



# Energex and Ergon Energy 2020-25: AER draft decisions

Pre-determination conference

24 October 2019

# Agenda

- Welcome and introductions
- AER's draft decisions
- Questions and answer session
- Insights from the Consumer Challenge Panel

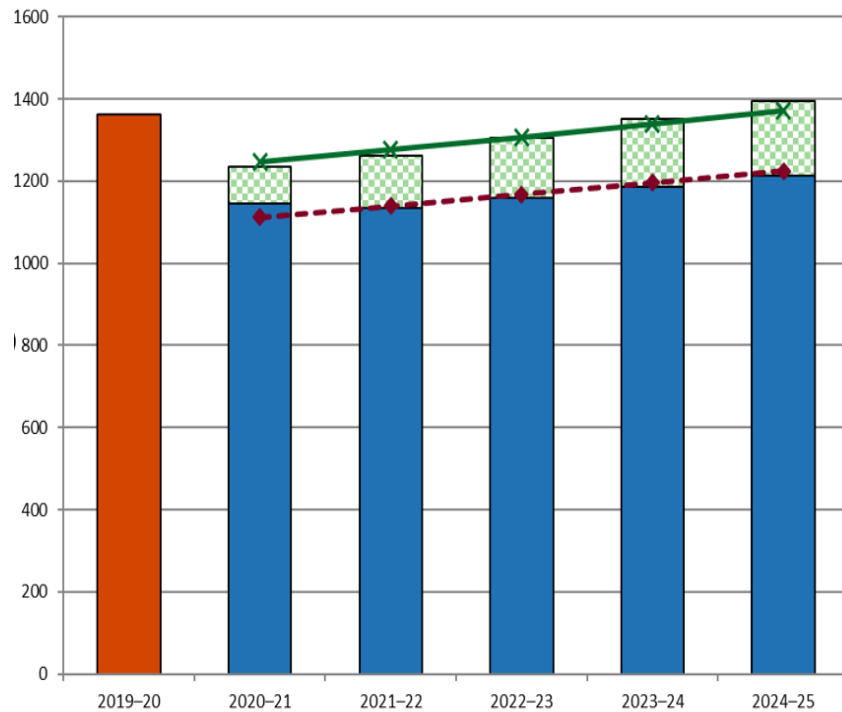
*Morning tea break*

- Insights from consumers (ECA, QCOSS, CCIQ)
- Energy Queensland
- Question and answer session
- Next steps and close

