Jemena Electricity Networks (Vic) Ltd

2026-31 Electricity Distribution Price Review Regulatory Proposal

Attachment 08-01

Annual revenue requirement for standard control services

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Glossary

Current regulatory period	The regulatory control period covering 1 July 2021 to 30 June 2026
Draft Plan	In August 2024, we released our Draft Plan which outlined the feedback we received from our customers, our proposed expenditure and how plans met our customer expectations
Next regulatory period	The regulatory control period covering 1 July 2026 to 30 June 2031
RoR Instrument	AER's 2022 Rate of Return Instrument

Abbreviations

AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
CAM	Cost Allocation Methodology
CESS	Capital Expenditure Sharing Scheme
CPI	Consumer Price Index
EBSS	Efficiency Carryover Mechanism
EDPR	Electricity Distribution Price Review
F&A	Framework and Approach
FY	Financial Year
JEN	Jemena Electricity Networks (Vic) Ltd
NER	National Electricity Rules
NPV	Net Present Value
PTRM	Post-Tax Revenue Model
RAB	Regulatory Asset Base
RFM	Roll Forward Model
SCS	Standard Control Services
TAB	Tax Asset Base
WACC	Weighted Average Cost of Capital
VEBM	Victorian Emergency Backstop Mechanism

Overview

This attachment of our Regulatory Proposal sets out the revenue that we require over the 1 July 2026 to 30 June 2031 regulatory control period (**next regulatory period**) to provide Standard Control Services (**SCS**). Specifically, the next regulatory period will commence on 1 July 2026 for a duration of five years.

Our forecast building block cost for the next regulatory period is $1,846M in Real 2025-26, which will allow us to meet the safety and service levels valued by our customers while prudently balancing our cost and prices over the long term. To determine the revenue we need, we have followed the requirements set out in the National Electricity Rules (**NER**).[1]

Below, we outline how we engaged with our customers on this important topic and how we have forecast our annual revenue requirements:

- Section 1 outlines the overall approach used to calculate our required revenues

- Sections 2 to 6 describe key inputs to the building block revenue calculation, namely:

    - return on capital (Section 2)

    - regulatory asset base and regulatory depreciation (Section 3)

    - operating expenditure (Section 4)

    - corporate income tax (Section 5)

    - revenue adjustments (Section 6)

- Section 7 concludes by explaining how the unsmoothed building block revenue has been used to determine a smoothed Annual Revenue Requirement and revenue path over the next regulatory period.

All values are in $2026 terms unless otherwise stated.

Our engagement with customers

Through this price reset process, we purposefully and ambitiously set out not only to understand our customers' views, but to build the energy capability of those members of the community who need it the most. We achieved this through consultation with core engagement groups. We are committed to reflecting our customers' needs, preferences, recommendations and priorities in our regulatory proposal. We have carefully considered our customer and stakeholder priorities for the future of our network and reflected them in our proposal[2].

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[1]   NER cl 6.3.1(c).

[2]   We provide more details on how we reflect customer recommendations in our proposal in *JEN - Att 02-01 - Customer engagement*.

Our forecast SCS revenue requirement

Table OV–1 details our building block and smoothed SCS revenue and X-factors for the next regulatory period. We have prepared this forecast using the Australian Energy Regulator's (**AER**) Post-Tax Revenue Model (**PTRM**).[3]

Table OV–1: SCS building block and smoothed revenue ($2026, millions)

Building block components[4]	FY27	FY28	FY29	FY30	FY31	Total
Return on capital	123.1	137.8	151.4	162.6	175.0	749.9
Depreciation	56.6	61.2	65.7	69.9	74.2	327.7
Operating expenditure	110.6	118.4	124.1	129.0	133.1	615.2
Revenue adjustment (including incentives)	5.7	5.0	7.8	7.0	1.2	26.8
Tax	28.1	22.1	28.8	26.0	21.1	126.3
Total revenue requirement – unsmoothed	**324.2**	**344.4**	**377.9**	**394.6**	**404.6**	**1,845.7**
Revenue path (%)[5]	-7.3%	4.0%	3.3%	2.7%	3.3%	n/a
Total revenue requirement – smoothed	**343.8**	**357.7**	**369.6**	**379.4**	**391.9**	**1,842.5**

Figure OV–1 provides a view of our total revenue requirement over the three regulatory control periods from 2016 to 2031.

Figure OV–1: Our total revenue requirement ($2026, millions)
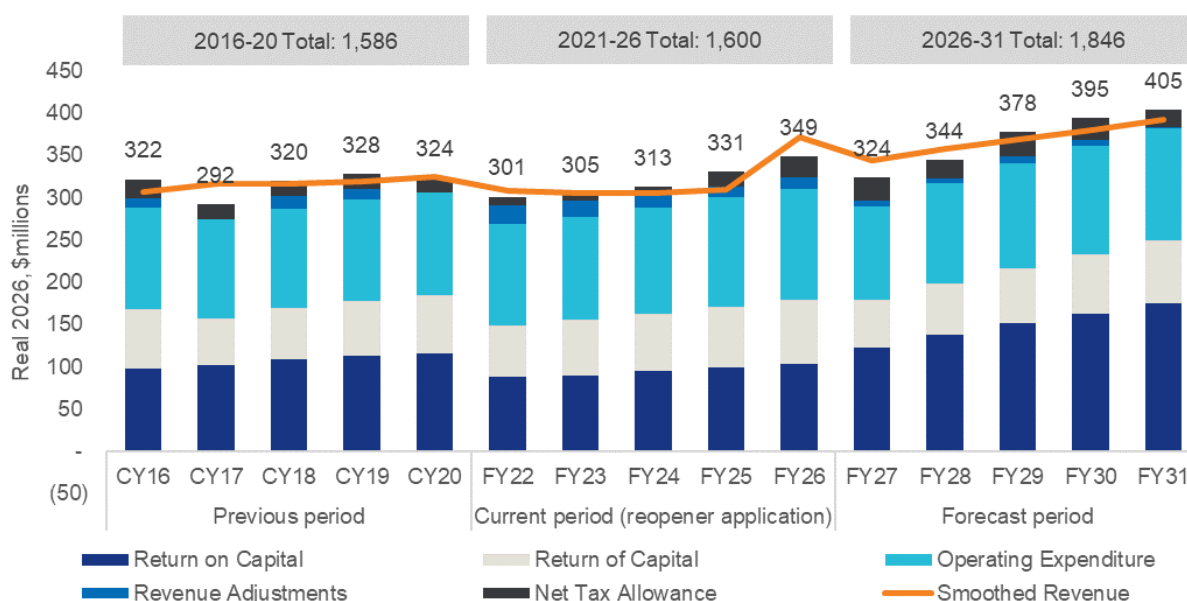
Note: (1) HY21 (Jan to Jun 2021) is not included for visualisation purposes. It does not impact the smoothed revenue forecast.
(2) The current regulatory period revenue includes an approved cost passthrough event and JEN's reopener application. More details are provided in section 1.3 below.

