Draft Decision

TasNetworks Electricity Transmission Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 1
Maximum allowed revenue

September 2023

AUSTRALIAN ENERGY REGULATOR

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1 Maximum allowed revenue

This attachment sets out our draft decision on TasNetworks' maximum allowed revenue (MAR) for the provision of prescribed transmission services over the 2024–29 regulatory control period. Specifically, it sets out our draft decision on:[1]

- the estimated total revenue cap, which is the sum of the annual expected MAR
- the annual building block revenue requirement
- the annual expected MAR
- the X factors.

We determine TasNetworks' annual building block revenue requirement using a building block approach. We determine the X factors by smoothing the annual building block revenue requirement over the 2024–29 period. The X factors are used in the CPI–X methodology to determine the annual expected MAR.

1.1 Draft decision

We determine a total annual building block revenue requirement of $879.9 million ($ nominal, unsmoothed) for TasNetworks for the 2024–29 period. Our determination represents an increase of $12.5 million (1.4%) to TasNetworks' proposal. The increase is largely driven by the higher regulatory depreciation and cost of corporate income tax building blocks determined in this draft decision.

We determine the annual expected MAR (smoothed) and X factor for each regulatory year of the 2024–29 period by smoothing the annual building block revenue requirement. For the 2024–29 period, our draft decision is to approve an estimated total revenue cap of $880.1 million ($ nominal) for TasNetworks.

At the time of making this draft decision, we have used placeholder values for certain components such as the rate of return and expected inflation. We will make further updates for these values as part of our final decision. It is for this reason that we expect the total revenue cap approved in our final decision to be different to this draft decision.

Table 1.1 sets out our draft decision on TasNetworks' annual building block revenue requirement, the X factor, the annual expected MAR and the estimated total revenue cap for the 2024–29 period.

[1] NER, cll. 6A.4.2(a)(1)–(3), 6A.5.3(c) and 6A.6.8.

Table 1.1 AER's draft decision on TasNetworks' annual building block revenue requirement, annual expected MAR, estimated total revenue cap and X factor ($million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Return on capital	96.1	100.2	104.2	108.0	112.7	521.1
Regulatory depreciation[a]	23.7	21.7	24.8	22.0	20.9	113.2
Operating expenditure[b]	40.9	43.9	46.2	47.6	49.0	227.7
Revenue adjustments[c]	2.8	–2.5	0.5	1.7	2.3	4.8
Cost of corporate income tax	1.8	2.4	2.7	2.9	3.4	13.1
Annual revenue requirement (unsmoothed)	165.4	165.6	178.4	182.2	188.3	879.9
Annual expected MAR (smoothed)	**163.0**	**169.3**	**175.8**	**182.5**	**189.5**	**880.1[d]**
X factor[e]	n/a[f]	–1.00%	–1.00%	–1.00%	–1.00%	n/a

Source: AER analysis.

(a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening regulatory asset base (RAB).

(b) Includes debt raising costs

(c) Includes revenue adjustments from the efficiency benefit sharing scheme (EBSS), the capital expenditure sharing scheme (CESS) and the demand management innovation allowance mechanism (DMIAM).

(d) The estimated total revenue cap is equal to the total annual expected MAR.

(e) The X factors will be revised to reflect the annual return on debt update. Under the CPI–X framework, the X factor measures the real rate of change in annual expected revenue from one year to the next. A negative X factor represents a real increase in revenue. Conversely, a positive X factor represents a real decrease in revenue.

(f) TasNetworks is not required to apply an X factor for 2024–25 because we set the 2024–25 expected revenue in this decision. The MAR for 2024–25 is around 1.05% higher than the approved MAR for 2023–24 in real terms, or 3.9% higher in nominal terms.

1.2 TasNetworks' proposal

TasNetworks proposed a total (smoothed) revenue cap of $866.9 million ($ nominal) for the 2024–29 period.

Table 1.2 TasNetworks' proposed annual building block revenue requirement, annual expected MAR, estimated total revenue cap and X factor ($million, nominal) sets out TasNetworks' proposed annual building block revenue requirement, the X factor, the annual expected MAR and the estimated total revenue cap.

Table 1.2 TasNetworks' proposed annual building block revenue requirement, annual expected MAR, estimated total revenue cap and X factor ($million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Return on capital	99.8	104.4	108.8	113.1	118.1	544.2
Regulatory depreciation[a]	14.2	13.5	15.6	16.6	18.7	78.5
Operating expenditure[b]	41.1	44.4	46.9	48.7	50.3	231.4
Revenue adjustments[c]	3.4	–1.3	0.7	1.0	0.9	4.7
Cost of corporate income tax	1.0	1.7	1.5	1.7	2.5	8.5
Annual building block requirement (unsmoothed)	159.6	162.6	173.5	181.1	190.6	867.5
Annual expected MAR (smoothed)	**159.6**	**166.2**	**173.1**	**180.3**	**187.8**	**866.9**[d]
X factor[e]	n/a[f]	–0.78%	–0.78%	–0.78%	–0.78%	n/a

Source: TasNetworks, *TasNetworks-Post Tax Revenue Model - Prescribed-Dec 22-Public*, January 2023
(a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening RAB.
(b) Includes debt raising costs.
(c) Includes revenue adjustments from the EBSS, CESS and DMIAM.
(d) The estimated total revenue cap is equal to the total annual expected MAR.
(e) The X factors will be revised to reflect the annual return on debt update. Under the CPI–X framework, the X factor measures the real rate of change in annual expected smoothed revenue from one year to the next. A negative X factor represents a real increase in revenue. Conversely, a positive X factor represents a real decrease in revenue.
(f) TasNetworks is not required to apply an X factor for 2024–25 because we set the 2024–25 MAR in this decision. The MAR for 2024–25 is around 1.6% lower than the approved MAR for 2022–23 in real terms, or 1.7% higher in nominal terms.

