

evoenergy

Attachment 3: Revenue and bill impacts

Regulatory proposal for the ACT electricity
distribution network 2024–29

January 2023

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3.1 Overview

This attachment explains Evoenergy’s forecast revenue requirement for standard control services (SCS) over the 2024–29 regulatory period and includes the calculation of the regulatory asset base, the allowed rate of return and imputation credits, the estimated cost of corporate income tax and depreciation.¹

For each of these elements we have adopted standard regulatory approaches – consistent with relevant Rules, relevant guidelines, regulatory instruments, and previous regulatory decisions.

Evoenergy uses the revenue forecast to estimate the network component of a customer’s bill. The revenue Evoenergy proposes to recover from customers allows us to continue to provide safe and reliable network services. For the next regulatory period, Evoenergy forecasts an increase in customer bills, driven by higher capital funding costs and operating costs.

In the Australian Capital Territory (ACT), the network transmission and distribution costs make up approximately 32 per cent of a typical customer bill.

As shown in Table 1 below, Evoenergy’s regulatory proposal would see Evoenergy’s component of a typical customer’s bill increase by an average of approximately \$7 (1.3 per cent) per year over five years in real terms. For a typical small business customer, the increase would be an average of approximately \$43 (1.3 per cent) per year over five years in real terms.

Table 1 Evoenergy’s component of a typical customer’s bill

| (\$2023/24) | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|--|---------|---------|---------|---------|---------|---------|
| Typical residential customer | 579 | 638 | 627 | 624 | 620 | 616 |
| Typical small business customer | 3,370 | 3,713 | 3,646 | 3,629 | 3,606 | 3,584 |

3.2 Revenue

3.2.1. How Evoenergy calculates revenue requirements

This section describes the forecasting approach used to develop Evoenergy’s revenue requirement for the 2024–29 regulatory period for SCS in more detail.² Evoenergy has used a building block approach, which is required by the Rules, and used the AER’s roll forward model (RFM) and post-tax revenue model (PTRM). Evoenergy has prepared this regulatory proposal in accordance with its proposed cost allocation method.

¹ We are required to provide this information as part of our regulatory proposal. The information we need to include on these matters is set out in Rules S6.1.3(6), S6.1.3(7), S6.1.3(9), S6.1.3(9A), S6.1.3(11) and S6.1.3(12).

² Consistent with Rule S6.1.3(6).

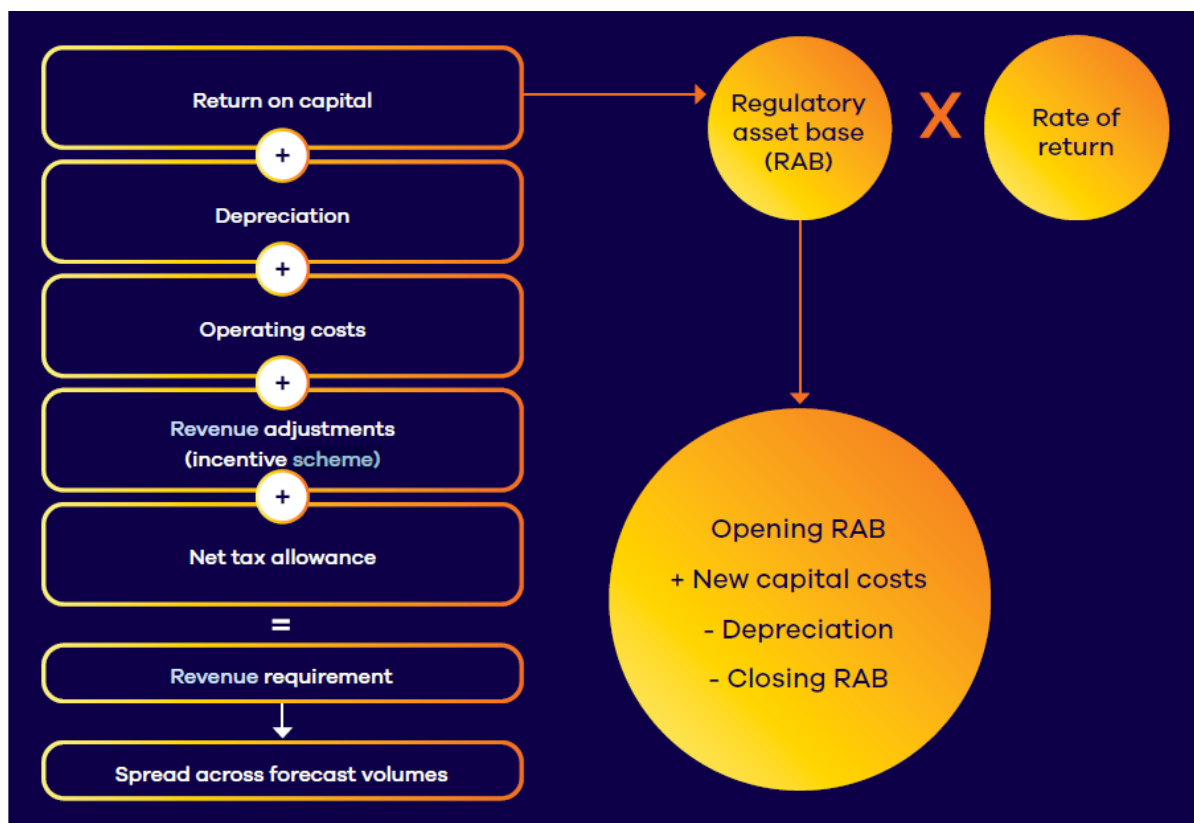
A building block approach to forecasting revenue includes the following components:

- **Return on capital:** which is a return to the asset owners on their network assets.
- **Regulatory depreciation or return on capital:** which is the cost of our assets spread over their useful lives.
- **Operating costs:** which are costs such as labour and materials we incur to operate and maintain network assets.
- **Revenue adjustments:** which capture the penalties or rewards from the implementation of the AER's incentive schemes.
- **A net tax allowance:** to cover our corporate income tax liabilities.

Further information on each of these components is provided in the subsequent sections.

The building block costs are added together to determine Evoenergy's total revenue requirement. We then 'smooth' this out to minimise the impact between years and divide it by Evoenergy's forecast of total energy usage to determine network charges, as shown below in Figure 1.

Figure 1 Building block infographic



3.2.2. Total revenue requirement

Evoenergy's forecast of the value for each of the building blocks for the 2024–29 period is presented in Table 2. Given that Evoenergy has some network assets that perform both transmission and distribution functions, Evoenergy needs to determine its building block revenue requirement for both. This is presented in Table 3 for distribution assets, and in Table 4 for transmission assets.

Table 2 Evoenergy building total block revenue requirement (\$ million, \$2023/24)

| \$ million (\$2023/24) | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | Total |
|--|----------------|----------------|----------------|----------------|----------------|--------------|
| Return on capital | 61.6 | 62.3 | 62.2 | 63.4 | 65.8 | 315.3 |
| Return of capital (regulatory depreciation) | 58.5 | 63.8 | 54.8 | 55.9 | 44.8 | 277.8 |
| Opex | 76.0 | 76.8 | 77.9 | 79.1 | 80.2 | 390.1 |
| Revenue adjustments | -0.3 | -1.9 | -1.0 | 0.5 | 0.8 | -1.9 |
| Net tax allowance | 2.2 | 3.0 | 1.7 | 1.7 | 0.4 | 8.9 |
| Annual revenue requirement (unsmoothed) | 197.8 | 204.1 | 195.6 | 200.6 | 192.1 | 990.2 |

Note: totals may not sum due to rounding.

Table 3 Distribution building block revenue requirement (\$ million, \$2023/24)

| \$ million (\$2023/24) | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | Total |
|--|----------------|----------------|----------------|----------------|----------------|--------------|
| Return on capital | 51.6 | 52.5 | 52.5 | 53.9 | 56.2 | 266.7 |
| Return of capital (regulatory depreciation) | 48.9 | 53.8 | 46.0 | 47.3 | 37.6 | 233.5 |
| Opex | 64.0 | 64.7 | 65.6 | 66.6 | 67.6 | 328.5 |
| Revenue adjustments | -0.1 | -1.4 | -0.7 | 0.6 | 0.9 | -0.8 |
| Net tax allowance | 1.6 | 2.3 | 1.1 | 1.0 | 0.0 | 6.1 |
| Annual revenue requirement (unsmoothed) | 166.1 | 171.9 | 164.5 | 169.4 | 162.2 | 834.2 |

Note: totals may not sum due to rounding.

Table 4 Transmission building block revenue requirement (\$ million, \$2023/24)

| \$ million (\$2023/24) | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | Total |
|---|---------|---------|---------|---------|---------|-------|
| Return on capital | 9.9 | 9.8 | 9.7 | 9.6 | 9.6 | 48.6 |
| Return of capital (regulatory depreciation) | 9.5 | 10.0 | 8.9 | 8.6 | 7.3 | 44.3 |
| Opex | 12.0 | 12.1 | 12.3 | 12.5 | 12.6 | 61.5 |
| Revenue adjustments | -0.2 | -0.5 | -0.3 | -0.1 | 0.0 | -1.1 |
| Net tax allowance | 0.5 | 0.6 | 0.6 | 0.6 | 0.4 | 2.8 |
| Annual revenue requirement (unsmoothed) | 31.8 | 32.1 | 31.1 | 31.2 | 29.9 | 156.0 |

Note: totals may not sum due to rounding.

