30 November 2023

Ausgrid's 2024-29 Revised Proposal

Attachment 4.1: 2024-29 Proposed revenue

Empowering communities for a resilient, affordable and net-zero future.

Ausgrid

Contents

1. Introduction

The purpose of this document is to provide Ausgrid's revised revenue for the 2024-29 period. It is part of our Revised Proposal to the Australian Energy Regulator (**AER**) and references other supporting documentation which provide supplementary information for our revenue forecast.

Our revised 2024-29 revenue is mindful of the cost of living pressures being felt by our customers. We have taken measures to limit increases to revenue where possible, noting that the most material increases to revenue are outside Ausgrid's control. For the capex and opex that are within our control, we have responded to the feedback we received from the AER, our Voice of Community (**VoC**) Panel and the RCP on our Initial Proposal.

We substantially accept key elements of the AER's Draft Decision. Where we have not accepted an aspect of the AER's Draft Decision we have provided additional analysis to support our position.

1.1 Our revised revenue at a glance

Our revised 2024-29 revenue is $9,616 million (nominal, unsmoothed) which is $98 million (1%) less than our Initial Proposal and $32 million (0.3%) more than the Draft Decision.

Our revised 2024-29 revenue reflects changes we have made to our capex and opex forecasts in response to our customers' concerns about affordability, the community's expectation for our role in the net zero future and the AER's Draft decision. **Figure 1.1** shows how our Revised Proposal building block revenue has changed compared to the Draft Decision, and **Figure 1.2** sets out our revised 2024-29 revenue by building block component.

Figure 1.1: Our revised Annual Revenue Requirement ($ million, nominal)

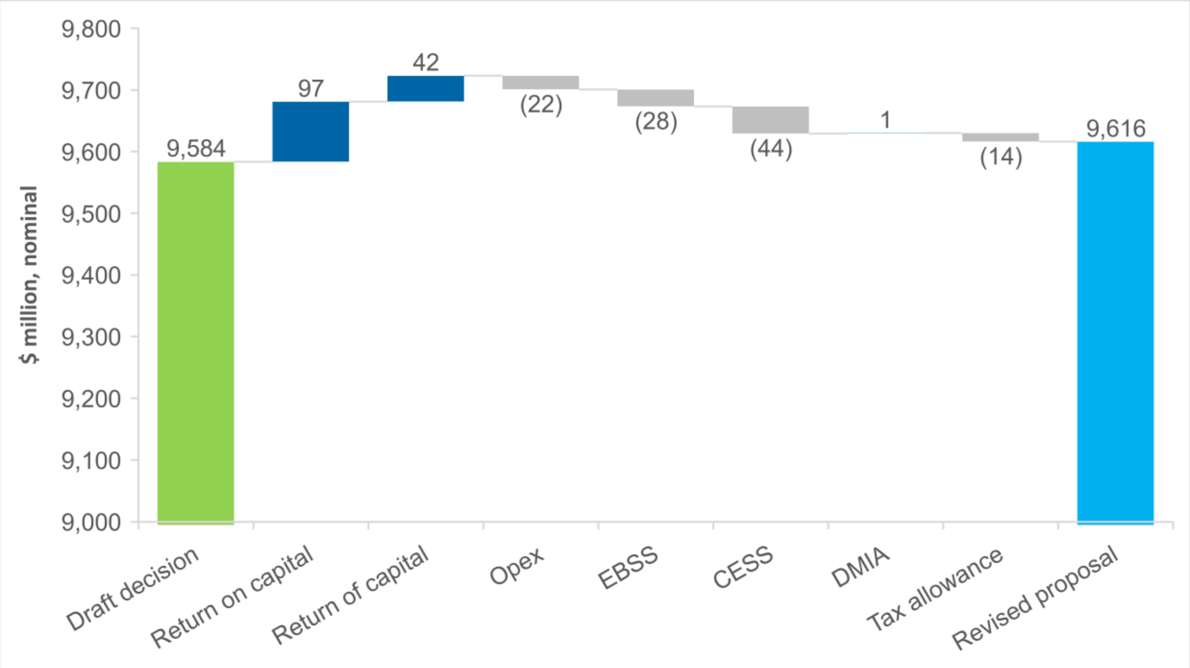
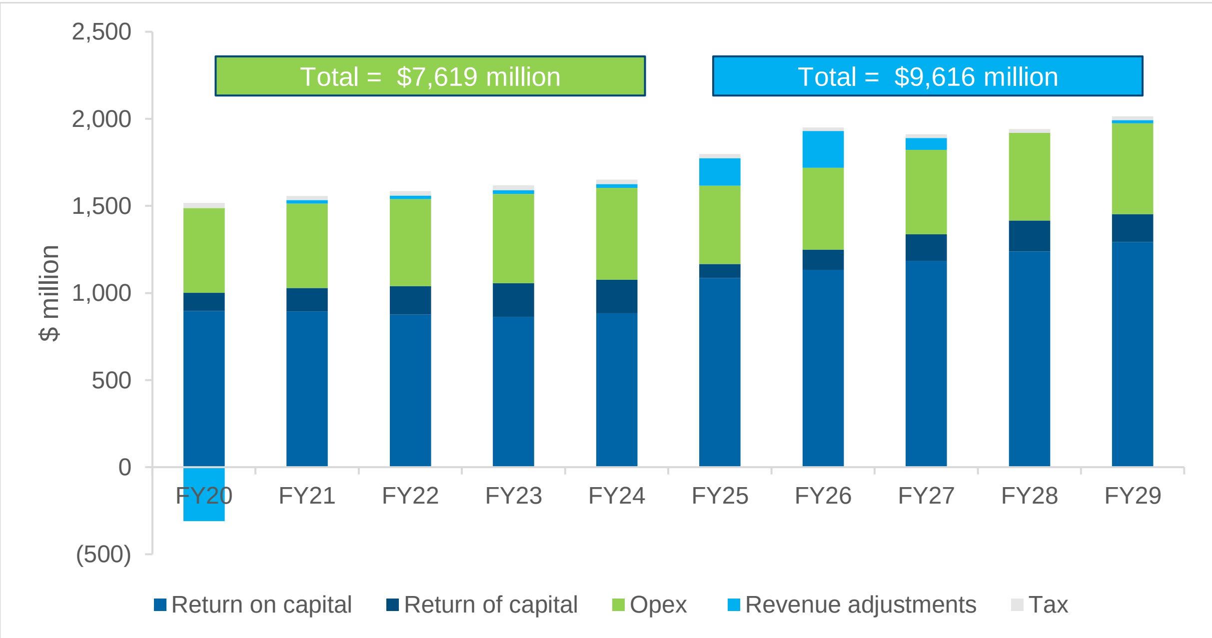