The key drivers for the movement from the current regulatory period into the next are:

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[3] Refer to *JEN – Att 08-05M SCS PTRM.*

[4] Consistent with the requirements of NER cl 6.4.3.

[5] A positive number corresponds to a revenue increase and vice versa. The year 1 revenue change represents a movement from FY26 to FY27.

- higher return on capital due to changes in market returns and on a higher Regulatory Asset Base

- higher tax allowance due to a significant increase in capital contribution forecast

- lower regulatory depreciation from higher forecast inflation for the next regulatory period

- lower operating expenditure due to cost efficiencies we achieved in the current period, which translates into a lower expenditure forecast in the next regulatory period

- lower incentive scheme outcomes due to the unprecedented growth in connections capital expenditure, lowering the Capital Expenditure Sharing Scheme (**CESS**) outcome.

Changes since releasing our Draft Plan

As outlined in *JEN - Att 02-01 - Customer engagement*, feedback from our customers on our Draft Plan largely supported our proposals for the next regulatory period. This is because our customers' preferences helped shape our Draft Plan. We have, however, continued to refine our plans since our Draft Plan was published, meaning that we have made some changes, mostly changes in capital contribution forecasts and in response to market movements.

The revenue that we require to deliver our regulatory proposal is $15M lower than the revenue we forecast in our Draft Plan.

Figure OV–2: Changes to SCS building block revenue forecast from Draft Plan to our regulatory proposal ($2026, millions)
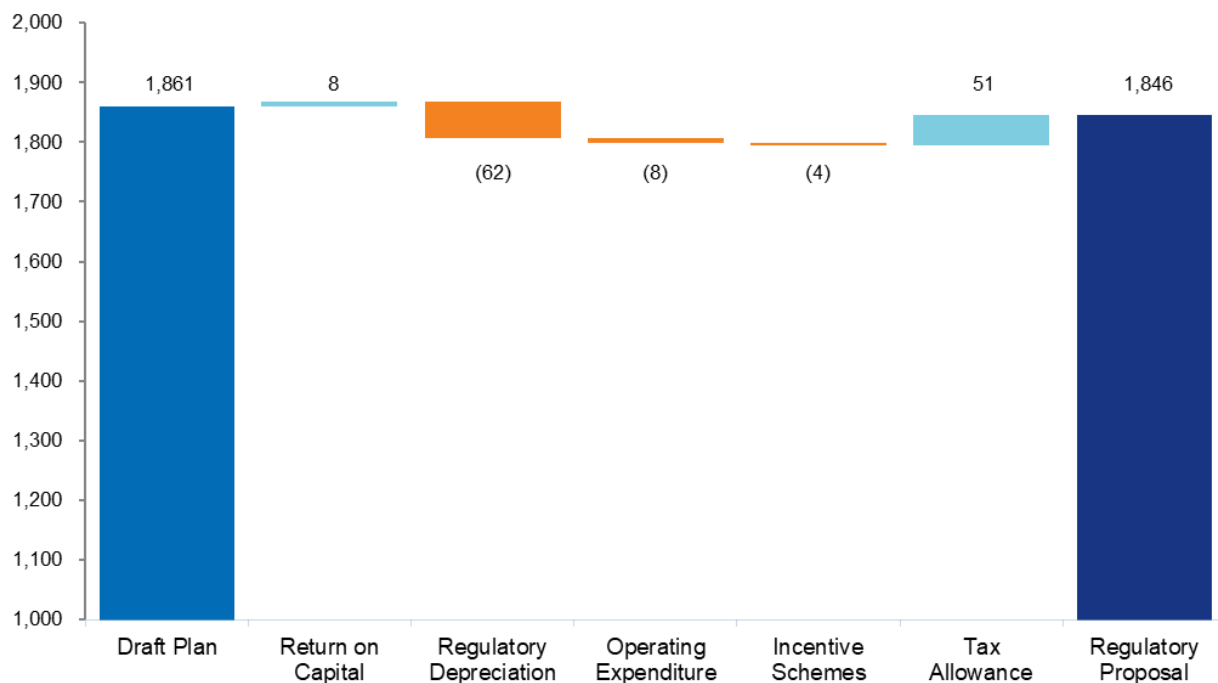
The key drivers for the change in our forecast are:

- updates to rate of return assumptions reflecting more recent market conditions

- lower forecast net capital expenditure reflecting updates to capital programs and higher capital contributions forecast, resulting in lower regulatory depreciation and higher tax allowance

- lower forecast operating expenditure reflecting a reduction in step changes, updated base year operating expenditure estimate and updated rate of change parameters

- updates to our actual and estimated costs in FY24 to FY26 resulting in minor reductions to incentive scheme outcome.