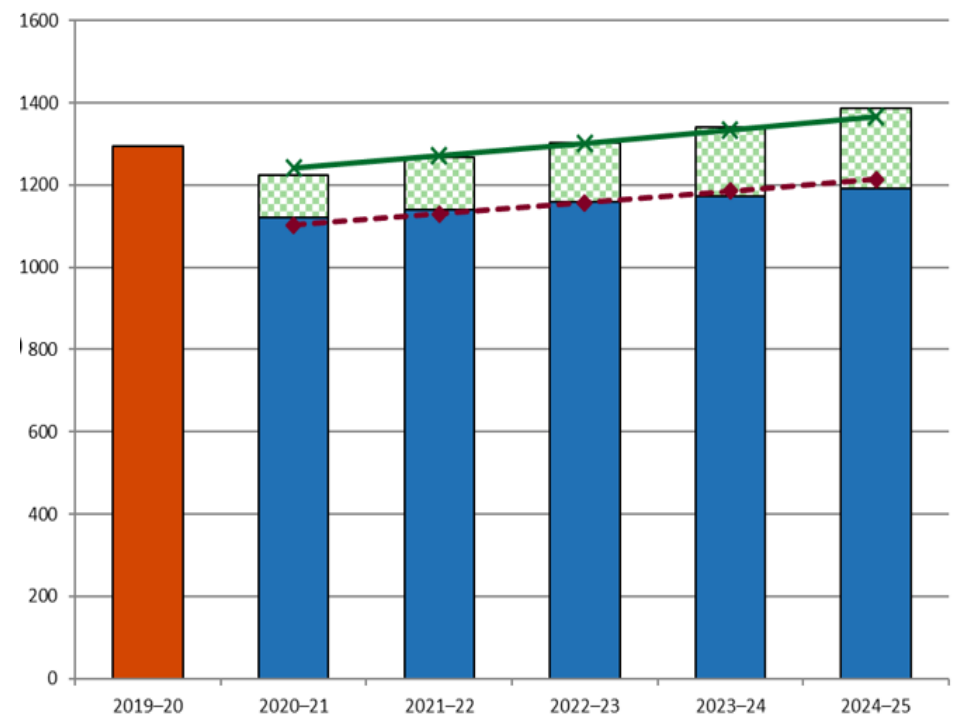
# Proposal and approved revenue

Revenue for the 2020-25 regulatory control period (\$m, nominal)

