

The background image shows three workers in high-visibility orange and yellow safety gear, including hard hats and safety glasses. They are gathered around a tablet computer, which the central worker is holding. The setting appears to be an industrial or construction site, with large wooden spools and metal structures visible in the background. The overall lighting is dim, with a blue tint overlaid on the image.

Evoenergy regulatory proposal 2019-24

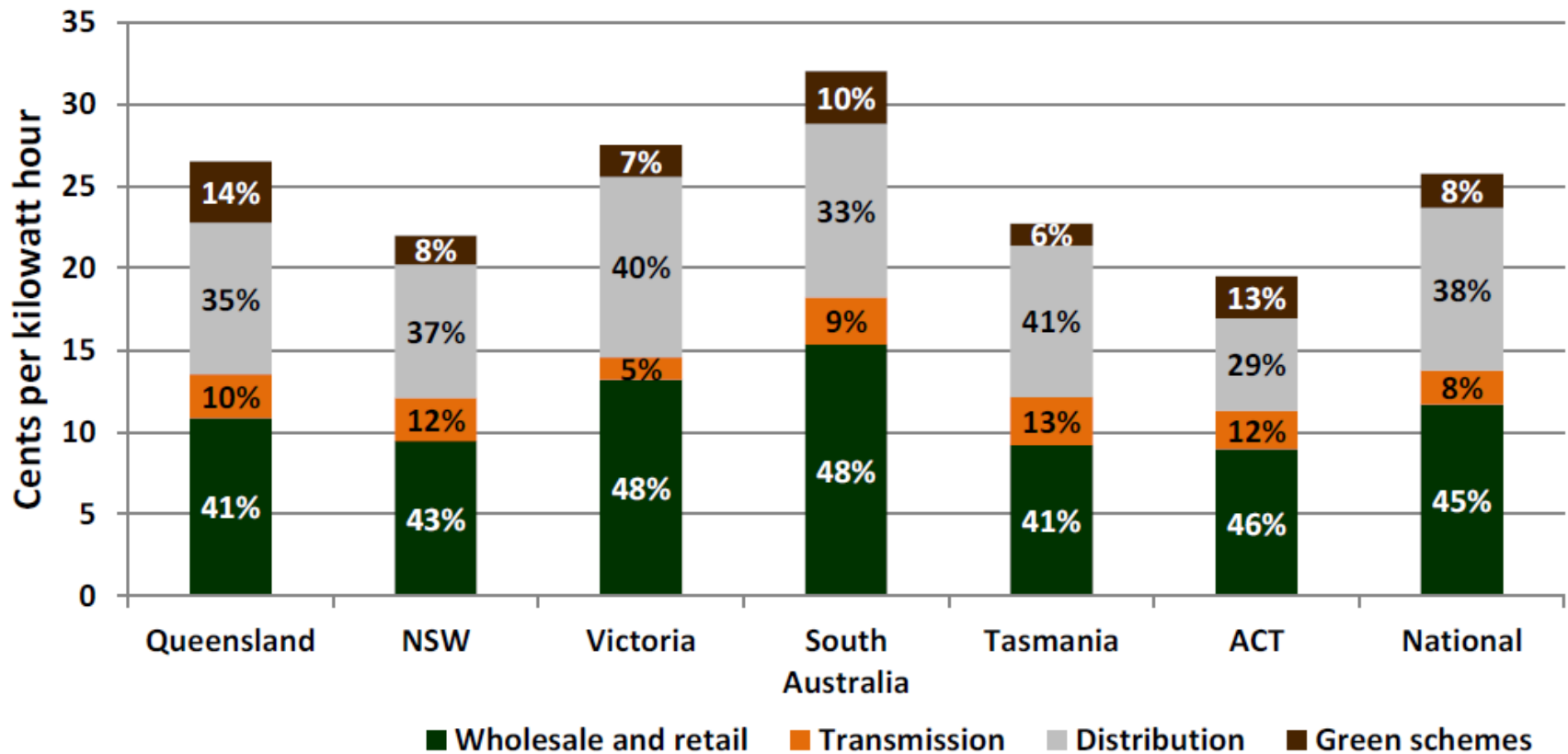
Presentation to the AER public forum

13 April 2018

The background image shows three workers in an industrial environment. They are wearing high-visibility orange and yellow safety jackets with reflective stripes, white hard hats, and headlamps. The worker in the center is holding a tablet and looking at it. The worker on the right is looking towards the tablet. The worker on the left is partially visible, also looking towards the center. The background features large wooden spools and industrial equipment, suggesting a power plant or manufacturing facility. The overall lighting is dim, with some warm light from the background.

