# DRAFT DECISION

## Power and Water Corporation Distribution Determination 2019 to 2024

## Attachment 1 Annual revenue requirement

September 2018

AUSTRALIAN ENERGY REGULATOR

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# Note

This overview forms part of the AER's draft decision on the distribution determination that will apply to Power and Water Corporation for the 2019–2024 regulatory control period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 11 – Demand management incentive scheme

Attachment 12 – Classification of services

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Attachment 16 – Negotiated services framework and criteria

Attachment 17 – Connection policy

Attachment 18 – Tariff structure statement

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# Shortened forms

| Shortened form | Extended form |
|---|---|
| ACS | alternative control services |
| AEMC | Australian Energy Market Commission |
| AEMO | Australian Energy Market Operator |
| AER | Australian Energy Regulator |
| augex | augmentation expenditure |
| capex | capital expenditure |
| CCP | Consumer Challenge Panel |
| CCP 13 | Consumer Challenge Panel, sub-panel 13 |
| CESS | capital expenditure sharing scheme |
| CPI | consumer price index |
| DRP | debt risk premium |
| DMIAM | demand management innovation allowance (mechanism) |
| DMIS | demand management incentive scheme |
| distributor | distribution network service provider |
| DUoS | distribution use of system |
| EBSS | efficiency benefit sharing scheme |
| ERP | equity risk premium |
| Expenditure Assessment Guideline | Expenditure Forecast Assessment Guideline for Electricity Distribution |
| F&A | framework and approach |
| MRP | market risk premium |
| NEL | national electricity law |
| NEM | national electricity market |
| NEO | national electricity objective |
| NT NER or the rules | National Electricity Rules As in force in the Northern Territory |

| Shortened form | Extended form |
|---|---|
| NSP | network service provider |
| opex | operating expenditure |
| PPI | partial performance indicators |
| Pricing Oder | electricity pricing order |
| PTRM | post-tax revenue model |
| RAB | regulatory asset base |
| RBA | Reserve Bank of Australia |
| repex | replacement expenditure |
| RFM | roll forward model |
| RIN | regulatory information notice |
| RPP | revenue and pricing principles |
| SAIDI | system average interruption duration index |
| SAIFI | system average interruption frequency index |
| SCS | standard control services |
| SLCAPM | Sharpe-Lintner capital asset pricing model |
| STPIS | service target performance incentive scheme |
| WACC | weighted average cost of capital |

# 1 Annual revenue requirement

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 Power and Water 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 draft decision on Power and Water's ARRs and expected revenues for the 2019–24 regulatory control period.

