FINAL DECISION
Evoenergy
Distribution Determination

2019 to 2024

Attachment 1
Annual revenue requirement

April 2019

AUSTRALIAN ENERGY REGULATOR

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Tel: 1300 585 165
Email: AERInquiry@aer.gov.au

Note

This attachment forms part of the AER's final decision on the distribution determination that will apply to Evoenergy for the 2019-2024 regulatory control 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 attachments have been numbered consistently with the equivalent attachments to our longer draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following attachments:

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 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 12 – Classification of services

Attachment 13 – Control mechanisms

Attachment 15 – Alternative control services

Attachment A – Negotiated framework

Attachment B – Pricing methodology

Contents

Shortened forms

Shortened form	Extended form
ACT	Australian Capital Territory
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
ARR	annual revenue requirement
CESS	capital expenditure sharing scheme
CPI	consumer price index
distributor	distribution network service provider
DMIAM	demand management innovation allowance mechanism
DUoS	distribution use of system
ICRC	Independent Competition and Regulatory Commission
NER	National Electricity Rules
NSW	New South Wales
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RIN	regulatory information notice
TNSP	transmission network service provider
TUoS	transmission use of system

1 Annual revenue requirement

This attachment sets out our final decision on Evoenergy's annual revenue requirements (ARRs) and expected revenues for the 2019–24 regulatory control period for its distribution and transmission (dual function assets) networks. Evoenergy'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.[1]

The 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 Evoenergy 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.

1.1 Final decision

We determine a total ARR for Evoenergy for the 2019–24 regulatory control period, reflecting our final decision on the various building block costs, of:

- $710.3 million ($ nominal) for its distribution network. This is a reduction of $64.6 million ($ nominal) or 8.3 per cent to Evoenergy's revised proposal of $774.9 million.
- $141.7 million ($ nominal) for its transmission network. This is a reduction of $12.6 million ($ nominal) or 8.2 per cent to Evoenergy's revised proposal of $154.3 million.

Our final decision includes an estimated $0.9 million ($ 2018–19) being returned to customers over the 2019–24 regulatory control period, as confirmed in our remade final decision for the 2014–19 period which accepted Evoenergy's remittal proposal.[2] This amount is:

- Based on the difference between the revenues Evoenergy recovered during the 2014–19 period (where it set network charges in accordance with enforceable undertakings during 2016–17 to 2018–19)[3] and the revenues we approved in our remade decision.[4]

---

1 AER, *Framework and approach ActewAGL Regulatory control period commencing 1 July 2019,* July 2017, p. 13; NER, cl. 6.25(b).

2 AER, *Final decision, Evoenergy 2014–19 electricity distribution determination*, November 2018. p. 4. We will make further updates for actual 2017–18 revenues in the annual pricing process.

3 The undertakings from Evoenergy addressed pricing uncertainties arising from limited merits and judicial review processes.

4 The AER made an 'Adjustment determination' for Evoenergy under clause 8A.15.5 of the NER.

- Comprised of our estimate of $4.7 million to be removed from the total revenues for Evoenergy's distribution network. We treat this as a negative revenue adjustment in establishing the 2019–20 ARR for Evoenergy's distribution network and we smooth this out as part of setting the expected revenues over the 2019–24 regulatory control period.
- Comprised of our estimate of $3.8 million to be included in the total revenues for Evoenergy's transmission network. We treat this as a positive revenue adjustment in establishing the 2019–20 ARR for Evoenergy's transmission network and we smooth this out as part of setting the expected revenues over the 2019–24 regulatory control period.[5]

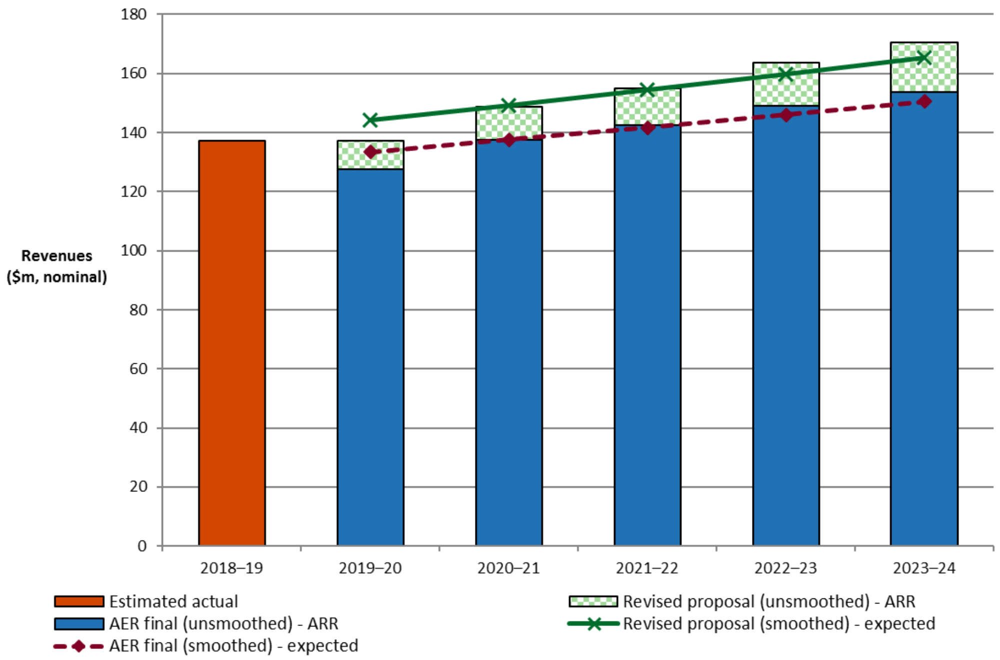
We determine the annual expected revenue (smoothed) and X factor for each regulatory year of the 2019–24 regulatory control period by smoothing the ARR. Our final decision is to approve total expected revenues (smoothed) of $709.2 million and $142.3 million ($ nominal) for the 2019–24 regulatory control period for Evoenergy's distribution and transmission networks respectively.