Figure 1.2: Revised revenue and building block components for the 2024-29 period ($ million, nominal)

	FY25	FY26	FY27	FY28	FY29	Total
Return on capital	1,084.9	1,133.8	1,184.5	1,238.3	1,292.6	**5,934.2**
Return of capital	81.5	115.0	152.5	177.8	159.9	**686.7**
Opex	450.7	470.3	484.6	502.7	521.2	**2,429.6**
Efficiency benefit sharing scheme	144.8	197.4	55.4	(13.3)	6.0	**390.4**
Capital efficiency sharing scheme	14.3	14.8	15.2	15.6	16.0	**75.9**
Demand management incentive allowance	1.6	1.7	1.7	1.7	1.8	**8.6**
Shared assets	(3.0)	(3.3)	(3.8)	(3.9)	(4.2)	**(18.1)**
Tax allowance	22.4	21.3	21.9	22.8	20.6	**109.0**
Revenue requirement	**1,797.4**	**1,950.9**	**1,912.0**	**1,941.8**	**2,014.0**	**9,616.1**

For context, **Figure 1.3** compares our revised revenue to our approved building block revenue for the current regulatory period.

Figure 1.3: Revised annual building block revenue for 2024-29 compared to current period ($ million, nominal)



Note: Negative amount in FY20 caused by the remittal where revenue was reduced due to over-recoveries in the 2014-19 period.

We calculated the revised 2024-29 revenue using the AER's post-tax revenue model (**PTRM**) in **Attachment 4.3 - PTRM for distribution** and **Attachment 4.5 – PTRM for transmission**.

1.2 Revised x-factors and smoothed revenue

We have amended the AER's Draft Decision on our X-factors to accommodate the revised 2024-29 revenue. We have not used the AER's method for smoothing revenue in the Draft Decision due to customer bill impacts that would result in the first year of the 2024-29 period. This is based on our customers' preference for price changes to be similar in each year.

Figure 1.4 shows the proposed X-factors used to smooth revenue and **Figure 1.5** shows the comparison between building block and smoothed revenue.

Figure 1.4: Proposed x-factors for the 2024-29 period

	FY25	FY26	FY27	FY28	FY29
Distribution	0.00%	-2.00%	-6.47%	-6.47%	-5.00%
Dual function assets	-30.00%	-8.00%	-10.49%	-10.49%	-9.00%
Weighted average	-2.22%	-2.57%	-6.87%	-6.89%	-5.42%

Figure 1.5: Smoothed and unsmoothed revenue for the 2024-29 period ($ million, nominal)

	FY25	FY26	FY27	FY28	FY29
Unsmoothed revenue	1,797.4	1,950.9	1,912.0	1,941.8	2,014.0
Smoothed revenue	1,651.4	1,741.2	1,912.9	2,101.9	2,277.9
Difference	(146.0)	(209.7)	0.9	160.1	264.0

Further information on our proposed X-factors and smoothed revenue is provided in **Section 4**.

