Final Decision

AusNet Services Transmission Determination 2022 to 2027
Attachment 1
Maximum allowed revenue

January 2022

AUSTRALIAN ENERGY REGULATOR

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Note

This attachment forms part of the AER's final decision on AusNet Services' 2022–27 transmission determination. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 12 – Pricing methodology

Attachment 13 – Pass through events

Contents

1 Maximum allowed revenue

This attachment sets out our final decision on AusNet Services' maximum allowed revenue (MAR) for the provision of prescribed transmission services over the 2022–27 regulatory control period. Specifically, we set out our final decision on:[1]

- the estimated total revenue cap, which is the sum of the annual expected MAR
- the annual building block revenue requirement
- the annual expected MAR
- the X factor.

We determine AusNet Services' annual building block revenue requirement using a building block approach. We determine the X factors by smoothing the annual building block revenue requirement over the regulatory control period. The X factor is used in the CPI–X methodology to determine the annual expected MAR (smoothed).

1.1 Final decision

We determine a total annual building block revenue requirement for AusNet Services of $2,878.0 million ($ nominal, unsmoothed) for the 2022–27 regulatory control period. This is a decrease of $35.8 million ($ nominal) or 1.2% to AusNet Services' revised proposal and reflects the impact of our final decisions on the various building block costs.

We determine the annual expected MAR and X factor for each regulatory year of the 2022–27 regulatory control period by smoothing the annual building block revenue requirement. Our final decision is to approve an estimated total revenue cap of $2,876.6 million ($ nominal) for AusNet Services for the 2022–27 regulatory control period. Our approved X factor for 2023–24 to 2026–27 is 2.00% per annum.[2]

Table 1.1 sets out our final decision on AusNet Services' annual building block revenue requirement, the X factor, the annual expected MAR and the estimated total revenue cap for the 2022–27 regulatory control period.

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1 NER, cll. 6A.4.2(a) (1)-(3), 6A.5.3(c), 6A.5.4 and 6A.6.8.

2 AusNet Services is not required to apply an X factor for 2022–23 because we set the 2022–23 MAR in this decision.

Table 1.1 AER's final decision on AusNet Services' annual building block revenue requirement, annual expected MAR, estimated total revenue cap and X factor ($million, nominal)

	2022–23	2023–24	2024–25	2025–26	2026–27	Total
Return on capital	168.8	167.1	166.6	167.3	166.9	836.6
Regulatory depreciation[a]	96.1	81.9	91.1	101.0	109.6	479.7
Operating expenditure[b]	284.4	291.6	297.8	305.6	313.3	1492.8
Revenue adjustments[c]	25.7	15.8	14.4	12.7	–0.5	68.1
Net tax amount	0.8	0.0	0.0	0.0	0.0	0.8
Annual building block revenue requirement (unsmoothed)	575.8	556.4	569.9	586.6	589.3	2878.0
Annual expected MAR (smoothed)	570.7	573.0	575.3	577.6	579.9	**2,876.6**[d]
X factor (%)[e]	n/a[f]	2.00	2.00	2.00	2.00	n/a

Source: AER analysis.

(a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening regulatory asset base (RAB).

(b) Includes debt raising costs.

(c) Includes revenue adjustments from the efficiency benefit sharing scheme (EBSS), the capital expenditure sharing scheme (CESS), a shared assets adjustment and the demand management innovation allowance mechanism (DMIAM).

(d) The estimated total revenue cap is equal to the total annual expected MAR.

(e) The X factors will be revised to reflect the annual return on debt update. Under the CPI–X framework, the X factor measures the real rate of change in annual expected revenue from one year to the next. A negative X factor represents a real increase in revenue. Conversely, a positive X factor represents a real decrease in revenue.

(f) AusNet Services is not required to apply an X factor for 2022–23 because we set the 2022–23 MAR in this decision. The MAR for 2022–23 is around 1.33% lower than the approved MAR for 2021–22 in real terms, or 1.09% higher in nominal terms.

