

Final decision

CitiPower electricity distribution determination

1 July 2026 to 30 June 2031

**Attachment 1 – Building block approach: Annual revenue
requirement, Regulatory asset base, Regulatory
depreciation and Corporate income tax**

April 2026

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1 Building block approach

We determine the distributor’s annual revenue requirement (ARR) using a building block approach. The efficient costs to be recovered by a distributor can be thought of as being made up of various building block costs. Our final decision assesses each of the building block costs and the elements that drive these costs. The building block costs are approved reflecting trade-offs and interactions between the cost elements, service quality and across years.

Table 1.1 shows the building block costs that form the ARR for each year and where discussion on the elements that drive these costs can be found within this final decision.

Table 1.1 Building block costs

Building block costs	Attachments where elements are discussed
Return on capital	Building block approach – Regulatory asset base (Attachment 1) Rate of return (Overview) Capital expenditure (Attachment 2)
Regulatory depreciation (return of capital)	Building block approach – Regulatory asset base (Attachment 1) Building block approach – Regulatory depreciation (Attachment 1) Expected inflation rate (Overview) Capital expenditure (Attachment 2)
Operating expenditure	Operating expenditure (Attachment 3)
Estimated cost of corporate income tax	Building block approach – Corporate income tax (Attachment 1)
Other revenue adjustments	
Adjustments for shared assets	Building block approach – Annual revenue requirement (Attachment 1)
Operating efficiency benefits/penalties	Efficiency benefit sharing scheme (Overview)
Capital efficiency benefits/penalties	Capital expenditure sharing scheme (Attachment 6)
Demand management innovation allowance	Demand management incentive scheme and Demand management innovation allowance mechanism (Overview)

1.1 Annual revenue requirement

This section sets out our final decision on CitiPower’s ARR and expected revenues for the provision of standard control services (SCS) over the 2026–31 regulatory control period. Specifically, it sets out our final decision on:¹

- the ARRs (unsmoothed), which are the sum of annual building block costs
- the total revenue requirement, which is the sum of the ARRs
- the annual expected revenues (smoothed)
- the X factors.

We determine CitiPower’s ARRs using a building block approach. We determine the X factors by smoothing the ARRs over the 2026–31 period. The X factor is used in the CPI–X methodology to determine the annual expected revenues (smoothed).²

1.1.1 Final decision

We determine a total ARR of \$2,043.7 million (\$ nominal, unsmoothed) for CitiPower over the 2026–31 period. This amount reflects our final decision on the various building block costs and represents an increase of \$4.3 million (0.2%) to CitiPower’s revised proposal.

The increase to the total ARR is mainly driven by a higher rate of return, which increases the return on capital and cost of corporate income tax building blocks in this final decision. This increase has been partially offset by our final decision to reduce CitiPower’s forecast capital expenditure (capex), and our determinations on incentive scheme outcomes, which lower the regulatory depreciation and revenue adjustments building blocks respectively.

We determine the annual expected revenue (smoothed) and X factor for each regulatory year for the 2026–31 period by smoothing the ARRs. Our final decision is to approve total expected revenues of \$2,039.0 million (\$ nominal, smoothed) for CitiPower for the 2026–31 period.

Table 1.2 sets out our final decision on the building block costs, the ARR, annual expected revenue and X factor for CitiPower over the 2026–31 period.

¹ NER, cl. 6.3.2(a)(1), 6.5.9(a) and 6.5.9(b)(1)–(2).

² NER, cl. 6.2.6(a) and 6.5.9.

Table 1.2 AER’s final decision on CitiPower’s ARR, annual expected revenue and X factor for the 2026–31 period (\$ million, nominal)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Return on capital	141.8	153.2	165.6	176.4	185.8	822.8
Regulatory depreciation ^a	97.4	103.2	111.8	123.5	131.1	567.0
Operating expenditure ^b	109.0	117.5	120.5	125.8	128.8	601.5
Revenue adjustments ^c	–3.3	–6.3	–0.9	–1.8	0.8	–11.4
Cost of corporate income tax	10.0	8.8	12.8	15.6	16.7	63.9
Annual revenue requirement (unsmoothed)	354.9	376.4	409.8	439.5	463.2	2,043.7
Annual expected revenue (smoothed)	368.3	387.1	406.8	427.5	449.3	2,039.0
X factor ^d	n/a ^e	–2.41%	–2.41%	–2.41%	–2.41%	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, where applicable, from the efficiency benefit sharing scheme (EBSS), the capital expenditure sharing scheme (CESS), shared asset adjustment and the demand management innovation allowance mechanism (DMIAM).
- (d) 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.
- (e) CitiPower is not required to apply an X factor for 2026–27 because we set the 2026–27 expected revenue in this decision. The expected revenue for 2026–27 is around 3.6% lower than the approved total annual revenue for 2025–26 in real terms, or 1.1% lower in nominal terms.

1.1.2 CitiPower’s revised proposal

CitiPower’s revised proposal included a total expected revenue (smoothed) of \$2,034.9 million (\$ nominal) for the 2026–31 period. Its revised proposal sets out the details of its building block costs, the ARR, annual expected revenue and X factors over the 2026–31 period.³

1.1.3 Assessment approach

We did not change the building block approach we use to determine the expected revenue from our draft decision. Attachment 1 (appendix A.1) of our draft decision details that approach.⁴

1.1.4 Reasons for final decision

We determine a total ARR of \$2,043.7 million (\$ nominal, unsmoothed) for CitiPower over the 2026–31 period. This is an increase of \$4.3 million (0.2%) to CitiPower’s revised proposed total ARR of \$2,039.5 million for this period. This reflects the impact of our final decision on the various building block costs.

The changes we made to CitiPower’s revised proposal building blocks include (in nominal terms):

- An increase in the return on capital of \$26.4 million or 3.3%. This is primarily driven by a higher rate of return (Overview section 2.2) in our final decision to reflect changes in financial market data, observed in accordance with the 2022 *Rate of Return Instrument*. Our reduction to CitiPower’s revised proposed forecast capex (Attachment 2) has partially offset this increase in the return on capital.
- A reduction in the regulatory depreciation of \$6.8 million or 1.2% (section 1.3). This is primarily due to our final decision to apply a higher expected inflation rate (Overview section 2.2) for the 2026–31 period. Our final decision to reduce CitiPower’s forecast capex, which has reduced straight-line depreciation in the 2026–31 period has further reduced the regulatory depreciation building block.
- An increase in the operating expenditure (opex) forecast of \$1.3 million or 0.2% (Attachment 3). While our final decision is to accept CitiPower’s revised proposed opex, the higher expected inflation rate in our final decision increases the opex forecast in nominal terms.
- A reduction in the revenue adjustments of \$25.8 million. This is driven primarily by our final decision to determine a higher Efficiency benefit sharing scheme (EBSS) penalty (Overview section 2.7) and a lower Capital expenditure sharing scheme (CESS) benefit (Attachment 6) compared to CitiPower’s revised proposal.
- An increase in the cost of corporate income tax of \$9.2 million or 16.7% (section 1.4). This is driven primarily by our final decision on a higher return on equity (Overview

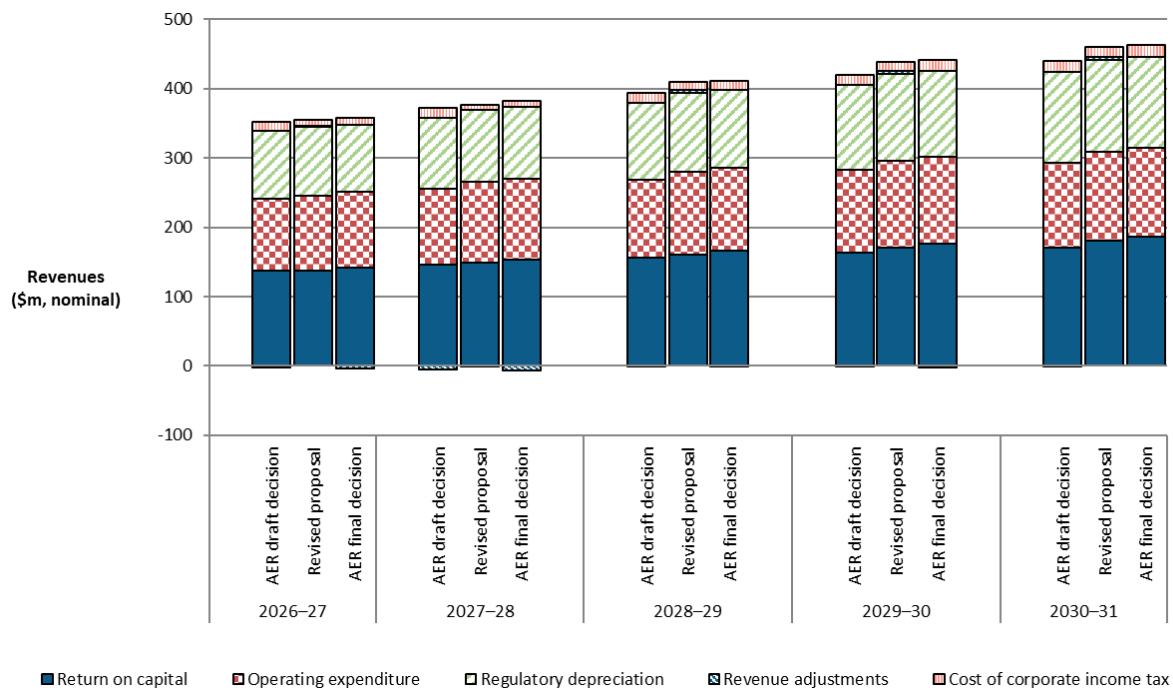
³ CitiPower, *CP RRP MOD 2.01 - SCS PTRM*, December 2025.

⁴ AER, *Draft decision: CitiPower electricity distribution determination 1 July 2026 to 30 June 2031 – Attachment 1 – Building block approach: Annual revenue requirement, Regulatory asset base, Regulatory depreciation and Corporate income tax*, September 2025, pp. 40–42.

section 2.2) and higher forecast capital contributions, which are components of taxable revenue. Lower tax depreciation from the forecast capex reduction, which is a component of tax expense, also contributes to the increase in the cost of corporate income tax.

