Guidance note – Amendments to NER PTRM for determinations under the Electricity Infrastructure Investment Act and Regulations

Electricity Infrastructure Investment Act 2020 (NSW); Electricity Infrastructure Investment Regulation 2021 (NSW)

November 2024

AUSTRALIAN ENERGY REGULATOR

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1 Introduction

The Australian Energy Regulator (AER) is required to make non-contestable revenue determinations for Network Operators authorised or directed to carry out network infrastructure projects under the *Electricity Infrastructure Investment Act 2020 (NSW)* (EII Act) and *Electricity Infrastructure Investment Regulation 2021 (NSW)* (EII Regulation).

This guidance note outlines our expectations for how a Network Operator is to modify and apply the electricity transmission post-tax revenue model (PTRM) prescribed under the National Electricity Rules (NER) (NER PTRM), for use in a non-contestable revenue determination.

The PTRM is a standardised model issued by the AER to make revenue determinations under the NER framework. The model employs the building block approach to determine a Network Operator's regulated revenues and schedule of payments for each year of the regulatory control period. Under this approach we determine the value of the building block costs that make up the annual revenue requirement for each regulatory year, further detailed in section 2.2.

Separate from this guidance note, our revenue determination guideline for non-contestable network infrastructure projects (Guideline) sets out how we will exercise our functions under Part 5 of the EII Act for non-contestable revenue determinations.[1] Under clause 47B(1)(c) of the EII Regulation, we are required to include a PTRM with the Guideline that we will use in making a non-contestable revenue determination.

We have chosen to issue guidance on modifying the latest NER PTRM rather than publish a prescribed PTRM for use under the EII Act and EII regulation (EII framework) (EII PTRM). This approach is intended to ensure the model applied is, as far as is reasonably practicable, consistent with Chapter 6A of the NER.[2] Our intention is to ensure alignments between the models over time such that Network Operators or other stakeholders familiar with the NER PTRM are able to operate and apply the EII PTRM on an ongoing basis.

We have, however, issued alongside this guidance note a sample PTRM template, which implements many of the changes listed in this document. This sample PTRM template has been provided to assist Network Operators visualise how they should amend the NER PTRM for use under the EII Framework.[3] Network Operators who follow this guidance note or adopt the accompanying sample PTRM template can be confident that they have prepared a PTRM suitable for submission under the EII framework. This will also expedite the assessment of that PTRM by the AER after it has been lodged.

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1 AER, *Guideline – Transmission Efficiency Test and revenue determination guideline for non-contestable network infrastructure projects*, July 2024.

2 EII Regulation, cl. 47B(3).

3 Under the NER we separately publish a transmission and distribution PTRM. However, for the purposes of this guidance note, we have amended the transmission PTRM for use in our regulatory determinations, as we consider network infrastructure projects under the EII framework to generally be of the nature of transmission networks.

This guidance note sets out at a high level the relevant components of the PTRM to be modified to comply with the EII framework. It will not, however, prescribe directions and step-by-step instructions on how these amendments are to be made.

This guidance note should be read in conjunction with:

- the non-contestable guideline[4]
- the latest published electricity transmission PTRM handbook[5]
- the latest final decision for electricity transmission PTRM amendment.[6]

We encourage stakeholders to reach out to the AER if they require assistance in implementing the necessary changes outlined in this guidance note as part of their pre-engagement on their non-contestable revenue proposal.

4 AER, *Guideline – Transmission Efficiency Test and revenue determination guideline for non-contestable network infrastructure projects*, July 2024.

5 AER, *Electricity transmission network service providers – Post-tax revenue model handbook,* April 2021.

6 At the time of writing this final guidance note, the latest final decision on PTRM amendments is the Amended electricity transmission PTRM - v5.1 - May 2022. However, we were in the process of finalising a new version (version 6) and commenced consultation on a draft of this model in November 2024.

2 Overview

2.1 Who are we?

The AER exists to ensure energy consumers are better off, now and in the future. We are the economic regulator for wholesale and retail energy markets, as well as electricity and gas networks in every state and territory in Australia except Western Australia. We regulate electricity networks under the National Electricity Law (NEL) and the NER. We also regulate natural gas pipelines under the National Gas Law and the National Gas Rules.