1.2 AusNet Services' revised proposal

AusNet Services' revised proposal included a total (smoothed) revenue cap of $2,911.1 million ($ nominal) for the 2022–27 regulatory control period. Table 1.2 sets out AusNet Services' revised proposed annual building block revenue requirement, the X factor, the annual expected MAR and the estimated total revenue cap.

Table 1.2 AusNet Services' revised proposed annual building block revenue requirement, annual expected MAR, estimated total revenue cap and X factor ($million, nominal)

	2022–23	2023–24	2024–25	2025–26	2026–27	Total
Return on capital	170.1	168.3	167.5	167.8	167.1	840.8
Regulatory depreciation[a]	103.0	88.9	98.1	107.9	116.4	514.3
Operating expenditure[b]	283.8	290.5	296.1	303.3	310.3	1,484.0
Revenue adjustments[c]	25.6	15.8	14.4	12.7	–0.2	68.2
Net tax amount	2.1	0.7	0.9	1.2	1.5	6.4
Annual building block revenue requirement (unsmoothed)	584.6	564.2	576.9	592.9	595.0	2,913.7
Annual expected MAR (smoothed)	**584.6**	**583.4**	**582.2**	**581.0**	**579.8**	**2,911.1**[d]
X factor (%)[e]	n/a[f]	2.40%	2.40%	2.40%	2.40%	n/a

Source: AusNet Services, *Revised Revenue Proposal 2023–27, Post Tax Revenue Model*, 1 September 2021.

(a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening RAB.

(b) Includes debt raising costs.

(c) Includes revenue adjustments from EBSS, CESS and a shared assets adjustment.

(d) The estimated total revenue cap is equal to the total annual expected MAR.

(e) The X factors will be revised to reflect the annual return on debt update. Under the CPI–X framework, the X factor measures the real rate of change in annual expected revenue from one year to the next. A negative X factor represents a real increase in revenue. Conversely, a positive X factor represents a real decrease in revenue.

(f) AusNet Services is not required to apply an X factor for 2022–23 because we set the 2022–23 MAR in this decision.

1.3 Assessment approach

We did not change our assessment approach for the MAR from our draft decision. Attachment 1 (section 1.3) of our draft decision details that approach.[3]

1.4 Reasons for final decision

For this final decision, we determine a total annual building block revenue requirement of $2,878.0 million ($ nominal) for AusNet Services for the 2022–27 regulatory control period. This is a decrease of $35.8 million ($ nominal) or 1.2% to AusNet Services' revised proposed total annual building block revenue requirement of $2,913.7 million ($ nominal) for this period. This reflects the impact of our final decision on the various building block costs.