1.3 How we have responded to the AER's Draft Decision

Figure 1.6 summarises how we have responded to the main issues raised by the AER in its Draft Decision.

Figure 1.6: How we've responded to the AER's Draft Decision

Issue in Draft Decision	AER Draft Decision	Our response in Our Revised Proposal	More information
Opening regulatory asset base (RAB)	The AER forecast an opening RAB of $18,414 million at 1 July 2024, which is $132 million lower than our Initial Proposal.	We have substantially accepted the AER's draft decision, noting that the opening RAB adjusts for actual and revised FY23-FY24 net capex.	**Section 2.1**

Issue in Draft Decision	AER Draft Decision	Our response in Our Revised Proposal	More information
Asset base roll forward 2024-29	The AER replaced our proposed capex forecast of $3,311 million with a lower estimate of $2,819 million. Combined with the AER's replacement of the expected inflation, this resulted in a forecast closing RAB of $20,780 million as at 30 June 2029, which is 4% lower than our proposal.	We have accepted the AER's decision on expected inflation, noting that this is a placeholder value. We have proposed revised 2024-29 capex of $3,430 million (real FY24), representing a 1.6% increase on actual spend in 2019-24.	**Section 2.2** **Section 3.1.3** **Attachment 5.1 – Proposed capital expenditure**
Rate of return	The AER replaced our proposed WACC with an updated value calculated using the 2022 rate of return instrument (RORI). This resulted in a nominal vanilla WACC of 5.85% for the first year, which was slightly higher than our proposed WACC of 5.72%. This increased the return on building block.	We have applied the WACC from the draft decision to estimate the required revenue for our revised proposal for 2024-29. We note that this is a placeholder value that will be updated by the AER for the final determination.	**Section 3.1**
Expected inflation	The AER replaced our proposed expected inflation with an updated value calculated using the August 2023 RBA Statement on Monetary Policy. This resulted in lower forecast inflation than our Initial Proposal.	We have applied the AER's expected inflation from the Draft Decision to estimate the required revenue for our revised proposal for 2024-29. We note that this is a placeholder value that will be updated by the AER for the final determination.	**Section 3.1.3**
Regulatory depreciation	The AER accepted our proposed standard asset lives, but it forecasted higher regulatory depreciation due to the lower expected inflation.	Regulatory depreciation is a function of the value of the asset base, standard asset lives and expected inflation. We have accepted the AER's decision on the standard asset lives and expected inflation. We have proposed higher capex in our revised proposal, which means that our forecast regulatory depreciation is higher than the AER's Draft Decision.	**Section 3.2** **Attachment 5.1 – Proposed capital expenditure** **Attachment 4.3 – PTRM for distribution** **Attachment 4.5 – PTRM for transmission**
Opex	The AER replaced our proposed opex forecast of $2,420 million (real FY24) with a lower estimate of $2,254 million (including debt raising costs).	We have proposed revised 2024-29 opex of $2,234 million (real FY24), which is 0.8% higher than our actual and forecast spend in 2019-24.	**Attachment 6.1 – Proposed operating expenditure**

Issue in Draft Decision	AER Draft Decision	Our response in Our Revised Proposal	More information
Efficiency Benefit Sharing Scheme	The AER replaced our proposed EBSS carryover amounts to reflect the inclusion of a non-recurrent efficiency gain relating to the accounting treatment of leases and the AER's updated actual and expected inflation.	Ausgrid substantially accepts the AER decision	**Section 3.4.1** **Attachment 4.11 – EBSS Model**
Capital Efficiency Sharing Scheme	The AER reduced our revenue increment resulting from the application of the CESS in 2019-24. It did not accept our proposed exclusions for the Advanced Distribution Management System (**ADMS**), cyber security and the network innovation program.	Ausgrid substantially accepts the AER decision.	**Section 3.4.2** **Attachment 4.12 – CESS distribution model** **Attachment 4.13 – CESS transmission model**
Demand Management Investment Allowance Mechanisms (DMIAM)	The AER determined to apply the DMIAM in 2024-29.	Ausgrid substantially accepts the AER decision.	**Section 3.4.3**
Shared assets	The AER accepted our forecast shared assets revenue, but amended the revenue adjustment in accordance with the shared asset guideline.	Ausgrid substantially accepts the AER decision.	**Section 3.4.4**
Tax allowance	The AER estimated a higher tax allowance reflecting its decision on the inputs into the tax allowance calculation and the application of the 2022 RORI to estimate gamma.	Ausgrid accepts the AER decision to apply the 2022 RORI for gamma. We have proposed a revised tax allowance of $109 million reflecting our revised input assumptions on forecast capex and opex.	**Section 3.5** **Attachment 4.3 – PTRM for distribution** **Attachment 4.5 – PTRM for transmission**
Revenue smoothing	The AER did not accept our proposed X-factors on the basis that final year gap between building block and smoothed revenue was too large.	We have proposed revised X-factors to accommodate our revised 2024-29 revenue and customer preferences.	**Section 4** **Attachment 4.3 – PTRM for distribution** **Attachment 4.5 – PTRM for transmission**

2. Regulatory asset base

The regulatory asset base (RAB) is the value of the assets that we use to deliver services to our customers. The opening RAB as at 1 July 2024 and the roll forward of the RAB during 2024-29 is a key input into both the return on assets and return of assets building blocks.