List of revenue requirement attachments

Table OV-3 below outlines the documents related to our regulatory proposal, and in particular, relevant to calculating the annual revenue requirement as outlined in this document.

Table OV–3: List of revenue requirement attachments

Attachment	Name
02-01	JEN - Att 02-01 - Customer engagement
05-01	JEN - Att 05-01 Capital expenditure
06-01	JEN - Att 06-01 Operating expenditure
07-01	JEN - Att 07-01 Incentive mechanisms
08-01	JEN - Att 08-01 Annual revenue requirement
08-02	JEN - Att 08-02 Averaging periods
08-05M	JEN – Att 08-05M SCS PTRM
08-06M	JEN – Att 08-06M Rate of return model
08-07M	JEN – Att 08-07M SCS RFM
08-08M	JEN – Att 08-08M SCS RFM – Depreciation tracking module
08-09M	JEN – Att 08-09M EBSS model
08-10M	JEN – Att 08-10M CESS model
08-11M	JEN - Att 08-11M CESS true-up model
05-10M	JEN – Att 05-10M SCS Capex model
06-03M	JEN – Att 06-03M SCS Opex model

1. Our Approach

In this section, we discuss how we developed our revenue forecast to recover the efficient costs of providing SCS in the next regulatory period.

1.1 Adopting the AER's standardised models

To forecast our SCS revenue requirement, we use financial models developed and published by the AER for electricity distribution businesses. Specifically, we have used the following models provided by the AER, to roll-forward our regulatory asset base (**RAB**) and determine revenues for the next regulatory period:

- Roll Forward Model (**RFM**) for FY22 to FY26 (version 3, April 2020)[6] – Attachment 08-07M

- RFM – Depreciation tracking module for FY22 to FY26 (version 1, April 2020)[7] – Attachment 08-08M

- Post-Tax Revenue Models (**PTRM**) for FY27 to FY31 (version 5, April 2021) – Attachment 08-05M.

We have provided the models we used for developing our Draft Plan to the AER as part of the Structured Signal Pathway process and received feedback from the AER[8]. Our proposal models incorporated the AER's feedback and have been updated to reflect the latest available data.

Our regulatory proposal outlines the inputs to and approaches used within these models, which have been developed consistent with the NER requirements.[9]

1.2 Standard control service revenue requirement

We have used the AER's PTRM to calculate JEN's total revenue requirement for SCS comprising the sum of the following forecasts (consistent with the methodology set out in clause 6.4.3 of the NER):

- *Return on capital*—also known as the return on assets, represents the benchmark financing costs of investing in our network

- *Regulatory depreciation*—also known as the return of capital, is straight-line depreciation (which represents the payback of our investment on our network) less the indexation of the RAB

- *Operating expenditure allowance*—this represents the estimated costs of operating and maintaining our distribution network

- *Corporate income tax allowance*—this represents the estimated benchmark corporate income tax costs for our network

- *Revenue adjustments*—this includes various revenue adjustments such as the Efficiency Benefits Sharing Scheme (**EBSS**), Capital Efficiency Sharing Scheme (**CESS**) and shared asset revenue.

Together these are referred to as **building block costs.** Figure 1–1 below demonstrates how these costs are collated to calculate the building block revenue we require to provide SCS.

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[6]   The model has been modified by the AER for Victorian electricity distribution networks to give effect to the half-year transition period (1 January to 30 June 2021) moving from calendar year to financial year basis between the two regulatory periods 2016-20 and 2021-26.

[7]   The model has been modified by the AER for Victorian electricity distribution networks to give effect to the half-year transition period (1 January to 30 June 2021) moving from calendar year to financial year basis between the two regulatory periods 2016-20 and 2021-26.

[8]   AER, email titled '*Structured Engagement Pathway – JEN Draft Plan Models Review*', 4 September 2024

[9]   NER cl 6.3.1(c) requires the building block proposal to be prepared accordance with the AER's PTRM, and other relevant requirements of Part C of Chapter 6, and in accordance with Schedule 6.1.

Figure 1–1: Building block costs/ revenue requirement
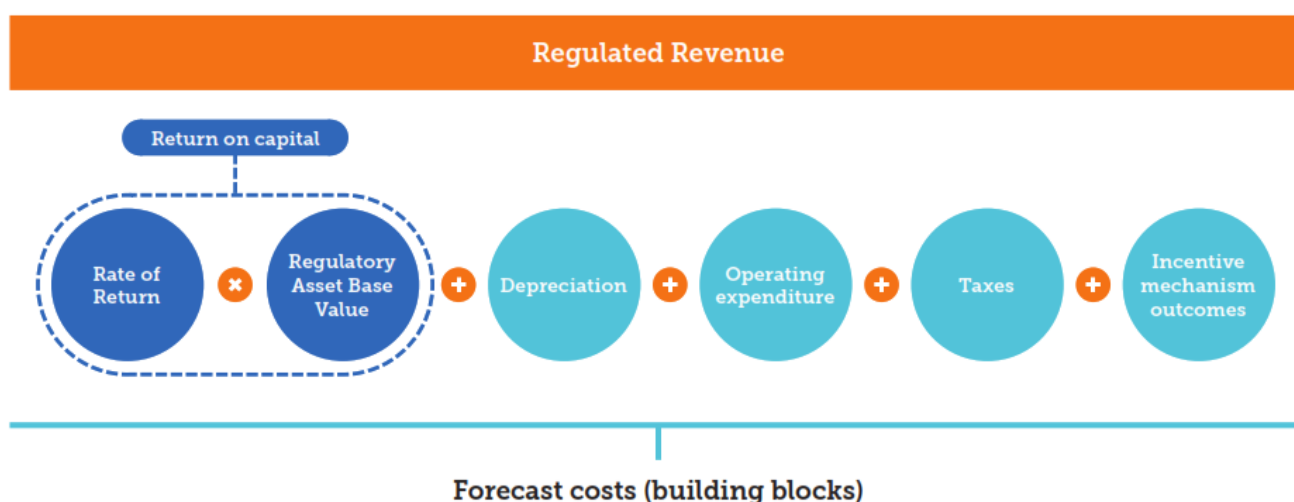
Once we calculate the building block revenue requirement for each regulatory year of the regulatory period, we then 'smooth' out the year to year volatility to reduce any significant variation in our revenues—and therefore our network charges. We undertake smoothing by applying X-factors so that the net present value of our building block costs and the smoothed revenue over the next regulatory period are equal—ensuring that we recover only our efficient costs. The annual X-factors represent the implied average revenue changes between regulatory years.