Figure 1.1 shows the building block components from our final decision that make up the ARR for CitiPower, and the corresponding components from its revised proposal and our draft decision.

Figure 1.1 AER's draft and final decisions, and CitiPower's revised proposal ARR (\$ million, nominal)



Source: AER analysis, CitiPower, *CP RRP MOD 2.01 - SCS PTRM*, December 2025.

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

1.1.4.1 X factor and annual expected revenue

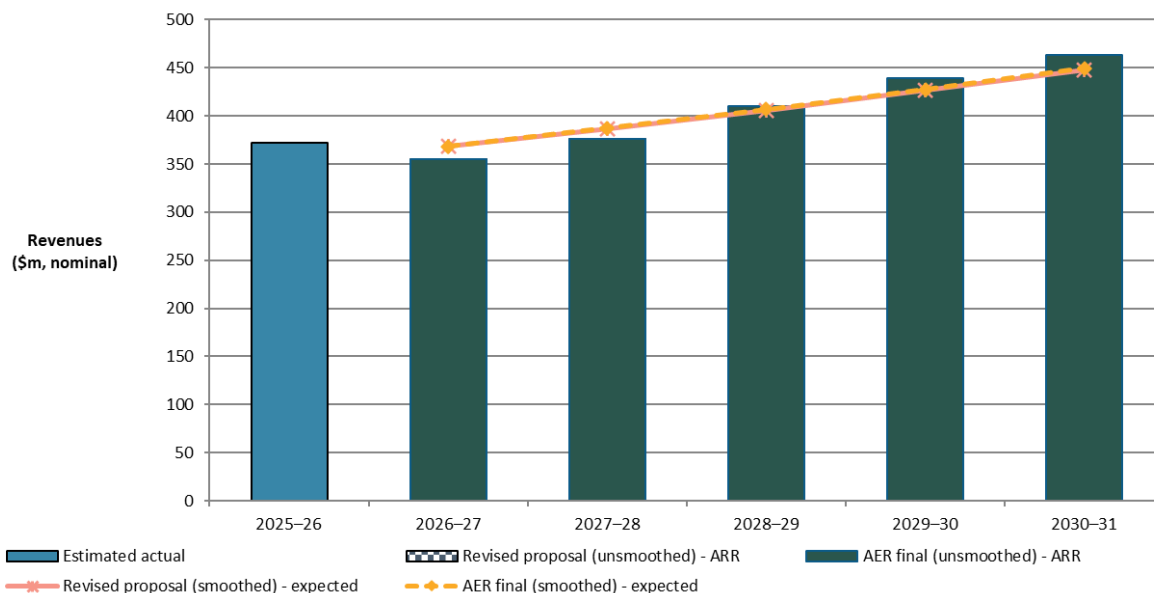
To determine the profile of expected revenue for CitiPower over the 2026–31 period, we have set the expected revenue for the first regulatory year at \$368.3 million (\$ nominal). This is \$13.4 million higher than the ARR for that first year. We then apply an expected inflation rate of 2.62% per annum and a profile of X factors to determine the expected revenue in subsequent years.⁵

For this final decision, we determine X factors for CitiPower of –2.41% per annum from 2027–28 to 2030–31. The net present value (NPV) of the ARRs is \$1,695.1 million (\$ nominal) as at 1 July 2026. Based on this NPV and applying the CPI–X framework, we determine that the expected revenue (smoothed) for CitiPower is \$368.3 million in 2026–27 increasing to \$449.3 million in 2030–31 (\$ nominal). The resulting total expected revenue is \$2,039.0 million for the 2026–31 period.

⁵ NER, cl. 6.5.9(a).

Figure 1.2 shows our final decision on CitiPower’s annual expected revenue (smoothed revenue) and the ARR (unsmoothed revenue) for the 2026–31 period.

Figure 1.2 AER's final decision on CitiPower’s revenue for the 2026–31 period (\$ million, nominal)



Source: AER analysis, CitiPower, *CP RRP MOD 2.01 - SCS PTRM*, December 2025.

The X factors we set minimise, as far as reasonably possible, the variance between the expected revenue (smoothed) and the ARR (unsmoothed) in the last year of the 2026–31 period.⁶ This helps to minimise any potential large revenue variance (and thus price shocks) at the commencement of the 2031–36 period. Our standard approach has been to keep a divergence of up to $\pm 3\%$ between the smoothed and unsmoothed revenues for the last year of the regulatory control period. This is with the objective to achieve smoother price changes across regulatory control periods.

Our draft decision revenue smoothing profile provided a final year revenue difference of 3%. CitiPower’s revised proposal revenue smoothing profile adopted a final year revenue difference of -2.9% , which is within our preferred $\pm 3\%$ threshold. We did not receive any stakeholder submissions on revenue smoothing.

For this final decision, we have approved slightly higher revenues than CitiPower’s revised proposal. This is mainly driven by a higher rate of return, which increases the return on capital. The increase in revenues has been partially offset by our final decision to reduce CitiPower’s forecast capex, and our determinations on the incentive scheme outcomes.

Consistent with our draft decision, this final decision also allows for higher revenues than those determined in the 2021–26 period (discussed further below). In nominal terms, CitiPower’s unsmoothed revenue for the first year of the 2026–31 period (2026–27) is about 4.7% lower than its approved revenue for the last year of the 2021–26 period (2025–26). It then increases by an average of 6.9% per annum over the remaining 4 years of the period.

⁶ NER, cl. 6.5.9(b)(2).

We are mindful of the impact this revenue increase over the final 4 years of the period could have on network charges for CitiPower’s consumers (in the event forecast energy growth is lower than expected). Consequently, we have smoothed the expected revenues by reducing the increases and passing on an appropriate reduction in 2026–27.

Our final decision revenue smoothing results in a final year difference of –3%.⁷ On balance, we consider that our profile of X factors for this final decision results in an expected revenue in the last year of the 2026–31 period that is as close as reasonably possible to the ARR for that year.⁸ We are satisfied that our revenue smoothing approach balances the need of promoting smoother price changes for customers across the 2026–31 period and minimising a large revenue variance at the commencement of the subsequent regulatory control period (2031–36).

Our final decision results in an:

- Average increase of 3.8% per year (\$ nominal) in the expected revenue over the 2026–31 period.⁹ This consists of an initial reduction of 1.1% for 2026–27, followed by average annual increases of 5.1% during the remainder of the 2026–31 period.¹⁰
- Increase of \$519.1 million (34.0%) in nominal dollar terms to CitiPower’s total ARR relative to the 2021–26 period.¹¹ This is because:
 - Approximately 51% of the increase is due to factors largely outside the control of CitiPower. This includes higher actual inflation rates for the 2021–26 period, which increase the indexation component of the opening RAB as at 1 July 2026. It is also driven by a higher rate of return on equity and interest rates for the 2026–21 period, which lead to a higher forecast rate of return (Overview section 2.2). Together, these changes in market variables result in a higher return on capital building block compared to the current period. The higher return on equity in the 2026–31 period also increases the cost of corporate income tax building block in this period.
 - the remaining 49% of the increase is driven by other factors. This is primarily due to higher forecast capex in the 2026–31 period driving moderate growth in the forecast RAB in real term, which results in increases to the return on capital and regulatory depreciation building blocks in this period.

1.1.4.2 Shared assets

Our final decision is to apply a shared asset revenue adjustment to CitiPower’s total expected revenue for the 2026–31 period.

In our draft decision, we applied a shared asset decrement of \$2.9 million (\$2025–26) because we estimated that the unregulated revenues were greater than 1% of CitiPower’s

⁷ A negative final year difference means our 2030–31 expected revenue is lower than the ARR for that year.

⁸ NER, cl. 6.5.9(b)(2).

⁹ In real 2025–26 dollar terms, our approved expected revenue for CitiPower results in an average increase of 1.2% per annum over the 2026–31 period.

¹⁰ In real 2025–26 dollar terms, this consists of an initial reduction of 3.6% in 2026–27, followed by average annual increases of 2.4% during the remainder of the 2026–31 period.

¹¹ In real 2025–26 dollar terms, our final decision results in an increase of \$163.8 million (9.5%) to CitiPower’s total ARR relative to that in the 2021–26 period.

expected revenues in each year of the 2026–31 period. This is a slightly higher shared asset decrement than that initially proposed by CitiPower after adjusting for the forecast cash flow timing assumption to reflect end of year values applied in the PTRM and update for expected inflation. Therefore, the materiality threshold was met in each year of the 2026–31 period.¹²

CitiPower’s revised proposal applied a lower shared asset revenue adjustment decrement of \$2.2 million (\$2025–26). In its response to our information request, CitiPower confirmed the revised proposal’s shared asset revenue adjustment had been updated to reflect a reduction in its forecast shared asset unregulated revenue over the 2026–31 period.¹³

Our final decision determines higher expected revenues than CitiPower’s revised proposal. We have calculated that CitiPower’s unregulated revenues will be greater than 1% of its expected revenues in each year of the 2026–31 period. Hence, the materiality threshold is met in each year of the 2026–31 period and we apply a shared asset revenue adjustment over this period.

1.1.4.3 Indicative average distribution price impact

Our final decision on CitiPower’s expected revenues ultimately affects the prices consumers pay for electricity. There are several steps required in translating our revenue decision into indicative distribution price impacts.

We regulate CitiPower’s SCS under a revenue cap form of control. This means our final decision on CitiPower’s expected revenues does not directly translate to price impacts. This is because CitiPower’s revenue is fixed under the revenue cap form of control, so changes in the consumption of electricity will affect the prices ultimately charged to consumers.

We are not required to establish the distribution prices for CitiPower as part of this determination. However, we will assess CitiPower’s annual pricing proposals before the commencement of each regulatory year within the 2026–31 period. In each assessment we will administer the pricing requirements set in this distribution determination.