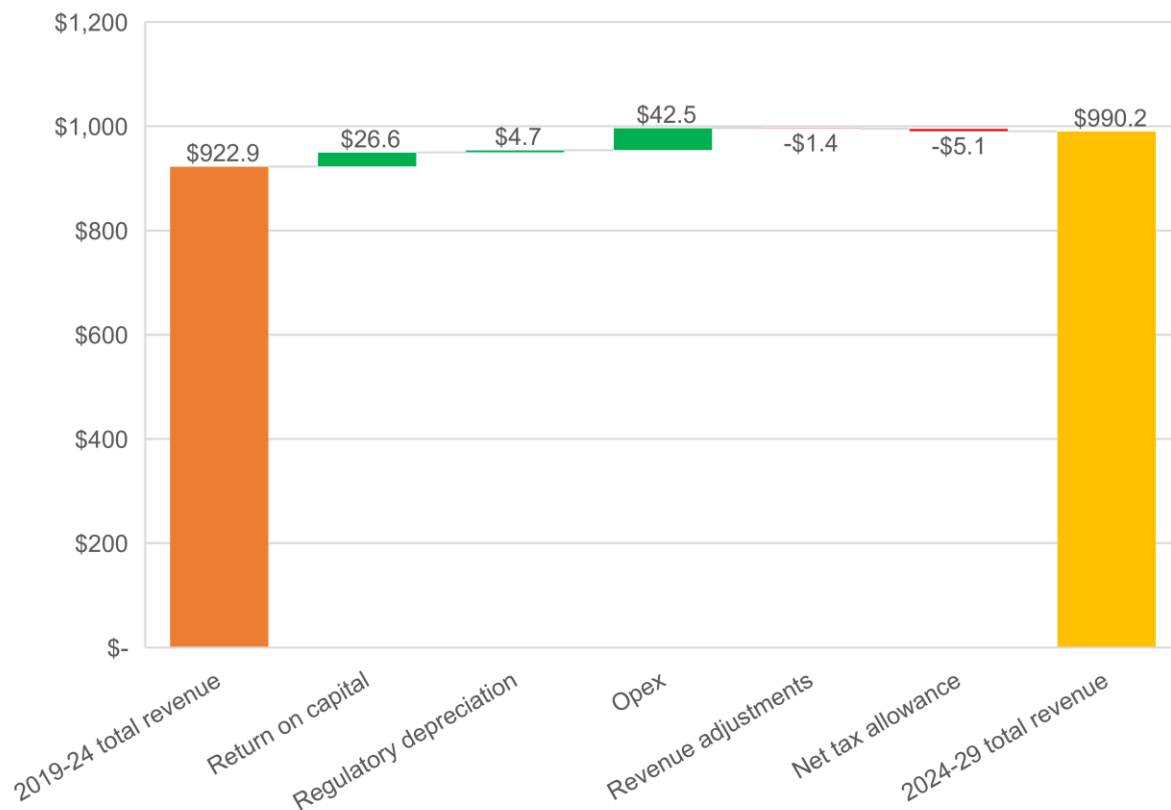
The total revenue requirement (for distribution and transmission services combined) for the 2024–29 regulatory period is \$990.2 million, which is 7.3 per cent higher than the total revenue requirement in the AER’s 2019 final decision for the 2019–24 regulatory period. The key factors driving the increase in the total revenue requirement are:

- **Increase in the return on capital:** which is, in turn, being driven by an increase in our forecast of the rate of return.
- **Higher operating expenditure:** driven by higher insurance costs, requires increased cyber security capabilities and expenditure to incorporate distributed energy resources into the network.

This is being offset by revenue adjustments resulting from incentive schemes and a small fall in Evoenergy’s net tax allowance.

The contribution of each of these factors to the change in the total revenue requirement between the AER’s final decision for the 2019–24 regulatory period and the proposed revenue requirement for the 2024–29 regulatory period is shown in Figure 2.

Figure 2 Comparison of total revenue requirement 2019–24 to 2024–29 (\$ million, 2023/24)



Smoothed revenue requirement

The annual revenue requirements are smoothed over the 2024–29 regulatory period. The X-factors represent the real change required each year, in addition to inflation, to equalise Evoenergy’s revenue over the regulatory period.

Evoenergy must also set the X-factors to minimise the variance between the smoothed and building block revenue for the last regulatory year.³ The AER considers that a divergence of up to three per cent is reasonable if this can promote smoother price changes over the 2024–29 regulatory period.⁴

Accordingly, Evoenergy has set the X-factor to be slightly higher in the first year of the 2024–29 regulatory period, and then lower and consistent in every other year of the 2024–29 regulatory period. This approach limits the difference between smoothed and unsmoothed revenue in the last year to three per cent while minimising the year-on-year variability across the other years of the 2024–29 regulatory period.

