



Evoenergy 2019-24: our draft decision

Pre-determination conference

10 October 2018

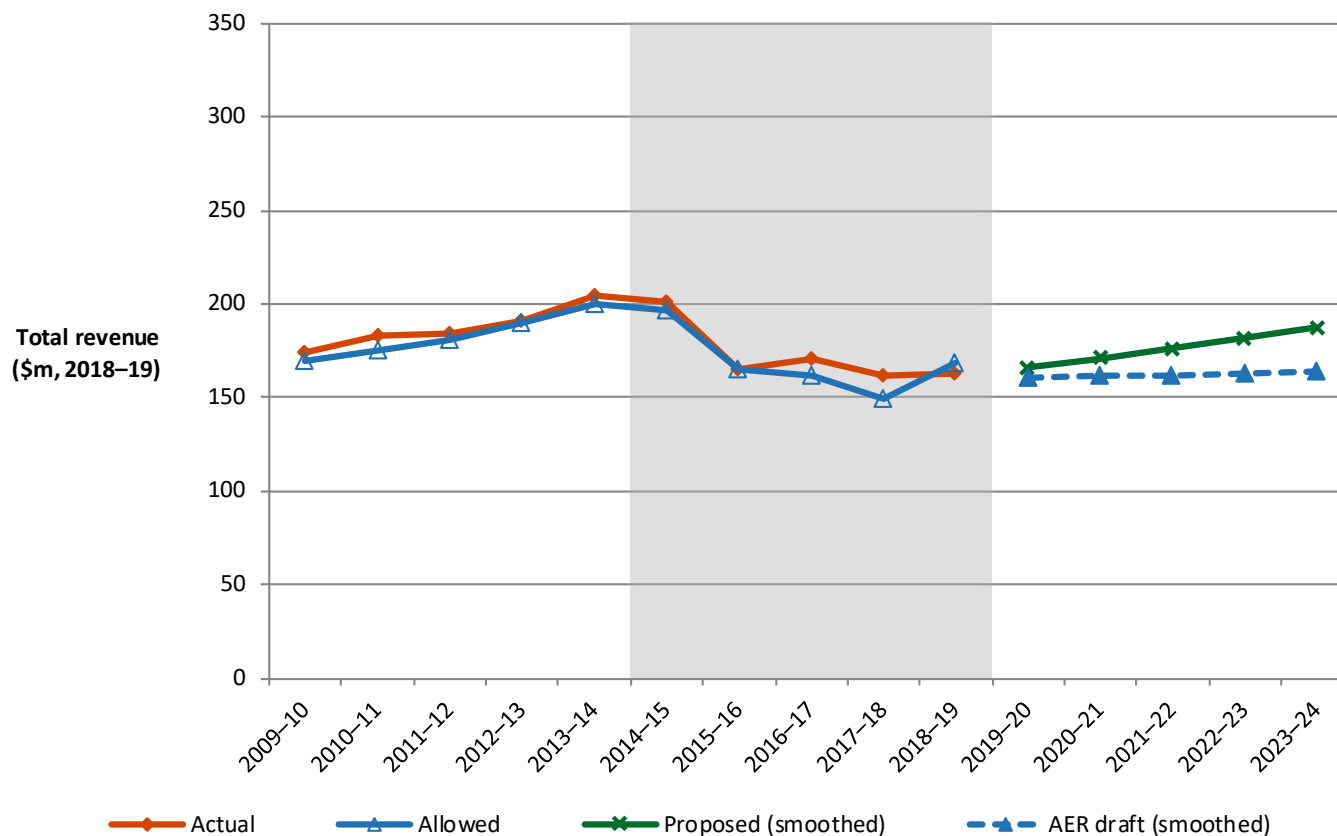
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Agenda

- AER welcome and introductions
- The AER's draft decision
[Morning tea]
- Insights from the AER Consumer Challenge Panel (CCP10)
- Insights from Evoenergy's Energy Consumer Reference Council
- Next steps for Evoenergy
- Thank you and close