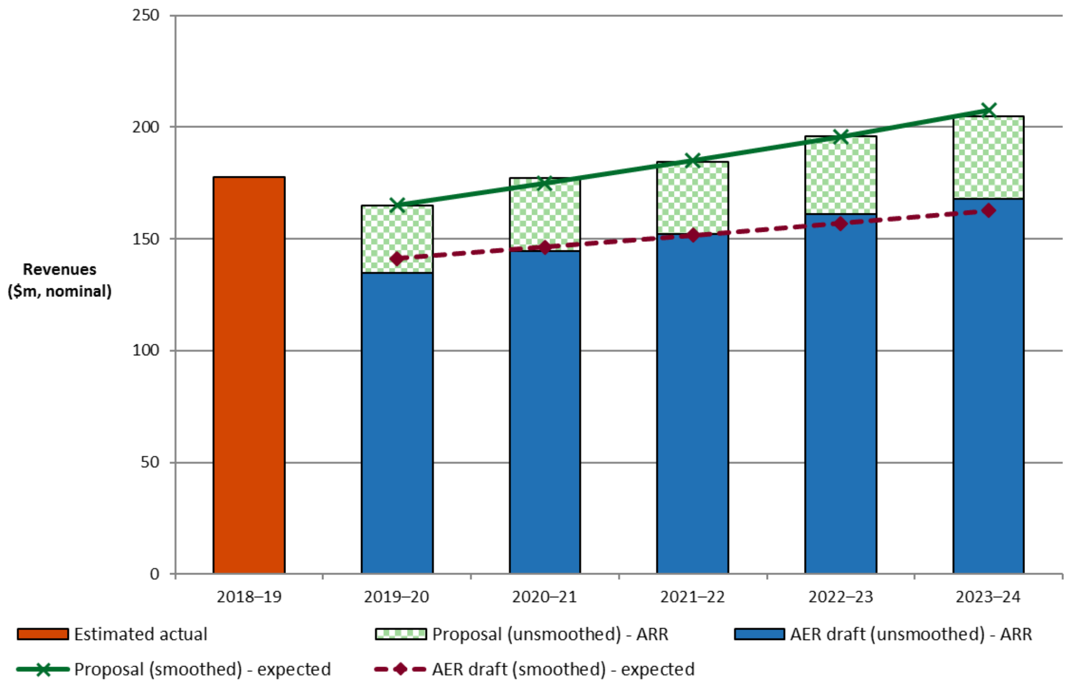
## 1.1 Draft decision

We do not accept Power and Water's proposed total ARR of $927.5 million ($nominal) over the 2019–24 regulatory control period. This is because we have not accepted the building block costs in Power and Water's proposal. We determine a total ARR of $760.3 million ($nominal) for Power and Water for the 2019–24 regulatory control period, reflecting our draft decision on the various building block costs. This is a reduction of $167.2 million ($nominal) or 18.0 per cent to Power and Water's proposal.

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 draft decision is to approve a total expected revenues (smoothed) of $758.8 million ($nominal) for Power and Water for the 2019–24 regulatory control period.

Figure 1.1 shows the difference between Power and Water's proposal and our draft decision. Table 1.1 shows our draft decision on the building block costs, the ARR, annual expected revenue and X factor for the 2019–24 regulatory control period.

## Figure 1.1 AER's draft decision on Power and Water's revenue for the 2019–24 regulatory control period ($million, nominal)




Source: Power and Water, *PWC12.1 – SCS Post-tax Revenue Model – 16 March 2018,* March 2018; AER analysis.

## Table 1.1 AER's draft decision on Power and Water's revenues for the 2019–24 regulatory control period ($million, nominal)

| | 2019–20 | 2020–21 | 2021–22 | 2022–23 | 2023–24 | Total |
|---|---|---|---|---|---|---|
| Return on capital | 50.4 | 53.5 | 55.9 | 58.8 | 60.1 | 278.8 |
| Regulatory depreciation[a] | 18.6 | 23.3 | 26.2 | 30.4 | 33.3 | 131.8 |
| Operating expenditure[b] | 61.8 | 63.6 | 65.8 | 67.9 | 70.1 | 329.2 |
| Revenue adjustments[c] | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.3 |
| Net tax allowance | 3.9 | 4.0 | 4.1 | 4.1 | 4.1 | 20.1 |
| Annual revenue requirement (unsmoothed) | 134.7 | 144.5 | 152.0 | 161.3 | 167.7 | 760.3 |
| **Annual expected revenue (smoothed)** | **141.2** | **146.3** | **151.6** | **157.0** | **162.7** | **758.8** |
| X factor[d] | n/a[e] | –1.12% | –1.12% | –1.12% | –1.12% | 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 shared assets and demand management innovation allowance mechanism (DMIAM).

(d) The X factors 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.

(e) Power and Water 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 23.3 per cent lower than the approved expected revenue for 2018–19 in real terms, or 21.5 per cent lower in nominal terms.

## 1.2 Power and Water's proposal

Power and Water proposed a total revenue requirement of $927.9 million ($nominal) for the 2019–24 regulatory control period. Table 1.2 shows Power and Water's proposed building block costs, the ARR, expected revenue and X factor for each year of the 2019–24 regulatory control period.