2.1 Opening RAB as at 1 July 2024

We have substantially accepted the AER's draft decision on the opening RAB as at 1 July 2024. **Figure 2.1** summarises how we have responded to the AER's draft decision on our initial proposed opening RAB.

Figure 2.1: How we've responded to the AER's Draft Decision

Issue in Draft Decision	AER Draft Decision	Our response in Our Revised Proposal
Estimated inflation for 2022-23	The AER replaced the estimated inflation for 2022-23 with actual inflation as published by the Australian Bureau of Statistics	We accept the AER's Draft Decision
Expected inflation for 2023-24	The AER replaced expected inflation for 2023-24 with the most recent forecast provided by the Reserve Bank of Australia	We have accepted the AER's draft decision, noting this is a placeholder that will be updated in the Final Decision
WACC for 2023-24	The AER updated the WACC for 2023-24 to reflect the 2023-24 return on debt update.	We accept the AER's draft decision noting that this is a function of the determination for the 2019-24 period
Capitalised leases	The AER did not consider it appropriate that capitalising $8.5 million in existing lease costs mid-period to give effect to a change in the accounting standards was appropriate for short-lived assets. The AER removed capitalised leases for 2019-20 (distribution) and 2021-22 (distribution and dual function), instead halving the proposed roll-in amount of remaining lease values.	Ausgrid accepts the AER's approach, meaning that our updated roll-in value for existing leases is $0.3 million instead of $0.6 million. This reflects the remaining value of the existing leases as at 30 June 2024. Non-network leases expected to expire by 30 June 2024 have also been removed.
Asset disposal values	The AER updated asset disposal values and the final year asset adjustment reallocation of a negative residual closing RAB amounts associated with asset disposal values for 2022-23.	Ausgrid initially proposed to bring forward property asset disposals to the current period to assist with affordability for our customers. After relooking at our assets, it was found some property couldn't be disposed of until 2027-28 and 2028-29. This reduced the bring-forward value to our customers. Also, additional assets that could be disposed of in 2022-23 were later identified, increasing the bring-forward value marginally.

Issue in Draft Decision	AER Draft Decision	Our response in Our Revised Proposal
Reallocation of distribution assets to dual function assets	The AER made adjustments to asset values for assets changing classification from dual function to distribution.	Ausgrid accepts the AER decision, noting that the reallocation does not impact our overall opening RAB as at 1 July 2024.

The revised estimated value of our RAB as at 1 July 2024 is $18.5 billion (nominal) (see **Figure 2.2**). This comprises $16.0 billion attributable to distribution assets and $2.5 billion attributable to dual function assets.

Figure 2.2: Ausgrid's revised opening RAB at 1 July 2024 ($ million, nominal)

	Distribution	Dual function	Total
Opening RAB as at 1 July 2019	13,779.4	1,901.7	15,681.0
Net capex	2,258.5	317.4	2,575.9
Straight line depreciation	(2,467.2)	(325.3)	(2,792.5)
Inflation on opening RAB	2,613.8	364.8	2,978.6
Final year adjustment	76.3	21.3	97.5
Assets changing classification and capitalised leases	(217.5)	217.7	0.3
Opening RAB as at 1 July 2024	**16.043.2**	**2,497.5**	**18,540.8**

Calculations and assumptions for the opening RAB as at 1 July 2024 can be found in **Attachment. 4.2 - RFM for distribution** and **Attachment 4.4 – RFM for transmission**.

2.2 Roll forward of the RAB in 2024-29

The AER forecasts Ausgrid closing RAB value of $20,780 million as at 30 June 2029, which is $782 million, or 4%, lower than Ausgrid's proposal. The AER's decision is largely driven by:

- Lower expected inflation, which reduces the annual indexation of the RAB; and
- Lower forecast capex.

We have accepted the AER's decision to replace the expected inflation and have used this expected inflation for estimating the roll forward of the RAB, noting that the expected inflation is a placeholder value that will be updated for the Final Decision.