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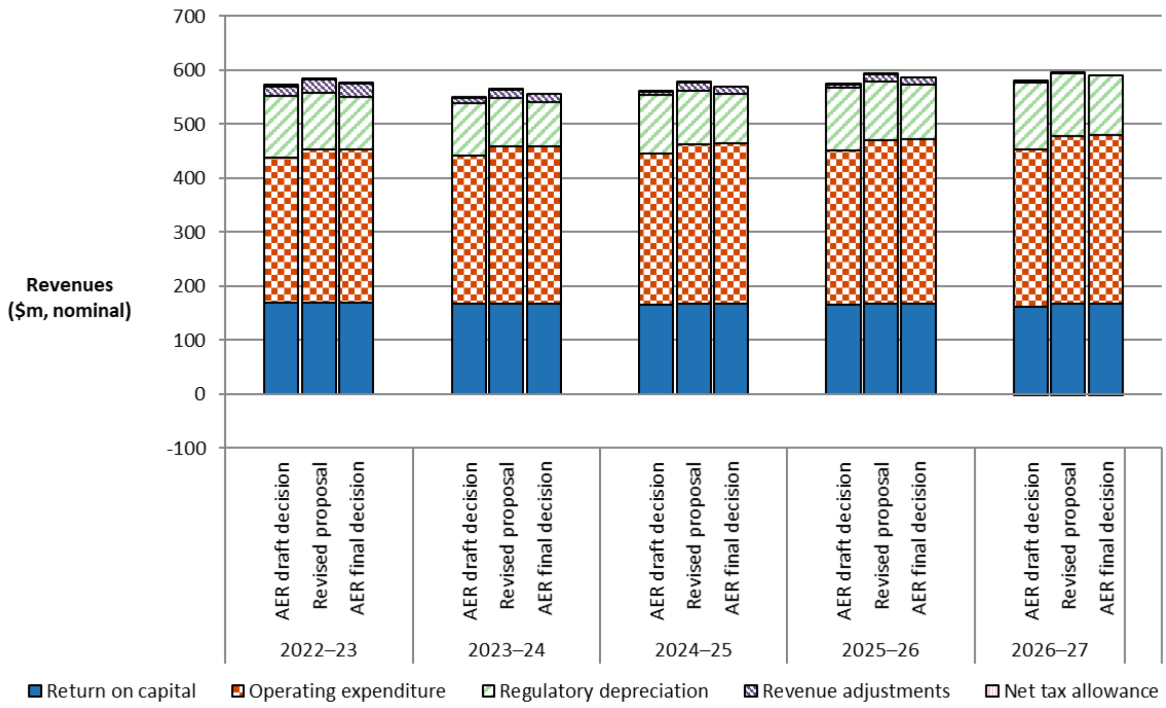
3 AER, *Draft decision, AusNet Services Transmission Determination 2022 to 2027, Attachment 1 Maximum allowed revenue*, June 2021, pp. 6–12.

Figure 1.1 shows the building block components from our final determination that make up the annual building block revenue requirement for AusNet Services, and the corresponding components from its revised proposal and our draft decision. The most significant changes made to AusNet Services' revised proposal ($ nominal) include:

- a decrease in the return on capital of 0.5% (section 2.2 of the Overview)
- a decrease in the regulatory depreciation of 6.7% (attachment 4)
- a decrease in revenue adjustments of 0.3% (section 2.6 of the Overview)
- a decrease in the cost of corporate income tax of 87.6% (attachment 7), although the proposed amount was already relatively small, which explains the large percentage change.

Figure 1.1 AER's draft and final decision, and AusNet Services’ revised proposed annual building block revenue requirement ($million, nominal)



Source: AusNet Services, *Revised Revenue Proposal 2023–27, Post Tax Revenue Model*, 1 September 2021; AER analysis.