On 12 November 2021 we were appointed as a Regulator under the EII Act.[7] A key function in this role is to issue a guideline for making non-contestable revenue determinations for Network Operators authorised by the Consumer Trustee or authorised (or directed) by the Minister to undertake network infrastructure projects in NSW (under Part 5 of the EII Act).[8] This Guideline was first published in April 2023, and a revised version of the Guideline was published in July 2024.[9] As part of this Guideline, we are also required to include the schemes and models to be used by us in making a non-contestable revenue determination.[10] This guidance note therefore addresses how the PTRM is to be applied under the Guideline for non-contestable revenue determinations.

2.2 Building block approach of the PTRM

The PTRM brings together the various building block costs and calculates the annual revenue requirement for each year of a regulatory control period.[11]

The building block costs include:

- a return on capital
- an indexation of the regulatory asset base (RAB) together with a return of capital (depreciation)[12]
- the estimated cost of corporate income tax
- forecast operating expenditure (opex)
- revenue increments or decrements arising from applicable incentive schemes.[13]

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7 IPART has also been appointed as a Regulator to undertake certain functions under the EII Act. See: Renewable Energy Zones.

8 EII Act, ss. 36(4) and 64(4); EII Regulation, cl. 47.

9 AER, *Guideline – Transmission Efficiency Test and revenue determination for non-contestable network infrastructure projects*, July 2024.

10 EII Regulation, cl. 47B(1).

11 NER, cll. 6A.5.4 and 6.4.3.

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

13 Being any efficiency benefit sharing schemes or capital expenditure sharing schemes applied to the Network Operator.

The NER 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.[14]

[14] NER, cll. 6A.5.3, 6A.6.8 and 6.5.9. X factor smoothing, however, is a function that is to be excluded from the PTRM under the EII framework. How this should be implemented in the EII PTRM is addressed later in this guidance note.

3 Purpose of guidance note

3.1 Legislative context and principles

The EII Regulation requires us to make guidelines for non-contestable revenue determinations.[15] In particular, the Regulation states that the models included as part of our Guideline must be consistent with the equivalent model under the NER, Chapter 6A.[16] This guidance note is therefore an accompanying document to our Guideline, and sets out our expectations on how and to what extent the PTRM should be amended to accommodate the EII framework.[17]

Similarly, the accompanying sample PTRM template is intended to be an example of how a Network Operator may choose to implement the changes set out in this guidance note. The sample PTRM template is not binding and Network Operators may choose to make further changes to it. Alternatively, Network Operators may elect to begin with the latest version of the NER PTRM and make their own amendments to accommodate the EII framework. We expect that either path will occur in the context of the pre-engagement process outlined in our Guideline,[18] with ongoing dialogue between the Network Operator and the AER.

As set out in our Guideline, we intend to apply our current NER PTRM to non-contestable infrastructure projects under the EII Act, subject to terminology modifications as set out in EII Chapter 6A.[19]

The benefits of this approach include:

- achieving the requirements in the EII Regulation of maintaining consistency with NER PTRM to the extent appropriate[20]
- building on the extensive stakeholder consultation that has already occurred when developing the current NER PTRM, including prior consultation with network service providers who will likely be the Network Operators for non-contestable determinations
- harnessing the existing knowledge of the policy intent, application and operation of the PTRM for stakeholders who are likely to be Network Operators
- reducing the administrative burden on Network Operators, stakeholders and us by not having to consult on a suite of models specific to the EII Framework each time the NER Chapter 6A models are updated or amended, as this guidance note would continue to apply regardless of iteration or version number

15 EII Regulation, cl. 47A.

16 EII Regulation, cl. 47B(3).

17 AER, *Guideline – Transmission Efficiency Test and revenue determination for non-contestable network infrastructure projects*, July 2024, p.13.

18 AER, *Guideline – Transmission Efficiency Test and revenue determination for non-contestable network infrastructure projects*, July 2024, p.15.

19 AER, *Appendix A EII Chapter 6A – Transmission Efficiency Test and revenue determination guideline for non-contestable network infrastructure projects*, July 2024.

20 EII Regulation, cl. 47B(3).

- setting a reasonable precedent should we have a regulatory role in renewable energy zones in other jurisdictions.

For further legislative background and discussion of the differences between the NER framework and EII framework, refer to our Guideline.