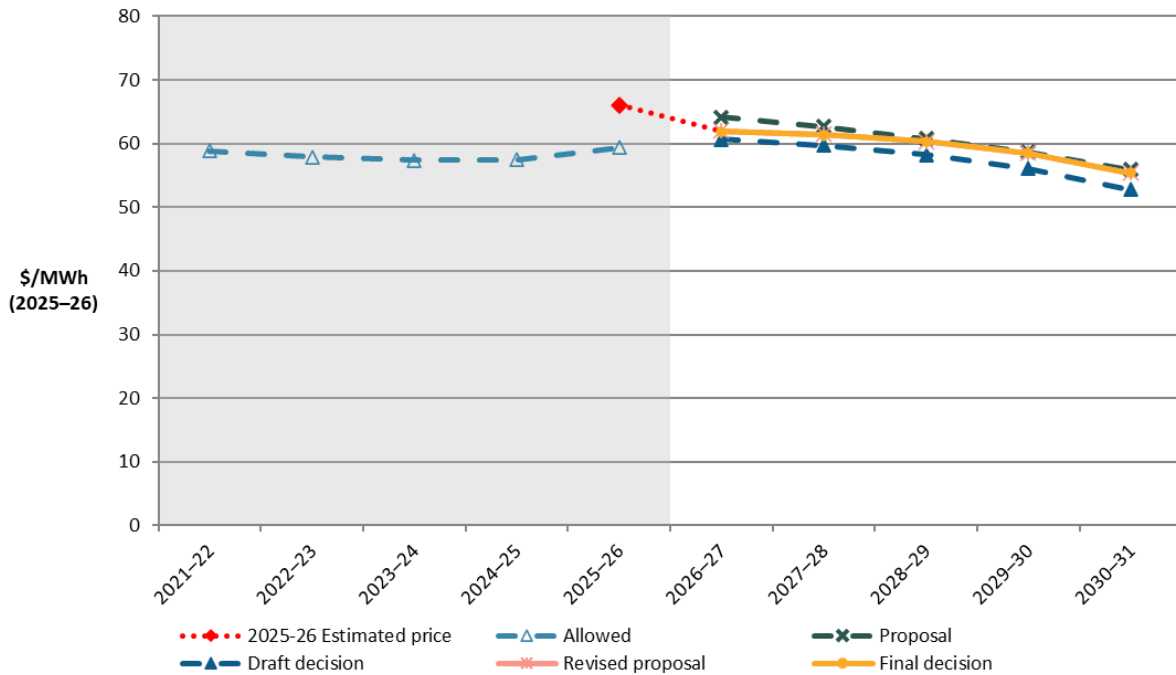
For this final decision, we have estimated some of the indicative average distribution price impacts flowing from our determination on the expected revenues for CitiPower over the 2026–31 period. In this section, our estimates only relate to SCS (that is, the core electricity distribution charges), not alternative control services (such as metering or public lighting). These indicative price impacts assume that the actual energy consumption over the period matches CitiPower’s forecast energy consumption, which we have adopted for calculating the indicative price path. Consistent with our draft decision, we have maintained the sensitivities of the price impacts to changes in forecast energy delivered used in our final decision at section 1.1.4.5. We have not factored in any changes arising from incentive scheme amounts, cost pass throughs or unders/overs reconciliation that usually occur in the annual pricing process to come up with total allowed revenue.

¹² AER, *Draft decision: CitiPower electricity distribution determination 1 July 2026 to 30 June 2031 – Attachment 1 – Building block approach: Annual revenue requirement, Regulatory asset base, Regulatory depreciation and Corporate income tax*, September 2025, p. 8.

¹³ CitiPower, *Response to AER information request #084*, 26 February 2026, pp. 1–2.

Figure 1.3 shows CitiPower’s indicative distribution price paths over the period from 2021–22 to 2030–31 in real 2025–26 dollar terms based on the expected revenues established in our final decision compared to CitiPower’s revised proposed revenue requirement. The indicative price path is estimated using the approved expected revenue and dividing by forecast energy consumption for each year of the 2021–26 period.

Figure 1.3 Indicative distribution price path for CitiPower (\$/MWh, 2025–26)



Source: AER analysis, CitiPower, *CP RRP MOD 2.01 - SCS PTRM*, December 2025.

We estimate that our final decision on CitiPower’s annual expected revenue will result in a reduction to average distribution charges of about 3.4% per annum over the 2026–31 period in 2025–26 dollar terms.¹⁴ This compares to the real average reduction of approximately 3.5% per annum over the 2026–31 period in CitiPower’s revised proposal. These high-level estimates reflect the aggregate change across the entire network and do not reflect the particular tariff components for specific end users.

Table 1.3 displays in nominal terms the comparison of the price impacts of CitiPower’s revised proposal and our final decision.

¹⁴ In nominal terms, we estimate average distribution charges to reduce by 0.9% per annum. This amount reflects an expected inflation rate of 2.62% per annum as determined in this final decision

Table 1.3 Comparison of price impact of CitiPower’s revised proposal and the AER’s final decision (\$ nominal)

	2025–26	2026–27	2027–28	2028–29	2029–30	2030–31
AER final decision						
Price path (\$/MWh) ^a	66.0	63.5	64.6	65.2	64.9	63.1
Price path (change %)	–	–3.8%	1.8%	0.8%	–0.4%	–2.8%
CitiPower’s revised proposal						
Price path (\$/MWh) ^a	66.0	63.6	64.6	65.0	64.7	62.8
Price path (change %)	–	–3.7%	1.6%	0.7%	–0.6%	–2.9%

Source: AER analysis; CitiPower, *CP RRP MOD 2.01 - SCS PTRM*, December 2025.

(a) The price path is in nominal terms and is constructed by dividing the nominal expected revenue for SCS by forecast energy consumption for each year of the period.

1.1.4.4 Expected impact of final decision on electricity bills

The annual electricity bill for customers in CitiPower’s network 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 distribution charges for CitiPower’s SCS, which represent on average approximately 28% of residential customers annual electricity bills and about 31% of small business customers’ annual electricity bills in CitiPower’s network area.¹⁵

We estimate the expected bill impact by varying the distribution charges in accordance with our final decision, while holding all other components—including the metering component—constant.¹⁶ This approach isolates the effect of our final decision on the SCS distribution charges only for CitiPower. However, this does not imply that the other components will remain unchanged across the period.¹⁷

Based on this approach, we expect that our final decision on the distribution component will reduce the average annual residential electricity bill in 2030–31 by about \$19 (\$nominal) or 1.3% from the 2025–26 total bill level.

Our estimated bill impact is based on the typical annual electricity usage of 4,000 kWh and for residential customers in CitiPower’s network.¹⁸ Therefore, customers with different usage

¹⁵ AER analysis; CitiPower, *2025–26 - Final - SCS pricing model*; Essential Services Commission, *Victorian Default Offer 2025–26: Decision Model*, 21 May 2025.

¹⁶ We also have not factored in any changes arising from incentive scheme amounts, cost pass throughs or unders/overs reconciliation that usually occur in the annual pricing process. The other components that make up a typical electricity bill are held constant at the levels established in the 2025–26 Victorian default offer.

¹⁷ It also assumes that actual energy consumption will equal the forecast adopted in our final decision. Since CitiPower operates under a revenue cap, changes in energy consumption will also affect annual electricity bills across the 2026–31 period.

¹⁸ Essential Services Commission, *Victorian Default Offer 2025–26: Decision Model*, 21 May 2025.

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 average small business customers in CitiPower’s network, we have estimated the bill impact for two customer categories:¹⁹

- consuming 10,000 kWh per annum, which the Essential Services Commission of Victoria (ESCV) noted as the ‘representative’ usage comparable to that adopted for default market offers in other jurisdictions
- consuming 20,000 kWh per annum, which the ESCV had historically adopted as average annual usage for small business customers in Victoria.

We expect that our final decision on the distribution component will reduce the average electricity bill in 2030–31 for a small business customer (10,000 kWh) by about \$44 (\$ nominal) or 1.4% from the 2025–26 total bill level.

Likewise, the distribution component is expected to reduce the average annual electricity bill in 2030–31 for a small business customer (20,000 kWh) by about \$80 (\$ nominal) or 1.4% from the 2025–26 total bill level.

Table 1.4 shows the estimated impact of our final decision and CitiPower’s revised proposal on the average annual electricity bills for residential and small business customers in its network over the 2026–31 period.

¹⁹ Essential Services Commission, *Victorian Default Offer 2025–26: Decision Model*, 21 May 2025

Table 1.4 Estimated impact of CitiPower’s revised proposal and AER’s final decision on annual electricity bills for the 2026–31 period (\$ nominal)

	2025–26 ^a	2026–27	2027–28	2028–29	2029–30	2030–31
AER final decision						
Residential (4,000 kWh consumption)	1,546	1,530	1,537	1,540	1,538	1,527
Annual change ^b	–	–16 (–1.1%)	7 (0.5%)	3 (0.2%)	–2 (–0.1%)	–12 (–0.8%)
Small business (10,000 kWh consumption)	3,186	3,149	3,165	3,173	3,169	3,142
Annual change ^b	–	–37 (–1.2%)	17 (0.5%)	8 (0.2%)	–4 (–0.1%)	–27 (–0.8%)
Small business (20,000 kWh consumption)	5,843	5,776	5,806	5,820	5,812	5,763
Annual change	–	–67 (–1.2%)	30 (0.5%)	14 (0.2%)	–8 (–0.1%)	–49 (–0.8%)
CitiPower’s revised proposal						
Residential (4,000 kWh consumption)	1,546	1,530	1,537	1,539	1,537	1,525
Annual change ^b	–	–16 (–1.0%)	7 (0.4%)	3 (0.2%)	–2 (–0.2%)	–12 (–0.8%)
Small business (10,000 kWh consumption)	3,186	3,149	3,165	3,171	3,166	3,138
Annual change ^b	–	–37 (–1.1%)	15 (0.5%)	6 (0.2%)	–5 (–0.2%)	–28 (–0.9%)
Small business (20,000 kWh consumption)	5,843	5,777	5,805	5,816	5,807	5,756
Annual change ^b	–	–66 (–1.1%)	28 (0.5%)	12 (0.2%)	–10 (–0.2%)	–51 (–0.9%)

Source: AER analysis; CitiPower, *Regulatory proposal - CP RIN 05 – Workbook 5 – Bill impacts*, January 2025.

(a) Essential Services Commission, *Victorian Default Offer 2025–26*, 21 May 2025, pp. 12–14; Essential Services Commission, *Victorian Default Offer 2025–26: Decision Model*, 21 May 2025.