1.3 Changing regulatory allowances in the current regulatory period

To develop the building block proposal for the next regulatory period, we need to consider a range of factors in the current regulatory period, including expenditure allowances and revenue requirements. The regulatory allowance can vary within a regulatory control period depending on the changing circumstances DNSPs face and if approved by the AER. JEN has experienced—and is currently experiencing—several situations that have changed—and may further change—the current regulatory period determination, including:

- **Cost pass through applications**[10],[11] – At the time of submitting this regulatory proposal, JEN has received approval for one cost pass through application. This relates to the Victorian Emergency Backstop Mechanism (**VEBM**).

- **Determination reopener** – We have applied to reopen JEN's electricity distribution price review determination for the current regulatory period (reopener application) due to a significant increase in net capital expenditure coming from an unforeseen series of major connection applications and connection inquiries.[12] At the time of submitting this regulatory proposal, the AER is assessing our reopener application.

With the outcomes of one of these changes known and three unknown, we have had to make assumptions about changes to our expenditure allowances and revenue requirements for the current period. For the purposes of forecasting revenue for the next regulatory period, we have incorporated the approved cost pass through application and assumed that the reopener application is approved as submitted to the AER.

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[10] JEN has made an application to the AER—and has since received acceptance—seeking an extension of time to make two additional cost pass through applications related to NEM reform requirements. We will know more about these applications by the time we submit a revised regulatory proposal in late 2025, at which time we may make further amendments to the current period regulatory allowances.

[11] We are considering submitting additional cost pass-through applications related to market reforms in the current regulatory period. If successful, we anticipate the actual cost recovery to occur in the next regulatory period.

[12] JEN, *Application to reopen the 2021-26 Electricity Distribution Price Review Determination,* 15 October 2024.

2. Return on capital

2.1 Forecast requirement

Receiving a fair rate of return is essential for us to continue investing in our network in a manner that best supports our customers' long-term interests.

The return on capital, or the cost of financing investment in the network, seeks to compensate our debt and equity holders for the opportunity cost of lending or investing their funds in our network. These funds are essential to delivering safe and reliable service outcomes to our customers.

We use a placeholder rate of return (specified as a nominal vanilla weighted average cost of capital (**WACC**)) of 6.10% (average over 2026-31) for the next regulatory period. This rate is calculated using the methods and assumptions set out in the AER's 2022 Rate of Return Instrument (**RORI**).

The return on capital is calculated as the rate of return multiplied by the opening RAB each year, as summarised in Table 2–1 and in accordance with clause 6.5.2 of the NER.[13]

Table 2–1: Return on capital for the next regulatory period ($ nominal, millions)

	FY27	FY28	FY29	FY30	FY31	Total
Opening RAB ($M)	2,132.3	2,414.0	2,685.4	2,906.0	3,117.3	N/A
Rate of return (%)	5.92%	6.00%	6.07%	6.18%	6.35%	N/A
Return on capital ($M)	**126.2**	**144.8**	**163.0**	**179.5**	**197.9**	**811.4**

2.2 Rate of return parameters

To calculate the overall rate of return, separate approaches under the RORI are used to calculate the return on debt and return on equity. Once derived, the return on debt and return on equity are combined using the proportions (weights) based on benchmark gearing level (60% debt to 40% equity).

Table 2–2 summarises the key parameters we used to calculate the placeholder rate of return in our initial proposal.[14]

Table 2–2: Rate of Return parameters for the next regulatory period

Parameters	Value (%)
Nominal risk-free rate (placeholder)	3.95%
Market risk premium	6.20%
Equity beta	0.60
Return on equity	7.67%
Return on debt (5-year average)	5.05%
Gearing	60.00%
Nominal vanilla rate of return	**6.10%**
Forecast inflation	2.50%

Note: Risk free rate and return on debt are based on placeholder averaging periods.

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[13] The applicable RAB roll-forward model is included as *JEN – Att 08-07M SCS RFM*, and the approach we adopt to calculating the RAB is described further in Section 3.1.

[14] We set out how we calculate the rate of return in *JEN – Att 08-06M Rate of return model*.

The forecast inflation is estimated based on the prescribed approach in the AER's standardised PTRM using the Reserve Bank of Australia's (RBA) November 2024 Monetary Policy Statement. The inflation forecast will be updated in the AER's final decision using the latest RBA Monetary Policy Statement available at the time of the decision.