1.3 Assessment approach

In this section, we describe the building block approach used to determine TasNetworks' expected MAR. We also set out the annual revenue adjustment to be applied to TasNetworks' MAR over the 2024–29 period.

1.3.1 The building block approach

The expected MAR is calculated using the post-tax revenue model (PTRM).[2] The PTRM must be such that the expected MAR for each year of the regulatory control period is equal to the net present value (NPV) of the annual building block revenue requirement.[3] The total revenue cap is the sum of the MARs for the period.[4] In turn, the annual building block revenue requirement must be determined using a building block approach.[5] Therefore, we adopt a building block approach when making our decision on TasNetworks' total revenue

2 NER, cll.6A.5.1 and 6A.5.3
3 NER, cl. 6A.5.3(c)(1).
4 NER, cl. 6A.5.3(c)(4)
5 NER, cl. 6A.5.4.

cap and expected MAR for each regulatory year of the regulatory control period. Under this approach we determine the value of the building block costs that make up the annual building block revenue requirement for each regulatory year. These building block costs are set out in section 1.3.2.

We developed the PTRM, which brings together the various building block costs and calculates the annual building block revenue requirement for each year of the regulatory control period.[6] The PTRM also calculates the X factors required under the CPI–X methodology which is used to escalate the MAR for each year (other than the first year) of the regulatory control period.[7] Using the X factors and annual building block revenue requirement, the annual expected MAR (smoothed) is forecast for each year of the regulatory control period. TasNetworks' revenue proposal must be prepared using our PTRM.[8]

The annual building block revenue requirement can be lumpy over the regulatory control period. To minimise price shocks, revenues are smoothed within a regulatory control period while maintaining the principle of cost recovery under the building block approach. Smoothing requires diverting some of the cost recovery to adjacent years within the regulatory control period so that the NPV of the annual expected MAR (smoothed revenues) is equal to the NPV of the annual building block revenue requirement (unsmoothed revenues). That is, a smoothed profile of the expected MAR is determined for the regulatory control period under the CPI–X methodology.

The expected MAR for the first year is generally set equal to the annual building block revenue requirement for the first year of the regulatory control period. At times, it may be appropriate to set the expected MAR for the first year to align with the MAR from the last year of the previous regulatory control period to avoid any large revenue variation between periods (or P_0):[9]

$MAR_1 = AR_1 \text{ or } MAR_L$

where:

MAR_1 = the maximum allowed revenue for year 1 of the regulatory control period

AR_1 = the annual building block revenue requirement for year 1 of the regulatory control period

MAR_L ~ the maximum allowed revenue for the last year of the previous regulatory control period.

6 NER, cl. 6A.5

7 NER, cll. 6A.5.3 and 6A.6.8.

8 NER, cl. 6A.5.1(a).

9 The MAR for year 1 of the next regulatory control period may include adjustment for the performance incentive that applied during the previous regulatory control period, and under or over recovery adjustments from previous regulatory years.

In this determination for TasNetworks, we first calculate annual building block revenue requirements for each year of the 2024–29 period. To do this we consider the various costs facing TasNetworks and the trade-offs and interactions between these costs, service quality and across years. This reflects our holistic assessment of TasNetworks' proposal.

We understand the trade-offs that occur between building block costs and test the sensitivity of these costs to their various driver elements. These trade-offs are discussed in the interrelationships section of the various attachments to this draft decision and are reflected in the calculations made in the PTRM.[10] Such understanding allows us to exercise judgement in determining the final inputs into the PTRM and the annual building block revenue requirements that result from this modelling.

Having determined the total annual building block revenue requirement for the 2024–29 period, we smooth the annual building block revenue requirements for each regulatory year across that period. This step reduces revenue variations between years, and calculates the expected MAR and X factor for each year.[11] The X factors equalise (in NPV terms) the total expected revenue cap to be earned by TasNetworks with the total building block revenue requirement for the 2024– 29 period.[12] The X factor profile must also minimise, as far as reasonably possible, the variance between the expected MAR and annual building block revenue requirement for the last regulatory year of the period.[13] By minimising this divergence, it helps to manage the prospect of a significant revenue change (and consequently prices) between the last year of the 2024–29 period, and first year of the following 2029–34 period. We consider a divergence of up to 3% between the expected MAR and annual building block revenue requirement for the last year of the regulatory control period is reasonable, if this can promote smoother price changes across the regulatory control periods.

The building block costs (and the elements that drive those costs) used to determine the unsmoothed annual building block revenue requirements are set out in section 1.3.2.

1.3.2 Building block costs

The efficient costs to be recovered by TasNetworks can be thought of as being made up of various building block costs. Our draft decision assesses each of the building block costs and the elements that drive these costs. The building block costs are approved reflecting trade-offs and interactions between the cost elements, service quality and across years.