We do not accept the AER's Draft Decision to replace our forecast capex. Our revised gross capex forecast of $3,301 million (real FY24) is 2% lower than our current 2019-24 spend[1],

[1] Note that Attachment 5.3 – Capex model – FY25-29 and Attachments 4.3 – PTRM for distribution and 4.4 – PTRM for transmission contain a total gross capex of $3,430 million. This is because a decision was made to change the Macquarie Park project to a contingent project after revenue and prices had been finalised. Because the project capex had been included in the final year, there is no change to revenue. However, there may be a small impact to capitalised overheads which will have an immaterial impact. We will provide an updated capex model as soon as possible after submission.

including software as a service (**SaaS**) implementation costs.[2] Our revised capex forecast comprehensively addresses the concerns raised by the AER in the Draft Decision. For customers, this means that their Ausgrid network service will be more cyber safe and climate resilient by the end of the 2024-29 period, in addition to having better integration of CER and digital technologies, all for the same level of investment that we are making today (see **Attachment 5.1 – Proposed capital expenditure**).

Figure 2.3: Annual RAB values over 2024-29 ($ million, nominal (except where specified))

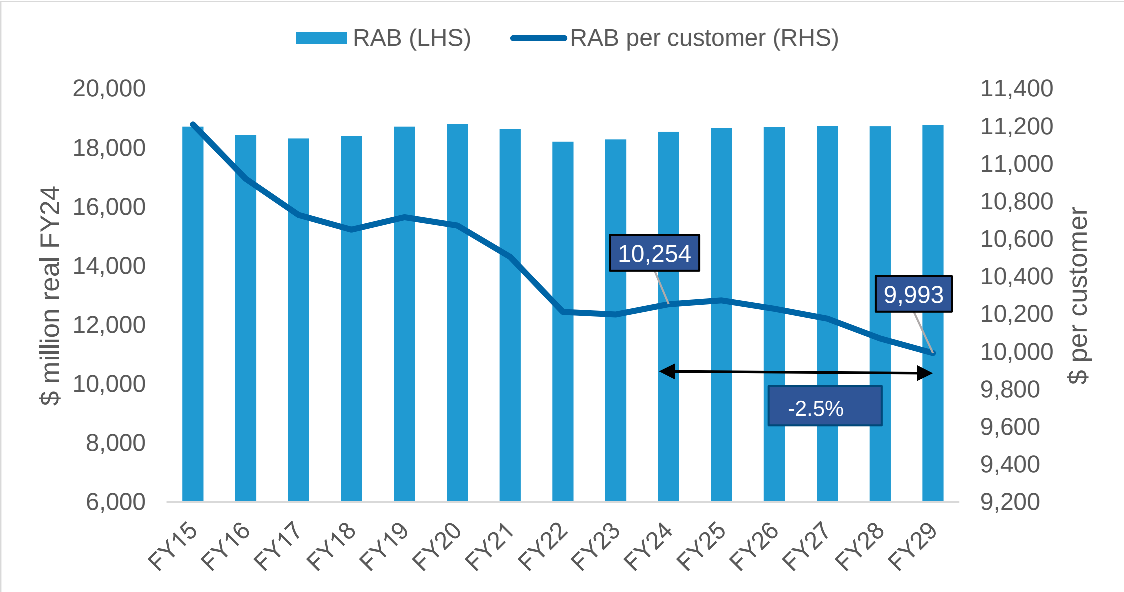
	FY25	FY26	FY27	FY28	FY29	2024-29 period
Opening RAB	18,540.8	19185.3	19,761.0	20,363.2	20,910.2	18,540.8
Net capex	726.1	690.6	754.7	724.8	798.7	3,694.9
Straight line depreciation	(600.6)	(652.1)	(705.8)	(747.9)	(745.3)	(3,451.7)
Inflation on opening RAB	519.1	537.1	553.3	570.1	585.4	2,765.1
Closing RAB	19,185.3	19,761.0	20,363.2	20,910.2	21,549.0	21,549.0
Closing RAB – real $ FY24	**18,662.8**	**18,699.3**	**18,744.3**	**18,723.6**	**18,770.1**	**18,770.1**

Depreciation is discussed further in **Section 3.2**. Inflation on the opening RAB has been calculated using placeholder expected inflation (see **Section 3.1.3**). Other assumptions and calculations can be found in **Attachment 4.3 - PTRM for distribution** and **Attachment 4.5 - PTRM for transmission**.

Despite the RAB increasing in nominal terms, our real asset value per customer is expected to decline by 2.5% over the 2024-29 period, continuing the downward trend since 2014-15 (see **Figure 2.4**). This is because the amount of net capex we forecast adding to the RAB is similar, in real terms, to the amount scheduled to be subtracted through depreciation, while our customer numbers are increasing.

[2] Our Revised Proposal re-categorises SaaS costs from opex to capex as an affordability measure, more information is included in **Attachment 5.1 – Proposed capital expenditure** and **Attachment 6.1 – Proposed operating expenditure**.

Figure 2.4: Asset value and asset value per customer ($ real, FY24)



3. Revenue

Our revised 2024-29 revenue reflects updated inputs into the component building blocks of the forecast revenue requirement. Our response to the AER's Draft Decision on the revenue building blocks is detailed in the following sections.

3.1 Return on assets

3.1.1 Rate of return

We have applied the AER's rate of return from its Draft Decision to estimate the return on assets for our revised proposal for 2024-29. We note that this is a placeholder value that will be updated by the AER in the Final Decision.