Figure 1.1 and Figure 1.2 show the difference between Evoenergy's revised proposal and our final decision.

Table 1.1 and Table 1.2 set out our final decision on Evoenergy's annual building block costs, the ARR, annual expected revenue and X factor for each year of the 2019–24 regulatory control period for Evoenergy's distribution and transmission networks respectively.

[5] Our draft decision only included a revenue adjustment in the distribution network PTRM and allowed for the transmission network amount to be adjusted in the unders/overs account as part of the annual pricing process. In discussions with Evoenergy subsequent to the draft decision, it became apparent that also including the relevant revenue adjustment in the transmission network PTRM would be more appropriate for providing better transparency.

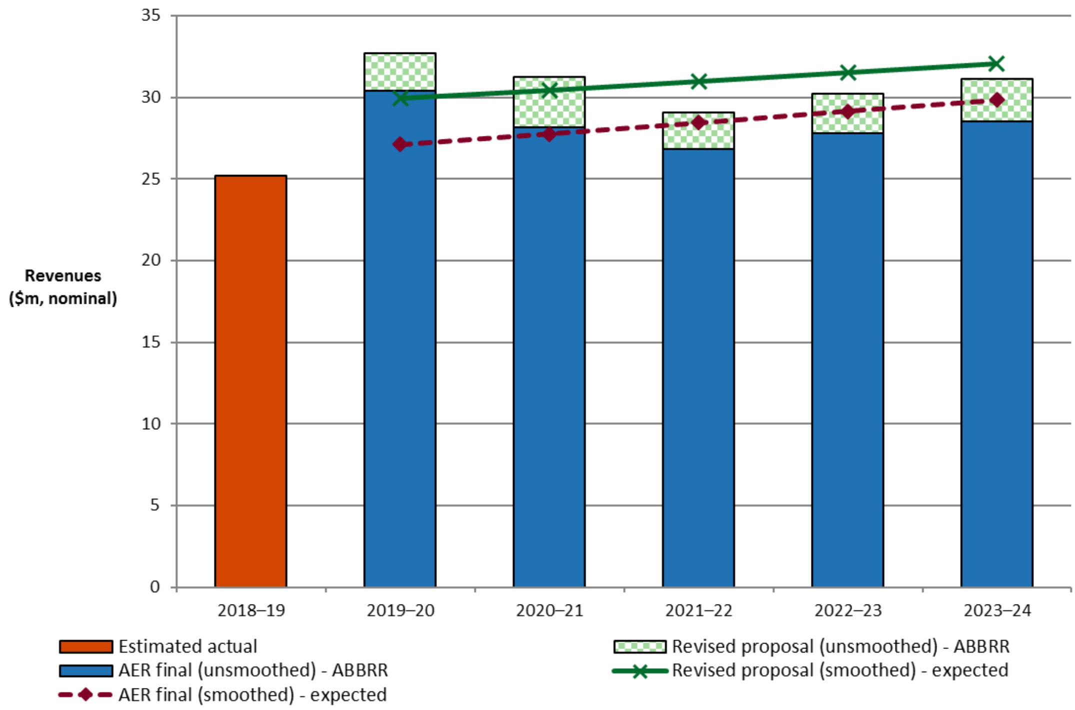
Figure 1.1 AER's final decision on Evoenergy’s revenue for the 2019–24 regulatory control period – distribution ($million, nominal)



Source: Evoenergy, *Revised proposal PTRM – Distribution,* November 2018.

AER analysis.

Figure 1.2 AER's final decision on Evoenergy’s revenue for the 2019–24 regulatory control period – transmission ($million, nominal)



Source: Evoenergy, *Revised proposal PTRM –Transmission,* November 2018.

AER analysis.

Table 1.1 AER's final decision on Evoenergy's revenues for the 2019–24 regulatory control period – distribution ($million, nominal)

	2019–20	2020–21	2021–22	2022–23	2023–24	Total
Return on capital	44.0	44.4	44.4	45.3	45.5	223.6
Regulatory depreciation[a]	35.9	38.7	42.0	45.8	48.7	211.1
Operating expenditure[b]	51.2	53.0	54.9	56.8	58.7	274.7
Revenue adjustments[c]	–5.3	–0.4	–0.4	–0.5	–0.5	–7.1
Net tax allowance	1.8	1.9	1.5	1.4	1.4	8.0
Annual revenue requirement (unsmoothed)	127.6	137.6	142.4	148.9	153.8	710.3
Annual expected revenue (smoothed)	**133.5**	**137.5**	**141.7**	**146.0**	**150.5**	**709.2**
X factor[d]	n/a[e]	–0.60%	–0.60%	–0.60%	–0.60%	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 capital expenditure sharing scheme (CESS), demand management innovation allowance mechanism (DMIAM) and an amount resulting from the remittal decision for the 2014–19 regulatory control period.