The return on debt, risk free rate (return on equity) and nominal WACC estimates[15] will be updated in AER's final decision to reflect the actual averaging periods once the proposed periods are approved by the AER. The rate of return will also be updated annually during the next regulatory period as a result of the annual update of the return on debt in accordance with the ROR Instrument.

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[15]   As set out in *JEN - Att 08-02 Averaging periods*.

3. Regulatory asset base and regulatory depreciation

3.1 Regulatory asset base

3.1.1 Summary

The RAB value represents the unrecovered capital expenditure that we have incurred to provide services to our customers.[16] The RAB is used as the basis to calculate the return on and return of capital[17] derived by applying, respectively, the allowed rate of return and regulatory depreciation to the RAB.

We estimate the value of JEN's RAB at the start of the next regulatory period will be $2.1B and that it will increase by approximately 36%, to $2.9B by the end of the next regulatory period. The projected increase in our RAB is principally attributed to the forecast capital expenditure we require to ensure we can continue to provide reliable, safe and secure supply to our customers.[18]

The RAB is rolled forward over the current and forecast regulatory periods in accordance with clause 6.5.1(e) and S6.2 of the NER, using the AER's RFM and PTRM. The RAB roll forward includes adjustments for:

• new capital expenditure in each year, net of capital contributions and asset disposals

• straight-line depreciation and indexation on RAB

• the difference between actual and forecast net capital expenditure for years where the actual expenditure was not available at the time of the AER's final decision for previous regulatory period.

This process for calculating the RAB is illustrated in Figure 3–1.

Figure 3–1: How the RAB is calculated
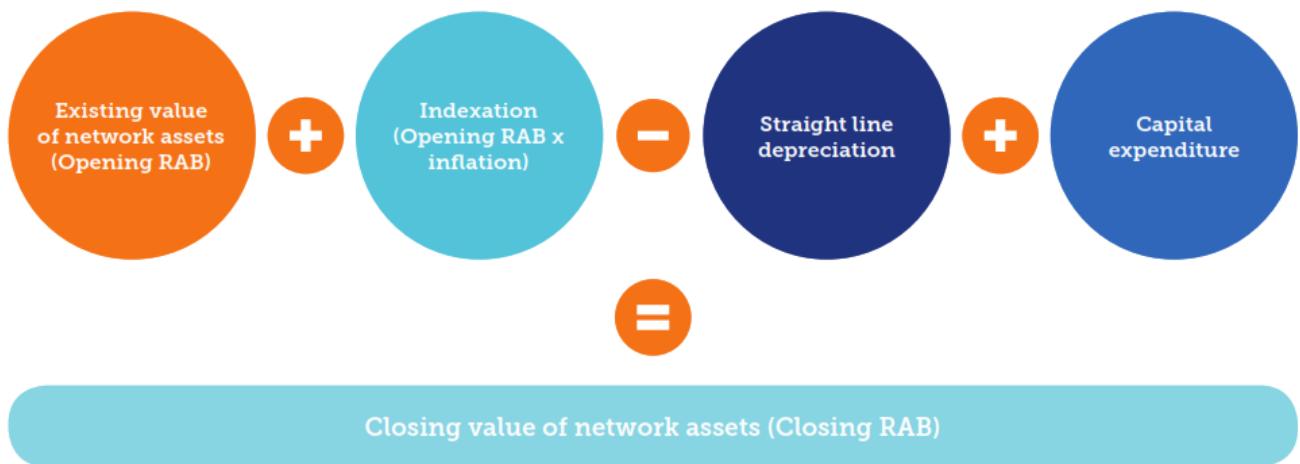
Table 3–1 summarises the RAB values from 1 July 2021 to 30 June 2031.[19]

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[16] The RAB includes only those assets used to provide SCS. See, NER cl 6.5.1(a).

[17] NER cl 6.5.2. and cl 6.5.5.

[18] We provide more details on our capital expenditure proposal in *JEN - Att 05-01 Capital expenditure.*

[19] NER cl S6.1.3(7). We provide the supporting calculations for the RAB roll-forward in (i) *JEN – Att 08-05M SCS PTRM*, (ii) *JEN – Att 08-07M SCS RFM* (iii) *JEN – Att 08-08M SCS RFM - Depreciation tracking module.*

Table 3–1: RAB values over the current and next regulatory period ($2026, millions)

Regulatory asset base	Opening RAB at 1-Jul-21	Opening RAB at 1-Jul-26	Closing RAB at 30-Jun-31
Total	**1,808.9**	**2,132.3**	**2,908.5**

The remainder of this section explains our approach for calculating the RAB, including the inputs and assumptions used within the RFM and PTRM.

3.1.2 Opening RAB as at 1 July 2026

The first step in determining the opening RAB for the next regulatory period is to roll forward the RAB in the current regulatory period by adjusting for the items set out in S6.2.1(e) of the NER. Specifically, this involved adjusting the opening RAB as at 1 July 2021 to:

- add indexation of the opening RAB of each regulatory year, FY22 to FY26 (using actual changes in the consumer price index (**CPI**)

- add capital expenditure, net of capital contributions and asset disposals

- deduct depreciation (see section 3.2)

- remove the difference between estimated and actual capital expenditure for CY20 and HY21 and the resulting adjustment to return on and of capital.

Table 3–2 sets out the RAB roll forward for each regulatory year in the current regulatory period.