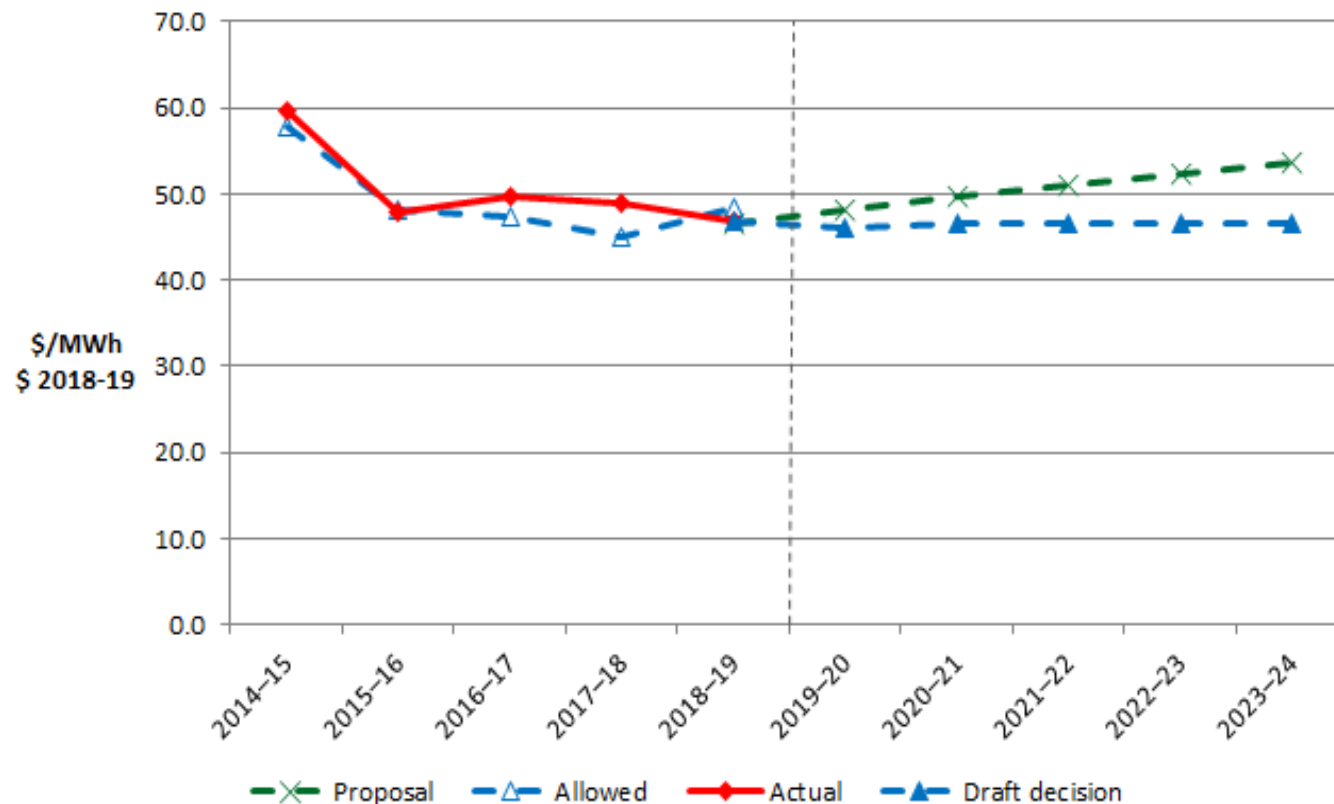
What is our draft decision?

Revenue over time - distribution and transmission (\$million, 2018/19)



