

Draft Decision

Directlink Electricity Transmission Determination 2025 to 2030 (1 July 2025 to 30 June 2030)

Attachment 1 Maximum allowed revenue

September 2024

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1 Maximum allowed revenue

This attachment sets out our draft decision on Directlink’s maximum allowed revenue (MAR) for the provision of prescribed transmission services over the 2025–30 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 Directlink’s 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 2025–30 period. The X factors are used in the CPI–X methodology to determine the annual expected MAR (smoothed).

1.1 Draft decision

We determine a total annual building block revenue requirement of \$123.6 million (\$ nominal, unsmoothed) for Directlink for the 2025–30 period. Our determination represents a decrease of \$14.7 million (10.6%) to Directlink’s proposal. The decrease is largely driven by the lower regulatory depreciation and operating expenditure (opex) building blocks determined in this draft decision.

We determine the annual expected MAR (smoothed) and X factor for each regulatory year of the 2025–30 period by smoothing the annual building block revenue requirement. For the 2025–30 period, our draft decision is to approve an estimated total revenue cap of \$123.8 million (\$ nominal, smoothed) for Directlink.

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 Directlink’s annual building block revenue requirement, the X factor, the annual expected MAR and the estimated total revenue cap for the 2025–30 period.

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

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

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Return on capital	9.8	10.2	10.1	9.9	9.7	49.8
Regulatory depreciation ^a	5.5	6.2	6.9	7.6	8.2	34.5
Operating expenditure ^b	6.8	7.1	7.3	7.5	7.8	36.5
Revenue adjustments ^c	0.2	–0.3	–0.4	0.1	0.1	–0.2
Cost of corporate income tax	0.5	0.5	0.6	0.7	0.7	3.0
Annual revenue requirement (unsmoothed)	22.9	23.8	24.5	25.8	26.6	123.6
Annual expected MAR (smoothed)	22.3	23.4	24.7	26.0	27.4	123.8^d
X factor ^e	n/a ^f	–2.37%	–2.37%	–2.37%	–2.37%	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) and the capital expenditure sharing scheme (CESS).
- (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) Directlink is not required to apply an X factor for 2025–26 because we set the 2025–26 expected MAR in this decision. The MAR for 2025–26 is around 28.2% higher than the approved MAR for 2024–25 in real terms, or 31.9% higher in nominal terms.

1.2 Directlink’s proposal

Directlink proposed a total (smoothed) revenue cap of \$138.5 million (\$ nominal) for the 2025–30 period.

Table 1.2 sets out Directlink’s proposed annual building block revenue requirement, the X factor, the annual expected MAR and the estimated total revenue cap.

Table 1.2 Directlink’s proposed annual building block revenue requirement, annual expected MAR, estimated total revenue cap and X factor (\$ million, nominal)

	2025–26	2026–27	2027–28	2028–29	2029–30	Total
Return on capital	9.9	10.5	10.5	10.4	10.3	51.6
Regulatory depreciation ^a	5.9	7.1	9.5	9.0	9.4	40.9
Operating expenditure ^b	8.0	8.2	8.5	8.8	9.1	42.7
Revenue adjustments ^c	0.2	–0.3	–0.5	–0.0	–0.0	–0.6
Cost of corporate income tax	0.3	0.6	1.0	0.9	0.9	3.8
Annual building block requirement (unsmoothed)	24.4	26.2	29.0	29.1	29.6	138.3
Annual expected MAR (smoothed)	24.4	25.9	27.6	29.4	31.2	138.5^d
X factor ^e	n/a ^f	–3.67%	–3.67%	–3.67%	–3.67%	n/a

Source: Directlink, *Attachment 09a – PTRM*, January 2024.

- (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 and CESS.
- (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) Directlink is not required to apply an X factor for 2025–26 because we set the 2025–26 MAR in this decision. The MAR for 2025–26 is around 40.7% higher than the approved MAR for 2024–25 in real terms, or 44.3% higher in nominal terms.