(b) Annual change amounts and percentages are indicative. They are derived by varying the distribution component of the 2025–26 bill amounts in proportion to yearly expected revenue divided by the forecast energy proposed by CitiPower. Actual bill impacts will vary depending on electricity consumption and tariff class.

1.1.4.5 Sensitivity of forecast energy delivered on bills

The impact of our final decision on customer bills is likely to change over the 2026–31 period. CitiPower forecast the amount of annual energy delivered through its network will increase from 5,639 GWh in 2025–26 to 7,125 GWh in 2030–31, a significant increase of 1,486 GWh,

or 26.3% over the period. We have applied the same energy forecasts used to estimate bill impacts in the draft decision to inform the illustrative estimates of tariff and bill impacts in this final decision. A variance in actual energy consumption, compared to that forecast by CitiPower would lead to bill impacts that are higher or lower than what we have estimated.

In our draft decision, we noted stakeholders had welcomed the proposed moderate impact on customer bills. However, they raised concerns that the proposed increase in revenues were tied to proposed material forecast increases in electricity demand resulting in low estimated impacts on electricity bills.²⁰ These stakeholders highlighted there is a degree of uncertainty and risk around the demand forecasts proposed by CitiPower, noting that if actual energy delivered over the 2026–31 period is less than forecast, distribution network tariffs and customer bills would be higher, all else being equal.²¹ This is because CitiPower operates under a revenue cap and is therefore entitled to recover the revenue we determine, regardless of the actual energy delivered.

For example, if energy delivered were to increase over the period at 40% of the rate forecast by CitiPower, the modelled impact on average annual bills would be:²²

- a nominal increase of \$39 (2.5%) by 2030–31 for a residential customer
- a nominal increase of \$89 (2.8%) by 2030–31 for a small business customer (10,000 kWh).

Figure 1.4 and Figure 1.5 respectively shows the average annual bill (\$ nominal) for a typical residential customer and small business customer for a range of alternative energy delivered forecasts. This analysis models the bill impacts of our final decision revenue using increments in the rate of growth of energy delivered forecasts up to the proposed level.²³ Under this range of energy delivered forecasts:

- a residential customer bill in 2030–31 ranges from \$1,527 based on CitiPower’s proposed forecast energy delivered, to \$1,609 based on forecast energy delivered at 20% of the proposed growth rate
- a small business customer (10,000 kWh) bill in 2030–31 ranges from \$3,142 based on CitiPower’s proposed forecast energy delivered, to \$3,329 based on forecast energy delivered at 20% of the proposed growth rate.

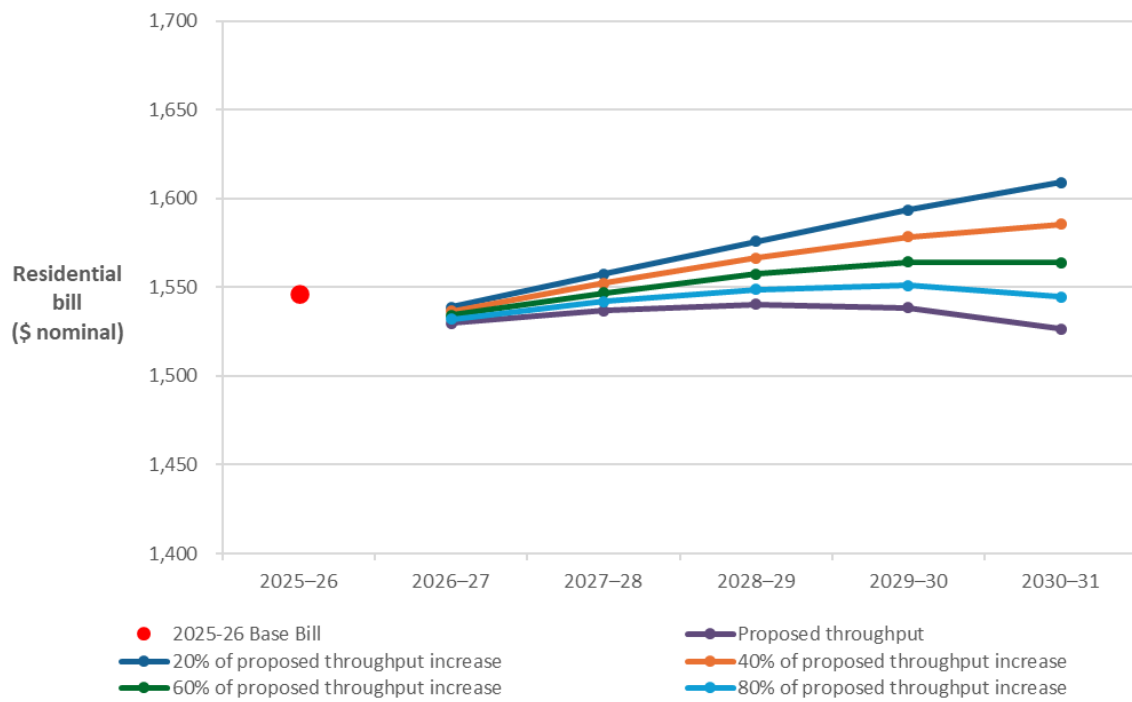
²⁰ Hon Lily D’Ambrosio MP, *Issues Papers – Electricity Distribution Determination for 2026–31*, 3 June 2025, p. 1; CCP32, *Advice to the Australian Energy Regulator on the 2026–31 Regulatory Proposal for CitiPower Electricity Distribution Network*, 14 May 2025, p. 16.

²¹ Hon Lily D’Ambrosio MP, *Issues Papers – Electricity Distribution Determination for 2026–31*, 3 June 2025, p. 1; CCP32, *Advice to the Australian Energy Regulator on the 2026–31 Regulatory Proposal for CitiPower Electricity Distribution Network*, 14 May 2025, p. 16.

²² This would therefore reflect energy throughput of 6.233 GWh in 2030–31, or an increase in energy throughput over the period of 10.5% compared to the 26.3% increase proposed by CitiPower.

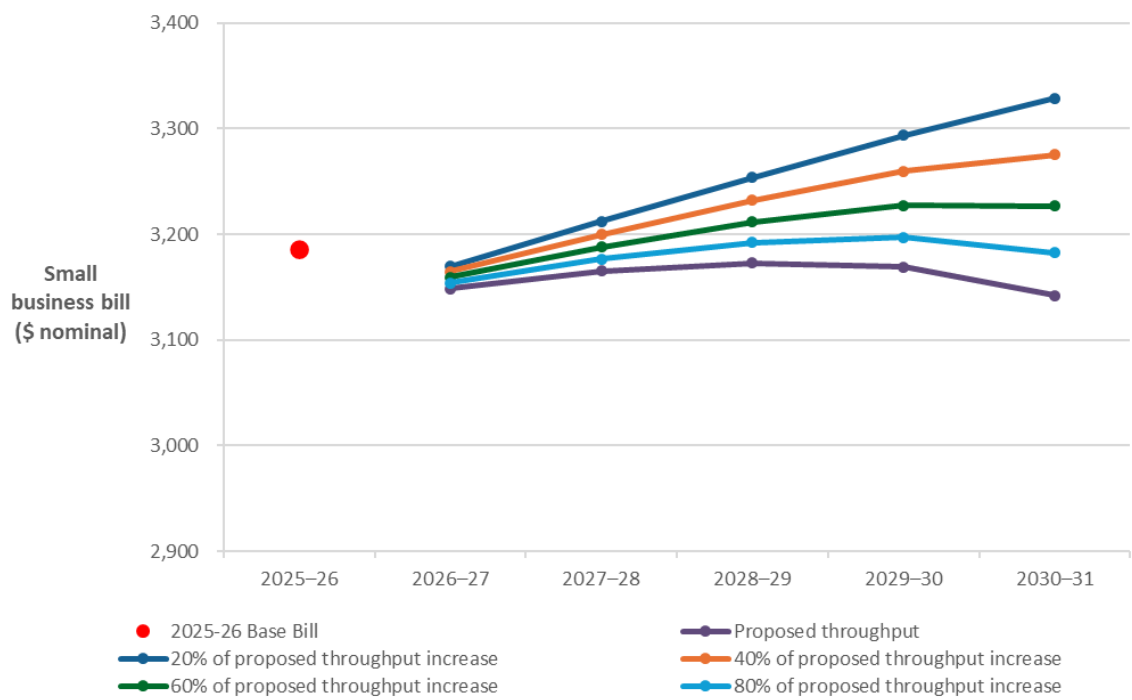
²³ The forecast rate of growth of energy delivered proposed by CitiPower has been reduced by increments of 20%. Starting with the proposed forecast energy delivered, we model 80%, 60%, 40% and 20% of the proposed forecast rate of growth in each year of the 2026–31 period.

Figure 1.4 Sensitivity of energy delivered on annual residential bills (\$ nominal)



Source: AER analysis.

Figure 1.5 Sensitivity of energy delivered on annual small business (10,000 kWh) bills (\$ nominal)



Source: AER analysis.

1.2 Regulatory asset base

The RAB is the value of the assets used by CitiPower to provide SCS.²⁴ Our distribution determination specifies the RAB as at the commencement of the regulatory control period and the appropriate method for the indexation of the RAB.²⁵ The indexation of the RAB is one of the building blocks that form the ARR for each year of the 2026–31 period.²⁶ We set the RAB as the foundation for determining a distributor’s revenue requirements and use the opening RAB for each regulatory year to determine the return on capital and return of capital (regulatory depreciation) building blocks.²⁷

This section presents our final decision on the opening RAB value as at 1 July 2026 for CitiPower and our forecast of its RAB values over the 2026–31 period. It also presents our final decision for establishing the RAB as at the commencement of the 2031–36 period using depreciation that is based on forecast capex.²⁸

1.2.1 Final decision

Our final decision is to determine an opening RAB value of \$2,311.1 million (\$ nominal) as at 1 July 2026 for CitiPower. This amount is less than \$0.1 million lower than CitiPower’s revised proposed opening RAB of \$2,311.2 million as at 1 July 2026.²⁹ This primarily reflects our updates to the roll forward model (RFM) to align with the latest cost pass through for the 2021–26 period. This final decision is \$13.1 million (0.6%) lower than our draft decision value for CitiPower’s opening RAB of \$2,324.3 million (\$ nominal).³⁰

1.2.1.1 Opening RAB as at 1 July 2026

To determine the opening RAB value as at 1 July 2026, we have rolled forward the RAB over the 2021–26 period to arrive at a closing RAB value as at 30 June 2026 in accordance with our RFM.³¹ This roll forward includes an adjustment at the end of the 2021–26 period to account for the difference between actual 2020 and half-year 2021 capex and the estimates approved in the 2021–26 determination.³²

Table 1.5 sets out our final decision on the roll forward of CitiPower’s RAB over to the 2021–26 period.