Table 3–2: Roll forward of the RAB over the current regulatory period ($ nominal, millions)

Items	FY22	FY23	FY24	FY25[1]	FY26[1]
Opening RAB	1,517.9	1,601.3	1,729.2	1,916.7	2,006.0
add RAB indexation [2]	13.1	56.0	135.4	77.7	52.2
add net capital expenditure [3]	151.9	161.5	152.3	121.3[2]	215.2
less straight-line depreciation [4]	-81.6	-89.7	-100.2	-109.6	-117.9
Adjustment	-	-	-	-	-23.1
Closing RAB	**1,601.3**	**1,729.2**	**1,916.7**	**2,006.0**	**2,132.3**

(1) Values for FY25 and FY26 are estimates based on current capital expenditure forecasts.
(2) This net capital expenditure includes a 'catch-up' adjustment for FY22-24 capital contributions. More details are provided in Attachment 07-01.
(3) Indexation = opening balance x actual CPI for the year.
(4) Net capital expenditure = gross capital expenditure (including equity raising costs) - capital contributions - asset disposals.
(5) Depreciation for the current period is consistent with forecast straight-line depreciation in accordance with NER cl 6.5.5(b)(3).
(6) Adjustment = difference between forecast and actual CY20 and HY21 net capital expenditure plus return on capital from the net capital expenditure differential.
(7) Where applicable, these notes also apply to the other tables in this attachment, where we present the same type of information.

3.1.3 Projected RAB for the next regulatory period

We have rolled forward the RAB from 1 July 2026 to 30 June 2031 as set out in Table 3–3.

Table 3–3: Roll forward of the RAB over the next regulatory period ($ nominal, millions)

Details	FY27	FY28	FY29	FY30	FY31
Opening RAB	2,132.3	2,414.0	2,685.4	2,906.0	3,117.3

Details	FY27	FY28	FY29	FY30	FY31
Add net capex	339.7	335.7	291.3	288.5	257.5
Add indexation	53.3	60.4	67.1	72.6	77.9
Less straight-line depreciation	-111.3	-124.7	-137.9	-149.8	-161.9
Closing RAB	**2,414.0**	**2,685.4**	**2,906.0**	**3,117.3**	**3,290.7**

Our RAB is projected to increase at a faster pace over the next regulatory period due to significant expected network growth.

3.2   Regulatory depreciation

3.2.1   Forecast requirement

Depreciation represents the return of capital of an asset over time. Since capital expenditure is lumpy in nature, it is recovered or returned to investors over the economic life of assets to avoid bill shocks for customers. Including regulatory depreciation in our building block costs enables us to recover the capital investments that we make over the economic life of assets.

3.2.2   Straight-line depreciation methodology

We propose to continue applying the year-on-year tracking approach to calculating regulatory depreciation for new assets. This approach is consistent with the approach adopted by the AER in JEN's 2022-26 final decision. The year-on-year tracking method is a well-accepted methodology that incorporates the timing of new additions for each asset class in the relevant regulatory year, providing more granular and accurate information on the remaining economic asset lives.

3.2.3   Standard economic lives

The calculation of depreciation is based on the economic life of the assets or category of assets.[20] This allows JEN to have its capital recovered at a rate which reflects the decline in economic values of the assets. The economic life of an asset is the estimated period that the asset will be able to be used in its current, or intended, function to deliver services to customers.

We maintain the same standard economic lives as approved by the AER in the current regulatory period, except for equity raising costs (the economic lives for which is determined within the AER's PTRM as the weighted average economic life of the forecast capital expenditure for the next regulatory period).

Table 3–4 sets out the standard regulatory asset lives in the current and forecast regulatory periods.

Table 3–4: Standard economic lives for new assets in the current and forecast regulatory periods (years)

Asset Class	Current regulatory period	Next regulatory period
Sub-transmission	53.4	53.4
Distribution system assets	49.5	49.5
SCADA/Network control	10.0	10.0
Non-network – IT	5.0	5.0
Non-network – other	10.5	10.5
Land	n/a	n/a

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[20]   NER cl 6.5.5(b)(1).

Asset Class	Current regulatory period	Next regulatory period
Buildings - capital works	40.0	40.0
In-house software	5.0	5.0
Equity raising costs	42.5	44.2

3.2.4   Forecast regulatory depreciation

Our depreciation schedule reflects the economic lives and cash flow needs of the business consistent with clause 6.5.5 of the NER. Specifically, we applied forecast asset additions, asset disposals and the standard economic lives listed in Table 3–4 above to determine the depreciation forecast for the next regulatory period, utilising year-on-year tracking method and the AER's PTRM. We also apply a placeholder forecast inflation rate to our forecast RAB, which we discussed in section 2.2 above.

Table 3–5 summarises our forecast regulatory deprecation over the next regulatory period.

Table 3–5: Forecast regulatory depreciation over the next regulatory period ($2026, millions)

Depreciation	FY27	FY28	FY29	FY30	FY31	Total
Straight line depreciation	108.6	118.7	128.0	135.7	143.1	634.1
Indexation	-52.0	-57.4	-62.3	-65.8	-68.9	-306.5
Regulatory depreciation	56.6	61.2	65.7	69.9	74.2	327.7

Source: *JEN – Att 08-05M SCS PTRM.*

4. Operating expenditure

4.1 Forecast requirement

Operating expenditure is a significant component of network expenditure, accounting for approximately 33% of JEN's building block costs over the next regulatory period. Our operating expenditure program delivers critical activities to support the operation and maintenance of our assets, and the continued efficient administration and management of our distribution business.