Our original proposal for the rate of return was based on the 2018 rate of return instrument (**RORI**). For the draft decision, the AER determined a nominal vanilla rate of return of 5.85% for the first year of the period using the 2022 RORI and the input parameters set out in the following table.

Figure 3.1: Ausgrid's revised rate of return

	Ausgrid's initial proposal (2024-29)	AER's draft decision (2024-29)	Ausgrid's revised proposal (2024-29)
Nominal risk-free rate	3.77%	3.95%	3.95%
Market risk premium	6.10%	6.20%	6.20%
Equity beta	0.6	0.6	0.6
Return on equity	7.43%	7.67%	7.67%
Return on debt*	4.58%	4.64%	4.64%
Gearing	60%	60%	60%
Nominal vanilla rate of return*	5.72%	5.85%	5.85%
Expected inflation	2.87%	2.80%	2.80%

*First year estimates. Debt is updated each year during the regulatory period. For the Draft Decision and Revised Proposal, the average return on debt over 5 years is 4.89% and average rate of return is 6.00%.

The calculation of the WACC for the revised proposal is included in **Attachment 4.3 – PTRM for distribution** and **Attachment 4.5 – PTRM for transmission**.

3.1.2 Averaging periods for risk free rate and debt

We have retained our proposed averaging periods for the risk free rate and debt, which the AER accepted in its Draft Decision.

3.1.3 Expected inflation

We have applied the AER's expected inflation from the Draft Decision to estimate the required revenue for our revised proposal for 2024-29. We note that this is a placeholder value that will be updated by the AER for the Final Decision.

3.1.4 Debt and equity raising costs

Ausgrid accepts the AER's decision on both the equity and debt raising costs.

The AER's Draft Decision updated its required revenue estimate for the 2024-29 period based on the benchmark approach using updated inputs. This resulted in zero equity raising costs which Ausgrid forecast in its original proposal and debt raising costs 0.17 basis points per annum higher than our original proposal as a result of updated Bloomberg data.

3.1.5 Revised return on assets

In calculating our proposed return on assets, we used the RAB values shown in **Figure 2.3**, and the rate of return as calculated in **Figure 3.1.**[3] The average rate of return of 6.00% is higher than the average WACC of 5.32% for the 2019-24 period.

Our proposed total return on asset is $5,934 million, which represents 62% of our proposed total revenue for 2024-29. This is $131 million (2.3%) more than our Initial Proposal and $97 million (1.7%) more than the Draft Decision. The increase relative to the Initial Proposal is mainly due to the increase in the rate of return, and the increase relative to the Draft Decision is mainly due to higher actual capex in FY23 and higher forecast capex.

3.2 Regulatory depreciation

Regulatory depreciation is determined as the straight line depreciation, which is a function of the value of the RAB and asset lives, less the indexation on the RAB, which is a function of the expected inflation.

The AER's Draft Decision determined regulatory depreciation of $644 million, which was $25 million (4.0%) higher than our proposed regulatory depreciation. The increase was driven primarily by the AER's update to the expected inflation. As noted above, Ausgrid has adopted the AER's expected inflation for the purposes of our revised proposal.

We note that the AER's Draft Decision accepted our:

- Straight-line depreciation method;
- Proposed weighted average remaining life (**WARL**) approach to calculate remaining asset lives for existing assets as at 1 July 2024;
- Proposed existing asset classes and standard asset lives;
- Proposed new asset classes for distribution and dual function assets; and
- Proposal to reallocate the negative residual RAB value from its existing 'Land (non-system)' asset class to a dedicated asset class for reverse depreciation purposes (see **Section 2.1**).

The AER introduced a new asset class for composite poles, with a standard life of 80 years. Ausgrid accepts this new asset class.

Our revised regulatory depreciation is $687 million, which represents 7% of our proposed total revenue for 2024-29. This is $67 million (11%) more than our Initial Proposal and $42 million (7%) more than the Draft Decision. The increase relative to the Initial Proposal is mainly due to

[3] The rate of return is different in each year due to the trailing average debt methodology.

the lower inflation estimate, and the increase relative to the Draft Decision is mainly due to our higher forecast capex.

3.3 Operating expenditure

The AER's Draft Decision did not accept Ausgrid's proposed forecast opex, reducing the total forecast opex estimate by 7.0% to $2,209 million excluding debt raising costs (real FY24). The AER excluded some of our proposed base year adjustments and step changes resulting in a lower total forecast opex estimate.

We accept some elements of the AER's Draft Decision and have made minor changes to reflect actual, or more recent information. We have also re-categorised SaaS implementation costs from opex to capex (see **Section 2.2**). Our revised 2024-29 opex forecast is $2,187 million (excluding debt raising costs), which is $188 million (8%) less than our initial forecast and $21 million (1%) lower than the Draft Decision.