²⁴ NER, cl. 6.5.1(a).

²⁵ NER, cll. 6.3.2(a)(1) and (2).

²⁶ NER, cll. 6.4.3(a)(1) and (b)(1).

²⁷ NER, cll. 6.4.3(a)(2) and (3).

²⁸ NER, cl. 6.12.1(r).

²⁹ CitiPower, *CP RRP MOD 2.02 – SCS RFM*, December 2025.

³⁰ This decrease is mainly driven by the updates to the capex for 2025–26 to reflect latest estimates, which has resulted in a reduction to the opening RAB value by about \$10.6 million (0.5%) compared to the draft decision, all else being equal. CitiPower also updated its estimates of 2024–25 capex to reflect actual values, which has resulted in a reduction to the opening RAB value by about \$2.3 million (0.1%) compared to the draft decision, all else being equal.

³¹ AER, *Electricity distribution network service providers: Roll forward model (version 3.1)*, May 2022.

³² The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2021–26 determination.

Table 1.5 AER's final decision on CitiPower's RAB for the 2021–26 period (\$ million, nominal)

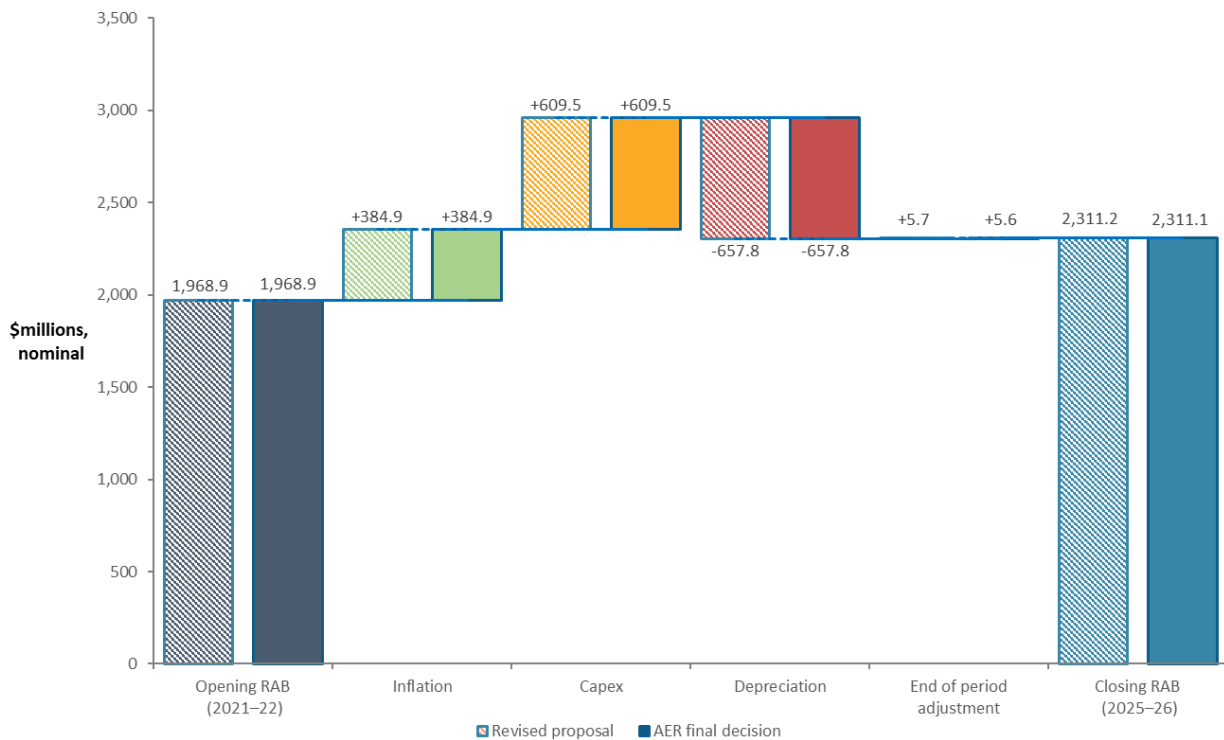
	2021–22	2022–23	2023–24	2024–25	2025–26 ^a
Opening RAB	1,968.9	1,968.3	2,017.1	2,137.4	2,247.5
Net capex ^b	91.2	98.1	96.0	168.2	156.2
Inflation on opening RAB	16.9	68.9	158.0	86.6	54.5
Less: straight-line depreciation ^c	108.7	118.1	133.7	144.6	152.6
Interim closing RAB	1,968.3	2,017.1	2,137.4	2,247.5	2,305.5
Difference between estimated and actual capex in 2020 and half-year 2021 ^d	-	-	-	-	4.1
Return on difference for 2020 and half-year 2021 capex ^d	-	-	-	-	1.5
Closing RAB as at 30 June 2026	-	-	-	-	2,311.1

Source: AER analysis.

- (a) Based on estimated capex provided by CitiPower. We will true-up the RAB for actual capex at the next distribution determination.
- (b) Net of disposals and capital contributions, and adjusted for actual CPI and half-year weighted average cost of capital (WACC).
- (c) Adjusted for actual CPI. Based on forecast capex.
- (d) Includes the calendar year 2020 and the half-year period from 1 January 2021 to 30 June 2021.

Figure 1.6 shows the key drivers of change in CitiPower's RAB value over the 2021–26 period for this final decision. Overall, the closing RAB value at the end of the 2021–26 period is estimated to be 17% higher than the opening RAB at the start of that period, in nominal terms. The new net capex increases the RAB by 31%, while inflation indexation increases it by 20%. End of period adjustments also increase the RAB by less than 1%. Depreciation, on the other hand, reduces the RAB by 33%.

Figure 1.6 Key drivers of changes in the RAB over the 2021–26 period – CitiPower’s revised proposal compared with the AER’s final decision (\$ million, nominal)



Source: AER analysis.

Note: Capex is net of disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

In the draft decision, we reduced CitiPower’s proposed opening RAB value as at 1 July 2026 by \$12.6 million (0.5%). This reduction was mainly driven by actual CPI for 2025–26 being lower than CitiPower’s estimate in its proposed RFM.

We updated the nominal vanilla WACC for 2025–26 and forecast straight-line depreciation amounts. These updates are required to reflect the 2025–26 return on debt update in the post-tax revenue model (PTRM) for the 2021–26 period, which became available after CitiPower submitted its proposal.³³

We also noted in the draft decision that the roll forward of CitiPower’s RAB included estimated capex for 2024–25 and 2025–26, because the actual values for these inputs were not yet available at the time.³⁴

³³ AER, *Draft decision: CitiPower electricity distribution determination 1 July 2026 to 30 June 2031 – Attachment 1 – Building block approach: Annual revenue requirement, Regulatory asset base, Regulatory depreciation and Corporate income tax*, September 2025, pp. 18–22.

³⁴ AER, *Draft decision: CitiPower electricity distribution determination 1 July 2026 to 30 June 2031 – Attachment 1 – Building block approach: Annual revenue requirement, Regulatory asset base, Regulatory depreciation and Corporate income tax*, September 2025, p. 20.

In its revised proposal, CitiPower adopted the changes made in our draft decision. In addition, CitiPower updated the following inputs in its revised proposed RFM:³⁵

- the estimated capex for 2024–25 with actuals
- the estimated capex for 2025–26 with revised estimates.

For this final decision, we have checked the actual capex inputs for 2024–25 in CitiPower’s revised proposed RFM. We are satisfied that the capex inputs reconcile with the values presented in CitiPower’s annual information order (AIO) for 2024–25.

We also accept CitiPower’s revised 2025–26 net capex estimate of \$156.2 million (\$ nominal) for this final decision.³⁶ This is \$10.6 million (6.4%) lower than the amount included in the draft decision RFM, reflecting more recent data. We note that the financial impact of any difference between actual and estimated capex for 2025–26 will be accounted for at the next distribution determination for the 2031–36 period.

In our review of CitiPower’s revised proposal regulatory proposal RFM, we identified some minor inputs requiring correction, including those previously made in the draft decision. CitiPower agreed with these corrections in its response to our information request.³⁷ We have therefore made these corrections in our final decision RFM.

In April 2026, we approved CitiPower’s cost pass through for *Unlocking CER Benefits by Flexible Trading Arrangements*.³⁸ This resulted in additional expenditures for the 2021–26 period. Consequently, we have updated several inputs to the RFM for this final decision to reflect our cost pass through decision, including the depreciation of this cost pass through’s additional capex and amended benchmark equity raising costs.

1.2.1.2 Ex post review of 2020 to 2023–24 capex

We consider the extent to which our roll forward of the RAB to 1 July 2026 contributes to the achievement of the capex incentive objective.³⁹ The review period of past capex for this distribution determination is over 2020 to 2023–24.⁴⁰ As discussed in the draft decision, CitiPower’s total actual capex incurred from 2020 to 2023–24 is below the forecast allowance set at the previous relevant distribution determinations. Therefore, the overspending requirement for an efficiency review of past capex is not satisfied.⁴¹

³⁵ CitiPower, *Revised Proposal 2026-31 - Revenue and expenditure forecasts*, December 2025, p. 18; CitiPower, *CP RRP MOD 2.02 – SCS RFM*, December 2025.

³⁶ This amount is net of disposals and capital contributions, and includes a half-year WACC allowance to compensate for the six-month period before capex is added to the RAB.

³⁷ CitiPower, *Response to AER information request #074*, 28 January 2026, pp. 2–4.

³⁸ AER, *Victorian DNSPs – Cost pass through applications – Flexible trading arrangements rule change*, April 2026.