1.3 Assessment approach

In this section, we describe the building block approach used to determine Directlink's expected MAR. We also set out the annual revenue adjustment to be applied to Directlink's MAR over the 2025–30 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 regulatory control 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 Directlink's total

² NER, cl. 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.

revenue 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. Directlink's 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

$$\text{MAR}_1 = \text{AR}_1 \text{ or } \text{MAR}_L$$

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, cl. 6A.5.3(b)(5), (c)(3) and (d) 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 Directlink, we first calculate annual building block revenue requirements for each year of the 2025–30 period. To do this we consider the various costs facing Directlink and the trade-offs and interactions between these costs, service quality and across years. This reflects our holistic assessment of Directlink's 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 2025–30 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 Directlink with the total building block revenue requirement for the 2025–30 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 2025–30 period, and first year of the following 2030–35 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 Directlink 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.

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	Maximum allowed revenue (Attachment 1)
Operating efficiency benefits/penalties	Efficiency benefit sharing scheme (Attachment 8)
Capital efficiency benefits/penalties	Capital expenditure sharing scheme (Attachment 9)

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

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

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:

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

where:

AR = the allowed revenue

t = time period/financial year (for $t = 2$ (2026–27), 3 (2027–28), 4 (2028–29), 5 (2029–30))

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:

$$\begin{aligned} \text{MAR}_t &= (\text{allowed revenue}) + (\text{performance incentive}) + (\text{pass through}) \\ &= AR_t + ((AR_{t-2} \times \frac{1}{2}) + (AR_{t-1} \times \frac{1}{2})) \times S_{ct} + P_t \end{aligned}$$

where:

MAR = the maximum allowed revenue

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.

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 $t = 2$ (2026–27), 3 (2027–28), 4 (2028–29), 5 (2029–30))
ct	=	time period/calendar year (for $t = 2$ (2025), 3 (2026), 4 (2027), 5 (2028)).

Directlink 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 Directlink

t	Allowed revenue (financial year)	ct	Performance incentive (calendar year)
2	1 July 2026 – 30 June 2027	2	1 January 2025 – 31 December 2025
3	1 July 2027 – 30 June 2028	3	1 January 2026 – 31 December 2026
4	1 July 2028 – 30 June 2029	4	1 January 2027 – 31 December 2027
5	1 July 2029 – 30 June 2030	5	1 January 2028 – 31 December 2028

Note: The performance incentive for the period 1 January 2024 to 31 December 2024 is to be applied to the AR determined for 2025–26 (AR₁).

1.4 Reasons for draft decision

We determine a total annual building block revenue requirement of \$123.6 million (\$ nominal, unsmoothed) for Directlink for the 2025–30 period. This is a reduction of \$14.7 million (10.6%) to Directlink's proposed total annual building block revenue requirement of \$138.3 million for this period. This reduction reflects the impact of our draft decision on the various building block costs.

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

¹⁹ NER, cl. 6A.23.3(e)(5).