(d) 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) Evoenergy is not required to apply an X factor for 2019–20 because we set the 2019–20 expected revenue in this decision. The expected revenue for 2019–20 is around 5.1 per cent lower than the expected revenue for 2018–19 in real terms or 2.8 per cent lower in nominal terms.

Table 1.2 AER's final decision on Evoenergy's revenues for the 2019–24 regulatory control period – transmission ($million, nominal)

	2019–20	2020–21	2021–22	2022–23	2023–24	Total
Return on capital	9.8	9.5	9.5	9.3	9.1	47.2
Regulatory depreciation[a]	6.6	7.2	7.9	8.7	9.3	39.6
Operating expenditure[b]	8.1	8.4	8.7	9.0	9.3	43.5
Revenue adjustments[c]	4.4	0.5	0.6	0.6	0.6	6.7
Net tax allowance	1.5	2.6	0.2	0.2	0.3	4.7
Annual revenue requirement (unsmoothed)	30.4	28.1	26.8	27.8	28.5	141.7
Annual expected revenue (smoothed)	**27.1**	**27.8**	**28.4**	**29.1**	**29.8**	**142.3**
X factor[d]	n/a[e]	0.00%	0.00%	0.00%	0.00%	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 capital expenditure sharing scheme (CESS) and an amount resulting from the remittal decision for the 2014–19 regulatory control period.

(d) 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. An X factor of zero percent means the revenue is unchanged in real terms from year to year.

(e) Evoenergy is not required to apply an X factor for 2019–20 because we set the 2019–20 expected revenue in this decision. The expected revenue for 2019–20 is around 5.0 per cent higher than the expected revenue for 2018–19 in real terms or 7.6 per cent higher in nominal terms.

1.2 Evoenergy's revised proposal

Evoenergy's revised proposal included a total expected revenue of $773.1 million and $154.9 million ($ nominal) for the 2019–24 regulatory control period for its distribution and transmission networks respectively. These amounts included (net negative) revenue adjustments for the outcome of the remittal decision for the 2014–19 regulatory control period.

Table 1.3 and Table 1.4 show Evoenergy's proposed building block costs, the ARR, expected revenue and X factor for each year of the 2019–24 regulatory control period for its distribution and transmission networks respectively.

Table 1.3 Evoenergy's revised proposed revenues for the 2019–24 regulatory control period – distribution ($million, nominal)

	2019–20	2020–21	2021–22	2022–23	2023–24	Total
Return on capital	49.1	50.4	51.3	53.3	54.6	258.6
Regulatory depreciation[a]	35.7	38.6	41.9	45.8	48.7	210.7
Operating expenditure[b]	51.9	53.9	56.0	58.3	60.6	280.7
Revenue adjustments[c]	–5.3	–0.4	–0.4	–0.5	–0.5	–7.1
Net tax allowance	5.7	6.3	6.3	6.7	7.0	32.0
Annual revenue requirement (unsmoothed)	137.1	148.7	155.0	163.7	170.4	774.9
Annual expected revenue (smoothed)	**144.3**	**149.3**	**154.4**	**159.8**	**165.3**	**773.1**
X factor	n/a[d]	–0.98%	–0.98%	–0.98%	–0.98%	n/a

Source: Evoenergy, *Revised proposal PTRM – Distribution,* November 2018.

(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 CESS, DMIAM and an amount resulting from the remittal decision for the 2014–19 regulatory control period.

(d) Evoenergy is not required to apply an X factor for 2019–20 because we set the 2019–20 expected revenue in this decision.

Table 1.4 Evoenergy's revised proposed revenues for the 2019–24 regulatory control period – transmission ($million, nominal)

	2019–20	2020–21	2021–22	2022–23	2023–24	Total
Return on capital	10.9	10.7	11.0	10.9	10.8	54.3
Regulatory depreciation[a]	6.5	7.1	7.8	8.6	9.2	39.2
Operating expenditure[b]	8.2	8.5	8.9	9.2	9.6	44.5
Revenue adjustments[c]	4.5	0.6	0.6	0.6	0.6	6.8
Net tax allowance	2.5	4.3	0.8	0.9	1.0	9.5
Annual revenue requirement (unsmoothed)	32.7	31.2	29.0	30.2	31.1	154.3
Annual expected revenue (smoothed)	**29.9**	**30.4**	**31.0**	**31.5**	**32.1**	**154.9**
X factor	n/a[d]	0.68%	0.68%	0.68%	0.68%	n/a

Source: Evoenergy, *Revised proposal PTRM –Transmission,* November 2018.

(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 CESS and an amount resulting from the remittal decision for the 2014–19 regulatory control period.

(d) Evoenergy is not required to apply an X factor for 2019–20 because we set the 2019–20 expected revenue in this decision.

1.3 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.[6]

1.4 Reasons for final decision

For this final decision, we determine a total ARR of $710.3 million and $141.7 million ($ nominal) for Evoenergy over the 2019–24 regulatory control period for its distribution and transmission networks respectively. This is a reduction of $64.6 million ($ nominal) or 8.3 per cent to Evoenergy's revised proposal for its distribution network and $12.6 million ($ nominal) or 8.2 per cent to Evoenergy's revised proposal for its transmission network. This reflects the impact of our final decision on the various building block costs.

Figure 1.3 and Figure 1.4 show the building block components from our final determination that make up the ARR for Evoenergy, and the corresponding components from its revised proposal and our draft decision for Evoenergy's distribution and transmission networks respectively.