### Table 1.2 Power and Water's proposed revenues for the 2019–24 regulatory control period ($million, nominal)

| | 2019–20 | 2020–21 | 2021–22 | 2022–23 | 2023–24 | Total |
|---|---|---|---|---|---|---|
| Return on capital | 64.5 | 69.4 | 72.6 | 77.4 | 79.8 | 363.7 |
| Regulatory depreciation[a] | 24.6 | 29.4 | 31.5 | 35.8 | 39.7 | 161.0 |
| Operating expenditure[b] | 67.6 | 70.2 | 73.0 | 75.7 | 78.4 | 365.0 |
| Revenue adjustments[c] | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.4 |
| Net tax allowance | 8.2 | 7.9 | 7.4 | 6.9 | 7.1 | 37.4 |
| Annual revenue requirement (unsmoothed) | 165.0 | 177.1 | 184.6 | 195.9 | 205.0 | 927.5 |
| **Annual expected revenue (smoothed)** | **165.0** | **174.7** | **185.0** | **195.9** | **207.4** | **927.9** |
| X factor | n/a[d] | –3.38% | –3.38% | –3.38% | –3.38% | n/a |

Source: Power and Water, *Regulatory proposal*, March 2018, p. 127, Table 17–1.

(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 shared assets and DMIAM.

(d) Power and Water 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

In this section, we describe the approach used to determine the ARR and expected revenue for Power and Water for each year of the 2019–24 regulatory control period.[1]

In this determination we first calculate the ARR for each year of the 2019–24 regulatory control period. To do this we consider the various costs facing the distributor and the trade-offs and interactions between these costs, service quality and across years. This reflects our holistic assessment of the distributor's proposal.

[1] NT NER, cll. 6.3.2(a)(1) and 6.5.9(b)(2).

The ARR for each year is the sum of the building block costs. These building block costs are set out in section 1.3.1. Our post-tax revenue model (PTRM) brings together these building block costs and calculates the resulting ARRs.

We understand the trade-offs that occur between building block costs and test the sensitivity of these costs to their various driver elements. These trade-offs are discussed in the interrelationships section of the various attachments to this draft decision and are reflected in the calculations made in the PTRM.[2] Such understanding allows us to exercise judgement in determining the final inputs into the PTRM and the ARRs that result from this modelling.

Having calculated the total revenue requirement for the 2019–24 regulatory control period, we smooth the ARRs for each regulatory year across that period. This step reduces revenue variations between years, and calculates the expected revenue and X factor for each year.[3] The X factors equalise (in net present value terms) the total expected revenues to be earned by the distributor with the total revenue requirement for the 2019–24 regulatory control period.[4] They must usually minimise, as far as reasonably possible, the variance between the expected revenue and ARR for the last regulatory year of the period.[5] By minimising this divergence, it helps to manage the prospect of a significant revenue change (and consequently prices) between the last year of the 2019–24 regulatory control period, and first year of the following 2024–29 regulatory control period. We therefore 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 reasonable, if this can promote smoother price changes over the regulatory control period.

The building block costs (and the elements that drive those costs) used to determine the unsmoothed ARR are set out in section 1.3.1.

### 1.3.1 The building block costs

The efficient costs to be recovered by a distributor can be thought of as being made up of various building block costs. Our draft decision assesses each of the building block costs and the elements that drive these costs. The building block costs are approved reflecting trade-offs and interactions between the cost elements, service quality and across years.

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2 There are trade-offs that are not modelled in the PTRM but are reflected in the inputs to the PTRM. For example, service quality is not explicitly modelled in the PTRM, but the trade-offs between service quality and price are reflected in the forecast capex and opex inputs to the model. Other trade-offs are obvious from the calculations in the PTRM. For example, while someone may expect a lower regulatory asset base to also lower revenues, the PTRM shows that this will not occur if the reduction in the regulatory asset base is due solely to an increase in the depreciation rate. In such circumstances, revenues increase as the increased depreciation allowance more than offsets the reduction in the return on capital caused by the lower regulatory asset base.

3 NT NER, cl. 6.5.9(a).

4 NT NER, cl. 6.5.9(3)(i). The X factors represent the real revenue path over the 2019–24 regulatory control period under the CPI–X framework.

