E

FINAL DECISION

Essential Energy distribution determination

2015−16 to 2018−19

Attachment 1 – Annual revenue requirement

April 2015

© Commonwealth of Australia 2015

This work is copyright. In addition to any use permitted under the Copyright Act 1968, all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence, with the exception of:

* the Commonwealth Coat of Arms
* the ACCC and AER logos
* any illustration, diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright, but which may be part of or contained within this publication. The details of the relevant licence conditions are available on the Creative Commons website, as is the full legal code for the CC BY 3.0 AU licence.

Requests and inquiries concerning reproduction and rights should be addressed to the:

Director, Corporate Communications  
Australian Competition and Consumer Commission   
GPO Box 4141, Canberra ACT 2601

or publishing.unit@accc.gov.au.

Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 520  
Melbourne Vic 3001

Tel: (03) 9290 1444  
Fax: (03) 9290 1457

Email: [AERInquiry@aer.gov.au](mailto:AERInquiry@aer.gov.au)

AER reference: 54419

1. Note
2. This attachment forms part of the AER's final decision on Essential 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 methodology

Attachment 19 - Analysis of Financial Viability

1. Contents

[Note 1-2](#_Toc416172651)

[Contents 1-3](#_Toc416172652)

[Shortened forms 1-4](#_Toc416172653)

[1 Annual revenue requirement 1-6](#_Toc416172654)

[1.1 Final decision 1-6](#_Toc416172655)

[1.2 Essential Energy’s revised proposal 1-8](#_Toc416172656)

[1.3 AER’s assessment approach 1-9](#_Toc416172657)

[1.4 Reasons for final decision 1-9](#_Toc416172658)

[1.4.1 Revenue true-up for transitional year 1-10](#_Toc416172659)

[1.4.2 Smoothing of revenues 1-11](#_Toc416172660)

[1.4.3 Shared assets 1-12](#_Toc416172661)

[1.4.4 Indicative average distribution price impact 1-13](#_Toc416172664)

1. Shortened forms

|  |  |
| --- | --- |
| 1. Shortened form | 1. Extended form |
| 1. AEMC | 1. Australian Energy Market Commission |
| 1. AEMO | 1. Australian Energy Market Operator |
| 1. AER | 1. Australian Energy Regulator |
| 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 Essential 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 Essential 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 Essential Energy's revised proposed total revenue requirement[[1]](#footnote-1) of $6846.1 million ($ nominal) over the 2014–19 period. This is because we have not accepted the building block costs that Essential Energy proposed in its revised proposal. We determine a total revenue requirement for Essential Energy of $5176.0 million ($ nominal) for the 2014–19 period. This is a reduction of $1670.1 million ($ nominal) or 24.4 per cent to Essential 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 $1291.7 million for Essential 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 $976.1 million for Essential Energy. The difference is therefore $315.6 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 $3826.1 million ($ nominal) for the 2015–19 period.[[3]](#footnote-3)
4. Figure 1.1 shows the difference between Essential Energy's revised proposal and our decision (draft and final).

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

1. 

Source: AER analysis; Essential Energy, Regulatory proposal, May 2014, Attachment 4.1; Essential Energy, Revised regulatory proposal, January 2015, Attachment 5.5.

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 Essential Energy's annual revenue requirement for the 2014–19 period ($million, nominal)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2014–15 | 2015–16 | 2016–17 | 2017–18 | 2018–19 | Total |
| Return on capital | 456.9 | 480.1 | 507.2 | 533.2 | 558.6 | 2535.9 |
| Regulatory depreciation | 103.4 | 122.0 | 138.0 | 130.2 | 138.9 | 632.4 |
| Operating expenditure | 327.4 | 338.8 | 350.5 | 362.8 | 375.6 | 1755.2 |
| Revenue adjustmentsa | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | 3.2 |
| Net tax allowance | 35.5 | 37.7 | 42.7 | 38.6 | 42.5 | 196.9 |
| Metering, ANS & ERW costsb | 52.3 | n/a | n/a | n/a | n/a | 52.3 |
| Annual revenue requirement (unsmoothed) | 976.1 | 979.2 | 1039.1 | 1065.4 | 1116.2 | 5176.0 |
| **Annual expected revenue (smoothed)** | **1291.7** | **911.3** | **937.7** | **969.6** | **1007.5** | **5117.8** |
| X factorc | n/ad | 31.09% | -0.50% | -1.00% | -1.50% | n/a |

Source: AER analysis.

(a) Revenue adjustments relate to forecast DMIA.

(b) These are the efficient costs of metering and ancillary network services and emergency recoverable works as determined by the AER.

(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 Essential Energy's total revenue requirement for the 2015–19 regulatory control period for the difference between the placeholder revenue and our decision on Essential Energy's efficient costs for 2014–15.