The changes we made to Evoenergy's revised proposed building blocks for its combined distribution and transmission networks include (in nominal terms):

- a reduction in the return on capital allowance of $42.1 million or 13.4 per cent (attachments 2 and 5, section 2.2 of the Overview)[7]
- an increase in the regulatory depreciation allowance of $0.8 million or 0.3 per cent (attachments 2, 4 and 5)
- a reduction in the opex allowance of $7.0 million or 2.2 per cent (attachment 6)
- a reduction in the cost of corporate income tax allowance of $28.8 million or 69.5 per cent (attachment 7)
- a reduction in revenue adjustments of $0.1 million or 19.8 per cent, due to updates to CESS (attachment 9) and DMIAM (section 3.4 of the Overview).[8]

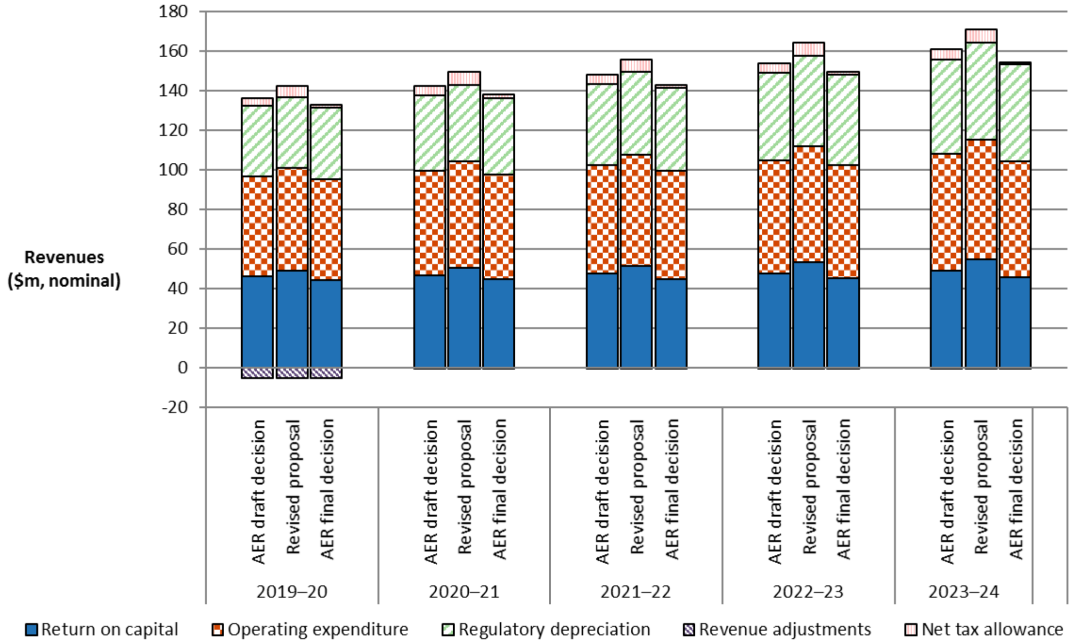
---

6 AER, *Evoenergy Draft Decision, Attachment 1 – Annual revenue requirement,* September 2018, pp. 10–11.

7 The key reason for the reduction is because Evoenergy's revised proposal did not adopt our draft decision (and therefore the draft 2018 Rate of return instrument) on the market risk premium and equity beta. However, since then Evoenergy has confirmed that it recognises that the binding 2018 Rate of return instrument would apply to Evoenergy's 2019–24 distribution determination. See: Evoenergy, *Letter to the AER: Rate of return guideline 2018*, 18 February 2019.

8 Our final decision 2019–24 PTRMs for Evoenergy's distribution and transmission networks contain a revenue adjustment of –$4.7 million and $3.8 million ($ 2018–19) respectively in 2019–20 to account for the outcome of the remittal decision for the 2014–19 regulatory control period; AER, *Final decision Evoenergy 2014–19 electricity distribution determination*, November 2018.

Figure 1.3 AER's final decision and Evoenergy's revised proposed annual revenue requirement — distribution ($million, nominal)

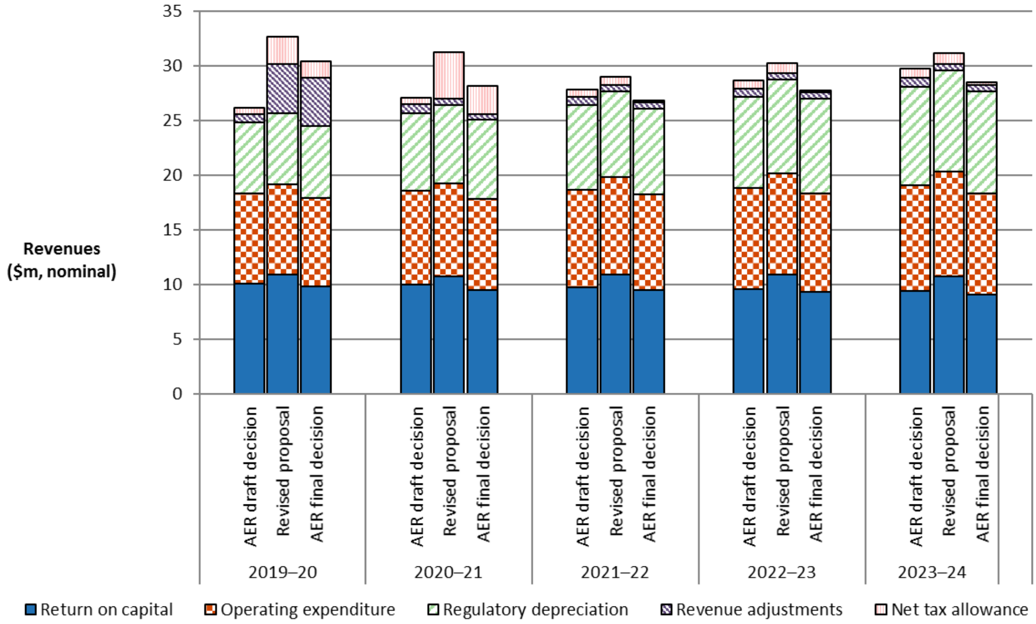


Source: Evoenergy, *Revised proposal PTRM – Distribution,* November 2018.