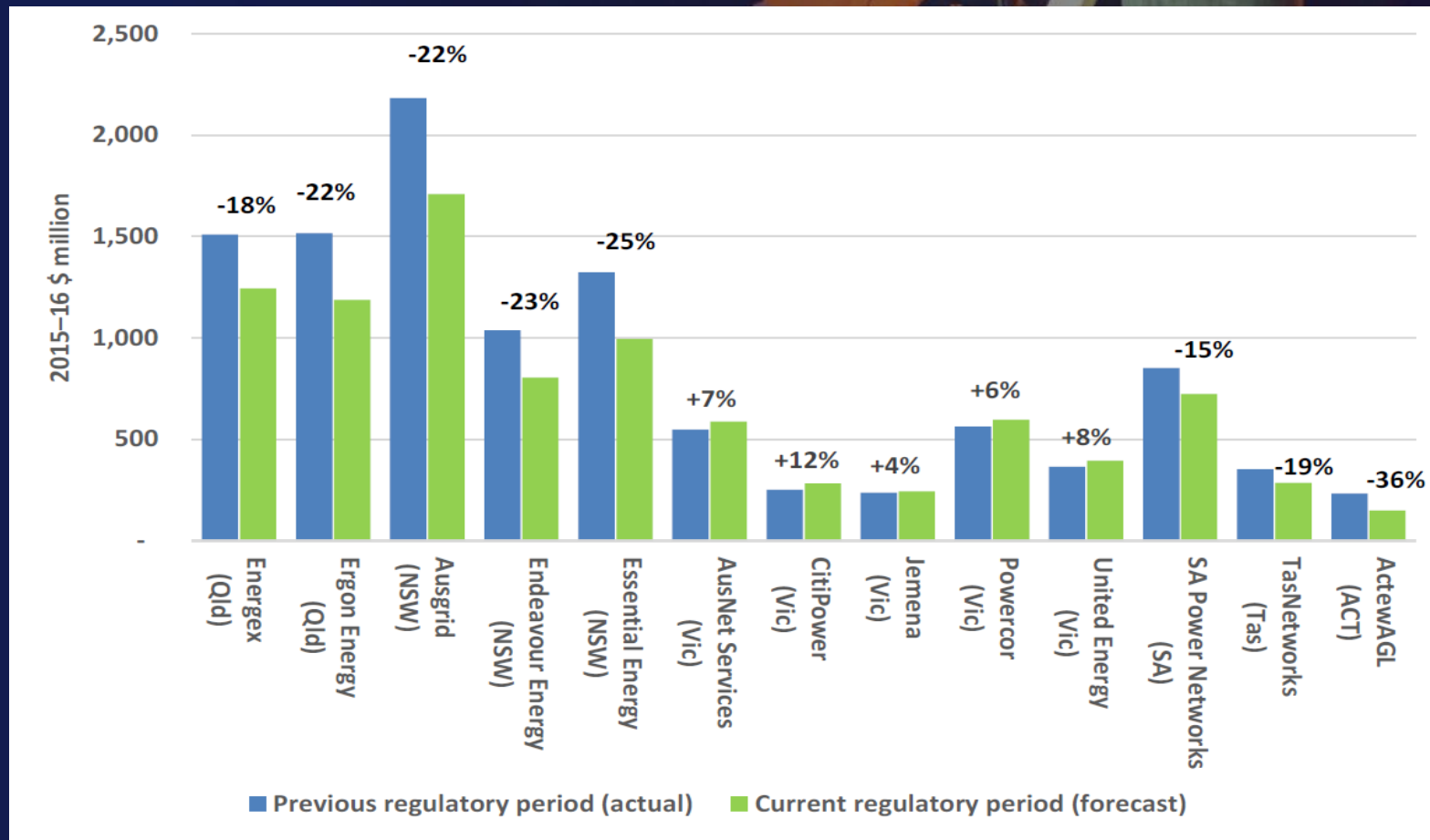
Opening remarks – Michael Costello CEO of ActewAGL

Network revenue as a proportion of retail electricity bills, 2016



Source: AMEC, 2016 residential electricity price trends, final report.