## Essential Energy’s revised proposal

1. Essential Energy's revised proposal included a total revenue requirement of $6846.1 million ($ nominal) for the 2014–19 period.
2. Table 1.2 shows Essential Energy's proposed building block costs, the ARR, expected revenue and X factor for each year of the 2014–19 period.

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2014–15 | 2015–16 | 2016–17 | 2017–18 | 2018–19 | Total |
| Return on capital | 600.5 | 640.6 | 680.9 | 720.3 | 759.1 | 3401.5 |
| Regulatory depreciationa | 98.8 | 113.8 | 129.7 | 121.8 | 130.3 | 594.4 |
| Operating expenditure | 510.2 | 515.7 | 489.5 | 506.7 | 483.5 | 2505.7 |
| Efficiency benefit sharing scheme (carryover amounts) | –14.9 | –52.7 | –48.3 | 39.1 | 0.0 | –76.8 |
| Net tax allowance | 65.6 | 58.2 | 68.0 | 89.7 | 85.2 | 366.7 |
| Metering, ANS & ERW net costsb | 54.7 | n/a | n/a | n/a | n/a | 54.7 |
| Annual revenue requirement (unsmoothed) | 1315.0 | 1275.6 | 1319.9 | 1477.5 | 1458.1 | 6846.1 |
| **Annual expected revenue (smoothed)** | **1291.7** | **1332.6** | **1366.0** | **1400.1** | **1446.9** | **6837.4** |
| X factor | 10.28% | –0.65% | –0.01% | 0.01% | –0.82% | n/a |

Source: Essential Energy, Revised regulatory proposal, January 2015, Attachment 5.5.

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

(b) These are the net costs of metering and ancillary network services and emergency recoverable works. They reflect the difference between the costs and any offsetting revenues recovered by the service provider through separate charges.

## 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 $5176.0 million ($ nominal) for Essential Energy over the 2014–19 period. This is $1670.1 million ($ nominal) or 24.4 per cent below Essential 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 Essential Energy's revised proposed ARRs and our final decision.

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

1. 

Source: AER analysis; Essential Energy, Revised regulatory proposal, January 2015, Attachment 5.5.

1. The most significant changes to Essential Energy's revised proposal include; a reduction in the rate of return of 2.1 per cent for 2014–15 and 2.2 per cent for 2015–19 (attachment 3), a reduction in the capex allowance of 8.1 per cent (attachment 6), and a reduction in the opex allowance of 30.0 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' from 2015–19.[[4]](#footnote-4) We are required to make both a decision on 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 Essential Energy's proposed revenue requirement for its transitional regulatory control period (2014–15). We determined a placeholder revenue allowance of $1291.7 million ($ nominal) for Essential Energy in the transitional determination.[[6]](#footnote-6) This revenue includes all costs associated with standard control services, including type 5 and 6 metering services, ancillary network services (ANS) and emergency recoverable works (ERW), which were re-classified from standard control services to alternative control services (ACS) as at 1 July 2014. The transitional rules[[7]](#footnote-7) prevented the reallocation of type 5 and 6, ANS and ERW costs in 2014–15 despite the change in classification from standard control services to alternative control services as at 1 July 2014.[[8]](#footnote-8)
3. In our draft decision, we made a full regulatory determination for the years 2015–16 to 2018–19 for Essential Energy, and we accounted for any true-up related to the transitional regulatory control period (2014–15). As part of this, we were required to determine ARRs for each year of the five year (2014–19) period and use a net present value (NPV) neutral true-up mechanism to account for any difference between:[[9]](#footnote-9)

* the placeholder revenue for the transitional regulatory control period, and
* the ARR for 2014–15 that is established through the full determination process.

1. Essential 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.[[10]](#footnote-10) 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.[[11]](#footnote-11) 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 $976.1 million for Essential 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 other ACS consistent with the transitional rules.[[12]](#footnote-12) We do not accept Essential Energy's revised proposed costs of $54.7 million associated with these services. Our final decision is to include a value of $52.3 million for the costs associated with these services.[[13]](#footnote-13) The difference reflects our determination of efficient costs associated with providing these services. Therefore, the difference between the ARR ($976.1 million) and the placeholder revenue ($1291.7 million) should be returned to customers.
4. To give effect to the true-up, we have set Essential Energy's first year expected revenue in the PTRM equal to the AER approved placeholder revenue for 2014–15 of $1291.7 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 any difference in the revenues for 2014–15 between the transitional and full determination 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.[[14]](#footnote-14) This gives effect to the true-up requirements under the NER and ensures that the difference of $315.6 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 other ACS (such as ANS and ERW) costs from standard control services from 1 July 2015. The true-up for 2014–15, and the removal of metering and other ACS 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.[[15]](#footnote-15)
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.[[16]](#footnote-16) 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. As a result of the shortened regulatory control period, the required true-up for 2014–15, and that metering and other ACS costs are removed from standard control services from 1 July 2015 we have allowed the difference between smoothed and unsmoothed revenues in the last year of the period to diverge more than would be usual.[[17]](#footnote-17)
4. Our final decision smoothing results in a difference between the expected revenue and ARR for 2018–19 of around 10 per cent. While this divergence is significant, we consider this smoothing profile 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. This approach results in a revenue profile that we consider is reasonable.
5. Table 1.3 shows the expected revenues (smoothed) of Essential 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.
6. Table 1.3 Essential 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 |
| Essential Energy's revised proposal | 1291.7 | 1332.6 | 1366.0 | 1400.1 | 1446.9 |
| X factor | n/a | –0.6% | 0.0% | 0.0% | -0.8% |
| AER final decision | 1291.7 | 911.3 | 937.7 | 969.6 | 1007.5 |
| X factor | n/a | 31.09% | –0.50% | –1.00% | –1.50% |

