evoenergy

Attachment 5: Control mechanisms

Regulatory proposal for the ACT electricity distribution network 2024–29

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5.1. Introduction

Evoenergy's network charges comprise the following three elements:

- **Charges for standard control services**: also known as Distribution Use of System Charges (DUOS).
- **Designated pricing proposal charges**: which include the costs of running the high-voltage component of our network together with the charges we pay transmission network service providers (e.g.,Transgrid).
- **Jurisdictional scheme amounts**: the costs related to jurisdictional requirements to make payments to certain parties, such as feed-in tariffs.

Evoenergy's DUOS charges are based on the smoothed building block revenues calculated in its Electricity Distribution Network Determination 2024–29 (EN24) Regulatory Proposal. In this attachment, Evoenergy further explains how these revenue amounts translate into prices.

In its Framework and Approach paper, the Australian Energy Regulator (AER) outlined that the control mechanisms currently in place will continue to apply for the 2024–29 regulatory control period, with a few minor changes to the associated formulae.

The control mechanism is a revenue cap. Under a revenue cap any differences between expected and actual revenue (due to higher or lower volumes) are taken into account when determining future years' prices. This means any over or under recoveries are returned or recovered in later years.

As there is no change to the control mechanism, Evoenergy proposes to continue to calculate revenues and prices in the same manner as the current regulatory period (2019–24), with a few changes to reflect the AER's new formulae and recent position paper on side constraints.[1]

Evoenergy proposes continuing to demonstrate compliance in the same manner as the current 2019–24 period (through the annual pricing proposal process). Evoenergy also proposes to continue recovering and reporting on the designated pricing proposal charges and jurisdictional scheme amounts in the same manner as we have in the current period.

The control mechanisms Evoenergy will apply for alternative control services (ACS) are outlined separately in Attachment 6.

Appendix 5.1 contains Evoenergy's proposed transmission pricing methodology that applies to its dual function assets.

5.2. Regulatory requirements

Evoenergy is classified as a Distribution Network Service Provider (DNSP). Clause S6.1.3(6) of the National Electricity Rules (NER) requires that a DNSP's calculation of revenues or prices for the purposes of a proposed control mechanism must include:

- details of all amounts, values and inputs (including X-factors) relevant to the calculation;
- an explanation of the calculation and the amounts, values and inputs involved in the calculation; and
- a demonstration that the calculation and the amounts, values and inputs on which it is based comply with relevant requirements of National Electricity Law (NEL) and the Rules.

[1] AER 2022, *Annual Pricing Process Review, Final Position paper – Side constraint mechanism*.

As detailed in this section of this attachment, Evoenergy proposes to calculate revenues and prices consistent with the revenue cap formulae set out in the AER's Framework and Approach paper and the side constraint set out in the AER's recent final position paper.[2]

The formulae and associated variables set out by the AER specifies the relevant details, calculations, values, and inputs (including X-factors) required. This approach is consistent with past regulatory practice. As the AER notes, there has not been any material change in circumstances to warrant changes to the methodology. Accordingly, Evoenergy considers that this approach is consistent with the relevant requirements of the NEL and the Rules.

This attachment also provides information to assist the AER to make a series of related constituent decisions as detailed in Table 1.

Table 1 Evoenergy's proposals in relation to the Rules

Rule		Evoenergy proposal
6.12.1(11)	a decision on the form of the control mechanisms (including the X-factor) for standard control services (to be in accordance with the relevant framework and approach paper) and on the formulae that give effect to those control mechanisms.	See section 5.2 Standard control services control mechanism
6.12.1(13)	a decision on how compliance with a relevant control mechanism is to be demonstrated.	See section 5.4 Compliance with the control mechanism
6.12.1(19)	a decision on how the DNSP is to report to the AER on its recovery of designated pricing proposal charges for each regulatory year of the regulatory control period and on the adjustments to be made to subsequent pricing proposals to account for over or under recovery of those charges.	See section 5.5 Designated pricing proposal charges
6.12.1(20)	a decision on how the DNSP is to report to the AER on its recovery of jurisdictional scheme amounts for each regulatory year of the regulatory control period and on the adjustments to be made to subsequent pricing proposals to account for over or under recovery of those amounts. A decision under this subparagraph (20) must be made in relation to each jurisdictional scheme under which the DNSP has jurisdictional scheme obligations at the time the decision is made.	See section 5.6 Jurisdictional scheme amounts

[2] Ibid, p.11.