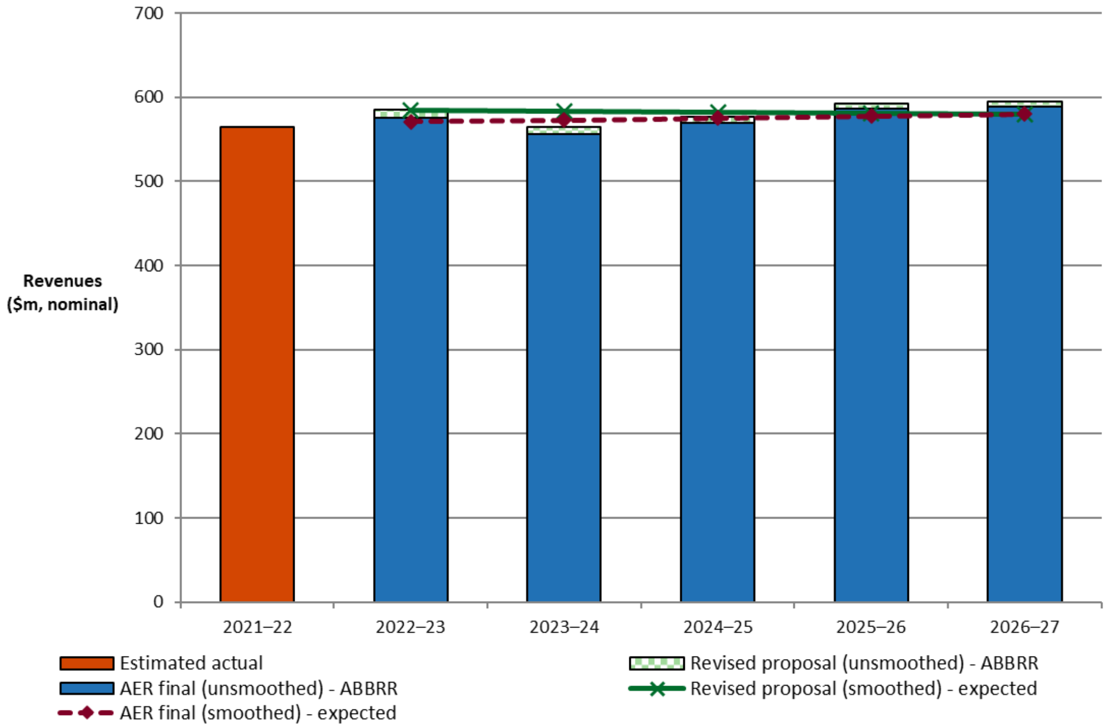
Note: Revenue adjustments include EBSS, CESS, shared assets adjustment and DMIAM amounts. Opex includes debt raising costs.

1.4.1 X factor, annual expected MAR and estimated total revenue cap

For this final decision, we determine an X factor for AusNet Services of 2.00% per annum for the four years of the regulatory control period from 2023–24 to 2026–27.[4] The net present value (NPV) of the annual building block revenue requirement is $2,520.1 million ($ nominal) as at 1 July 2022. Based on this NPV and applying the CPI–X method, we determine that the annual expected MAR (smoothed) for AusNet Services is $570.7 million in 2022–23 increasing to $579.9 million in 2026–27 ($ nominal). The resulting estimated total revenue cap for AusNet Services is $2,876.6 million for the 2022–27 regulatory control period.

Figure 1.2 shows our final decision on AusNet Services' annual expected MAR (smoothed revenue) and the annual building block revenue requirement (unsmoothed revenue) for the 2022–27 regulatory control period.

Figure 1.2 AER's final decision on AusNet Services' revenue for the 2022–27 regulatory control period ($million, nominal)



Source: AER analysis.

Note: Annual building block revenue requirement (ABBRR).

4 AusNet Services is not required to apply an X factor for 2022–23 because we set the 2022–23 MAR in this decision.

To determine the expected MAR for AusNet Services, we have set the MAR for the first regulatory year at $570.7 million ($ nominal) which is $5.1 million lower than the annual building block revenue requirement. We then apply an expected inflation rate of 2.45% per annum and an X factor of 2.00% per annum to determine the expected MAR in subsequent years.[5] We consider that our profile of X factors results in an expected MAR in the last year of the regulatory control period that is as close as reasonably possible to the annual building block revenue requirement for that year.[6]

Our final decision results in an average increase of 0.5% per annum ($ nominal) in the expected MAR over the 2022–27 regulatory control period.[7] This consists of an initial increase of 1.1% from 2021–22 to 2022–23, followed by average annual increases of 0.4% during the remainder of the 2022–27 regulatory control period.[8] Our final decision also results in a decrease of 3.9% in real terms ($2021– 22) to AusNet Services' average annual allowed revenue relative to that in the 2017–22 regulatory control period. This decrease is primarily because of a lower rate of return in this final decision for the 2022–27 regulatory control period than that approved in the 2017–22 determination. There has also been a significant decrease in the net tax allowance across those periods.

Figure 1.3 compares our final and draft decision building blocks for AusNet Services' 2022–27 regulatory control period with AusNet Services' proposed and revised proposed revenue requirement for the same period, and the approved revenue for the 2017–22 regulatory control period.

