



FINAL DECISION

Evoenergy

Adjustment Determination

November 2018

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Note

This adjustment determination should be read with:

- our remade final decision on the Evoenergy electricity distribution determination for the 2014–19 regulatory control period¹
- our final decision on the Evoenergy electricity distribution determination for the 2019–24 regulatory control period²

¹ AER, *Final Decision Evoenergy 2014-19 distribution determination*, November 2018.

² To be published by 30 April 2019.

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1 Background

This adjustment determination was brought about by:

- the appeal of our final decision for the Evoenergy (then ActewAGL) 2014–19 electricity distribution determination (2015 final decision), and the subsequent remaking of our 2015 final decision³
- the Australian Energy Market Commission's (AEMC) rule change regarding cross period revenue smoothing.

Under the National Electricity Rules, we are required to make an adjustment determination in order to ensure Evoenergy recovers only the revenue to which it is entitled and should not receive any windfall gains or losses as a result of the appeals process.⁴ This adjustment determination relates to revenues related to Evoenergy's distribution standard control services, transmission standard control services and metering services.

1.1 Remaking of our 2015 final decision

In April 2015, we published our final decision on the 2014–19 electricity distribution determination for Evoenergy.

In response, Evoenergy sought merits review of our final decision. The Australian Competition Tribunal (Tribunal) set aside our determination and remitted our decision to us to be remade.⁵

In March 2016, we sought judicial review of the Tribunal's decisions in the Full Federal Court. The Court upheld our appeal regarding imputation credits (or gamma), but dismissed our appeal regarding return on debt and operating expenditures (opex) (and its implications for the service target performance incentive scheme (STPIS)). As a result, we were tasked with revisiting our decisions on the latter aspects.

On 24 July 2018, Evoenergy submitted a proposal outlining its suggested approach to remaking our determination for the 2014–19 regulatory control period.⁶ Some consumer groups also provided their views on the proposal. Evoenergy's proposal and consumer groups' feedback is published on our website.

We published our 2014–19 remade final decision for Evoenergy on 15 November 2018.⁷

³ AER, *Final Decision Evoenergy 2014-19 distribution determination*, November 2018.

⁴ NER, cl 8A.15.5.

⁵ In accordance with its orders regarding return on debt; imputation credits (gamma); and operating expenditure and the implications of this for the Service Target Performance Incentive Scheme (STPIS).

⁶ Evoenergy, *Proposal for the remittal of Evoenergy's 2014-19 determination*, 24 July 2018.

⁷ AER, *Final Decision Evoenergy 2014-19 distribution determination*, November 2018.

1.2 AEMC revenue smoothing rule change

During the appeal process, Evoenergy entered into enforceable undertakings with the AER to set prices for the 2016–17 to 2018–19 regulatory years. It was acknowledged the revenue Evoenergy collected through undertakings could differ, perhaps significantly, from the revenue it would be entitled to under the remade determination.

If so, this could cause significant fluctuation in network tariffs between the remaining years of the 2014–19 regulatory period, at the time of the appeals, and the first year of the next (2019-24) regulatory period. Evoenergy therefore submitted a rule change request to the AEMC to provide a mechanism to minimise potential price volatility for its customers that may occur as a result of the appeals and remittal decision.

On 1 August 2017, the AEMC published its ACT revenue smoothing final rule which provides such a mechanism.⁸ This adjustment determination is made under this final rule.⁹

⁸ NER, rule 8A.15.

⁹ NER, cl 8A.15.5. We published our 2014-19 remade final decision for Evoenergy on 15 November 2018.

2 Our final decision

Below, we set out our final decisions for the:

- distribution variation amount (see section 2.1)
- transmission variation amount (see section 2.2)
- metering variation amount (see section 2.3)

2.1 Distribution variation amount

Our final decision is that the distribution variation amount is –\$4.7 million (\$2018-19).¹⁰

Evoenergy is to return this amount in the 2019–24 regulatory control period. We will incorporate this amount in our upcoming final decision on the 2019–24 distribution determination for Evoenergy.¹¹ In particular, we will incorporate this amount as a reduction to Evoenergy's building block revenue requirement for distribution standard control services in net present value terms.

The derivation of this amount is detailed in our remade final decision on the Evoenergy electricity distribution determination for the 2014–19 regulatory control period (remade final decision).¹²

As noted in our remade final decision, we will not know Evoenergy's actual revenues for the 2014–19 regulatory control period until after the regulatory control period expires.¹³ Our upcoming final decision on the 2019–24 distribution determination for Evoenergy will set out how we will ensure Evoenergy earns only the revenue to which it is entitled for distribution standard control services.¹⁴

2.2 Transmission variation amount

Our final decision is that the transmission variation amount is \$3.8 million (\$2018-19).¹⁵

Evoenergy is to recover this amount in the 2019–24 regulatory control period. We will incorporate this amount in our upcoming final decision on the 2019–24 distribution determination for Evoenergy.¹⁶ In particular, we will incorporate this amount as an increase to Evoenergy's building block revenue requirement for transmission standard control services in net present value terms.

¹⁰ NER, cl 8A.15.5(b)(1).

¹¹ NER, cl 8A.15.5(c)(1), (5) and (7).

¹² See: AER, *Final Decision Evoenergy 2014-19 distribution determination*, November 2018, and distribution PTRM.

¹³ AER, *Final Decision Evoenergy 2014-19 distribution determination*, November 2018.

¹⁴ NER, cll. 8A.15.1 (definition for 'revenue recovery principle') and 8A.15.5(d); AER, *Final Decision Evoenergy 2014-19 distribution determination*, November 2018.

¹⁵ NER, cl 8A.15.5(b)(2).

¹⁶ NER, cl 8A.15.5(c)(2), (4) and (7).

The derivation of this amount is detailed in our remade final decision.¹⁷

As noted in our remade final decision, we will not know Evoenergy's actual revenues for the 2014–19 regulatory control period until after the regulatory control period expires.¹⁸ Our upcoming final decision on the 2019–24 distribution determination for Evoenergy will set out how we will ensure Evoenergy earns only the revenue to which it is entitled for transmission standard control services.¹⁹

2.3 Metering variation amount

Our final decision is that the metering variation amount is \$3.7 million (\$2018-19).²⁰

Evoenergy is to recover this amount in the 2019–24 regulatory control period. We will incorporate this amount in our upcoming final decision on the 2019–24 distribution determination for Evoenergy.²¹ In particular, we will incorporate this amount as an increase to Evoenergy's metering building block revenue requirement in net present value terms. We will incorporate the metering variation amount into the metering building block for alternative control services for the 2019–24 regulatory control period²².

This metering variation amount is brought about by the correction of an error in the calculation of metering opex, as discussed by the Tribunal when it remitted our 2015 final decision to us to be remade.²³

¹⁷ See: AER, *Final Decision Evoenergy 2014-19 distribution determination*, November 2018, and transmission PTRM.

¹⁸ AER, *Final Decision Evoenergy 2014-19 distribution determination*, November 2018.

¹⁹ NER, cl. 8A.15.1 (definition for 'revenue recovery principle') and 8A.15.5(d); AER, *Final Decision Evoenergy 2014-19 distribution determination*, November 2018.

²⁰ NER, cl 8A.15.5(b)(3).

²¹ NER, cl 8A.15.5(c)(3), (4) and (8).

²² NER, cl 8A.15.5(c)(8).

²³ Australian Competition Tribunal, *Application by ActewAGL Distribution [2016] ACompT 4*, 26 February 2016, paragraphs 57–71.