AUSTRALIAN ENERGY REGULATOR

Final decision: Evoenergy 2019–24

We have made a final revenue determination for Evoenergy, the electricity distribution network operator in the Australian Capital Territory. Our final decision allows Evoenergy to recover $851.4 million ($ nominal) from its customers over five years, from 1 July 2019 to 30 June 2024.

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 27 per cent of the total retail electricity bills Evoenergy's customers pay.

Under our final decision, the average annual electricity bill for a residential or small business customer on Evoenergy's network is estimated to be around 2.5 per cent higher by 30 June 2024 compared to the current 2018–19 level, holding all other components of the bill constant.

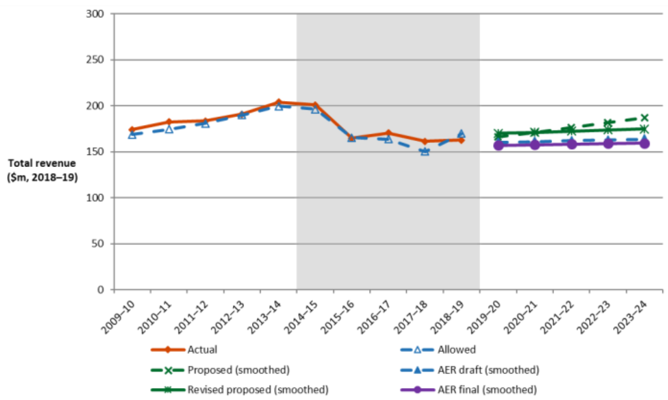
This suggests that the average annual electricity bill for a residential and small business customer on Evoenergy's network is estimated to be around $64 and $231 higher, respectively, by the end of the 2019–24 period.

Overview

The Australian Energy Regulator (AER) regulates Evoenergy's revenue by setting the total revenue it may recover from its customers.

Our final decision includes revenue for Evoenergy's distribution and dual function (transmission) assets. Our final decision allows for a 6.3 per cent real reduction in Evoenergy's total revenue from the allowed revenue in the current period.

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



Our final decision is $20.0 million ($ nominal) lower than our draft decision, and $76.6 million ($ nominal) lower than Evoenergy's revised proposal.

Having assessed Evoenergy's revised proposal, we consider our final decision is justified as it:

- builds on the operational efficiencies Evoenergy has achieved in response to our lower approved revenues for the current period and locks in ongoing efficiency gains for future periods for the benefit of customers
- is balanced against additional capital investment required by Evoenergy to maintain network safety and reliability for its customers.

Previously, our draft decision for Evoenergy noted that in a number of respects, we agreed with it on the key drivers identified through its earlier stakeholder engagement as influencing its revenue requirement for the 2019–24 period. However, we required further information in a few areas before we could accept Evoenergy's regulatory proposal.

As well as increasing efficiency to drive lower costs, Evoenergy has also improved its approach to consumer engagement. Since our draft decision and prior to Evoenergy lodging its revised proposal, Evoenergy has supplied additional information to us and consumer groups to narrow or eliminate the key areas of contention following our draft decision.

Our final decision also incorporates the revenue impact of our 2014–19 remade final decision for Evoenergy (remittal). We remade our decision in November 2018, following receipt of Evoenergy's remittal proposal. Under that decision, Evoenergy will return to customers from 1 July 2019 approximately $0.9 million ($2018-19) over the 2019–24 period.

Rate of return and gamma

In December 2018, the National Electricity Law and National Gas Law were amended to require us to make a binding rate of return instrument (2018 Instrument). As a binding instrument, it sets out the methodology for calculating the rate of return. The method must be capable of automatic application to all regulated network service providers without the exercise of discretion.

The 2018 Instrument specifies the return on debt as a formula, being the trailing average portfolio approach, and requires a business that is not already using a trailing average to transition to it over a 10-year period that is in the future.

As required under the National Electricity Rules, we have applied the 2018 Instrument and estimate an allowed rate of return of 5.53 per cent (nominal vanilla). Our final decision also applies a gamma value (imputation credits) of 0.585, as per the 2018 Instrument.

Evoenergy's revised proposal was submitted prior to legislative changes which installed a binding rate of return instrument and the release of the 2018 Instrument. Evoenergy has since recognised that we would apply the 2018 Instrument to its 2019–24 distribution determination.

Capital expenditure (capex)

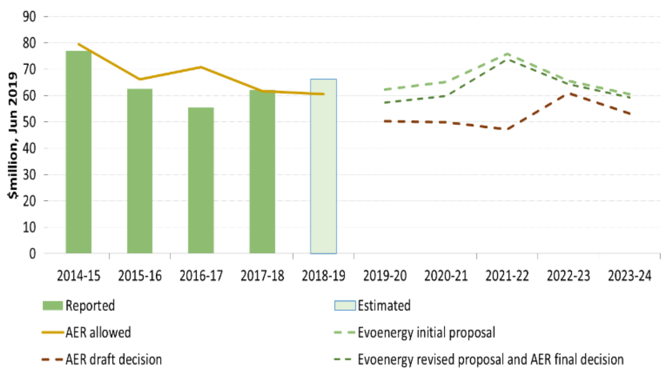
Capex — the capital costs and expenditure incurred in the provision of network services — mostly relates to assets with long lives, the costs of which are recovered over several regulatory periods.

Capex is added to Evoenergy's regulatory asset base (RAB), which is used to determine the return on capital and regulatory depreciation (return of capital) 'building block' allowances. All else being equal, higher forecast capex will lead to a higher projected RAB value and higher return on capital and regulatory depreciation allowances.

Our final decision on Evoenergy's revenue includes a total net capex forecast of \$314.3 million (\$2018–19) for 2019–24. This is 2.8 per cent lower than Evoenergy's actual and estimated net capex over the current period.

Our final decision accepts Evoenergy's revised total net capex forecast. We are satisfied that Evoenergy's revised total net capex forecast reasonably reflects the capex criteria and is consistent with the efficient costs that a prudent operator would incur in the 2019–24 period.

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



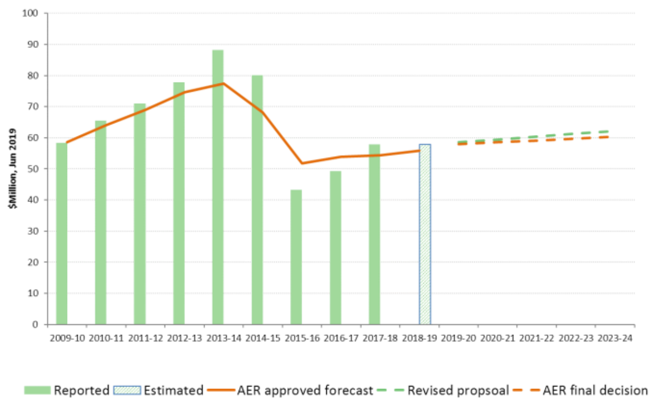
Operating expenditure (opex)

Opex refers to the operating, maintenance and other non-capital expenses incurred in the provision of network services.

Our final decision on Evoenergy's revenue includes a total forecast opex of \$295.8 million (\$2018–19) for 2019–24. This is 3.9 per cent higher than Evoenergy's opex allowance over the current period.

Our final decision did not accept Evoenergy's revised opex forecast as it did not include the minimum 0.5 per cent per year forecast opex productivity growth that we apply in our determinations.

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



For more information:

More information on our 2019–24 final decision and Evoenergy's revised proposal is on our website: www.aer.gov.au.