united energy U

SCS REVENUE AND CONTROL MECHANISM

Table of contents

1. SCS revenue and control mechanisms

1.1 Proposed regulatory control period

We proposed that the next regulatory control period should be for the five years commencing on 1 July 2026 and ending on 30 June 2031.

1.2 Form of control mechanism

The AER decided in its final 2026–31 Framework & Approach paper for the Victorian distributors (F&A paper) that standard control services are to continue to be regulated via a revenue cap form of control.

1.3 Proposed control mechanisms

The AER decided in its F&A paper that the control mechanism would remain the same as for the current regulatory control period with minor adjustments to the calculation of B factor.

Attachment 1 replicates the control mechanisms in the AER F&A paper.

1.4 Proposed annual revenue requirements

Table 1 shows our proposed annual revenue requirements and revenue X factors for standard control services calculated applying the building block approach required by the National Electricity Rules (NER) using the AER's standard post-tax revenue model (PTRM) which is our regulatory proposal model attachment UE MOD 1.01 - SCS PTRM - Jan2025 – Public.

TABLE 1   REVENUE REQUIREMENT ($M NOMINAL)

BUILDING BLOCK	2026/27	2027/28	2028/29	2029/30	2030/31
Return on assets	179.1	189.2	198.4	208.6	224.0
Regulatory depreciation	145.3	160.4	177.3	192.2	204.5
Operating expenditure	181.1	198.3	224.0	235.4	239.5
Total adjustments	43.1	3.7	-1.4	1.9	-2.6
Corporate income tax	2.8	3.6	4.2	5.9	6.2
Unsmoothed revenue requirement	551.5	555.7	602.5	643.9	671.4
Smoothed revenue requirement	556.7	577.7	599.5	628.3	658.5
Forecast CPI (%)	2.75%	2.75%	2.75%	2.75%	2.75%
Revenue X factor (%)	-7.40%	-1.00%	-1.00%	-2.00%	-2.00%

1.5   Average price path

Table 2 shows the average resulting price path using the AER's reset RIN bill impact template with our forecast annual smoothed revenue requirement and annual energy consumption.

	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Price path ($/MWh)	65.3	70.2	70.6	70.2	69.7	68.0
Price path		7.51%	0.52%	-0.56%	-0.67%	-2.47%

1.6   Roll forward of the RAB to 1 July 2026

Table 3 shows roll forward of the regulatory asset base (RAB) to 1 July 2026 using the AER's roll forward model (RFM) which is our regulatory proposal model attachment UE MOD 1.02 - SCS RFM - Jan2025 - Public.

Regulatory depreciation for the purpose of the roll forward of the RAB over 2021–26 is based on straight line depreciation of forecast net capital expenditure and the year-by-year tracking method, consistent with the AER's 2021–26 distribution determination.

Inflation indexation of the RAB is based on actual lagged inflation using an estimate for 2025–26.

Net capital expenditure is based on actual net capex from 2021–22 to 2023–24, and has been estimated for 2024–25 and 2025–26.

Net capex and inflation estimates will be updated with the latest available information for the purposes of the AER's draft and final determinations.

	TOTAL
1 July 2021 opening RAB from previous determination	2,392.9
Add: True-up for 2020 and 1H 2021 capital expenditure	22.6
Add: Actual/estimated net capital expenditure for 2021–2026 (incl. half-year WACC)	1,041.9
Less: Forecast straight-line depreciation for 2021–2026	897.8
Add: Adjustment for actual inflation for 2021–2026	505.5
1 July 2026 opening RAB	**3,065.1**

1.7 Asset classes and standard asset lives

We propose to apply the same asset classes and standard asset lives for 2026–31 as applied over 2021–26.

Table 4 shows our proposed asset classes and standard asset lives.