Evoenergy’s smoothed revenues and X-factors are presented in Table 5.

³ As required by Rule 6.5.9(b)(2)

⁴ AER 2022, Draft Decision: *ElectraNet Transmission Determination 2023 to 2028 Attachment 1 Maximum allowed revenue*, p.5. Available at <https://www.aer.gov.au/system/files/AER%20-%20ElectraNet%202023-28%20-%20Draft%20Decision%20-%20Attachment%201%20-%20Maximum%20allowed%20revenue%20-%20September%202022%20-%20PUBLIC.pdf>

Table 5 Smoothed revenue and X-factors (\$ million, \$2023/24)

| \$ million (\$2023/24) | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 | Total |
|------------------------|---------|---------|---------|---------|---------|-------|
| Distribution | | | | | | |
| Smoothed revenue | 166.7 | 166.8 | 166.9 | 167.0 | 167.1 | 834.5 |
| X-factors | -12.6% | -0.1% | -0.1% | -0.1% | -0.1% | |
| Transmission | | | | | | |
| Smoothed revenue | 31.7 | 31.4 | 31.2 | 31.0 | 30.8 | 156.1 |
| X-factors | -8.1% | 0.7% | 0.7% | 0.7% | 0.7% | |

Regulatory Asset Base (RAB)

The RAB is calculated for every year of the 2024–29 regulatory period by adding new capital expenditure (capex) and deducting depreciation.⁵ Evoenergy’s approach to forecasting new capex is discussed in chapter 5. Evoenergy’s approach to calculating depreciation is discussed below.

Evoenergy used the AER’s RFM to calculate the opening RAB for 1 July 2024. In this model:

- capex is rolled into the RAB after deducting customer contributions and disposals;
- straight-line depreciation calculated based on forecast capital expenditure is deducted; and
- the RAB is adjusted for actual inflation, consistent with the method used for the indexation of the control mechanism.

The estimated opening value of the RAB for standard control services as at 1 July 2024 is shown in Table 6 and the regulatory proposal distribution and transmission RFMs.

⁵ Consistent with Rule S6.1.3(7).

Table 6 RAB adjustment (\$ million, nominal)

| \$ million (nominal) | Distribution Total | Transmission Total |
|---|---------------------------|---------------------------|
| Opening RAB from previous determination | 796.0 | 177.3 |
| Add: true-up for 2015 capital expenditure | 0.8 | -6.7 |
| Add: Actual and estimated net capital expenditure | 304.3 | 37.5 |
| Less: Forecast straight-line depreciation | 311.7 | 60.7 |
| Add: Adjustment for actual inflation | 159.4 | 35.1 |
| 1 July 2024 Opening RAB | 948.7 | 182.5 |

Note: totals may not sum due to rounding.

The RAB is then rolled forward and calculated for each year over the 2024–29 regulatory period using forecast capex, less forecast customer contributions and forecast disposals.

The roll forward of the RAB is shown in Table 7 for distribution, and in Table 8 for transmission and the regulatory proposal distribution and transmission PTRMs. The deduction for depreciation is explained further below. The opening RAB is indexed by inflation to maintain the real value of the RAB over time.

Table 7 Distribution roll forward of the RAB 2024–29 (\$ million, nominal)

| \$ million (nominal) | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|----------------|----------------|----------------|----------------|----------------|
| Opening RAB | 948.7 | 979.7 | 1,006.1 | 1,056.4 | 1,121.2 |
| Forecast net capital expenditure | 81.3 | 83.3 | 100.3 | 117.7 | 127.8 |
| Less: Forecast straight-line depreciation | 77.4 | 84.8 | 78.7 | 83.0 | 75.2 |
| Inflation on opening RAB | 27.0 | 27.9 | 28.7 | 30.1 | 31.9 |
| Closing RAB | 979.7 | 1,006.1 | 1,056.4 | 1,121.2 | 1,205.7 |

Note: totals may not sum due to rounding.