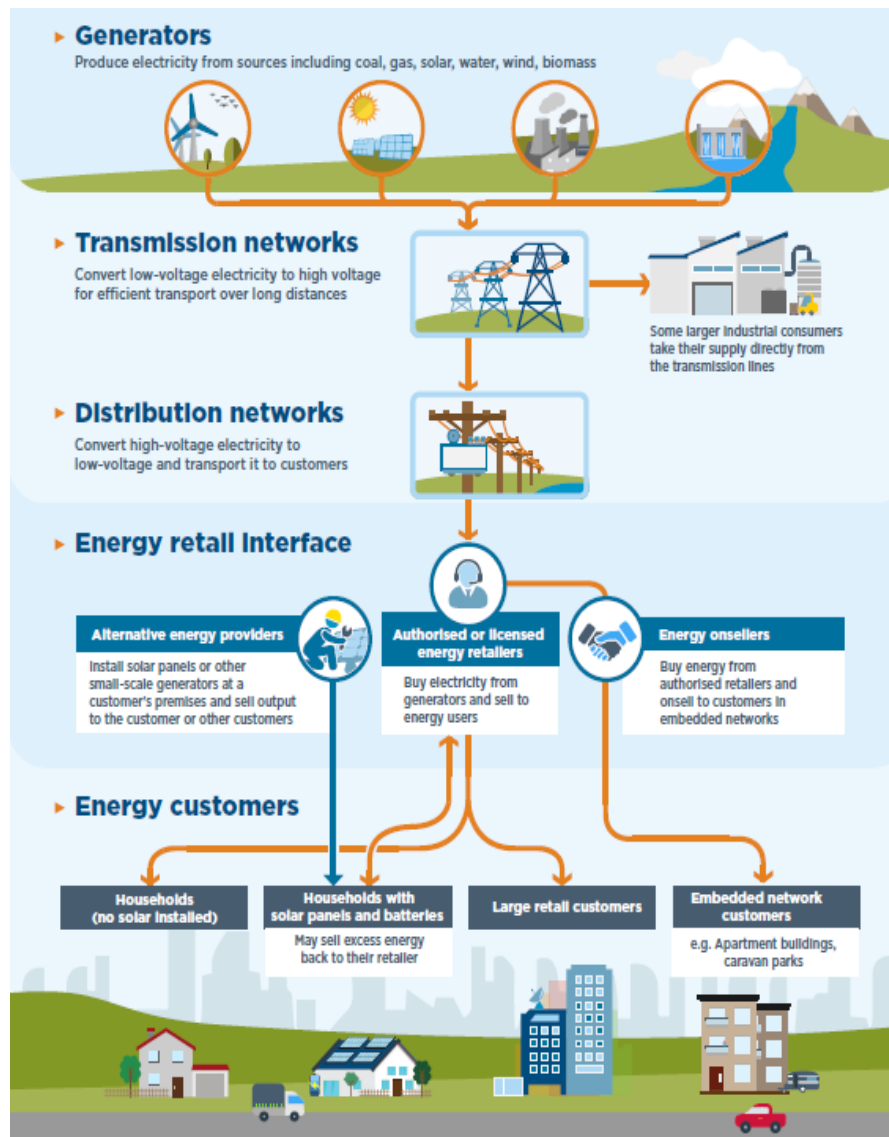
How would our draft decision affect distribution network tariffs?

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



What would this mean for customers?

Electricity transmission and distribution network service providers are subject to revenue caps set by the AER.



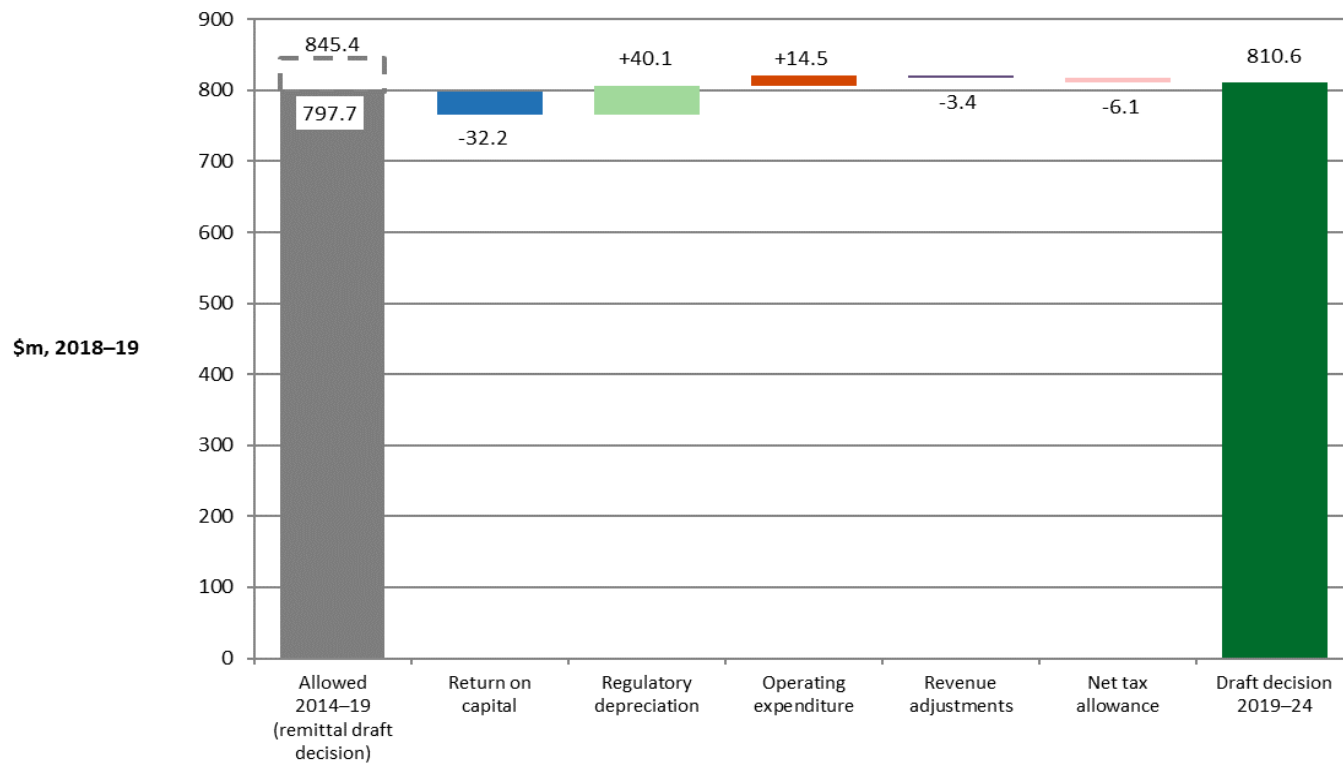
What would this mean for customers (cont.)?