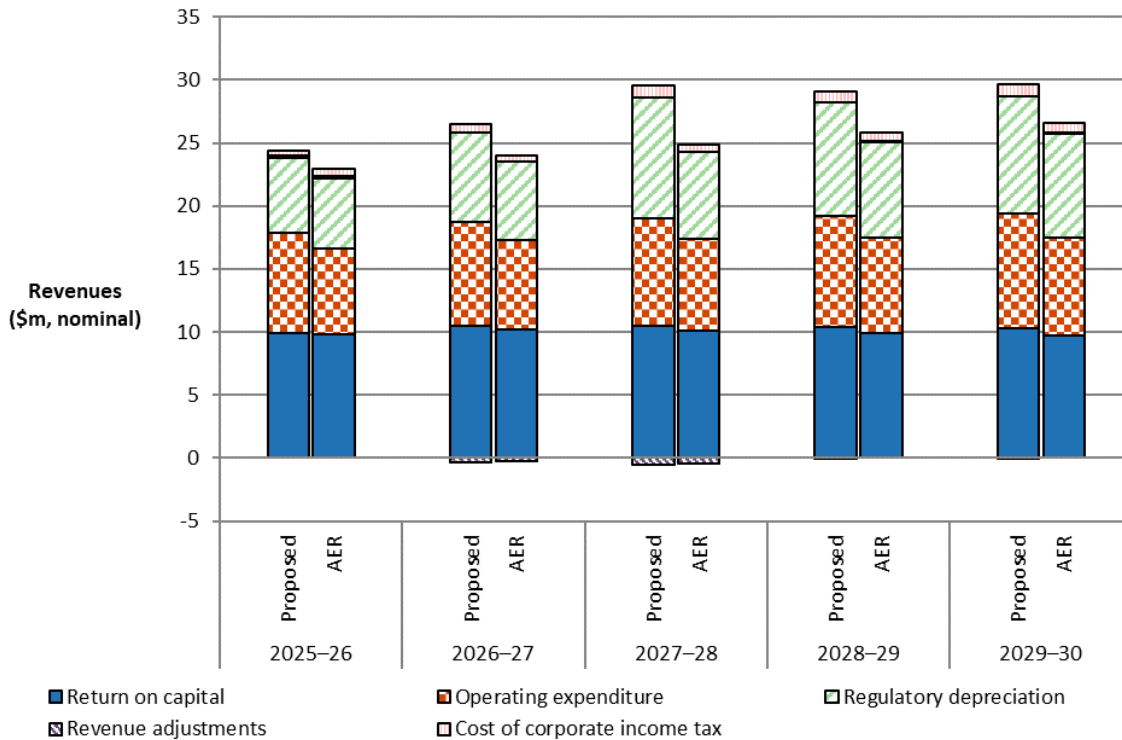
- a reduction in the return on capital of \$1.8 million (3.5%) (Attachments 2, 3 and 5). This is primarily driven by our draft decision establishing a lower opening RAB as at 1 July 2025 and a lower rate of return compared to Directlink’s proposal.
- a reduction in the regulatory depreciation of \$6.4 million (15.7%) (Attachment 4). This is driven largely by a lower forecast capital expenditure (capex) and a lower opening RAB as at 1 July 2025. It is reduced further by a higher RAB indexation in our draft decision compared to the proposal.²⁰
- a reduction in forecast opex of 6.2 million (14.5%). This is primarily driven by our exclusion of Directlink’s proposed end of life costs (as a category specific forecast) and apprenticeship program step change (Attachment 6).
- a reduction in the cost of corporate income tax of \$0.7 million (19.7%) (Attachment 7). This is largely driven by the lower regulatory depreciation amount determined in this draft decision compared to Directlink’s proposal.²¹
- an increase in the revenue adjustments of \$0.4 million (62.7%) (Attachments 8 and 9). This is primarily driven by the CESS rewards applied in this draft decision.

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

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

²¹ All else being equal, a lower regulatory depreciation reduces the cost of corporate income tax as it is a component of revenue for tax purposes.

Figure 1.1 AER’s draft decision and Directlink’s proposed annual building block revenue requirement (\$ million, nominal)



Source: AER analysis; Directlink, *Attachment 09a – PTRM*, January 2024.

Note: Revenue adjustments include EBSS and CESS. Opex includes debt raising costs.

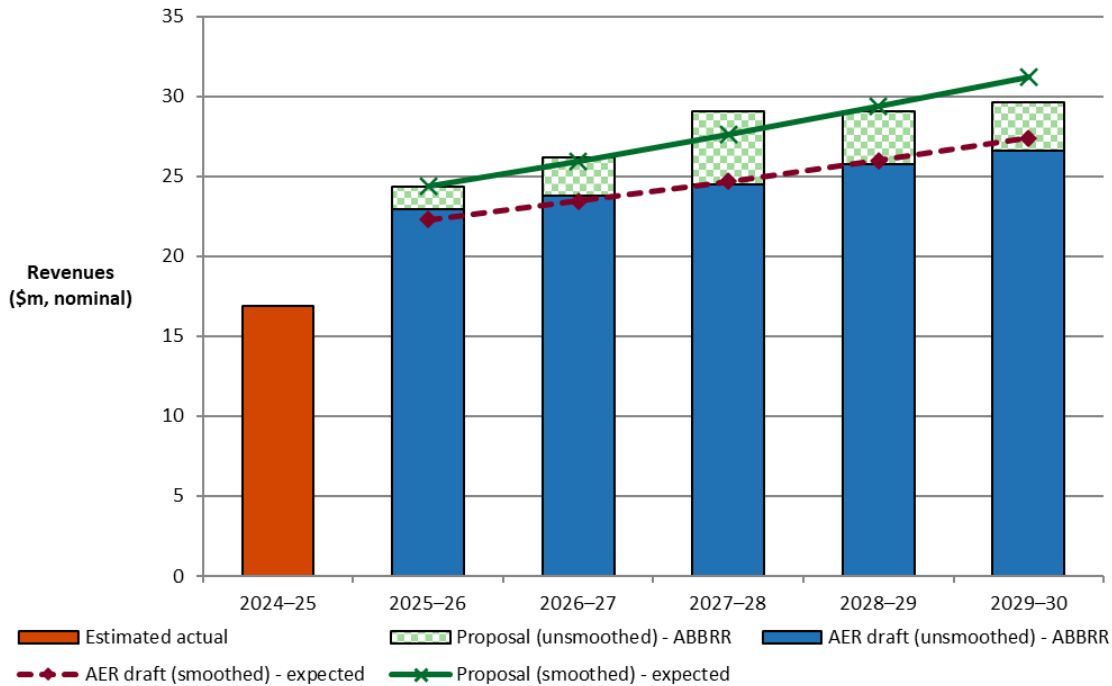
1.4.1 X factor, annual expected MAR and estimated total revenue cap