Forecast change in electricity network revenues 2009-14 to 2014-19



Source: AER Annual Benchmarking Report, Electricity DNSPs, 2017. p 24

Overview

- Achievements and themes
- Consumer engagement
- Opex, capex, rate of return, revenue requirement
- Bill impacts
- Tariff structure

During 2014-19 period





- Safety performance successfully prioritised
- Remains one of the most reliable networks
- Establishment of Energy Consumer Reference Council
- ISO 55001 Asset Management certification
- Substantial cost efficiency improvements
 - Opex reduced by 22% from 2009-14
 - Underspend of AER 2015 decision capex by \$9.8m
- More cost reflective tariffs introduced

Key themes of the proposal



- Maintaining safety, quality, reliability and security
- Striking right cost/reliability trade-off
- Supporting new technologies
- Stable and cost reflective pricing

Consumer engagement program

	Details	Participation
	Publications <ul style="list-style-type: none">- Issues paper- Discussion paper- Case-study summaries- Consultation summary (no yet released)	ACTCOSS + others workshop and written feedback 2 Written submissions Clicks on website Distributed at customer forums
	Customer forums <ul style="list-style-type: none">- Energy Consumer Reference Council- Community Council meetings- Industry presentations- Retailer meetings- Customer workshops- ACTCOSS workshops	8 ECRC meetings 75 people at Community Council meetings 2 industry briefings/presentations 30 @ customer workshops 15 ACTCOSS workshop
	Promotion/ access to information <ul style="list-style-type: none">- Social media- Website content and promotion- Industry newsletters	Website hits Social media stats Article in industry newsletters
	Surveys <ul style="list-style-type: none">- PowerPanel online survey- ACTCOSS assisted survey	277 PowerPanel 36 ACTCOSS survey

What did consumers tell us?

Meaningful involvement in regulatory process is important

The current approach to **balancing cost and reliability outcomes** is supported

Predictability and certainty is important, particularly with respect to price changes

Maintaining security of supply is important, particularly during adoption of new technology

Technology should play an important role in the future of Evoenergy

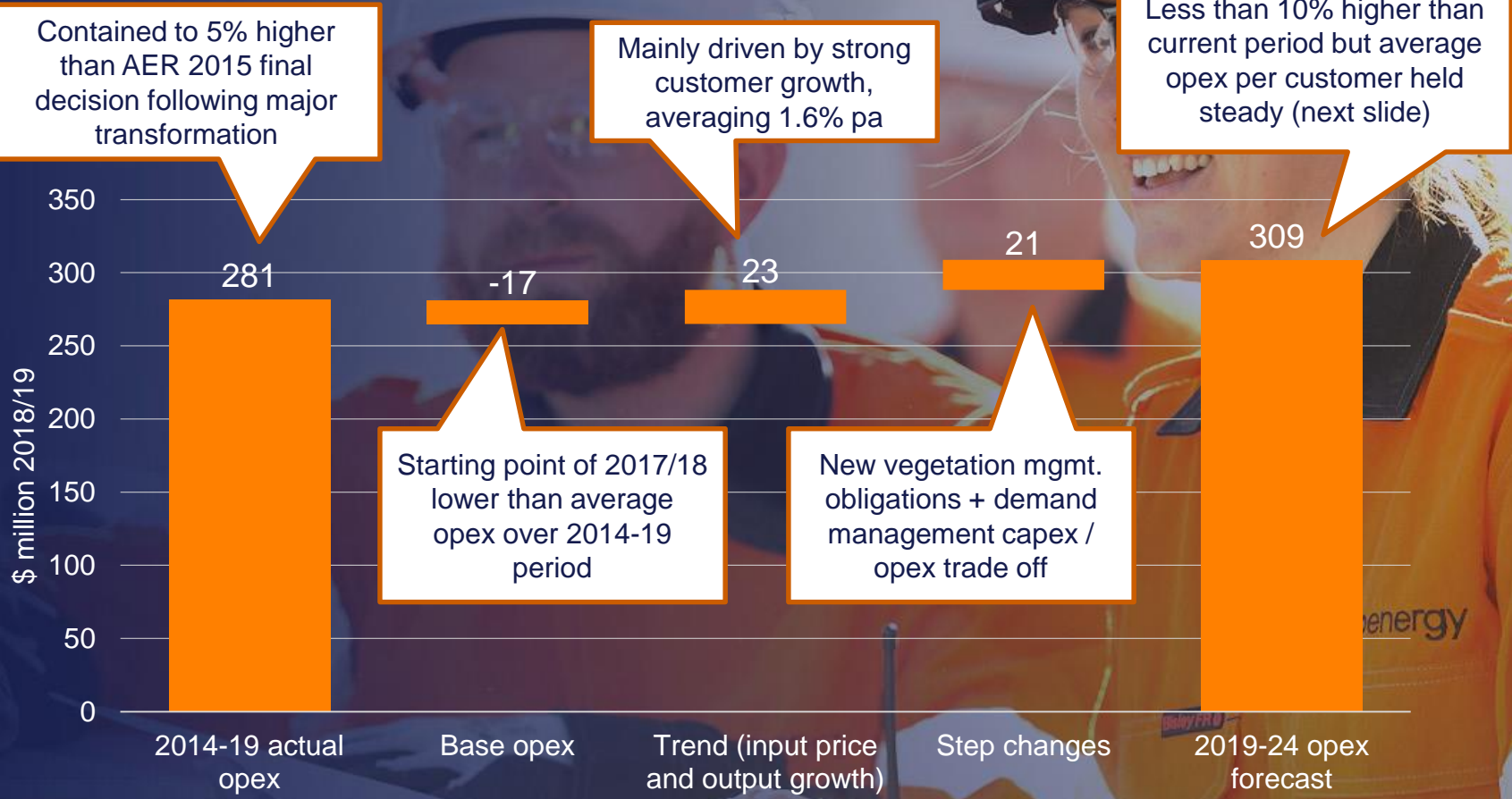
Most consumers have a **willingness to modify electricity consumption** in response to price signals