³⁹ NER, cl. 6.12.2(b).

⁴⁰ NER, cl. S6.2.2.A(a1). This includes the half-year 2021, which was an extension of the 2016–20 regulatory control period under the National Electricity (Victoria) Act 2005, s. 16V. This half-year extension is treated as one regulatory year.

⁴¹ NER, cl. S6.2.2A(c), AER, *Draft decision: CitiPower electricity distribution determination 1 July 2026 to 30 June 2031 – Attachment 1 – Building block approach: Annual revenue requirement, Regulatory asset base, Regulatory depreciation and Corporate income tax*, September 2025, pp. 21–22.

For this final decision, we have included CitiPower’s actual capex for 2024–25 and estimated capex 2025–26 in the RAB roll forward to 1 July 2026. At the next distribution determination, the actual capex for 2024–25 and 2025–26 will form part of the review period for whether past capex should be excluded for inefficiency reasons.⁴² Our RAB roll forward applies the incentive framework approved in the previous distribution determination, which included the use of a forecast depreciation approach in combination with the application of the CESS.⁴³ As such, we consider that the 2021–26 RAB roll forward contributes to an opening RAB (as at 1 July 2026) that includes capex that reflects prudent and efficient costs, in accordance with the capex criteria.⁴⁴

1.2.1.3 Forecast closing RAB as at 30 June 2031

Once we have determined the opening RAB value as at 1 July 2026, we roll forward that value by adding forecast capex and inflation, and reducing it by depreciation to arrive at a forecast closing value for the RAB as at the end of the 2026–31 period.⁴⁵

For this final decision, we determine a forecast closing RAB value at 30 June 2031 of \$2,849.4 million (\$ nominal) for CitiPower. This is \$47.5 million (1.6%) lower than CitiPower’s revised proposal of \$2,896.9 million (\$ nominal). This is mainly due to a lower forecast capex applied in our final decision compared to CitiPower’s revised proposal (Attachment 2). Our final decision on the forecast closing RAB also reflects the amended forecast depreciation (section 1.3).⁴⁶ The higher expected inflation rate in our final decision partially offsets the reduction (section 2.2 of the Overview).

Table 1.6 sets out our final decision on the forecast RAB for CitiPower over the 2026–31 period.

⁴² Here, 'inefficiency' of past capex refers to three specific assessments (labelled the overspending, margin and capitalisation requirements) detailed in NER, cl. S6.2.2A. The details of our ex-post assessment approach for capex are set out in AER, *Capital expenditure incentive guideline for electricity network service providers*, August 2025, pp. 18–21.

⁴³ AER, *Final decision: CitiPower Services distribution determination 2021–26 – Attachment 2 – Regulatory asset base*, April 2021, pp. 9–10.

⁴⁴ NER, cll. 6.4A(a), 6.5.7(a), 6.5.7(c) and 6.12.2(b).

⁴⁵ NER, cl. S6.2.3.

⁴⁶ Capex enters the RAB net of forecast disposals. It includes equity raising costs (where relevant) and the half-year WACC to account for the timing assumptions in the PTRM. Therefore, our final decision on the forecast RAB also reflects our amendments to the rate of return for the 2026–31 period (section 2.2 of the Overview to this final decision).

Table 1.6 AER's final decision on CitiPower's RAB for the 2026–31 period (\$ million, nominal)

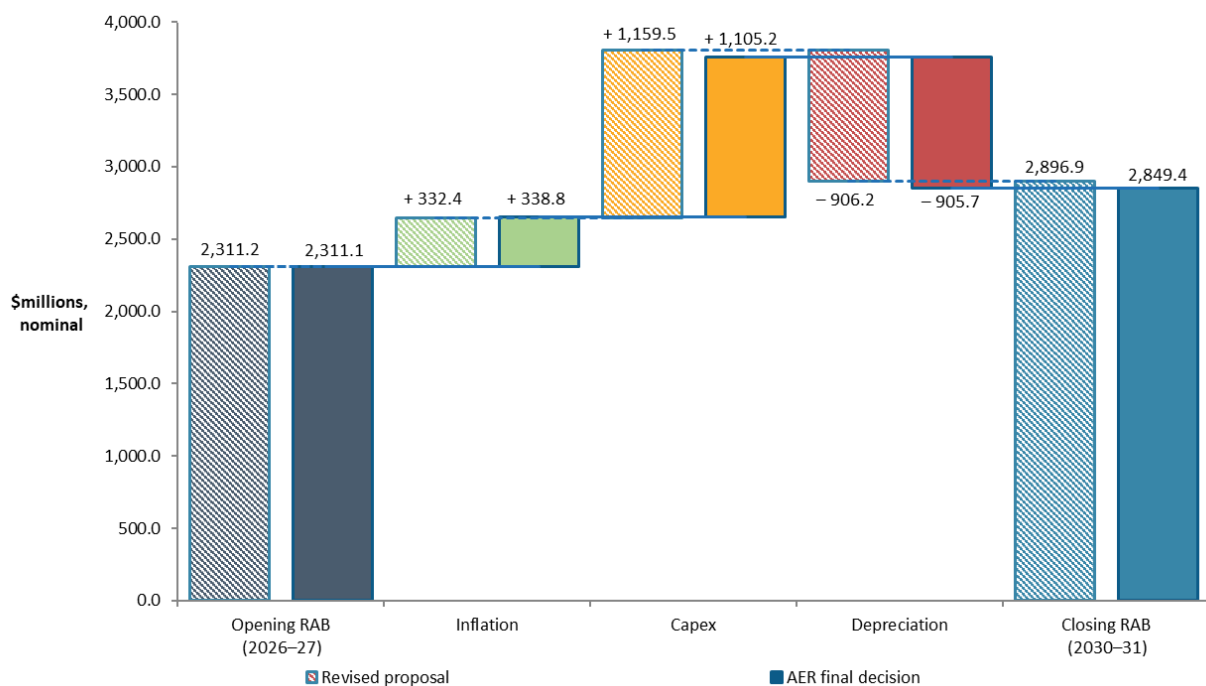
	2026–27	2027–28	2028–29	2029–30	2030–31
Opening RAB	2,311.1	2,462.5	2,624.1	2,737.4	2,795.8
Net capex ^a	248.8	264.8	225.1	181.9	184.7
Inflation on opening RAB	60.5	64.5	68.7	71.7	73.2
Less: straight-line depreciation	158.0	167.7	180.5	195.2	204.3
Closing RAB	2,462.5	2,624.1	2,737.4	2,795.8	2,849.4

Source: AER analysis.

(a) Net of forecast disposals and capital contributions. In accordance with the timing assumptions of the PTRM, the capex includes a half-year WACC allowance to compensate for the six-month period before capex is added to the RAB for revenue modelling.

Figure 1.7 shows the key drivers of change in CitiPower's RAB value over the 2026–31 period for this final decision. Overall, the closing RAB value at the end of the 2026–31 period is estimated to be 23% higher than the opening RAB at the start of that period, in nominal terms. The approved forecast net capex increases the RAB value by 48%, while expected inflation increases it by 15%. Depreciation, on the other hand, reduces the RAB value by 39%.

Figure 1.7 Key drivers of changes in the RAB over the 2026–31 period – CitiPower's revised proposal compared with the AER's final decision (\$ million, nominal)



Source: AER analysis.

Note: Capex is net of forecast disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

Forecast net capex is a significant driver of the increase in the RAB. In our final decision, we approve \$1,010.4 million⁴⁷ (\$ 2025–26) forecast net capex for CitiPower over the period. This amount is 4.9% lower than CitiPower’s revised proposal of \$1,062.8 million. We are satisfied that this reduced amount reasonably reflects the capex criteria. Refer to Attachment 2 for the discussion on forecast capex.

1.2.1.4 Application of depreciation approach in the RAB roll forward for the next distribution determination

For this final decision, we determine that the depreciation approach to be applied to establish CitiPower’s opening RAB at the commencement of the 2031–36 period will be based on the depreciation schedules (straight-line) using forecast capex at the asset class level approved for the 2026–31 period.⁴⁸ This approach is consistent with our draft decision.⁴⁹ Further, this approach is consistent with our *Framework and approach*.⁵⁰ CitiPower’s revised proposal did not raise any issues with this approach.

As discussed in section 3.1 of the Overview to this final decision, we will also apply the CESS to CitiPower for the 2026–31 period. We consider that the CESS will provide sufficient incentives for CitiPower to achieve capex efficiency gains over the period. We are satisfied that the use of a forecast depreciation approach in combination with the application of the CESS and our other ex post capex measures are sufficient to achieve the capex incentive objective.⁵¹

1.2.2 Assessment approach

We did not change our assessment approach for the RAB from our draft decision. Attachment 1 (appendix A.2) of our draft decision details that approach.⁵²

⁴⁷ This amount is net of forecast disposals and capital contributions, and excludes the half-year WACC adjustment.

⁴⁸ NER, cl. 6.12.1(r).

⁴⁹ AER, *Draft decision: CitiPower electricity distribution determination 1 July 2026 to 30 June 2031 – Attachment 1 – Building block approach: Annual revenue requirement, Regulatory asset base, Regulatory depreciation and Corporate income tax*, September 2025, pp. 23–24.

⁵⁰ AER, *Framework and approach – AusNet Services, CitiPower, Jemena, Powercor and United Energy 2026–31*, July 2024, p. 22.

⁵¹ Our ex-post capex measures are set out in the capital expenditure incentive guideline; AER, *Capital expenditure incentive guideline for electricity network service providers*, August 2025, pp. 17–22.

⁵² AER, *Draft decision: CitiPower electricity distribution determination 1 July 2026 to 30 June 2031 – Attachment 1 – Building block approach: Annual revenue requirement, Regulatory asset base, Regulatory depreciation and Corporate income tax*, September 2025, pp. 42–45.

1.3 Regulatory depreciation

Regulatory depreciation is the amount provided so capital investors recover their investment over the economic life of the asset (return of capital). In deciding whether to approve the depreciation schedules submitted by CitiPower, we make determinations on the indexation of the RAB and depreciation building blocks for CitiPower's 2026–31 period.⁵³ The regulatory depreciation amount is the net total of the straight-line depreciation less the indexation of the RAB.