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10 There are trade-offs that are not modelled in the PTRM but are reflected in the inputs to the PTRM. For example, service quality is not explicitly modelled in the PTRM, but the trade-offs between service quality and price are reflected in the forecast capex and opex inputs to the model. Other trade-offs are obvious from the calculations in the PTRM. For example, while it may be expected that a lower RAB would also lower revenues, the PTRM shows that this will not occur if the reduction in the RAB is due solely to an increase in the depreciation rate. In such circumstances, revenues increase as the increased depreciation allowance more than offsets the reduction in the return on capital caused by the lower RAB.

11 NER, cl. 6A.6.8(a).

12 NER, cl. 6A.6.8(c)(1).

13 NER, cl. 6A.6.8(c)(2).

Table 1.3 shows the building block costs that form the annual building block revenue requirement for each year and where discussion on the elements that drive these costs can be found within this draft determination.

Table 1.3 Building block costs

Building block costs	Attachments where elements are discussed
Return on capital	Regulatory asset base (Attachment 2) Rate of return (Attachment 3) Capital expenditure (Attachment 5)
Regulatory depreciation (return of capital)	Regulatory asset base (Attachment 2) Regulatory depreciation (Attachment 4) Capital expenditure (Attachment 5)
Operating expenditure	Operating expenditure (Attachment 6)
Estimated cost of corporate income tax	Corporate income tax (Attachment 7)
Other revenue adjustments	
Adjustments for shared assets	Annual revenue requirement (Attachment 1)
Operating efficiency benefits/penalties	Efficiency benefit sharing scheme (Attachment 8)
Capital efficiency benefits/penalties	Capital expenditure sharing scheme (Attachment 9)
Demand management innovation allowance	Demand management innovation allowance mechanism (Attachment 11)

1.3.3 Annual revenue adjustment process

The PTRM incorporates an expected inflation rate to calculate the expected MAR (excluding performance incentive scheme and pass through amounts that may apply to each regulatory year) in nominal dollar terms, whereas the actual MAR from the second year onwards is adjusted for actual inflation. As discussed in the *Rate of return instrument*, on the MAR is also subject to adjustment to reflect our update of TasNetworks' return on debt annually.[14] This means the actual MAR from the second year onwards will also be adjusted for revised X factors after the annual return on debt update. This annual revenue adjustment process is set out below.

To enable the formula for the annual revenue adjustment process to operate correctly, we will refer to the expected MAR determined in this decision using the building block costs as the allowed revenue (AR). This is because the expected MAR determined using the building

[14] AER, *Rate of return instrument*, February 2023, cl. 24, Note 29.

block costs does not incorporate performance incentive scheme revenue adjustments and pass through amounts that may apply to each regulatory year.

The AR for the subsequent year of the regulatory control period requires an annual adjustment based on the previous year's AR and using the CPI–X methodology.[15] That is, the subsequent year's AR is determined by adjusting the previous year's AR for actual inflation and the X factor determined after the annual return on debt update:

$$AR_t = AR_{t-1} \times (1 + \Delta CPI) \times (1 - X_t)$$

where:

AR = the allowed revenue

t = time period/financial year (for t = 2 (2025–26), 3 (2026–27), 4 (2027–28), 5 (2028–29))

ΔCPI = the annual percentage change in the ABS Consumer price index all groups, weighted average of eight capital cities from December in year t – 2 to December in year t – 1

X = the smoothing factor determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update in accordance with the formula specified in the Rate of return instrument calculated for the relevant year.[16]

The MAR used for transmission pricing is determined annually as part of the annual revenue adjustment process in accordance with the National Electricity Rules (NER). The MAR is determined each year by adding to (or deducting from) the allowed revenue:

- the service target performance incentive scheme revenue increment (or revenue decrement)[17]
- any approved pass through amounts.[18]

The annual MAR is established according to the following formula:

$$MAR_t = \text{(allowed revenue)} + \text{(performance incentive)} + \text{(pass through)}$$

$$= AR_t + ((AR_{t-2} \times ½) + (AR_{t-1} \times ½)) \times S_{ct} + P_t$$

where:

15 In the case of making the annual adjustment for year 2, the previous year's AR would be the same as the approved expected MAR for year 1 as contained in the PTRM.

16 AER, *Rate of return instrument*, February 2023, cl. 9.

17 NER, cl. 6A.7.4.

18 NER, cll. 6A.7.2 and 6A.7.3.

MAR	=	the maximum allowed revenue
AR	=	the allowed revenue
S	=	the revenue increment or decrement determined in accordance with the service target performance incentive scheme
P	=	the pass through amount (positive or negative) that the AER has determined in accordance with clauses 6A.7.2 and 6A.7.3 of the NER
t	=	time period/financial year (for *t* = 2 (2025–26), 3 (2026–27), 4 (2027–28), 5 (2028–29))
ct	=	time period/calendar year (for *t* = 2 (2024), 3 (2025), 4 (2026), 5 (2027)).

TasNetworks may also adjust the MAR for under or over-recovery amounts.[19] That is, if the revenue amounts earned from providing prescribed transmission services in previous regulatory years are higher or lower than the sum of the approved MAR for those years, the difference can be included in the subsequent year's MAR. In the case of an under-recovery, the amount is added to the subsequent year's MAR. In the case of an over-recovery, the amount is subtracted from the subsequent year's MAR.

Table 1.4 sets out the timing of the annual calculation of the AR and performance incentive.