Estimated impact on average annual electricity bills (\$ nominal)

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

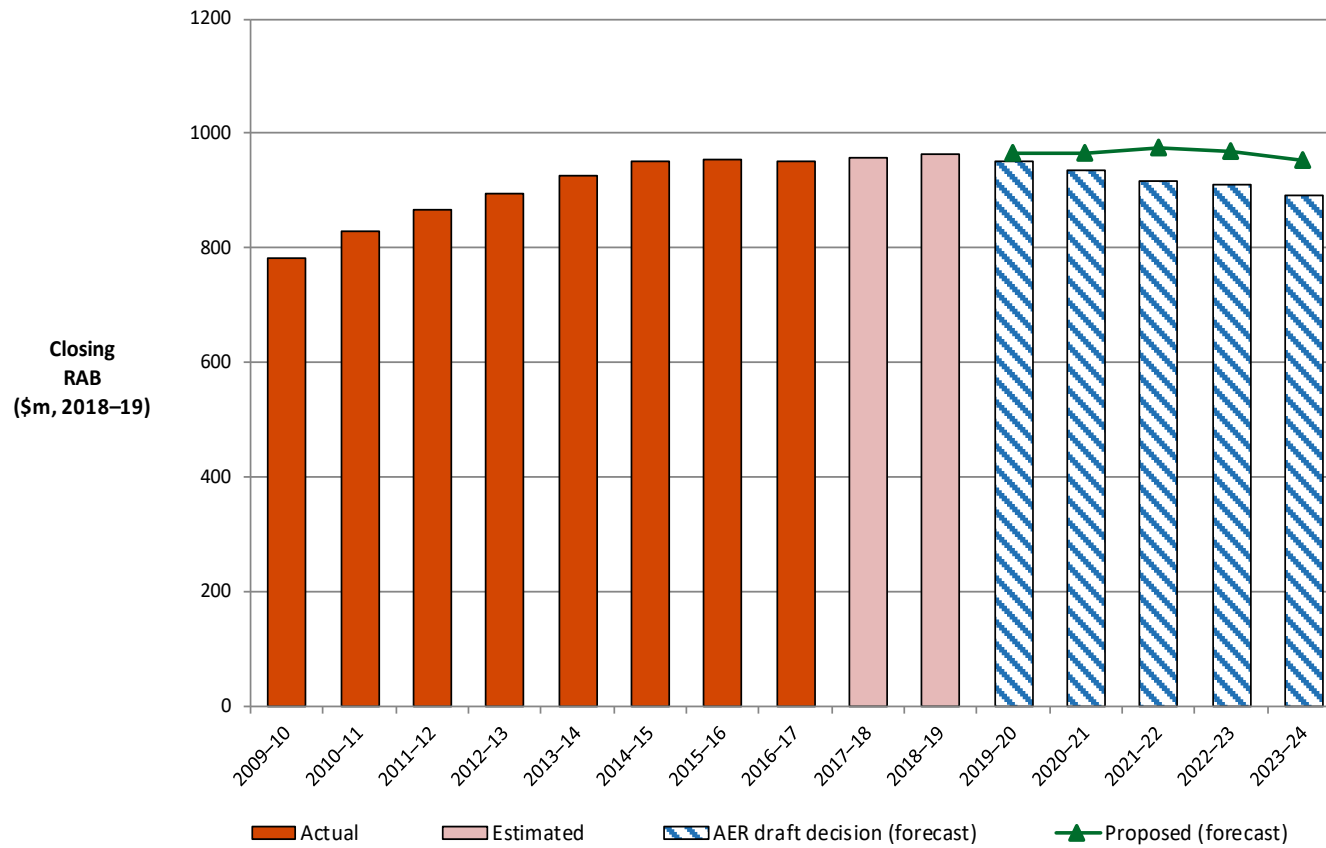
Key drivers

Change in (unsmoothed) revenue 2014-19 to 2019-24 - distribution and transmission (\$m, 2018/19)



Key drivers (cont.): RAB

Projected RAB – distribution and transmission (\$million, 2018/19)