This section sets out our final decision on CitiPower's regulatory depreciation amount, including the standard asset lives used for calculating straight-line depreciation.

1.3.1 Final decision

Our final decision is to determine a regulatory depreciation amount of \$567.0 million (\$ nominal) for CitiPower for the 2026–31 period. This amount represents a reduction of \$6.8 million (1.2%) to the \$573.7 million (\$ nominal) in CitiPower's revised proposal.⁵⁴ It is \$1.3 million (0.2%) higher than the regulatory depreciation amount determined in our draft decision. This increase compared to our draft decision is primarily driven by a higher straight-line depreciation amount.⁵⁵ A higher RAB indexation amount partially offsets this increase.⁵⁶

The regulatory depreciation amount is the net total of the straight-line depreciation, less the inflation indexation of the RAB. The straight-line depreciation is impacted by our decision on CitiPower's opening RAB as at 1 July 2026 (section 1.2), forecast capex (Attachment 2) and asset lives (section 1.3.1.1). Our final decision straight-line depreciation for CitiPower is \$0.4 million lower than its revised proposal.⁵⁷

The indexation on the RAB is impacted by our decision on CitiPower's opening RAB (section 1.2), forecast capex (Attachment 2) and the expected inflation rate (Overview section 2.2). Our final decision indexation on CitiPower's forecast RAB is \$6.4 million higher than its revised proposal. This is largely due to applying a higher expected inflation rate of 2.62% per annum for this final decision compared with the 2.55% per annum that CitiPower applied in its revised proposal. Since indexation is deducted from the straight-line depreciation, the higher indexation results in a further reduction to the regulatory depreciation amount compared to the revised proposal.

⁵³ Clause 6.12.1 of the National Electricity Rules (NER) sets out the 'constituent decisions' we must make as part of a distribution determination. We must decide whether or not to approve the depreciation schedules submitted by a Distribution Network Service Provider (cl. 6.12.1(h)). This is one of the building blocks we must use to determine the annual revenue requirement: cl. 6.4.3 of the NER.

⁵⁴ CitiPower, *Revised Proposal 2026-31 - Revenue and expenditure forecasts*, December 2025, pp. 17–18; and CitiPower, *CP RRP MOD 2.01 – SCS PTRM*, December 2025.

⁵⁵ This reflects a higher forecast capex over the 2026–31 period in our final decision, compared to our draft decision. This is partially offset by a lower opening RAB value driven by lower 2025–26 capex to reflect CitiPower's revised estimate and lower 2024–25 capex to reflect actual values, compared to the estimates adopted in our draft decision.

⁵⁶ This is due to a higher expected inflation for the 2026–31 period compared to the draft decision.

⁵⁷ This is due to our final decision on a lower forecast capex compared to CitiPower's revised proposal.

In coming to this final decision on CitiPower’s straight-line depreciation, we accept the revised proposal with respect to the following matters, each of which is consistent with our draft decision:

- the straight-line depreciation method used to calculate the regulatory depreciation amount as set out in our PTRM
- the continuation of applying the ‘year-by-year tracking’ approach for implementing straight-line depreciation of CitiPower’s existing assets and its forecast capex
- asset classes and standard asset lives. This includes our introduction of 2 new asset classes⁵⁸ and standard asset lives in our draft decision (section 1.3.1.1).

Table 1.7 sets out our final decision on the annual regulatory depreciation amount for CitiPower’s 2026–31 period.

Table 1.7 AER’s final decision on CitiPower’s forecast depreciation for the 2026–31 period (\$ million, nominal)

	2026–27	2027–28	2028–29	2029–30	2030–31	Total
Straight-line depreciation	158.0	167.7	180.5	195.2	204.3	905.7
Less: inflation indexation on opening RAB	60.5	64.5	68.7	71.7	73.2	338.8
Regulatory depreciation	97.4	103.2	111.8	123.5	131.1	567.0

Source: AER analysis.

1.3.1.1 Standard asset lives

For this final decision, we accept CitiPower’s revised proposed standard asset lives for its existing asset classes used to depreciate the forecast capex to be incurred in the 2026–31 period. This is because they are consistent with our draft decision.

In the draft decision, we accepted CitiPower’s proposed existing asset classes and their standard asset lives, except for the ‘Equity raising costs’ and ‘Non-network general assets – IT’ asset classes.⁵⁹ We assigned a standard asset life of 36.7 years to the ‘Equity raising costs’ asset class by updating of the weighted average of the standard asset lives of the draft decision forecast capex for each depreciable asset class over the 2026–31 period. We introduced new asset classes of ‘Concrete poles’ and ‘ERP and billing systems’, and assigned a standard asset life of 80 years and 10 years respectively, following our review of CitiPower’s proposed forecast capex. We also adjusted down slightly the standard asset life for the existing ‘Non-network general assets – IT’ asset class due to the removal of the enterprise resource platform (ERP) and billing systems expenditure from this existing asset class and being reallocated to the new longer lived asset class.

⁵⁸ Comprising of ‘Concrete poles’ and ‘ERP billing systems’.

⁵⁹ AER, *Draft decision: CitiPower electricity distribution determination 1 July 2026 to 30 June 2031 – Attachment 1 – Building block approach: Annual revenue requirement, Regulatory asset base, Regulatory depreciation and Corporate income tax*, September 2025, pp. 28–31.

CitiPower’s revised proposal adopted our draft decision on the standard asset lives for all asset classes, with the exception of the standard asset life for the ‘Equity raising cost’ asset class.⁶⁰ It updated the standard asset life for the ‘Equity raising cost’ asset class using the weighted average of the standard asset lives of the revised proposal forecast capex for each depreciable asset class over the 2026–31 period. We have updated this calculation to be consistent with the weights derived from our final decision on CitiPower’s forecast capex for the 2026–31 period. Therefore, we have calculated a standard asset life of 37.8 years for amortising \$2.2 million in equity raising costs determined in this final decision.

Our final decision PTRM sets out CitiPower’s standard asset lives for each of its asset classes over the 2026–31 period.⁶¹ We note the asset classes we have assigned with a standard asset life of ‘n/a’ (not applicable) is because the capex allocated to them is either not subject to depreciation, or they have zero forecast capex allocated to them. We are satisfied that our final decision on depreciation conforms to the following:⁶²

- the standard asset lives and depreciation approach more broadly would lead to a depreciation schedule that reflects the nature of the assets over the economic lives of the asset classes,
- the sum of the real value of the depreciation attributable to the assets is equivalent to the value at which the assets were first included in the RAB for CitiPower, and
- the asset lives, and the depreciation methods and rates underpinning the calculation of depreciation for a regulatory control period are consistent with those determined for the same assets on a prospective basis.

1.3.2 Assessment approach

We did not change our assessment approach for regulatory depreciation from our draft decision. Attachment 1 (appendix A.3) of our draft decision details that approach.⁶³

⁶⁰ CitiPower, *CP RRP MOD 2.01 – SCS PTRM*, December 2025.

⁶¹ AER, *Final decision – CitiPower distribution determination 2026–31 – SCS PTRM*, April 2026.

⁶² NER, cll. 6.5.5(b)(1)–(3).

⁶³ AER, *Draft decision: CitiPower electricity distribution determination 1 July 2026 to 30 June 2031 – Attachment 1 – Building block approach: Annual revenue requirement, Regulatory asset base, Regulatory depreciation and Corporate income tax*, September 2025, pp. 45–50.

1.4 Corporate income tax

Our determination of the ARR includes the estimated cost of corporate income tax for CitiPower's 2026–31 period.⁶⁴ Under the post-tax framework, the cost of corporate income tax is calculated as part of the building block assessment using our PTRM. This amount allows CitiPower to recover the costs associated with the estimated corporate income tax payable during the 2026–31 period.

This section presents our final decision on CitiPower's revised proposed corporate income tax amount for the 2026–31 period. It also presents our assessment of its revised proposed inputs required in the PTRM for estimating the cost of corporate income tax.

1.4.1 Final decision

Our final decision on CitiPower's estimated cost of corporate income tax is \$63.9 million (\$ nominal) over the 2026–31 period. This is an increase of \$9.2 million (16.7%) from CitiPower's revised proposed cost of corporate income tax of \$54.7 million. The main reasons for this increase are due to our final decision on:

- a lower forecast capex⁶⁵ amount (Attachment 2)
- a higher forecast capital contribution⁶⁶ amount (Attachment 2) and.
- a higher return on equity amount (section 2.2 of the Overview).⁶⁷

For this final decision, we determine an opening tax asset base (TAB) value as at 1 July 2026 of \$2,092.2 million (\$ nominal), which is the same as CitiPower's revised proposal (section 1.4.1.1).

We also determine that \$415.1 million (\$2025–26) of CitiPower's forecast capex is to be immediately expensed for tax purposes in the 2026–31 period based on our final decision on its total forecast capex (section 1.4.1.2).

We accept:

- CitiPower's revised proposal on the standard tax asset lives for its existing asset classes and 2 new asset classes for the 2026–31 period because they are consistent with our draft decision (section 1.4.1.3).
- CitiPower's revised proposal changing the tax treatment of forecast capital contributions from large customer connections by directly charging for the tax cost associated with

⁶⁴ NER, cl. 6.4.3(a)(4).

⁶⁵ Lower forecast capex results in lower tax depreciation. All else being equal, a lower tax depreciation increases the cost of corporate income tax as it is a deduction from revenue for tax purposes.

⁶⁶ All else being equal, a higher capital contribution amount increases the cost of corporate income tax as it is a component of revenue for tax purposes.

⁶⁷ The higher return on equity amount is driven by a higher rate of return on equity determined in our final decision compared to CitiPower's revised proposal. All else being equal, a higher return on equity amount increases the cost of corporate income tax as it is a component of revenue for tax purposes.

those connections, subject to applying to large customers connecting at 22 kV and above (section 1.4.1.4).