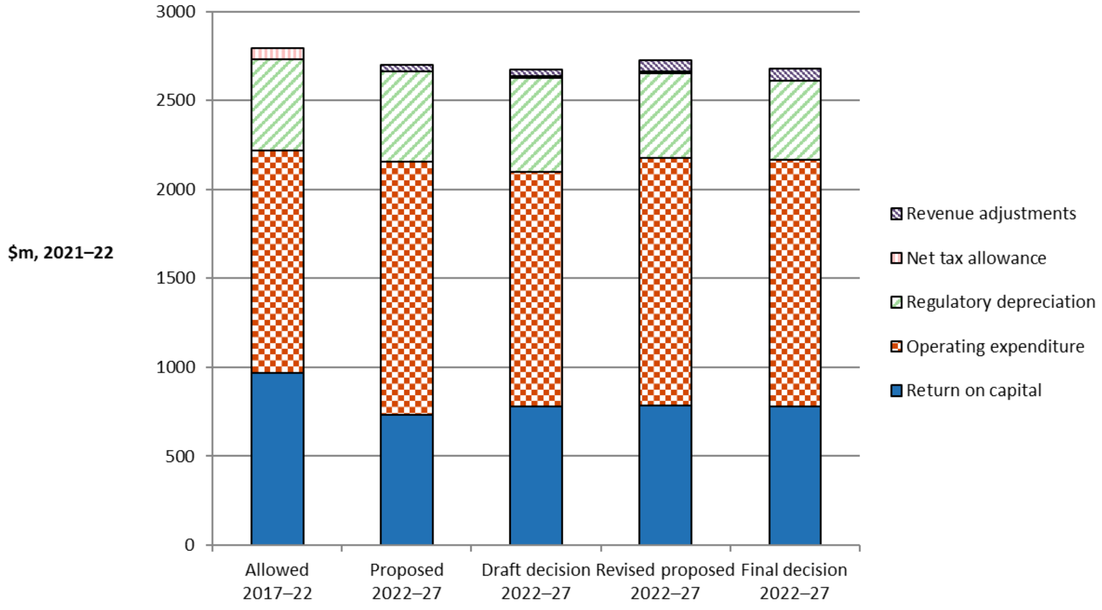
5 NER, cl. 6A.5.3(c)(3).

6 NER, cl. 6A.6.8(c)(2). We consider a divergence of up to 3% between the expected MAR and annual building block revenue requirement for the last year of the regulatory control period is appropriate, if this can achieve smoother price changes for users over the regulatory control period. In the present circumstances, based on the X factors we have determined for AusNet Services, this divergence is around 1.59%.

7 In real 2021–22 dollar terms, the average decrease in our approved expected MAR for AusNet Services is 1.9% per annum over the 2022–27 regulatory control period.

8 In real 2021–22 dollar terms, this consists of an initial decrease of 1.3% from 2021–22 to 2022–23, followed by a subsequent average annual change of 2.0% during the remainder of the 2022–27 regulatory control period.

Figure 1.3 Total revenue by building block components ($million, 2021–22)



Source: AER analysis.

1.4.2 Shared assets

Our final decision is to apply a shared assets revenue adjustment to AusNet Services' total expected MAR for the 2022–27 regulatory control period.

In our draft decision, we accepted AusNet Services' proposal to apply a shared assets revenue adjustment to its revenues. However, we did not accept AusNet Services' proposal to include an offset to the shared assets revenue adjustment. We considered the assets used to calculate the benefits were not shared assets and could not be used to determine an offset under the AER's *Shared asset guideline*.[9] We therefore required the removal of the proposed offset.[10]

AusNet Services' revised proposal adopted the changes required in our draft decision on the shared assets revenue adjustment.[11] We therefore accept this aspect of the revised proposal. Consistent with the draft decision, we confirm our assessment that AusNet Services' forecast unregulated revenues from shared assets for the 2022–27 regulatory control period are reasonable. Our final decision will see $10.8 million ($2021–22) shared with customers across the 2022–27 regulatory control period, using the same assessment approach as the draft decision.