More detail on our revised 2024-29 opex forecast is provided in **Attachment 6.1 – Proposed operating expenditure**.

3.4 Other revenue adjustments

Other revenue adjustments include those resulting from the incentive schemes and the application of the AER's Shared Asset Guideline.

3.4.1 Efficiency Benefit Sharing Scheme

The AER's Draft Decision included $398 million (real FY24) from the application of the Efficiency Benefits Sharing Scheme (**EBSS**) in 2019-24. This is $0.2 million less than our proposed carryover amount for EBSS due to the inclusion of a non-recurrent efficiency gain relating to the accounting treatment of leases and the AER's updated actual and expected inflation.

We accept the AER's Draft decision on the EBSS carryover amounts, noting that expected inflation will be updated for the Final Decision. FY23 actual opex has been updated to calculate our revised EBSS in **Figure 3.2**.

Figure 3.2: Ausgrid's revised EBSS carryover amounts ($ million, real FY24)

	FY25	FY26	FY27	FY28	FY29
AER Draft Decision	147.4	193.3	57.6	(5.4)	5.3
Revised Proposal	140.8	186.8	51.0	(11.9)	5.3
Difference	(6.5)	(6.5)	(6.5)	(6.5)	0.0

The calculations for **Figure 3.2** are provided in **Attachment 4.11 - EBSS model**.

3.4.2 Capital Expenditure Sharing Scheme

The AER's Draft Decision included $110 million (real FY24) in revenue increments from the application of the Capital Expenditure Sharing Scheme (**CESS**) in 2019-24. This estimate is

$24 million (18%) less than our estimate of the CESS revenue increments in our Initial Proposal. The reduction in the CESS increments was due to:

- Updated input assumptions, including actual and expected inflation and WACC;
- The AER's decision not to accept our proposed exclusions relating to ADMS, cyber security and the network innovation program;
- Updated values for property asset disposals and capitalised leases (see **Section 2.1**).

We accept the AER's Draft Decision to reduce the CESS revenue increments, and note that expected inflation, the rate of return and actual capex will be updated for the Final Decision.

While we accept the AER's decision on exclusions for ADMS, cyber security and the network innovation program, we maintain our view that approval of the 2019-24 capex was contingent on agreement of the exclusions from CESS.

Our updated CESS forecast in the Revised Proposal is shown in **Figure 3.3**. The amount is lower than the Draft Decision due to higher actual capex in FY23 and higher forecast capex in FY24.

Figure 3.3: Ausgrid's revised CESS increments ($ million, real FY24)

	FY25	FY26	FY27	FY28	FY29
AER Draft Decision	22.0	22.0	22.0	22.0	22.0
Revised Proposal	14.0	14.0	14.0	14.0	14.0
Difference	(8.0)	(8.0)	(8.0)	(8.0)	(8.0)

Additional detail is provided in **Attachment 4.12 - CESS distribution model** and **Attachment 4.13 – CESS transmission model**.

3.4.3 Demand Management Innovation Allowance Mechanism

The AER's Draft Decision is to apply the DMIAM for 2024-29, with the revenue adjustment determined in accordance with the approach set out in the DMIAM. The AER noted that it would calculate the DMIAM allowance for the Final Decision.

We accept the AER's Draft Decision and have calculated our allowance under the DMIAM to be $8.6 million, which is 0.1% of our proposed 2024-29 revenue. This is $0.1 million lower than our Initial Proposal due to the lower annual revenue requirement (**ARR**) for our Revised Proposal.

The calculation of the DMIAM allowance for the Revised Proposal is set out in **Figure 3.4**.

Figure 3.4: Ausgrid's revised DMIAM allowance ($ million, real FY24)

	FY25	FY26	FY27	FY28	FY29	Total
Real ARR	1,746.9	1,844.5	1,758.5	1,737.2	1,752.7	**8,839.7**
ARR * 0.075%	1.3	1.4	1.3	1.3	1.3	**6.6**

	FY25	FY26	FY27	FY28	FY29	Total
Base amount	0.2	0.2	0.2	0.2	0.2	**1.2**
Total (real FY24)	1.6	1.6	1.6	1.6	1.6	**7.9**
Total (nominal)	**1.6**	**1.7**	**1.7**	**1.7**	**1.8**	**8.6**

3.4.4 Shared assets

The AER's Draft Decision included $16.6 million revenue decrement to share the benefit of forecast revenue from the use of shared assets with our customers. This revenue decrement represents 10% of our forecast shared assets revenue of $166 million, consistent with the approach set out in the AER's Shared Assets Guideline.

Ausgrid accepts the AER's decision and has applied a revenue decrement of $16.6 million, as summarised in **Figure 3.5**.