5 NT NER, cl. 6.5.9(b)(2).

Table 1.3 shows the building block costs that form the ARR for each year and where discussion on the elements that drive these costs can be found within this draft decision.

### Table 1.3 Building block costs

| Building block costs | Attachments where elements are discussed |
|---|---|
| Return on capital | Regulatory asset base (attachment 2)<br>Rate of return (attachment 3)<br>Capital expenditure (attachment 5) |
| Regulatory depreciation (return of capital) | Regulatory asset base (attachment 2)<br>Regulatory depreciation (attachment 4)<br>Capital expenditure (attachment 5) |
| Operating expenditure (opex) | Operating expenditure (attachment 6) |
| Estimated cost of corporate tax | Corporate income tax (attachment 7) |
| Other revenue adjustments | |
| Adjustment for shared assets | Annual revenue requirement (attachment 1) |
| Operating efficiency benefits/penalties | Efficiency benefit sharing scheme (attachment 8) |
| Capital efficiency benefits/penalties | Capital expenditure sharing scheme (attachment 9) |
| Demand management innovation allowance | Demand management incentive scheme (attachment 11) |

## 1.4 Reasons for draft decision

We determine a total ARR of $760.3 million ($nominal) for Power and Water for the 2019–24 regulatory control period. This is a reduction of $167.2 million ($nominal) or 18.0 per cent to Power and Water's proposed total ARR of $927.5 million ($nominal) for this period. This reflects the impact of our draft decision on the various building block costs.

Figure 1.2 shows the building block components from our determination that make up the ARR for Power and Water, and the corresponding components from its proposal.

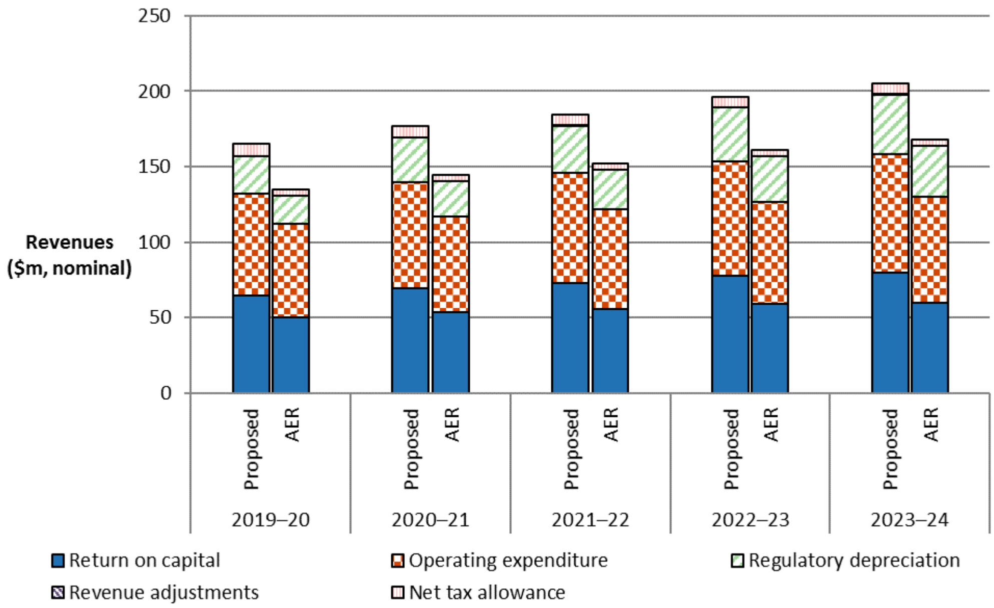
The changes we made to Power and Water's proposed building blocks include (in nominal terms):

- a reduction in the return on capital allowance of 84.9 million or 23.3 per cent (attachments 2, 3 and 5)
- a reduction in the regulatory depreciation allowance of 29.2 million or 18.1 per cent (attachments 2, 4 and 5)
- a reduction in the opex allowance[6] of 35.7 million or 9.8 per cent (attachment 6).