5.3. Standard control services control mechanism

5.3.1. Revenue cap formulae

In its Framework and Approach paper, the AER set out the main revenue cap control formulae for the 2024–29 regulatory period, as outlined in Table 2.[3]

Table 2 Revenue cap control formulae

Element	Equation	Subscript
1	$TAR_t \geq \sum_{i=1}^{n} \sum_{j=1}^{m} p_t^{ij} q_t^{ij}$	where i = 1,…,n and j = 1,…,m and t = 1, 2,3,4,5
2	$TAR_t = AAR_t + I_t + B_t + C_t$	where t = 1, 2,3,4,5
3	$AAR_t = AR_t$	where t =1
4	$AAR_t = AAR_{t-1} \times (1 + \Delta CPI_t) \times (1 - X_t)$	where t = 2,3,4,5
Where:		
t	is the regulatory year with t = 1 being the 2024–25 financial year.	
TAR_t	is the total annual revenue for year t.	
p_t^{ij}	is the price of component 'j' of tariff 'i' for year t.	
q_t^{ij}	is the forecast quantity of component 'j' of tariff 'i' for year t	
AR_t	is the annual smoothed revenue requirement in the Post Tax Revenue Model (PTRM) for year t.	
AAR_t	is the adjusted annual smoothed revenue requirement for year t.	

[3] AER 2022, *Framework and approach, Evoenergy (ACT) Regulatory control period commencing 1 July 2024*, p.32

I_t	is the sum of incentive scheme adjustments for year t. This will include the outcomes from the service target performance incentive scheme (STPIS), Customer Service Incentive Scheme (CSIS) and demand management incentive scheme (DMIS) and demand management innovation allowance (DMIA).
B_t	is the sum of annual adjustment factors to balance the unders and overs account for year t.
C_t	is the approved pass-through amounts (positive or negative) for year t, as determined by the AER. It will also include any annual or end of period adjustments for year t.
ΔCPI_t	is the annual percentage change in the Australian Bureau of Statistics' (ABS) Consumer Price Index All Groups, Weighted Average of Eight Capital Cities[4] from December in year t–2 to December in year t–1. For example, for the 2024–25 year, t–2 is December 2022 and t–1 is December 2023.
X_t	Is the X factor in year t, incorporating annual adjustments to the PTRM for the trailing cost of debt where necessary.

5.3.2. Side constraint mechanism

The side constraint mechanism aims to prevent any large rebalancing of revenue recovery between tariff classes and large price shocks for individual customers for each regulatory year after the first regulatory year in a regulatory period.

Consistent with the AER's recent final position paper on the application of the side constraint mechanism, Evoenergy will apply the formulae outlined in Table 3.

Table 3 Side constraint mechanism formulae

	Equation
1	$PP_t \geq \frac{SCR_t}{SCR_{t-1}}$
2	$PP_t = ((1 + \Delta CPI_t) \times (1 - X_t) \times (1 + 2\%) - 1) \times D_t + AA_t + Q_t + 1$
3	$SCR_t = \sum_{i=1}^{m} \sum_{j=1}^{n} p_t^{ij} q_t^{ij}$
4	$SCR_{t-1} = \sum_{i=1}^{m} \sum_{j=1}^{n} p_{t-1}^{ij} q_t^{ij}$
5	$D_t = \frac{AAR_{t-1}}{SCR_{t-1}}$

[4] If the ABS does not or ceases to publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

6	$AA_t = \frac{(I_t + C_t + B_t) - (I_{t-1} + C_{t-1} + B_{t-1})}{SCR_{t-1}}$
7	$Q_t = \left(\frac{TAR_{t-1}}{SCR_{t-1}} - 1\right)$
Where each tariff class has “n” tariffs, with each up to “m” components, and where:	
PP_t	is the permissible percentage for year t, calculated as per formula 2 above.
SCR_t	is the side constraint revenue for year t, calculated as the sum of the products of proposed prices and forecast quantities for year t, calculated as per formula 3 above.
SCR_{t-1}	is the side constraint revenue for year t-1, calculated as the sum of the products of prices charged for year t-1 and forecast quantities for year t, calculated as per formula 4 above.
ΔCPI_t	as defined in the revenue cap formulae.
X_t	is the X factor for each year of the regulatory control period as determined in the post-tax revenue model, and annually revised for the return of debt update. If X>0, then X will be set equal to zero for the purposes of the side constraint formula.
2%	is the additional threshold defined in the NER.
D_t	is the adjustment made to the base threshold to create a common base, calculated as per formula 5 above.
AA_t	is the annual percentage change in the sum of all annual adjustment factors (I, C, and B factors). This is calculated by dividing the total incremental revenues (the difference between the factors used in the total annual revenue formula for regulatory year t and t-1) by the expected revenues for year t-1 ($SCRt-1$). This calculation is provided at formula 6 above.
Q_t	is the adjustment made each year to account for changes in quantities from the preceding year. The Q factor calculation is provided at formula 7 above.
p_t^{ij}	as defined in the revenue cap formulae.
q_t^{ij}	as defined in the revenue cap formulae.
p_{t-1}^{ij}	is the price charged for component ‘j’ of tariff ‘i’ for year t-1.