Transition to cost-reflective tariffs is supported, and supporting consumers during the transition is important

Consumer information and education should support price signals

These insights have guided the key themes of our 2019-24 plan

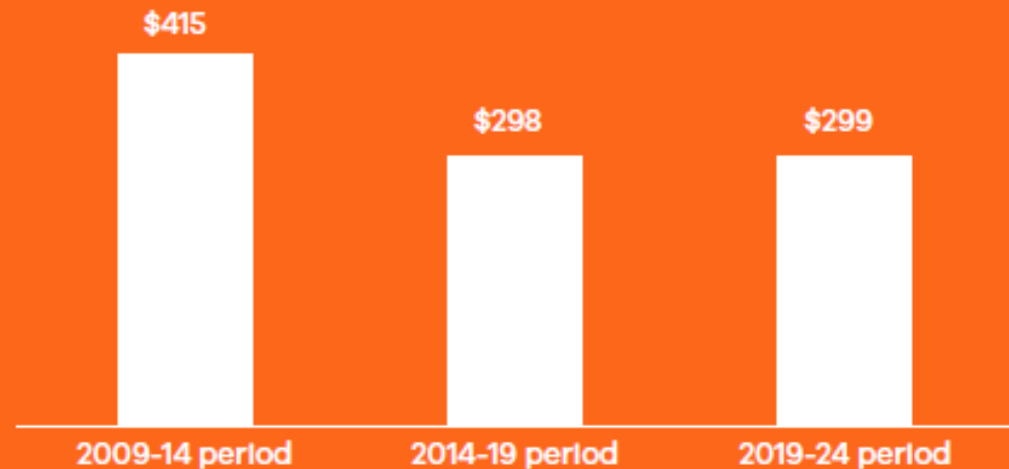
How opex has been forecast



Opex per customer constant

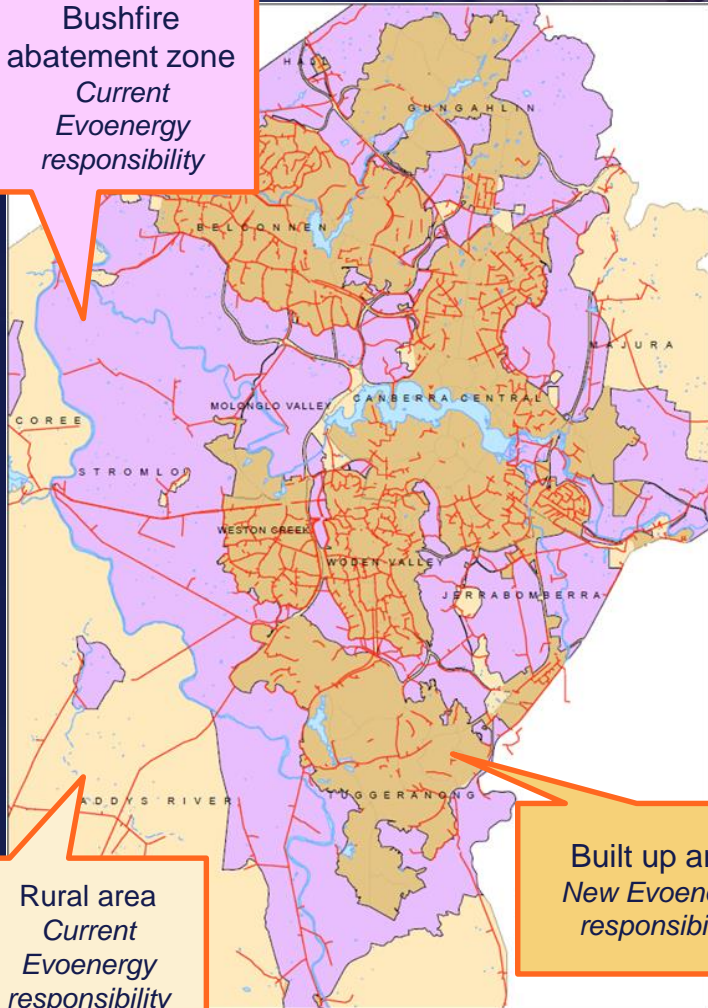
- Our forecast keeps opex per customer about the same, despite a number of cost pressures including new vegetation management obligations
- This reflects our commitment to driving continuous efficiency and responding to feedback from consumers on energy cost pressures

Average annual operating costs per customer (\$2018-19)



Changes to vegetation clearing responsibilities in the ACT

Bushfire abatement zone
Current
Evoenergy
responsibility



Rural area
Current
Evoenergy
responsibility

Built up area
New Evoenergy
responsibility

- Responsibility for vegetation management has been shared between Evoenergy and the ACT Government
- Recent legislative changes mean that we will have additional responsibilities from July this year
- This includes clearing vegetation on unleased Territory-owned land as well as inspecting electrical infrastructure on leased rural land and taking corrective action