TABLE 4 PROPOSED STANDARD ASSETS LIVES FOR 2026–31

	YEARS
Sub-transmission	60
Distribution system assets	35.6
SCADA/Network control	10
Non-network general assets - IT	5
Non-network general assets - Other	7.5
In-house software	5

1.8 Forecast regulatory depreciation

We propose to use the same depreciation approach for 2026–31 as 2021–26, including that regulatory depreciation for establishing the closing RAB value as at 30 June 2031 be based on straight-line depreciation of forecast net capital expenditure, the year-on-year tracking depreciation method and actual lagged inflation indexation of the RAB. This is consistent with the final 2026–31 AER F&A paper.

Straight line depreciation of net capital expenditure to 30 June 2026 has been calculated using the AER's depreciation model which is consistent with its 2021–26 determination. Our regulatory proposal depreciation model attachment is UE MOD 1.03 - Depreciation tracking - Jan2025 - Public

Straight-line depreciation of 2026–31 forecast net capital expenditure has been calculated using the AER's PTRM which is our regulatory proposal model attachment UE MOD 1.01 - SCS PTRM - Jan2025 – Public.

Table 5 shows our proposed regulatory depreciation.

TABLE 5   FORECAST REGULATORY DEPRECIATION ($M NOMINAL)

	2026/27	2027/28	2028/29	2029/30	2030/31
Straight-line depreciation	229.6	248.5	268.8	286.6	303.1
Less: inflation indexation on opening RAB	84.3	88.1	91.5	94.5	98.7
Regulatory depreciation	**145.3**	**160.4**	**177.3**	**192.2**	**204.5**

1.9   Forecast RAB roll forward

Table 6 shows our forecast RAB roll forward from 1 July 2026 to 30 June 2031 using the AER's PTRM which is our regulatory proposal model attachment UE MOD 1.01 - SCS PTRM - Jan2025 – Public.

TABLE 6   ROLL FORWARD OF THE RAB OVER 2026–31 ($M NOMINAL)

	2026/27	2027/28	2028/29	2029/30	2030/31
Opening RAB	3,065.1	3,204.1	3,327.1	3,435.4	3,587.8
Forecast net capital expenditure	284.4	283.4	285.6	344.6	347.8
Forecast regulatory depreciation	145.3	160.4	177.3	192.2	204.5
Closing RAB	3,204.1	3,327.1	3,435.4	3,587.8	3,731.2

1.10   Cost allocation method

We have prepared our regulatory proposal in accordance with our cost allocation method which we propose to not amend for the 2026–31 regulatory control period.

1.11   Rate of return

Our rate of return has been calculated in accordance with the updated 2022 Rate of Return Instrument published by the AER in June 2023. Our rate of return calculation is in our regulatory proposal model attachment UE MOD 1.08 - Rate of return - Jan2025 – Public.

We have used a placeholder risk free rate and return on debt calculated in September 2024. These will be replaced with actual values measured in our confidentially nominated averaging periods in attachment UE ATT 1.02 - Averaging periods for cost of equity and debt - Jan2025 - Confidential.

Table 7 shows the placeholder average rate of return for the 2026–31 regulatory control period used in our proposal.

TABLE 7   PLACEHOLDER RATE OF RETURN

RATE OF RETURN ASSUMPTION	PROPOSED
Nominal risk-free rate	3.96%
Market risk premium	6.20%
Equity beta	0.6
Post-tax nominal return on equity	7.68%
Nominal pre-tax cost of debt (average over 2026–31)	4.89%
Gearing	60%
Nominal rate of return (average over 2026–31)	6.01%

1.12   Forecast inflation

Our placeholder estimate of expected inflation is 3.00% in 2026–27. We have applied the PTRM method of a glide path from this value to the mid-point of the Reserve Bank of Australia's target inflation band (2.50%) in the fifth year. We applied the PTRM to calculate forecast inflation of 2.75%.

Forecast inflation will be updated using the most recent Reserve Bank of Australia's Statement of Monetary Policy for the purposes of the AER's draft and final determinations.

1.13   Debt raising costs

We have used a debt raising cost rate of 0.084% from the AER's SA Power Networks draft determination. Debt raising cost is calculated in the AER's PTRM.

1.14   Equity raising costs

Equity raising costs have been calculated using the AER's PTRM. This calculation will be updated for the purposes of the AER's draft and final determinations.