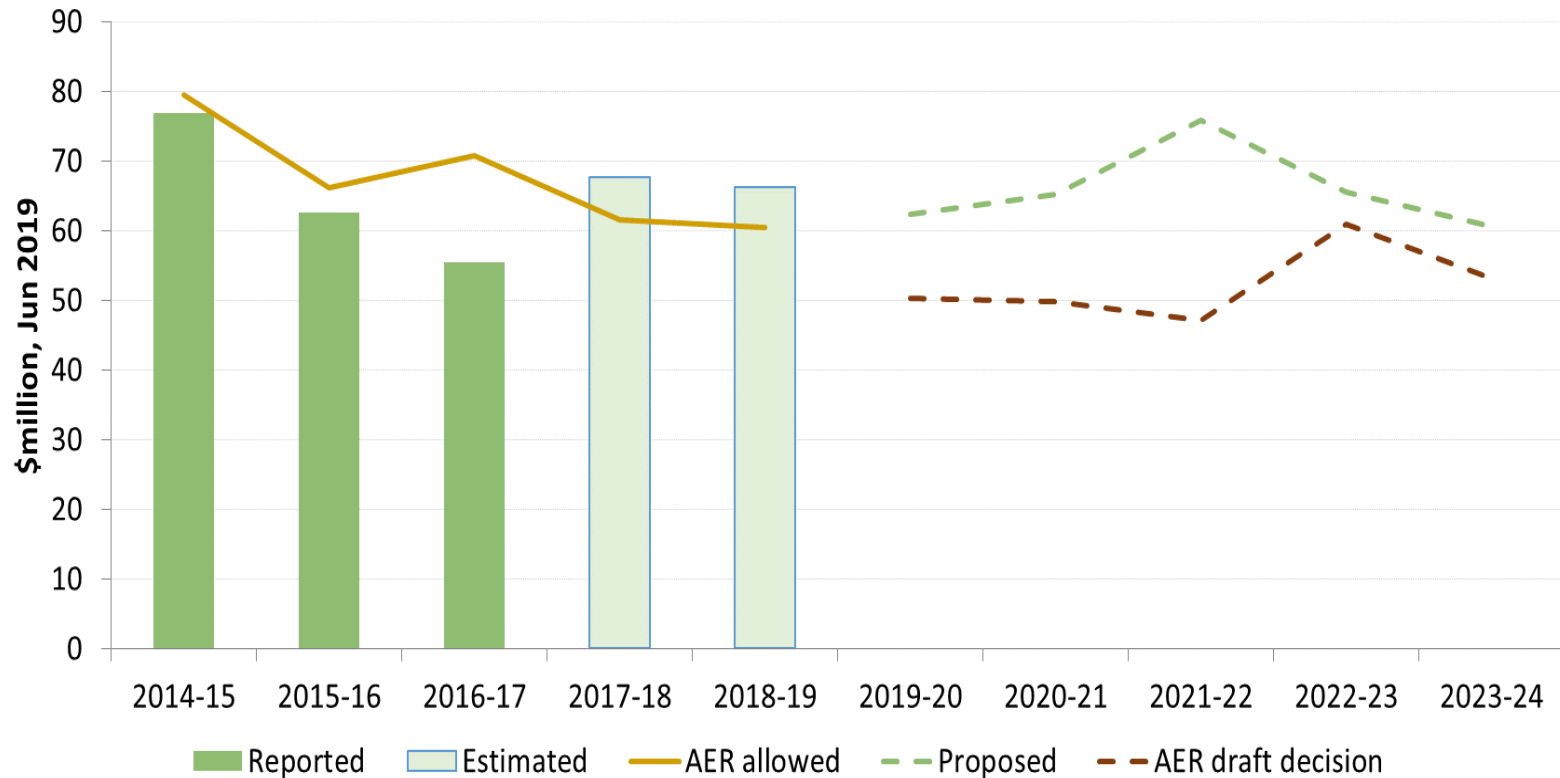


How do we differ from Evoenergy?

- Draft 2018 rate of return guideline
- Forecast expenditure
 - Capex
 - Opex
- Parallel consultations on:
 - Productivity
 - Corporate income tax allowance

Our draft capex forecast

Capex over time (\$2018/19, m)