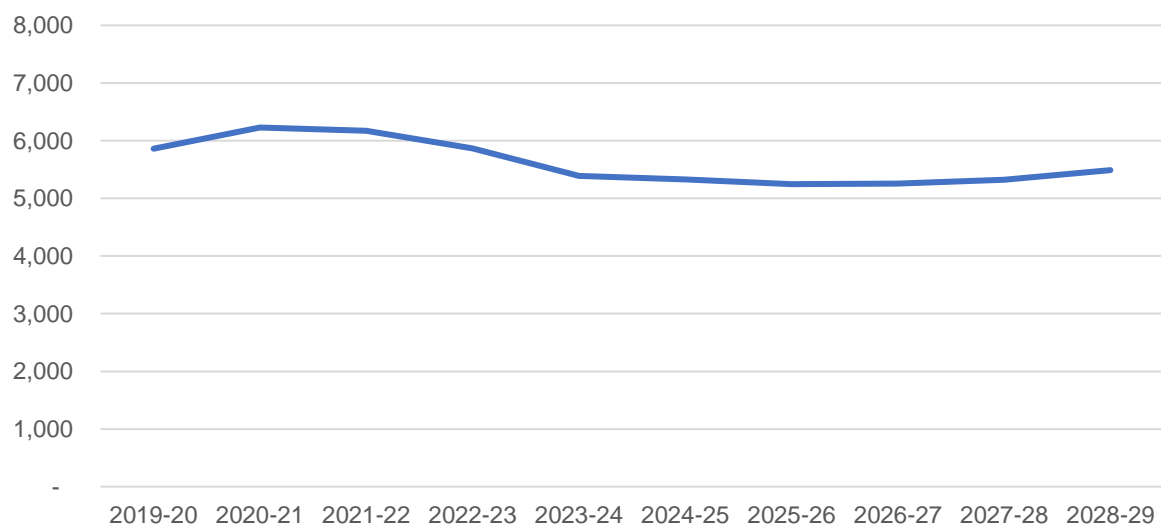
Table 8 Transmission Roll forward of the RAB 2024–29 (\$ million, nominal)

| \$ million (nominal) | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|--|---------|---------|---------|---------|---------|
| Opening RAB | 182.5 | 183.1 | 186.0 | 187.3 | 190.4 |
| Forecast net capital expenditure | 10.4 | 13.5 | 10.9 | 12.8 | 20.1 |
| Less: Forecast straight-line depreciation | 15.0 | 15.8 | 15.0 | 15.0 | 13.8 |
| Inflation on opening RAB | 5.2 | 5.2 | 5.3 | 5.3 | 5.4 |
| Closing RAB | 183.1 | 186.0 | 187.3 | 190.4 | 202.1 |

Note: totals may not sum due to rounding.

Figure 3 shows Evoenergy's RAB divided by the number of customers over 10 years from 2019/20. It shows the RAB per customer declining slightly in real terms.

Figure 3 RAB per customer (\$2023/24)



Return of capital (regulatory depreciation)

The return of capital (regulatory depreciation) building block is derived as the total of the values of each asset divided by its expected useful life.⁶ Most of Evoenergy's assets, like zone substations and overhead power lines, have long useful lives, while other assets, such as information technology systems, have shorter lives.

⁶ This section is consistent with the requirements of Rule S6.1.3(12).

Under the regulatory framework, the standard approach is for regulatory depreciation to be calculated as straight-line depreciation less the inflation adjustment on the opening RAB. Evoenergy has proposed to use this method for all transmission and distribution assets. Evoenergy also proposes to use a year-by-year approach to tracking depreciation, a change from the approach in the 2019–24 regulatory period.

Evoenergy’s forecast depreciation for the 2024–29 regulatory period is set out in Table 9. Regulatory depreciation is forecast to be \$277.8 million, which is \$4.7 million higher than in the 2019–24 regulatory period.

Table 9 Regulatory depreciation (\$ million, \$2023/24)

| \$ million (\$2023/24) | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|--|----------------|----------------|----------------|----------------|----------------|
| Straight line depreciation | 89.8 | 95.1 | 86.1 | 87.6 | 77.3 |
| Less: inflation adjustment on opening RAB | 31.3 | 31.3 | 31.2 | 31.7 | 32.5 |
| Regulatory depreciation | 58.5 | 63.8 | 54.8 | 55.9 | 44.8 |

Note: totals may not sum due to rounding.

Year-by-year depreciation tracking

Evoenergy proposes to move from a weighted average remaining life (WARL) approach to a year-by-year depreciation tracking approach. Both methods meet the requirements of the Rules.⁷ The year-by-year tracking approach groups new capital expenditure by asset class, then separately depreciates each class over the approved standard lives. It is, therefore, more accurate than the WARL approach and ensures that the recovery profile of Evoenergy’s costs better reflects the economic lives of its assets.

The standard asset lives Evoenergy proposes to apply are consistent with those used by Evoenergy in the 2019–24 regulatory period and are contained in the PTRM. Evoenergy assessed the impact of changing to year-by-year tracking of the RAB and found the impact was minimal.

Return on capital

The return on capital building block is calculated by multiplying the value of Evoenergy’s regulated asset base (RAB) by the rate of return.

