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26 March 2024

Ms Chloe Finn
Regulatory Economist
AusNet Services
Level 31, 2 Southbank Boulevard
Melbourne, Victoria 3006

By email: [REDACTED]

Dear Ms Finn,

Re: AER Determination – AusNet – Cost Pass Through - 2024-25 Easement Tax Event

I am writing to advise you of the Australian Energy Regulator's (AER) assessment of AusNet Services' cost pass through application, submitted on 13 March 2024, in relation to a change in easement land tax payable in 2024-25.

In accordance with clauses 6A.7.3 and 11.6.21 of the National Electricity Rules (NER), the AER has determined that a positive change event has occurred, and AusNet Services is entitled to recover a pass through amount of \$55,787,044 (\$2024–25). AusNet Services can adjust its maximum allowed revenue in the 2023–24 regulatory year by this amount, in accordance with its 2022–27 revenue determination.

Details of the AER's assessment against the relevant factors set out in the NER are included in Attachment A. If you have any queries in relation to this matter, please contact David Monk at [REDACTED]

Yours sincerely

[REDACTED]

Arek Gulbenkoglu
General Manager
Network Expenditure

Sent by email on: 26.03.2024

Attachment A: Reasons for determination

1. Background

AusNet Transmission Group Pty Ltd (AusNet), formally SPI PowerNet, is the licensed transmission entity of AusNet Services.¹ The Victorian Government levies land tax on easements owned on AusNet Services and used by its electricity transmission network. A forecast for the easements land tax (ELT) payable was made in AusNet Services' 2022–27 revenue determination.²

The National Electricity Rules (NER) allow AusNet Services to pass through costs related to the payment of ELT to users of its transmission network.³ The NER also allows AusNet Services to recover any difference between the actual amount of ELT payable and the forecast of ELT payable made in its revenue determination. The variance between actual ELT payable and the forecast ELT is known as an easement tax change event.⁴ The NER does not apply a materiality threshold to easement tax change events.⁵

2. Assessment

On 13 March 2024, AusNet Services submitted a cost pass through application to the AER. The application related to a positive easement tax change event for 2024-25 ELT as assessed by the State Revenue Office of Victoria.

Clause 6A.7.3(j) and 11.6.21 of the NER sets out a number of matters that we are required to take into account when determining:

- whether a positive or negative easement tax change event has occurred
- the approved pass through amount
- the amount of the approved pass through amount that should be passed through to transmission network users.

We have had regard to the relevant factors listed in clause 6A.7.3(j) and 11.6.21 of the NER. Specifically, we have:

- considered the matters and proposals set out in AusNet Services' written application
- calculated the costs AusNet Services will incur as a result of the positive change event in the 2024–25 regulatory year
- taken into account the time cost of money to calculate the required positive pass through amount
- concluded that the costs incurred relating to the pass through event under consideration are not the subject of any previous determination by us under clause 6A.7.3.

We are satisfied that the change in the ELT amount payable by AusNet Services in 2024–25 compared to the forecast amount in its 2022–27 revenue determination meets the definition

¹ Essential Services Commission, *Electricity Transmission Licence – AusNet Transmission Group Pty Ltd: Schedule 2*, 3 June 2015

² AER, *Final Decision: AusNet Services 2022–27 – Attachment 6 – Operating expenditure*, January 2022, pp. 32–33.

³ NER cl 6A.7.3.

⁴ NER cl 11.6.21(a).

⁵ NER cl 11.6.21(d)(2).

of an easement tax change event and that the pass through amount identified by AusNet Services is correct.

3. Positive Change Event

To approve the cost pass through application we must determine that a positive change event has occurred. The NER defines a positive change event as:⁶

‘... a pass through event which entails the Transmission Network Service Provider incurring materially higher costs in providing prescribed transmission services than it would have incurred but for that event.’

Further to this, transitional rule 11.6.21 provides that an easements tax change event is a positive change event, regardless of whether it meets the materiality threshold that would ordinarily form part of the consideration. An easements tax change event is defined as:⁷

‘...a change in the amount of land tax that is payable by SPI PowerNet in respect of the easements which are used for the purposes of SPI PowerNet’s transmission network.⁸ For the purposes of this definition, the change in the amount of land tax that is payable by SPI PowerNet must be calculated as the difference between:

- (1) the amount of land tax that is payable in each regulatory year by SPI PowerNet, as advised by the Commissioner of State Revenue, Victoria; and
- (2) the amount of land tax which is forecast for the purposes of and included in the revenue determination for each regulatory year of the regulatory control period.’