AER analysis.

Note: Revenue adjustments include CESS, DMIAM and an amount for the outcome of the remittal decision for the 2014–19 regulatory control period. Opex includes debt raising costs.

Figure 1.4 AER's final decision and Evoenergy's revised proposed annual revenue requirement — transmission ($million, nominal)



Source: Evoenergy, *Revised proposal PTRM –Transmission,* November 2018.
AER analysis.

Note: Revenue adjustments include CESS and an amount for the remittal process for the outcome of the remittal decision for the 2014–19 regulatory control period. Opex includes debt raising costs.

1.4.1 Revenue smoothing

We have taken into account the building block costs determined in this decision when smoothing the expected revenues for Evoenergy over the 2019–24 regulatory control period. In doing so, we:

- set the expected revenue for the first regulatory year (2019–20) at $133.5 million (nominal) for Evoenergy's distribution network. This is higher than the 2019–20 ARR (unsmoothed) of $127.6 million we determined for Evoenergy's distribution and network.
- set the expected revenue for the first regulatory year (2019–20) at $27.1 million (nominal) for Evoenergy's transmission network. This is lower than the 2019–20 ARR (unsmoothed) of $30.4 million we determined for Evoenergy's transmission network.

We then applied a profile of X factors to determine the expected revenue in subsequent years.

For both Evoenergy's distribution and transmission networks, we have applied a constant X factor over the entire length of the 2019–24 regulatory control period to smooth the revenue movements from the second regulatory year (2020–21) onwards. This allows for a relatively predictive price movement over the regulatory control period, and provides a stable trend moving forward. This approach smooths the revenues by allowing for a more gradual path for higher revenues over the 2019–24 regulatory control period.

Based on the X factors we have determined for Evoenergy's distribution network, the difference between the expected revenue and ARR for 2023–24 is 2.2 per cent. This divergence is within our target band of 3 per cent. Therefore, we consider that our profiles of X factors result in an expected revenue in the last year of the regulatory control period that is as close as reasonably possible to the ARR for that year.[9]

For Evoenergy's transmission network, the revenue smoothing profile has been affected by the inclusion of a positive revenue adjustment resulting from the remittal decision for the 2014–19 regulatory control period. Our approach for this final decision results in a difference between the expected revenue and ARR for 2023–24 of around 4.6 per cent. Given the novel circumstances affecting the revenue smoothing for Evoenergy's transmission network, we consider it is reasonable to allow this difference to diverge slightly more than usual. We note that based on the combined revenue of Evoenergy's distribution and transmission networks the difference between the expected revenue and ARR for 2023–24 is 1.1 per cent which is within our target band of 3 per cent.

1.4.2 Shared assets

Our final decision is not to apply a shared asset revenue adjustment to Evoenergy’s total revenue requirement because the materiality threshold is not met in any year of the 2019–24 regulatory control period.

Distributors, such as Evoenergy, may use assets to provide both the standard control services we regulate and other unregulated services. These assets are called 'shared assets'.[10] If the revenue from shared assets is material, ten per cent of the unregulated revenues that a distributor earns from shared assets will be used to reduce the distributor's revenue for standard control services.[11]

The shared asset principles establish that use of share assets should be material before cost reductions are applied.[12] The NER do not define materiality in this context. Our approach to what constitutes a material use of shared assets is that unregulated use of shared assets in a specific regulatory year is material when a distributor's annual average unregulated revenue from shared assets is expected to be greater than one per cent of its expected revenue for that regulatory year.[13]

---

9 NER, cl. 6.5.9(b)(2). We consider a divergence of up to 3 per cent between the expected revenue and ARR for the last year of the regulatory control period is appropriate, if this can achieve smoother price changes for users over the regulatory control period.

10 NER, cl. 6.4.4.

11 AER, *Shared asset guideline,* November 2013, p. 15.

12 NER, cl. 6.4.4(c)(3).

13 AER, *Shared asset guideline,* November 2013, p. 8.

In our draft decision, we did not apply a shared asset revenue adjustment to Evoenergy's total revenue requirement. We noted that Evoenergy was still negotiating with various relevant entities and that it should be able to provide information on forecast unregulated revenue as part of its revised proposal.[14]

In its revised proposal, Evoenergy did not submit a shared assets revenue adjustment to its total revenue requirement for the 2019–24 control period. In response to an information request from us, Evoenergy provided its forecast unregulated revenues for that period.[15]

Based on the expected revenues determined in this final decision, we conclude that the materiality threshold of one per cent is not met in any year of the 2019–24 regulatory control period and therefore we do not apply a shared asset revenue adjustment.

We note unregulated revenues from shared assets may in future become material. We will monitor Evoenergy's shared asset unregulated revenues for future regulatory control periods.