Energex



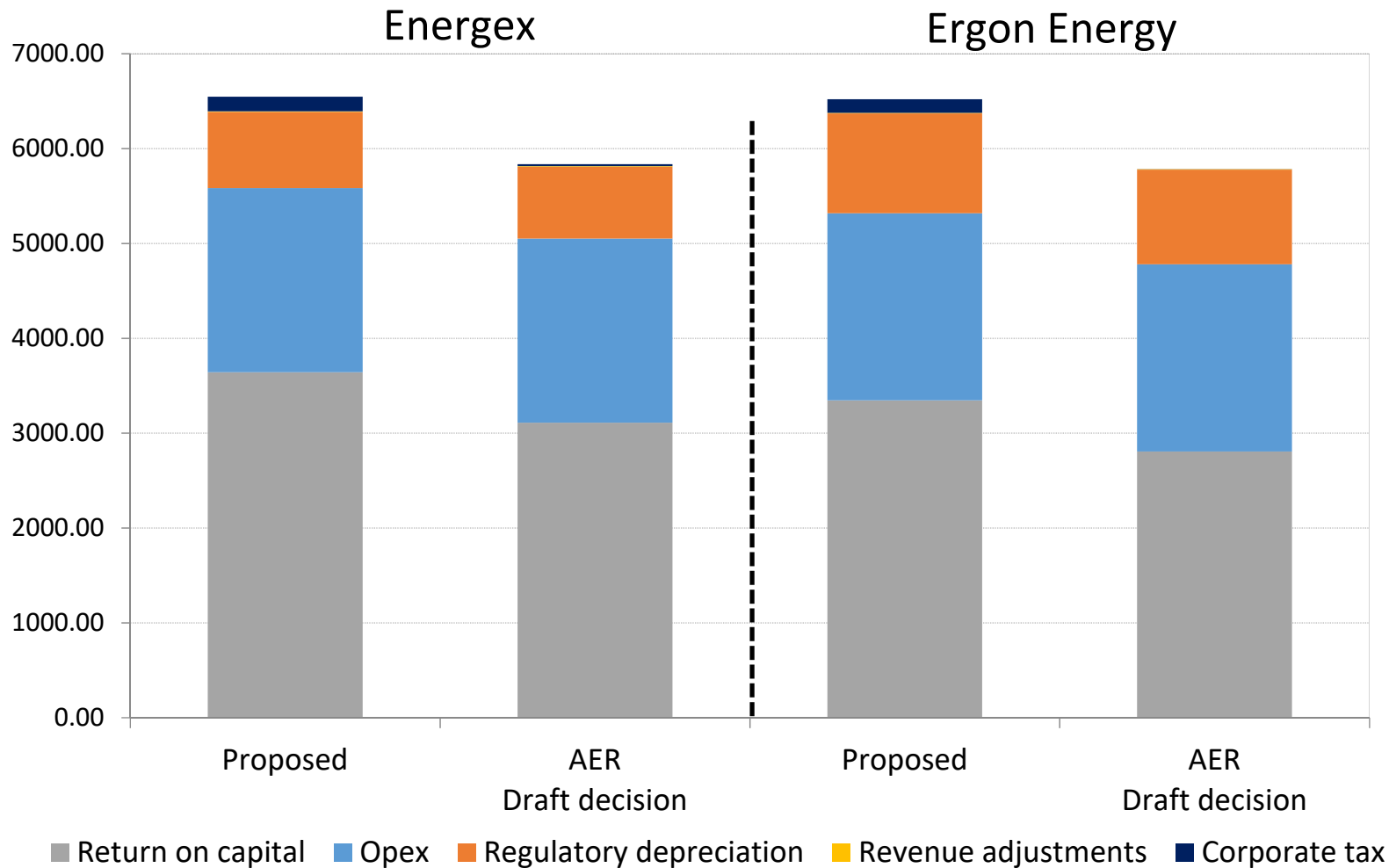
Ergon Energy



█ Estimated actual     
 █ Proposal (unsmoothed) - ARR     
 █ AER draft (unsmoothed) - ARR  
—x— Proposal (smoothed) - expected     
 -◆- AER draft (smoothed) - expected

# How does our decision differ from the proposals?

Comparison of proposed and draft decision revenue 2020-25 (\$m, nominal)



# Estimated impact of our draft decision on average annual electricity bills

## Energex and Ergon Energy\* (\$ nominal)

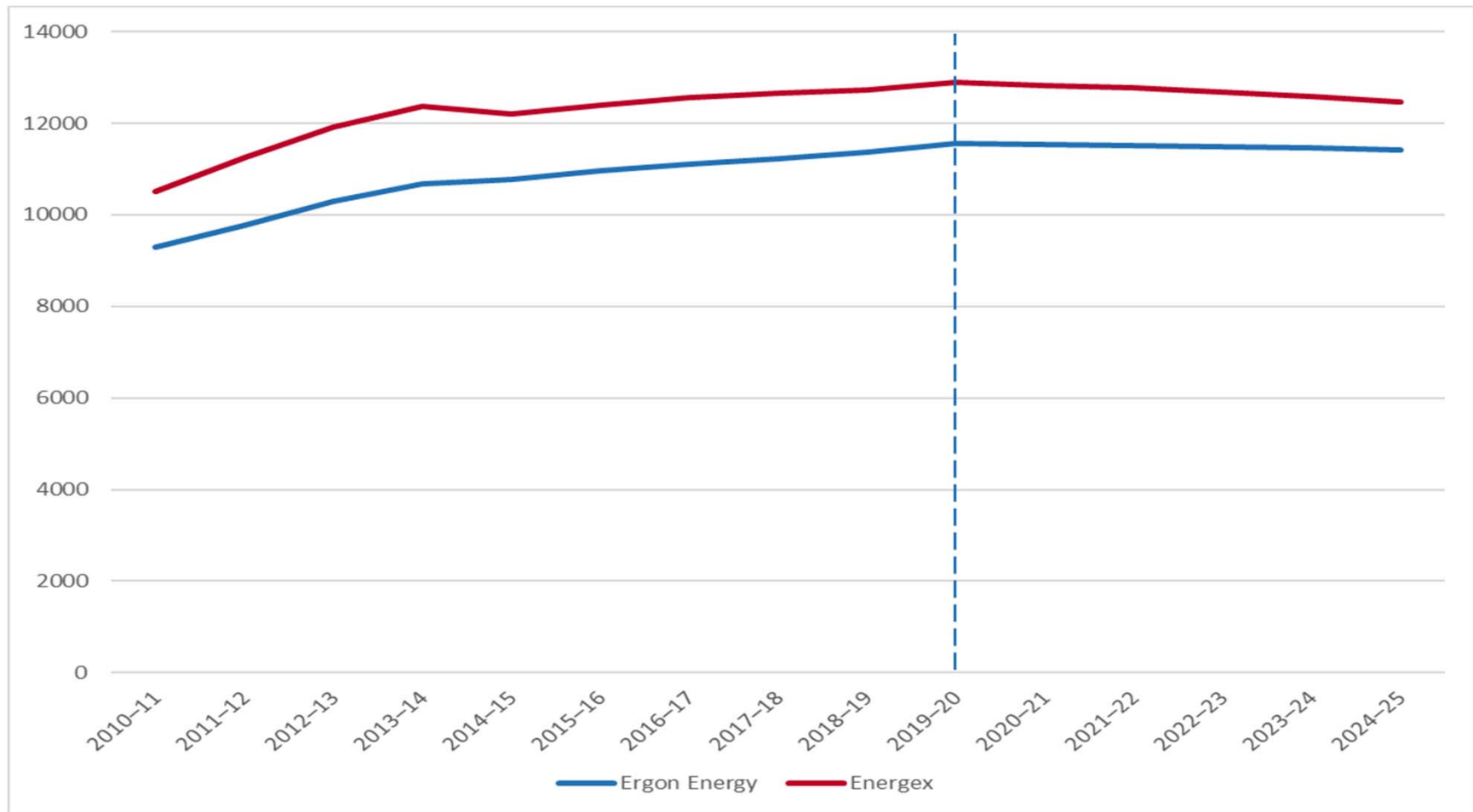
	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25
<b>AER draft decision</b>						
Residential annual bill	1570 <sup>a</sup>	1468	1477	1489	1497	1506
Annual change <sup>c</sup>		-102 (-6.5%)	9 (0.6%)	12 (0.8%)	8 (0.5%)	9 (0.6%)
Small business annual bill	2347 <sup>b</sup>	2216	2228	2243	2253	2265
Annual change <sup>c</sup>		-131 (-5.6%)	12 (0.5%)	15 (0.7%)	10 (0.5%)	11 (0.5%)
<b>Energex proposal</b>						
Residential annual bill	1570 <sup>a</sup>	1522	1532	1545	1554	1564
Annual change <sup>c</sup>		-48 (-3.1%)	10 (0.7%)	13 (0.8%)	9 (0.6%)	10 (0.6%)
Small business annual bill	2347 <sup>b</sup>	2285	2298	2315	2326	2339
Annual change <sup>c</sup>		-62 (-2.6%)	13 (0.6%)	17 (0.7%)	12 (0.5%)	13 (0.5%)