[6] Includes debt raising costs.

- a reduction in the cost of corporate income tax allowance of 17.3 million or 46.2 per cent (attachment 8 and section 2.2 of the overview).
- a reduction in the revenue adjustments of $0.1 million or 30.6 per cent arising from the updates made to the DMIAM calculations (attachment 11).

### Figure 1.2 AER's draft decision and Power and Water's proposed annual revenue requirement ($million, nominal)




Source: Power and Water, *PWC12.1 – SCS Post-tax Revenue Model – 16 March 2018,* March 2018; AER analysis.

Note: Revenue adjustments include shared assets and DMIAM. 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 Power and Water over the 2019–24 regulatory control period. In doing so, we first set the expected revenue for the first regulatory year (2019–20) at $141.2 million ($nominal). This is higher than the 2019–20 ARR (unsmoothed) of $134.7 million we determined. However, it is $38.6 million lower than the approved expected revenue for 2018–19. We then applied a profile of X factors to determine the expected revenues in subsequent years.

To smooth the revenue increases from the second regulatory year (2020–21) onwards, we have applied a constant X factor of –1.12 per cent over the entire length of the period. 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 Power and Water, the difference between the expected revenue and ARR in the last year of the 2019–24 regulatory control period (2023–24) is 3.0 per cent. This divergence aligns with our target band of

3 per cent. Therefore, we consider that our profile of X factors results 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.[7] We will review the smoothing profile for the final decision.

### 1.4.2 Shared assets

Distributors, such as Power and Water, may use assets to provide both the standard control services we regulate and other unregulated services. These assets are called 'shared assets'.[8] 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.[9]

The shared asset principles establish that use of share assets should be material before cost reductions are applied.[10] The NT 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.[11]

Power and Water submitted that its shared asset unregulated revenues are forecast to be between 1.4 and 1.7 per cent of its proposed expected revenue in each year of the 2019–24 regulatory period. Power and Water therefore proposed reductions in its total revenues for each year of that period.[12]

We consider Power and Water's forecast unregulated revenues from shared assets for the 2019–24 regulatory control period are reasonable because they are comparable with its historical unregulated revenues from shared assets.[13] However, Power and Water's forecast unregulated revenues must be compared to the regulated revenues we determine, rather than those proposed by Power and Water. Our draft decision sets lower total revenues than Power and Water's proposal, so we estimate that the unregulated revenues will be between 1.7 and 2.0 per cent of its expected revenue in each year of the 2019–24 regulatory control period. We are therefore satisfied that Power and Water's shared asset unregulated revenues meet the materiality threshold in each year of the 2019–24 regulatory control period.[14]

For this draft decision, we apply a shared asset revenue adjustment as shown in Table 1.4, consistent with the proposal from Power and Water. The shared asset revenue

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7 NT NER, cl. 6.5.9(b)(2).

8 NT NER, cl. 6.4.4.

9 AER, *Shared asset guideline*, November 2013.

10 NT NER, cl. 6.4.4(c)(3).

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

12 Power and Water, *Regulatory proposal*, March 2018, p. 128.

13 Power and Water, *PWC11.11CP - Regulatory Determination Workbooks - Consolidated - 16 Mar 18 - PUBLIC*, March 2018.

14 We will reassess the materiality of the forecast shared asset unregulated revenues for our final decision.

adjustment is a total reduction of $1.3 million ($2018–19) across the 2019–24 regulatory control period.

### Table 1.4 AER's draft decision on Power and Water's shared asset revenue adjustment ($million, 2018–19)

| | 2019–20 | 2020–21 | 2021–22 | 2022–23 | 2023–24 | Total |
|---|---|---|---|---|---|---|
| Power and Water's proposal | –0.3 | –0.3 | –0.3 | –0.3 | –0.3 | –1.3 |
| AER's draft decision | **–0.3** | **–0.3** | **–0.3** | **–0.3** | **–0.3** | **–1.3** |

Source: Power and Water, *PWC12.1 – SCS Post-tax Revenue Model – 16 March 2018,* March 2018; AER Analysis.