- These changes will benefit the community in terms of safety and outages caused by vegetation interfering with electrical infrastructure
- The additional cost will be significant – estimated at \$3.8 million per year

Drivers of capex

- Address the rapidly changing electricity market, meeting consumer expectations and technical challenges
- Manage ageing asset base to meet safety and reliability standards
- Accommodate urban development
- Satisfy planning and system security regulations

Adapting to technological change

- Meet network service expectations and obligations in the face of Distributed Energy Resources driven power quality and reliability challenges
- Develop a risk based, top down framework to allow assessment of non-network alternatives against network augmentation
- Invest in ICT and analytics to transition towards digital transformation

Ensure effective network operation

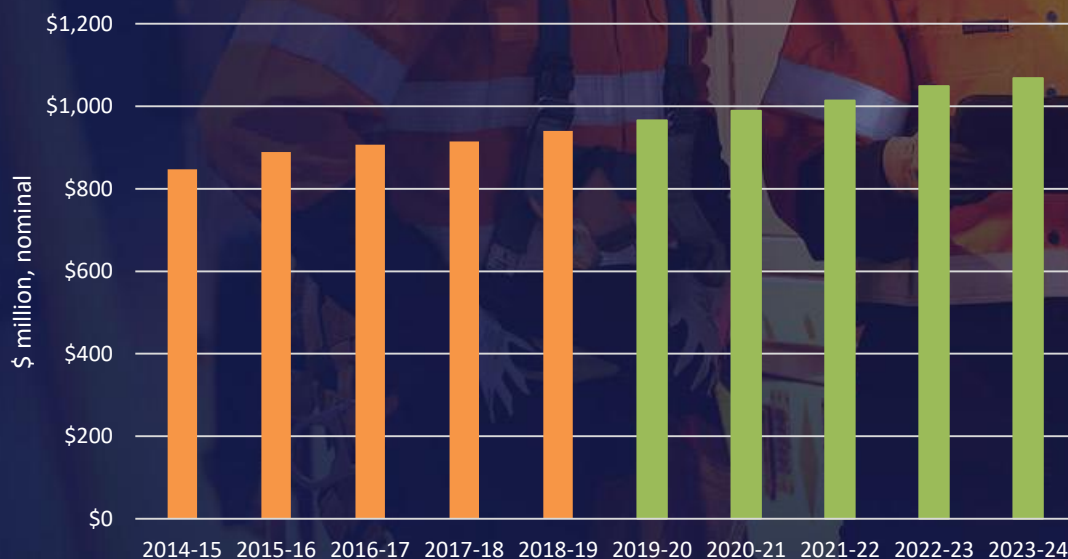
- Develop a top down and bottom up risk based methodology to forecast asset replacement
- Optimise expenditure across asset classes within the repex portfolio
- Adopt a risk base planning framework to provide transparency and accountability
- Improve reliability and quality though targeted roll out of distribution network monitoring
- Replace secondary systems to ensure compliance with standards and address power quality issues impacted by DER