\* Note: the Queensland Government's uniform tariff policy results in regulated retail electricity tariffs in Ergon Energy's distribution matching those in Energex's area.

- a) Annual bill for 2019–20 is sourced from [AER, Final determination, Default Market Offer Prices 2019–20](#), and reflects an average consumption of 4600 kWh for residential customers in Queensland.
- b) Annual bill for 2019–20 is sourced from [Queensland Competition Authority, Final Determination–Regulated retail electricity prices for 2019–20](#), and reflects an average consumption of 6866 kWh for small business customers in Queensland.
- c) Annual change amounts and percentages are indicative. They are derived by varying the distribution component of the 2019–20 bill amounts in proportion to yearly expected revenue divided by forecast energy as provided by Energex. Actual bill impacts will vary depending on electricity consumption and tariff class.

# Regulatory Asset Base (RAB)

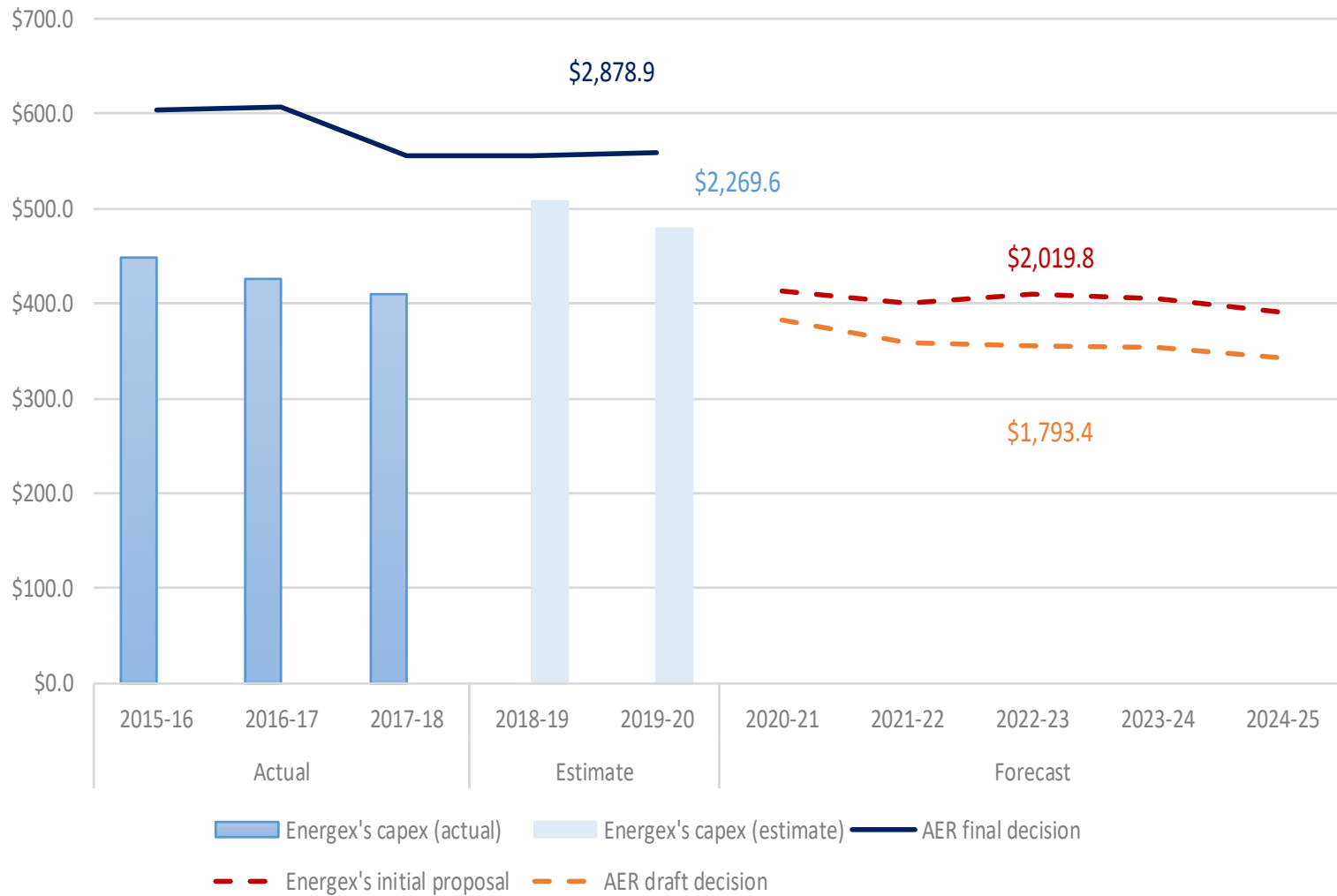
Actual and forecast RAB - Energex and Ergon Energy (\$m, 2019-20)