Table 1.4 Timing of the calculation of allowed revenues and the performance incentive for TasNetworks

t	Allowed revenue (financial year)	*ct*	Performance incentive (calendar year)
2	1 July 2025 – 30 June 2026	2	1 January 2024 – 31 December 2024
3	1 July 2026 – 30 June 2027	3	1 January 2025 – 31 December 2025
4	1 July 2027 – 30 June 2028	4	1 January 2026 – 31 December 2026
5	1 July 2028 – 30 June 2029	5	1 January 2027 – 31 December 2027

Note: The performance incentive for the period 1 January 2023 to 31 December 2023 is to be applied to the AR determined for 2024–25 (AR_1).

1.4 Reasons for draft decision

We determine a total annual building block revenue requirement of $879.9 million ($ nominal, unsmoothed) for TasNetworks for the 2024–29 period. This is an increase of $12.5 million 1.4%) to TasNetworks' proposed total annual building block revenue requirement of $867.5 million for this period. This increase reflects the impact of our draft decision on the various building block costs.

[19] NER, cl. 6A.23.3(e)(5).

The changes we made to TasNetworks' proposed building blocks include (in nominal terms):

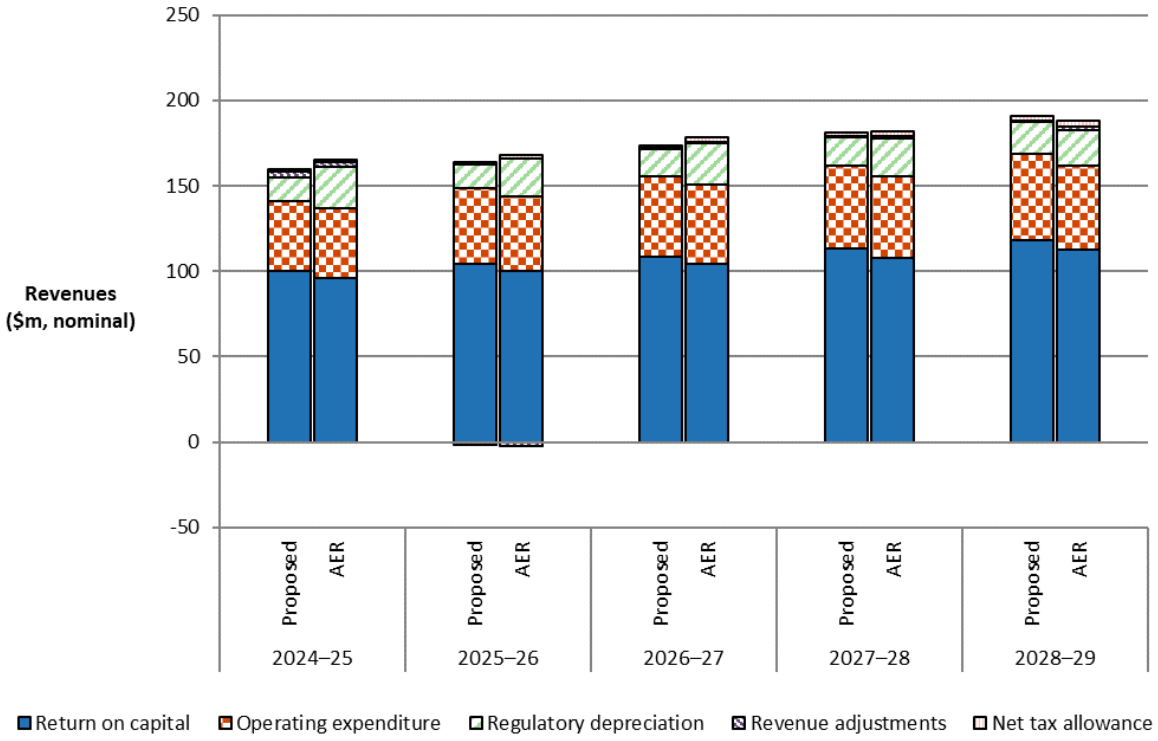
- an increase in the regulatory depreciation of $34.6 million (44.1%) (Attachment 4). This is driven largely a lower expected inflation rate for the 2024–29 period, which reduces the indexation adjustment to regulatory depreciation.[20] This has more than offset the reduction we made to the straight-line depreciation amount
- an increase in the cost of corporate income tax of $4.6 million (53.5%) (Attachment 7). This is largely driven by the higher regulatory depreciation and a lower tax depreciation amounts determined in this draft decision compared to TasNetworks' proposal[21]
- a reduction in the return on capital of $23.1 million (4.2%) (Attachments 2, 3 and 5). This is largely driven by our draft decision establishing a lower opening RAB as at 1 July 2024, which has more than offset our draft decision to set a slightly higher rate of return compared to TasNetworks' proposal
- a reduction in forecast operating expenditure (opex) of 3.8 million (1.6%). This is due to the lower expected inflation rate applied in this draft decision compared to TasNetworks' proposal. Our draft decision has accepted TasNetworks' proposed total opex in real 2023–24 dollar terms (Attachment 6)
- an increase in the revenue adjustments of $0.1 million (2.3%) (Attachments 8, 9 and 13). This is due to higher revenue adjustments from CESS rewards in this draft decision compared to TasNetworks' proposal. This increase is partially offset by the lower revenue adjustment from EBSS penalties.

