Draft decision: Evoenergy 2019–24

We have made a draft revenue decision for Evoenergy, the electricity distribution network operator in the Australian Capital Territory. Our draft decision would allow Evoenergy to recover $871.5 million ($nominal) from its customers over five years commencing 1 July 2019.

Estimated impact on customer bills ($nominal)

The distribution network tariffs that will be set by reference to our final decision are only one contributor to electricity bills, and make up around 25 per cent of the total retail electricity bills Evoenergy's customers pay.

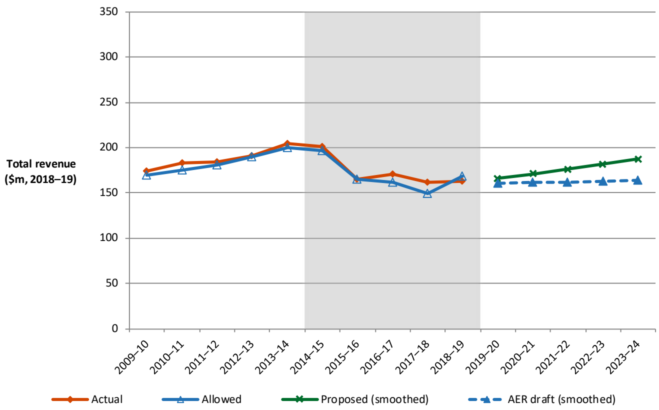
We estimate that under our draft decision the average annual electricity bill for Evoenergy’s residential customers would be 0.2 per cent ($3) higher in the first year of the 2019–24 period than the current 2018–19 level. We estimate the overall impact for residential customers is a $61 increase in electricity bills over the five year period.

For small business customers, which use more energy, we estimate the same 0.2 per cent increase to the average annual electricity bills would result in an $11 increase in the first year of the 2019–24 period. We estimate the overall impact for small business customers over the five year period would be an increase of $212.

Overview

We, the Australian Energy Regulator (AER), regulate the revenues of Evoenergy by setting the maximum allowed revenue it may recover from its customers.

Evoenergy’s past and proposed total revenue and AER draft decision revenue allowance ($million, 2018–19)



Our draft decision allows for a 4.2 per cent real reduction in Evoenergy’s total revenue from the current period, while still taking into account Evoenergy’s newly expanded responsibilities for vegetation management.

Key elements of our draft decision

The total revenue in this draft decision is 8.4 per cent lower than in Evoenergy's proposal.

In many respects we agree with Evoenergy on the key drivers influencing its revenue requirement for 2019–24. However, a few areas remain in which we require further information before we can accept the increases to capex and opex that it has put to us relative to the current period.

Evoenergy will now have the opportunity to respond to our concerns in its revised proposal. We will continue to work with Evoenergy and stakeholders to ensure that our final decision, which will determine the revenue Evoenergy can recover from its customers for the 2019–24 regulatory control period, is in the long term interests of consumers and that Evoenergy's customers are paying no more than they should for safe and reliable electricity.

Rate of return and gamma

The biggest contributor to the difference between our draft decision and Evoenergy's proposal is our proposed change to the rate of return (and therefore the return on capital). The rate of return is a forecast of the costs of funds a network business requires to attach investment in the network.

Where Evoenergy's proposal was for a higher rate of return than in the current period, this draft decision applies a lower one. Our draft decision adopts the approach proposed in our draft 2018 rate of return guideline to calculate this lower rate of return (5.80 per cent compared to Evoenergy's proposed 6.42 per cent).

Also reflecting our draft 2018 rate of return guideline, our draft decision adopts a value of imputation credits (gamma) of 0.5 compared to Evoenergy's proposed 0.4, which has contributed to the reduction in the corporate income tax allowance relative to Evoenergy's proposal.

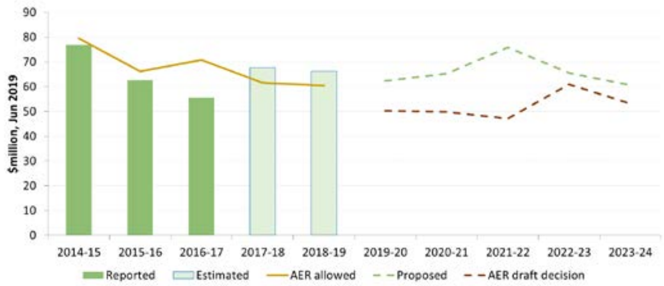
Consultation on our draft 2018 guideline is ongoing, and is expected to conclude in December 2018. Legislation currently before the South Australian House of Assembly will (if passed) make our final 2018 rate of return guideline binding on this and other decisions.

Capital expenditure (capex)

Capex refers to Evoenergy’s investment to acquire or upgrade its fixed assets (such as its lines and transformers).

Our draft decision on Evoenergy's revenue includes total forecast capex of $261.4 million ($2018–19) for 2019–24. This is 20.5 per cent lower than Evoenergy's actual capex over the current period.

Evoenergy's past and proposed capex and AER draft decision capex allowance ($million, 2018–19)



Our draft decision substitutes a capex forecast that is 20.7 per cent lower than that in Evoenergy's proposal. The alternative capex forecast for 2019-24 we have adopted for our draft decision includes Evoenergy's forecast connections capex, which will be one of the key drivers of capex in that period.

In other areas, Evoenergy's total forecast capex includes provision for a level of capital investment that we consider goes beyond what is efficient and prudent for the maintenance and operation of its network and given expected demand.

Operating expenditure

Opex is the forecast operating, maintenance and other non-capital costs incurred in providing network services.

Our draft decision is to include total forecast opex of $297.1 million ($2018/19) in Evoenergy's revenue for the 2019-24 regulatory control period. This is an increase of 12 per cent from Evoenergy's actual opex in the current period, which allows for:

- efficient and prudent expenditure required to meet Evoenergy's expanded responsibilities for vegetation management under the *Utilities (Technical Regulation) Amendment Act 2017* (ACT), which took effect from 1 July 2018
- a step change for demand management, which will support deferral of augmentation to Evoenergy's network.
- expected increases in input costs (including the cost of labour), and in the costs of operating a larger network with more customers.

Evoenergy's past and proposed capex and AER draft decision opex allowance ($million, 2018–19)

The total opex included in our draft decision on Evoenergy's revenue is 4.6 per cent lower than in Evoenergy's proposal.

On the information before us, we consider Evoenergy's total forecast opex overestimates the likely changes in the costs of labour and network growth, and the prudent and efficient costs of meeting its expanded responsibilities for vegetation management. Between now and our final decision in April 2019, we will also be giving further consideration to our approach to forecasting productivity. This review may change our approach going forward, which in turn may impact our final decision on Evoenergy's opex.

Next steps

Evoenergy's revised regulatory proposal is due 29 November 2018. We will assess this proposal and it could lead to significant differences between our draft and final decision.

Stakeholders may make written submissions on our draft decision and Evoenergy's revised proposal by 11 January 2019. Our final decision is due for release by the end of April 2019.

More information on Evoenergy's proposal, our draft decision and how to make a submission is on our website: www.aer.gov.au.