## 1.4.3 Indicative average distribution price impact

Our draft decision on Power and Water's expected revenues ultimately affects the prices consumers pay for electricity. There are several steps required in translating our revenue decision to a price impact.

We regulate Power and Water's standard control services under a revenue cap form of control. This means our draft decision on Power and Water's expected revenues do not directly translate to price impacts. This is because Power and Water'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. We are not required to establish the distribution prices for Power and Water as part of this determination. However, we will assess Power and Water'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 this draft decision, we have estimated some indicative average distribution price impacts flowing from our determination on the expected revenues for Power and Water over the 2019–24 regulatory control period. Our estimates only relate to standard control services (that is, the core electricity distribution 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 Power and Water's forecast energy consumption, which we have adopted for this draft decision.[15]

Figure 1.3 shows Power and Water's indicative average price path over the period 2014–24 in real 2018–19 dollar terms based on the expected revenues established in our draft decision compared to Power and Water's proposed revenue requirement.

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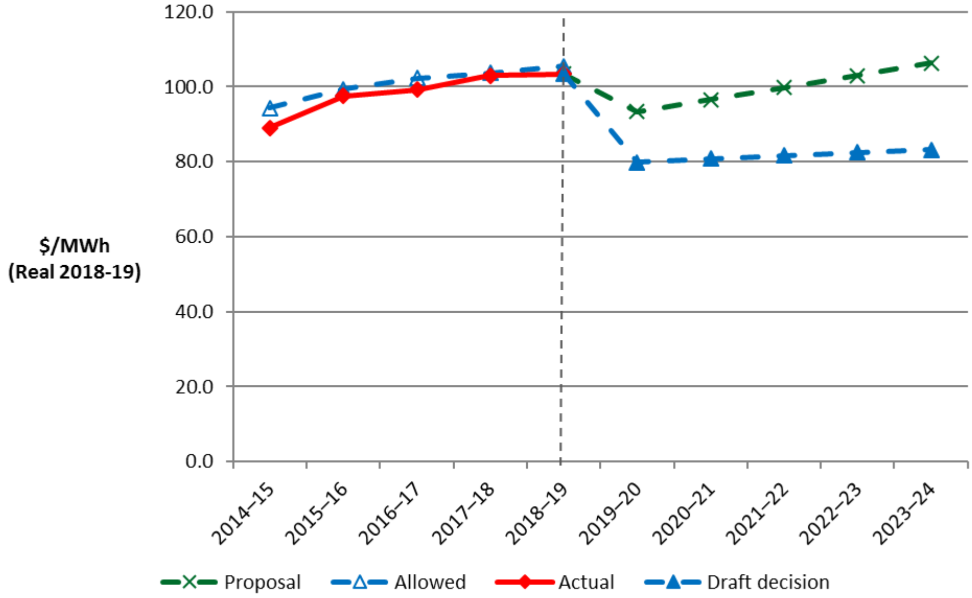
[15] Power and Water, *PWC11.11CP - Regulatory Determination Workbooks - Consolidated - 16 Mar 18 - PUBLIC, table 3.4*, March 2018.

## Figure 1.3 Indicative distribution price path for NT ($/MWh, 2018–19)




Source: AER analysis.

We estimate that our draft decision on Power and Water's annual expected revenue will result in a decrease to average distribution charges by about 4.2 per cent per annum over the 2019–24 regulatory control period in real 2018–19 dollar terms.[16] This compares to the real average increase of approximately 0.8 per cent per annum proposed by Power and Water over the 2019–24 regulatory control period.[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.

Table 1.5 displays the comparison of the revenue and price impacts of Power and Water's proposal and our draft decision.