3.2 Differences in PTRM requirement between NER and EII

Chapter 6A of the NER sets out the national framework for economic regulation of transmission network service providers, including the making of revenue determinations.[21]

Differences exist between the EII and NER revenue determination approaches, namely that the scope of our assessment under the EII framework is narrower than the scope of our assessment of a transmission network service provider's revenue proposal under the NER. We identify below the exceptions where the EII Act or EII Regulation deviates from the NER and indicate which sections of the PTRM this relates to. It is therefore important to read this guidance note in conjunction with our Guideline and the latest electricity transmission PTRM handbook as published under the NER Chapter 6A.

Clause 47A(5) of the EII Regulation lists matters that our non-contestable determinations must not deal with. Of these, the following relate to inputs to the PTRM:

- pricing
- shared assets
- small-scale incentive schemes
- demand management innovation allowance mechanism.

The above inputs are calculated externally and then inputted into the PTRM. As such there is no need for the NER PTRM to be amended for these matters.

However, the following matter (which is also listed in clause 47A(5) of the EII Regulation) relates directly to the operation of the PTRM:

- the X-factor.[22]

We therefore advise Network Operators to remove the X-factor calculation when determining the revenue and schedule of payments for a non-contestable revenue proposal. The approach to do so is discussed further in section 4.3.

Furthermore, our Guideline addresses pre-period costs incurred by a Network Operator prior to the commencement of the first regulatory control period. These costs are incurred by a Network Operator carrying out required work prior to establishing a RAB.[23] As a Network

21 The NEL and NER do not regulate the carrying out of a network infrastructure project by a Network Operator under the EII Act.

22 EII Regulation cl 47A(5)(e).

23 For more information on pre-period costs, refer to AER, *Guideline – Transmission Efficiency Test and revenue determination for non-contestable network infrastructure projects*, July 2024, p. 26.

Operator would not encounter this issue under the NER framework[24], the NER PTRM handbook does not provide any guidance on how this expenditure should be accounted for. We discuss amendments to the EII PTRM to accommodate pre-period costs in sections 4.2 and 4.6 below.

24 This is because Network Service Providers under the NER have an already established Regulatory Asset Base and roll forward process where capex can be accounted for.

4 Amendments to the NER PTRM

Amendments need to be made to the NER PTRM for use in non-contestable revenue determinations under the EII Framework. Any necessary changes to the model should ensure that the amendment made does not alter the operation of the building block approach to modelling revenues in the PTRM.

In amending the NER PTRM for use under the EII framework, we expect changes to the following worksheets:

- Intro
- PTRM input
- X factors
- Revenue summary
- Equity raising costs.

Network operators may also propose the following addition to the PTRM:

- A new worksheet labelled *Supporting information*.

We considered the option of releasing a prescribed PTRM under the EII framework for use in non-contestable determinations. However, as detailed in section 3.1 above, we consider the flexibility of issuing a guidance note, as opposed to formally publishing and maintaining a PTRM to specifically apply under the EII framework, is desirable at this time. The benefits of allowing updates to the NER framework to automatically flow through outweigh the administrative burden related to amending the NER PTRM in line with this guidance note.

However, we acknowledge that some of the amendments listed below require more involved modifications to the NER PTRM. To assist stakeholders in carrying out the changes to the NER PTRM as outlined below, we have attached a sample PTRM template along with this guidance note. Our intention is for this template to serve as an example of how the NER PTRM can be modified to implement the relevant changes outlined in this guidance note. We will update the sample PTRM template on our website from time to time as modifications are required and to be consistent with the latest published version of the NER PTRM.

4.1 Intro

The *Intro* sheet should allow a user of the PTRM to reconcile the EII PTRM with the base NER PTRM, including a list of updates common to both models as well as specific amendments required for the EII framework.

In particular, a Network Operator may choose to include as a written update on this sheet the following amendments:

- a new version number
- date this version was made
- update the instructions for use, consistent with any changes to revenue and quarterly payment calculations (including annual updates)

- a list of the amendments made and a brief description of each change.

On the last point, the list or changelog of amendments will assist other users to understand the approach and the steps taken in amending the PTRM. It can also function as a frame of reference or checklist so that a Network Operator can be confident that its proposed PTRM is compliant with the EII Framework.

To ensure there is no confusion, any reference to X factors on this sheet should also be removed. While this change has no functional impact on the operation of the PTRM, we consider it an appropriate measure to prevent any misunderstanding of how the EII PTRM operates.

4.2 PTRM input

Pre-period costs

A Network Operator may seek to recover costs it has incurred prior to the commencement of the first regulatory control period (pre-period costs). Please see section 5.2.5 of our Guideline for further information on how we will assess pre-period costs.

