Explanatory statement

Proposed amendments to electricity transmission post-tax revenue model (version 6)

November 2024

AUSTRALIAN ENERGY REGULATOR

Important notice

Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Tel: 1300 585 165

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Amendment record

Version	Date	Pages
1	6 November 2024	10

Invitation for submissions

The Australian Energy Regulator invites interested parties to make written submissions on the proposed amendments to the transmission post-tax revenue model by close of business, **18 December 2024**.

We prefer that all submissions sent in an electronic format are in Microsoft Word or other text readable document form. Submissions should be sent electronically to: ModelReviews@aer.gov.au.

Alternatively, submissions can be sent to:

Mr Paul Harrigan
A/g General Manager, Network Pricing
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. Submissions will be treated as public documents unless otherwise requested. Parties wishing to submit confidential information are requested to:

- Clearly identify the information that is the subject of the confidentiality claim.
- Provide a non-confidential version of the submission in a form suitable for publication.

We will place all non-confidential submissions on our website. For further information regarding our use and disclosure of information provided to us, see the ACCC/AER Information Policy (June 2014), which is available on our website.

Please direct enquiries about this paper, or about lodging submissions to ModelReviews@aer.gov.au or to the Network Pricing Branch of the AER on 1300 585 165.

Contents

1 Overview

The Australian Energy Regulator (AER) is the independent regulator for Australia's national energy market. We are guided in our role by the national electricity, gas, and energy retail objectives set out in in the National Electricity Rules (NER) and the National Gas Rules (NGR). These objectives focus on promoting the long term interests of consumers.

This explanatory statement sets out our proposed amendments to the electricity transmission post-tax revenue model (PTRM), the relevant provisions of the NER, and the reasons for the change.[1] We have amended the PTRM to implement the findings in our final decision on the *Financeability guideline*.[2] We invite submissions on the proposed amendments from interested parties by 18 December 2024.

1.1 What does the PTRM do?

We adopt a building block approach when determining a transmission network service provider's (TNSP) regulated revenue for each year of a 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. The building block costs include:

- a return on capital
- an indexation of the regulatory asset base (RAB) together with a return of capital (depreciation)[3]
- the estimated cost of corporate income tax
- forecast operating expenditure (opex)
- revenue increments or decrements arising from applicable incentive schemes[4]
- adjustments related to any mechanisms used in the previous regulatory control period and other revenue adjustments such as those related to shared assets.

The PTRM brings together the various building block costs and calculates the annual building block revenue requirement for each year of a regulatory control period.[5] The PTRM also calculates the X factors required under the CPI–X methodology which are used to escalate the expected revenue for each year (other than the first year) of the regulatory control period.[6] An electricity TNSP's revenue proposal must be prepared using our PTRM.[7]

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1 NER, cl. 6A.20(b).

2 AER, *Final decision – Financeability guideline*, November 2024.

3 The net total of the indexation of the RAB and depreciation building blocks is referred to as 'regulatory depreciation'.

4 Being any efficiency benefit sharing scheme, capital expenditure sharing scheme, service target performance incentive scheme, small scale incentive scheme or demand management innovation allowance mechanism applied to the TNSP.

5 NER, cl. 6A.5.4.

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

7 NER, cl. 6A.4.1(b)(1).

1.2 Why are we amending the PTRM?

To ensure that the PTRM remains fit for purpose, we amend or replace it from time to time when necessary.[8]

On 21 March 2024 the Australian Energy Market Commission (AEMC) released its final determination on its *Accommodating financeability in the regulatory framework* rule change. This rule change is applicable to TNSPs that are undertaking the large infrastructure projects set out in the Australian Energy Market Operator's (AEMO) Integrated System Plan (ISP). These ISP projects are considered to be part of the optimal development path to transition to net zero greenhouse gas emissions by 2050. The nature of these projects mean that they generally take several years to complete, which under the current regulatory framework can give rise to cashflow issues during the construction period.

The amended rules allow a TNSP to request an adjustment to bring forward cashflows related to the ISP project if it demonstrates that undertaking the project may result in issues with securing efficient financing for the investment. This is done by amending the recovery of depreciation for assets that form part of the ISP project. The final rule sets out a financeability test that a TNSP may apply to an ISP project and requires the AER to develop and publish a financeability guideline that provides further detail on how we would assess a TNSP's financeability position using this test.

The final decision of our financeability guideline was published in November 2024 and sets out our approach to assessing financeability and adjustments to depreciation profiles.[9] As part of the final decision, we determined changes are required so that the calculation of tax depreciation in the current transmission PTRM template (version 5.1) can handle situations where regulatory depreciation is accelerated to address a financeability issue.[10] Without the required changes, the calculation of tax depreciation in the current PTRM can result in a material net present value (NPV) difference between the calculated tax payable and the expected tax payable of a benchmark firm operating the TNSP's network where a financeability adjustment is applied.