## Table 1.5 Comparison of revenue and price impacts of Power and Water's proposal and the AER's draft decision ($nominal)

| | 2018–19 | 2019–20 | 2020–21 | 2021–22 | 2022–23 | 2023–24 |
|---|---|---|---|---|---|---|
| **AER draft decision** | | | | | | |
| Revenue ($million) | 179.8 | 141.2 | 146.3 | 151.6 | 157.0 | 162.7 |
| Price path ($/MWh)[a] | 103.4 | 81.8 | 84.8 | 87.8 | 90.9 | 93.9 |

16 In nominal terms we estimate average distribution charges to decrease by 1.9 per cent per annum. This amount reflects an expected inflation rate of 2.45 per cent per annum as determined in this draft decision.

17 In nominal terms Power and Water's proposal would increase distribution charges by 3.2 per cent per annum. This amount reflects an expected inflation rate of 2.42 per cent per annum as proposed by Power and Water.

| | | | | | | |
|---|---|---|---|---|---|---|
| Revenue (change) | | –21.5% | 3.6% | 3.6% | 3.6% | 3.6% |
| Price path (change) | | –20.9% | 3.6% | 3.5% | 3.5% | 3.4% |
| **Power and Water proposal** | | | | | | |
| Revenue ($million) | 177.8 | 165.0 | 174.7 | 185.0 | 195.9 | 207.4 |
| Price path ($/MWh)[a] | 102.3 | 95.6 | 101.2 | 107.1 | 113.3 | 119.8 |
| Revenue (change) | | –7.2% | 5.9% | 5.9% | 5.9% | 5.9% |
| Price path (change) | | –6.5% | 5.9% | 5.8% | 5.8% | 5.7% |

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 NT reflects the combined cost of all the electricity supply chain components—wholesale energy generation, distribution networks[18], metering, and retail costs. This draft decision primarily relates to the distribution charges for standard control services, which represent approximately 44 per cent on average for residential customers and 35 per cent on average for small business customers.[19]

We estimate the expected bill impact by varying the distribution charges in accordance with our draft decision, while holding all other components—including the metering component—constant. This approach isolates the effect of our draft decision on the core distribution charges only. However, this does not imply that other components will remain unchanged across the regulatory control period.[20]

Based on this approach, we expect that the distribution component of the average annual residential electricity bill in 2023–24 would decrease by about $102 ($nominal) from the 2018–19 level.[21] This involves a $231 decrease in the first year of the 2019–24 regulatory control period (2019–20), followed by gradual average annual increases of around $32 for the remaining years of this period (2020–24). By comparison, had we accepted Power and Water's proposal, the distribution component of the average annual residential electricity bill in 2023–24 would increase by about $190 ($nominal) from the 2018–19 level.[22]

18 All of Power and Water's electricity network is deemed to be distribution for the purposes of economic regulation.

19 Power and Water, *Regulatory proposal overview*, March 2018, p. 1.

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

21 This equates to a 4.0 per cent decrease in the average residential customer's total electricity bill over five years.

22 This equates to a 7.5 per cent increase in the average residential customer's total electricity bill over five years.

Similarly, for an average small business customer in the NT, we expect that the distribution component of the average annual electricity bill in 2023–24 would decrease by about $390 ($nominal) from the 2018–19 level.[23] This involves an $889 decrease in the first year of the 2019–24 regulatory control period (2019–20), followed by gradual average annual increases of around $125 for the remaining years of this period (2020–24). By comparison, had we accepted Power and Water's proposal, the distribution component of the average annual small business electricity bill in 2023–24 would increase by about $729 ($nominal) from the 2018–19 level.[24]

Our estimated impact is based on an average annual electricity usage of around 8500 kWh per annum for residential households and 38000 kWh for small businesses.[25] Therefore, customers with different usage will experience different changes in their bills. We also note that there are other factors, such as metering costs, wholesale and retail costs, which also affect electricity bills.

Table 1.6 shows the estimated annual average impact of our draft decision for the 2019–24 regulatory control period and Power and Water's proposal on the average residential and small business customers' annual electricity bills in the NT.