1.15   Revenue adjustments

Table 8 shows a summary of 2026–31 revenue adjustments.

TABLE 8   REVENUE ADJUSTMENTS ($M NOMINAL)

	2026/27	2027/28	2028/29	2029/30	2030/31
EBSS	45.5	6.2	1.1	4.5	0.0
CESS	-2.0	-2.1	-2.1	-2.2	-2.2
CESS true up for 2020	-	-	-	-	-
Shared assets	-1.0	-1.0	-1.0	-1.1	-1.1
DMIAM	0.6	0.7	0.7	0.8	0.8
Total revenue adjustments	**43.1**	**3.7**	**-1.4**	**1.9**	**-2.6**

1.16   Efficiency benefit sharing scheme (EBSS)

Our detailed calculation of the 2026–31 EBSS revenue adjustments arising from 2021–26 actual and estimated operating expenditure uses the AER's Reset RIN workbook 3 which is our regulatory proposal model attachment UE MOD 1.06 – EBSS – Jan2025 – Public.

The 2026–31 EBSS revenue adjustments will be updated with the latest available information for the purposes of the AER's draft and final determinations.

1.17   Capital expenditure sharing scheme (CESS)

Our detailed calculation of the 2026–31 CESS revenue adjustments arising from 2021–26 actual and estimated net capital expenditure is uses the AER's Reset RIN workbook 4 which is our regulatory proposal model attachment UE MOD 1.07 - CESS - Jan2025 - Public.

Our detailed calculation of the 2026–31 CESS revenue adjustments arising from the true up for 2020 and first half of 2021 actual net capital expenditure has been added into UE MOD 1.07 - CESS - Jan2025 - Public.

The 2026–31 EBSS revenue adjustments will be updated with the latest available information for the purposes of the AER's draft and final determinations.

1.18   Shared asset revenue reduction

Table 9 shows our calculated shared asset cost reductions which have been calculated in accordance with the NER shared asset principles and the Shared Asset Guideline.

Our 2026–31 forecast shared asset revenue is based on the average of actual shared asset revenue for the first three years of the current regulatory control period which are reported in Reset RIN workbook 2.

TABLE 9   SHARED ASSET COST REDUCTION ($M NOMINAL)

	2026/27	2027/28	2028/29	2029/30	2030/31
Forecast shared asset revenue	9.7	10.0	10.3	10.6	10.9
Smoothed annual revenue requirement	557.6	578.6	600.5	629.3	659.4
Shared asset revenue proportion	1.85%	1.78%	1.71%	1.64%	1.56%
Material (Y/N)	Y	Y	Y	Y	Y
Shared asset cost reduction	**1.0**	**1.0**	**1.0**	**1.1**	**1.1**

1.19   Demand management innovation allowance mechanism (DMIAM)

We propose to continue to apply the DMIAM over 2026–31, consistent with the AER's F&A paper.

We have calculated DMIAM revenue adjustments in accordance with the DMIAM as set out by the AER under the NER.

1.20   Cost of corporate income tax

We have rolled forward the tax asset base (TAB) to 30 June 2026 using the AER's RFM which is our regulatory proposal model attachment UE MOD 1.02 - SCS RFM - Jan2025 - Public.

This 30 June 2026 TAB value is based on actual capital expenditure to 30 June 2024 and estimated capital expenditure for 2024–25 and 2025–26. Estimated capital expenditure will be updated in the AER's draft and final determinations to reflect the latest available information.

We have rolled forward the tax RAB from 1 July 2026 to 30 June 2031 using the AER's PTRM which is our regulatory proposal model attachment UE MOD 1.01 - SCS PTRM - Jan2025 – Public.

We have forecast immediate expensing of capital expenditure as the sum of:

- total forecast replacement capital expenditure less zone substation transformer capital expenditure
- total capitalised overheads.

We have used a value of imputation credits (or gamma) of 0.57 in accordance with the 2022 Rate of Return Instrument.

Table 10 shows the cost of corporate income tax which is calculated using the AER's PTRM which is our regulatory proposal model attachment UE MOD 1.01 - SCS PTRM - Jan2025 – Public.