In the draft decision, we made the following changes to CitiPower’s modelling of its cost of corporate income tax:⁶⁸

- We amended the opening TAB as at 1 July 2026 by updating inputs in the RFM and depreciation tracking module to be consistent with those made to the RAB roll forward.
- We introduced 2 new asset classes for:
 - ‘Concrete poles’ asset class and assigned a standard tax asset life of 45 years, which was consistent with the Australian Taxation Office (ATO) Taxation Ruling 2022/1.
 - ‘ERP and billing systems’ and assigned a standard tax asset life of 5 years, consistent with section 40-95(7) of the *Income Tax Assessment Act 1997* (ITAA). We considered that given the capex allocated to this asset class generally reflects the nature of an intangible depreciating asset, we would exempt the capex from the diminishing value tax depreciation method.
- We reduced the proposed forecast immediately expensed capex for the 2026–31 period to reflect our draft decision on the forecast capex.

CitiPower’s revised proposal adopted the changes required by the draft decision. In addition, it updated the opening TAB value and forecast immediately expensed capex amount for the 2026–31 period. CitiPower also made changes to the tax treatment of forecast capital contributions from large (high voltage or sub-transmission) customer connections through its revised connection policy.⁶⁹ This means that the net tax liability associated with capital contributions from these connections would be added to the contributing amount paid by the connecting customer for the 2026–31 period.

1.4.1.1 Opening tax asset base at 1 July 2026

Our final decision is to determine an opening TAB value as at 1 July 2026 of \$2,029.2 million (\$ nominal) for CitiPower, which is consistent with its revised proposal.⁷⁰

In our draft decision, we accepted CitiPower’s proposed method to establish the opening TAB value as at 1 July 2026. We noted that the opening TAB value may be updated as part

⁶⁸ AER, *Draft decision: CitiPower electricity distribution determination 1 July 2026 to 30 June 2031 – Attachment 1 – Building block approach: Annual revenue requirement, Regulatory asset base, Regulatory depreciation and Corporate income tax*, September 2025, pp. 32–33.

⁶⁹ CitiPower, *Revised Proposal 2026–31 - Revenue and expenditure forecasts*, December 2025, pp. 19–20; and CitiPower, *CP RRP MOD 2.01 – SCS PTRM*, December 2025.

⁷⁰ CitiPower, *CP RRP MOD 2.01 – SCS PTRM*, December 2025. Our final decision opening TAB value is \$0.01 million higher than CitiPower’s revised proposal as we have updated the final decision RFM to reflect the amended benchmark equity raising costs calculated in the 2021–26 PTRM for the *Flexible Trading Arrangements* cost pass through. However, this difference cannot be observed when the opening TAB is rounded to 1 decimal place.

of the final decision to reflect actual capex for 2024–25 and any revised capex estimate for 2025–26.⁷¹

CitiPower’s revised proposal adopted our draft decision changes. In addition, it updated the opening TAB as at 1 July 2026 to reflect the actual capex (including capital contributions), asset disposals and immediately expensed capex for 2024–25 and a revised estimated capex (including capital contributions), asset disposals and immediately expensed capex for 2025–26.⁷²

We accept the following revised proposed inputs for TAB roll forward purposes for this final decision:

- consistent with the reasons discussed in section 1.2.1.1, the updated capex (including capital contributions), asset disposals and immediately expensed capex inputs for 2024–25 as they reflect the AIO for that year
- the revised estimated capex (including capital contributions), asset disposals and immediately expensed capex for 2025–26, which reflects more up-to-date data.

We will update the estimated capex, asset disposals and immediately expensed capex for 2025–26 with actual values at the next distribution determination for the 2031–36 period.

Table 1.8 sets out our final decision on the roll forward of CitiPower’s TAB over the 2021–26 period.

Table 1.8 AER’s final decision on CitiPower’s TAB roll forward for the 2021–26 period (\$ million, nominal)

	2021–22	2022–23	2023–24	2024–25	2025–26 ^a
Opening TAB	1,761.1	1,791.8	1,846.6	1,875.8	1,951.0
Capital expenditure ^b	141.1	175.0	172.2	224.5	238.7
Less: tax depreciation	110.3	120.2	143.0	149.3	160.5
Closing TAB	1,791.8	1,846.6	1,875.8	1,951.0	2,029.2

Source: AER analysis.

(a) Based on estimated capex. We expect to update the TAB roll forward with actual capex at the next distribution determination.

(b) Net of disposals.

1.4.1.2 Forecast immediately expensed capex

For this final decision, we determine that \$415.1 million (\$2025–26) of its forecast capex are to be immediately expensed for tax purposes in the 2026–31 period. This is \$24.2 million (5.5%) lower than CitiPower’s revised proposal of \$439.3 million.

⁷¹ AER, *Draft decision: CitiPower electricity distribution determination 1 July 2026 to 30 June 2031 – Attachment 1 – Building block approach: Annual revenue requirement, Regulatory asset base, Regulatory depreciation and Corporate income tax*, September 2025, p. 35.

⁷² CitiPower, *CP RRP MOD 2.01 – SCS PTRM*, December 2025.

In the draft decision, we accepted CitiPower’s proposed actuals informed approach for determining the forecast of immediately expensed capex for the 2026–31 period. CitiPower’s proposed forecast immediately expensed capex was broadly consistent with the average proportion of capex being immediately expensed over the period 2021–22 to 2023–24 as reported in the annual reporting regulatory information notices (RINs). However, due to our reduction in the proposed forecast capex, we substituted a lower forecast immediately expensed capex for the draft decision.⁷³

In its revised proposal, CitiPower updated the forecast immediately expensed capex to \$439.3 million (\$2025–26). This is higher than the \$342.1 million approved in our draft decision. This updated amount reflects its higher revised proposal forecast capex for the 2026–31 period compared to our draft decision.⁷⁴

Consistent with the approach adopted in the draft decision, we need to adjust the amount of immediately expensed capex to reflect our final decision on the overall estimate of forecast capex. As discussed in Attachment 2, our final decision is to determine a total gross forecast capex of \$1,477.7 million (\$2025–26). This amount is \$32.3 million lower than CitiPower’s revised proposed capex forecast. For this reason, we have calculated a lower immediately expensed capex amount for CitiPower to reflect the forecast capex for this final decision.

We will continue to collect actual data relating to this expenditure in our annual reporting information orders to inform our decision on the amount of forecast immediately expensed capex in the next determination for CitiPower.

1.4.1.3 Standard tax asset lives

Our final decision accepts CitiPower’s revised proposed standard tax asset lives assigned to its:

- existing asset classes because they are broadly consistent with the tax asset lives prescribed by the Commissioner of Taxation in ATO Legislative Instrument 2025/20 and the same as the approved standard tax asset lives for the 2021–26 period⁷⁵
- new asset classes comprising ‘Concrete poles’ and ‘ERP and billing systems’ because they are consistent with our draft decision. In turn, the standard tax asset lives reflect the ATO Legislative Instrument 2025/20 and the guidance from the ITAA.⁷⁶

Our final decision PTRM sets out CitiPower’s standard tax asset lives for each of its asset classes over the 2026–31 period.⁷⁷ We note the asset classes we have assigned with a standard tax asset life of ‘n/a’ (not applicable) is because the capex allocated to them is either not subject to depreciation, or they have zero forecast capex allocated to them. We are satisfied that the standard tax asset lives are appropriate for application over the 2026–31

⁷³ AER, *Draft decision: CitiPower electricity distribution determination 1 July 2026 to 30 June 2031 – Attachment 1 – Building block approach: Annual revenue requirement, Regulatory asset base, Regulatory depreciation and Corporate income tax*, September 2025, pp. 35–36.

⁷⁴ CitiPower, *CP RRP MOD 2.01 – SCS PTRM*, December 2025.

⁷⁵ ATO, *Legislative Instrument LI 2025/20 – Schedule 2–Effective Life Tables A and B*, October 2025.

⁷⁶ ATO, *Legislative Instrument LI 2025/20 – Schedule 2–Effective Life Tables A and B*, October 2025; ITAA, s. 40-95(7).

⁷⁷ AER, *Final decision – CitiPower distribution determination 2026–31 – SCS PTRM*, April 2026.

period. We are also satisfied that the standard tax asset lives provide an estimate of the tax depreciation amount that would be consistent with the tax expenses used to estimate the annual taxable income for a benchmark efficient service provider.⁷⁸

1.4.1.4 Tax treatment of forecast capital contributions from large customer connections

Our final decision is to accept CitiPower’s revised proposal to change the tax treatment for type 1 capital contributions (cash) from large customer connections for the 2026–31 period. For regulatory tax purposes and consistent with tax law, type 1 capital contributions paid by customers (including large load connections) to the distributor, are recognised as income. This results in a tax liability for the distributor.

As discussed in Attachment 16, CitiPower amended its proposed connection policy in the revised proposal to remove what is an effective cross subsidy of tax costs associated with capital contributions from high voltage and sub-transmission load customers (comprising of connecting data centres and other large load customers). We consider the change in tax treatment would apply to load customers connecting at 22 kV and above. This would mean that the net tax liability from these connections would be added to the capital contribution amount paid by the connecting customer for the 2026–31 period. The net tax liability would, therefore, be borne by the connecting customer. Previously, the net tax liability was recovered from the broader SCS customer base. All else being equal, this change would reduce the forecast capital contributions and gross capex in the PTRM for the 2026–31 period and therefore reduce the cost of corporate income tax for SCS customers.

1.4.2 Assessment approach

We did not change our assessment approach for the cost of corporate income tax from our draft decision. Attachment 1 (appendix A.4) of our draft decision details that approach.⁷⁹

⁷⁸ NER, cl. 6.5.3.

⁷⁹ AER, *Draft decision: CitiPower electricity distribution determination 1 July 2026 to 30 June 2031 – Attachment 1 – Building block approach: Annual revenue requirement, Regulatory asset base, Regulatory depreciation and Corporate income tax*, September 2025, pp. 50–56.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
AIO	annual information order
ARR	annual revenue requirement
ATO	Australian Tax Office
Capex	capital expenditure
CCP32	Consumer Challenge Panel, sub-panel 32
CESS	capital expenditure sharing scheme
CPI	consumer price index
DMIAM	demand management innovation allowance mechanism
EBSS	efficiency benefit sharing scheme
ESCV	Essential Services Commission of Victoria
ITAA	Income Tax Assessment Act 1997
NER	National Electricity Rules
NPV	net present value
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RIN	regulatory information notice
RFM	roll forward model
SCS	standard control services
TAB	tax asset base
WACC	weighted average of the cost of capital (rate of return)