Figure 1.1 shows the building block components from our determination that make up the annual building block revenue requirement for TasNetworks, and the corresponding components from its proposal.

[20] Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening RAB. A lower indexation amount increases the regulatory depreciation, all else being equal.

[21] All else being equal, a higher regulatory depreciation increases the cost of corporate income tax as it is a component of revenue for tax purposes. The lower tax depreciation is mainly driven by our corrections to the proposed depreciation module. All else being equal, a lower tax depreciation increases the cost of corporate income tax as it is a component of tax expense.

Figure 1.1 AER's draft decision and TasNetworks' proposed annual building block revenue requirement ($million, nominal)



Source: AER analysis; TasNetworks, TasNetworks-Post Tax Revenue Model - Prescribed-Dec 22-Public, January 2023.
Note: Revenue adjustments include EBSS, CESS and DMIAM amounts. Opex includes debt raising costs.

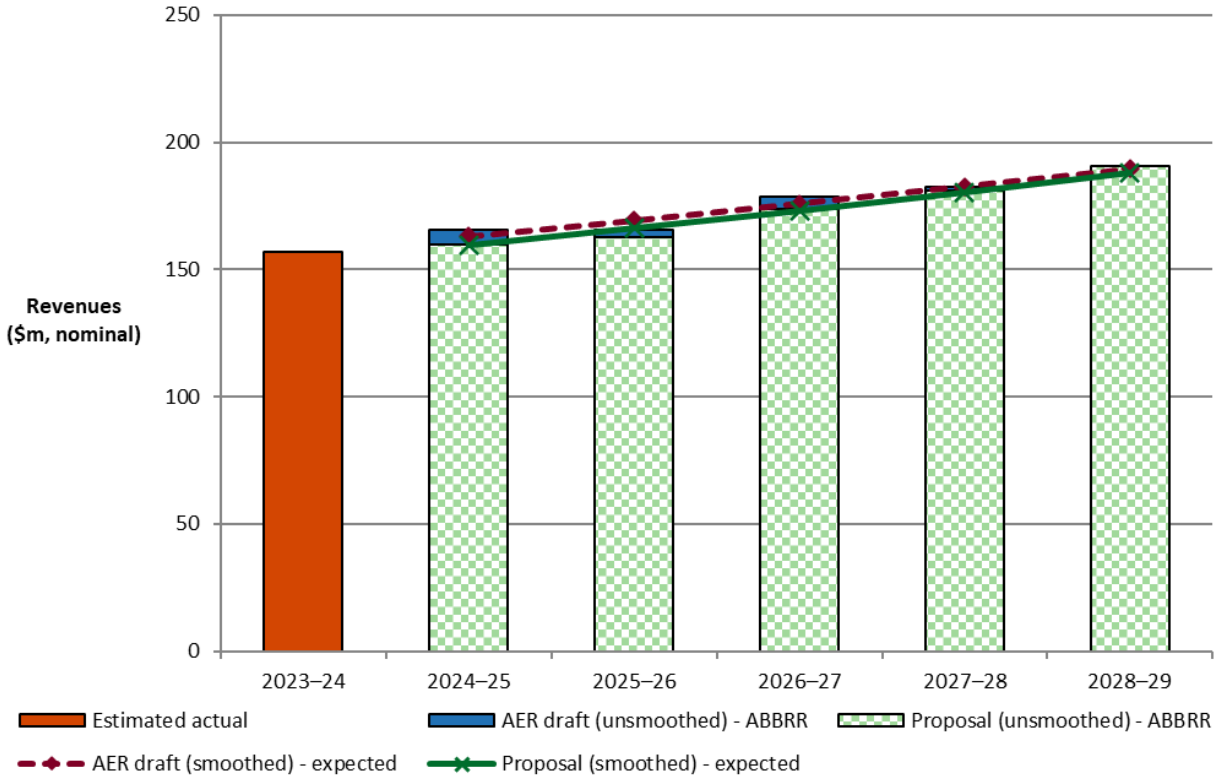
1.4.1 X factor, annual expected MAR and estimated total revenue cap

For this draft decision, we determine an X factor for TasNetworks of –1.00% per annum for the four years of the regulatory control period from 2025–26 to 2028–29.[22] The NPV of the annual building block revenue requirement is $740.2 million ($nominal) as at 1 July 2024. Based on this NPV and applying the CPI–X method, we determine that the annual expected MAR (smoothed) for TasNetworks is $163.0 million in 2024–25 increasing to $189.5 million in 2028–29 ($nominal). The resulting estimated total revenue cap for TasNetworks is $880.1 million for the 2024–29 period.

Figure 1.2 shows our draft decision on TasNetworks' annual expected MAR (smoothed revenue) and the annual building block revenue requirement (unsmoothed revenue) for the 2024–29 period.

22 TasNetworks is not required to apply an X factor for 2024–25 because we set the 2024–25 MAR in this decision.

Figure 1.2 AER's draft decision on TasNetworks' revenue for the 2024–29 period ($million, nominal)



Source: AER analysis.
Note: Annual building block revenue requirement (ABBRR).