TABLE 10   COST OF CORPORATE INCOME TAX ($M NOMINAL)

	2026/27	2027/28	2028/29	2029/30	2030/31
Tax payable	6.5	8.4	9.9	13.8	14.5
Value of imputation credits	3.7	4.8	5.6	7.9	8.3
Tax revenue requirement	**2.8**	**3.6**	**4.2**	**5.9**	**6.2**

A.1 Control mechanism for standard control services

The following control mechanism for standard control services is extracted from the final AER F&A paper.

Formula	Equation	where
1.	$$TAR_t \geq \sum_{i=1}^{n} \sum_{j=1}^{m} p_t^{ij} \, q_t^{ij}$$	$i = 1, \ldots, n$ $j = 1, \ldots, m$ $t = 1, 2, 3, 4, 5$
2.	$TAR_t = AAR_t + I_t + B_t + C_t$	$t = 1, 2, 3, 4, 5$
3.	$AAR_t = AR_t$	$t = 1$
4.	$AAR_t = AAR_{t-1} \times (1 + \Delta CPI_t) \times (1 - X_t)$	$t = 2, 3, 4, 5$
5.	$B_t = b_t + A_t$	$t = 1, 2, 3, 4, 5$
6.	$b_t = -O_t \times (1 + WACC_t)^{0.5}$	$t = 1, 2, 3, 4, 5$
7.	$A_t = a_t^1 + a_{t-1}^2 \times (1 + WACC_t) + a_{t-2}^3 \times (1 + WACC_{t-1}) \times (1 + WACC_t)$	$t = 1, 2, 3, 4, 5$
8.	$WACC_t = (1 + rvWACC_t) \times (1 + CPI_t) - 1$	$t = 1, 2, 3, 4, 5$

Variable	represents
t	the relevant regulatory year, with t = 1 being the 2026–27 financial year.
TAR_t	the total annual revenue for year t, calculated as per formula 2 above.
p_t^{ij}	the price of component 'j' of tariff 'i' for year t.
q_t^{ij}	the forecast quantity of component 'j' of tariff 'i' for year t.
AR_t	the annual smoothed revenue requirement in the Post Tax Revenue Model (PTRM) for year t.
AAR_t	the adjusted annual smoothed revenue requirement for year t, calculated as per formulae 3 and 4 above.
I_t	the sum of incentive scheme adjustments for year t. To be decided in the distribution determination.
B_t	the sum of annual adjustment factors, including any bespoke adjustments the AER deems necessary (through the A factor), to balance the unders and overs account for year t. To be decided in the distribution determination.
C_t	the approved pass-through amounts (positive or negative) for year t, as determined by the AER. It will also include any annual or end of period adjustments for year t. To be decided in the distribution determination.
ΔCPI_t	the annual percentage change in the Australian Bureau of Statistics' (ABS) Consumer Price Index (CPI) All Groups, Weighted Average of Eight Capital Cities[30] from December in year t–2 to December in year t–1. For example, for 2026–27, t–2 is December 2024 and t–1 is December 2025.
X_t	the X factor in year t, incorporating annual adjustments to the PTRM for the trailing cost of debt where necessary. To be decided in the distribution determination.
b_t	the true-up for the balance of the DUoS unders and overs account in year t, calculated as per formula 6 above.
O_t	the opening balance of the DUoS unders and overs account in year t.
$WACC_t$	the approved weighted average cost of capital (WACC) used in regulatory year t in the DUoS unders and overs account. The WACC is updated annually to apply actual inflation, calculated as per formula 8 above. It is also applied to true-up mechanisms to adjust for the time value of money.

A_t	the sum of bespoke adjustments, including the application of the time value of money where appropriate, calculated as per formula 7 above.
a_t^1	the bespoke adjustment '1' for year t. Formula 7 above demonstrates the application of the time value of money for different bespoke adjustments relating to different regulatory years.
$rvWACC_t$	the real vanilla WACC provided in the annually updated PTRM for year t.

united
energy

For further information visit:

Unitedenergy.com.au

United Energy

United Energy

United Energy