For this draft decision, we determine an X factor for Directlink of -2.37% per annum for the four years of the regulatory control period from 2026–27 to 2029–30.²² The NPV of the annual building block revenue requirement is \$103.5 million (\$ nominal) as at 1 July 2025. Based on this NPV and applying the CPI-X method, we determine that the annual expected MAR (smoothed) for Directlink is \$22.3 million in 2025–26 increasing to \$27.4 million in 2029–30 (\$ nominal). The resulting estimated total revenue cap for Directlink is \$123.8 million for the 2025–30 period.

Figure 1.2 shows our draft decision on Directlink’s annual expected MAR (smoothed revenue) and the annual building block revenue requirement (unsmoothed revenue) for the 2025–30 period.

²² Directlink is not required to apply an X factor for 2025–26 because we set the 2025–26 MAR in this decision.

Figure 1.2 AER's draft decision on Directlink's revenue for the 2025–30 period (\$ million, nominal)



Source: AER analysis.

Note: Annual building block revenue requirement (ABBRR).

To determine the expected MAR for Directlink, we have set the MAR for the first regulatory year at \$22.3 million (\$ nominal), which is \$0.7 million lower than the annual building block revenue requirement. We then apply an expected inflation rate of 2.85% per annum and an X factor of -2.37% 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

Our draft decision results in an average increase of 10.1% per annum (\$ nominal) in the expected MAR over the 2025–30 period.²⁵ This consists of an initial increase of 31.9% in 2025–26, followed by an average annual increase of 5.3% during the remainder of the 2025–30 period.²⁶

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 Directlink, this divergence is around 3.0%.

²⁵ In real 2024–25 dollar terms, our approved expected MAR for Directlink results in an average increase of 7.1% per annum over the 2025–30 period.