9 AER, *Shared asset guideline*, November 2013.

10 AER, *Draft decision, AusNet Services Transmission Determination 2022 to 2027, Attachment 1 Maximum allowed revenue*, June 2021, pp. 15–19.

11 AusNet Services, *Revised revenue proposal 2023–27*, September 2021, p. 32.

Table 1.3 compares the shared asset revenue adjustments in AusNet Services' revised proposal and our final decision.

Table 1.3 AER's final decision on AusNet Services shared asset revenue adjustment ($ million, 2021–22)

	2022–23	2023–24	2024–25	2025–26	2026–27	Total
AusNet Services' revised proposal	–1.8	–1.9	–2.1	–2.4	–2.6	–10.8
AER's final decision	**–1.8**	**–1.9**	**–2.1**	**–2.4**	**–2.6**	**–10.8**

Source: AusNet Services, *Revised Revenue Proposal 2023–27, Post Tax Revenue Model*, 1 September 2021; AER analysis.

1.4.3 Indicative transmission charges

AusNet Services is the main transmission network service provider for Victoria. Therefore, our final decision on AusNet Services’ expected MAR will ultimately affect the annual electricity bills paid by customers in Victoria. There are several steps required to translate our revenue decision into indicative transmission charges, and then to estimate bill impact.

Since we regulate AusNet Services’ prescribed transmission services under a revenue cap, changes in the consumption of electricity will affect the transmission charges ultimately paid by customers. We estimate the indicative effect of our final decision on forecast average transmission charges in Victoria by:

- taking AusNet Services’ annual expected MAR determined in this draft decision, and
- dividing it by the forecast annual energy delivered in Victoria as published by Australian Energy Market Operator (AEMO).[12]

As noted in our draft decision we have used the energy delivered data from the AEMO’s 2021 *Electricity Statement of Opportunities* for our final decision to calculate the average transmission charges and indicative customer bill impacts. We consider this approach is appropriate because it reflects the best available forecast at this time.[13]

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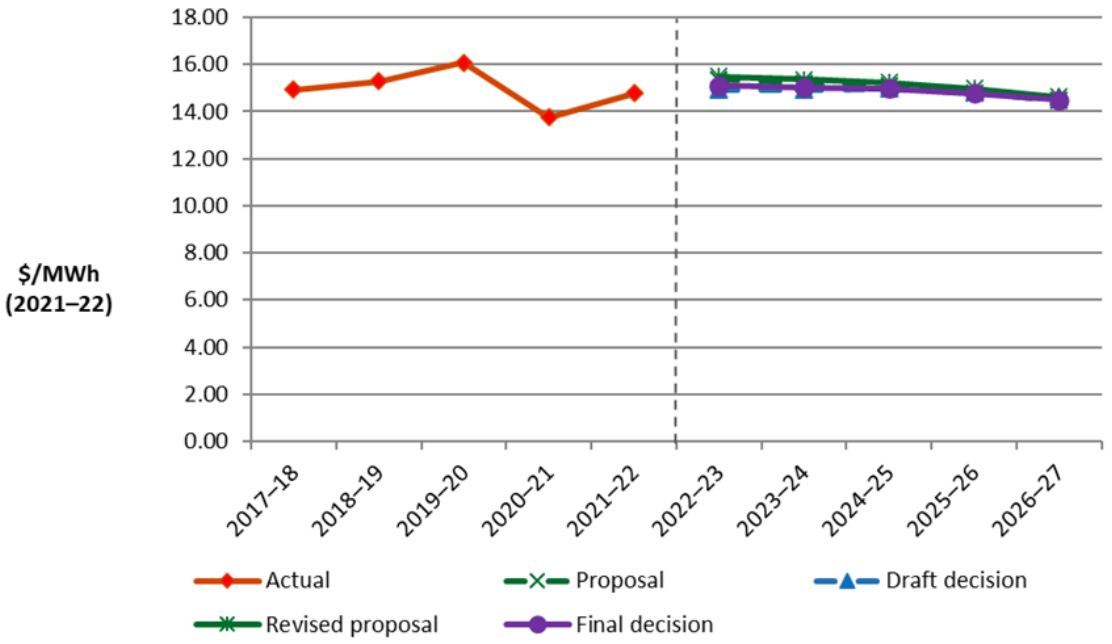
12 AEMO, *National Electricity and Gas forecasting - 2021 Electricity Statement of Opportunities, Electricity and consumption forecast for Victoria (operations out)*;
See http://forecasting.aemo.com.au/Electricity/AnnualConsumption/Operational, accessed on 2 November 2021.