# Rate of return

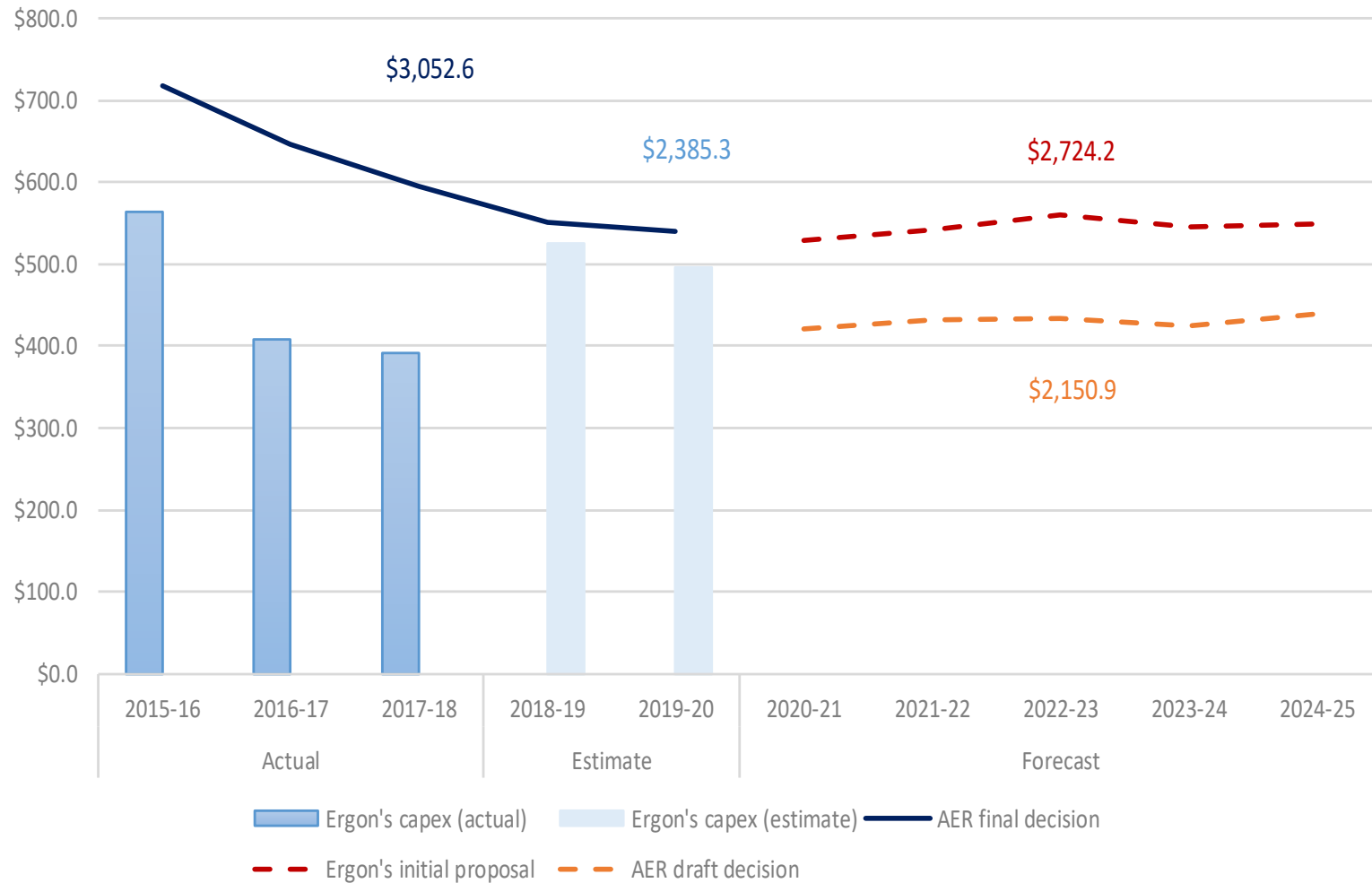
	Current Regulatory Period (2015-20)	Energex's and Ergon Energy's Proposal (2020-25)	AER draft decision (2020-25)	Allowed return over regulatory control period
Nominal risk free rate	2.96%	2.60%	1.32%	
Market risk premium	6.5%	6.1%	6.1%	
Equity beta	0.7	0.6	0.6	
Return on equity (nominal post-tax)	7.5%	6.26%	4.98%	Constant (%)
Return on debt (nominal pre-tax)	5.01%	4.92%	4.79%	Updated annually
Gearing	60%	60%	60%	Constant (60%)
Nominal vanilla WACC	6.01%	5.46%	4.87%	Updated annually for return on debt
Forecast inflation	2.5%	2.42%	2.45%	Constant (%)