1.4.3 Indicative average distribution price impact

Our final decision on Evoenergy's expected revenues ultimately affects the prices consumers pay for electricity. There are several steps required in translating our revenue decision into indicative distribution price impact.

We regulate Evoenergy's standard control services for its distribution and transmission networks under a revenue cap form of control. This means our final decision on Evoenergy's expected revenues do not directly translate to price impacts. This is because Evoenergy'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 consumers.

For Evoenergy's distribution network, we are not required to establish the distribution prices as part of this determination. However, we will assess Evoenergy's annual pricing proposals before the commencement of each regulatory year within the 2019–24 regulatory control period. In each assessment we will administer the pricing requirements set in this distribution determination.

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

---

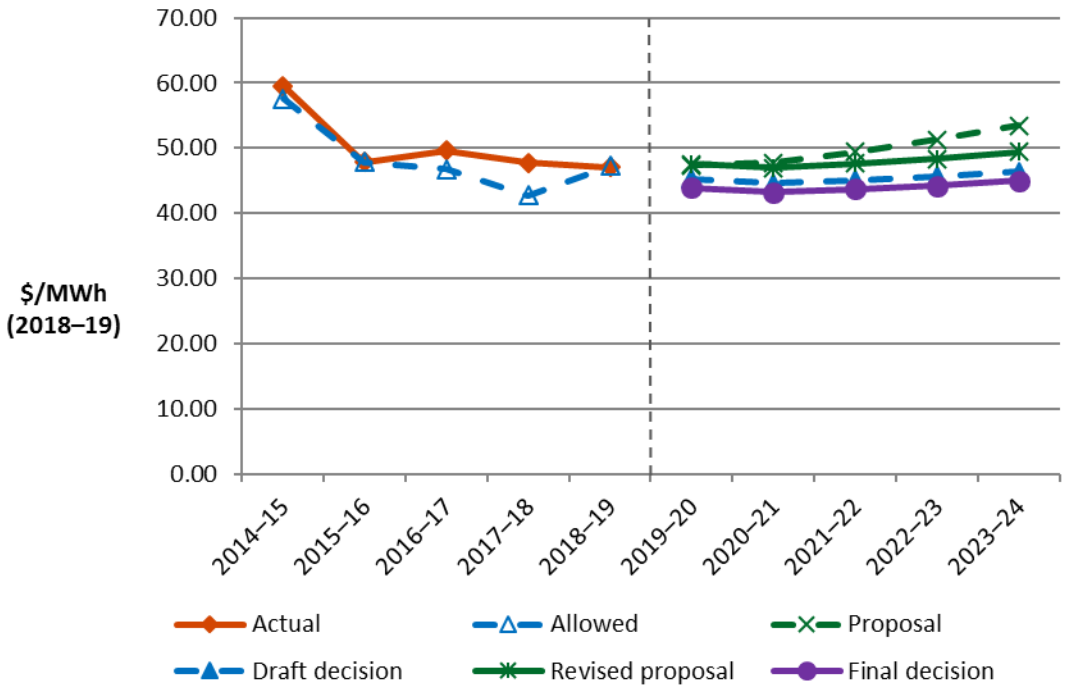
14 AER, *Evoenergy Draft Decision, Attachment 1 – Annual revenue requirement,* September 2018, p. 15.

15 Evoenergy, *Response to information request #42 — Shared Asset revenue*, 19 December 2018.

For this final decision, we have estimated some indicative average distribution and transmission price impacts flowing from our final determination on the expected revenues for Evoenergy over the 2019–24 regulatory control period. In this section, our estimates only relate to standard control services (that is, the core electricity network charges), not alternative control services (such as metering charges). These indicative price impacts assume that actual energy consumption across the 2019–24 regulatory control period matches Evoenergy's forecast energy consumption, which we have adopted for this final decision.

Figure 1.5 and Figure 1.6 show Evoenergy's indicative average price path over the period 2014–15 to 2023–24 in real 2018–19 dollar terms based on the expected revenues established in our final decision compared to Evoenergy's revised proposed revenue requirement 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 2019–24 regulatory control period.

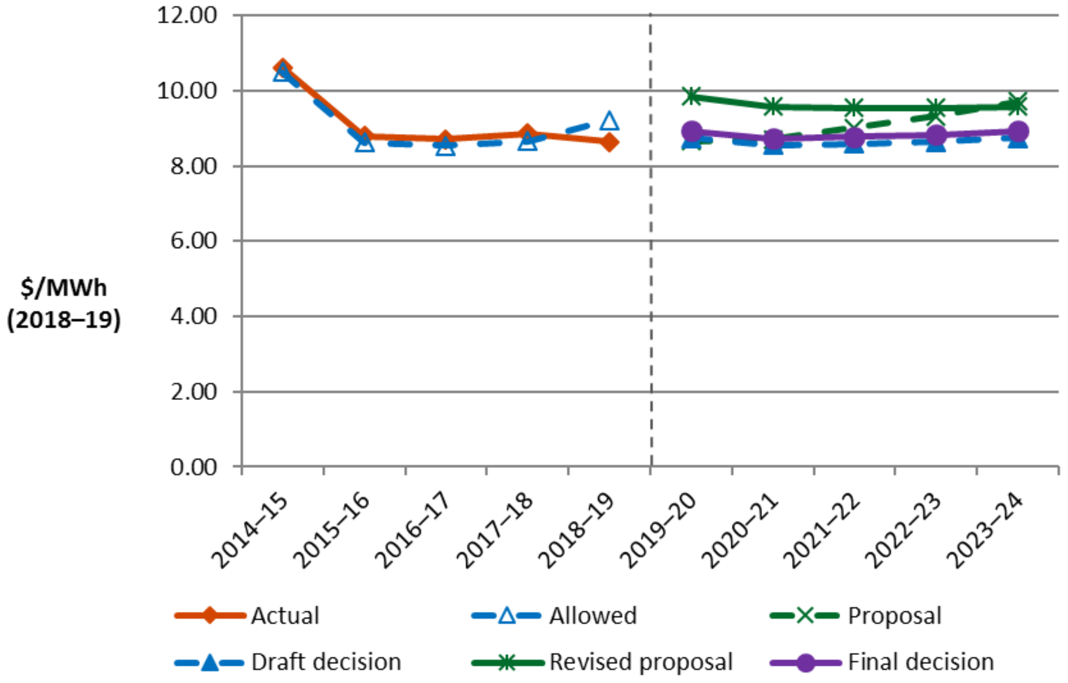
Figure 1.5 Indicative price path for Evoenergy – distribution ($/MWh, 2018–2019)