The rate of return is set according to the AER’s rate of return instrument (RoRI), which outlines the methodology used to calculate the returns that network businesses receive for investments in the network.⁸

Evoenergy’s placeholder rate of return calculation is consistent with the AER’s 2018 RoRI. The AER delayed the publication of its 2022 RoRI until February 2023. As the 2018 RoRI was in force when Evoenergy made its submission, Evoenergy has used it to calculate the placeholder rate of return.

⁷ Rule 6.5.5.

⁸ This section provides information on the allowed rate of return consistent with Rules S6.1.3(9).

The AER will update Evoenergy’s rate of return before its final decision, consistent with the RoRI in force at the time of the final decision.

Evoenergy’s placeholder rate of return is shown in Table 10. Evoenergy estimates the average rate of return for the 2024–29 regulatory period at 5.68 per cent, which is higher than the average of 5.21 per cent over the 2019–24 regulatory period.

Table 10 Placeholder rate of return

| | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|-----------------------------------|---------|---------|---------|---------|---------|
| Nominal risk free rate (%) | 3.77 | 3.77 | 3.77 | 3.77 | 3.77 |
| Market risk premium (%) | 6.1 | 6.1 | 6.1 | 6.1 | 6.1 |
| Equity beta | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Return on equity (%) | 7.43 | 7.43 | 7.43 | 7.43 | 7.43 |
| Return on debt (%) | 4.37 | 4.49 | 4.50 | 4.56 | 4.66 |
| Gearing (%) | 60 | 60 | 60 | 60 | 60 |
| Nominal rate of return (%) | 5.60 | 5.67 | 5.67 | 5.71 | 5.77 |

Return on debt

The 2018 RoRI requires the return on debt to be calculated as a 10 year trailing average, updated annually. Evoenergy estimates the 10 year trailing average annual return on debt using the following:

- actual observations for years 2016 to 2021; and
- a placeholder averaging period of 45 business days in May/June 2022 to derive a placeholder that is applied in the 2023/24–2028/29 financial years.

The 10 year trailing average debt rates will be updated in accordance with the 2018 RoRI.

The return on debt estimate is updated annually to reflect the market conditions network businesses face when borrowing debt to fund capital expenditure. As such, the annual return on debt update is sensitive to market conditions impacted by global factors that influence financial markets, like interest rates and risk. These global factors are pushing the cost of debt higher, impacting the borrowing costs network businesses face.

It is important to note that Evoenergy’s regulatory proposal reflects an estimate of the cost of debt which is updated annually to reflect market conditions. This ensures network businesses like Evoenergy can recover the costs to finance capital expenditure while also ensuring customers only pay towards the costs that reflect actual prevailing market conditions.

Return on equity

The return on equity must be calculated as the risk free rate plus a market risk premium multiplied by an equity beta. The risk free rate must be calculated as the 10 year yield to maturity on Commonwealth Government Securities, measured over the agreed risk free rate averaging period.

Evoenergy has calculated the return on equity using a placeholder risk free rate of 3.77 per cent, based on the placeholder averaging period of the last 20 business days in September 2022. The risk free rate will be updated based on observations during the risk free rate averaging period Evoenergy nominates on a confidential basis to the AER.

Averaging periods

The 2018 RORI proposes an averaging period set for each year of the relevant regulatory period from which the data for the allowed return on debt will be drawn and a single averaging period from which risk free rate data for the allowed return on equity will be drawn.

The 2018 RORI states Evoenergy can provide the period no later than the lodgement date of the regulatory proposal and agreed by the AER on a confidential basis. Evoenergy has proposed its averaging periods confidentially to the AER in Appendix 3.1.

Operating expenditure

Operating expenditure (opex) represents the single largest building block. Evoenergy's approach to estimating these costs is in Attachment 2.

Revenue adjustments

Under the regulatory framework, network businesses can be subject to one or more incentive mechanisms to encourage efficiency in the provision of services. Such schemes can help us find better ways of delivering services and reducing costs, ultimately benefiting customers through better service quality and lower bills.

For the 2024-29 regulatory period Evoenergy has included revenue adjustments from the operation of the Efficiency Benefit Sharing Scheme (EBSS), Capital Expenditure Sharing Scheme (CESS) and Demand Management Incentive Allowance (DMIA). More information on the adjustments is provided in attachment 4 and the adjustments are summarised in Table 11 below.

Table 11 Revenue adjustments over 2024–29 (\$ million, \$2023/24)

| \$ million (\$2023/24) | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|--|---------|---------|---------|---------|---------|
| Efficiency benefits sharing scheme | -0.8 | -2.4 | -1.5 | 0 | 0.3 |
| Capital expenditure sharing scheme | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Demand Management Incentive Allowance | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Total | -0.3 | -1.9 | -1.0 | 0.5 | 0.8 |

Note: totals may not sum due to rounding.

