

May 2022

## Statement of reasons: Power and Water Corporation’s Annual Pricing Proposal

The AER approves Power and Water Corporation’s 2022–23 pricing proposal and the tariffs contained within for commencement on 1 July 2022. Power and Water Corporation’s approved tariffs are set out on [our website](#).

### Estimated network cost movements

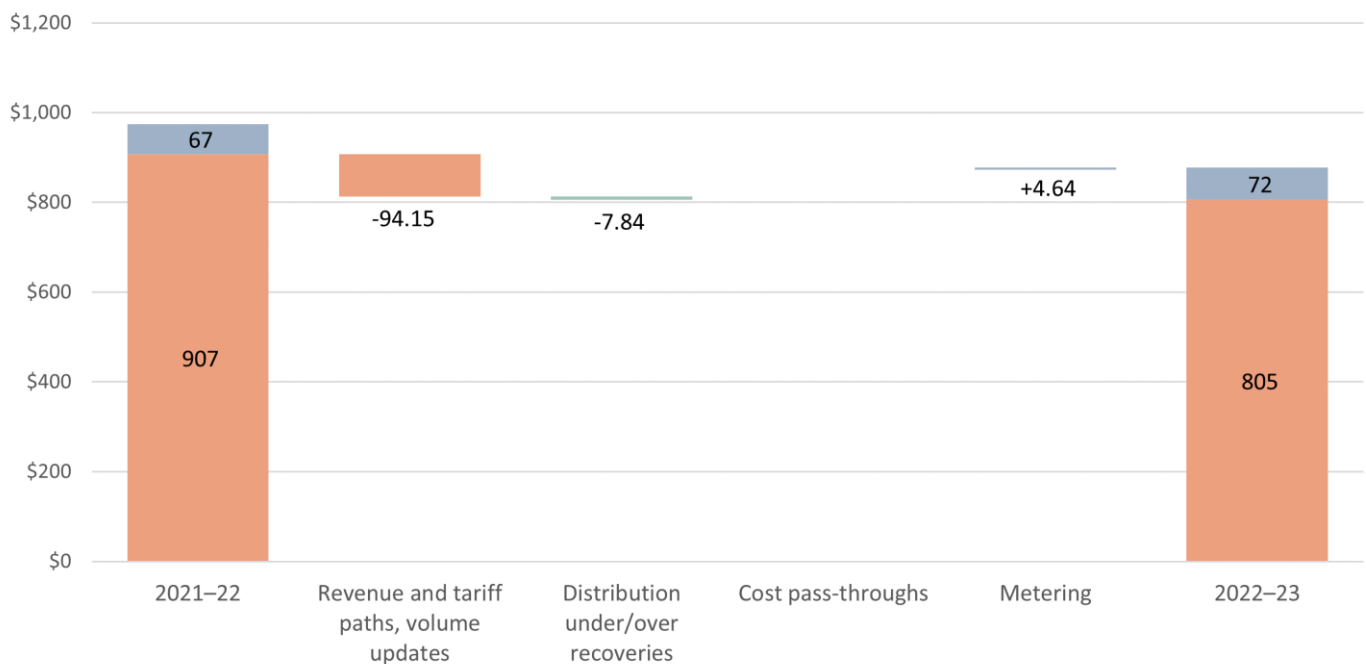
The Northern Territory Government sets regulated prices for retail customers consuming less than 750 MWh of electricity each year. Price movements outlined in this document may not be experienced by customers for this reason.

We estimate that, based on our decision, the network component of the typical bill for Power and Water Corporation’s customers to be \$97.35 lower for households and \$149.56 lower for small businesses in 2022–23 compared to 2021–22.

The network cost movements reflect the price paths in the 2019–24 tariff structure statement and Power and Water Corporation forecasting an increase in consumption in 2022–23.

We provide more detailed information on Power and Water Corporation’s consumption forecasts below.