AusNet Services has provided the assessment notice from the State Revenue Office of Victoria showing the land tax payable for 2024–25. This amount differs from the amount forecast for this purpose in the 2022–27 revenue determination.

Thus, we are satisfied that an easements tax change event has occurred and that it is a positive change event.

4. Calculation of pass through amount

AusNet Services provided the assessment notice from the Victorian State Revenue Office which shows tax payable of \$256,830,945 between May 2024 and April 2025.⁹ The State Revenue Office calculates land tax every year based on the most recent site valuation.

Our 2022–27 revenue determination for AusNet Services forecast ELT costs of \$173,610,305 for the 2024–25 regulatory year (\$2021–22).¹⁰

The appropriate pass-through amount is the difference between actual land tax payable and forecast land tax (escalated to nominal dollars), as per our determination. The calculation is as follows:

1. verify the actual land tax payable: \$256,830,945 (\$2024–25), as per the 2024 Land Tax Assessment Notice.

⁶ NER, chapter 10 (definition of 'positive change event').

⁷ NER, cl 11.6.21(a).

⁸ The legislation refers to SPI PowerNet, the previous name of the licensed transmission entity of AusNet Services.

⁹ AusNet Services, *Application for pass-through of easement tax change event*, 13 March 2024.

¹⁰ AER, *Final Decision: AusNet Services 2022–27 – Attachment 6 – Operating expenditure, January 2022*, pp. 32–33.

2. escalate the forecast easement land tax to a comparable basis (\$2024–25):
 $\$173,610,305 \times (1 + 2.45\%)^{11} \times (135.3/128.4)^{12} = \$201,043,901$
3. determine the difference ((1) subtract (2)): $\$256,830,945 - \$201,043,901 = \$55,787,044$

5. Other relevant factors

Requirement of the NER	Our consideration
We must take into account the efficiency of AusNet Services' decisions and actions in relation to the risk of the event.	We consider that AusNet Services has operated efficiently in its decisions and actions relating to the risk of the positive change event occurring. As the land tax amount payable is a decision of the Victorian Government (State Revenue Office), we consider that AusNet Services has not taken (or omitted to take) any action that would be likely to increase (or decrease) the magnitude of the positive change event.
We must take into account the time cost of money.	We consider that the time cost of money does not need to be taken into account by this decision as the costs are passed through to users in the regulatory year in which those costs occur.
We must take into account the need to ensure that the pass through amount reflects only the costs incurred solely as a consequence of the easement land tax.	We consider that the costs to be recovered by AusNet Services due to this pass-through event are solely attributable to the easements tax change event.
The AER will have regard to whether there has been any change in the way that the easement land tax is calculated or whether taxes that are complementary to the easement land tax have been imposed or removed.	We are not aware of any changes in the way other taxes are calculated, or any other taxes that have been removed or imposed which are complementary to this easements tax change event.
We must take into account whether the costs of this pass through event have already been factored AusNet Services' maximum allowed revenue for this regulatory period or subsequent regulatory periods.	We consider that the costs of the pass-through event are established by cl.11.6.21 and are defined as the difference between certain costs for which an allowance is made under the revenue determination, and the actual costs incurred. As such, the costs of the pass-through event are, by definition, not factored into AusNet Services' maximum allowed revenue for the 2022–27 regulatory control period.
We must consider the extent to which the costs that AusNet Services has incurred and is likely to occur are the subject of a previous determination made by the AER under clause 6A.7.3	We consider that the costs incurred relating to the pass-through event under consideration are not the subject of any previous determination by us under cl.6A.7.3.
We must consider whether any other factors are relevant.	We do not consider any other matters to be relevant.

¹¹ As per the AER's 2022–27 determination forecast, a constant inflation rate of 2.45% is utilised to convert the real forecast into nominal dollar terms. See, AER, *Final Decision Overview: AusNet Services 2022–27*, January 2022, p. 26. While the inflation value presented in this determination is rounded to two decimal places, the pass-through amount has been calculated using the unrounded value in the 2022–27 determination Post-Tax Revenue Model.

¹² September 2023 CPI/September 2022 CPI. Source: ABS 6401.0 Consumer Price Index - Index Numbers; All groups CPI; Australia.