To determine the expected MAR for TasNetworks, we have set the MAR for the first regulatory year at $163.0 million ($ nominal), which is $2.4 million lower than the annual building block revenue requirement. We then apply an expected inflation rate of 2.80% per annum and an X factor of –1.00% per annum to determine the expected MAR in subsequent years.[23]

We consider that our profile of X factors results in an expected MAR in the last year of the regulatory control period that is as close as reasonably possible to the annual building block revenue requirement for that year.[24] We will review this smoothing profile for the final decision, including consideration of any stakeholder views on alternative approaches to revenue smoothing. For example, an alternative smoothing approach would be to set the revenue in 2024–25 even higher than in our draft decision, followed by smaller annual increases (i.e. zero X factors providing for no real decreases) for the remaining years of the 2024–29 period.

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23 NER, cl. 6A.5.3(c)(3).

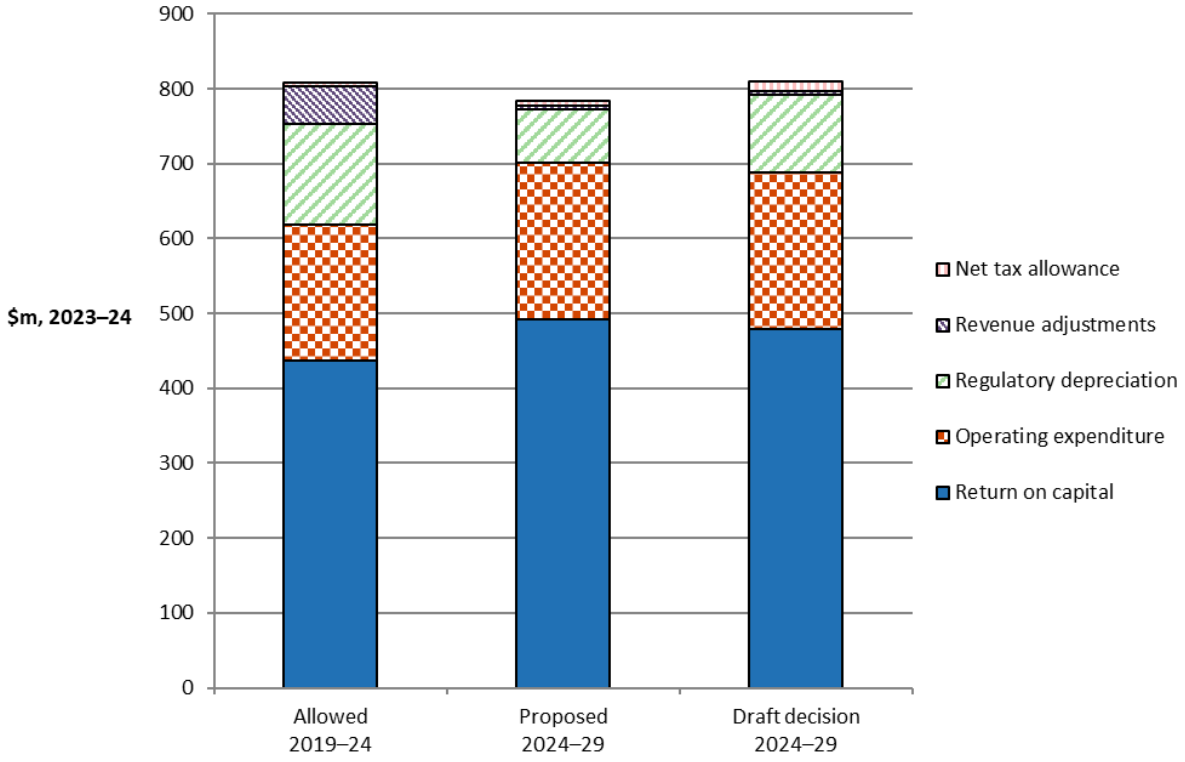
24 NER, cl. 6A.6.8(c)(2). We consider a divergence of up to 3% between the expected MAR and annual building block revenue requirement for the last year of the regulatory control period is appropriate, if this can promote smoother price changes for users over the regulatory control period. In the present circumstances, based on the X factors we have determined for TasNetworks, this divergence is around 0.6%.

Our draft decision results in an average increase of 3.8% per annum ($ nominal) in the expected MAR over the 2024–29 period.[25] This consists of an initial increase of 3.88% from 2023–24 to 2024–25, followed by an average annual increase of 3.83% during the remainder of the 2024–29 period.[26]

Our draft decision also results in an increase of 0.2% in real terms ($2023–24) to TasNetworks' total annual unsmoothed revenue relative to that allowed in the 2019–24 period. This is primarily because we have determined a higher rate of return (and therefore higher return on capital) in this draft decision for the 2024–29 period than that approved in the 2019–24 determination.

Figure 1.3 compares our draft decision building blocks for TasNetworks' 2024–29 period with its proposal for the same period, and the approved unsmoothed revenue for the 2019–24 period.

Figure 1.3 Total revenue by building block components ($million, 2023–24)



Source: AER analysis.

1.4.2 Shared assets

Service providers, such as TasNetworks, may use assets to provide both prescribed transmission services we regulate and unregulated services, for example by renting out the transmission tower space for housing of third party equipment. These assets are called

[25] In real 2023–24 dollar terms, our approved expected MAR for TasNetworks results in an average increase of 1.4% per annum over the 2024–29 period.

[26] In real 2023–24 dollar terms, this is an initial increase of 1.42% from 2023–24 to 2024–25, followed by an increase of 1.45% per annum for the remainder of the 2024–29 period.