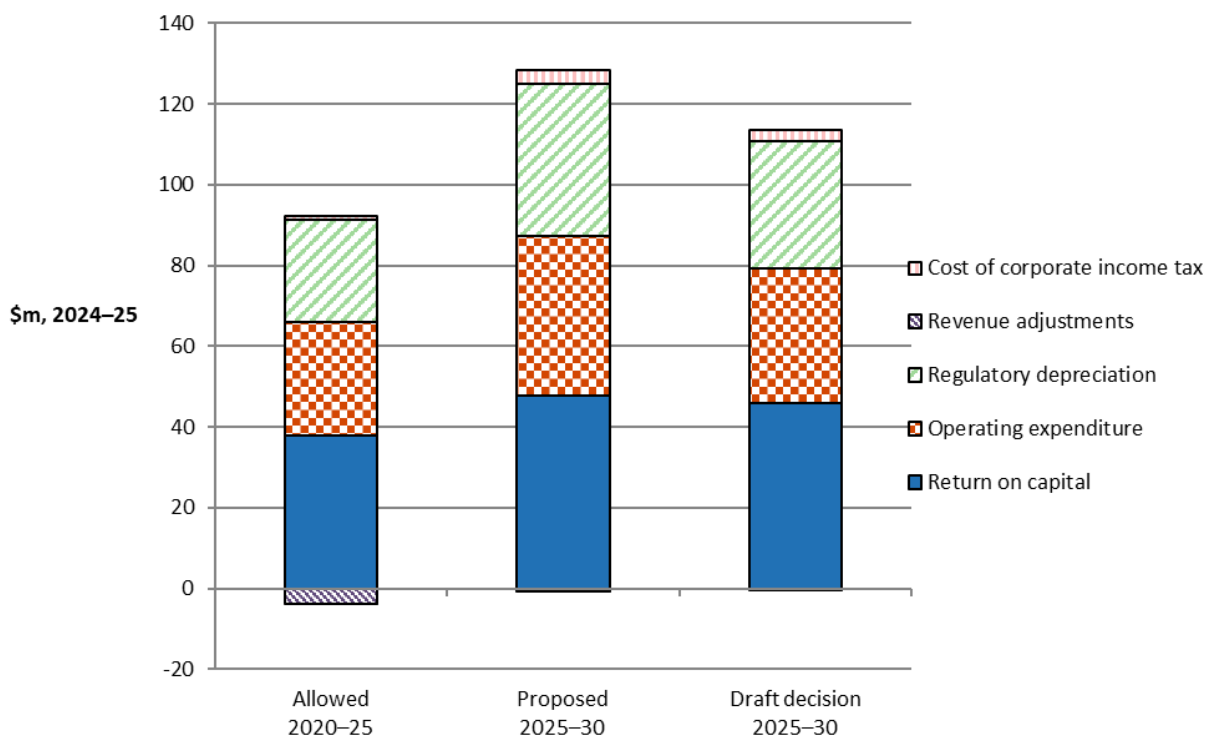
²⁶ In real 2024–25 dollar terms, this is an initial increase of 28.2% in 2025–26, followed by an increase of 2.4% per annum for the remainder of the 2025–30 period.

Our draft decision also results in an increase of \$45.0 million (57.3%) in nominal dollar terms to Directlink’s total annual unsmoothed revenue relative to that allowed in the 2020–25 period.²⁷ This is because:

- Approximately 38% of the increase is due to factors potentially outside the control of Directlink. This includes higher actual inflation rates for the 2020–25 period, which increase the indexation component of the RAB. It is also driven by higher interest rates for the 2025–30 period, which lead to a higher forecast rate of return (Attachment 3). Together, these changes in market variables result in a much higher return on capital amount for the 2025–30 period than that approved in the 2020–25 determination.
- The other 62% of the increase is driven by a higher regulatory depreciation (Attachment 4) and a higher opex (Attachment 6) determined in this draft decision for the 2025–30 period than that approved in the 2020–25 determination. The higher regulatory depreciation is primarily driven by the approach to shortening the asset lives to coincide with when Directlink is expected to cease operation in 2041–42.

Figure 1.3 compares our draft decision building blocks for Directlink’s 2025–30 period with its proposal for the same period, and the approved unsmoothed revenue for the 2020–25 period.

Figure 1.3 Total revenue by building block components (\$ million, 2024–25)



Source: AER analysis.

²⁷ In real 2024–25 dollar terms, our draft decision results in an increase of \$25.0 million (28.3%) to Directlink’s total annual unsmoothed revenue relative to that in the 2020–25 period.

1.4.2 Shared assets

Service providers, such as Directlink, may use assets to provide both prescribed transmission services we regulate and unregulated services, for example by laying of telecommunications cables alongside the electricity network assets for the provision of telecommunication services. These assets are called ‘shared assets’.²⁸ 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.²⁹

Shared asset revenue reductions are subject to a materiality threshold. Unregulated use of shared assets is material when a service provider’s annual average unregulated revenues from shared assets in a specific regulatory year is expected to be greater than 1% of its expected MAR for that regulatory year.³⁰

Directlink does not have any shared assets.³¹ We accept that Directlink does not provide any shared asset unregulated services and therefore does not earn unregulated revenue.