1. Source: Essential Energy, Revised regulatory proposal, January 2015, Attachment 5.5.
2. AER analysis.

### Shared assets

In the draft decision, we considered that Essential Energy's forecast shared asset unregulated revenues do not meet the minimum threshold for adjustments to be made to its ARR.[[18]](#footnote-18) 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 Essential Energy's expected revenues ultimately affects the prices consumers pay for electricity. Because we are regulating Essential Energy's standard control services under a revenue cap, the adjustments that we have made to Essential Energy's expected revenues do not directly translate to price impacts. This is because Essential Energy's revenue is fixed under the revenue cap form of control, so changes in the consumption of electricity will affect the price consumers are charged. We are not required to establish the distribution prices for Essential Energy as part of this determination. However, we will assess Essential Energy's annual pricing proposals before the commencement of each regulatory year for the 2015–19 regulatory control period to administer the pricing requirements in this distribution determination.
2. For this final decision, we have estimated some of the indicative average distribution price impacts flowing from our determination on the expected revenues for Essential Energy over the 2014–19 period. Figure 1.3 shows Essential Energy's indicative price path based on the expected revenues established in our final decision compared to its revised proposed revenue requirement. We used the data on price changes Essential Energy provided in its revised proposal, 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 Essential Energy's revised proposed indicative price path (nominal price index)



Source: AER analysis.

The nominal price index is calculated by the AER based on the indicative weighted average price changes submitted by Essential Energy in its revised proposal, and adjusting for the change in overall revenue substituted by the AER.

1. We estimate that our final decision on Essential Energy's annual expected revenue will result in a decrease to average distribution charges by about 5.6 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 7.8 per cent per annum. This compares to a decline of 1.0 per cent per annum proposed by Essential Energy (based on Essential 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 7.3 per cent in 2014–15. We estimate that our final decision will further reduce distribution charges by another 29.0 per cent in 2015–16, followed by increases of about 4.4 per cent per annum from 2016–17 to 2018–19. This compares to the nominal increase of approximately 3.8 per cent per annum over the 2015–19 regulatory control period in Essential Energy's revised proposal.
2. Table 1.4 displays the comparison of the price impacts of Essential Energy’s revised proposal and our final decision revenue allowance.

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2013–14 | 2014–15 | 2015–16 | 2016–17 | 2017–18 | 2018–19 |
| **Essential Energy revised proposal** | |  |  |  |  |  |
| Revenue ($m, nominal) | 1405.3 | 1291.7 | 1332.6 | 1366.0 | 1400.1 | 1446.9 |
| Price path (nominal index) | 1.00 | 0.93 | 0.96 | 1.00 | 1.04 | 1.08 |
| Revenue (change %) |  | –8.1% | 3.2% | 2.5% | 2.5% | 3.3% |
| Price path (change %) |  | –7.3% | 3.8% | 3.8% | 3.8% | 3.8% |
| **AER final decision** |  |  |  |  |  |  |
| Revenue ($m, nominal) | 1405.3 | 1291.7 | 911.3 | 937.7 | 969.6 | 1007.5 |
| Price path (nominal index) | 1.00 | 0.93 | 0.66 | 0.69 | 0.72 | 0.75 |
| Revenue (change %) |  | –8.1% | –29.4% | 2.9% | 3.4% | 3.9% |
| Price path (change %) |  | –7.3% | –29.0% | 4.2% | 4.7% | 4.4% |

Source: AER analysis.