# Our draft capex forecast for Energex (\$m, 2019-20)

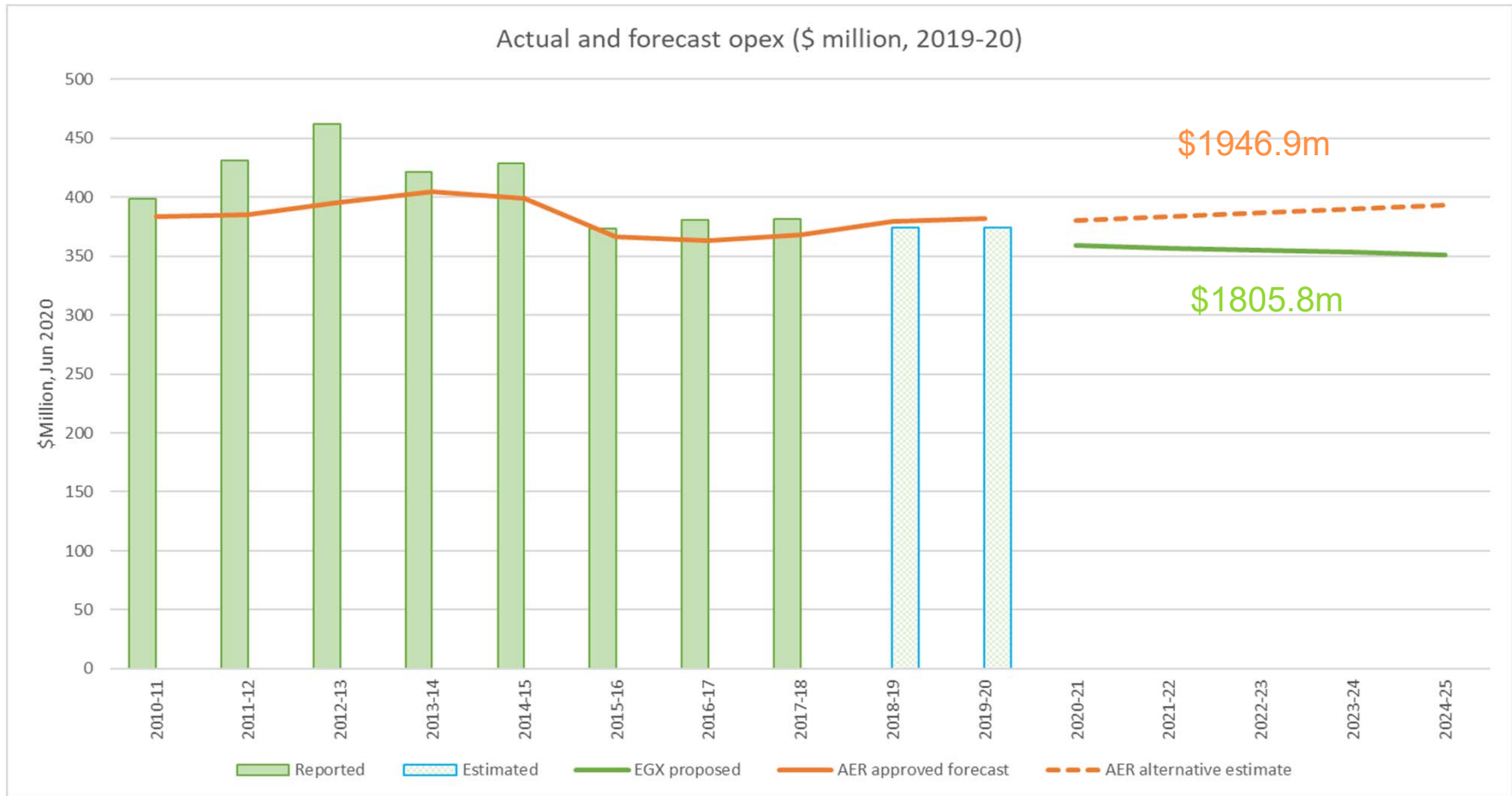




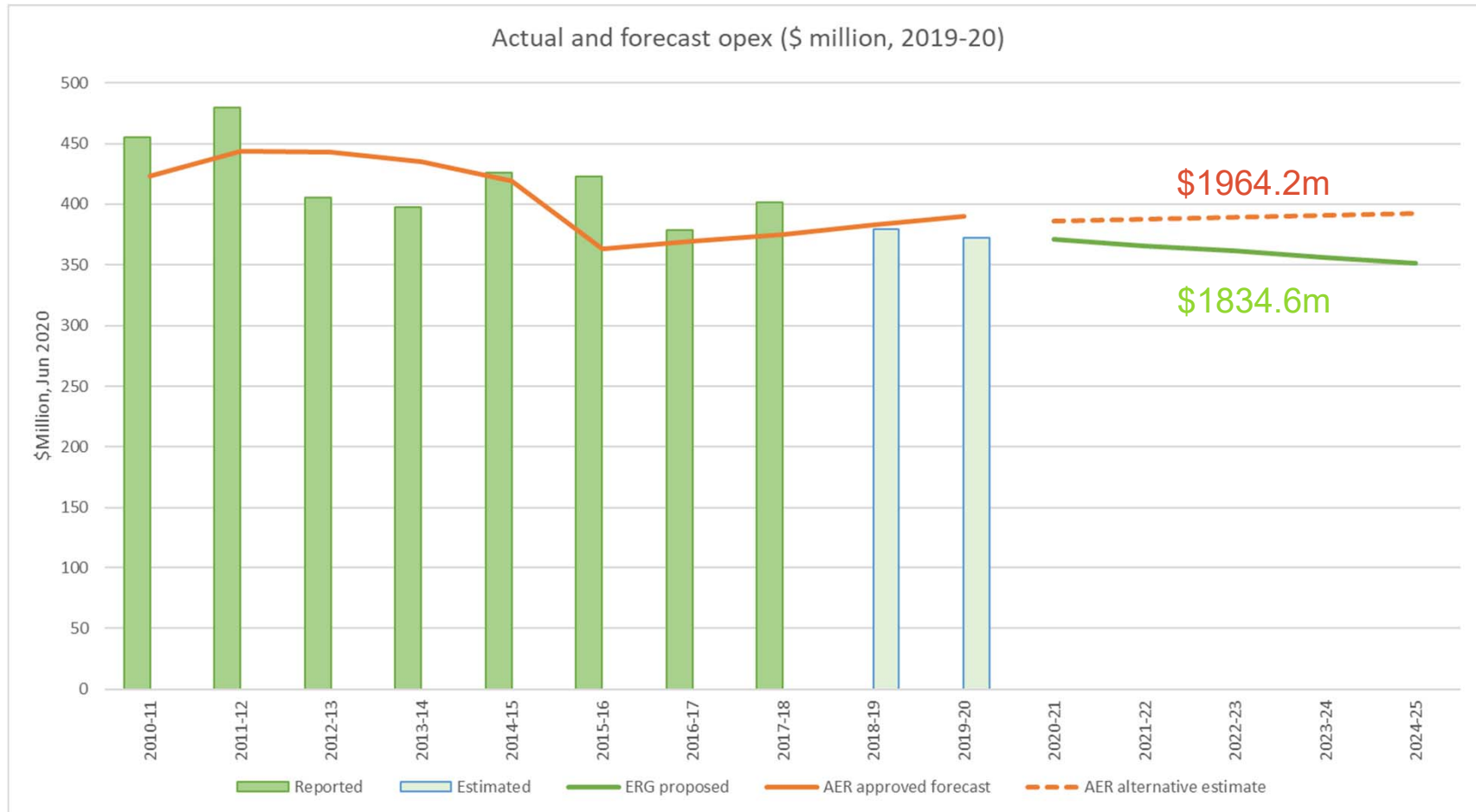
# Our draft capex forecast for Ergon Energy (\$m, 2019-20)



# Our draft opex forecast for Energex (\$m, 2019-20)



# Our draft opex forecast for Ergon Energy (\$m, 2019-20)



## Revenue adjustments

- Energex and Ergon Energy identified but did not include any EBSS or CESS carryover amounts accrued during the current period.
- We have therefore not included EBSS or CESS carryover amounts in our revenue allowances.
- However, we have reviewed the EBSS and CESS carryover amounts and made adjustments to them.
- Should Energex's and Ergon Energy's revised proposals include EBSS and CESS amounts we will update our analysis and include appropriate carryover amounts.
- Demand management innovation allowance mechanism (Energex \$5.1m/Ergon Energy \$5.09m).

## Incentive schemes

- The following incentive schemes will apply to Energex and Ergon in the next regulatory period:
  - EBSS
  - CESS
  - STPIS
  - DMIS
  - DMIAM
- The schemes encourage networks to pursue expenditure efficiencies and demand-side alternatives, while maintaining service performance.

## Tariff structure statement (TSS)

- We have not approved Energex and Ergon Energy's TSS proposal.
- Further detail and amendments are required to make the TSS proposal compliant with the rules.
- We acknowledge the stakeholder engagement conducted to date.
- Further stakeholder engagement would be beneficial and we note this has started.

# Next steps

Milestone	Date
→ Public forum on draft decision	24 October 2019
Revised proposals due	10 December 2019
Submissions on draft decision and revised proposal due	15 January 2020
AER final decision published	April 2020