**Figure 1 Residential: Average annual network charge**



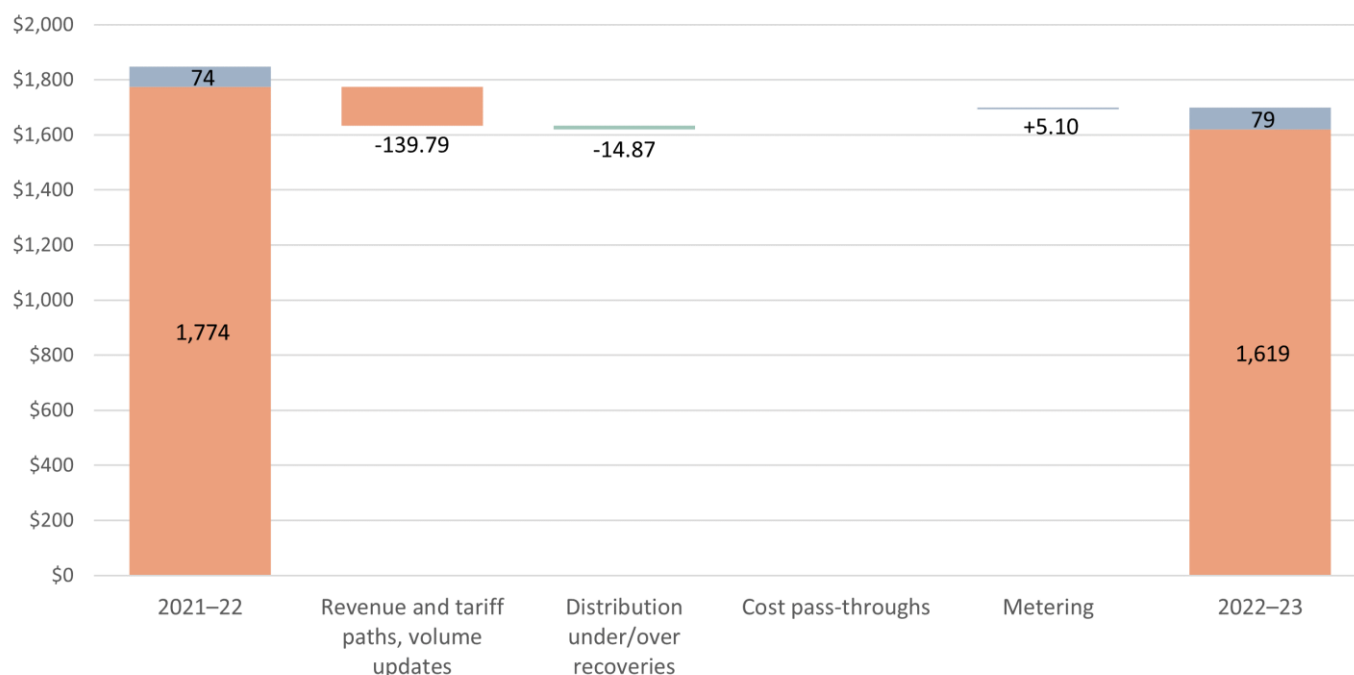
Source: AER Analysis; Power and Water Corporation’s 2022–23 pricing proposal.

Note: Our analysis assumes electricity usage of 7,889kWh for the ‘Residential tariff’. This is based on actual data for residential electricity usage and customer numbers reported in Power and Water Corporation’s 2022–23 pricing proposal.

‘Revenue and tariff paths, volume updates’ includes all other movements in the distribution network charges not shown above.

‘Metering’ indicates the metering component of the network charge.

**Figure 2 Small business: Average annual network charge**



Source: AER Analysis; Power and Water Corporation's 2022-23 pricing proposal.

Note: Our analysis assumes electricity usage of 15,446kWh for the 'Non-residential tariff'. This is based on actual data for small business electricity usage and customer numbers reported in Power and Water Corporation's 2022-23 pricing proposal. 'Revenue and tariff paths, volume updates' includes all other movements in the distribution network charges not shown above. 'Metering' indicates the metering component of the network charge.