Manage growth efficiently

- Feeder projects to meet shortfalls in high growth areas with increasing peaks while increasing ZS utilisation
- Redeploy mobile zone substation to Molonglo
- Demand management solution at Strathnairn
- Second supply to ACT

Regulatory Asset Base

- Evoenergy has calculated the RAB using the AER's roll-forward model and post-tax revenue model
- This includes using the AER's methodology for calculating forecast depreciation, forecast inflation and asset lives



The nominal RAB is forecast to increase by an average of 2.4% per year over the 2019-24 regulatory period compared with 2.8% per year over the current period.

Rate of return

Evoenergy has adopted the AER's 2013 Rate of Return Guideline methodology

- if a trailing average approach without transition is ultimately used in remaking Evoenergy's 2015 decision on the return on debt then that approach will be adopted in the revised regulatory proposal

Parameter	Value	Methodology
Risk free rate	2.78%	2013 Guideline
Return on debt	5.57%	2013 Guideline
Equity beta	0.7	2013 Guideline
MRP	7.00%	2013 Guideline applied to updated evidence
Gearing	60%	2013 Guideline
Return on equity	7.7%	2013 Guideline
Nominal vanilla WACC	6.42%	

Revenue requirement

- The proposed total revenue requirement for 2019-24 regulatory period is 12 per cent higher than for the current regulatory period as a result of:
 - New vegetation management obligations, output and real price growth and higher depreciation expenses as a result of higher capex on short-lived assets
- Evoenergy has smoothed the annual revenue requirement to minimise variation in the last year of the regulatory period and to minimise year-on-year variations

\$million nominal	2019/20	2020/21	2021/22	2022/23	2023/24
Smoothed revenue: distribution	143.78	151.92	160.52	169.61	179.21
X-factors: distribution	-3.08%	-3.08%	-3.08%	-3.08%	-3.08%
Smoothed revenue: transmission	26.30	27.75	29.27	30.88	32.57
X-factors: transmission	-2.92%	-2.92%	-2.92%	-2.92%	-2.92%

Indicative retail bill impacts

(\$2018-19)	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Average residential annual electricity bill, (8,000kWh)	1,935	1,954	1,973	1,985	2,000	2,016
Annual change		18	19	12	16	15
Average non-residential annual electricity bill, (25,000kWh)	6,703	6,766	6,832	6,874	6,928	6,981
Annual change		63	66	42	54	53
Real annual change %		0.94	0.98	0.62	0.79	0.76

The proposed revenue requirement translates into a small estimated bill impact as a result of an increase in forecast energy throughput over the regulatory period and because Evoenergy's distribution and transmission (dual function assets) charges account for a relatively small proportion of the average ACT customer bill.

Tariff Structure Statement

- In the first TSS, Evoenergy proposed new cost-reflective kW demand tariffs for residential and low voltage commercial customers with a 'smart' meter installed.
- This proposal was approved by the AER, and the tariffs were implemented on 1 December 2017 in line with the Metering Rule change.
- Assignment to a new demand tariff is by default (after installation of a smart meter) with an opt-out provision to time-of-use tariffs.

Tariff Structure Statement

- Given the recent introduction of the kW Demand tariffs, we are assessing lessons and feedback from the first TSS before implementing further major tariff reforms for small customers.
- Second Proposed TSS focusses on cost reflective tariff reform for large customers.
- Reforms include:
 - Changing the anytime maximum demand charges to peak period (7am – 5pm, weekdays) maximum demand charges for large LV and HV commercial customers
 - Refining residential and small commercial demand tariffs by moving the flat rate energy charge to a TOU structure but without yet activating the energy price differential, based on customer feedback

A close-up photograph of a person wearing safety gear, including a white hard hat, a high-visibility orange vest, and a grey safety harness with a white buckle. The image is overlaid with a dark blue gradient.

End of presentation

Date & Time

evoenergy