To the extent that a Network Operator incurs pre-period costs prior to the start of its first regulatory control period, the opening RAB table in the *PTRM input* sheet should reflect the total costs, as at the start of the regulatory control period. How this opening RAB has been calculated, including any adjustments for the time value of money, should be demonstrated clearly within the model.[25]

Where a Network Operator proposes to include pre-period capex costs, we expect these costs to be escalated by a nominal weighted average cost of capital (WACC) to the start of the first year of the regulatory control period. This is to compensate the Network Operator for the delay between incurring these costs and when they are formally included in a regulatory asset base (RAB). The full working and escalation should be demonstrated in the PTRM, including how the nominal WACC was derived. For Network Operators with an existing RAB, we suggest aligning with the NER Roll Forward Model approach to calculate a pre-period nominal WACC.

Similarly, a Network Operator proposing to include pre-period opex costs would bring this expenditure forward to the start of the first year of the regulatory control period. These costs are also to be escalated by the nominal WACC, to compensate for the delay in revenue recovery. The escalated amounts should be entered into a new labelled entry in the revenue adjustments section of the *PTRM input* sheet, ensuring that the tax label switches on the right are set so that this cost is treated as both tax income and a tax expense.

Revenue adjustments and energy delivered forecast

Where a difference between the EII and NER frameworks relates to a matter listed in section 3.2 above, we expect these inputs to be left blank in the *PTRM input* sheet. However, there may be cases where this approach may result in calculation errors in the PTRM. As such we

[25] For example, this calculation might be suitable for inclusion on the new ‘Supporting information’ sheet (see section 4.6 below).

would expect the user to exercise judgement and instead, if appropriate, amend the underlying formula. We also encourage the Network Operator to reach out to the AER if there is any confusion or concerns around its proposed approach to excluding any input as directed by the EII Framework.

Clause 47A(5) of the EII Regulation provides that our Guideline must not deal with matters relating to pricing, nor include any revenue adjustments for shared assets, small-scale incentive schemes and the demand management innovation allowance mechanism. The requirement in the *PTRM input* sheet in the NER PTRM for a forecast amount of energy delivered is related to estimating future pricing impacts of the revenue decision. To the extent that there is no other use for this data, we do not expect a Network Operator to include any forecast amounts in this section. The Network Operator has the option to either remove this section or keep it. If the Network Operator chooses to remove this section, some functionality will need to be added to fix all the formulas which were dependent on the base real dollar in this section.

Similarly, the revenue adjustments section of the *PTRM input* sheet should be limited to incentive schemes, other adjustment mechanisms that are allowed under the EII framework (such as the capital expenditure sharing scheme or the expenditure benefits sharing scheme) and pre-period opex costs.[26]

4.3 X factors

Amending the *X factors* sheet in the NER PTRM will involve significant modifications to the existing formulae calculating annual revenues and require adding new functionality to align with the requirements of the EII framework.[27] We have set out in this section what aspects require modification and the accompanying sample PTRM template provides an example of how a Network Operator may choose to implement this change.

Revenue and X factor labels

Consistent with clause 47A(5)(e) of the EII Regulation and the removal of cl. 6A.6.8 from the EII Chapter 6A as published in our Guideline, we will not include X-factor smoothing as part of our non-contestable revenue determination. Consequently, any heading labels, including worksheet titles, containing X factor should be amended to reflect the terminology used in the EII Chapter 6A.

Instructions and warnings

There are a number of instructions on this sheet related to the X factor smoothing methodology that will no longer apply under an EII framework. Modification of the PTRM should also consider removal of any unnecessary cautions or irrelevant instructions.

Revenue smoothing

26 We would expect to include any pre-period opex costs as part of the revenue adjustments section, rather than in the forecast opex inputs.

27 The *X factors* sheet is renamed as ‘Revenue and Payments’ in the sample PTRM template.

As our Guideline does not include any requirement for revenue smoothing, we expect amendments to the PTRM to remove any implementation of X factors revenue smoothing. This will take the form of reworking the formulae in the smoothed revenue and X factor sections of this worksheet, removal of calculations used solely to perform revenue smoothing, and modification of the macro to disable smoothing effects.

In removing X factor smoothing functionality from the NER PTRM, a Network Operator must ensure other aspects of the model continue to operate as intended. In particular, there are potential flow-on effects on the smoothing macro code and the *Equity raising costs* sheet that should be accounted for (see section 4.5).