Corporate income tax

Evoenergy has calculated the tax building block using the following approach:

- Estimating annual assessable income using building block revenue;
- Estimating benchmark tax expenses (operating expenditure, interest expenses and tax depreciation);
- Estimating annual taxable income by subtracting the estimates of tax expenses from annual income;
- Applying the statutory income tax rate to the estimate of annual taxable income to calculate the notional amount of tax payable; and
- Deducting the expected value of imputation credits by investors from the notional amount payable.⁹

The approach Evoenergy has adopted is consistent with the AER’s 2018 position paper on the treatment of tax, the AER’s PTRM and the value of imputation credits (0.585) set out in the AER’s 2018 Rate of Return Instrument.¹⁰ Evoenergy’s corporate tax costs are outlined Table 12.

⁹ This section is set out consistent with Rules S6.13(9A) and S6.1.3(11).

¹⁰ AER 2018, Review of the regulatory tax approach, Final report.

Table 12 Corporate tax costs (\$ million, nominal)

| \$ million (nominal) | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|--|----------------|----------------|----------------|----------------|----------------|
| Tax payable | 5.3 | 7.5 | 4.5 | 4.5 | 1.1 |
| Less: value of imputation credits | 3.1 | 4.4 | 2.6 | 2.6 | 0.7 |
| Corporate tax costs | 2.2 | 3.1 | 1.9 | 1.9 | 0.5 |

Note: totals may not sum due to rounding.

To calculate tax depreciation, Evoenergy established an opening Tax Asset Base (TAB) and rolled it forward across the regulatory period as shown in Table 13 for distribution and Table 14 for transmission. The tax asset lives Evoenergy proposes to apply are consistent with those used by Evoenergy in the 2019–24 regulatory period and are contained in the PTRMs.

Table 13 Roll forward of the TAB for distribution assets (\$ million, nominal)

| \$ million (nominal) | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Opening TAB | 914.8 | 928.2 | 941.6 | 969.4 | 1,009.4 |
| Capital expenditure | 90.9 | 92.8 | 110.3 | 127.7 | 139.1 |
| Less: tax depreciation | 77.5 | 79.3 | 82.5 | 87.7 | 90.7 |
| Closing TAB | 928.2 | 941.6 | 969.4 | 1,009.4 | 1,057.8 |

Note: totals may not sum due to rounding.

Table 14 Roll forward of the RAB for transmission assets (\$ million, nominal)

| \$ million (nominal) | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|-------------------------------|----------------|----------------|----------------|----------------|----------------|
| Opening TAB | 170.7 | 169.6 | 171.6 | 171.5 | 173.8 |
| Capital expenditure | 10.3 | 13.3 | 10.8 | 12.6 | 19.8 |
| Less: tax depreciation | 11.3 | 11.4 | 10.8 | 10.4 | 10.7 |
| Closing TAB | 169.6 | 171.6 | 171.5 | 173.8 | 182.8 |

Note: totals may not sum due to rounding.

Shared assets

Where an asset is used to provide both SCS and unregulated services, Evoenergy must share the revenue with its customers.¹¹ The Rules require the AER to regard the shared asset principles and the Shared Asset Guideline (SAG) in determining shared asset cost reductions.

The methodology in the SAG requires Evoenergy to forecast shared asset unregulated revenue (SAUR) for the 2024–29 regulatory period.

Shared asset cost reductions are subject to a materiality threshold, and SAUR is considered material if it is expected to exceed 1% of Evoenergy’s total ARR for each regulatory year. Evoenergy does not expect its SAUR to exceed the materiality threshold in any year over the 2024–29 regulatory period, as summarised in Table 15.

¹¹ NER, clause 6.4.4

Table 15 Shared Asset Cost Reduction (\$ million, nominal)

| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| Shared asset unregulated revenue | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 | 0.9 | 1.0 |
| Smoothed AAR | | | 204.0 | 209.7 | 215.5 | 221.5 | 227.7 |
| Average SAUR as proportion of ARR (%) | | | 0.42 | 0.42 | 0.42 | 0.42 | 0.42 |
| Material (Y/N) | | | N | N | N | N | N |
| Shared asset cost reduction | | | 0 | 0 | 0 | 0 | 0 |

3.3 Bill impacts

3.3.1. Electricity volume forecast

Forecasts of customer numbers, energy consumption, and customer demand (collectively referred to as ‘volume forecasts’) are used in the preparation of annual network tariffs as well as inputs to Evoenergy’s expenditure forecasts. These forecasts are determined at an individual tariff level using monthly quantities, which are combined to provide an annual forecast. The volume forecasts are generated using a purpose-built model which combines historical volumes data with econometric techniques and forecasts of independent variables to yield volume forecasts.