1. Distribution charges represent approximately 43 per cent on average of Essential Energy's typical customer's annual electricity bill.[[19]](#footnote-19) We expect that our final decision, holding all other components of the bill constant, will reduce the average residential customer electricity bills in Essential 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 Essential 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 Essential Energy's residential customers could be expected to reduce by about $85 or 3.2 per cent ($ 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 $313 or 11.9 per cent in 2015–16. This would be followed by increases of about $35 or 1.5 per cent ($ nominal) per annum from 2016–17 to 2018–19. By comparison, had we accepted Essential Energy's revised proposal, the average annual electricity bill for residential customers would increase by approximately $44 or 1.6 per cent ($ nominal) per annum from 2015–17 to 2018–19.
3. Our estimate of the potential impact our final decision will have for Essential Energy's residential customers is based on the typical annual electricity usage of 6500 kWh per annum for a residential customer in NSW.[[20]](#footnote-20) Therefore 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 Essential 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 Essential Energy's network could be expected to reduce by about $144 or 3.2 per cent ($ 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 small business customers to reduce by a further $528 or 12.0 per cent in 2015–16. This would be followed by increases of about $59 or 1.5 per cent ($ nominal) per annum from 2016–17 to 2018–19. By comparison, had we accepted Essential Energy's revised proposal, the average annual electricity bill for small business customers would increase by approximately $74 or 1.6 per cent ($ nominal) per annum over the 2015–19 regulatory control period.
5. Table 1.5 shows the estimated impact of our final decision for the 2014–19 period and Essential Energy's revised proposal on the average residential and small business customers’ annual electricity bills.

Table 1.5 Estimated impact of Essential Energy's revised proposal and AER final decision on annual electricity bills for the 2014–19 period ($ nominal)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2013–14 | 2014–15 | 2015–16 | 2016–17 | 2017–18 | 2018–19 |
| **Essential Energy revised proposal** | |  |  |  |  |  |
| Residential annual bill | 2703 | 2618 | 2659 | 2701 | 2745 | 2790 |
| Annual change |  | –85 (–3.2%) | 41 (1.6%) | 42 (1.6%) | 44 (1.6%) | 46 (1.7%) |
| Small business annual bill | 4567 | 4423 | 4492 | 4563 | 4637 | 4714 |
| Annual change |  | –144 (–3.2%) | 69 (1.6%) | 71 (1.6%) | 74 (1.6%) | 77 (1.7%) |
| **AER draft decision** |  |  |  |  |  |  |
| Residential annual bill | 2703 | 2618 | 2305 | 2337 | 2374 | 2411 |
| Annual change |  | –85 (–3.2%) | –313 (–11.9%) | 32 (1.4%) | 37 (1.6%) | 36 (1.5%) |
| Small business annual bill | 4567 | 4423 | 3895 | 3949 | 4012 | 4073 |
| Annual change |  | –144 (–3.2%) | –528 (–11.9%) | 54 (1.4%) | 63 (1.6%) | 61 (1.5%) |

Source: AER analysis; AER, [Energy Made Easy](https://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 charge for a typical consumption of 6500 kWh per year during the period 1 July 2013 to 30 June 2014. The charges reflect regulated price only. Sample postcode: 2650.

(b) Based on the annual charge 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 charges reflect regulated price only. Sample postcode: 2650.

1. This is referred to in the transitional rules as a 'notional' revenue requirement. We have adopted the standard terminology in chapter 6 of the NER 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. 25-26. [↑](#footnote-ref-2)
3. Our smoothing involves a 'true-up' for the 2014–15 (transitional regulatory control period) placeholder revenue as required under cll. 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 for 2014–15, April 2014, p. 17.  [↑](#footnote-ref-6)
7. NER, cll 11.56.3(a)(1) and 11.56.3(i). [↑](#footnote-ref-7)
8. AER, Stage 2 Framework and Approach – NSW Distributors, January 2014, p. 40. [↑](#footnote-ref-8)
9. NER, cl. 11.56.4(h)-(i). [↑](#footnote-ref-9)
10. AGL, Submission on NSW DNSPs draft decision, 15 February 2015, p. 3. [↑](#footnote-ref-10)
11. NER, cl 11.56.4(h)-(i). [↑](#footnote-ref-11)
12. NER, cl 11.55.3(i). [↑](#footnote-ref-12)
13. Refer to attachment 16 – Alternative control services for further details. [↑](#footnote-ref-13)
14. 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-14)
15. Networks NSW, NSW DNSP's submission on the AER's draft determinations, 13 February 2015, pp. 7–8. [↑](#footnote-ref-15)
16. NER, cl 11.56.4(c). [↑](#footnote-ref-16)
17. 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-17)
18. AER, Draft decision Essential Energy distribution determination – Attachment 1 – Annual revenue requirement, November 2014, pp. 17–18. [↑](#footnote-ref-18)
19. Essential Energy, Regulatory proposal, May 2014, p. 4. [↑](#footnote-ref-19)
20. IPART, *Final report: Review of regulated retail prices for Electricity from 1 July 2013 to 30 June 2016*, June 2013, p. 5. [↑](#footnote-ref-20)