Quarterly payments

Clause 52 of the EII Regulation requires a revenue determination to include a schedule of payments to be paid to the network operator. This schedule of payments, for a non-contestable revenue determination, is to be equivalent to the annual revenue requirement as calculated in the PTRM.

However, to give effect to this quarterly payment schedule, consideration needs to be given to the time value of money. In practice, we consider that this schedule of payments must be in NPV terms, equivalent to the NPV of the annual revenue requirement.

The necessary calculations in determining the quarterly payment schedule, including the forecast WACC increments to discount future cashflows, should be presented on this sheet and linked to the annual revenues. The appropriate nominal or real WACC to apply in calculating the NPV should correspond to the appropriate dollar terms of the revenue figures being used in the calculation (i.e. nominal WACC should be used if the revenue figures are in nominal terms, real WACC if the revenue figures are in real dollar terms).

The resulting schedule of quarterly payments should be shown in nominal dollar terms, reflecting the period in which the payments are expected to be incurred. The calculation of quarterly payments should also include the ability to remove forecast inflation and apply actual inflation outcomes on an annual basis, consistent with our roll forward approach (under the NER framework) and the annual pricing process.

Further, due to the removal of X factor smoothing, an alternative mechanism needs to be established to ensure historical quarterly payments (or annual revenues) are held constant when historical costs are updated.[28] This mechanism should identify the incremental difference between historical revenues already recovered by the Network Operator and the updated revenues that it should have recovered, and allocate this amount equally to future years.[29] A Network Operator may choose to implement this mechanism either through the annual revenue or quarterly payments calculation.

Macro

The existing macro in the NER PTRM combines a number of functions together:

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[28] An example of such a scenario is during a cost pass-through event, annual adjustment decision, or updating the rate of return for an averaging period that concludes after an AER determination has been made.

[29] This function has been added to our sample PTRM template.

- smoothing of revenue through the CPI–X methodology,
- iterative calculation of equity raising costs through the Microsoft Excel goal seek function, and
- replicating the indicative effective tax rates for equity (T_e) and debt (T_d) from the *Analysis* worksheet to the *WACC* worksheet.

Consistent with the change to remove the revenue smoothing methodology (above), the macro will also need to be adjusted and rewritten to only perform actions 2 and 3 in the list above. When removing any smoothing functionality, the resulting macro code should, as closely as possible, adopt the existing code in the NER PTRM.

This stripped-down equity raising costs macro should be run as the final step to determining revenues, both during the revenue determination process as well as during annual updates. This process is consistent with how the existing macro in the NER PTRM (the X-factor macro) is used.

Network Operators may choose to include additional macros to assist with the implementation of one or more of the other functionalities as required by this guidance note. In such circumstances, an explanation of what the macro does, the timing at which the macro is to be run and any other instructions must be set out clearly in the PTRM.

4.4 Revenue summary

Consistent with the amendments made in the previous section for removal of X factor terminology, the *Revenue summary* sheet should also remove sections related to revenue smoothing. Similarly, price path calculations should also be removed from this sheet in line with the EII Regulation requirement for excluding pricing matters from the AER's determinations.

4.5 Equity raising costs

Equity raising costs should be calculated as at the start of the regulatory control period, similar to our standard practice in the NER which is already implemented in the PTRM through a Microsoft Excel macro. As set out in the handbook for the transmission PTRM, equity raising costs are iteratively updated through a data validation approach.[30]

However, modifications should be made to the revenue figures and heading label to ensure the calculations reflect the absence of smoothing in the EII PTRM and pick up the correct annual revenue.

4.6 New worksheet – Supporting information

There may be certain (anticipated or unanticipated) circumstances where a Network Operator will need to perform complex calculations to transform data into the format required by the EII PTRM for use in non-contestable revenue determinations. In such instances, a

30 This is because the estimate of equity raising costs is dependent on the revenue profile, but in turn the revenue is dependent on the estimate of equity raising costs.

Network Operator may choose to create a new worksheet titled *Supporting information* as one of the amendments for the EII PTRM. All workings, such as the escalation of pre-period costs to form an opening RAB (see section 4.2) should be included here.

4.7 Financeability

In March 2024 AEMO published its final NER rule changes for two related projects – *Accommodating financeability in the regulatory framework* and *Sharing concessional finance benefits with consumers*.[31] Our final decision on the NER Financeability Guideline was released in November 2024.