Energy consumption is forecast using a range of variables, including weather data (heating and cooling degree days (and a COVID-19 variable. The COVID-19 variable captured observed changes in consumption behaviour due to lockdowns; Evoenergy saw an increase in residential consumption as people spent more time at home and a related decline in energy consumption by commercial customers. The baseline energy consumption forecasts are adjusted for the expected uptake of behind-the-meter energy generation (primarily solar panels) and electric vehicle (EV) take-up.

Electricity consumption in the ACT is currently forecast to remain relatively stable over the 2024–29 regulatory period (see Table 16). Consumption by residential customers is forecast to increase by two per cent between 2022/23 and 2028/29. While increasing solar uptake will reduce the electricity consumed in the middle of the day, EV charging is expected to drive a net increase in electricity consumed by ACT households. Meanwhile, electricity consumed by ACT commercial customers is expected to decline due to improvements in energy efficiency and solar uptake on commercial buildings.

Table 16 Electricity consumption forecast (GWh) 2022/23–2028/29

| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Residential | 1,290 | 1,283 | 1,287 | 1,299 | 1,302 | 1,319 | 1,339 |
| LV Commercial | 1,216 | 1,215 | 1,218 | 1,224 | 1,226 | 1,230 | 1,230 |
| HV Commercial | 408 | 443 | 483 | 517 | 525 | 522 | 518 |
| Unmetered | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Total | 2,938 | 2,964 | 3,010 | 3,063 | 3,075 | 3,093 | 3,109 |

Electricity customer numbers are forecast to increase by roughly one per cent each year of the forecast period, in line with ACT population growth forecasts. The number of high voltage (HV) commercial and unmetered customers is not expected to change materially.

Forecasts of ACT customer numbers are set out in Table 17 below.

Table 17 Electricity customer forecast 2022/23–2028/29

| | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Residential | 190,882 | 192,417 | 194,484 | 196,925 | 199,348 | 201,744 | 204,117 |
| LV Commercial | 17,127 | 17,288 | 17,506 | 17,762 | 18,017 | 18,269 | 18,518 |
| HV Commercial | 38 | 42 | 47 | 51 | 52 | 52 | 52 |
| Unmetered | 27 | 27 | 27 | 27 | 27 | 27 | 27 |
| Total | 208,086 | 209,787 | 212,077 | 214,778 | 217,457 | 220,105 | 222,727 |

3.3.2. Indicative network bill impacts

Evoenergy’s proposed distribution and transmission annual revenue requirement and X-factors will have an impact on the electricity bills of ACT customers. To provide an indicative estimate of these bill impacts, Evoenergy has first divided the proposed smoothed annual revenue requirement by forecasting energy throughput to arrive at an indicative price path.

The expected bill impacts, in nominal terms set out in Table 18 below, are estimated by adjusting the distribution and transmission components of the bill, while holding all other elements of the bill constant in real terms.

In real terms, the average residential customer in the ACT will see the network component of their bill increase by about \$7, or 1.3 per cent annually. A typical commercial customer will see a real increase of \$43, or 1.3 per cent annually.

Table 18 Indicative bill impacts 2022/23–2028/29 (\$ nominal)

| | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|--|---------|---------|---------|---------|---------|---------|
| Indicative network charges – residential customer | 579 | 656 | 663 | 679 | 694 | 709 |
| Annual change \$ | | 77 | 7 | 16 | 15 | 15 |
| Annual Change % | | 13.3% | 1.0% | 2.4% | 2.2% | 2.2% |
| Indicative network charges – LV commercial customer | 3,370 | 3,818 | 3,857 | 3,948 | 4,035 | 4,125 |
| Annual change \$ | | 449 | 39 | 91 | 86 | 90 |
| Annual change % | | 13.3% | 1.0% | 2.4% | 2.2% | 2.2% |

List of appendices

| Abbreviation | Meaning |
|--------------|---------------------------------------|
| AAR | Average Annual Return |
| ACT | Australian Capital Territory |
| Capex | Capital Expenditure |
| CESS | Capital Expenditure Sharing Scheme |
| DMIA | Demand Management Incentive Allowance |
| EBSS | Efficiency Benefit Sharing Scheme |
| EV(s) | Electric Vehicle(s) |
| HV | High Voltage |
| LV | Low Voltage |
| Opex | Operating Expenditure |
| PTRM | Post-tax Revenue Model |
| RFM | Roll-forward Model |
| RoRI | Rate of Return Instrument |
| SAG | Shared Asset Guidelines |
| SAUR | Shared Asset Unregulated Revenue |
| SCS | Standard Control Services |
| WACC | Weighted Average Cost of Capital |