Accordingly, the proposed amendments to the PTRM implement the changes foreshadowed in our financeability guideline. This next version of the transmission electricity PTRM template is labelled version 6.

1.3 How can stakeholders contribute?

We want all stakeholders to have opportunity to consider our proposed amendments to the PTRM and make written submissions to us. As such, we are publishing:[11]

- the proposed amended transmission PTRM and associated handbook (attachments A and B respectively)

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8 NER, cl. 6A.5.2(b), read with the applicable consultation procedures.

9 AER, *Final decision – Financeability guideline*, November 2024.

10 AER, *Final decision – Financeability guideline*, November 2024, p. 17.

11 NER, cl. 6A.20(b).

- this explanatory statement, setting out the provision of the NER under, or for the purposes of, which the PTRM is proposed to be amended, and the reasons for the proposed amendments.

We discuss in detail our proposed amendments to implement the changes set out in our final decision on the financeability guideline in chapter 2.

We invite submissions on the proposed amendments from all interested parties by 18 December 2024.[12] We will consider the submissions on the proposed amendments before we make a final decision on the amendments to the PTRM. By early March 2025, we expect to publish a final decision that sets out:[13]

- the amendments to the PTRM
- the provisions of the NER under, or for the purposes of, which the PTRM is being prepared and reviewed, and the reasons for the amendment, and
- the amended PTRM and associated handbook.

The timeline and milestones for this PTRM amendment process are shown in Table 1.

Table 1 Proposed project timeline and milestones

Date	Milestone
6 November 2024	Final financeability guideline published Proposed PTRM amendments and explanatory statement released
18 December 2024	Stakeholder submissions on proposed PTRM amendments due
3 March 2025	AER issues final decision on PTRM amendments

12 Interested parties must be allowed at least 30 business days to make submissions to the AER; NER, cl. 6A.20(c).

13 The period between publication of the proposed amended model and final amended model will be no more than 80 business days. NER, cl. 6A.20(e).

2 Proposed amendments

We have made relevant changes to the PTRM to implement our final decision on the financeability guideline. The main change to the model is to include a separate 'financeability life' to record a shortened asset life for 5 asset classes that can be used to bring forward depreciation cashflows in the event of a demonstrated financeability issue. The regulatory depreciation calculation for these asset classes has also been amended to reflect this provision for a financeability adjustment.

In the current transmission PTRM template (version 5.1), the standard asset life serves as the useful/economic life of the asset. This life is used for RAB depreciation purposes and establishes the timeline for when the residual asset value is written off for tax purposes. If the standard asset life is reduced to bring forward RAB depreciation to address a financeability issue, the tax write-off timeline is also accelerated. This is because the PTRM's tax calculation assumes that once the asset has no further economic life the residual value can be claimed as an expense for tax purposes, which is reasonable under normal circumstances. However, in the case of a financeability adjustment, the life specified for RAB depreciation no longer reflects the expected useful life of the asset. It is purely an adjustment to bring forward cashflows to address a demonstrated financeability issue. For example, a life of one year may be specified for a portion of an actionable ISP project capital expenditure (capex) to bring forward cashflows, however, the underlying asset is still expected to provide services far beyond this period.

Under tax rulings, a TNSP is not expected to be able to claim such accelerated depreciation being made for RAB/financeability purposes as a tax deduction. Therefore, we consider that the PTRM requires an amendment so that the calculation of tax depreciation still reflects a benchmark firm operating the TNSP's network when there is a financeability adjustment.

Our proposed amendment to the PTRM breaks the link between the standard asset life (useful/economic life) and the life used for a financeability adjustment by providing for a specific 'financeability life' to be recorded. This alternative life can be applied to 5 asset classes and would only be available to address a financeability issue.[14] The expectation is that some amount of actionable ISP project capex can be reallocated from an existing asset class and added to one of the available financeability adjustment asset classes, which applies a shorter life for regulatory depreciation purposes. The financeabiility adjustment asset class still requires an appropriate standard asset life and standard tax asset life to reflect the inputs of the source asset class. This amendment ensures that the regulatory depreciation is brought forward as required for the financeability adjustment, while the tax depreciation period remains unchanged and reflects the annual tax depreciation rate that is consistent with tax rulings.

[14] This applies to asset classes 41–46 in the PTRM.

Attachments

The attachments include the proposed amended PTRM and handbook. The proposed amended PTRM includes a 'Change log' worksheet that will be removed from the final version, with only a high-level summary of changes in the 'Intro' worksheet. The proposed handbook currently includes highlighted text to indicate where proposed changes were made. This highlighting will be removed in the final version.

Attachment A: Proposed post-tax revenue model (version 6)

Attachment B: Post-tax revenue model handbook

Shortened forms

Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
capex	capital expenditure
ISP	Integrated System Plan
NER	National Electricity Rules
NGR	National Gas Rules
NPV	net present value
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
TNSP	transmission network service provider