'shared assets'.[27] If the revenue from shared assets is material, 10% of the unregulated revenues that a service provider earns from shared assets will be used to reduce the service provider's revenue for prescribed transmission services.[28]

The shared asset principles establish that use of share assets should be material before cost reductions are applied.[29] The NER do not define materiality in this context. Our approach to what constitutes a material use of shared assets is that unregulated use of shared assets in a specific regulatory year is material when a service provider's annual average unregulated revenue from shared assets is expected to be greater than 1% of its MAR for that regulatory year.[30]

TasNetworks forecast that it will receive $1.8 million ($2023–24) in shared asset revenues over the 2024–29 period.[31] These additional revenues do not exceed the AER's materiality threshold and therefore not subject to a shared asset adjustment.

We consider TasNetworks' forecast unregulated revenues from shared assets for the 2024–29 period are reasonable as they are similar to the historical unregulated revenues received from shared assets from 2017–22. However, TasNetworks' forecast unregulated revenues must be compared to the regulated revenues we determine, rather than those proposed by TasNetworks. We have determined higher expected MARs in our draft decision, therefore the materiality threshold continues not to be met in any year of the 2024–29 period. As such, our draft decision does not apply any shared asset revenue adjustment.[32]

1.4.3 Indicative average transmission charges

TasNetworks is the transmission network service provider for Tasmania. Therefore, our draft decision on TasNetworks' expected MAR will ultimately affect the annual electricity bills paid by customers in Tasmania. There are several steps required to translate our revenue decision into indicative transmission charges. Since we regulate TasNetworks' prescribed transmission services under a revenue cap, changes in the consumption of electricity will affect the transmission charges ultimately paid by consumers. We estimate the indicative effect of our draft decision on forecast average transmission charges in Tasmania by:

- taking TasNetworks' annual expected MAR determined in this draft decision, and
- dividing it by the forecast annual energy delivered in Tasmania published by the Australian Energy Market Operator (AEMO).[33]

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27 NER, cl. 6A.5.5.

28 AER, *Shared asset guideline*, November 2013, Appendix A, p. 15.

29 NER, cl. 6A.5.5(c)(3).

30 AER, *Shared asset guideline*, November 2013, pp. 8–9.

31 TasNetworks, *TasNetworks-(T) Workbook 1 Forecast-Dec-22-Public*, January 2023.

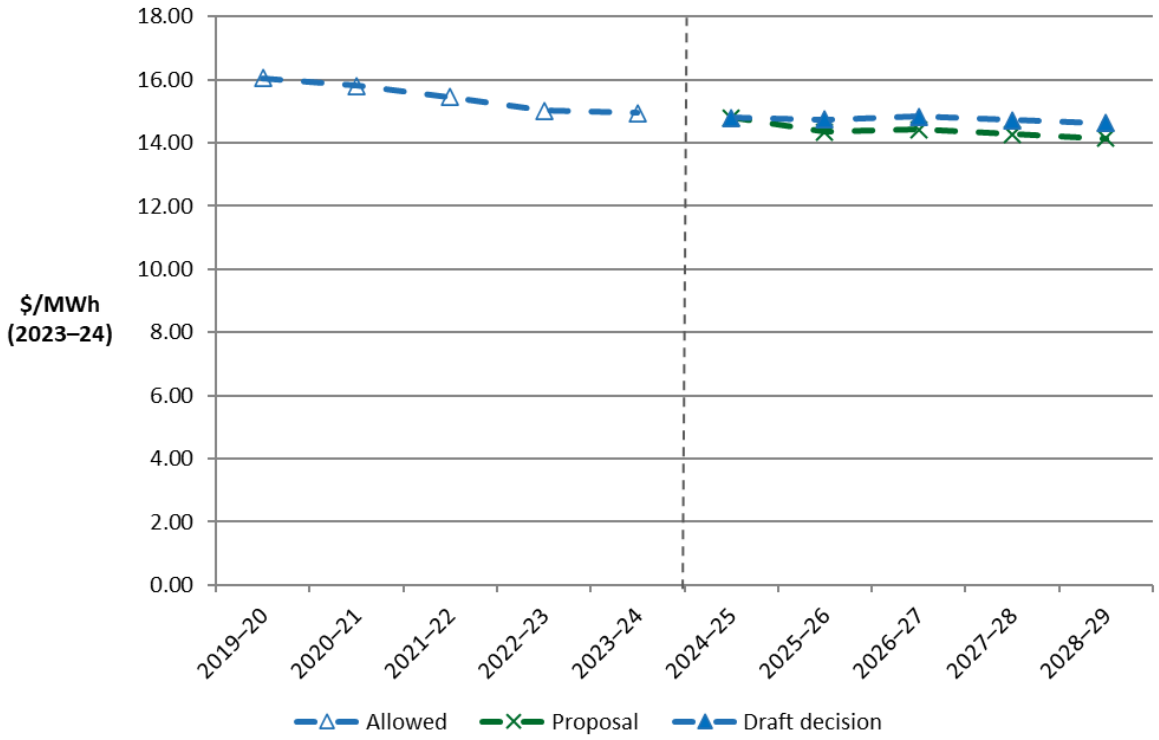
32 We will reassess the materiality of the forecast shared asset unregulated revenues for our final decision.

33 AEMO, *National Electricity and Gas forecasting - 2023 Electricity Statement of Opportunities*, http://forecasting.aemo.com.au/Electricity/AnnualConsumption/Operational, accessed on 13 September 2023.