AAR_{t-1}	is the adjusted annual revenue requirement for year t-1, as used in the revenue cap price control formulae in the preceding and current years.
I_t	as defined in the revenue cap formulae.
C_t	as defined in the revenue cap formulae.
B_t	as defined in the revenue cap formulae.
I_{t-1}	is the sum of incentive scheme adjustments in year t-1. This is as per the approved t-1 pricing proposal.
C_{t-1}	is the sum of approved cost pass through amounts (positive or negative) in year t-1, as determined by the AER. This is as per the approved t-1 pricing proposal.
B_{t-1}	is the sum of annual adjustment factors for year t. It includes adjustments to balance the unders/overs account, relating to previous under/over-recoveries of revenue. This is as per the approved t-1 pricing proposal. For the avoidance of doubt, the B factor for t-1 should be equal to that used to calculate t-1 revenue in the previous pricing proposal and should not be updated for movements in the unders/overs accounts in the year t pricing proposal.
TAR_{t-1}	is the total allowable revenue for year t-1, calculated using the revenue cap control formula in the preceding year.
t	as defined in the revenue cap formulae.

5.4. Compliance with the control mechanism

Evoenergy proposes to demonstrate compliance with the control mechanism by maintaining an unders and overs account in its annual pricing proposal for DUOS charges. Evoenergy will include associated adjustments to achieve a closing balance as close to zero as practical. Evoenergy will complete its unders and overs account using the following components, also outlined in Table 4:

- audited amounts for the most recently completed regulatory year (t-2);[5]
- estimated amounts for the current regulatory year (t-1) with supporting information on why they should be considered the best estimate; and
- forecast amounts for the next regulatory year (t) with supporting information on why they should be considered reasonable.

This approach is consistent with the approach that applies to Evoenergy in the current 2019–24 regulatory period, and more recent decisions made by the AER.[6]

[5] A reasonable assurance report sufficiently meets these auditing requirements. Further assurance is not required where amounts provided match other audited submissions to the AER (e.g., RINs) and are referenced.
[6] AER 2021, *Attachment 14 Control mechanisms AusNet Services*, CitiPower, Jemena, Powercor, and *United Energy Distribution Determination 2021 to 2026*, p.14-40.

Table 4 DUOS unders and overs account based on Evoenergy's 2022/23 network pricing proposal ($'000, nominal)

Item	Year t-2 2020/21 actual	Year t-1 2021/22 estimate	Year 1 2022/23 forecast
(A) Revenue from DUOS charges	**139,873**	**145,766**	**141,849**
(B) Less TAR for regulatory year =	**140,934**	**138,034**	**140,868**
+ Adjusted annual smoothed revenue (AARt)	136,518	137,830	142,118
+ Incentive scheme amounts (It)	-162	204	-1,250
+ annual adjustments to balance the unders and overs account for year t (Bt)	0	0	0
+ Pass-through amounts (Ct)	4,579	0	0
(A minus B) Under / over recovery of revenue for regulatory year	**-1,061**	**7,732**	**981**
DUOS unders and overs account			
Adjusted nominal weighted average cost of capital (WACC) (per cent)	4.74%	3.49%	6.03%
Opening balance	-7,099	-8,521	-953
Interest on opening balance	336	-297	-57
Under/over recovery of revenue for regulatory year	1,061	7,732	981
Interest on under/over recovery for regulatory year	-25	134	153

Closing balance	**-8,521**	**-953**	**0**

Note: the 2022/23 network pricing proposal also included a factor for remittal amounts, which has been included in the cost-pass through amount for this example.

5.5. Designated Pricing Proposal Charges

At a high-level, designated pricing proposal charges (DPPC) relate to the use of the transmission system to provide electricity from generators to end-use customers.[7] For Evoenergy these charges primarily relate to:

- the high-voltage section of Evoenergy's network;
- payments to other transmission network service providers; and
- payments made to generators who have allowed us to reduce our transmission charges (avoided transmission use of system (TUOS) payments).