Source: AER analysis.

Notes: The 'Allowed' and 'Actual' plots shown for the 2014–19 regulatory control period are calculated based on year 't' revenues. This is consistent with the 'Proposal' and 'Draft decision' plots for the 2019–24 regulatory control period. For pricing purposes, Evoenergy's distribution network operated under a revenue yield form of control for the 2014–19 regulatory control period which uses year 't-2' revenues.

Figure 1.6 Indicative price path for Evoenergy – transmission ($/MWh, 2018–2019)



Source: AER analysis.

Notes: The price path plots for the transmission network are based on actual and forecast energy throughput amounts for Evoenergy's distribution network.

We estimate that our final decision on Evoenergy's annual expected revenue will result in a decrease to average network charges of about 0.9 per cent per annum for its distribution network and an increase to average network charges of about 0.6 per cent per annum for its transmission network over the 2019–24 regulatory control period in real 2018–19 dollar terms.[16] This compares to the real average increases of approximately 0.9 per cent and 2.1 per cent per annum in Evoenergy's revised proposal for the 2019–24 regulatory control period for its distribution and transmission networks respectively.[17] These high-level estimates reflect the aggregate change across the entire network and do not reflect the particular tariff components for specific end users.

16 In nominal terms we estimate average network charges to increase by 1.5 and 3.1 per cent per annum for Evoenergy's distribution and transmission networks respectively. These amounts reflect an expected inflation rate of 2.42 per cent per annum as determined in this final decision.

17 In nominal terms Evoenergy's revised proposal would increase network charges by 3.4 and 4.6 per cent per annum for its distribution and transmission networks respectively. These amounts reflect an expected inflation rate of 2.45 per cent per annum as proposed by Evoenergy in its revised proposal.

Table 1.5 and Table 1.6 display in nominal terms the comparison of the revenue and price impacts of Evoenergy's revised proposal and our final decision for the distribution and transmission networks respectively.

Table 1.5 Comparison of revenue and price impacts of Evoenergy's revised proposal and the AER's final decision – distribution ($nominal)

	2018-19	2019–20	2020–21	2021–22	2022–23	2023–24
AER final decision						
Revenue ($m, nominal)	137.4	133.5	137.5	141.7	146.0	150.5
Price path ($, nominal/MWh)[a]	47.10	45.02	45.38	46.98	48.70	50.72
Revenue (change %)		–2.8%	3.0%	3.0%	3.0%	3.0%
Price path (change %)		–4.4%	0.8%	3.5%	3.7%	4.2%
Evoenergy revised proposal						
Revenue ($m, nominal)	137.4	144.3	149.3	154.4	159.8	165.3
Price path ($, nominal/MWh)[a]	47.10	48.67	49.27	51.20	53.29	55.73
Revenue (change %)		5.0%	3.5%	3.5%	3.5%	3.5%
Price path (change %)		3.3%	1.2%	3.9%	4.1%	4.6%

Source: AER analysis.

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

Table 1.6 Comparison of revenue and price impacts of Evoenergy's revised proposal and the AER's final decision – transmission ($nominal)

	2018-19	2019–20	2020–21	2021–22	2022–23	2023–24
AER final decision						
Revenue ($m, nominal)	25.2	27.1	27.8	28.4	29.1	29.8
Price path ($, nominal/MWh)[a]	8.64	9.14	9.16	9.43	9.71	10.06
Revenue (change %)		7.6%	2.4%	2.4%	2.4%	2.4%
Price path (change %)		5.8%	0.2%	2.9%	3.0%	3.5%
Evoenergy revised proposal						
Revenue ($m, nominal)	25.2	29.9	30.4	31.0	31.5	32.1
Price path ($, nominal/MWh)[a]	8.64	10.09	10.04	10.27	10.51	10.81
Revenue (change %)		18.7%	1.8%	1.8%	1.8%	1.8%
Price path (change %)		16.8%	-0.4%	2.2%	2.4%	2.9%

Source: AER analysis.

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

1.4.4 Expected impact of decision on electricity bills

The annual electricity bill for customers in the ACT will reflect the combined cost of all the electricity supply chain components—wholesale energy generation, transmission, distribution, metering, and retail costs. Our analysis is based on our calculation of Evoenergy's: [18]

- distribution network charges, which are forecast to represent about 23.2 per cent of the average Evoenergy customer retail bill in 2018–19
- transmission network charges, which are forecast to represent an average of 4.3 per cent of the average Evoenergy customer retail bill in 2018–19.