13 AER, *Draft decision, AusNet Services Transmission Determination 2022 to 2027, Attachment 1 Maximum allowed revenue*, June 2021, p. 20.
Our draft decision used the average of AEMO's 2019 and 2020 energy delivered forecast in the average transmission charges calculation because of the uncertainty created by COVID-19 on the projected energy demand. Our draft decision stated that we would account for the updated energy delivered forecast from AEMO's 2021 *Electricity Statement of Opportunities* (ESOO) for our final decision. AEMO's 2021 ESOO energy forecast is

Based on our approach, we estimate that this final decision will result in an increase in annual average transmission charges from 2021–22 to 2026–27.[14]

Figure 1.4 shows the indicative average transmission charges over the period 2017–22 to 2022–27 in real 2021–22 dollar terms based on the expected revenues established in our final decision, compared to AusNet Services' revised proposed revenue requirement. The average transmission charges are expected to reduce from around $14.8 per MWh in 2021–22 to $14.5 per MWh in 2026–27.

Figure 1.4 Indicative transmission price path for Victoria ($/MWh, $2021–22)



Source: AER analysis.

Notes: The price path for the transmission network is based on actual and forecast energy throughput amounts for AusNet Services' transmission network across Victoria.

1.4.4 Expected impact on electricity bills

The annual electricity bill for customers in Victoria reflects the combined cost of all the electricity supply chain components—wholesale energy generation, transmission, distribution, metering, and retail costs. This final decision primarily relates to the transmission charges for AusNet Services' prescribed transmission services, which

largely the same as contained in its 2020 ESOO, and is lower than the 2019 ESOO forecast which was prepared prior to the start of the COVID-19 pandemic.

14 On average, the final decision transmission revenues will increase by 0.5% ($ nominal) per annum from 2021–22 to 2026–27. The forecast energy delivered in Victoria is expected to decrease by an average of 1.2% per annum across that period. As a result, the indicative transmission charge is expected to increase by 1.8% ($ nominal) per annum from 2021–22 to 2026–27.

represent approximately 5.5% and 5.3% on average for residential customers' and small business customers' annual electricity bill in Victoria respectively.[15]

We estimate the expected bill impact by varying AusNet Services’ transmission charges in accordance with our final decision, while holding all other components constant. This approach isolates the effect of our final decision on the core transmission charges for AusNet Services only. However, this does not imply that other components will remain unchanged across the regulatory control period.[16]

Based on this approach, we expect that the transmission component of the average annual residential electricity bill in 2026–27 will increase by about $7 ($ nominal) or 0.5% from the 2021–22 total bill level. This outcome is substantially the same as the revised proposal.

Our estimated impact is based on the typical annual electricity usage of 4000 kWh per annum for a residential customer in Victoria.[17] Therefore, customers with different usage will experience different changes in their bills. We also note that there are other factors, such as metering, wholesale and retail costs, which affect electricity bills.

Similarly, for an average small business customer in Victoria, we have estimated the bill impact for two customer categories:[18]

- Small business (low usage) customers consuming 12,000 kWh per annum.
- Small businesses (high usage) customers consuming 20,000 kWh per annum.