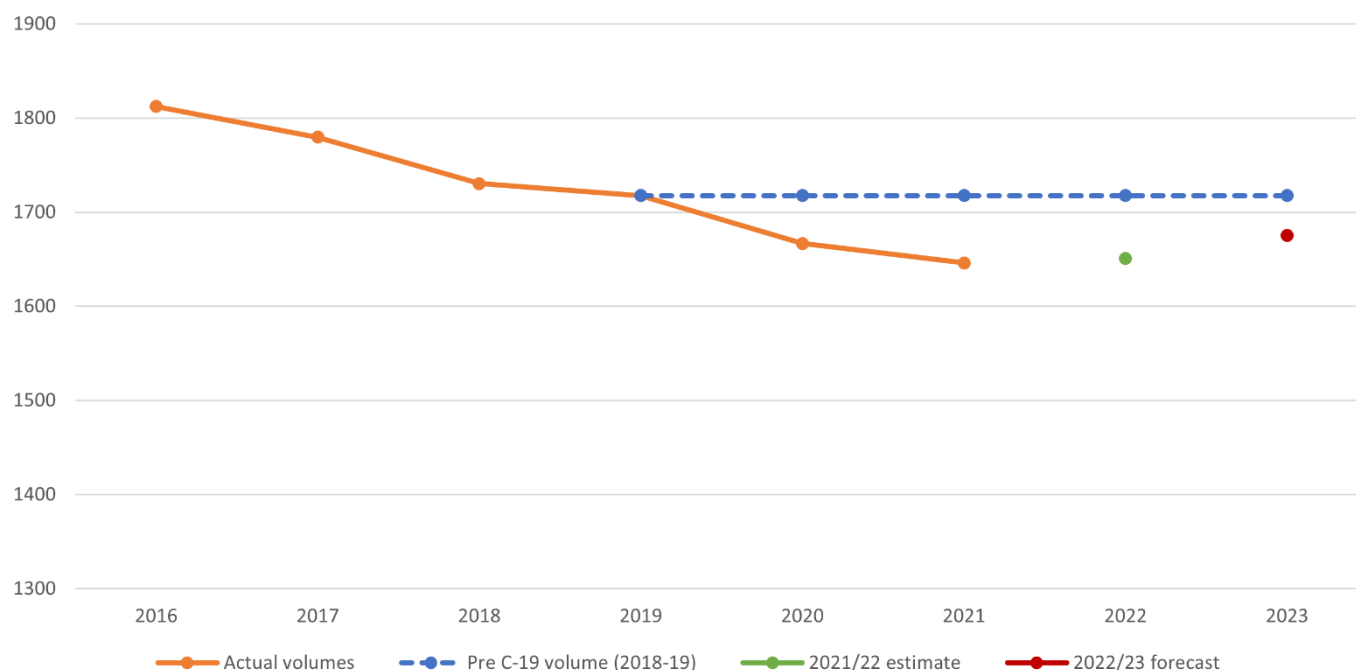
Actual bill impacts for individual customers will vary from our estimates as customers may be on different tariffs or consume different amounts of energy from our assumptions. Our analysis is based on flat rate tariffs, which are the most common tariffs for residential and small business customers. Where overall price movements are small, some tariffs may increase while others decrease.

### Consumption forecasts

Electricity distributors operate under a revenue cap which sets the annual allowed revenue they can recover to deliver safe and reliable electricity within their networks. Prices are determined based on forecast consumption for that year, allowing distributors to recover their allowed revenue. If distributors forecast lower consumption, then other things being equal, prices are expected to be higher to allow them to recover the revenue allowed.

Our assessment of the distributors' consumption forecasts includes analysis of historical consumption trends and the reasons put forward for any departure from them. For 2022-23, a key factor of our assessment is the impact that Australia's response to COVID-19 has had and is continuing to have on energy consumption.

**Figure 3 Energy volumes (GWh)**



Source: AER Analysis; RIN data; Power and Water Corporation's 2022–23 pricing proposal.

Power and Water Corporation has forecast increased energy consumption for 2022–23. The forecast is based on actual volumes for 2018–21 and incorporates the ongoing impact of COVID-19 on its consumption and demand forecasts.

We consider Power and Water Corporation's consumption forecasts are reasonable based on our analysis and the supporting information provided by Power and Water Corporation.

#### *Under/over recovered revenues*

Although we set the revenues the distributors can recover, the revenue they ultimately receive over an individual year is determined by the amount of actual energy consumed in that year.

- Actual energy consumption can fluctuate from forecast consumption because of a number of factors such as weather, increased uptake of solar PV, or, in recent times, in response to a pandemic. These fluctuations in energy consumption result in distributors recovering more or less than the allowable revenue we set.
- Variations also occur for the transmission costs and jurisdictional scheme amounts a distributor passes through to customers where actual payments differ to what was forecast.

To 'true-up' these variations in revenue, adjustments are made to allowable revenues for the upcoming financial year to ensure that over time, a distributor only recovers the revenue it is allowed.