Evoenergy proposes to demonstrate its compliance with the control mechanisms by maintaining an unders and overs account in its annual pricing proposal (as set out in Table 5). Evoenergy will include associated adjustments to revenue to achieve a closing balance as close to zero as practicable. This approach is consistent with the approach that currently applies to Evoenergy in the current 2019–24 period, and more recent decisions made by the AER.[8]

[7] Specifically, designated pricing proposal services include prescribed exit fees, prescribed common transmission services and prescribed transmission use of system services; avoided customer transmission use of system charges; charges provided by another distributor (but only to the extent they comprise of designated pricing proposal services or standard control services); and related charges or payments.
[8] AER 2021, *Attachment 14 Control mechanisms AusNet Services, CitiPower, Jemena, Powercor, and United Energy Distribution Determination 2021 to 2026*, p.14-46.

Table 5 DPPC unders and overs account based on Evoenergy's 2022/23 network pricing proposal ($'000, nominal)

Item	Year t-2 2020/21 Actual	Year t-1 2021/22 Estimate	Year 1 2022/23 Forecast
(A) Revenue from DPPC charges	**45,006**	**51,996**	**56,106**
(B) Less DPPC related payments for regulatory year =	**43,734**	**50,683**	**55,528**
+ Prescribed (transmission services)	27,555	27,637	28,311
+ Charges to be paid to Transmission Network Service Provider	16,072	22,944	27,115
+ Avoided TUOS payments	107	101	101
(A minus B) Under/over recovery of revenue for regulatory year	**1,271**	**1,314**	**578**
DPPC unders and overs account			
Adjusted nominal WACC (per cent)	4.74%	3.49%	6.03%
Opening balance	-2,993	-1,834	-561
Interest on opening balance	-142	-64	-34
Under/over recovery of revenue for regulatory year	1,271	1,314	578
Interest on under/over recovery for regulatory year	30	23	17
Closing balance	**-1,834**	**-561**	**0**

5.6. Jurisdictional Scheme amounts

Evoenergy is currently subject to four jurisdictional schemes where payments are required to be made to other parties due to Evoenergy's role as a DNSP. The costs incurred under these schemes are recovered through separate charges rather than being included in standard control building block revenue.

The four jurisdictional schemes are:

- ACT Energy Industry Levy;
- Utilities Network Facilities Tax;
- Feed-in Tariff (small and medium scale); and
- Feed-in Tariff (large-scale).

5.6.1. Feed in tariff (large-scale)

The Large Feed in Tariff (LFiT) scheme is administered by Evoenergy under ACT legislation.[9] The scheme involves contract-for-difference payments between Evoenergy and large-scale renewable generators which give effect to the ACT Government's renewable energy targets. Evoenergy passes through the payment amounts, together with its costs of administering the scheme, to ACT electricity customers. Each year, the ACT Minister for Climate Change and Sustainability (the Minister) makes a Reasonable Costs Determination (RCD) which determines the revenue Evoenergy may recover from (or return to) customers under the scheme.[10]

The LFiT is different to the other jurisdictional schemes for a number of important reasons:

- the scheme operates symmetrically, meaning that Evoenergy may be liable to make payments under the scheme, or receive funds under the scheme, which must be recovered from or returned to customers;
- the scheme itself provides exhaustively for the calculation of under and over recoveries, and interest on under and over recoveries;
- the scheme limits the revenue Evoenergy can recover each year, and allows for the reconciliation of under or over recoveries to occur over a period of up to five years; and
- the scale of the scheme, with RCD amounts reaching as high as $125.5 million in recent years (2021/22).

In light of these considerations, there are ongoing discussions between Evoenergy and the AER on the appropriate approach to reflect LFiT amounts in the jurisdictional scheme component of network prices. For the purposes of this proposal, Evoenergy has included the standard presentation of the unders / overs account for the LFiT, as shown Table 6. This is the same format that has been adopted in Evoenergy's annual pricing proposals and approved by the AER in recent years. Evoenergy intends to reflect any updates to the treatment of the LFiT in its revised regulatory proposal.

Notwithstanding, Evoenergy considers that the inclusion of the LFiT in the jurisdictional scheme component of network prices should reflect the following principles:

1. The LFiT RCD amount should continue to be included in Evoenergy's network prices as approved by the AER each year, noting this provides for the most transparent and

[9] *Electricity Feed-in (Large-scale Renewable Energy Generation) Act 2011*
[10] *Electricity Feed-in (Large-scale Renewable Energy Generation) Reasonable Costs Methodology Determination 2018*

administratively simple approach for Evoenergy to pass LFiT amounts to customers as required under ACT legislation.