Our policy intent is to consistently apply the NER Financeability Guideline to projects under the EII framework. Network Operators proposing a financeability adjustment should ensure that their proposal is made in accordance with EII Chapter 6A and that they have followed the process outlined in the NER Financeability Guideline. Some of the proposed solutions a Network Operator may consider are to:

- recognise depreciation on an as incurred basis[32]
- allocate a portion of capex to a new financeability asset class with a shorter RAB asset life
- apply an alternative method of depreciation.[33]

Following on from the publication of our NER Financeability Guideline, we have also released proposed amendments to the NER PTRM (version 6). The amendments relate to ensuring the calculation of tax depreciation in the PTRM can handle situations where regulatory depreciation is accelerated through the shortening of asset lives.

In the current transmission NER PTRM template (version 5.1), the standard asset life serves as the useful or economic life of the asset. This life is used for RAB depreciation purposes and also 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.

Under tax rulings, a Network Operator 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 is appropriate when there is a financeability adjustment.

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31 See https://www.aemc.gov.au/rule-changes/accommodating-financeability-regulatory-framework and https://www.aemc.gov.au/rule-changes/sharing-concessional-finance-benefits-consumers.

32 That is, by setting as incurred capex equal to as commissioned capex for each relevant asset class in each year of the regulatory control period.

33 This should be done by amending the real straight-line depreciation section of the *Assets* sheet.

Therefore, modifications should be made to the NER PTRM (version 5.1) if a Network Operator is proposing to shorten asset lives for financeability purposes. Our accompanying sample PTRM template contains these modifications, consistent with the proposed amendments to the NER PTRM (version 6).

5 True-up for placeholder rate of return averaging periods

The Rate of Return Instrument (the instrument), published under the NEL, governs our approach to assessing and determining the overall rate of return, including the return on equity and return on debt. The EII Regulation requires us to apply the current instrument made by the AER under the NEL for non-contestable determinations.[34]

The instrument allows a business to nominate specific dates to determine averaging periods for the inputs to the calculation of return on equity and return on debt, which in turn are used to calculate the rate of return. The available windows from which these nominated averaging periods may be chosen are set in the context of a standard NER revenue determination process. This process is 15 months long and usually involves a final decision two months in advance of the commencement of the new regulatory control period. This timing means the nominated averaging periods have always concluded far enough in advance of the final decision so that the return on equity and return on debt are known.

However, under the EII framework we are required to make a revenue determination in 6 months (126 business days) and our final decision may be further out from the start of the regulatory control period. As a result the return on equity and return on debt may not be known for the first regulatory year at the time when the AER makes the final decision on the revenue determination.[35]

Where a Network Operator nominates an averaging period that occurs subsequent to our final decision, a placeholder averaging period would be used in our final decision. The return on equity and return on debt contained in the final decision PTRM will subsequently be trued-up to reflect the nominated averaging periods once they are known.[36]

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34 EII Regulation, cl. 47D(4).

35 This happens when the network operator nominates averaging periods for the return on debt and risk-free rate (used for the return on equity) that occur after the final decision date; or that occur shortly before the final decision date such that it is not practical to finalise the calculations and incorporate them into the decision.

36 This true-up for the return on equity and return on debt averaging periods will be facilitated through a formal adjustment mechanism that is to be approved as part of the relevant final decision.

Glossary

Term	Definition
AER	Australian Energy Regulator
capex	capital expenditure
CPI	Consumer Price Index
CPI–X	A method of smoothing revenue across a particular regulatory control period (typically 5 years), where the smoothed revenue for each year is determined by escalating the previous year revenue by CPI, less an 'X factor', which is manually set so that the NPV of smoothed and unsmoothed revenues are NPV equal.
EII Act	Electricity Infrastructure Investment Act 2020 (NSW)
EII Framework	EII Act and EII Regulation
EII PTRM	refers to a PTRM that is used for the purposes of making non-contestable revenue determinations under the EII framework (EII Act and EII Regulation)
EII Regulation	Electricity Infrastructure Investment Regulation 2021 (NSW)
Guideline	Final guideline on revenue determination for non-contestable network infrastructure projects
NEL	National Electricity Law
NER	National Electricity Rules
NER PTRM	refers to the PTRM publicly issued by the AER for us in revenue determinations under the NER framework
NPV	Net present value
opex	operating expenditure
PTRM	Post-tax revenue model
RAB	Regulatory asset base
The instrument	Rate of Return Instrument
WACC	Weighted average cost of capital