We have used the AER's preferred approach of base-step-trend to forecasting operating expenditure over the next regulatory period. The forecast operating expenditure for the next regulatory period is $615M. Our forecast is summarised in Table 4–1. We provide more details on our operating expenditure forecast in Attachment 06-01, including why we consider it is consistent with clause 6.5.6 of the NER.[21]

Table 4–1: Operating expenditure forecast for the next regulatory period ($2026, millions, incl. debt raising costs)

	FY27	FY28	FY29	FY30	FY31	Total
Base operating expenditure	100.3	100.3	100.3	100.3	100.3	501.5
Step changes	5.2	7.7	9.3	10.1	9.1	41.4
Trend	2.9	8.0	12.1	16.1	21.0	60.1
Category specific forecasts[1]	2.2	2.4	2.5	2.5	2.6	12.2
Total forecast operating expenditure	**110.6**	**118.4**	**124.1**	**129.0**	**133.1**	**615.2**

Note: (1) This includes debt raising costs of $6.7M based on the estimate of 8.84 basis point per annum (bppa) of the debt portion of the RAB

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[21] *JEN – Att 06-01 Operating expenditure*.

5. Corporate income tax

5.1 Forecast requirement

Compensation for the cost of the tax is necessary to ensure that sufficient funds are available to meet our tax obligations. The NER require that the cost of corporate tax is estimated as a separate building block.[22]

Apart from capital expenditure and operating expenditure, the principal inputs that go into that calculation of the tax building block item are taxable income, the statutory income tax rate, and the value of imputation credits (**gamma**).[23]

Combining these inputs and incorporating the outcome from recent AER reviews, we estimate a tax building block of $126M over the next regulatory period, as set out in Table 5–1.

Table 5–1: Tax building block for the next regulatory period ($2026, millions)

	FY27	FY28	FY29	FY30	FY31	Total
Taxable Income	218.0	171.3	223.6	201.8	163.9	978.7
Income tax payable	65.4	51.4	67.1	60.5	49.2	293.6
Less value of imputation credits	-37.3	-29.3	-38.2	-34.5	-28.0	-167.4
Tax allowance	**28.1**	**22.1**	**28.8**	**26.0**	**21.1**	**126.3**

(1) Taxable income determined as per PTRM (which is included as *JEN – Att 08-05M SCS PTRM*).
(2) The tax building block is equal to taxable income x benchmark tax rate x (1 – benchmark imputation credits) as outlined in cl 6.5.3.

The tax building block is calculated in the PTRM consistent with the RORI and the AER's tax review decision[24].

5.2 Tax asset base

To estimate corporate income tax, we must determine the taxable income which is dependent on the estimate of tax depreciation. For estimating tax depreciation, we roll forward the Tax asset base (**TAB**) over the current and forecast regulatory periods. Across the two periods, the TAB is expected to increase from $1,261M ($ nominal) as at 1 July 2021 to $3,748M ($nominal) as at 30 June 2031, driven by new capital expenditure growing at a faster rate than tax depreciation.

Immediately expensed capital expenditure

JEN has not forecasted any immediately expensed capital expenditure in the current regulatory period. However, during FY22 to FY24, we reported immediately expensed capital expenditure due to the Australian Taxation Office's (**ATO**) temporary full expensing scheme, introduced to incentivise investment during the COVID-19 period.[25] This scheme operated from 6 October 2020 to 30 June 2023. In FY24, JEN's reported immediately expensed capital expenditure returned to zero. We anticipate zero immediately expensed capital expenditure for the remaining years of the current regulatory period and the next regulatory period.

Treatment of gifted assets

In October 2020, the Full Federal Court of Australia clarified that gifted assets were not to be considered as taxable income.[26] Reflecting this determination, the AER excluded gifted assets from the tax allowance calculation

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[22] NER cl 6.5.3.

[23] The value of Gamma is outlined in the AER's RoR instrument.

[24] AER, *Tax review 2018 - Final report - 17 December 2018*

[25] A summary of the scheme is provided in this link: *https://www.ato.gov.au/businesses-and-organisations/income-deductions-and-concessions/depreciation-and-capital-expenses-and-allowances/temporary-full-expensing/about-temporary-full-expensing.*

[26] Federal Court of Australia, *Victoria Power Networks Pty Ltd v Commissioner of Taxation [2020] FCAFC 169*, 21 October 2020.

in its 2021-26 final decision for JEN. Consistent with this approach, we have excluded gifted assets from rolling into the TAB from FY22 onwards in both the RFM and PTRM.

JEN's tax asset base roll-forward

We rolled forward the TAB in the current and forecast regulatory period consistent with the AER's 2021-26 Final Decision.[27] This roll-forward is summarised in Table 5–2 and Table 5–3.

Table 5–2: TAB roll-forward over the current regulatory period ($ nominal, millions)

	FY22	FY23	FY24	FY25	FY26
Opening TAB	1,260.9	1,359.7	1,463.7	1,613.0	1,807.7
add capital expenditure	189.5	219.9	231.4	272.9	387.8
less depreciation	-90.7	-116.0	-82.2	-78.1	-89.7
Closing TAB	**1,359.7**	**1,463.7**	**1,613.0**	**1,807.7**	**2,105.8**

Source: *JEN – Att 08-07M SCS RFM.*

Table 5–3: Roll forward of tax asset base over the next regulatory period ($ nominal, millions)

	FY27	FY28	FY29	FY30	FY31
Opening balance	2,105.8	2,511.1	2,859.6	3,202.6	3,513.7
add capital expenditure	515.2	483.8	498.9	487.0	428.2
less depreciation	-109.8	-135.3	-156.0	-175.9	-193.6
Closing balance	**2,511.1**	**2,859.6**	**3,202.6**	**3,513.7**	**3,748.2**

Source: *JEN – Att 08-05M SCS PTRM.*

The tax standard lives and the depreciation method used for estimating tax depreciation are set out in Table 5–4.