We estimate the expected bill impact by varying the distribution and transmission network charges in accordance with our final decision, while holding all other components—including the metering component—constant. This approach isolates the effect of our final decision on the core distribution and transmission network charges,

[18] The 2018–19 bill data in the AEMC's *Residential electricity price trends report 2018* yields a distribution bill proportion of 24.5 per cent and a transmission bill proportion of 6.6 per cent for ACT customers. After discussions with Evoenergy, for this final decision bill impact calculation we have re-allocated this total network proportion of 31.2 per cent across Evoenergy's distribution and transmission networks based on the ratio of forecast 2018–19 distribution use of system (DUOS) revenue to forecast 2018–19 transmission use of system (TUOS) revenue. Evoenergy, *RE: AER price impact calculations*, received 3 April 2019.

and does not imply that other components will remain unchanged across the regulatory control period.[19]

Based on this approach, we expect that our final decision will increase the average annual electricity bills for residential customers in the ACT. The network component of the average annual residential electricity bill in 2023–24 is expected to increase by about $64 ($ nominal) from the 2018–19 level. This equates to a 2.5 per cent increase in the average customer's total bill over five years.

By comparison, under Evoenergy's revised proposal, the expected network component of the average annual residential electricity bill in 2023–24 would increase by about $137 ($ nominal) from the 2018–19 level. This equates to a 5.3 per cent increase in the average customer's total bill over five years.

Similarly, we expect that our final decision will increase the average annual electricity bills for an average small business customer in Evoenergy's network. The network component of the average annual small business electricity bill in 2023–24 is expected to increase by about $231 ($ nominal) from the 2018–19 level. This equates to a 2.5 per cent increase in the average customer's total bill over five years.

By comparison, under Evoenergy's revised proposal, the expected network component of the average annual small business electricity bill in 2023–24 would increase by about $495 ($ nominal) from the 2018–19 level. This equates to a 5.3 per cent increase in the average customer's total bill over five years.

Our estimate of the potential impact our final decision will have for Evoenergy's residential and small business customers is based on an average annual electricity usage of around 8000 kWh per annum for residential households and 25000 kWh for small businesses in the ACT.[20] Therefore, customers with different usage will experience different changes in their bills. We also note that there are other factors, such as metering costs, other transmission network costs, wholesale and retail costs, which affect electricity bills.

Table 1.7 shows the estimated annual average impact of our final decision for the 2019–24 regulatory control period and Evoenergy's revised proposal on the average residential and small business customers' annual electricity bills in the ACT. As explained above, these bill impact estimates are indicative only, and individual customers' actual bills will depend on their usage patterns and the structure of their tariffs.

---

19 It also assumes that actual energy consumption will equal the forecast adopted in our final decision. Since Evoenergy operates under a revenue cap, changes in energy consumption will also affect annual electricity bills across the 2019–24 regulatory control period.

20 Independent Competition and Regulatory Commission (ICRC), *Standing offer prices for the supply of electricity to small customers from 1 July 2017 – Final Report*, June 2017; ICRC, *Retail electricity price recalibration 2018–19*, June 2018. This usage amount is consistent with Evoenergy's, Reset RIN template submitted as part of its proposal.

Table 1.7 Estimated impact of Evoenergy's revised proposal and the AER's final decision on average annual electricity bills for the 2019–24 regulatory control period ($ nominal)

	2018-19	2019–20	2020–21	2021–22	2022–23	2023–24
AER final decision						
Residential annual bill[a]	2580	2560	2565	2588	2614	2644
Annual change[c]		–20 (–0.8%)	5 (0.2%)	24 (0.9%)	25 (1%)	30 (1.2%)
Small business annual bill[b]	9320	9248	9265	9350	9442	9551
Annual change[c]		–72 (–0.8%)	18 (0.2%)	85 (0.9%)	92 (1%)	109 (1.2%)
Evoenergy revised proposal						
Residential annual bill[a]	2580	2618	2625	2653	2682	2717
Annual change[c]		38 (1.5%)	7 (0.3%)	27 (1%)	30 (1.1%)	35 (1.3%)
Small business annual bill[b]	9320	9458	9484	9582	9689	9815
Annual change[c]		138 (1.5%)	25 (0.3%)	99 (1%)	107 (1.1%)	126 (1.3%)

Source: AER analysis; AER, Energy Made Easy website; AEMC, *Residential electricity price trends report 2018 – Australian Capital Territory;* ICRC *Standing offer prices for the supply of electricity to small customers from 1 July 2017 – Final Report,* June 2017; ICRC, *Retail electricity price recalibration 2018–19*, June 2018

(a) Annual bill for 2018–19 is sourced from Energy Made Easy website and reflects the average consumption of 8000 kWh for residential customers using single rate tariffs in ACT (postcode 2600).

(b) Annual bill for 2018–19 is sourced from Energy Made Easy website and reflects the average consumption of 25000 kWh for small business customers using single rate tariffs in ACT (postcode 2600).

(c) Annual change amounts and percentages are indicative. They are derived by varying the network component of the 2018–19 bill amounts in proportion to yearly expected revenue divided by forecast energy as provided by Evoenergy. Actual bill impacts will vary depending on electricity consumption and tariff class.