Figure 3.5: Ausgrid's revised shared asset revenue ($ million, real FY24)

	FY25	FY26	FY27	FY28	FY29	Total
Forecast shared assets revenue	28.7	31.0	34.9	35.0	36.3	**166.0**
ARR excluding shared assets	1,751.3	1,849.2	1,763.5	1,742.2	1,757.9	**8,864.1**
Materiality (%)	1.6%	1.7%	2.0%	2.0%	2.1%	**1.9%**
Revenue decrement	**(2.9)**	**(3.1)**	**(3.5)**	**(3.5)**	**(3.6)**	**(16.6)**

3.5 Taxation allowance

The AER's Draft Decision included a tax allowance of $123 million for 2024-29, which was $30 million higher than the tax allowance included in our Initial Proposal. The difference in the tax allowance largely reflects the AER's Draft Decision on the inputs to the tax allowance calculation, including the use of the 2022 RORI to determine the value of imputation credits (gamma).

We accept the AER's Draft Decision. Our revised 2024-29 tax allowance is $109 million, which is $14 million (11%) lower than the Draft Decision, due primarily to differences in the revised 2024-29 capex. We have adopted the value of gamma from the 2022 RORI to estimate the tax allowance.

Figure 3.6 summarises our revised 2024-29 tax allowance.

Figure 3.6: Tax building block ($ million, nominal)

	FY25	FY26	FY27	FY28	FY29	Total
Taxable income	173.9	164.8	169.7	177.0	159.4	844.8

	FY25	FY26	FY27	FY28	FY29	Total
Income tax payable	52.2	49.4	50.9	53.1	47.8	253.4
Less value of imputation credits	(29.7)	(28.2)	(29.0)	(30.3)	(27.3)	(144.5)
Tax building block	**22.4**	**21.3**	**21.9**	**22.8**	**20.6**	**109.0**

The calculation of the tax allowance for the revised proposal is included in **Attachment 4.3 – PTRM for distribution** and **Attachment 4.5 – PTRM for transmission**.

4. Smoothed revenue

Annual revenue requirements might fluctuate from year to year over the course of a regulatory control period, which can cause price volatility. This volatility can be smoothed so that prices do not fluctuate with the timing of expenditure programs during a regulatory period. We have amended the AER's Draft Decision on our X-factors to accommodate the updated revenue and reflect customer preferences.

The AER's preference is to limit the difference between smoothed and unsmoothed revenues in the final year of the regulatory period to ±3% on the basis that this should minimise price shocks in between regulatory periods for customers.

In its Draft Decision, the AER smoothed the increase in expected revenue over the first three years of the regulatory period, resulting in an average nominal annual increase for distribution of 6.5% per annum in the first three years, followed by 3% in the final two years. For dual function assets, nominal smoothed revenue reflected an increase of 37.3% in 2024-25, 23.4% in 2025-26 and a further 9.0% increase in 2026-27, followed by decreases of 0.5% per annum in the final two years. These increases reflected a final year difference between unsmoothed and smoothed revenue of 5% for distribution and 3% for transmission.

Ausgrid has updated the X-factors to accommodate our revised 2024-29 revenue proposal. We have not maintained the final year differences in the Draft Decision because we have tried to smooth the price differences evenly each year. This reflects customer preferences expressed by our **VoC** Panel in 2022. Our proposed revenue smoothing reflects a final year difference between unsmoothed and smoothed revenue of 12.4% for distribution and 19.0% for dual function assets.

Figure 4.1 shows the revised X-factors used to smooth revenue. **Figure 4.2** shows building block and smoothed revenue for distribution, and **Figure 4.3** shows building block and smoothed revenue for dual function assets.

Figure 4.1: Revised X-factors for the 2024-29 period

	FY25	FY26	FY27	FY28	FY29
Distribution	0.00%	-2.00%	-6.47%	-6.47%	-5.00%
Dual function assets	-30.00%	-8.00%	-10.49%	-10.49%	-9.00%
Weighted average	-2.22%	-2.57%	-6.87%	-6.89%	-5.42%

Figure 4.2: Revised Unsmoothed and smoothed revenue – distribution ($ million, nominal)

	FY25	FY26	FY27	FY28	FY29	Total
Unsmoothed revenue	1.614.5	1.756.0	1,714.2	1,740.3	1,804.0	8,629.0
Smoothed revenue	1,495.8	1,568.4	1,716.7	1,879.0	2,028.1	8,687.9

	FY25	FY26	FY27	FY28	FY29	Total
Difference	**(118.7)**	**(187.6)**	**2.5**	**138.6**	**224.1**	**58.9**

Figure 4.3: Revised Unsmoothed and smoothed revenue – dual function assets ($ million, nominal)

	FY25	FY26	FY27	FY28	FY29	Total
Unsmoothed revenue	182.9	194.9	197.9	201.4	210.0	987.1
Smoothed revenue	155.6	172.8	196.3	222.9	249.8	997.5
Difference	**(27.3)**	**(22.1)**	**1.6**	**21.5**	**39.8**	**10.4**