

Final decision

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

March 2025

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Version	Date	Pages
1	3 March 2025	10

Contents

1	Overview	3
1.1	What does the PTRM do?.....	3
1.2	How was the amended PTRM developed?	4
1.3	Why are we amending the PTRM?	5
2	Amendments.....	6
	Attachments	7
	Attachment A: Post-tax revenue model (version 6)	7
	Attachment B: Post-tax revenue model handbook	7
	Attachment C: List of changes from previous post-tax revenue model.....	7
	Shortened forms.....	8

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 the National Electricity Rules (NER) and the National Gas Rules (NGR). These objectives focus on promoting the long term interests of consumers.

The NER requires us to prepare and publish post-tax revenue models (PTRMs) for transmission and distribution network service providers (TNSPs and DNSPs).¹ To ensure that the PTRM remains fit for purpose, we amend or replace it when necessary.² The PTRM being amended is version 5 for transmission.

We released an explanatory statement of our proposed amendments to the electricity transmission post-tax revenue model (PTRM) in November 2024.³ We received one submission which did not raise any issues on these proposed amendments.⁴ This final decision sets out our position on the amendments to the PTRM and the reason for the changes, in accordance with the NER.⁵

We have amended the PTRM to fully implement our final decision on the *Financeability guideline*.⁶ This section provides an overview of the purpose of the PTRM including how and why the amended PTRM was developed. Section 2 sets out in more detail the reasoning behind our amendments.

1.1 What does the PTRM do?

We adopt a building block approach when determining a TNSP’s 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)⁷
- the estimated cost of corporate income tax
- forecast operating expenditure (opex)

¹ NER, cl. 6A.5.2(a).

² NER, cl. 6A.5.2(b) read with the applicable consultation procedures.

³ AER, *Explanatory statement: Proposed amendments to electricity transmission post-tax revenue model (version 6)*, November 2024.

⁴ ENA, *Submission on proposed amendments to electricity transmission PTRM*, December 2024.

⁵ NER, cl. 6A.20(e).

⁶ AER, *Final decision – Financeability guideline*, November 2024.

⁷ The net total of the indexation of the RAB and depreciation building blocks is referred to as 'regulatory depreciation'.

- revenue increments or decrements arising from applicable incentive schemes⁸
- 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.⁹ 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.¹⁰ An electricity TNSP's revenue proposal must be prepared using our PTRM.¹¹

1.2 How was the amended PTRM developed?

We wanted all stakeholders to have the opportunity to consider our proposed amendments to the PTRMs and make written comments in response. On 6 November 2024, we commenced the consultation process by publishing:¹²

- The proposed PTRM and associated handbook, and
- An explanatory statement, setting out the provisions of the NER under which the PTRM was proposed to be amended, and the reasons for the proposed amendments.¹³

We asked stakeholders to make submissions on the proposed amendments by 18 December 2024.¹⁴ We received one submission from Energy Networks Australia.¹⁵ The submission confirmed that the proposed amendments to the PTRM contained the expected changes to implement the financeability guideline and appeared to be working as intended.

The final amended transmission PTRM and associated handbook is therefore unchanged from the draft released in November 2024. It is published with this final decision, in accordance with the NER.¹⁶ This final decision sets out our confirmation of the amendments detailed in the explanatory statement.

Version 6 of the transmission PTRM will therefore be the template for all subsequent regulatory determinations for electricity TNSPs.

⁸ 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.

⁹ NER, cl. 6A.5.4.

¹⁰ NER, cll. 6A.5.3, 6A.6.8.

¹¹ NER, cl. 6A.4.1(b)(1).

¹² NER, cl. 6A.20(b)(1)–(2)

¹³ AER, *Explanatory statement: Proposed amendments to electricity transmission post-tax revenue model (version 6)*, November 2024.

¹⁴ NER, cl. 6A.20(b)(3); AER, *Explanatory statement: Proposed amendments to electricity transmission post-tax revenue model (version 6)*, November 2024, p. 2.

¹⁵ ENA, *Submission on proposed amendments to electricity transmission PTRM*, December 2024.

¹⁶ NER, cl. 6A.20(e)–(f).

1.3 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.¹⁷

On 21 March 2024 the Australian Energy Market Commission (AEMC) released its final determination on its *Accommodating financeability in the regulatory framework* rule change.¹⁸ 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.¹⁹ 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.²⁰ 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 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.

¹⁷ NER, cl. 6A.5.2(b), read with the applicable consultation procedures.

¹⁸ AEMC, *Accommodating financeability in the regulatory framework – Final determination*, March 2021.

¹⁹ AER, *Final decision – Financeability guideline*, November 2024.

²⁰ AER, *Final decision – Financeability guideline*, November 2024, p. 17.

2 Amendments

For the final decision, we confirm the main amendment to the PTRM is the implementation of 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 final 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 five asset classes and would only be available to address a financeability issue.²¹ 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 financeability 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.

²¹ This applies to asset classes 41–46 in the PTRM.

Attachments

The attachments include the final amended electricity transmission PTRM and associated handbook and a detailed list of changes from the previous version of the PTRM. There is a high level summary of changes in the '*Intro*' worksheet of the PTRM.

Attachment A: Post-tax revenue model (version 6)

Attachment B: Post-tax revenue model handbook

Attachment C: List of changes from previous post-tax revenue model

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