Table 5–4: Tax depreciation method and standard asset lives (years)

Asset Class	Depreciation method	2021-26 tax standard life	2026-31 tax standard life
Sub-transmission	Diminishing value	43.0	43.0
Distribution system assets	Diminishing value	45.2	45.2
SCADA/Network control	Diminishing value	10.0	10.0
Non-network – IT	Diminishing value	4.0	4.0
Non-network – other	Diminishing value	10.3	10.3
Land	n/a	n/a	n/a
Buildings - capital works	Straight-line	40.0	40.0
in-house software	Straight-line	5.0	5.0
Equity raising costs	Straight-line	5.0	5.0

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[27]   AER, *Final decision - Jemena distribution determination 2021–26 - Attachment 7 - Corporate income* tax April 2021.

6. Revenue adjustments

6.1 Summary

Revenue adjustments account for incentive scheme payments and other adjustments needed to give effect to the NER requirements.

For the next regulatory period, we are proposing the following adjustments:

- a positive adjustment earned through the EBSS[28]

- a positive adjustment earned through the CESS[29]

- a positive adjustment for Demand Management Incentive Allowance (**DMIA**)[30]

We estimate a revenue adjustment building block of $27M over the next regulatory period, as set out in Table 6–1.

Table 6–1: Revenue adjustments (including incentive schemes) ($2026, millions)

Revenue adjustment	FY27	FY28	FY29	FY30	FY31	Total
EBSS	4.6	3.8	6.7	5.9	-	21.0
CESS	0.6	0.6	0.6	0.6	0.6	3.1
DMIA	0.5	0.5	0.5	0.6	0.6	2.7
Total	**5.7**	**5.0**	**7.8**	**7.0**	**1.2**	**26.8**

6.2 Incentive schemes

6.2.1 Efficiency Benefit Sharing Scheme

Our operating expenditure is currently subject to EBSS which incentivises us to reduce our operating costs over time by penalising us for increases and rewarding us for decreases—relative to our regulatory allowance.

We are forecasting a positive carryover amount of $21M when applying the EBSS—that amount is added to the required revenue over the next regulatory period. The calculation of this carryover amount is detailed in the EBSS model.[31]

We are proposing to retain the EBSS for the next regulatory period. This approach will continue to incentivise us to seeking efficiency improvements—benefiting both our customers and us. We provide more details in Attachment 07-01.[32]

6.2.2 Capital Efficiency Sharing Scheme

The CESS incentivises us to spend capital expenditure efficiently and share the benefits of these efficiencies with our customers.

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[28]   NER cl 6.4.3(a)(5) & 6.5.8.

[29]   NER cl 6.4.3(a)(5) & 6.5.8A.

[30]   NER cl 6.4.3(a)(5) and 6.6.3A.

[31]   *JEN – Att 08-09M EBSS model.*

[32]   *JEN - Att 07-01 Incentive mechanisms.*

We anticipate exceeding the AER's approved capital expenditure allowance in the current regulatory period. This is due to unprecedented growth in the number of data centres and other large customers seeking to connect to our network. The volume and size of large customer connections were unforeseen and were not included in our capital expenditure allowance for the current regulatory period. Subsequently, we have applied to reopen JEN's current period determination to account for this unforeseen and material increase in expenditure. This reopener application is currently under assessment by the AER.

For the purposes of calculating CESS rewards or penalises for the current period capital expenditure, we relied on allowances that incorporated the approved cost pass-through application for VEBM and assumed that the reopener application is approved as submitted to the AER. Incorporating the updated allowances translates into a CESS payment of $3M. If the capital expenditure allowance for CESS purposes excludes JEN's reopener application, we would incur a CESS penalty of approximately $36M.

The CESS model sets out our calculation of the proposed CESS payments.[33] We provide more details on CESS and our proposed changes for the next regulatory period in Attachment 07-01.[34]

6.2.3 Demand Management Incentive Allowance

The DMIA provides research and development funding to pursue innovative demand management projects. It is provided through an annual, ex-ante allowance in the form of a fixed amount of additional revenue for each regulatory year of a regulatory control period. Our projection of the DMIA allowance is $3M for the next regulatory period.

We provide more details on DMIA in Attachment 07-01.[35]

6.3 Other Revenue Adjustments – Shared Asset Revenue

Some assets we use to provide SCS also provide non-standard control services. For example, we allow companies to use our power poles to attach their telecommunications equipment to provide services to their customers. The adjustment for shared asset revenue reflects the benefits that our customers and we receive from distribution assets being shared in providing both SCS and unregulated services.

We have calculated this revenue adjustment in line with the AER's Shared Asset Guidelines.[36] The guideline states that shared asset cost reductions should be determined in advance for each regulatory year and based on 10% of revenues that are earned from shared assets and expected to exceed 1% of Annual Revenue Requirement for SCS. For the next regulatory period, JEN's projected shared revenue has not exceeded 1% of our SCS revenue requirements. We have therefore forecast zero shared asset revenue in the PTRM.

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[33]   *JEN – Att 08-10M CESS model.*

[34]   *JEN - Att 07-01 Incentive mechanisms.*

[35]   *JEN - Att 07-01 Incentive mechanisms.*

[36]   AER, *Better Regulation, Shared Asset Guideline*, November 2013.

7.   X factors and revenue path

7.1   Revenue path

Our proposed building block and smoothed revenue are set out in Table 7–1. We note that our revenue path leaves a gap of 3% between smoothed and unsmoothed revenue in FY31 consistent with the NER requirements.[37]

Table 7–1: Proposed SCS revenue and revenue path ($2026, millions)

	FY27	FY28	FY29	FY30	FY31	NPV
Unsmoothed revenue requirement	324.2	344.4	377.9	394.6	404.6	1,662.7
Smoothed revenue requirement	343.8	357.7	369.6	379.4	391.9	1,662.7
Revenue path (% p.a.)	-7.33%	4.04%	3.31%	2.67%	3.30%	N/A

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[37]   NER cl 6.5.9(b)(2).