	4.9%	9.5%	9.5%	7.9%
Price path (change %)	–	0.8%	1.3%	5.3%	6.3%	5.7%

Source: AER analysis; Ausgrid, *Revised proposal – Att. 4.3 – PTRM for distribution*, November 2023.

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

**Table 1.7 Comparison of revenue and price impacts of Ausgrid’s transmission revised proposal and the AER’s final decision – transmission (\$ nominal)**

	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29
<b>AER final decision</b>						
Revenue (\$ million)	116.5	155.4	199.5	225.6	223.3	220.9
Price path (\$/MWh) <sup>a</sup>	1.84	2.44	3.07	3.36	3.24	3.11
Revenue (change %)	–	33.5%	28.3%	13.1%	–1.1%	–1.1%
Price path (change %)	–	32.4%	25.9%	9.5%	–3.7%	–3.9%
<b>Ausgrid revised proposal</b>						
Revenue (\$ million)	116.5	155.6	172.8	196.3	222.9	249.8
Price path (\$/MWh) <sup>a</sup>	1.84	2.44	2.66	2.93	3.24	3.52
Revenue (change %)	–	33.6%	11.0%	13.6%	13.6%	12.1%
Price path (change %)	–	32.6%	8.9%	10.0%	10.6%	8.8%

Source: AER analysis; Ausgrid, *Revised proposal – Att. 4.5 – PTRM for transmission*, November 2023.

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

#### 1.4.4 Expected impact of final decision on electricity bills

The annual electricity bill for customers in Ausgrid’s network reflects the combined costs of all the electricity supply chain components—wholesale energy generation, transmission, distribution, metering, and retail costs. This final decision primarily relates to Ausgrid’s distribution charges for SCS and transmission charges, which represent a combined network bill proportion of approximately 22% on average for residential customers’ and 23% on average for small business customers’ annual electricity bills in Ausgrid’s network area.<sup>23</sup>

We estimate the expected bill impact by varying the distribution and transmission charges in accordance with our final decision in this attachment, while holding all other components constant—including the metering component and the broader transmission component associated with Transgrid’s determination.<sup>24</sup> This approach isolates the effect of our final decision on the core distribution and transmission charges only for Ausgrid. However, this does not imply that other components will remain unchanged across the period.<sup>25</sup>

Based on this approach, we expect that our final decision on the distribution and transmission components will increase the average annual residential electricity bill in 2028–29 by about \$69 (\$ nominal) or 3.8% from the 2023–24 total bill level.

Similarly, we expect that our final decision will result in the distribution and transmission components of the average annual electricity bill for a small business customer in 2028–29 to increase by about \$191 (\$ nominal) or 3.8% from the 2023–24 total bill level.

Our estimated bill impact is based on the typical annual electricity usage of 3,911 kWh and 10,027 kWh for residential and small business customers in Ausgrid’s network, respectively.<sup>26</sup> Therefore, customers with different usage will experience different changes in their bills. We also note that there are other factors which we have not considered here, such as metering, wholesale and retail costs, which affect electricity bills.

Table 1.8 shows our estimated impact of our final decision and Ausgrid’s revised proposal on the average annual electricity bills for residential and small business customers in its network over the 2024–29 period.

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<sup>23</sup> Ausgrid, *Response to AER information request #50*, July 2023. Ausgrid’s dual function assets are a small, embedded component of the broader transmission network owned and operated by Transgrid. This combined network bill proportion only accounts for Ausgrid’s dual function assets transmission component and does not include the broader transmission component for Transgrid.

<sup>24</sup> We also have not factored in any changes arising from incentive scheme amounts, cost pass throughs or unders/overs reconciliation that usually occur in the annual pricing process to come up with the total allowed revenue.

<sup>25</sup> It also assumes that actual energy consumption will equal the forecast adopted in our final decision. Since Ausgrid operates under a revenue cap, changes in energy consumption will also affect annual electricity bills across the 2024–29 period.

<sup>26</sup> AER, *Default market offer prices 2023–24: Final determination*, May 2023, p. 6.

**Table 1.8 Estimated impact of Ausgrid’s revised proposal and AER’s final decision on annual electricity bills for the 2024–29 period (\$ nominal)**

	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29
<b>AER final decision</b>						
Residential annual electricity bill	1,827 <sup>a</sup>	1,846	1,871	1,893	1,918	1,896
Annual change <sup>b</sup>	–	19 (1%)	25 (1.4%)	22 (1.2%)	24 (1.3%)	–22 (–1.1%)
Small business annual electricity bill	4,999 <sup>a</sup>	5,050	5,120	5,182	5,251	5,190
Annual change <sup>b</sup>	–	51 (1%)	70 (1.4%)	62 (1.2%)	70 (1.3%)	–61 (–1.2%)
<b>Ausgrid revised proposal</b>						
Residential annual electricity bill	1,827 <sup>a</sup>	1,835	1,842	1,864	1,893	1,920
Annual change <sup>b</sup>	–	8 (0.4%)	7 (0.4%)	23 (1.2%)	29 (1.5%)	27 (1.4%)
Small business annual electricity bill	4,999 <sup>a</sup>	5,019	5,036	5,101	5,181	5,258
Annual change <sup>b</sup>	–	20 (0.4%)	18 (0.4%)	64 (1.3%)	80 (1.6%)	77 (1.5%)

Source: AER analysis; Bill proportions sourced from: Ausgrid, *Ausgrid - 2023-24 - Annual SCS pricing model*, April 2023; Endeavour, *Endeavour Energy – 2023–24 – Annual pricing model*, April 2023; Essential Energy, *Essential Energy – 2023;24 Annual pricing model*, April 2023.

(a) AER, *Default market offer prices 2023–24: Final determination*, May 2023, p. 6.

(b) Annual change amounts and percentages are indicative. They are derived by varying the networks component of the 2023–24 bill amounts in proportion to yearly expected revenue divided by AEMO’s forecast energy delivered in NSW for transmission and forecast energy for distribution as provided by Ausgrid. Actual bill impacts will vary depending on electricity consumption and tariff class.

## Shortened forms

Term	Definition
AER	Australian Energy Regulator
ARR	annual revenue requirement
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
DMIAM	demand management innovation allowance mechanism
DMO	default market offer
EBSS	efficiency benefit sharing scheme
kWh	kilowatt hour
MWh	megawatt hour
NER	National Electricity Rules
NPV	net present value
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model
SaaS	Software as a Service
SCS	standard control services