We expect the transmission component of the average annual electricity bill for a low usage small business customer in 2026–27 to increase by about $15 ($ nominal) or 0.5% from the 2021–22 total bill level.

Likewise, the transmission component of the average annual electricity bill for a high usage small business customer in 2026–27 is expected to increase by about $26 ($ nominal) or 0.5% from the 2021–22 total bill level.

Table 1.4 shows our estimated impact of our final decision and AusNet Services’ revised proposal on the average annual electricity bills for residential and small business customers in Victoria over the 2022–27 regulatory control period.

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15 AusNet Services, *Regulatory Proposal 2023–27, Reset RIN Workbook 7,* 29 October 2020.

16 It also assumes that actual energy consumption will equal the forecast adopted in our draft decision. Since AusNet Services operates under a revenue cap, changes in energy consumption will also affect annual electricity bills across the 2022–27 regulatory control period.

17 Essential Services Commission of Victoria, *Victorian Default Offer 2021*, *Final decision*, 25 November 2020, p. 47.

18 Estimated bill data sourced from: Essential Services Commission of Victoria, *Victorian Default Offer 2021*, *Final decision*, 25 November 2020, pp. 4–5, 47; Essential Services Commission of Victoria, *Victorian Energy Market update*, June 2021, p. 6.

Table 1.4 Estimated impact of AusNet Services' revised revenue proposal and the AER's final decision on average annual electricity bills for the 2022–27 regulatory control period ($ nominal)

	2021–22	2022–23	2023–24	2024–25	2025–26	2026–27
AER final decision						
Residential annual electricity bill	1358	1360	1362	1363	1364	1365
Annual change		2 (0.2%)	1 (0.1%)	2 (0.1%)	1 (0.1%)	0 (0%)
Small business with 12,000 kWh consumption annual bill	3157	3162	3166	3169	3171	3172
Annual change		5 (0.2%)	3 (0.1%)	4 (0.1%)	2 (0.1%)	1 (0%)
Small business with 20,000 kWh consumption annual bill	5488	5497	5503	5509	5512	5514
Annual change		9 (0.2%)	6 (0.1%)	7 (0.1%)	3 (0.1%)	2 (0%)
AusNet Services revised proposal						
Residential annual electricity bill	1358	1362	1363	1365	1365	1365
Annual change		4 (0.3%)	1 (0.1%)	1 (0.1%)	0 (0%)	–0 (–0%)
Small business with 12,000 kWh consumption annual bill	3157	3166	3169	3172	3172	3172
Annual change		9 (0.3%)	2 (0.1%)	3 (0.1%)	1 (0%)	–0 (–0%)
Small business with 20,000 kWh consumption annual bill	5488	5504	5509	5513	5515	5514
Annual change		16 (0.3%)	4 (0.1%)	5 (0.1%)	1 (0%)	–0 (–0%)

Source: Essential Services Commission of Victoria, *Victorian Default Offer 2021*, *Final decision*, 25 November 2020, pp. 4–5, 47; Essential Services Commission of Victoria, *Victorian Energy Market update*, June 2021, p. 6. AusNet Services, *Regulatory Proposal 2023–27, Reset RIN Workbook 7,* 29 October 2020; AEMO, *National Electricity and Gas forecasting - 2021 Electricity Statement of Opportunities, Electricity and consumption forecast for Victoria (operations out)*, August 2021.
See http://forecasting.aemo.com.au/Electricity/AnnualConsumption/Operational, accessed on 2 November 2021.

Note: Energy consumption figures used in the bill calculation are based on AEMO's 2021 *Electricity Statement of Opportunities* demand forecasts.

Shortened forms

Shortened form	Extended form
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
CESS	capital expenditure sharing scheme
CPI	consumer price index
DMIAM	demand management innovation allowance mechanism
EBSS	efficiency benefit sharing scheme
MAR	maximum allowed revenue
NER	National Electricity Rules
NPV	net present value
opex	operating expenditure
RAB	regulatory asset base