Based on our approach, we estimate that this draft decision will result in no material change in annual average transmission in real 2023–24 dollar terms from 2024–25 to 2028–2029.[34]

Figure 1.4 shows the indicative average transmission charges over the period 2019–24 to 2024–29 in real 2023–24 dollar terms based on the expected revenues established in our draft decision compared to TasNetworks' proposed revenue requirement. The average transmission charges are expected to remain the same from around $14.9 per MWh in 2023–24 to $14.6 per MWh in 2028–29.

Figure 1.4 Indicative transmission price path for Tasmania ($/MWh, $2023–24)



Source: AER analysis.
Notes: The price path for the transmission network is based on actual and forecast energy throughput amounts for TasNetworks' transmission network across Tasmania.

1.4.4 Expected impact of draft decision on electricity bills

The annual electricity bill for customers in Tasmania reflects the combined cost of all the electricity supply chain components—wholesale energy generation, transmission, distribution, metering, and retail costs. This draft decision primarily relates to the transmission charges for TasNetworks' prescribed transmission services, which represent

[34] On average, the draft decision transmission smoothed revenues will increase by 4.3% ($ nominal) per annum from 2023–24 to 2028–29. The forecast energy delivered in Tasmania will increase by an average of 2.0% per annum across that period. As a result, the indicative transmission charge will increase by 2.2% ($ nominal) per annum from 2023–24 to 2028–29.

approximately 6.9% on average for residential customers' and 6.1% on average for small business customers' annual electricity bills in Tasmania.[35]

We estimate the expected bill impact by varying the transmission charges in accordance with our draft decision in this attachment, while holding all other component costs that make up the electricity bill constant. This approach isolates the effect of our draft decision on the core transmission charges for TasNetworks only. However, this does not imply that other components will remain unchanged across the regulatory control period.[36] Our draft decision determines higher revenues than proposed by TasNetworks—largely due to the impact of updated market data on the expected inflation rate and the rate of return. As a result, expected bill increases are higher than TasNetworks' proposal, holding all else constant.

Based on this approach, we expect that our draft decision on the transmission component will increase the average annual residential electricity bill in 2028–29 by about $15 ($ nominal) or 0.7% from the 2023–24 total bill level.

Similarly, we expect that our draft decision will result in the transmission component of the average annual electricity bill for a small business customer in 2028–29 to increase by about $17 ($ nominal) or 0.6% from the 2023–24 total bill level.

Our estimated bill impact is based on the typical annual electricity usage of 7,428 kWh and 8,782 kWh for residential and small business customers in Tasmania, respectively.[37] Therefore, customers with different usage will experience different changes in their bills. We also note that there are other factors, such as metering, wholesale and retail costs, which affect electricity bills.

Table 1.5 shows the estimated impact from our draft decision and TasNetworks' proposal on the average annual electricity bills for residential and small business customers in Tasmania over the 2024–29 period.

35 Office of the Tasmanian Economic Regulator, *Typical Electricity Customers in Tasmania – 2022,* September 2022.

36 It also assumes that actual energy consumption will equal the forecast adopted in our draft decision. Since TasNetworks operates under a revenue cap, changes in energy consumption will also affect annual electricity bills across the 2023–28 regulatory control period.

37 Office of the Tasmanian Economic Regulator, *Typical Electricity Customers in Tasmania – 2022,* September 2022.

Table 1.5 Estimated impact of TasNetworks' proposal and AER's draft decision on annual electricity bills for the 2024–29 period ($ nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29
AER draft decision						
Residential annual electricity bill	2170[a]	2173	2179	2182	2185	2184
Annual change[b]	–	3 (0.2%)	5 (0.2%)	3 (0.1%)	4 (0.2%)	–1 (–0%)
Small business annual electricity bill	2882[a]	2886	2892	2896	2900	2899
Annual change[b]	–	4 (0.1%)	6 (0.2%)	4 (0.1%)	4 (0.1%)	–1 (–0%)
TasNetworks proposal						
Residential annual electricity bill	2170[a]	2170	2176	2179	2183	2183
Annual change[b]	–	0 (0%)	6 (0.3%)	4 (0.2%)	4 (0.2%)	–0 (–0%)
Small business annual electricity bill	2882[a]	2882	2889	2893	2898	2897
Annual change[b]	–	0 (0%)	7 (0.2%)	4 (0.1%)	5 (0.2%)	–1 (–0%)

Source: AER analysis; TasNetworks, *TasNetworks-(T) Workbook 5 Indicative Bill-Dec-22-Public*, January 2023.

(a) TasNetworks, *TasNetworks-(T) Workbook 5 Indicative Bill-Dec-22-Public*, January 2023.
Office of the Tasmanian Economic Regulator, *Typical Electricity Customers in Tasmania – 2022*, September 2022.

(b) Annual change amounts and percentages are indicative. They are derived by varying the transmission component of the 2023–24 bill amounts in proportion to yearly expected revenue divided by TasNetworks' forecast energy. Actual bill impacts will vary depending on electricity consumption and tariff class.

Shortened forms

Term	Definition
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CAPEX	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
DMIAM	demand management innovation allowance mechanism
EBSS	efficiency benefit sharing scheme
MAR	maximum allowed revenue
NER	National Electricity Rules
NPV	net present value
OPEX	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model