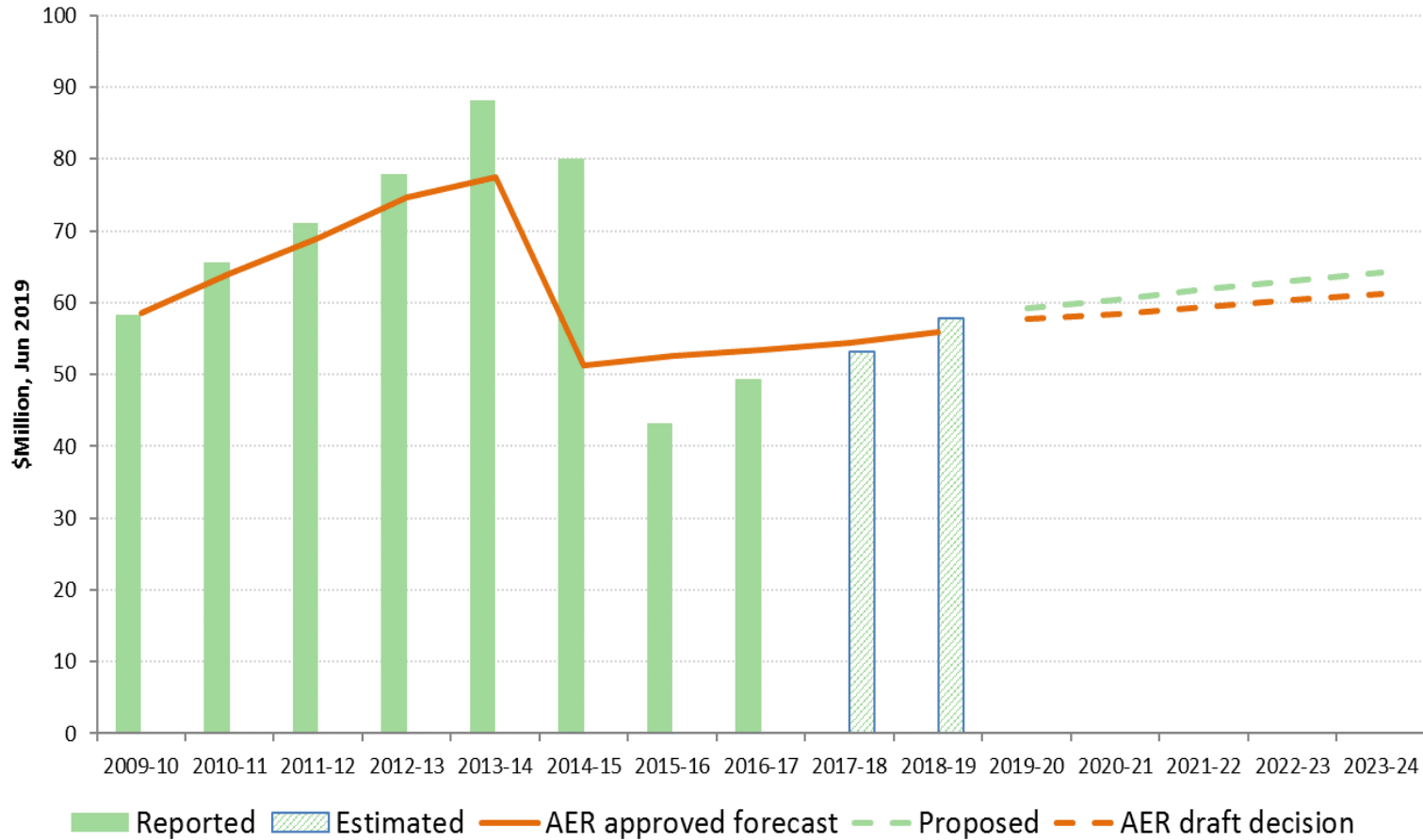


Our draft capex forecast (cont.) (\$2018/19, m)

Category	Evoenergy	Our alternative estimate	Difference
Augmentation and reliability	\$47.2	\$24.8	(47.5%)
Reliability	\$6.2	-	(100%)
Connections	\$85.9	\$85.7	(0.2%)
Replacement	\$91.6	\$83.6	(8.7%)
Non-Network	\$58.3	\$46.0	(21.1%)
Capitalised overheads	\$75.6	\$58.0	(23.2 %)
Gross Capex (includes capital contributions)	\$365.0	\$298.0	(18.4%)
Less Capital Contributions	\$34.2	\$35.6	0.4%
Less Disposals	\$1.1	\$1.1	-
Net Capex (excluding capital contributions)	\$329.8	\$261.4	(20.7%)

Our draft opex forecast

Opex over time



Our draft opex forecast (cont.)

(\$2018/19, m)

	Evoenergy	Our alternative estimate	Difference
Base opex	\$282.2	\$283.0	\$0.8
Base opex adjustment	(\$17.4)	(\$17.6)	\$0.3
Price growth	\$16.5	\$12.0	(\$4.5)
Output growth	\$6.8	\$3.5	(\$3.4)
Productivity growth	\$0.0	\$0.0	\$0.0
Step changes	\$20.6	\$13.8	(\$6.8)
Category specific forecasts	\$0.0	\$0.0	\$0.0
Debt raising costs	\$2.5	\$2.4	(\$0.1)
Total opex	\$311.4	\$297.1	(\$14.3)

Incentive schemes

- opex efficiency benefit sharing scheme (EBSS)
- capital expenditure sharing scheme (CESS)
- service target performance incentive scheme (STPIS)
- demand management incentive scheme (DMIS)
- demand management innovation allowance mechanism (DMIAM).

Rate of return