### Table 1.6 Estimated impact of Power and Water's proposal and the AER's draft decision on annual electricity bills for the 2019–24 regulatory control period ($nominal)

| | 2018–19 | 2019–20 | 2020–21 | 2021–22 | 2022–23 | 2023–24 |
|---|---|---|---|---|---|---|
| **AER draft decision** | | | | | | |
| Residential annual bill | 2520[a] | 2289 | 2321 | 2353 | 2386 | 2419 |
| Annual change[c] | | –231 (–9.2%) | 32 (1.4%) | 32 (1.4%) | 33 (1.4%) | 33 (1.4%) |
| Small business annual bill | 12169[b] | 11280 | 11401 | 11525 | 11652 | 11778 |
| Annual change[c] | | –889 (–7.3%) | 121 (1.1%) | 124 (1.1%) | 127 (1.1%) | 127 (1.1%) |
| **Power and Water proposal** | | | | | | |
| Residential annual bill | 2520[a] | 2448 | 2509 | 2573 | 2641 | 2710 |
| Annual change[c] | | –72 (–2.9%) | 61 (2.5%) | 64 (2.6%) | 67 (2.6%) | 70 (2.6%) |
| Small business annual bill | 12169[b] | 11891 | 12125 | 12371 | 12630 | 12897 |
| Annual change[c] | | –277 (–2.3%) | 234 (2.0%) | 246 (2.0%) | 258 (2.1%) | 267 (2.1%) |

Source: AER analysis; Power and Water, *Regulatory proposal overview*, March 2018, p. 11.

[23] This equates to a 3.2 per cent decrease in the average small business customer's total electricity bill over five years.

[24] This equates to a 6.0 per cent increase in the average small business customer's total electricity bill over five years.

[25] Power and Water, *Regulatory proposal overview*, March 2018, p. 11.

(a) Annual bill for 2018–19 reflects the average consumption of 8500 kWh for a typical residential customer in NT with an accumulation meter.

(b) Annual bill for 2018–19 reflects the average consumption of 38000 kWh for a typical small business customer in NT with an accumulation meter.

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

We note the majority of customers in the NT are subject to the government's Electricity Pricing Order (Pricing Order). This caps retail prices for customers using less than 750 MWh of electricity per annum.[26] It is important to recognise that the impact of any changes to Power and Water's revenue as a result of our decision is constrained by the Pricing Order. Therefore, the outcomes flowing from this draft decision may not affect the retail electricity bill under the pricing order for customers in the NT.

The Pricing Order stipulates a fixed charge and volume based tariff structure (including a time of use tariff) but does not account for demand based tariffs. The Pricing Order prevents price increases but does allow for prices to be set lower than prescribed. However, it is up to retailers to determine the price in accordance with the Pricing Order and pass on to customers any cost savings from lower network revenues determined for Power and Water. This means only a small number of large customers are not covered by this retail price protection and they will be directly affected by the outcomes of this distribution determination.

Therefore, based on the approach discussed above, for an average large customer in the NT, we expect that the distribution component of the average annual electricity bill in 2023–24 would decrease by about $8199 ($nominal) from the 2018–19 level.[27] By comparison, had we accepted Power and Water's proposal, the distribution component of the average annual electricity bill for large customers in 2023–24 would increase by about $15,307 ($nominal) from the 2018–19 level.[28] Our estimated impact is based on an average annual electricity usage of around 1000 MWh per annum for large customers.[29]

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[26] The fixed daily charge and the charge for the volume of electricity consumed is not to exceed the amount specified in the pricing order (see clauses 4 and 5). The pricing order can be found on the Utilities Commission's website at: http://www.utilicom.nt.gov.au/Electricity/pricing/Pages/Electricity-Retail-Pricing.aspx.

[27] This equates to a 3.2 per cent decrease in the average large customer's total electricity bill over five years.

[28] This equates to a 6.0 per cent increase in the average large customer's total electricity bill over five years.

[29] Power and Water, *PWC12.20 Proposal Tables and Charts - 16 March 2018 - Public, table 21.5*, March 2018.