2. The LFiT revenue amount included in Evoenergy's network prices should be equal to the RCD amount determined by the Minister each year, with no further adjustment for under or over recoveries (noting that the RCD amount is already inclusive of all adjustments).

3. The interest rate applied to under and over recoveries should be the rate determined by the Minister in the annual RCD, which may differ from the regulated Weighted Average Cost of Capital (WACC).

4. There should be no requirement for the LFiT to achieve a closing balance as close to zero as possible in the unders / overs account, since this may not be possible given the RCD methodology which may require a reconciliation period of up to five years.

Table 6 Feed-in tariff (large-scale) unders and overs account based on Evoenergy's 2022/23 network pricing proposal ($'000, nominal)

Item	Year t-2 2020/21 actual	Year t-1 2021/22 estimate	Year 1 2022/23 forecast
(A) Revenue from Feed-in tariff (large-scale)	**42,259**	**126,355**	**99,944**
(B) Less Feed-in tariff (large-scale) payments for regulatory year =	**102,780**	**98,636**	**93,772**
Payments	102,753	98,621	93,768
Administration	27	15	4
(A minus B) Under/over recovery of revenue for regulatory year	**-60,521**	**27,720**	**6,172**
Feed-in tariff (large-scale) unders and overs account			
Adjusted nominal WACC (per cent)	4.74%	3.49%	6.03%
Opening balance	36,472	-23,738	3,633
Interest on opening balance	1,727	-828	219
Under/over recovery of revenue for regulatory year	-60,521	27,720	6,172

Interest on under/over recovery for regulatory year	1,416	479	183
Closing balance	**-23,738**	**3,633**	**10,207**

5.6.2. Other jurisdictional schemes

For the remainder of the jurisdictional schemes, Evoenergy proposes to report the amounts in a single unders and overs account, and to include associated adjustments to revenue to achieve a closing balance as close to zero as practicable. This is outlined further in Table 7. This approach is consistent with the approach which applies to Evoenergy in the current 2019–24 regulatory period and in more recent decisions made by the AER.[11]

[11] AER 2021, *Attachment 14 Control mechanisms AusNet Services*, CitiPower, Jemena, Powercor, and *United Energy Distribution Determination 2021 to 2026*, p.14-49

Table 7 Other jurisdictional schemes unders and overs account based on Evoenergy's 2022/23 network pricing proposal ($'000, nominal)

Item	Year t-2 2020/21 actual	Year t-1 2021/22 estimate	Year 1 2022/23 forecast
(A) Revenue from Other jurisdictional schemes	**24,678**	**25,169**	**25,266**
(B) Less Other jurisdictional schemes payments for regulatory year =	**24,469**	**24,382**	**26757**
Feed-in tariff (small and medium scale)	14,984	14,253	15,921
Utilities Network Facilities Tax	8,198	8,648	9,303
Energy Industry Levy	1,287	1,482	1,533
(A minus B) Under/over recovery of revenue for regulatory year	**209**	**787**	**1,491**
Other jurisdictional schemes unders and overs account			
Adjusted nominal WACC (per cent)	4.74%	3.49%	6.03%
Opening balance	394	626	1,448
Interest on opening balance	19	22	87
Under/over recovery of revenue for regulatory year	209	787	1,491
Interest on under/over recovery for regulatory year	5	14	44
Closing balance	**626**	**1,448**	**0**

Note: the 2022/23 network pricing proposal also included an adjustment for the Feed-in Tariff (small and medium scale) which has not been separately identified in this example.

Abbreviations

Abbreviation	Meaning
ABS	Australian Bureau of Statistics
ACS	Alternative Control Services
AER	Australian Energy Regulator
DMIA	Demand Management Innovation Allowance (DMIA)
DMIS	Demand Management Incentive Scheme
DNSP	Distribution Network Service Provider
DPPC	Designated Pricing Proposal Charges
DUOS	Distribution Use of System
LFiT	Large Feed in Tariff
NEL	National Electricity Law
NER	National Electricity Rules
PTRM	Post Tax Revenue Model
RCD	Reasonable Costs Determination
STPIS	Service Target Performance Incentive Scheme
TUOS	Transmission Use of System
WACC	Weighted Average Cost of Capital