	ActewAGL/ Evoenergy final decision (2014–19)	Evoenergy's proposal (2019–24)	AER draft decision (2019–24)	Allowed return over regulatory control period
Nominal risk free rate	2.55%	2.78%	2.66%	
Market risk premium	6.5%	7%	6%	
Equity beta	0.7	0.7	0.6	
Return on equity (nominal post-tax)	7.1%	7.7%	6.3%	Constant (%)
Return on debt (nominal pre-tax)	6.07%	5.57%	5.46%	Updated annually
Gearing	60%	60%	60%	Constant (60%)
Nominal vanilla WACC	6.48%	6.42%	5.80%	Updated annually for return on debt
Forecast inflation	2.42%	2.5%	2.45%	Constant (%)

Tariff structure statement (TSS)

- Reform of tariff structures continues in 2019-24 regulatory control period
- Evoenergy is relatively advanced distributor in tariff reform with its proposal continuing reform
- Our draft decision requires Evoenergy to improve certainty for stakeholders by clarifying aspects of its tariff design and assignment policies.

Next steps

Milestone	Date
<i>Evoenergy submits its proposal</i>	<i>31 January 2018</i>
<i>AER issues paper published</i>	<i>29 March 2018</i>
<i>Public forum on Evoenergy's proposal</i>	<i>13 April 2018</i>
<i>Submissions on Evoenergy's proposal due</i>	<i>16 May 2018</i>
<i>AER draft decision published</i>	<i>27 September 2018</i>
→ Public forum on draft decision	10 October 2018
<i>Evoenergy submits its revised proposal</i>	<i>29 November 2018</i>
<i>Submissions on draft decision and revised proposal due</i>	<i>11 January 2019</i>
<i>AER final decision published</i>	<i>April 2019</i>