1.4.3 Indicative average transmission charges

Our draft decision on Directlink’s expected MAR ultimately affects the prices consumers pay for electricity. However, the adjustments we have made to Directlink’s expected MAR do not directly translate to changes in annual electricity bills, principally because Directlink is a small component of the broader transmission network that serves NSW and the ACT. Transgrid is the main transmission network service provider in this region, and is the designated coordinating transmission network service provider (TNSP). Our 2023–28 transmission determination on Transgrid’s expected MAR is the principal determinant of the estimated transmission charges, and therefore the estimated impact of transmission charges on annual electricity bills. Further, the transmission charges in NSW/ACT are also affected by the 2024–29 revenue determinations for Ausgrid and Evoenergy’s transmission assets.³² Directlink, just like Ausgrid and Evoenergy, collects its transmission revenues from Transgrid.

Transmission charges make up around 6% of a typical total electricity bill in NSW³³ and Directlink’s revenue accounts for approximately 1.9% of total NSW transmission revenues.³⁴

²⁸ NER, cl. 6A.5.5.

²⁹ AER, *Shared asset guideline*, November 2013, Appendix A, p. 15.

³⁰ *Ibid*, pp. 8–9.

³¹ Directlink, *Attachment 07a – Directlink 2025-30 – Final – Reset RIN – Workbook 1 – Forecast and historical – 240130 - Public*, January 2024.

³² While Ausgrid and Evoenergy are predominantly electricity distribution businesses, they also own and operate some transmission assets. These assets operate in parallel and support Transgrid’s transmission network to provide transmission network services to NSW and the ACT.

³³ AER Analysis; AER, *Default market offer prices 2024–25 – Final determination – Cost assessment model*, May 2024; AER, *Final 2024–25 annual SCS pricing model*, May 2024, for Ausgrid, Endeavour Energy and Essential Energy; AER, *2022–23 Economic Benchmarking RIN, worksheet "3.4 Operational data"*, October 2023, for Ausgrid, Endeavour Energy and Essential Energy.

³⁴ This represents Directlink’s proportion of total transmission revenues in NSW, which consists of revenues from Transgrid, Ausgrid transmission, Evoenergy transmission and Directlink.

Therefore, Directlink’s revenue would be expected to account for 0.1% of the total electricity bill in NSW.

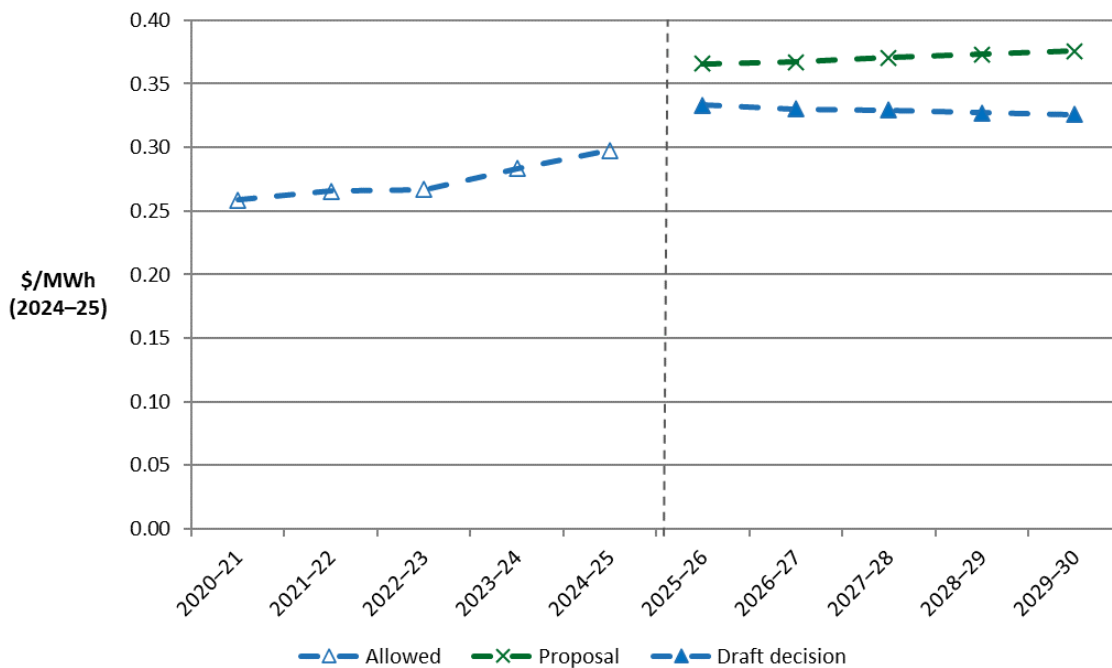
We estimate the indicative effect of our draft decision on forecast average transmission charges in NSW/ACT by:

- taking Directlink's annual expected MAR determined in this draft decision, and
- dividing it by the forecast annual energy delivered in NSW/ACT as published by Australian Energy Market Operator (AEMO).³⁵

Based on our approach, we estimate that this draft decision will result in no material change in annual average transmission in real 2024–25 dollar terms from 2024–25 to 2029–30.³⁶

Figure 1.4 shows the indicative average transmission charges over the period 2020–21 to 2025–30 in real 2024–25 dollar terms based on the expected revenues established in our draft decision compared to Directlink’s proposed revenue requirement. The average transmission charges are expected to increase from around \$0.26 per MWh in 2024–25 to \$0.38 per MWh in 2029–30.

Figure 1.4 Indicative transmission price path for Directlink (\$/MWh, \$2024–25)



Source: AER analysis.

Notes: The transmission price path for Directlink is based on actual and forecast energy throughput amounts for Transgrid’s transmission network across NSW and the ACT. Directlink contributes only to a small part of Transgrid’s transmission network services.

³⁵ AEMO, *Update to the 2023 Electricity Statement of Opportunities*, May 2024.

³⁶ On average, the draft decision transmission smoothed revenues will increase by 10.1% (\$ nominal) per annum from 2025–26 to 2029–30. The forecast energy delivered in NSW will increase by an average of 2.7% per annum across that period. As a result, the indicative transmission charge will increase by 7.2% (\$ nominal) per annum from 2024–25 to 2029–30.

1.4.4 Expected impact of draft decision on electricity bills

The annual electricity bill for customers in NSW 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 Directlink’s prescribed transmission services, which represent approximately 0.1% on average for residential customers’ and small business customers’ annual electricity bills in NSW.

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 Directlink only. However, this does not imply that other components will remain unchanged across the regulatory control period.³⁷ Our draft decision determines lower revenues than proposed by Directlink—largely due to the impact of a lower opex and lower regulatory depreciation. As a result, expected bill increases are lower than Directlink’s 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 2029–30 by about \$0.2 (\$ nominal) or 0.01% from the 2024–25 total bill level.³⁸

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 2029–30 to increase by about \$0.5 (\$ nominal) or 0.01% from the 2024–25 total bill level.³⁹

Our estimated bill impact is based on the typical annual electricity usage of 4,357 kWh⁴⁰ and 10,000 kWh⁴¹ for residential and small business customers in NSW, respectively. 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.

³⁷ It also assumes that actual energy consumption will equal the forecast adopted in our draft decision. Since Directlink operates under a revenue cap, changes in energy consumption will also affect annual electricity bills across the 2025–30 period.

³⁸ The 2024–25 total electricity bill for residential customers in NSW is estimated to be \$2,095, which is the weighted average of the AER’s default market prices in the Ausgrid, Endeavour and Essential networks, with the weights being the number of residential customers on each network.
AER, *Revised final determination – Default Market Offer Prices 2024–2025*, June 2024, p. 6.

³⁹ The 2024–25 total electricity bill for small businesses in NSW is estimated to be \$4,980, which is the weighted average of the AER’s default market prices in the Ausgrid, Endeavour and Essential networks, with the weights being the number of residential customers on each network.
AER, *Revised final determination – Default Market Offer Prices 2024–2025*, June 2024, p. 6.

⁴⁰ AER, *Revised final determination – Default Market Offer Prices 2024–2025*, June 2024, p. 6.
This is a weighted average of the typical electricity consumption for residential customers in the Ausgrid, Endeavour and Essential networks, with the weights being the number of residential customers on each network.

⁴¹ AER, *Revised final determination – Default Market Offer Prices 2024–2025*, June 2024, p. 6.
This is an average of the typical electricity consumption for small business customers in the Ausgrid, Endeavour and Essential networks.

Shortened forms

Term	Definition
ABS	Australian Bureau of Statistics
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
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
RIN	regulatory information notice
TNSP	transmission network service provider